**Lancashire County Council**

**Pension Fund Committee**

**Virtual meeting via Zoom on Friday, 27th November, 2020 starting at 10.30 am**

**Agenda**

**Part I** (Open to Press and Public)

| **No.** | **Item** | |
|---|---|---|
| **1.** | **Welcome and Apologies** | |
| **2.** | **Disclosure of Pecuniary and Non-Pecuniary Interests**<br>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. | |
| **3.** | **Minutes of the Meeting held on the 18th September 2020**<br>To be confirmed by the Committee and signed by the Chair in due course. | (Pages 1 - 10) |
| **4.** | **Lancashire County Pension Fund - External Audit Findings Report** | (Pages 11 - 30) |
| **5.** | **Lancashire County Pension Fund 2020/21 Q2 Budget Monitoring** | (Pages 31 - 36) |
| **6.** | **Admissions and Termination Policy** | (Pages 37 - 62) |
| **7.** | **Local Pensions Partnership: Governance Charter** | (Pages 63 - 76) |
| **8.** | **Local Pensions Partnership 2019/20 Annual Report and Accounts** | (Pages 77 - 128) |
| **9.** | **Feedback from members of the Committee on pension related training.** | (Pages 129 - 132) |
| **10.** | **Responsible Investment Report** | (Pages 133 - 154) |

Lancashire County Council

**11. 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.

**12. Programme of meetings 2021/22**

On the 15th October, 2020, the full Council approved the 2020/21 programme of meetings which includes the following dates for the Pension Fund Committee.

18th June 2021
17th September 2021
26th November 2021
11th March 2022

All the above meetings will start at 10.30am and will either continue to be held remotely via Zoom or, subject to the relaxation of current Covid-19 restrictions, in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

**13. Date of Next Meeting**

The next meeting of the Committee will be held at 10.30am on the 12th March, 2021, either remotely via Zoom or at County Hall, Preston.

**14. 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)**

**15. LPP Balanced Scorecard Summary and Action Plan** (Pages 155 - 162)

**16. Local Pensions Partnership update** (Pages 163 - 210)

L Sales
Director of Corporate Services

County Hall
Preston

**Lancashire County Council**

**Pension Fund Committee**

**Minutes of the Virtual Meeting held on Friday, 18th September, 2020 at 10.30am via Zoom.**

**Present:**

County Councillor Eddie Pope (Chair)

**County Councillors**

| | |
|---|---|
| T Ashton | C Edwards |
| J Burrows | K Ellard |
| L Collinge | J Mein |
| B Dawson (1) | E Nash (2) |
| G Dowding | A Riggott |
| A Schofield | |

(1) Replaced County Councillor T Martin for this meeting only
(2) Replaced County Councillor A Snowden for this meeting only

**Co-opted members**

Councillor R Whittle, Blackburn with Darwen Borough Council
Councillor D Borrow, Borough and City Councils
Councillor P Foster, Borough and City Councils
Ms J Eastham, Further Education/Higher Education Institutions
Mr P Crewe, Trade Unions

**Also in Attendance**

Mrs A Leech, Head of Pension Fund, Lancashire County Council
Ms A Devitt, Independent Adviser.
Mr E Lambert, Independent Adviser.
Mr C Rule, Chief Executive Officer, Local Pensions Partnership.
Mr G Smith, Director of Strategy, Local Pensions Partnership
Mr W Bourne, Chairman, Lancashire Local Pension Board.

## 1. Appointment of the Chair and Deputy Chair of the Committee

**Resolved:** That the appointment by full Council on the 16th July 2020 of County Councillor E Pope as Chair and County Councillor A Schofield as Deputy Chair of the Committee is noted.

## 2. Constitution, Membership and Terms of Reference.

The Chair presented the report and welcomed County Councillor T Ashton and Councillor P Foster (who had replaced County Councillor S Clark and Councillor I Moran respectively) to their first meeting as members of the Committee.

**Resolved:**

1. That the current membership of the Committee, as set out below, is noted.

   County Councillors (12)

   | | |
   |---|---|
   | T Ashton | T Martin |
   | J Burrows | J Mein |
   | L Collinge | E Pope (Chair) |
   | G Dowding | A Riggott |
   | C Edwards | A Schofield (Deputy Chair) |
   | K Ellard | A Snowden |

   Voting co-opted members (7)

   Mr P Crewe - representing Trade Unions
   Mr J Tattersall - representing Trade Unions
   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
   Ms J Eastham - representing Further Education and Higher Education Institutions.

2. That the current Terms of Reference of the Committee (a copy of which is set out in the Minute Book) are noted.

## 3. Apologies

Apologies for absence were received from Councillor M Smith.

## 4. 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.

## 5. Minutes of the Meeting held on 6th March 2020

The Head of Fund reported that following further discussions the Senior Manager at Grant Thornton had clarified the total fees associated with the 2019/20 audit which were not dissimilar to those reported at the last meeting.

It was also reported that on the 9th March 2020 the Employment Committee had considered and approved a report on pay proposals for the Local Pensions Partnership.

**Resolved:** That the updates given at the meeting are noted and the Minutes of the meeting held on the 6th March, 2020, are confirmed as an accurate record and signed by the Chair in due course.

## 6. Lancashire County Pension Fund - 2019/20 budget monitoring report

The Head of Fund presented a report on the financial performance of the Fund for the year ended 31st March 2020, together with a comparison to budget and prior year results.

She confirmed that investment management expenses had increased in line with the value of the Fund and that the expected savings from pooling were being achieved. In response to a query the Head of Fund explained the variance between income/outgoings and confirmed that it was within acceptable tolerances.

**Resolved:** That the financial performance of the Fund to the year ended 31st March 2020 and the analysis of variances between actual and budgeted financial results, as set out in the report resented, are noted.

## 7. Annual Governance Statement 2019/20

The Committee considered a report on the draft 2019/20 Annual Governance Statement for the Fund which, if approved, would be incorporated into the statement of accounts within the Lancashire County Pension Fund Annual Report for 2019/20. The Head of Fund highlighted reference in the Statement to the specific risk register regarding measures to mitigate the impact of Covid-19 and also the various actions planned for 2020/21.

**Resolved:**

1. That the draft 2019/20 Annual Governance Statement for the Lancashire County Pension Fund, as set out at Appendix 'A' to the report presented, is approved.

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

## 8. Lancashire County Pension Fund Annual Report 2019/20

The Chair presented a report on the draft Lancashire County Pension Fund Annual Report for the year ended 31st March 2020 and thanked officers for producing a comprehensive document.

In considering the draft members of the Committee highlighted the following:

- There should be greater emphasis on Lancashire County Pension Fund being the top performing Fund in the Local Government Pension Scheme.
- The need for clarification that the employer contribution rates referred to in the Annual Report are applicable in the current financial year and some employers therefore look like they have low rates due to prepayments.
- It should be indicated at the start of Section I of the Annual Report that the statement is from the Chair of the Lancashire Local Pension Board.

It was also noted that the Head of Responsible Investment at LPPI would be requested to provide further detail regarding the shareholder action referred to in Section F – Investment Policy and Performance.

**Resolved:**

1. That the accounts of the Fund (as set out in Section 'H' of Appendix 'A' to the report presented) are approved, subject to any audit adjustment agreed by the Head of Fund, and are recommended for approval to the Audit, Risk and Governance Committee on the 19th October 2020.

2. That the 2019/20 Annual Report of the Lancashire Local Pension Board, as presented at Section 'I' of Appendix 'A' to the report presented, is approved.

3. That, subject to any agreed audit adjustments or other minor amendments, the Lancashire County Pension Fund 2019/20 Annual Report, as set out at Appendix 'A' to the report presented, is approved for publication on or before the 1st December 2020.

## 9. McCloud Update

An update report was presented in relation to ongoing issues associated with the McCloud judgement and the consultation on draft Regulations by the Ministry of Housing, Communities and Local Government which was due to end on the 8th October 2020.

In considering the report the Committee acknowledged that implementation of changes resulting from the judgement would involve a significant administrative burden for the Fund. In response the Head of Fund confirmed that the Fund would work with the Actuary and the Local Pensions Partnership to implement the changes and communicate them to members and employers, though it was recognised that the cost of implementation exceeded the benefits to individual Fund members.

**Resolved:** That members of the Committee send any comments regarding implementation of the McCloud judgement to the Head of Fund before the 1st October 2020 so that they can be considered before a response is sent to the Ministry of Housing, Communities and Local Government ahead of the 8th October deadline.

## 10. Admission and Termination Policy

The Chair presented a report on the latest version of the Policy which had been updated to incorporate further changes to legislation regarding exit credits, allowances for the on-going effects of the McCloud judgement and to bring the policy in line with the Funding Strategy Statement which had been amended in March 2020.

**Resolved:**

1. That the changes to the Admission and Termination Policy, as set out in Appendix 'A' to the report presented, are approved and are the subject of a short consultation with the employers in the Fund.

2. 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 on the 27th November 2020.

## 11. Feedback from members of the Committee on pension related training.

A report was presented on pension related conferences/events which members of the Committee had participated in since the last meeting

Ms J Eastham reported that the 9th August 2020 CIPFA McCloud Implementation Workshop Webinar had covered the key issues arising from the judgement as discussed earlier in the meeting.

County Councillor Collinge reported that she had taken part in an informative discussion on divestment in relation to fossil fuels at the 8th September 2020 Pension Trustee Circle Virtual ESG Roundtable. County Councillor Ellard confirmed that he had also taken part in the event and had asked the organisers to provide a copy of the presentation which could be made available to all members of the Committee for reference via the online library.

**Resolved:** That the report and the updates from members of the Committee in connection with their participation at pension related Conferences/events is noted.

## 12. Responsible Investment Report

The Committee considered an update report on responsible investment matters relating to Q2 of 2020.

Members of the Committee commented on the contents of the Dashboard set out at Appendix 'A' and it was suggested that the comments be fed back to the Head of Responsible Investment at LPP investments (LPPI) for consideration ahead of the workshop for members on the 3rd November 2020.

The Chief Executive of LPP informed the meeting that LPPI worked with Robeco on collective engagements as referred to in the report, though the company had no involvement with or influence on the investments of the Fund. He added that, as a client of Robeco, LPPI was asked for input on themes to be progressed over the coming year as part of Robeco's annual review. It was noted that the Fund was also involved in shareholder engagement through its membership of the Local Authorities Pension Fund Forum.

Divestment (particularly in relation to fossil fuels) was discussed and it was noted that the Investment Panel had considered divestment as part of the recent Strategic Review and did not recommend it at this time. However, it was suggested that the Committee should have an opportunity to consider alternative viewpoints in relation to divestment, financial advice, resolution engagement and Environmental and Social Governance to inform future decision making.

**Resolved:**

1. That the feedback of Committee members on the contents of the Dashboard set out at Appendix 'A' to the report presented be referred to the Head of Responsible Investment at LPPI for consideration and discussed further at the workshop to be held at 2.00pm on the 3rd November 2020.

2. That the Head of Fund identify suitable speakers to give presentations to the Committee on alternative viewpoints regarding divestment and Environmental and Social Governance on a date to be arranged.

## 13. Revised Terms of Reference for the Lancashire Local Pension Board.

The Committee considered a report on the revised Terms of Reference for the Lancashire Local Pension Board which have been developed following a review by the Board.

**Resolved:** That the revised Terms of Reference, as set out at Appendix 'A' to the report presented, are approved and referred to full Council on the 15th October 2020 for consideration and approval.

## 14. Urgent Business

No items of urgent business were raised under this heading.

## 15. Date of Next Meeting

It was noted that the next scheduled meeting of the Committee would be held at 10.30am on the 27th November, 2020, either remotely or at County Hall, Preston.

## 16. 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.

The Chair paused the meeting at this point until it was confirmed that the live webcast of Part I of the meeting had ended.

**17. 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 activity by the Local Pensions Partnership Group which included reference to the impact of Covid-19 on operations, two shareholder reserved matters referred to elsewhere on the agenda, and the financial position of the Group as at 31st March 2020.

**Resolved:** That the updates on the activity and financial position of the Local Pensions Partnership, as set out in the report presented, are noted.

The Chair informed the Committee that he would take item 22 on the agenda as the next item of business as it related to the decision on the shareholder reserved matters referred to in the previous item.

**22. Shareholder reserved matters**

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.

A report was presented on two contractual arrangements relating to Local Pensions Partnership Administration Limited which required a decision by Lancashire County Council and the London Pension Fund Authority as shareholders.

**Resolved:**

1. That approval in principle is given to Local Pensions Partnership Administration Limited entering into a contract for a new pension's administration system and the lease agreement for offices at East Cliff, Preston as set out in the report presented.

2. That the Director of Corporate Services is authorised to agree the final shareholder approval to enter into the agreements referred to at 1 above.

**18. 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 Fund operated such as Brexit, the US elections and the ongoing Covid-19 pandemic.

The Committee was also presented with the Minutes from the Panel in August which had focussed on the formulation of recommendations associated with the investment strategy review as reported in the next item on the agenda.

**Resolved:** That the report is noted.

## 19. Investment Strategy Review

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 Chair presented a report on the recommendations of the Investment Panel on the 24th August 2020 following its strategic review of investments. He also proposed an amendment to the second part of the resolution set out in the report which would add the following text to the end of the recommendation 'with an additional £50m tolerance range in the event that suitable investment opportunities arise'. The amendment was moved and seconded and put to the vote where it was approved.

**Resolved:**

1. That the recommended changes to the Pension Fund Strategic Asset Allocations and tolerance ranges as set out in Appendix 'A' to the report presented are approved and implemented with effect from the 1st January 2021.

2. That the current allocation to the Lancashire Local Property Portfolio, which is based on a percentage of the total value of the Fund, be replaced with a more realistic, achievable allocation of £100m, with an additional £50m tolerance range in the event that suitable investment opportunities arise.

## 20. Lancashire County Pension Fund Performance Overview

Exempt information 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 June 2020 and highlighted key areas of interest such as the total portfolio return over different periods, the strategic/current asset allocation, net income progression and the current funding level.

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

## 21. Transaction of urgent business - Relocation of Lancashire Local Pensions Investment office in London.

The Chair presented a report on a decision taken by the Director of Corporate Services under the urgent business procedure to approve Local Pensions Partnership Investments Board entering into a lease to allow the office to relocate to new premises in London.

**Resolved:** That the decision taken by the Director of Corporate Services (as Monitoring Officer) on the 17th July, 2020, under the urgent business procedure, as set out in the Appendix to the report presented, is noted.

## Head of the Pension Fund

Before closing the meeting the Chair informed the Committee that this would be the last meeting for the Head of the Pension Fund who was due to leave the County Council for a new job. On behalf of the Committee the Chair thanked the Head of Fund for her work over the last four years and her invaluable contribution to the success of the Fund.

L Sales
Director of Corporate Services

County Hall
Preston

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 2020

| Electoral Division affected: None; |
| --- |

**Lancashire County Pension Fund - External Audit Findings Report**
(Appendix 'A' refers)

Contact for further information:
Michelle King, Interim Head of Fund, Michelle.King2@lancashire.gov.uk

**Executive Summary**

The report at Appendix 'A', sets out the findings of the external auditor, Grant Thornton, following audit of the Lancashire County Pension Fund accounts for the year ended 31 March 2020. The report was presented to the Council's Audit, Risk and Governance Committee on 19 October 2020.

The external auditor expect to provide an unqualified audit opinion, including an 'Emphasis of Matter' paragraph highlighting asset valuation material uncertainties on the pension fund accounts, and a 'consistency' opinion on the Annual Report of the Fund.

**Recommendation**

The Committee is asked to take note of the adjustments to the financial statements and the other issues raised by the auditor which are set out in Appendix 'A'.

**Background and Advice**

The external auditor is required to report to the Audit, Risk and Governance Committee, prior to concluding the audit work. Grant Thornton's final Audit Findings Report was presented to the Audit, Risk and Governance Committee on 19 October 2020 and a copy is attached as Appendix 'A' to this report.

The report includes the outcome of work against the main audit risks highlighted in the Audit Plan, which was presented to the Pension Fund Committee on 6 March 2020.

The report and the proposed opinion on the pension fund accounts will draw the attention of users of the statement of accounts to the inclusion of a 'material uncertainty clause' regarding the valuation of the Fund's directly held property, as valued by Avison Young. This clause does not suggest that the valuation of property cannot be relied upon but that, due to there being limited transactions in the property market due to Covid-19, there is less evidence available to support the valuation than usual and therefore the valuations at 31 March 2020 are inherently less certain. The clause is not included in the most recent valuation at 30 September 2020.

The Committee should note that the reference to the management expenses disclosure on page 14 of Appendix 'A' has now been finalised and the disclosure of audit fees within the accounts has been updated.

The following items are highlighted on page 4 of Appendix 'A' as being outstanding as at the date of issue of the audit findings report:

- finalising work on:
    - valuation of level 1, 2 and 3 investments;
    - IAS 19 work on the triennial valuation;
    - benefits payable;
- completion of assurance procedures on some minor disclosure notes;
- response inquiries to legal team regarding any potential claims against the fund;
- updated review of post balance sheet events;
- final quality assurance procedures.

A member of the Grant Thornton audit engagement team will be in attendance at the meeting to present the report and to give an update on the status of previously outstanding items.

**Consultations**

The audit findings report was agreed with the Head of the Pension Fund, and the County Council's Section 151 Officer before the report was taken to the Audit, Risk & Governance Committee in October.

**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

Grant Thornton

# The Audit Findings for Lancashire County Pension Fund

**Year ended 31 March 2020**

**2 October 2020**



Appendix A

# Contents

**Your key Grant Thornton team members are:**

**Paul Dossett**
Engagement Lead
T: 020 7728 3180
M: 07919 025198
E: paul.dossett@uk.gt.com

**Andy Ayre**
Audit Manager
T: 0151 224 7212
E: andy.j.ayre@uk.gt.com

**Olalekan Ayilara**
In-charge auditor
T: 0161 953 6471
E: olalekan.l.ayilara@uk.gt.com

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

| | | |
|---|---|---|
| **Covid-19** | The outbreak of the Covid-19 coronavirus pandemic had the potential to have a significant impact on the normal operations of the Pension Fund.<br><br>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. | Our audit risk assessment considered the impact of the pandemic on our audit. We reported a financial statement risk in respect of Covid -19. Further detail is set out on page 5.<br><br>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity. The draft statement of accounts were published on the Council's website on 27 July 2020. |
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:<br><br>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and<br><br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. | Our audit work was completed remotely from July to September. Our findings are summarised on pages 4 to 11. We have identified one disclosure amendment in the financial statements. This has not resulted in any adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.<br><br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the outstanding matters listed on the page 4.<br><br>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties. |

**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.



### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 19 October 2020 and in advance of the national deadline, as detailed in Appendix D. These outstanding items include:

- finalising work on valuation of level 1, 2 and 3 investments, IAS 19 work on the triennial valuation, and benefits payable;
- Completion of our assurance procedures on some minor disclosure notes;
- response inquiries to legal team regarding any potential claims against the fund;
- updated review of post balance sheet events;
- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain based on the same benchmark and the same percentages as reported in our audit plan but these were based on the estimated net assets at year end based on month 10's forecast. However, due to the Covid-19 pandemic's impact on investment valuations, we have reduced our materiality levels based on the actual net assets levels as per the draft financial statements.

| | Pension Fund (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 84,000,000 | This equates to around 1% of your forecast gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure. |
| Performance materiality | 63,000,000 | Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements. |
| Trivial matters | 4,000,000 | This equates to 5% of materiality. |

# Significant audit risks

## Risks identified in our Audit Plan

### Covid–19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates
- for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise
- considered the Fund's latest risk register to identify risks arising from Covid-19
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows.
- evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely
- evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure
- evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property, and
- discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

Our audit work has not identified any issues in respect of the Covid-19 risk.

We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Fund's directly held property by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of level 3 pooled and level 2 directly held investment properties.

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
| --- | --- |
| **Revenue recognition – the risk of revenue including fraudulent transactions**<br>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable<br>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund. | We rebutted this risk as part of our risk assessment process. This assessment remains appropriate.<br>In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following:<br>• The staff preparing and approving the accounts are consistent with those in previous years.<br>• There have been no changes in accounting processes and controls in the year.<br>• There have been no significant unexplained movements in funding position.<br>• There have been no changes in the methodology for calculation of estimates.<br>• There have been no instances of adjustments being posted by a senior finance officer without independent authorisation. |
| **Management over-ride of controls**<br>Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determine the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence,<br>• gained an understanding of the control environment in the pool Local Pensions Partnership (LPP) from the internal audit reporting during the year, and<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>Our audit work has not identified any issues in respect of management override of controls. |

# Significant audit risks

### Risks identified in our Audit Plan

**The valuation of Level 3 investments**

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period
- where available reviewed investment manager service auditor report on design effectiveness of internal controls
- reviewed any transfers to the Pool for any level 3 investments during the year

Our work is ongoing in this area as audited accounts for some of the level 3 investments are currently outstanding.

Our audit work to date has not identified any issues in respect of the risks relating to the valuation of Level 3 investments as at 31 March 2020.

# Significant findings – going concern

### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

| Going concern commentary | Auditor commentary |
| --- | --- |
| **Management's assessment process**<br>The Pension Fund has considered the Fund’s overall funding position, any communications with the relevant Department and Secretary of State and cash flow forecast and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. | • The Pension Fund’s use of the going the concern basis of accounting is appropriate.<br>• The last triennial valuation, as at 31 March 2019 reported a funding level of 100%.<br>• The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.<br>• There is no plan by the Ministry of Housing, Communities and Local Government to wind up Lancashire County Council Pension Scheme.<br>• The Pension Fund continues to operate as usual in 2020/21. Contributions and investment income continue to be received as expected. |
| **Work performed**<br>Reviewed management's assessment of going concern and the assumptions and supporting information. | • We have reviewed managements assessment that the financial statements are prepared on a going concern basis.<br>• No material uncertainty is identified.<br>• There are sufficient assets to meet the liabilities as they fall due for the foreseeable future.<br>• The last triennial valuation, as at 31 March 2019 reported a funding level of 100%.<br>• The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid. |
| **Concluding comments**<br>The Pension Fund’s use of going concern basis of accounting is appropriate. | Our opinion is unmodified in respect of the going concern conclusion. |

# Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|---|---|
| **Restitution for McCloud** | | |
| In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits. | The Pension fund had an initial discussion with Mercer, the Fund actuary, on the potential impact and their advice is that they expect the impact to be on an increase in the administration burden on the pension fund rather than a material impact on liabilities at whole fund level.<br>In addition, the production of the IAS26 statement Mercer made an allowance for McCloud as a past service cost (as well as the 2019 valuation). Mercer's calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation. | • The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from the Government Actuary Department (GAD) indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated.<br>• The auditor has concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is enacted, and as the outcome is unclear the firm does not regard publication of the consultation to be an adjusting event.<br>• For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. We do not expect the impact to the liability to be material. |

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 3 investments** | The Pension Fund has investments in pooled property investments, private equity long term credit and infrastructure investments that in total are valued on the balance sheet as at 31 March 2020 at £3.471 billion.<br><br>Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to indirectly held property holdings.<br><br>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on valuations provided by the funds which the Fund invests in. The value of the investment has increased by £61.6m in 2019/20, due to a combination of purchases and sales, some transitioning to fair value level 2 and both realised and unrealised gains and losses during the year. | Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable.<br><br>We have found no issues to date with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.<br><br>Note that our work on level 3 investments is still ongoing as not all investment confirmation requests or audited accounts have been received. This is being followed up as a matter of importance. | ● |
| **Level 2 investment** | The Pension Fund have investments in corporate and overseas government bonds and direct property holdings that in total are valued on the balance sheet as at 31 March 2020 at £1.136 billion.<br><br>Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to directly held property holdings.<br><br>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property. The value of the investment has increased by £374m in 2019/20. | Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian.<br><br>We have found no issues with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.<br><br>Note that our work on level 2 investments is still ongoing as not all investment confirmation requests or audited accounts have been received. This is being followed up as a matter of importance. | ● |



**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Auditor commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A letter of representation has been requested from the Pension Fund which is included in the Audit, Risk and Governance Committee papers. |
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to Fund Managers, the Custodians and your bank for cash balances (outside the cash held by your fund managers). This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however some requests have not yet been received so we are chasing with the support of the finance team. |
| **Disclosures** | Our review found no material omissions in the financial statements. Details of adjustments and disclosure changes can be found at Appendix B. |
| **Audit evidence and explanations/significant difficulties** | All information and explanations requested from management was provided.<br>The financial statements were received on 27 July 2020, and published in advance of the statutory deadline.<br>The financial statements were prepared to a good standard with embedded quality review processes in place.<br>Working papers were available at the start of the audit and were detailed, and clear to understand.<br>The responses to our audit samples and queries were comprehensive and timely. |
| **Matters on which we report by exception** | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report alongside the opinion of the Pension Fund Accounts. |

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified



| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related**<br>IAS19 assurance procedures for other bodies admitted to the Pension Fund | 15,750 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,750 in comparison to the total fee for the audit of £31,310 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| **Audit related**<br>Local Pensions Partnership<br>Authorised Contractual Scheme and investment funds structures audit. | 284,000 | Self Review | This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work. |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk and Governance Committee. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire County Pension Fund's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note it is still to be completed.

| Assessment | Issue, risk and recommendation previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Issue and Risk**<br>• Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input.<br>• The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.<br>**Recommendation**<br>Review the authorisation procedures in place over journal input. | **Management response in 2018/19 IAS 260 report**<br>Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.<br>**Updated management response in 2019/20**<br>The same personnel-based controls remain in place as in 2018/19, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore an ability to post journals) is carried out at least annually. |

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**Assessment**

✓ Action completed

X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

There are no adjusted misstatements identified as part of the 2019/20 audit.

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
| --- | --- | --- | --- |
| Note 22 – Related Parties | The draft accounts stated that the Local Pensions Partnership had repaid £12.5m loan finance to Lancashire County Council. The repayment was in fact £17.5m | Update the disclosure in the final version of the accounts | ✓ |
| Note 10 – Management expenses | The audit fee disclosure required updating to reflect the increased IAS 19 assurance work fee as reported in Appendix C and to remove reference to £1,500 fee for 2018/19 work on McCloud. | Update the disclosure in the final version of the accounts | TBC |
| Annual Report | Some additional disclosures were required for the Annual Report to comply with the 'Preparing the Annual Report' guidance from CIPFA. | Include contact details for key Fund advisors and add some commentary on the movement of non-investment assets and liabilities. | ✓ |

### Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2019/20 audit.

### Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.



 

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Pension Fund | 31,310 | 31,310 |
| **Total audit fees (excluding VAT)** | **£31,310** | **£31,310** |

The Public Sector Audit appointments scale fee is £26,310. The pension fund has disclosed £31,310 within the financial statements which is in line with our Audit Plan.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have been required to increase our fees on all our Local Government Pension Scheme clients.

The final fee is due to be settled by Public Sector Audit Appointments. We understand that PSAA has approved in principle the planned fee of £31,310, but this is subject to their final review.



| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services - Provision of IAS 19 Assurances to Scheme Employer auditors at £875 per letter* | £9,000 | £15,750 |
| **Total non- audit fees (excluding VAT)** | **£9,000** | **£15,750** |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by management and reported to the Audit, Risk and Governance Committee.  None of the services provided are subject to contingent fees.

* This is higher than the expected fee of £500 per letter as this had not factored in the additional work on the triennial revaluation

For completeness we are reporting to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%.  Details of the work performed, and the fees charged, are shown below for transparency purposes.

| Audit related Service | Proposed fee | Final fee |
|---|---|---|
| Local Pensions Partnership<br>Authorised Contractual Scheme and investment funds structures audit | £284,000 | £TBC* |

* We will provide a verbal update on the final fees once these have been confirmed with the audit team.

# Audit opinion

**We anticipate we will provide the Pension Fund with an unmodified audit report**

## Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

### Opinion

We have audited the 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 notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Executive and Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

### Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. Valuations of pooled and directly held property valuations have been reported on the basis of material valuation uncertainty. This was therefore disclosed in the audited accounts for the pooled property investments and the valuation reports of the pension fund's directly held property investments. Our opinion is not modified in respect of this matter.

### Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

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

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

# Audit opinion

**Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 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.

**[Signature]**

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

**[Date]**

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 2020

| |
|---|
| Electoral Division affected:<br>None; |

**Lancashire County Pension Fund 2020/21 Q2 Budget Monitoring**
Appendix 'A' refers

Contact for further information:
Michelle King, Interim Head of Fund, 01772 530837
Michelle.King2@lancashire.gov.uk

**Executive Summary**

This report sets out the income and expenditure of the Fund for the 6 month period to 30 September 2020 together with significant variances from the approved budget for the same period.

An updated forecast for the year ending 31 March 2021 is also provided which estimates a reduction of £2.2m (1.0%) in net income available when compared to the full year budget of £219.1m.

**Recommendation**

The Committee is asked to review the financial results for the 6 months to 30 September 2020 and note the budget and forecast variances, as set out in the report.

**Background and Advice**

The Lancashire County Pension Fund budget for the year ending 31 March 2021 was approved by Committee on 6 March 2020. Although several items are difficult to estimate as they rely on membership movements (for example, transfers in and out and lump sum benefits) or market conditions (for example investment income and market value) the budget provides a useful monitoring tool. At the March committee meeting it was discussed that this uncertainty is especially acute this year with the extra uncertainty of the impact of Covid-19 on markets.

In total the monitoring is showing that the forecast money available for investment is £2.2m (1%) less than the budget. The latest forecast is shown in Appendix 'A' with significant variances by budget line is set out below.



Lancashire County Council

## Income

### Contributions receivable

Budget for 6 months £318.1m, actuals for 6 months £332.3m.

The budget for the first 6 months of the year is 85% of the budgeted contributions income for the full year, as a result of the up-front payment of both future service and deficit funding contributions by a number of employers within the Fund. All expected up-front payments were received on time in April and May 2020.

The favourable budget variance for future service rate contribution income (£9.3m variance) for the period to 30 September has arisen largely due to the public sector pay award of 2.75% which exceeded the budgeted 2% increase and has been back dated to 1 April 2020. This additional contribution income is forecast to continue for the remainder of the financial year.

Deficit contributions were also in excess of the budgeted level for the first half of the year (£0.7m variance). This variance has been carried within the forecast for the full financial year.

Contributions from employees were £2.6m above budget and this has been forecast to continue for the full year. The favourable variance has arisen partly due to pay awards but also, on examination of the data, the budget was set at too low a level. The updated contributions are reflected in the forecast

Income from pension strain and augmented pension contributions was £1.7m above budget for the 6 months. The forecast for the full year anticipates contributions at budget levels for the second half of the year.

### Transfers in

Budget for 6 months £6.2m, actuals for 6 months £3.9m.
Income due to transfers is not received on a 'straight-line' basis through the year and is dependent on the timing of members joining the Fund. It is also difficult to forecast with accuracy. The forecast for the year assumed that income in the second half will be in line with budget.

### Investment income

Budget for 6 months £107.2m, actuals for 6 months £84.8m. As for transfers in, the phasing of investment income is not smooth. Distributions from pooled funds are recognised at the date of issue and as a result some timing differences exist between budget and actual income.

The year to date reported income from infrastructure, private equity and pooled property investments is approximately £28m behind budget for the 6 months against a favourable variance of approximately £15m income from fixed income and global equity investments.

At present no income from the pooled real estate portfolio has been recognised in the accounts for the current year. Distributions are expected by the end of the calendar year. A distribution notice for £3.6m pooled property income has been received for the quarter ended 30 June 2020 and the cash will be accounted for in Q3. Distributions from this fund are quarterly. Likewise, distributions from private equity funds accounted for to date are below the level advised by the Local Pensions Partnership. A distribution of approximately £5.4m is expected to be received in respect of the period to 30 September 2020 but this has not been accrued, in line with the Fund's accounting policy.

**Expenditure**

**Benefits paid**
Budget for 6 months £122.9m, actuals for 6 months £122.9m.
Pensions paid are in line with budget for the first half of the financial year. The forecast for the full year is that benefits paid will be in line with budget.

**Lump sum benefits**
Budget for 6 months £21.9m, actuals for 6 months £23.5m.
Adverse budget variance of £1.6m is forecast to be carried to the end of the financial year.

**Transfers out and other payments to leavers**
Budget for 6 months £8.2m, actuals for 6 months £10.0m.
The variance of £1.8m is attributable to transfers out, a budget which is dependent on membership activity and is difficult to forecast. The second half of the year is forecast at budget levels.

**Administration expenses**
Budget for 6 months £2.1m, actuals for 6 months, £2.1m.
Administration expenses, paid to the Local Pensions Partnership are in line with budget and are paid in equal monthly instalments throughout the financial year. No variance against budget is forecast for the full year.

**Investment management expenses**
Budget for 6 months £35.0m, actuals for 6 months £27.2m.
Of the £7.8m favourable budget variance for the first half of the financial year, £7.3m can be attributed to reduction in fees on pooled investments as a result of falling investment values. The actual pooled investment management costs reported include estimates of fees embedded in the net asset value of investments and not yet reported by sub-managers.

The Fund works with the Local Pensions Partnership Investments to record these expenses on a quarterly basis but it should be noted that fees are reported in arrears, usually on a quarterly basis.

It is expected that fees will move broadly in line with the value of the assets under management. Future performance related fees have not been forecast. The phasing of such fees is not regular and for prudence, no saving against budget has been forecast at this stage.

**Oversight and governance expenditure**
Budget for 6 months £0.5m, actuals for 6 months £0.1m.

The £0.4m underspend for the 6 months is largely due to the timing of spend However, a small overspend against budget is forecast for the full year due to additional costs of the external audit (£5k additional spend) and a net nil position on actuarial costs rechargeable to employers rather than the budgeted £20k over-recovery.

**Net funds available for payment of benefits**
Budget for 6 months £241.0m, actuals for 6 months £235.4m.

£10.4m under-recovery of income is partially mitigated by £4.8m underspend on expenditure. Both elements are due mainly to investment activity with investment income below budget and a year to date lag on investment fee expenditure.

The full year forecast is for net funds of £216.9m against a budget of £219.1m, a reduction of £2.2m.

**Consultations**

Local Pensions Partnership Investments Limited were consulted on investment management expenses and investment income.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

Regular budget monitoring is a key control for the Fund - assisting in the financial management of the Fund and providing an indication of significant variances from expectations. The process will also identify potential areas for review with the Local Pensions Partnership and inform future budget setting.

**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 2021**

**Budget monitoring for 6 months ended 30 September 2020**

| | PRIOR YEAR ACTUAL Year ended 31 March 2020 £'000 | BUDGET Year ending 31 March 2021 £'000 | BUDGET 6 months ended 30 September 2020 £'000 | ACTUAL 6 months ended 30 September 2020 £'000 | BUDGET VARIANCE 6 months ended 30 September 2020 £'000 | BUDGET VARIANCE 6 months ended 30 September 2020 % of budget | FORECAST Year ending 31 March 2021 £'000 | FORECAST VARIANCE Year ending 31 March 2021 £'000 | FORECAST VARIANCE Year ending 31 March 2021 % of budget | FAVOURABLE / ADVERSE |
|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | | | | |
| **Contributions Receivable** | | | | | | | | | | |
| From Employers | | | | | | | | | | |
| Future service rate contributions | (102,722) | (294,554) | (272,451) | (281,761) | (9,310) | 3.4% | (313,798) | (19,244) | (6.5%) | FAV |
| Deficit recovery contributions | (11,822) | (16,082) | (14,361) | (15,019) | (658) | 4.6% | (16,907) | (825) | (5.1%) | FAV |
| Pension strain / augmented pensions | (4,797) | (5,037) | (2,519) | (4,250) | (1,732) | 68.8% | (5,510) | (473) | (9.4%) | FAV |
| From Employees | (56,339) | (57,466) | (28,733) | (31,311) | (2,578) | 9.0% | (62,622) | (5,155) | (9.0%) | FAV |
| **Total contributions receivable** | **(175,681)** | **(373,139)** | **(318,063)** | **(332,341)** | **(14,278)** | **4.5%** | **(398,836)** | **(25,697)** | (6.9%) | FAV |
| **Transfers in** | (12,464) | (12,464) | (6,232) | (3,942) | 2,289 | (36.7%) | (10,174) | 2,289 | 18.4% | ADV |
| **Total Investment Income** | (204,280) | (214,494) | (107,247) | (84,822) | 22,425 | (20.9%) | (192,069) | 22,425 | 10.5% | ADV |
| **TOTAL INCOME** | **(392,424)** | **(600,097)** | **(431,542)** | **(421,105)** | **10,437** | **(2.4%)** | **(601,078)** | **(982)** | (0.2%) | FAV |
| **EXPENDITURE** | | | | | | | | | | |
| **Benefits Payable** | | | | | | | | | | |
| Pensions | 238,728 | 245,702 | 122,851 | 122,917 | 66 | 0.1% | 245,702 | 0 | 0.0% | FAV |
| Lump Sum Benefits | 43,767 | 43,767 | 21,884 | 23,471 | 1,587 | 7.3% | 45,354 | 1,587 | 3.6% | ADV |
| **Total benefits payable** | 282,495 | 289,469 | 144,735 | 146,388 | 1,653 | **1.1%** | 291,056 | 1,587 | 0.5% | ADV |
| **Transfers out** | 15,472 | 15,472 | 7,736 | 9,664 | 1,928 | 24.9% | 17,399 | 1,928 | 12.5% | ADV |
| **Refund of Contributions** | 716 | 716 | 358 | 350 | (8) | (2.2%) | 716 | 0 | 0.0% | FAV |
| **Contributions Equivalent Premium** | 239 | 239 | 120 | (5) | (125) | (104.4%) | 114 | (125) | (52.2%) | FAV |
| **Fund administrative expenses** | | | | | | | | | | |
| Administrative and processing expenses: | | | | | | | | | | |
| LPP administrative expenses | 3,386 | 4,128 | 2,064 | 2,046 | (18) | (0.9%) | 4,128 | 0 | 0.0% | FAV |
| Write off of bad debts | 10 | 10 | 5 | 3 | (2) | (41.3%) | 10 | 0 | 0.0% | FAV |
| **Total administrative expenses** | **3,396** | **4,138** | **2,069** | **2,049** | **(20)** | **(1.0%)** | **4,138** | **0** | **0.0%** | FAV |
| **Investment management expenses** | | | | | | | | | | |
| Investment management fees: | | | | | | | | | | |
| LPP directly invoiced investment management fees | 2,268 | 2,100 | 1,050 | 995 | (55) | (5.3%) | 1,989 | (111) | (5.3%) | FAV |
| DIRECTLY INVOICED non LPP investment management fees - direct holdings | 1,211 | 1,385 | 693 | 573 | (120) | (17.3%) | 1,385 | 0 | 0.0% | FAV |
| Investment management fees on pooled investments | 59,647 | 62,747 | 31,373 | 24,054 | (7,320) | (23.3%) | 62,747 | 0 | 0.0% | FAV |
| Transition costs | 120 | 120 | 60 | 0 | (60) | (100.0%) | 30 | (90) | (75.0%) | FAV |
| Custody fees | 64 | 60 | 30 | (14) | (44) | (146.9%) | 60 | 0 | 0.0% | FAV |
| Commission, agents charges and withholding tax | 1,504 | 1,500 | 750 | 944 | 194 | 25.9% | 1,889 | 389 | 25.9% | ADV |
| LCC recharge for treasury management costs | 58 | 58 | 29 | 29 | 0 | 0.0% | 58 | 0 | 0.0% | FAV |
| Property expenses | 5,516 | 2,000 | 1,000 | 598 | (402) | (40.2%) | 1,598 | (402) | (20.1%) | FAV |
| **Total investment management expenses** | **70,389** | **69,970** | **34,985** | **27,179** | **(7,806)** | **(22.3%)** | **69,757** | **(214)** | **(0.3%)** | FAV |
| **Oversight and Governance expenses** | | | | | | | | | | |
| Performance measurement fees (including Panel) | 88 | 82 | 41 | 15 | (26) | (64.6%) | 82 | 0 | 0.0% | FAV |
| Lancashire Local Pensions Board | | 15 | 8 | 3 | (5) | (64.7%) | 15 | 0 | 0.0% | FAV |
| IAS19 advisory fees | 0 | (20) | (10) | 1 | 11 | (112.1%) | 0 | 20 | (100.0%) | ADV |
| Other advisory fees (including abortive fees) | 96 | 100 | 50 | 22 | (28) | (55.2%) | 100 | 0 | 0.0% | FAV |
| Actuarial fees | 121 | 100 | 50 | 40 | (10) | (19.4%) | 100 | 0 | 0.0% | FAV |
| Audit fees | 26 | 26 | 13 | 12 | (1) | (11.0%) | 31 | 5 | 19.1% | ADV |
| Legal & professional fees | 60 | 60 | 30 | (113) | (143) | (475.1%) | 60 | 0 | 0.0% | FAV |
| LCC staff recharges | 616 | 616 | 308 | 88 | (220) | (71.4%) | 616 | 0 | 0.0% | FAV |
| Bank charges | 4 | 5 | 3 | 1 | (2) | (64.0%) | 3 | (2) | (32.0%) | FAV |
| **Total oversight and governance expenses** | **1,012** | **984** | **492** | **69** | **(423)** | **(86.0%)** | **1,007** | **23** | **2.4%** | ADV |
| **TOTAL EXPENDITURE** | **373,719** | **380,989** | **190,494** | **185,694** | **(4,800)** | **(2.5%)** | **384,188** | **3,199** | **0.8%** | ADV |
| **MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS** | **(18,705)** | **(219,108)** | **(241,048)** | **(235,411)** | **5,636** | **(2.3%)** | **(216,890)** | **2,218** | **(1.0%)** | ADV |



Appendix A

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 2020

Electoral Division affected:
(All Divisions);

**Lancashire County Pension Fund - Admission and Termination Policy**
(Appendix 'A' refers)

Contact for further information:
Colin Smith, 01772 534826, Technical Advisor,
colin.smith@lancashire.gov.uk

**Executive Summary**

The admissions and termination policy was last updated in April 2018. Following a review and consultation with employers a final draft has been completed incorporating recent 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.

**Recommendation**

The Committee is asked to approve the admission and termination policy as set out at Appendix 'A' to this report.

**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 final draft of the revised Policy attached as Appendix 'A' incorporates 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 the actuaries and follows a consultation with the employers in the Fund. There were no responses received from employers and as such the policy statement remains unchanged from the draft approved at the last meeting.

A summary of the key changes reported to the Committee at the previous meeting are set out again below for ease of reference. In terms of the deferred debt policy issue it is intended to revisit this once the full implications of these new provisions are known and will be reviewed together with a general review of employers covenant positions, which will be undertaken when the Employer risk services function returns to the County Council next year.

**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. 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. As such current policy will be that 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.

**Employer covenant**

Finally a minor amendment is made in relation to 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.

**Consultations**

Mercers – Fund Actuary
Employers in the Fund

**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 | N/A | N/A |

Reason for inclusion in Part II, if appropriate

N/A

# ADMISSION AND TERMINATION POLICY

## LANCASHIRE COUNTY PENSION FUND

NOVEMBER 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.

The Local Government Pension Scheme (Amendment) (No. 2) regulations 2020 introduced "deferred debt" provisions. This allows 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. As such current policy will be that 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, 27 November 2020

| |
|---|
| Electoral Division affected:<br>(All Divisions); |

**Local Pensions Partnership: Governance Charter**
(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**

The Local Pensions Partnership have developed a 'Governance Charter' document to summarise the governance arrangements for the pool.

**Recommendation**

The Committee is asked to note the 'Governance Charter' document which is set out at Appendix 'A'.

**Background and Advice**

Many of the newly created pools within the Local Government Pension Scheme have developed and agreed a 'Governance Charter' document. These documents seek to summarise the governance arrangements for the pool, including the structure, roles and responsibilities of the following:

- The Administering Authorities;
- Local Pension Board;
- The Local Pensions Partnership (LPP);
- Shareholders;
- Clients.

Draft versions of the document have been presented to members of the Pension Fund Committee for feedback at a training workshop on the 11th March 2020 and at the Lancashire Local Pension Board on the 13th October 2020.

The finalised version of LPP's 'Governance Charter' is set out at Appendix 'A'.

**Consultations**

The development of the document has involved consultation with the Local Pension Partnership, the London Pensions Fund Authority (LPFA), Lancashire County



Lancashire County Council

Pension Fund (LCPF), the Pension Fund Committee and the Local Pension Boards of LPFA and LCPF respectively.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

Effective governance arrangements with LPP are vital to ensure that oversight responsibilities are both communicated and discharged effectively for the Fund.

**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

Appendix A

LPP
Local Pensions Partnership

# Governance Charter 2020

# Contents

# Background

The purpose of the Governance Charter is to summarise the governance arrangements for the LPP structure and to provide an holistic view as the management and oversight of a Local Government Pension Scheme (LGPS) fund under a “pooling” arrangement. LPP is one of the eight LGPS pools established to drive economies of scale in pension fund management.

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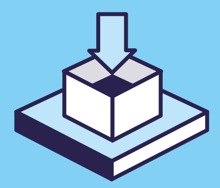
This Governance Charter outlines the pension funds that the LPP manages including the different roles played by:

The Administering Authorities - the LGPS pension funds

Local Pension Boards



The LPP pool including LPP Investments Ltd and LPP Administration Ltd

## LPP was formed in 2016 through a collaboration between Lancashire County Council (LCC) as the administering authority of Lancashire County Pension Fund (LCPF) and the London Pensions Fund Authority (LPFA), to enable Local Government Pension Schemes to pool resources, and the management of assets for the benefit of members and employers.

In order to achieve pension fund asset pooling, LPP established a company authorised and regulated by the Financial Conduct Authority (FCA), Local Pensions Partnership Investments Ltd (LPPI), which now manages approximately £18 billion of assets on behalf of three asset and liability management clients (LCPF, LPFA, Royal County of Berkshire Pension Fund) as well as the committed capital of GLIL Infrastructure LLP (GLIL).



LPPI's liquid pooled funds, such as global equities or fixed income, are structured under two Authorised Contractual Schemes (ACS), and other assets, such as credit and infrastructure, are managed through investment pooling vehicles. In summary this means that our partner pension funds/clients no longer own direct holdings in e.g. public equities, but instead own units within the investment pooling vehicles established by LPPI.

The financial benefits resulting from the delegation to LPPI are shown in the statutory accounts of clients in the form of reduced costs of running the pension funds. This is achieved by consolidating third party fund managers, increasing allocations to internal management and through broader economies of scale.

LPPI's clients retain full responsibility for their investment strategy but delegate the implementation of investment management activities fully. LPPI's investment performance is overseen by shareholders and clients regularly by their executives and formally every quarter at their individual Board meetings and Investment Panels.

In order to meet FCA requirements for a regulated asset manager, the governance structure of the LPP Group is designed to ensure sufficient independence between the pension funds and LPPI.



LPFA and LCC are both shareholders and clients of LPP Group. Shareholders have additional rights associated with ownership of the LPP Group.

Berkshire is an investment and risk management client. This means they have delegated their assets to LPPI to manage but do not have ownership or governance rights in the LPP Group.

There are a number of third-party pension administration partners who receive services from LPP Administration.

# Broad responsibilities of Administering Authorities – the pension fund

| |
|---|
| Strategic asset allocation – the investment strategy. |
| Funding strategy statement – to reflect the funding level of the scheme after each valuation (triennial) and to outline the approach to managing employer contributions. |
| Public policy statements such as a Communications Policy. |
| Pension administration strategies and setting the service levels for any outsourced pension administration providers, including the services received from LPP. |
| It is a "scheme manager" under the scheme regulations and The Pensions Regulator's Code of Practice applicable to public service pension schemes. This includes having to adhere to certain levels of common and conditional data. |
| Identifying key risks to the pension fund. |
| Setting the responsible investment policies of the pension fund. |
| Public reporting via pension fund annual reports and statement of accounts. |
| Monitoring that any outsourced provider (including LPP) is delivering against the services and strategies agreed. This is a role typically carried out by Officers of the authorities plus the relevant governance body, board or pension committee. |

Once the pension funds have determined their strategies, the implementation is delegated to LPP Group via a series of service level agreements.

Given the close relationship between LPP and the pension funds, they will often work in collaboration in the development of investment strategy or pension administration strategies but the pension funds have full independence to determine their strategies. The strategy often includes independent consultant input.

There is strong alignment between LPP and partner pension funds with a collective aim to improve outcomes for the pension fund. LPP operates with a partnership and an asset owner ethos. This means that success is measured by achieving the performance and service delivery objectives of its pension fund clients. This allows LPP to focus on long-term delivery as opposed to being focused on short-term success.





# Local Pension Boards

Local Pension Boards are member and employer representative bodies whose role is to assist the administering authorities in the oversight and effective management of the pension funds. This is a wide ranging role and each pension fund has terms of reference to reflect the role played by their Local Pension Board.

| This will usually include: |
|---|
| Reviewing how the pension fund is applying key regulatory requirements |
| Reviewing compliance with guidance from The Pensions Regulator |
| Reviewing the value for money and cost effectiveness of the fund |
| Engagement strategies with members and employers |

# Member and Employer Engagement

**The strategic alignment between LPP and clients is also evident in the approach taken to member and employer engagement.**

Each individual client remains responsible for the member and employer engagement strategy and has LGPS Communication Policies in place. LPP delivers the member and employer experience in line with these policies and runs the member self-service and employer portals which manage the data flows and interactions.

| Member engagement can include, depending on the requirements of each fund: |
|---|
| Annual fund member meetings |
| Newsletters |
| Email campaigns for scheme changes |
| Higher earner letters |

| Employer engagement includes: |
|---|
| Individual employer visits |
| Employer forums |
| Employer newsletters |
| Special engagement during valuation periods |

LPP is an accredited member of Customer Service Excellence and operates under Cyber Essentials and ISO 27001 (Information Management).





# LPP Governance Structure

**LPP Group's main role is to deliver the investment and pension administration strategies delegated to it by our partner pension funds, LCPF, LPFA and Berkshire (investment only).**

The diagram on the following page shows the governance structure in place to ensure the appropriate oversight of LPP from a shareholder and a client perspective.

Ownership rights are governed by a Shareholders Agreement which includes some decisions which are "shareholder matters reserved". This includes approval of the strategic plan and budget plus the usual shareholder approval matters under the Companies Act 2006. Each shareholder appoints a shareholder non-executive director to the LPP Board.

These roles have veto rights over all decisions but generally the LPP Board operates to reach a consensus. This means that for some decisions, LPP cannot act without the approval of shareholders.

Pension administration services are carried out by Local Pensions Partnership Administration Ltd, while investment management and asset and risk liability advice is provided by Local Pensions Partnership Investments Ltd.

## **LPP Governance Structure** cont.

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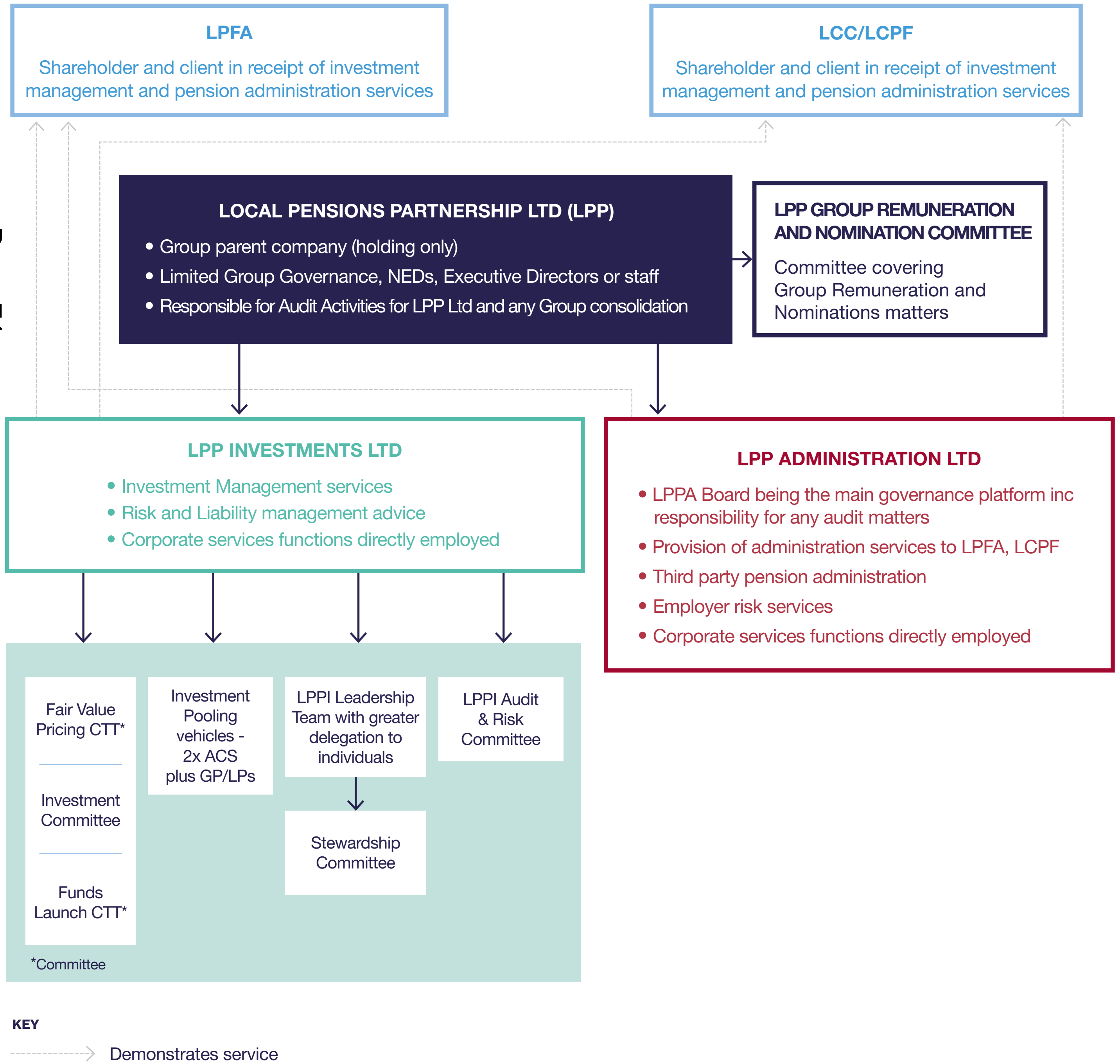
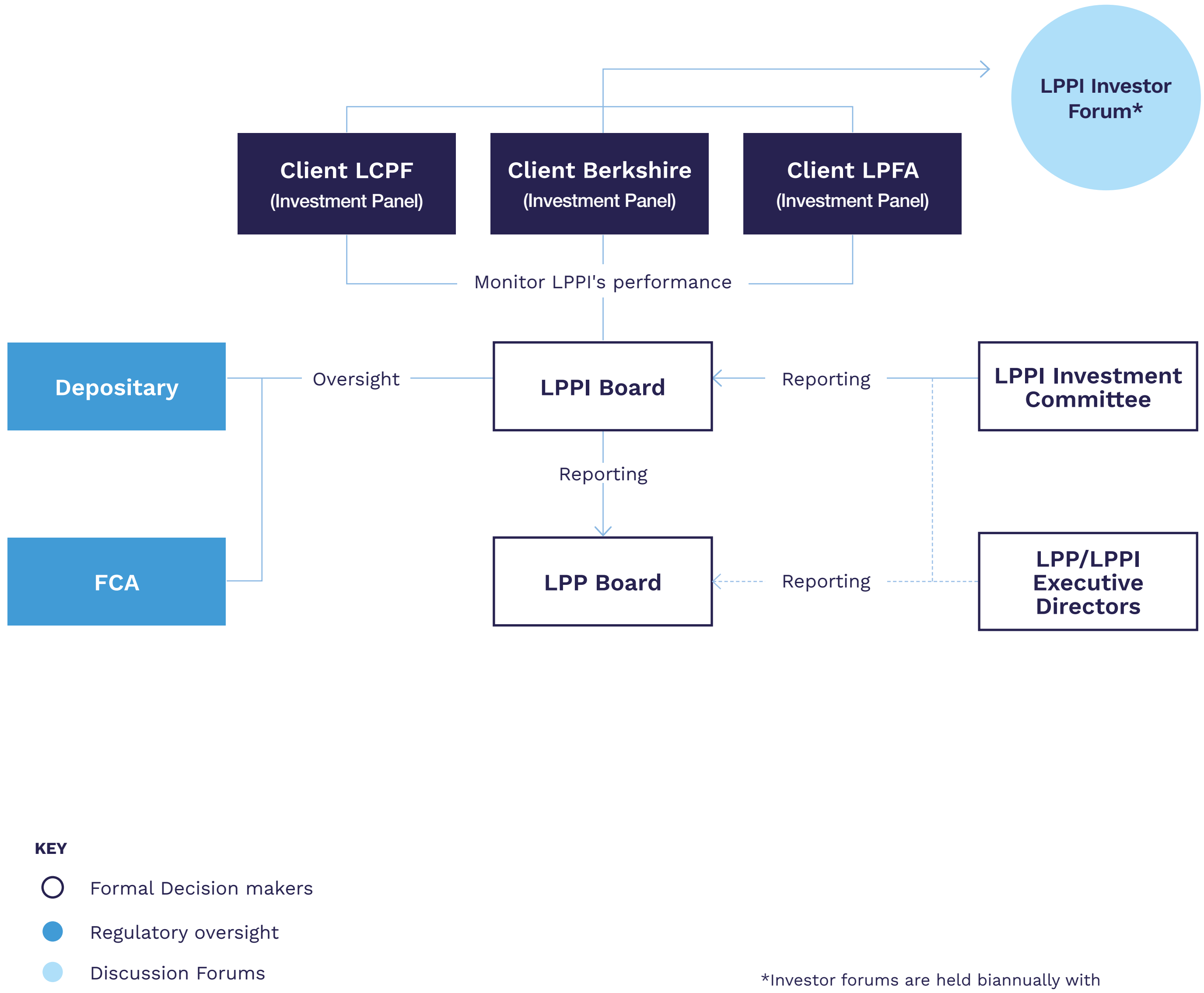
### **Corporate Structure inc. Board and Committees** (from September 2020)




### **Investment Client Interactions**




*Investor forums are held biannually with LPPI's Clients in order to discuss investment performance against strategy and upcoming plans.

# LPP's Governance Model and the role of the Board

LPP has an appropriate and tailored governance framework with a strong stakeholder focus in place. This promotes compliance with FCA regulation, helping to safeguard client assets and objectives, and seeks to promote achievement of LPP's strategy. More recently LPP has agreed to follow the Wates Principles of corporate governance which are applicable to large private companies. More details can be found **here**.

The LPP Board is responsible to its shareholders for the overall direction, supervision and management of LPP and its subsidiaries (the Group) to ensure its success. It determines the Group's strategic direction and objectives, its viability and governance structure. It operates in accordance with its Articles of Association, Terms of Reference and powers reserved for the Board as laid down by the Shareholders Agreement along with its obligations under the Companies Act, FCA regulations (applicable to LPPI only) and other public law obligations.The LPP Board meets five times per year.

The day-to-day management of the Group and the implementation of the strategic plan are delegated to the Chief Executive along with the Executive Directors. The Executive plays a key role in overseeing operational performance and delivering LPP's strategy.

LPP's Board has established an appropriate corporate governance structure to meet the needs of the Group. Many of the non-executive committees such as the LPPI Audit and Risk Committee operate under LPPI with delegated authority from the LPPI Board.

Terms of reference for the Boards and Committees within the structure are reviewed as and when necessary and at least on an annual basis. Board and committee effectiveness reviews are scheduled on a rotational basis, ensuring sufficient time is given to implement the actions.





# LPP's Strategy

LPP is entering the next phase of development having completed four years of establishing and growing the business. This included the launch of investment pooling vehicles through which clients consolidate pension fund assets.

This next phase, taking LPP to 2025, will see LPP focus on self-sufficiency and stability, delivering investment returns in excess of agreed client benchmarks and improving the member and employer pension administration experience.

The setting of LPP's strategy is a shareholder reserved matter under the Shareholders Agreement.

### Interactions between LPP Group and Stakeholders

The type of interaction between LPP and the pension funds depends on whether the LGPS fund is a client or a shareholder client. LCC and LPFA are both shareholders and clients and therefore both type of interactions are relevant to them. The interactions below help to maintain the strategic alignment between LPP and stakeholders.

| Shareholder Interaction with LPP | Client Interaction with LPP |
|---|---|
| Quarterly formal shareholder meeting | Quarterly performance meeting against the service level agreement |
| Regular interactions around shareholder reserved matters such as budget and strategy, remuneration policies | Attendance at investment panels or their equivalent |
| Informal shareholder meeting at Executive/Officer level | • Quarterly Pension Committee reporting<br>• Investment strategy advisory sessions<br>• Investor Forum (one to two per year)<br>• Attendance at Local Pension Boards<br>• Pension administration client meetings<br>• Employer visits |

# The roles of shareholders and clients

Throughout this document reference is made to the roles of “shareholders” and “clients”, with LPFA and LCC being both shareholders and clients.

| Key responsibilities for each are outlined below |
|---|
| LPP has an issued share capital of 25,000,002 ordinary shares of £1. The shareholders are: |
| • Lancashire County Council (12,500,001 shares)<br>• London Pensions Fund Authority (12,500,001 shares) |

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Each shareholder holds 12,500,001 fully paid ordinary shares of £1 in value. Of its 12,500,001 shares, Lancashire County Council holds 12,500,000 of these acting in its capacity as administering authority for the Lancashire County Pension Fund.

## Shareholder

| Activity | How the role is discharged |
|---|---|
| Operates ownership rights e.g in respect of the Annual General Meeting (AGM) | AGM to re-appoint statutory directors and to receive the annual accounts. |
| Approval of shareholder reserved matters | LPP alerts shareholders of upcoming items for decision e.g. new shareholders/budget/strategy.<br>Shareholders respond in the form of a written resolution.<br>Amendments to the Shareholders Agreement is a shareholder reserved matter. |
| Invests capital in line with legal agreements | Shareholders have provided initial set up costs, ongoing capital to support the business plus loan facilities.<br>Shareholders are also responsible for debating whether to add additional capital to the business. |
| Delegates day to day management of the company to LPP Board | The Shareholders Agreement contains matters reserved to shareholders with all other activities delegated to LPP Board.<br>Shareholders receive reporting back in the form of:<br>• Quarterly LPP updates at Pension Committee/Boards.<br>• Shareholder engagement meetings and events. |
| Appointment of shareholder NEDs | There is a requirement for the shareholders to appoint a shareholder NED and to inform LPP, and each other, of their choice. The NED is subject to duties under the Companies Act 2006. |
| Approves and holds LPP to account in relation to the Strategic Plan and Budget | Shareholders approve the strategic plan and budget annually and the quarterly updates to Pension Committees/Boards are an opportunity to assess progress.<br>Shareholder meetings and events are also an opportunity for LPP and the shareholders to discuss the future strategy of the business prior to the formal submission of the documents. |

**The roles of shareholders and clients** cont.

## Clients*: LCPF, LPFA (Investments and Pension Administration) and Berkshire (Investments)

| Activity | How the role is discharged |
|---|---|
| Monitor LPP's adherence to key documentation such as SLAs, Advisory and Management Agreement | Each partner fund has appointed a client liaison Executive to work with LPP and ensure service levels are adhered to. |
| Economic benefits flow to clients and appear in their statement of accounts in the form of lower investment management costs | Separate and individual quarterly client meetings are held with LPP on investment and pension administration issues. |
| Receipt of strategic advice | LPPI provides strategic asset allocation advice to clients on an ad hoc basis. This will usually feed into the Investment Strategy Statement of the clients. |
| Approval of the investment and pension administration strategy | Clients - LPFA, LCPF (Investments and Pension Administration) and Berkshire (Investments)<br>LPPI assists in these discussions on investment strategy and then implements the agreed strategy. |
| Receipt of benefits associated with service delivery | LPP outlines client charges and discusses any potential changes to these on an annual basis around October. This enables the information to feed into the budget setting process for each client. |
| Oversees the delivery of pension fund functions by LPP and builds a solid relationship with LPP | Daily contact between Executives at LPP and Officers at each pension fund. |
| Receive performance reports from the client representative and from LPP on a quarterly basis | Separate and individual quarterly client meetings are held with LPP on investment and pension administration issues.<br>This results in attendance/requirement to investment panels, quarterly committees and Boards. |

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* In addition to the clients noted above LPP provides pension administration services to a wide range of local authority, police and fire pension scheme partners. These are provided by LPPA.

## LPP

| Activity | How the role is discharged |
|---|---|
| Executive Management of LPP Group | LPP is tasked with managing all aspects of the LPP Group business which have not been reserved to shareholders.<br>LPP has implemented a governance framework to support this and has a scheme of delegations to Executive Directors in place. |
| Delivery to clients in line with Strategic Business Plan, SLAs and AMA | A shareholder and client liaison Executive is in place to coordinate activity across the central agreements and to report adherence to those to LPFA and LCPF on a quarterly basis.<br>Each function also has a client reporting capability. |
| Provision of strategic advice to clients | Clients request assistance with strategic advice around asset allocation or liability management on an ad hoc basis. |
| Management of the LPP Board and LPP Governance arrangements including the appointment of additional independent Non-Executive Directors | LPP's governance framework includes:<br>• Matters reserved for the LPP Board.<br>• Subsidiary companies with articles and matters reserved.<br>• Terms of reference for Board committees.<br>• Schemes of delegation.<br>• Business controls.<br>LPP has appointed Independent Non-Executive Directors and Executive Directors in line with the Shareholders Agreement (where required). |
| Escalation of shareholder reserved matters to shareholders | A schedule of shareholder meetings is in place plus regular contact between senior leaders within all parties. |
| Responsible for future strategy of the business | LPP presents the future strategic business plan to the shareholders on an annual basis for approval.<br>Shareholders are kept informed throughout the year via reporting to the pension committees and Boards on performance against this strategy. |
| Responsible for the management of LPP's staff, control over staffing matters of LPP's subsidiaries including remuneration in line with agreed policies. | As outlined and controlled by LPP's governance framework. |

# Glossary of Terms

**Local Pensions Partnership (LPP)** is a pension service provider for Local Government Pension Schemes and other public sector pension funds. It was established in 2016 through a collaboration between Lancashire County Council (as the administering authority of Lancashire County Pension Fund) and the London Pensions Fund Authority. As an asset pooling partnership, LPP also provides services covering investment management and advisory, actuarial and funding risk management and pension administration services.

**Local Government Pension Scheme (LGPS)** is a statutory pension scheme for eligible employees working in local government or local government linked employers.

**Lancashire County Council (LCC)** is the administering authority of Lancashire County Pension Fund. LCC are shareholders of the LPP Group. More information about shareholders and clients is available on page 16.

**Lancashire County Pension Fund (LCPF)** are shareholders and clients of the LPP Group and in receipt of investment management and pension administration services. More information about shareholders and clients is available on page 16.

**London Pensions Fund Authority (LPFA)** is a local government pension service provider in London. LPFA are shareholders and clients of the LPP Group and in receipt of investment management and pension administration services.

**Royal County of Berkshire Pension Fund (RCBPF)** are an investment and risk client within the pooling arrangement.

**GLIL** is the Infrastructure joint venture which LPFA and Greater Manchester Pension Fund established in January 2015. The membership has since been widened to include other LGPS partners. GLIL invests in infrastructure assets.

**Local Pensions Partnership Investments Ltd (LPPI)** is the investment management arm of LPP. It manages approximately £18 billion of assets on behalf of three asset and liability management clients (LCPF, LPFA, RCBPF and GLIL). LPPI's goal is to provide investment solutions and advice to help pension funds achieve returns that meet their members' needs both now and for the future.

**Local Pensions Partnership Administration Ltd (LPPA)** is another core business line of LPP which provides pension administrative services to LPFA and LCPF and a range of other LGPS, teacher, police and fire scheme partners.

**Pooling** was established when Central Government proposed that the Local Authorities pool their pension assets. Various principle benefits were identified such as cost savings through economies of scale, improved governance, improved approach to responsible investment, and improved liability to invest in infrastructure.

**Financial Conduct Authority (FCA)** is the regulatory body which oversees investment management companies such as LPPI.

**Authorised Contractual Schemes (ACS)** is a collective investment scheme set up by HMRC to enable the pooling of assets in a tax transparent manner.

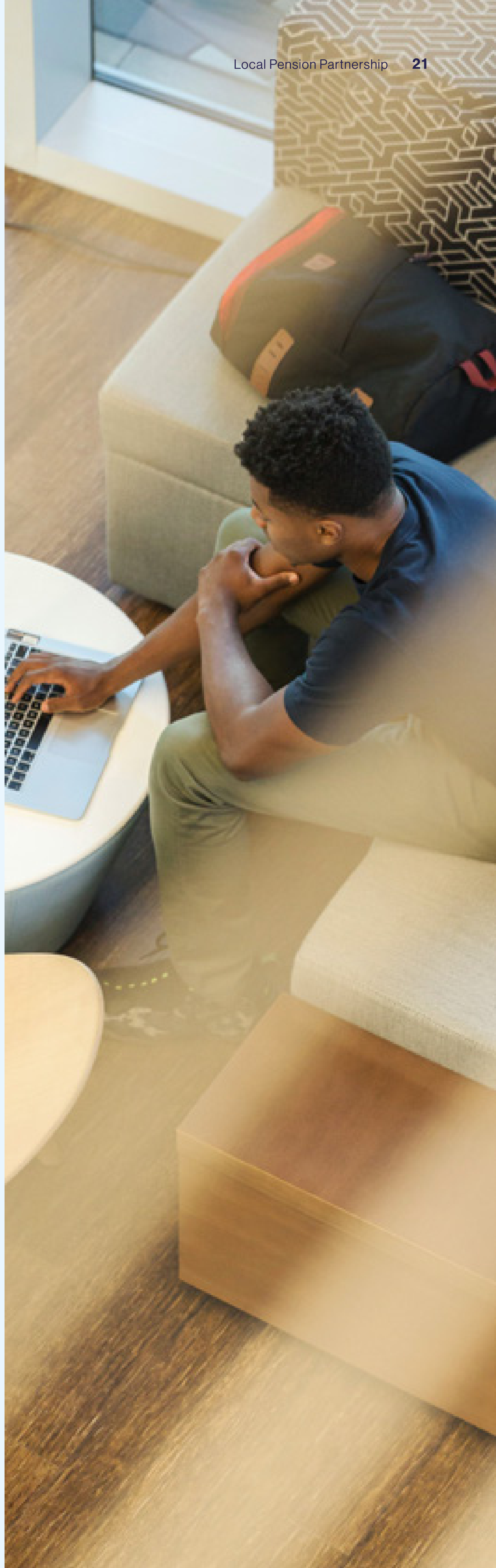
**Local Pensions Boards (LPBs)** were set up in line with the LGPS Governance Regulations 2014. They are member and employer representative bodies whose role is to assist the administering authorities in the oversight and effective management of the pension funds.

**International Standard for Information Security Management 27001 (ISO)** is the accreditation that has been given to LPP which recognises the organisation's ability to keep crucial information assets secure.

**Non-Executive Directors (NEDs)** are subject to duties under the Companies Act 2006. There is a requirement for the shareholders to each appoint a shareholder NED and to inform LPP, and the other shareholder, of their choice. NEDs also exercise effective leadership, constructively challenge and contribute to the development of strategy, performance and management of risk, and have a prime role in succession planning.

**Service Level Agreement (SLA)** is a legal document which governs services between LPP and the partner pension fund. The service level agreements are individually tailored and cover pension administration, fund managements and reporting and highlight the ongoing responsibilities of each LGPS fund under the LGPS Regulations.

**Advisory and Management Agreement (AMA)** is a legally binding document which is similar to a service level agreement between LPPI and each partner pension fund/investment client. It contains a general obligation to report and account for delivery against the specified objectives of each LGPS Fund. It contains the investment strategy of each investment client, and LPPI's obligation to implement the strategy.



LPP
Local Pensions Partnership

**Company Secretary**
Greg Smith

**Company registration number**
09830002

**Business address**
1st Floor
1 Finsbury Avenue,
London, EC2M 2PF

Norwest Court
Guildhall Street
Preston, PR1 3NU

**Registered office**
1st Floor
1 Finsbury Avenue,
London, EC2M 2PF

**Auditor**
**Grant Thornton UK LLP**
Chartered Accountants
& Statutory Auditor
30 Finsbury Square
London, EC2A 1AG

**Bankers**
**National Westminster Bank**
PO Box 35
10 Southwark Street
London, SE1 1TJ

**Handelsbanken**
Winckley Chambers
30 Winkley Square
Preston, PR1 3JJ

@LPPPensions
lpppensions
Local Pensions Partnership

**localpensionspartnership.org.uk**
**info@localpensionspartnership.org.uk**

020 7369 6000

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 2020

Electoral Division affected:
None;

**Local Pensions Partnership 2019/20 Annual Report and Accounts**
(Appendix 'A' refers)

Contact for further information:
Michelle King, Interim Head of Fund, 01772 530837
Michelle.King2@lancashire.gov.uk

**Executive Summary**

The shareholder agreement for the Local Pension Partnership requires the Committee to receive the Annual Report and Accounts for the Partnership.

The Annual Report and Accounts for the year ended 31 March 2020 (a copy of which is set out at Appendix 'A') were approved by the Local Pensions Partnership Board and are publically available via the Local Pensions Partnership website.

**Recommendation**

The Committee is asked to note the content of the 2019/20 Annual Report and Accounts for the Local Pensions Partnership as set out at Appendix 'A' to this report

**Background and Advice**

The Pension Fund Committee are charged with overall governance of the Fund and overseeing the investment and administration functions operated within the Local Pensions Partnership.

The shareholders agreement with the Local Pensions Partnership and the governance policy documents for the Fund state that the Pension Fund Committee should receive the annual accounts for the Local Pensions Partnership.

The Annual Report and Accounts for the year ended 31 March 2020 are attached at Appendix 'A'.

The report includes a strategic report, a review of corporate governance and the financial statements of the company, with some key highlights being discussed in more detail. These include:



Lancashire County Council

- The development of a new strategy and the re-structure of the company
- The approach taken to meet the COVID-19 pandemic
- Investment in new technology
- Assets managed now amount to £17.7 billion including the launch of a real estate fund
- Administration services are provided to 600,000 LGPS, Police and Firefighters' pension scheme members across more than 1,900 employers

**Financial Position**

Grant Thornton the external auditors have certified that the accounts present a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended .The accounts of the Local Pensions Partnership Group report a profit of £0.3m for the year to 31 March 2020, slightly higher than the £0.2m in the previous year

**Consultations**

N/A

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The shareholders agreement with the Local Pensions Partnership and the governance policy documents for the Fund state that the Pension Fund Committee should receive the annual accounts of the partnership.

**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

Appendix A

Annual Report & Accounts 2019-20

LPP
Local Pensions Partnership

# Developing exceptional pension services



## MILLET PLACE

Developed by Linkcity in partnership with LPFA, LPPI and Grainger, Millet Place provides much needed homes for Londoners, including a mix of 154 high-quality, professionally managed rented homes and 82 affordable homes for rental or shared ownership, as well as new shops, landscaping and improved access to the Thames Barrier Park.

# Income and expenditure

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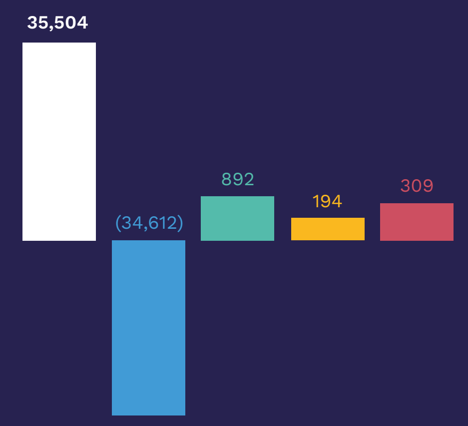
## INCOME STATEMENT £'000

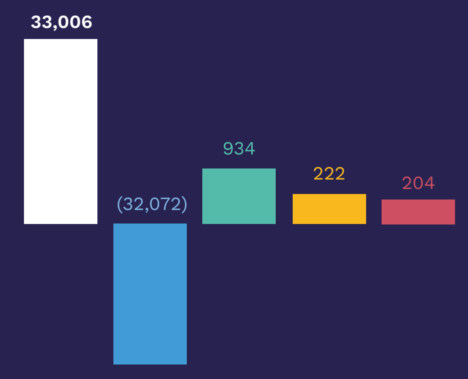
2019-20 Turnover

35,504




2018-19 Turnover

33,006

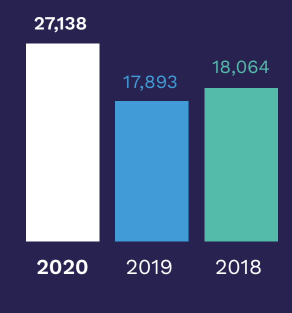



| | 2019-20 £'000 | 2018-19 £'000 | 2017-18 £'000 |
|---|---|---|---|
| Turnover | **35,504** | 33,006 | 26,140 |
| Administrative expenses | **(34,612)** | (32,072) | (27,906) |
| **Operating profit/(loss)** | **892** | 934 | (1,766) |
| **Profit/(loss) before taxation** | **194** | 222 | (2,492) |
| **Profit/(loss) for the financial year** | **309** | 204 | (2,110) |

## BALANCE SHEET HIGHLIGHTS £'000

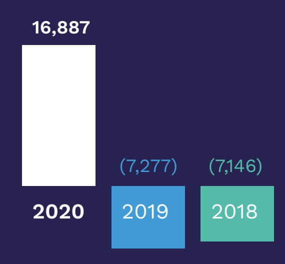
Cash at bank

27,138



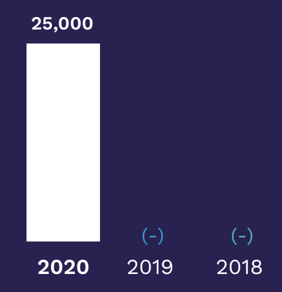

Net assets

16,887




Share capital

25,000




| | 2019-20 £'000 | 2018-19 £'000 | 2017-18 £'000 |
|---|---|---|---|
| Cash at bank | **27,138** | 17,893 | 18,064 |
| Net assets | **16,887** | (7,277) | (7,146) |
| Share capital | **25,000** | (-) | (-) |

# Contents

Local Pensions Partnership (LPP) strives to be an **exceptional pension services provider.**

Formed in 2016, we are a provider of pension administration and investment services to some of the largest local government pension funds in the UK.

We launched as a collaboration between Lancashire County Council (LCC) and London Pensions Fund Authority (LPFA), ahead of the Government plan to create asset pools from the **89 funds** that make up the Local Government Pension Scheme (LGPS).



# LPP in brief

LCC and LPFA took the decision to pool their assets to reduce cost and improve performance, and to widen the opportunities that come with scale. **LPP is now one of eight national Local Government pools.**

Today we manage around £17.7bn of assets on behalf of three LGPS clients including the committed capital of GLIL Infrastructure LLP (GLIL).

We also provide pension administration services for more than **600,000 LGPS, Police and Firefighters' pension scheme members across more than 1,900 employers.**

# COVID-19 statement

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## A summary of LPP's actions and philosophy as we continue to navigate the COVID-19 pandemic.

The global COVID-19 pandemic is an unprecedented crisis for the world, requiring governments and companies to take extraordinary actions to support their people and stakeholders.

As the pandemic has escalated, LPP has successfully mitigated the impact that the virus is having on our business, our members, our employees and their families.

We moved swiftly to home working in March with almost our entire workforce working successfully from home from very early on in the pandemic. We have supported our people and operations to ensure we are as close as possible to business as usual across the company. This was achieved by a major investment in IT to support homeworking. Our approach incorporated a heavy emphasis on employee well-being with regular communications, surveys, and virtual team 'get-togethers'. This was supported by dedicated health and safety and remote working initiatives through our business continuity planning.

This support for our people and our operations, which will continue over the long term, has meant we have been able to pay all pensions to our UK and overseas pensioners and maintain good service levels to our clients. Investment performance has remained resilient and our long-standing attention to liquidity management has paid dividends, as we have been able to provide reassurance that our client pension funds remain well-positioned to meet their liabilities and take advantage of opportunities to generate the required returns.

**You will see further references to our approach to the COVID-19 pandemic throughout this report.**



## Local Pensions Partnership:
# A year in perspective

Members

609k

Number under administration

318

Total headcount

Assets under management
(as at 31 March 2020)

£17.7bn

Pension Administration performance for completed queries across all clients

98%

Improved staff engagement scores – an increase on the Peakon Scale

↑0.9

Investment funds with launch of Real Estate Fund

8

## Strong foundations

Business re-capitalised, swapping loan financing for equity injections from shareholders total

£25m

£35m

in revenue

Group operating surplus before tax and IAS19 pension costs

£3.77m

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Successful migration of IT Data Centre

Investment performance in excess of client benchmarks for all clients during 2019

Senior Managers & Certification Regime (SMCR) implemented by LPPI

Refreshed LPP website enhancing user experience

## Recognition and Accreditations

**Professional Pensions UK Pensions Award 2019**
Finalist - Alternative Investment Manager of the Year - GLIL Infrastructure

**Pension and Investment Provider Awards 2019**
Finalist - Covenant Review Provider of the Year

**European Pensions Awards 2019**
Finalist - Sponsor Covenant Provider of the Year

**Pensions Age Awards 2020**
Shortlisted for Pensions Administration Award

**Pensions Age Awards 2020**
Shortlisted for Sponsor Covenant of the Year Award

**European Pensions Awards 2019**
Winner - Manager of the Year GLIL Infrastructure

**European Pensions Awards 2019**
Finalist - Fiduciary Management

*Signatory of:*
PRI Principles for Responsible Investment

**Principles for Responsible Investment**
PRI is an investor initiative in partnership with UNEP Finance and the UN Global Compact

ISO 27001

**ISO 27001**
Awarded October 2019

THE UK STEWARDSHIP CODE 2020

**The UK Stewardship Code**
Aligned with the principles of the Financial Reporting Council



PART 1

# STRATEGIC REPORT

# A message from our Chair

**LPP celebrated its fourth birthday this year. Since launch, our focus has been on establishing a new model to manage the pension services of our clients in the LGPS, fire and police pension schemes. Our services cover investment and risk management and pension administration.**

## Our operating environment has been encouraging:

- The stock markets have been broadly supportive, although we expect the current market volatility to continue for the foreseeable future;
- With a dynamic employment market, we have been successful in attracting and retaining high-quality people in the industry to help us deliver our aim to be an exceptional provider of pensions services; and
- Over the past year, we have successfully underpinned a stable and resilient business, sustainable over the longer term.

Normally, my report should, therefore, have been a relatively simple update on LPP's activities and operating environment. But, as we know, times are far from normal.

## Our response to the pandemic

As the full extent of the COVID-19 pandemic became clear, we responded with a plan to reduce its impact on our business, our clients, and our employees.

LPP transitioned to home working early in the crisis and implemented a strategic programme of communications to ensure our people, our key partners and suppliers were kept updated and involved in our response planning. This programme has been very successful with all key services provided to clients maintained.

## Building on strong ground

The past two years saw us focus on building business and operational resilience. This means we've now successfully built a solid foundation to support the next phase of our strategy, which has the full backing of our shareholders.

The new strategy is very much shareholder and client focused. It is important that we continue to deliver the savings, value and opportunities achieved from asset pooling and pension administration services.

Our new strategy also includes a focus on seeking to learn from best practice, nationally and internationally.

To help shape its 2020-25 strategy, LPP has reviewed international comparators and UK pension services providers. This has included reviewing the Canadian pension model, with its globally respected leadership in pensions scheme governance, scale, and high standards of professional in-house management.

LPP is broadly mid-way on the journey, with growing degrees of independence in our operations and thinking*.

## The financial indicators

I am pleased to say that during the year we have achieved all the goals set when we were formed, two years ahead of our original five-year target.

The financial year concluded with LPP delivering a core operating profit of £3.77m (pre-tax and pre-defined benefit pension liabilities charge). LPP's success is partly evidenced by achievement of investment management savings, which derive from asset pooling, and lower fees of internal investment management. The savings are evidenced in the publicly available statement of accounts of our shareholder clients. Our current savings run rate of £18m per annum is a good indicator of our progress.

Finally, I am pleased that Chris Rule has taken up the position of LPP and Local Pensions Partnership Investments Ltd (LPPI) CEO. Chris was previously Managing Director and CIO of LPPI, before moving into the interim CEO position. His investment and business knowledge continues to prove an invaluable asset. Chris has a strong strategic vision for LPP, and I am looking forward to working with him to bring this to life.

We are committed to our purpose to deliver exceptional pension services and, with the support of our excellent people and shareholders, I am looking forward to moving into this new phase of our journey.

*Find more details **here.**

"Since launch, our focus has been on establishing a new model to manage the pension services of our clients."

**MICHAEL O'HIGGINS**
Chair

# A message from our Chief Executive

**I am delighted with the progress we have made since forming LPP. Over the past year this progress culminated with the early completion of our original five-year objectives, the recapitalisation of the company and the development of a new strategic plan which sets out the direction for the business to 2025. See later sections for more information on these and a review of our investment and pension administration businesses.**

## Our new strategy

Developed last year and launched in April 2020, our new strategy builds on the achievements to date, with an aim to further strengthen our business for the long term. It will see LPP learning from best practice elsewhere, broadening investment capabilities and being well positioned to ensure we are prepared for future industry developments across the investment and administration sectors. I am very much aware of the energy, agility and resilience required to compete in a fast-moving industry. The LPP Strategic Plan 2020-25 can be viewed **here**.

## New structure

To support our continued development, we have initiated a restructure of the LPP Group – establishing our pension administration division as a subsidiary business, Local Pensions Partnership Administration Ltd (LPPA), alongside our existing investment management company, LPPI.

Our shareholders injected £25m of additional capital into LPP during 2019-20. This positions the business on a strong and resilient financial footing – ready to mature beyond our start-up phase with our new five-year plan.

## New technologies

A significant investment in technology was made this year to enhance the resilience of our operations:

- LPPI invested in the Portfolio Management System (PMS) operated by Broadridge, which provides our investment business with the consolidated and timely portfolio information required for us to continue to build our internal investment management capabilities; and
- We have migrated our on-site servers to hosted data centres. This move provides LPP with greater IT resilience and aligns to our new IT Strategy.

## Our performance

Our performance across both pension administration and investment management has been strong. The temporary challenges with service delivery within our pension administration service are now behind us. We are delivering against hard service level indicators augmented by much more granular information on the quality of our client services and satisfaction levels are good. We will continue to give this the right focus, as we seek to enhance the client experience.

Our investment performance has continued to exceed client targets over 2019. The first three months of 2020 was a challenging time for the capital markets. The largest allocation in each of our client's portfolios is their equity allocation (circa 40%). Our philosophy of investing within high quality companies that exhibit a competitive edge meant that each of our client's equity allocations outperformed its benchmark over the first quarter of 2020.

Meaningful value add was achieved in some of our larger portfolios, such as global equities, where the LPPI fund is significantly ahead of its benchmark. We have also made good progress developing the investment platform with the launch of our final pooling vehicle (real estate assets), and selective additions to the investment, risk and operations teams.

## Stewardship

I am also delighted with the continued development of our stewardship and Responsible Investment (RI) activity – this is an area in which we have invested heavily in recent years with many examples of good practice. Going forward we will be seeking to take a more explicit leadership role, consistent with the theme of collaboration and partnership which runs throughout our five-year plan, as we seek to work with industry peers to develop the toolkit all investors are looking for from a forward-looking and sustainable business.

"Our new strategy... builds on the achievements to date, with an aim to further strengthen our business for the long term."

**CHRIS RULE**
Chief Executive Officer

## Conclusion

None of our achievements over the past year would have been possible without the dedicated support of our people, who have worked tirelessly and collaboratively to support our clients and to build a business that is fit to take on the challenges of the future. I believe a diverse, inclusive and collaborative culture, with professional conduct, is central to the success of any business. It is reassuring to experience the combination of skill, diligence and professionalism among all our colleagues.

As covered earlier, COVID-19 has created fresh challenges for our people, our clients, and, of course, for everyone around the world. Our employee engagement scores have, nonetheless, continued to improve, and our most recent 'pulse checks' suggest employees feel supported and protected during the transition to home working in response to the pandemic.

We continue to monitor the physical and mental well-being of our staff and we have introduced additional flexible working solutions to meet their needs. At present, there is no indication that the current pandemic-related changes to working practices, nor market events, are inhibiting our ability to manage our business, service our clients and meet our objectives.

To conclude, I am pleased to have engaged our stakeholders in the launch of our new five-year strategy. I am now looking forward to working with shareholders, clients and colleagues to achieve our ambitious goals.

# Section 172(1) Statement 2020

LPP is required to publish a statement setting out key decisions that have been taken during the year and how the Directors, in making those decisions, have discharged their duty to promote the success of the Company.



LPP's Board and committee papers that require decisions to be made, now include a statement on how the decision will assist the Directors in the discharge of their obligations under section 172 of the Companies Act 2006. This requirement for all key papers assists both the directors in their decision making and in embedding the consideration of Section 172 in the culture of the business and in its decision making at senior management level, where papers are written. Additionally, all Board and committee papers require authors to consider corporate social responsibility, which would include any impact on the community and/or the environment.

Directors are mindful of the impact on stakeholders when making decisions. The Group considers its stakeholders to be: its two shareholders; staff; investments and pension administration clients; the members and employers of those clients, where relevant; suppliers of key services and goods to the LPP Group, such as software; regulatory bodies; and the Government.

LPP is committed to maintaining a reputation for high standards of business conduct and does so with its commitment to good standards of corporate governance as described in the corporate governance statement and in its application of the Wates principles. See page 56 for more details.

The key decisions taken during 2019-20 are outlined on page 21 and are important steps in the long-term success of the company. The table describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172 of the Companies Act 2006 to promote the success of the company when making key decisions.

More generally, LPP seeks to build positive relationships with suppliers by ensuring it acts as a responsible client. This means effective procurement, engagement and operating without payment delays (via purchase orders).

## Launch of the new strategy

**This was a key decision, since it confirms the strategic direction for the business to 2025, and was the result of several months of discussions with shareholders.**

**Shareholders** - Shareholder feedback was sought as part of the launch of the new strategy. The launch of a new strategy is a shareholder reserved matter under LPP's constitution.

**Clients** - The strategy is very client focused – our metrics demonstrating delivery of the strategy are also aligned to client needs and expectations.

**Staff** - One of LPP's strategic goals relates to making LPP an "exciting, forward thinking and collaborative place to work". This reflects the importance of *how* our actions are delivered and the culture we foster.

A further aspect of the new strategy was that staff would be moving into either LPPI or LPPA and that corporate services would be dedicated to one of the subsidiaries. Staff representatives were consulted as part of the project.

## Recapitalisation of the Company

**LPP was formed prior to the introduction of the updated LGPS Investment Regulations and was originally debt financed.**

The changes in regulation permitted our shareholder LGPS funds to invest equity in a collective vehicle and therefore we worked with shareholders to repay the historic loan monies and re-finance the business using shareholder equity of £25m plus new loan facilities.

LPP now has a far more resilient balance sheet providing comfort for all stakeholders.

## Launch of the Real Estate Fund

**Launching the Real Estate Fund provides clients with an opportunity to pool their real estate investments under a new Authorised Contractual Scheme. In launching the fund, the LPPI Board delegated the decision to the Funds Launch Committee which considered:**

- Product governance; is a new ACS the most appropriate structure to have in place?
- Legal documentation and key terms

This resulted in the Fund being launched over two phased closes, with each investment management client being deemed suitable to invest in the fund.

## Investment in IT and approval of the new IT Strategy

**This was a decision taken by the Chief Risk Officer, but with the budgetary support agreed by the LPP Board. Consideration was given to clients and employees in making the decision.**

The IT Strategy is a multi-year investment to update LPP's infrastructure, hardware and software. Clients will benefit from improved IT resilience and cyber security environment.

# Strategic Plan 2020-25

## LPP'S PURPOSE

To be an exceptional provider of pension services

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## LPP'S STRATEGY

LPP has entered the next phase of its development having completed four years of rapid growth, the latter half of which included a focus on consolidation and improving operational resilience.

## OUR BUSINESS MODEL AND ETHOS

LPP operates with a partnership and an asset owner ethos. This means that success is measured by achieving the performance and service delivery objectives of its pension fund clients. This allows the business to focus on long-term delivery and differentiates us from those focused on short-term success. The business is helping each investment client to meet their liabilities and each administration client to serve their members and employers with whom we engage.



**The Strategic Plan can be summarised in three key objectives:**

**Prioritise self-sufficiency and stability**

**Deliver excellent investment performance in excess of LPPI's targets and benchmarks**

**Focus on improving the member and employer experience**

The three key objectives of the strategic plan are reflected in a broader range of strategic goals and objectives.

# Pension administration

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## 2019-20 Performance

LPP had a strategic target for 2019-20 to achieve our performance objectives of the pension administration business following a period of significant change.

From October onwards, all client Service Level Agreements (SLAs) were met, following significant improvements in performance. Our operational resilience was further tested in March 2020 by the COVID-19 pandemic. Despite the disruption of the pandemic, administration performance consistently outperformed agreed service levels, with no interruptions to payment of all pensions to our UK and overseas pensioners.

Our pension administration business is a stable business, delivering on all its client service agreements.

In June 2020, the business was re-established as a separate legal entity, LPPA. This included aligning corporate services staff to LPPA to achieve greater focus and dedication to the pension administration business.

There is a significant opportunity to harness technology in LPPA to transform the business. In June 2020, we deployed a new telephony solution across our contact centre operations for the benefit of the members and employers of our clients and we are reviewing, and developing, our overall IT roadmap.

**Pension cases completed p/m**
**17,000+**

**Performance against pensions casework SLAs**
**98%**

**Pension benefits paid each month**
**c£100m**

**Average calls into our Helpdesk every day**
**500**

**Average Helpdesk call wait time of**
**<2mins**



## High quality service provision and customer excellence


- Investment, Risk and Administration
- Investment only
- Risk and Administration
- Administration only

## **Pension administration** cont.

Call centre satisfaction
**97%**

Email satisfaction
**80%**

Retirement survey
**82%**

## Key areas of focus

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The focus under the new strategy is to consider how the member and employer experiences can be further enhanced and to develop more measurable SLAs in partnership with our clients.

**Our key areas of focus for 2020-21 in summary:**

- **Full transition** of former corporate services into LPPA
- **Investment in technology**, including a review of the core pension administration system
- Leverage our investment in **contact centre functionality**, including speech analytics and webchat
- Investment in **our people and culture,** with a focus on employee engagement and well-being (see People and Culture page 34)
- Focus on improved **member and employer experiences** and communications
- **Improving The Pensions Regulator (TPR)** common and conditional data scores for our clients.

TRANSITION

TECH

CONTACT

PEOPLE

EXPERIENCE

IMPROVED TPR

# Investment management

LPPI manages £17.7bn of assets on behalf of three LGPS clients plus GLIL Infrastructure LLP (GLIL). GLIL is an Alternative Investment Fund with more than £1.8bn of committed capital, supported by Local Pensions Partnership and Northern LGPS. LPPI is the Alternative Investment Fund Manager (AIFM) for GLIL.

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A **Responsible Investment report** is available **here** on the LPP website.

The financial benefits resulting from our approach are shown in the statutory accounts of our clients, in the form of reduced costs of running the pension funds. This is achieved by consolidating third-party fund managers, increasing allocations to internal management and through broader economies of scale.

### Investment management within our partners' strategic asset allocation and risk parameters

We work closely with our partner pension funds to provide advice as they set their strategic asset allocation and risk parameters. Ours is a partnership approach, with the implementation of their strategy delegated to LPPI to manage.

Client funds are allocated to one of our investment pooling vehicles which are usually multi-manager vehicles, some of which include internal management, while others will be fully allocated to external managers.

### Enhanced focus on Responsible Investment and Stewardship

Our investment team has continued to embed Environmental, Social and Governance (ESG) factors into the core of our investment philosophy. We have also broadened and deepened our ESG analysis, when underwriting new investments and managing existing ones.

LPP is a signatory to the UN's Principles of Responsible Investment. In February, we signed a new partnership with Robeco to support engagement activity across the Global Equities portfolio, exercising active stewardship.



## LPPI's investment approach

Our model is built upon three pillars:

### Scale

Enables us to access a broader range of investment opportunities

### Governance

Delegated, independent decision-making and governance structures enable effective investment management

### In-house investment and risk management

Deep and broad in-house investment expertise across major asset classes in both public and private markets, enabling us to better understand clients' liabilities and funding needs and to develop appropriate investment strategies to meet these requirements

# Our funds

## LPPI operates investment pooling vehicles across eight asset classes, as outlined opposite. These are housed within two Authorised Contractual Schemes (ACS) and a number of pooling special purpose vehicles.

Details on the UK Registered investment pooling vehicles are available from Companies House: (all values are as at 31 March 2020).

### LPPI's approach to joint management for clients

It is not always economical or practical to transfer clients' assets into investment pooling vehicles. In these circumstances LPPI is still able to uses its resources to manage the investments under delegated authority – it simply does so whilst the legal ownership remains with our partners. This means clients are able to benefit from 100% pooled management utilising consistent investment processes and asset class-based objectives. In addition to the funds which have been transferred into investment pooling vehicles LPPI also manages £2.9bn of legacy assets for its clients in this way.

### Wider service provision

Through a partnership with Northern Pool, LPPI also provides services to GLIL Infrastructure. GLIL Infrastructure continues to seek new infrastructure investment opportunities, with its stake in Cubico Sustainable Investments being the most recent. GLIL currently has more than £1.8bn in committed capital.

### New Portfolio Management System implemented

To help us achieve a fully integrated end-to-end operation, LPPI implemented its updated Portfolio Management System (PMS) – Broadridge Paladyne.

Public market assets went live on the system in December 2019, and private market assets were implemented in May 2020.

This means we have the entire portfolio represented within the system, with better data consistency, integrity and controls. Our new system brings together the front office, investment operations and compliance department, all in one place.

### Further strengthening our investment teams

As part of our succession plan Richard J Tomlinson, previously Deputy CIO, has been appointed Chief Investment Officer (CIO). Richard has 20 years' experience across a wide variety of asset management roles and has been instrumental in the development and management of LPPI's investment strategy. In addition, over the reporting period, the Responsible Investment (RI) team expanded to four.

**Our key areas of focus within LPPI for 2020-21 are:**

- Maintaining **strong** investment performance
- Further **enhancing** our operating platform including fully embedding the Broadridge portfolio management system
- Continuing to advance our **focus** on sustainability and responsible investment
- Adapting to **new ways of working** in light of the post COVID-19 world
- Promoting a learning culture where inclusion, **diversity** and equality are core.


## LPPI asset classes

**LPPI Global Equities Fund**

The Fund invests across global equity markets through a combination of internally managed and third-party managed investments.

**LPPI Fixed Income Fund**

The Fund aims to deliver long-term risk-adjusted returns, capitalising on opportunities in the global fixed income market, with a strong focus on capital preservation.

**LPPI Diversifying Strategies Fund**

The Fund seeks to generate a diversifying source of return distinct from global equity and bond markets.

**LPPI Credit Fund**

The fund seeks to gain cost-effective exposure to diverse sources of return linked to global credit markets and credit instruments.

**LPPI Infrastructure Fund**

The Fund seeks to gain cost-effective, diversified exposure to global infrastructure assets, predominately in the UK, Europe and North America. It invests via primary infrastructure funds, co-investments and direct ownership in infrastructure assets.

**LPPI Private Equity Fund**

The Fund seeks to achieve long-term investment returns by investing in companies at various stages of the growth cycle (buyout, growth capital, special situations, distressed).

**LPPI Real Estate Fund**

The Fund seeks to gain cost-effective, diversified exposure to real estate with a focus on income, predominately in the UK, but with up to 50% global exposure. It invests directly and via funds, joint ventures and co-investments.

**LPPI Liquidity Fund**

The investment objective of the sub-fund is to provide investors with income and capital preservation. The sub-fund will invest in a diverse portfolio which can include fixed income bonds, floating rate bonds, money market instruments (including bank deposits, certificates of deposit and commercial paper) and asset backed securities (such as mortgage backed securities).

Approved by the FCA in October 2016 but currently without allocated funds.


**Further information on our funds can be found here on the LPP website, Investment Management section.**

# Active ownership in action

## Focus on Loimua



## In practice

### What is active ownership?

Active ownership means we actively exercise our rights as a shareholder. This is particularly relevant within private companies in asset classes such as infrastructure. Here we are able to use our position on the board to select, support and direct the executive team in the delivery of the business plan. We are similarly committed to active ownership within the board – here the implementation tool is more commonly via collaborative efforts and engagement given we would typically own a smaller proportion of these companies and do not sit on the investee company board.

### What types of business?

LPPI has taken direct stakes, on behalf of clients, in a number of different businesses in sectors such as utilities, energy generation and social infrastructure, which can be broadly defined as the construction and maintenance of facilities that support social services. Types of social infrastructure include healthcare (hospitals), education (schools and universities), public facilities (community housing) and transportation (railways and roads).

### Where?

Currently LPPI's direct investments are focused on managing assets primarily in the UK and Europe. The investment team conducts a careful process of selecting sectors and businesses, and management teams, that will fit our investment criteria. LPPI's most recent direct acquisition during 2019 was Loimua in Finland, to complement assets held already in the UK, Spain and Portugal.

### Context

Infrastructure assets tend to have a long investment horizon, normally 15 years or more, which is part of their attraction. However, this means that selecting partner shareholders with whom LPPI can work effectively is a critical part of the investment decision. This is in addition to the process of selecting appropriate companies, assessing the risk versus return and pursuing opportunities in a highly competitive environment.

## Loimua Case Study

Loimua is the ninth largest district heating company in Finland, purchased by LPPI in July 2019. The company owns and operates 16 district heating networks across Finland with a total network length of roughly 500km, operating in 10 municipalities and serving approximately 85,000 end-customers. LPPI acquired a 25% shareholding alongside two other institutional investors.

### Primary benefits derived from coordinated asset management responses were:

LPPI partnered with other investors with similar investment objectives – this left our consortium well positioned to win a highly contested auction for Loimua.

The investment team was active with our joint owners – an early refinancing of Loimua with long-term funding allowing for capital expenditure to support the transition to local biomass fuels, reducing reliance on fossil fuels and peat for heat and power generation.

The LPPI investment team who performed diligence on Loimua moved into the asset management role, scrutinising the division of Loimua from the larger Elenia Oy group; this was achieved successfully on time and within budget.

Regular engagement with the Loimua executive team, where LPPI has been acting jointly with our ownership group, has provided support and guidance across new strategy and financial reporting objectives; the Loimua executive team have been becoming more accustomed to active shareholder engagement despite having been a smaller part of a utility before the sale to new owners; we expect further improvements to emerge from the business plan as a result of our focus and support.

# Our people and culture

One of our strategic goals is to make LPP an “exciting, forward-thinking and collaborative place to work”.





“Everything we’ve achieved over the past year would not have been possible without the huge support of our people, who have worked tirelessly and collaboratively to support our clients and to build a business that is fit to take on the challenges of the future.”

**CHRIS RULE, CEO.**

## Our people

One of our strategic goals is to make LPP an “exciting, forward-thinking and collaborative place to work”, and we therefore have a strong focus on creating a great employee experience, which promotes the importance of collaboration and commitment.

## Our values

At LPP, our values play a fundamental role in guiding our behaviour as we develop a sustainable pensions services business, while sharing the benefits with clients. Our values underpin the culture and promote a collaborative approach and are embedded in our people processes and procedures to encourage further innovation.

1. **Working together**
2. **Committed to excellence**
3. **Doing the right thing**
4. **Forward thinking**

## Our purpose

While our values are not differentiators in themselves, when combined with our purpose to be ‘an exceptional provider of pension services’, they help us build trust and expertise, as we develop relationships and teamwork, internally and externally.

## Nurturing our talent

We are committed to providing the right conditions for all our people to thrive so they can deliver the best possible service to our clients. We continue to develop our talent management and succession planning to sit at the heart of our business model, with successes already seen as several key appointments have been made through internal promotions over the past year.

## Resourcing

We’re always looking for people who share our values and understand the importance of great customer service. In return, we offer an environment of respect and support, enabling everyone to succeed. We believe if our people are happy, we will deliver excellent service to our clients and their members.

This year, we have welcomed a number of new colleagues who believe in our ethos and business model of offering an integrated and comprehensive service which meets all LGPS pension needs, while reducing cost and improving value. We have rewarded our colleagues who refer successful candidates to LPP through our refer a friend scheme and been very pleased with the success of the scheme this year.

## Working for LPP and its businesses

Why I like working at LPP – our employee stories can be found **here**.

# Our people and culture cont.

**We're committed to ensuring everyone feels valued and respected. Our aim is to nurture and promote an inclusive environment where everyone can succeed.**

## Employee engagement

Our employee engagement scores have continued to improve, with 81% of employees taking the time to complete the most recent regular engagement survey and provide their commentary. We see engagement as a key indicator of our ability to provide a high-quality service to our clients.

## Diversity and inclusion

We're committed to ensuring everyone feels valued and respected. Our aim is to nurture and promote an inclusive environment where everyone can succeed.

As an organisation, we have a responsibility to ensure that no person is treated differently because of their skin, race, age, religion, gender or sexual orientation*. Racism has no place in our society nor our workplace. The protests around the world in the summer have encouraged us to review our belief that we are an equal opportunities employer in all respects. More can always be done and we are committed to taking all necessary steps to create and maintain a culture that is welcoming for all and values diversity, which will be fundamental to successful delivery of our strategic aspirations.

We value our people and are committed to making LPP a great place to work. At the heart of this is always acting with integrity and a commitment to bring the LPP values to life, in everything that we do.

## Our People Priorities

1. Empowered, supportive, diverse and inclusive culture – consistently communicate the behaviours we expect from our people and our leaders, which are reinforced across our people policies and processes

2. Competitive reward offering – deliver a reward framework that is appropriately positioned against industry benchmarks and drives high performance, together with a range of benefits that allow choice

3. Simple and clear development pathways – implement a multi-channel approach to deliver the right role and leadership capabilities for our two distinct businesses



## How do we engage with our people?

Staff members are represented by a Staff Committee and Staff Representatives. Engagement takes place quarterly through the Staff Committee. This is supplemented by an annual staff survey together with exception-based surveys, such as during the current COVID-19 crisis. Our Business Continuity Plan approach to COVID-19 included three additional surveys plus frequent communications to gain feedback on equipment needs to enable remote working and assess mental and physical well-being. The LPP response has been very positively received by our staff.

Wider stakeholder engagement is outlined in LPP's response to the Wates Principles, which are available in summary on page 56 and in detail **here**.

We have agreed a draft Statement of Intent/ Environmental Policy. This includes an intention to monitor LPP's carbon footprint and will be implemented when LPP's staff can return to our offices.

*or any other protected characteristics

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# Principal risks

**Within the LPP Group, the risk management framework can be described as:**

'A process which helps the business strike an acceptable balance between risk taking and the activities it undertakes in pursuit of its business objectives.'

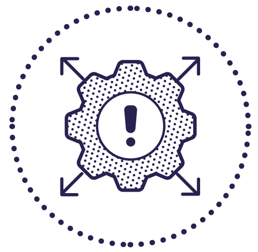
## Risk resilience

In line with a key business objective of increasing operational resilience, our risk management function continues to develop its resilience and maturity as a second line of defence, providing stakeholders with assurance that our business is well managed. Additional resources have been recruited focusing on investment risk management. New systems have enhanced our ability to manage operational risk across the Group. Cyber and operational risks will continue to be a focus.

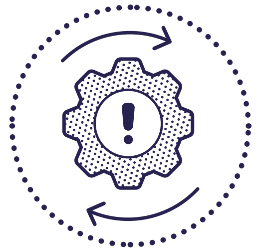
The risk management function of LPP has been the beneficiary of new external talent. We have used these hiring opportunities to revisit the risk framework and methodology; the risk management process document of LPPI was refreshed in its entirety and approved by the Board of Directors of LPPI. As part of the team's strategy of monitoring our risk profile, we have procured new risk and controls software that will allow the LPP Group to host its risk appetite frameworks, policies, procedures and key controls in a single place.

A key focus for the team is further collaborative working with the investment team at LPPI. This provides the investment team with proactive and thoughtful investment risk analysis, as well as being a constructive source of challenge, as part of the oversight requirements which are expected by the Financial Conduct Authority (FCA). The Risk Team provides oversight and support to the internal audit function of LPP, which is outsourced to Deloitte LLP. We will continue to focus on taking a risk-based approach to our audit plan that is supportive of the strategic plan of LPP.

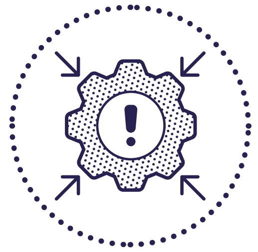
## LPP's risk framework aims to:



**Establish and operate an effective risk management/ internal control environment including risk identification, assessment, monitoring and the development of actions arising.**



**Establish and operate a regular programme of Group-wide risk analysis, stress testing, scenario development, thematic review and reverse stress testing.**



**Integrate risk management into the culture of the Group.**

# **Principal risks** cont.

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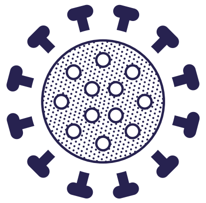


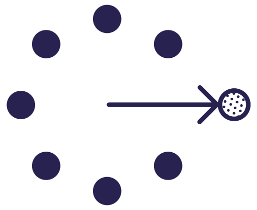
## Impact of COVID-19

At the start of the COVID-19 crisis, LPP's Business Continuity Plan (BCP) was invoked, including an early move to remote working. This was a relatively smooth process. As part of the move to remote working, our pension administration contact centre initially focused on urgent enquiries but quickly moved to full operational capability. Service levels were generally maintained. The primary risks attributed to the COVID-19 outbreak are:

- While market moves to date have not had any material impact on income to LPPI, the potential impact exists since LPPI's income is based on assets under management
- Disruption to contact centre activities
- Impact on staff well-being – both physical and mental
- Impact on the cyber security and data protection obligations.

The impact of these risks was mitigated by the establishment of a BCP team which ensured staff received appropriate support and technology to continue working. Staff have responded excellently.

Income levels are being monitored but the recent capitalisation of the business means that LPP's financial position is healthy. A new contact centre telephony solution has been introduced to further improve services.



## Brexit

LPP continues to monitor the Brexit timetable. Operationally, we expect there to be a low impact to our business, given we operate only in the UK and provide services to UK resident organisations.

We have worked closely with our key suppliers, some of whom are based outside the UK, to assess whether any contractual arrangements will be negatively impacted. We are satisfied that no significant issues are likely. It is possible that Brexit may cause volatility in investment asset prices and that this may impact the portfolios that LPPI manages.

Our portfolios are well diversified in terms of different asset classes and geographical exposures. We manage with a long-term investment horizon; any short-term volatility is not expected to have a significant impact on our clients and on our business model.

**Chris Rule**
Chief Executive Officer

7 October 2020



PART 2

# CORPORATE GOVERNANCE

# Corporate Governance Statement

'These are times of change and uncertainty when it is more important than ever for businesses to be mindful of their stakeholders when making key business decisions.'

Page 101

As has been noted earlier in this report, these are times of change and uncertainty for us all, when it is more important than ever for businesses to be mindful of their stakeholders when making key business decisions. New external reporting requirements in the form of Section 172 Statements and LPP's own internal governance revisions, referred to below, will continue to strengthen engagement with stakeholders and further enhance accountability. LPP's engagement with shareholders continues to work well with informal meetings sitting alongside formal quarterly meetings, in addition to the AGM. As well as shareholder engagement, a programme of client engagement is in place for all pension administration and investment management clients.

The LPP Board is responsible to its shareholders for the overall direction, supervision and management of LPP and its subsidiaries (the Group) to ensure its success. It determines the Group's strategic direction and objectives, its viability and governance structure. The Board has approved LPP's new five-year strategy for the business (2020-2025) which has been agreed by the shareholders. The Group has been restructured to allow greater emphasis on independent management at subsidiary level with strategic oversight from LPP as the holding company.

As part of this restructure, the pension administration business transferred to the subsidiary company, LPPA. This structure allows both LPPI and LPPA to focus better on their specific opportunities and means greater differentiation of the Board and leadership structures of LPPI and LPPA.

The LPP Board operates in accordance with its Articles of Association, Terms of Reference and matters reserved as laid down by the Shareholders Agreement, along with its obligations under the Companies Act and other public law obligations. As part of the restructure the committee structure has been reviewed. This has resulted in the LPP Audit Committee and the LPPI Risk Committee merging to form a new joint Audit and Risk Committee under the LPPI Board. This new committee will monitor risks, internal controls, compliance arrangements, the provision of internal and external audit services and perform its duties in relation to financial reporting obligations and governance arrangements. It will also monitor the embedding of SMCR requirements into business as usual.

The existing Audit Committee has collaborated with Executive teams during 2019-20 to enhance internal audit monitoring and management and has developed clarity over the framework for the approval of statement of accounts throughout our Group structure and associated investment pooling vehicles.

The Committee has played a key role in ensuring that there is appropriate challenge to the Group's risk management and internal control framework and received regular governance, compliance, risk and internal and external audit reports to assist in this duty. It has also provided assurance to the LPP Board on the robustness of these systems, via a report following each of its meetings, and has played an important role in IT and cyber security risk management during the year.

The Audit Committee has been focused on Group-wide risk management whereas the LPPI Risk Committee has specifically considered risks pertinent to LPP's investment subsidiary and the associated investment funds. The two committees have worked closely, particularly over the implementation of Group-wide risk policies and, as mentioned above, in the new structure the two committees will combine.

During the year, the Board approved a widening of the Remuneration and Nomination Committee's remit to include consideration of organisational culture, staff engagement and well-being, demonstrating a clear commitment to everyone working across the Group. With the restructure, the remit of the Committee will widen to include LPPA. The Committee will also be focused on succession planning across the Group, with particular consideration given to talent management for executive and senior management roles. This will ensure we are in a strong position for future leadership and diversity enhancements.

For this reporting year, there are some new requirements in governance reporting which bring an enhancement to the annual report. The Companies (Miscellaneous Reporting) Regulations 2018 require the strategic report to include a statement which describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duty under section 172. Section 172 is the Duty to promote the success of the company and is addressed as a specific consideration in relevant papers submitted to the LPP Group's boards or committees. This new reporting can be found in the strategic report on page 22 and is a development we very much welcome.

The new regulations, referred to in the previous paragraph, also require all companies of a significant size to disclose their corporate governance arrangements and for those companies for which existing codes did not apply, the Wates Corporate Governance Principles for large private companies were published in December 2018. While LPP does not meet the threshold for required reporting, the Board is committed to the appropriate standards of corporate governance and has made the decision to adopt these Principles and report on them. A high-level summary of the application of these Principles can be found in the Directors' Report on page 54 while the full detail is provided on the LPP website **here**.

The Board and I are pleased to report on the positive developments in the reporting year and are confident that the new Strategic Plan, together with the Group restructure and other enhancements, will see the Group continue with its development of exceptional pensions services in the coming year.

**Michael O'Higgins**
Chair

7 October 2020

# Board of Directors

During 2019-20 the LPP Board comprised an independent Chair, three Executive Directors, five independent Non-executive Directors (NEDs) (one of whom was the Senior Independent Director) and two Shareholder NEDs. Each of LPP's two shareholders appoints a Shareholder NED to the Board.

In line with the Group restructure highlighted in the Corporate Governance Statement, from September 2020 the LPP Board has been reduced to an independent Chair, two Executive Directors, two Shareholder NEDs and the Chairs of LPPI and LPPA. Some current Group NEDs have moved to sit on the Boards of the subsidiaries, this is detailed on page 51.

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All statutory directors in the Group are subject to annual re-appointment* by the shareholders at the Annual General Meeting (AGM).

All NEDs are appointed on a three to four-year initial term and undertake a formal induction programme on appointment. This programme is kept under review to ensure that it reflects current regulations and is aligned with the business's strategic objectives. A training schedule is organised to ensure these skills and knowledge remain current.

**Board and Committee Memberships**

| (until September 2020) | | (September 2020) | |
|---|---|---|---|
| B | LPP Board | B | LPP Board |
| A | LPP Audit Committee | B | LPPA Board |
| R | LPP and LPPI Remuneration and Nomination Committee | R | LPP Group Remuneration and Nomination Committee |
| B | LPPI Board | B | LPPI Board |
| Rc | LPPI Risk Committee | R | LPPI Audit and Risk Committee |

*Except for the Shareholder appointed A and B directors

The following served on the LPP Board during the financial year 2019-20. The key to Board and Committee memberships clarifies what these were during the reporting year and what they are from September 2020.

**Michael O'Higgins**
Chair of LPP Board
B B R B R

**Sally Bridgeland**
Non-Executive Director
B B B R B

**Sarah Laessig**
Non-Executive Director
B A B R

**Jill Mackenzie**
Non-Executive Director
B R B R

**Dermot 'Skip' McMullan**
Shareholder Non-Executive Director (LPFA)
B R B R

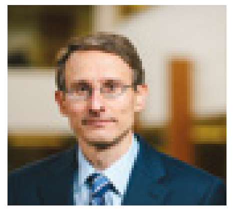
**Tom Richardson**
Executive Director,
Chief Operating Officer
B B Rc B

**Sir Peter Rogers**
Senior Independent Director
B A B B

**Chris Rule**
Executive Director,
Chief Executive Officer
B B B B B

**Alan Schofield**
Shareholder Non - Executive Director (LCC)
B R B R B

**Adrian Taylor**
Executive Director,
Chief Financial Officer
B B B



**Robert Vandersluis**
Non-Executive Director
B B Rc B R

Biographies for all directors are available on the LPP website **here.**

## Directorships in the Group (as at 31 March 2020)

| LPP (11 Directors) | LPPI (6 Directors) | LPPA (3 Directors) |
|---|---|---|
| **Michael O'Higgins** (Chair) | **Sally Bridgeland** (Chair) | **Sir Peter Rogers** (Chair) |
| **Sally Bridgeland** (NED) | **Michael O'Higgins** (NED) | **Jo Darbyshire** (MD) |
| **Sarah Laessig** (NED) | **Tom Richardson** (CRO) | **Greg Smith** |
| **Jill Mackenzie** (NED) | **Chris Rule** (CEO) | |
| **Dermot 'Skip' McMullan** (Shareholder NED) | **Martin Tully** (NED) | |
| **Tom Richardson** (CRO) | **Robert Vandersluis** (NED) | |
| **Sir Peter Rogers** (SID) | | |
| **Chris Rule** (CEO) | | |
| **Alan Schofield** (Shareholder NED) | | |
| **Adrian Taylor** (CFO) | | |
| **Robert Vandersluis** (NED) | | |

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## Directorships in the Group (September 2020)

| LPP (7 Directors) | LPPI (8 Directors) | LPPA (6 Directors) |
|---|---|---|
| **Michael O'Higgins** (Chair) | **Sally Bridgeland** (Chair) | **Sir Peter Rogers** (Chair) |
| **Sally Bridgeland** (NED) | **Sarah Laessig** (NED) | **Robert Branagh*** |
| **Dermot 'Skip' McMullan** (Shareholder NED) | **Tom Richardson** (COO) | **Jo Darbyshire** (MD) |
| **Sir Peter Rogers** (SID) | **Chris Rule** (CEO) | **Jill Mackenzie** (NED) |
| **Chris Rule** (CEO) | **Adrian Taylor** (CFO) | **Chris Rule** (Group CEO) |
| **Alan Schofield** (Shareholder NED) | **Richard J Tomlinson** (CIO) | **Alan Schofield*** |
| **Adrian Taylor** (CFO) | **Martin Tully** (NED) | |
| | **Robert Vandersluis** (NED) | |

*(shareholder nominated representative NEDs)

# How the Board operates

The Board met five times during the reporting year and held two strategic away days. Each meeting discussed a number of items aligned to the strategic priorities and the agreed forward plan of business. Board meetings are well attended with only one director missing one meeting in the reporting year.

### Activity during the year

During the year the Board was focused on reviewing the strategy, structure and governance of the Group to ensure it was fit for purpose going forwards.

Activity during the year included:

- Development of the Group strategic five-year plan
- Capital restructuring
- Increasing the remit of the Remuneration and Nomination Committee to include consideration of organisation culture, staff engagement and well-being
- Approval of the budget for the IT strategy and review of cyber security
- Review of core financial controls
- Approval of LPP's revised Articles of Association
- Consideration of the different Governance Codes and agreement to adopt the Wates Principles on Corporate Governance for large private companies
- Refresher briefing on Directors' Duties from the Companies Act
- Enhancing shareholder engagement.

### Board and Committee evaluation

During the year, the Board continued to embed the recommendations from the Board Effectiveness Review carried out in 2018 and reviewed the effectiveness of its committees. The impact of the review into committee effectiveness included the agreement to create an Audit and Risk Committee under LPPI with effect from September 2020. There is an intention to carry out another Board evaluation in 2020-21, although this may focus on subsidiary Boards under the new structure.

### Diversity

The Group Board at 31 March 2020 was 27% female. Further development is required on the diversity agenda which the LPP Group Remuneration and Nomination Committee will consider during the coming year.

### Outlook for 2020-21

The Board will work with management and the subsidiary Boards to ensure the successful transition to the new structure. A key part of this transition will be ensuring appropriate governance arrangements are in place, including clarity on delegations of authority and appropriate review of key documents such as the Articles of Association for LPP, LPPI and LPPA. Non-Executive Director succession planning will also feature on the agenda.

### Remuneration reporting

LPP remains committed to openly reporting the total remuneration of the LPP Group Board directors, key management personnel and highly paid employees (who are typically the investment managers). The remuneration disclosure goes beyond what legislation requires and reflects our commitment to transparency. The table below shows total remuneration (base salary plus incentives plus pension or cash alternative) of 'high earners' (employees earning >£100,000), including key management personnel.

| Range | No. of Employees |
|---|---|
| £100,001 - £150,000 | 15 |
| £150,001 - £200,000 | 6 |
| £200,001 - £250,000 | 5 |
| £250,001 - £300,000 | 4 |
| £300,001 - £350,000 | 0 |
| £350,001 - £400,000 | 0 |
| £400,001 - £450,000 | 1 |
| | 31 |

# Board and committee structure

The LPP Group comprises a holding company and two subsidiary companies*: one providing pensions investment management and the other providing pensions administration services.

LPP's corporate structure has been revised as part of the Group restructure. Below, two Board and Committee structure documents provide the structure first at year-end and then at the time of signing. Under the new structure the remit of the LPP Group Remuneration and Nomination Committee will expand to include LPPA relevant matters, and the LPP Audit Committee will move to combine with the LPPI Risk Committee to create a new Audit and Risk Committee as a committee of the LPPI Board.

Information on the various committees can be found **here** on the LPP website.

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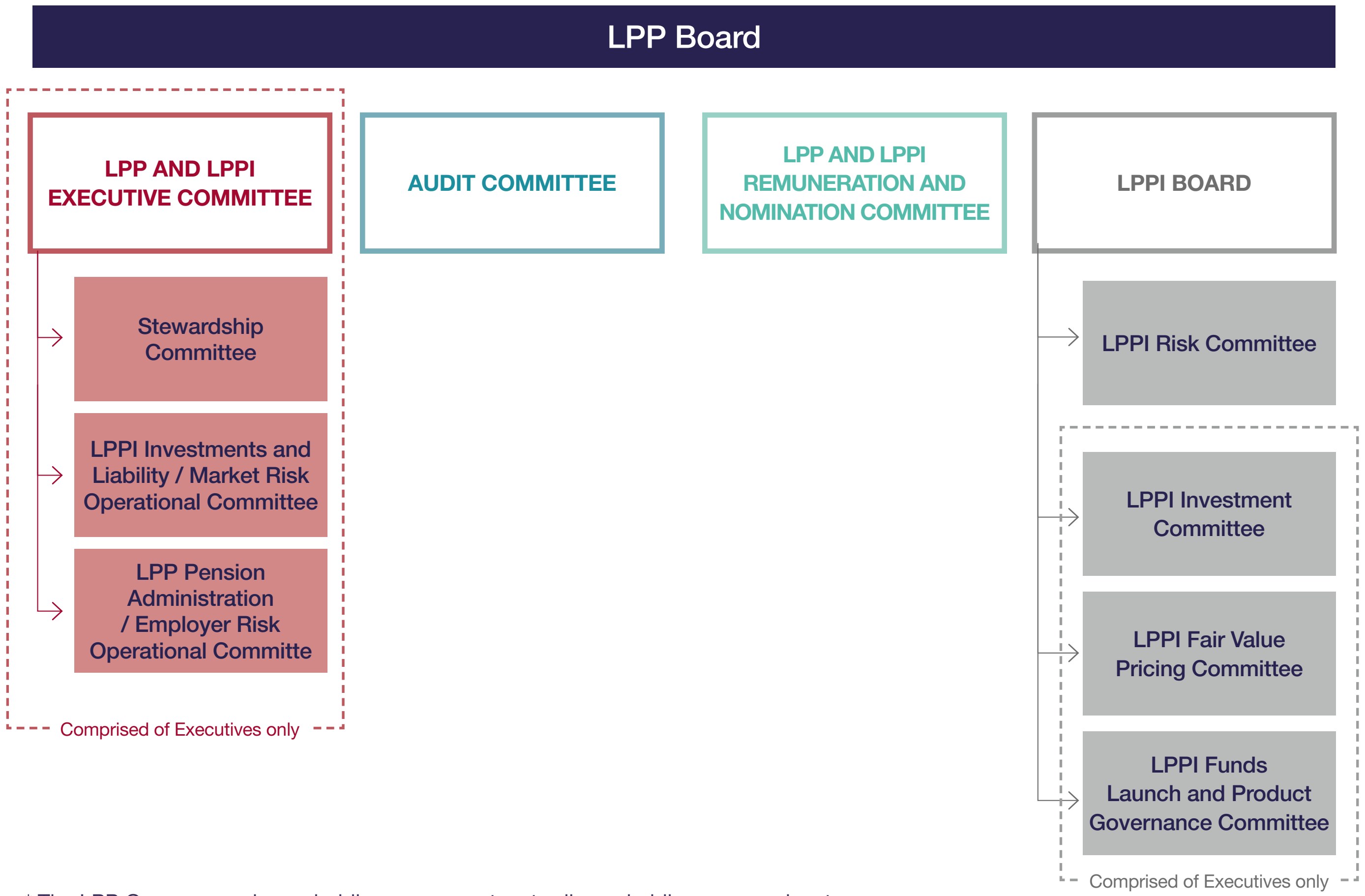
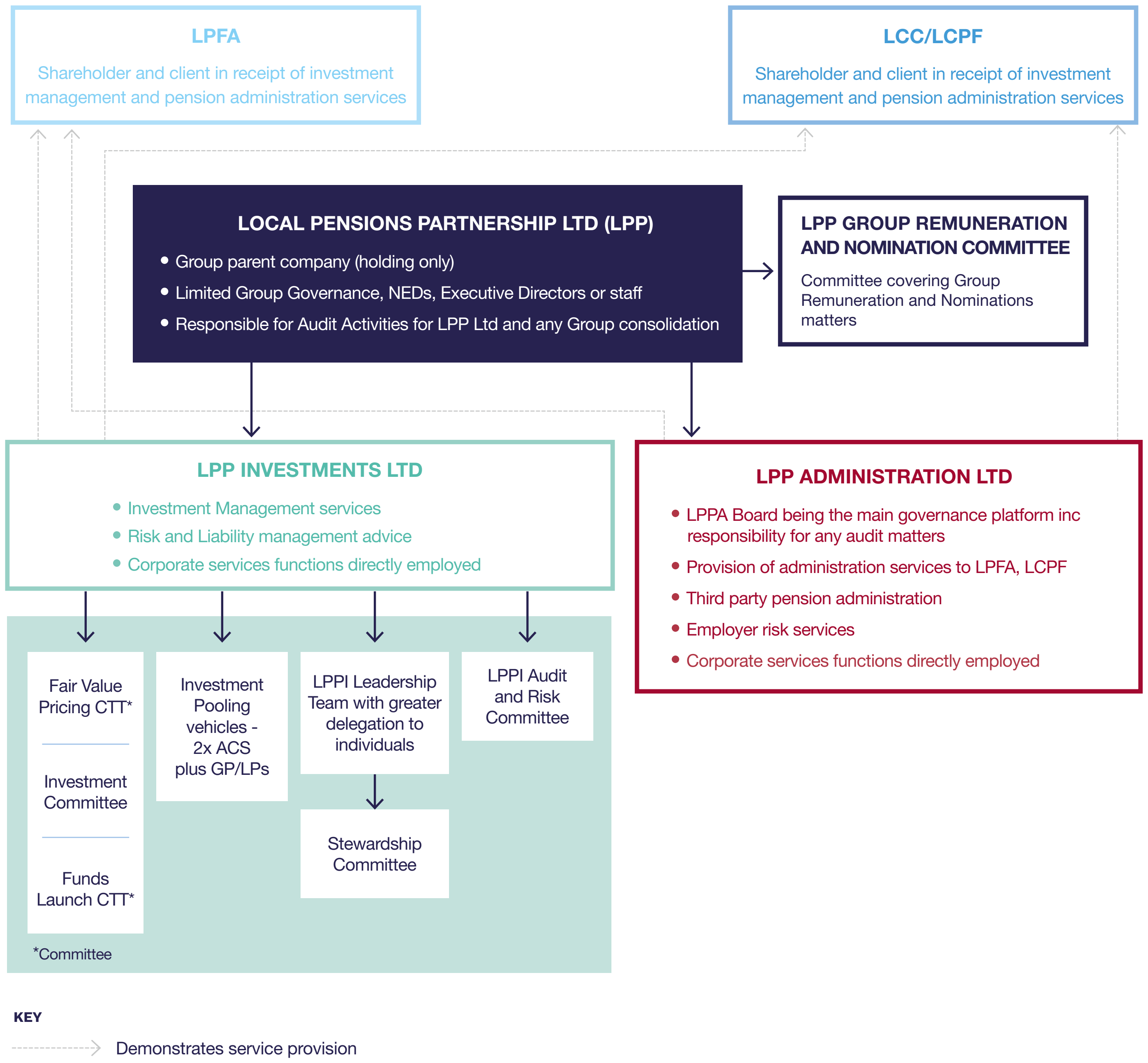
**Board and Committee structure** (until September 2020)




**Corporate Structure inc. Board and Committees** (from September 2020)




* The LPP Group comprises a holding company, two trading subsidiary companies, two investment holding companies and a number of General partner investment entities.

# LPP and LPPI Executive Committee

The Executive Committee is responsible for the strategic management of the LPP Group, with authority and responsibility for implementing the strategic plan as delegated to it by both LPP and LPPI Boards.

The chart below reflects the position during the reporting period. With effect from August 2020 the Executive Directors have been realigned to each subsidiary. The Group CEO and Director of Strategy will continue to operate at a Group level.

Jacqui Self resigned as Director of Human Resources (December 2019). Richard J Tomlinson joined the Executive Committee as Chief Investment Officer from February 2020.



**LPP and LPPI Executive Committee structure**

**Chris Rule**
Group Chief Executive

**Jo Darbyshire**
Managing Director, LPPA

**Tom Richardson**
Chief Operating Officer
*(Chief Risk Officer during the report period)*

**Richard J Tomlinson**
Chief Investment Officer

**Greg Smith**
Director of Strategy
*(Director of Strategic Programmes & Group Company Secretary during the reporting period)*

**Adrian Taylor**
Chief Financial Officer

Biographies of all Executive Committee members can be found on the website **here.**

# Directors' report

## Directors*

**Michael O'Higgins**

**Sally Bridgeland**

**Sarah Laessig**
(resigned on 11 September 2020)

**Jill Mackenzie**
(resigned on 11 September 2020)

**Susan Martin**
(resigned 26 April 2019)

**Dermot 'Skip' McMullan**

**Tom Richardson**
(resigned on 11 September 2020)

**Sir Peter Rogers**

**Chris Rule**
(appointed 10 June 2019)

**Alan Schofield**

**Adrian Taylor**
(appointed 10 June 2019)

**Robert Vandersluis**
(resigned on 11 September 2020)



The Directors present their report and financial statements for the year ended 31 March 2020.

### Statement of Directors' Responsibilities

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

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

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

### Statement of Corporate Governance Arrangements

LPP's Directors have agreed to the adoption of the Wates Corporate Governance Principles and although not meeting the threshold requiring the provision of a statement of corporate governance arrangements, LPP's Directors wish to report on LPP's application of these principles:

1. **Purpose and Leadership**
2. **Board Composition**
3. **Director Responsibilities**
4. **Opportunity and Risk**
5. **Remuneration**
6. **Stakeholder Relationships and Engagement**

The table on pages 56 and 57 provides a high-level summary and the full report is available on the LPP website.

### Results and dividends

The result for the Group for the year is a profit after tax of **£309,000** (2019 - profit of £204,000). LPP itself made a loss after tax of **£3,252,000** (2019 - loss of £270,000).

Included in the result for the Group is an IAS19 charge of **£2,885,000** (2019 - £3,348,000).

No dividends were paid during the year (2019 - nil) and no recommendation is made to pay a final dividend.

### Capital

LPP has an issued share capital of 25,000,002 ordinary shares of £1. The shareholders are: Lancashire County Council and London Pensions Fund Authority, each holds 12,500,001 fully paid ordinary shares of £1 in value. Of its 12,500,001 shares, Lancashire County Council holds 12,500,000 of these acting in its capacity as administering authority for the Lancashire County Pension Fund.

### Going Concern

After making enquiries in relation to the Group and Company's forecasts and projects, and an internal review, following the UK's exit from the European Union and the COVID-19 virus outbreak in the year (discussed in more detail in Note 2 to the Accounts), the Directors are satisfied that the Group and Company has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

### Expected future developments

Expected future developments are set out in the strategic report.

### Political or charitable donations

No political or charitable donations were made during the year (2019 - nil).

### Research and developments

No research and development expenditure was made during the year (2019 - nil).

### Financial instrument risk

The Group does not use hedging or financial risk management instruments and all cash is held within bank accounts with highly rated financial institutions.

### Business relationships

Information on business relationships is provided in the Section 172(1) statement on page 20.

### Employee engagement and representation

Organisational-wide changes are communicated to employees and major strategic projects are discussed with employees through a Staff Committee. During the reporting year the Staff Committee escalates matters to the Group CEO and other Executive Directors as required. LPP also held regular strategic update sessions for all employees, supplemented with informal 'Open Door' sessions where employees are encouraged to put questions to the CEO and the executive.

Further information on employee engagement is provided in the Section 172(1) statement on page 20.

### Disabled employees

LPP is committed to ensuring equality of opportunity and access in both its employment and service arrangements. LPP's aim is to promote diversity within its workforce and ensure that services meet the different needs of staff and clients at all times. LPP has published an Equality Statement on its website. Of LPP Group's employees, 8% have reported some form of disability.

As a Group, the aim is to ensure fairness and equality towards all applicants through objective based recruitment practices and family friendly policies to support staff during changing circumstances, this has been particularly important during the COVID-19 challenges. This includes flexible working arrangements to support participation in religious and/or cultural events, to care for dependents or where reasonable adjustments are required to roles/working patterns to support declared disabilities.

Training methods and environments are tailored to support staff with declared disabilities including delivering the training with the support of sign language.

### Post balance sheet events

Local Pensions Partnership Administration Ltd (LPPA), a member of the Group, recommenced trading on 1 June 2020. LPPA issued 3,999,999 of £1 ordinary shares, to its parent LPP, which were fully paid on 27 May 2020, in order to finance future working capital requirements.

### Disclosure of information to Auditors

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

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

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

At the Annual General Meeting, held on 13 August 2019, Grant Thornton UK LLP was reappointed as auditor of the Company, in accordance with s487 of the Companies Act 2006.

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

**Chris Rule**
Chief Executive Officer
7 October 2020

* In office during the period and at the date of signing this report

# Wates Principles

A detailed version of the Wates Principles can be found on the LPP website **here.**

| | 1. Purpose and Leadership | 2. Board Composition | 3. Director Responsibilities | 4. Opportunity and Risk | 5. Remuneration | 6. Stakeholder Relationships and Engagement |
|---|---|---|---|---|---|---|
| DESCRIPTION | An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose. | Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company. | The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge. | The board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks. | A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company. | Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions. |
| APPLICATION | LPP operates with a clear sense of purpose and collective vision, providing investment and pensions administration services for its clients and their members with the single purpose of being an exceptional pension services provider.<br><br>Five-year Strategy (2020-25) agreed.<br><br>LPP has developed a set of clear values that underpin the culture, enhance a collaborative approach and are embedded in people processes and procedures. | The Boards of LPP and its subsidiaries LPPI and LPPA comprises the appropriate mix of executive and non-executive directors, chaired by an independent Chair with a clearly defined role and responsibilities.<br><br>The Group Remuneration and Nomination Committee maintains oversight of board composition and succession planning, ensuring that directors provide an appropriate balance of skills and experience. | LPP Group has an appropriate and tailored governance framework in place with a strong stakeholder focus which ensures compliance with FCA regulation, helping to safeguard client assets and objectives, and seeks to promote achievement of LPP's strategy.<br><br>LPP has agreed to follow the Wates Principles. Independent challenge is evidenced by Board composition including Non-Executive Directors.<br><br>Certain delegations have been made to subsidiaries or committees to undertake specific duties and make decisions within agreed parameters; these are clearly defined in their terms of reference.<br><br>On a quarterly basis the LPP Board receives information on the performance of all aspects of the business including HR indicators, pension administration performance, financial management and investment performance. Key financial information is prepared by the LPP's centralised finance system and by staff with the relevant independence, expertise and qualifications to ensure the integrity of this information. | The LPP Board is responsible for the Group's overall strategic direction and ensuring that risk is effectively managed in line with the Group risk management framework.<br><br>The LPP Board is also responsible for reputational oversight and managing shareholder and wider stakeholder expectations.<br><br>The recapitalisation of the LPP Group during 2019-20 was a key step in preserving value of Group. | A Remuneration Policy is set at group level which applies to both LPP and its subsidiaries LPPI and LPPA.<br><br>The Group Remuneration and Nomination Committee critically reviews the design, detail and on-going relevance of the Remuneration Policy prior to recommendation for adoption.<br><br>The Group Remuneration Policy covers all employees, including executive directors. Fixed and variable pay is determined by taking into consideration triennial benchmarking which measures LPP pay against appropriate comparator reward data.<br><br>Variable pay awards are aligned to the long-term sustainable success of the company with appropriate deferrals in place. | The LPP Board has a close working relationship with its shareholders, LPFA and LCC, and there are two shareholder appointed NEDs on the LPP Board.<br><br>LPP undertakes a full programme of shareholder and monthly client meetings.<br><br>The Staff Committee provides a forum for employees to meet with senior leadership to share, exchange and discuss ideas on a range of relevant topics.<br><br>An approach to Responsible Investment has been embedded within LPPI's investment processes. This is articulated in a separate Responsible Investment report which is available on the LPP website **here.** |

# Independent auditor's reports

## Opinion

We have audited the financial statements of Local Pensions Partnership Ltd (the 'Parent Company') and its subsidiaries (together 'the Group') for the year ended 31 March 2020, which comprise the consolidated income statement, the consolidated and the Parent Company statement of comprehensive income, the consolidated and the Parent Company statement of financial position, the consolidated and the Parent Company statement of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).



In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's/ Parent Company's future prospects and performance. COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown.We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's/Parent Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group/Parent Company associated with these particular events.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

In our evaluation of the Directors' conclusions, we considered the risks associated with the Group's business, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the period of at least 12 months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

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

## Responsibilities of Directors for the financial statements

As explained more fully in the statement of Directors' responsibilities set out on page 54, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of our report

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

Grant Thornton UK LLP

**Paul Flatley**
Senior Statutory Auditor
for and on behalf of
Grant Thornton UK LLP

Statutory Auditor,
Chartered Accountants
London, United Kingdom

7 October 2020

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PART 3

# FINANCIAL STATEMENTS





## Consolidated income statement
for the year ended 31 March 2020

| | Notes | **2020 £'000** | 2019 £'000 |
|---|---|---|---|
| Turnover | 5 | **35,504** | 33,006 |
| Administrative expenses | | **(34,612)** | (32,072) |
| **Operating profit** | 6 | **892** | 934 |
| Interest receivable | | **54** | 33 |
| Interest payable | 9 | **(752)** | (745) |
| **Profit before taxation** | | **194** | 222 |
| Tax for the year | 10 | **115** | (18) |
| **Profit for the financial year** | | **309** | 204 |

The notes on pages 67 to 95 form part of these financial statements.

# Consolidated and company statement of comprehensive income

for the year ended 31 March 2020

| Group | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Profit for the financial year | | **309** | 204 |
| **Other comprehensive income** | | | |
| Remeasurement of Defined benefit obligations | 17 | **(1,414)** | (404) |
| Tax on components of other comprehensive income | | **269** | 69 |
| **Total comprehensive income for the year** | | **(836)** | (131) |

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| Company | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Profit for the financial year | | **(3,252)** | (270) |
| **Other comprehensive income** | | | |
| Remeasurement of Defined benefit obligations | 17 | **(453)** | (242) |
| Tax on components of other comprehensive income | | **86** | 41 |
| **Total comprehensive income for the year** | | **(3,619)** | (471) |



# Consolidated statement of financial position

for the year ended 31 March 2020

| | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 11 | **1,074** | 385 |
| Tangible assets | 12 | **753** | 868 |
| | | **1,827** | 1,253 |
| **Current assets** | | | |
| Debtors | 14 | **14,109** | 12,996 |
| Cash at bank and in hand | | **27,138** | 17,893 |
| | | **41,247** | 30,889 |
| **Creditors: amounts falling due within one year** | 15 | **(4,894)** | (4,925) |
| **Net current assets** | | **36,353** | 25,964 |
| **Total assets less current liabilities** | | **38,180** | 27,217 |
| Creditors: amounts falling due after one year | 16 | **-** | (17,500) |
| Post employment benefits | 17 | **(21,293)** | (16,994) |
| **Net assets/(liabilities)** | | **16,887** | (7,277) |
| **Capital and Reserves** | | | |
| Called up share capital | 18 | **25,000** | - |
| Retirement benefit obligations reserve | | **(3,866)** | (3,866) |
| Profit and loss account | | **(4,247)** | (3,411) |
| **Total equity** | | **16,887** | (7,277) |

The notes on pages 67 to 95 form part of these financial statements.

Approved by the Board of Directors and signed on behalf of the Board on 7 October 2020 by:

**Adrian Taylor**
Chief Financial Officer

# Company statement of financial position
## for the year ended 31 March 2020

| | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | 11 | **358** | 385 |
| Tangible fixed assets | 12 | **753** | 868 |
| Investments | 13 | **10,000** | 10,000 |
| | | **11,111** | 11,253 |
| **Current assets** | | | |
| Debtors | 14 | **9,177** | 7,948 |
| Cash at bank and in hand | | **10,959** | 5,752 |
| | | **20,136** | 13,700 |
| **Creditors: amounts falling due within one year** | 15 | **(2,864)** | (3,180) |
| **Net current assets** | | **17,272** | 10,520 |
| **Total assets less current liabilities** | | **28,383** | 21,773 |
| Creditors: amounts falling due after one year | 16 | **-** | (17,500) |
| Post employment benefits | 17 | **(17,308)** | (14,579) |
| **Net assets/(liabilities)** | | **11,075** | (10,306) |
| **Capital and Reserves** | | | |
| Called up share capital | 18 | **25,000** | - |
| Retirement benefit obligations reserve | | **(3,605)** | (3,605) |
| Profit and loss account | | **(10,320)** | (6,701) |
| **Total equity** | | **11,075** | (10,306) |



The notes on pages 67 to 95 form part of these financial statements.

Approved by the Board of Directors and signed on behalf of the Board on 7 October 2020 by:

**Adrian Taylor**
Chief Financial Officer



# Consolidated and company statement of changes in equity
## for the year ended 31 March 2020

| Group | Share capital £'000 | Share premium £'000 | Retirement benefit obligations reserve £'000 | Profit & loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 April 2018** | - | - | (3,866) | (3,280) | (7,146) |
| Total comprehensive income for the financial year | - | - | - | (131) | (131) |
| **At 31 March 2019** | - | - | (3,866) | (3,411) | (7,277) |
| **At 1 April 2019** | - | - | (3,866) | (3,411) | (7,277) |
| Total comprehensive income for the financial year | - | - | - | (836) | (836) |
| Transaction with owners: | | | | | |
| Shares issued | 25,000 | - | - | - | 25,000 |
| **At 31 March 2020** | 25,000 | - | (3,866) | (4,247) | 16,887 |

| Company | Share capital £'000 | Share premium £'000 | Retirement benefit obligations reserve £'000 | Profit & loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 April 2018** | - | - | (3,605) | (6,230) | (9,835) |
| Total comprehensive income for the financial year | - | - | - | (471) | (471) |
| **At 31 March 2019** | - | - | (3,605) | (6,701) | (10,306) |
| **At 1 April 2019** | - | - | (3,605) | (6,701) | (10,306) |
| Total comprehensive income for the financial year | - | - | - | (3,619) | (3,619) |
| Transaction with owners: | | | | | |
| Shares issued | 25,000 | - | - | - | 25,000 |
| **At 31 March 2020** | 25,000 | - | (3,605) | (10,320) | 11,075 |

The notes on pages 67 to 95 form part of these financial statements.

# Consolidated statement of cash flows
## for the year ended 31 March 2020

| | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the financial year | | **309** | 204 |
| Adjustments for: | | | |
| Tax on profit on ordinary activities | | **(115)** | 18 |
| Depreciation | | **350** | 288 |
| Amortisation of intangible assests | | **140** | 99 |
| Write off of intangible assets | | **-** | 473 |
| Pension movements in the year | | **3,154** | 2,964 |
| Increase in debtors | | **(532)** | (2,009) |
| Decrease in creditors | | **(183)** | (1,541) |
| Cash generated from operating activities | | **3,123** | 496 |
| Corporation tax paid | | **(314)** | (207) |
| **Net cash generated from operating activities** | | **2,809** | 289 |
| **Investing activities** | | | |
| Payments to acquire intangible fixed assets | | **(841)** | (92) |
| Payments to acquire tangible fixed assets | | **(223)** | (368) |
| **Cash used in investing activities** | | **(1,064)** | (460) |
| **Financing activities** | | | |
| Proceeds from the issue of shares | | **25,000** | - |
| Repayment of loans | | **(17,500)** | - |
| **Cash generated from operating activities** | | **7,500** | - |
| **Net movement in cash and cash equivalents** | | | |
| Cash generated from operating activities | | **2,809** | 289 |
| Cash used in investing activities | | **(1,064)** | (460) |
| Cash generated from financing activities | | **7,500** | - |
| | | **9,245** | (171) |
| **Cash and cash equivalents at 1 April** | | **17,893** | 18,064 |
| **Cash and cash equivalents at 31 March** | | **27,138** | 17,893 |
| **Cash at bank** | | **27,138** | 17,893 |

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# Notes to the financial statements
## for the year ended 31 March 2020

### 1. Company information

Local Pensions Partnership Ltd ('LPP' or 'the Company') is a private company limited by shares and incorporated in England. Its registered office is 169 Union Street, London, SE1 0LL

The Company's principal activities and nature of operations are included in the Strategic Report on page 15.

### 2. Basis of preparation

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

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

LPP has taken advantage of section 408 of the Companies Act 2006 and has not included its own Income Statement in these financial statements.

The individual accounts of LPP have also adopted the following disclosure exemptions, as they are included in the Group financial statements:

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

There are no other FRS102 interpretations that are not yet effective that would be expected to have a material impact on the Group or the Company.

#### Going concern

The Directors are mindful of the current uncertainty surrounding Britain's exit from the European Union and the unfolding events around the Covid-19 virus. They continue to monitor closely both events and the potential impact on the Group.

The Directors have a reasonable expectation, despite current uncertainties, and based on the level of funds available, that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it has adopted the going concern basis in preparing the financial statements.

In light of recent developments around Covid-19 (Coronavirus) since April 2020, the Directors have been actively monitoring the potential impact to the Group.

The financial statements for the year ended 31 March 2020 include the impact of Covid 19. This is reflected in the revenue derived from assets under management and other revenue generated in the year by the Group. The Directors are actively monitoring the consequences of this event with their advisors. Some active measures have been taken during this time including remote working and re-validation of business continuity plans implemented by the Group which has been operating successfully with little or no loss of productivity.

At this stage, the final impact of the coronavirus outbreak on the Group is hard to precisely predict, but the Directors will continue to monitor the situation.

#### Withdrawal of the United Kingdom from the European Union ('Brexit')

The Group's client base is based in the UK and as the majority of its transactions are based in Sterling, the Directors, do not feel that the Group is exposed to any foreign exchange risk.

The Group could potentially be exposed to certain legal and regulatory uncertainties as a result of Brexit. Based on the current available information, the Directors do not anticipate a material impact. Following the UK's exit of the EU on 31 January 2020, the Directors will continue to monitor and assess the developments and any potential consequences.

### 3. Significant judgements and estimates

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

#### Deferred taxation

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

#### Pensions liability

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

# Notes to the financial statements cont.
for the year ended 31 March 2020

## 4. Summary of significant accounting policies

### 4.1 Investment in subsidiaries

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

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

### 4.2 Intangible fixed assets



Intangible fixed assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible fixed assets are amortised over the following useful economic lives:

- Length of licence or 3 years, whichever is earliest

### 4.3 Tangible fixed assets

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

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

- Computer equipment - 3-5 years
- Office equipment - 3-5 years
- Improvements to leasehold over the length of the lease

### 4.4 Impairment of assets

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

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

### 4.5 Debtors

Short term debtors are measured at transaction price, less any impairment.

### 4.6 Cash at bank and in hand

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

### 4.7 Creditors

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

### 4.8 Provisions for liabilities

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

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

### 4.9 Taxation

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

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

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



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

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

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

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

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

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

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

### 4.10 Turnover

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

### 4.11 Employee and pension costs

#### Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

#### Defined benefit pension plan

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

A defined benefit scheme defines the pension benefit that the employee will receive on retirement, usually dependant upon several factors including age, length of service and remuneration.

The liability that is recognised in the statement of financial position in respect of the defined benefit scheme is the present value of the defined benefit obligation at the reporting date less the fair value of the scheme assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Group engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on AA rated corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with FRS102 fair value hierarchy and in accordance with the Group's policy for similar held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'remeasurements of net defined liability'.

The cost of the defined benefit scheme, recognised in the income statement as employee costs, except where included in the cost of an asset, comprises:

- the increase in pension benefit liability arising from employee service during the period; and
- the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the income statement as an expense.

#### Annual bonus scheme

The Group operates an annual discretionary bonus scheme for its employees. An expense is recognised in the income statement when the Group recognises, as a result of past events, that such a bonus is warranted and a reliable estimate of the obligation can be made.

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 5. Analysis of turnover

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Investment management fees | **22,422** | 19,873 |
| Pension administration fees | **10,431** | 11,072 |
| Risk management services | **1,855** | 1,384 |
| Corporate services | **750** | 677 |
| | **35,504** | 33,006 |

## 6. Operating profit

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| This is stated after charging: | | |
| Depreciation of tangible fixed assets | **350** | 288 |
| Operating lease rentals - land and buildings | **1,377** | 1,403 |
| Fee payable to the company's auditor for the audit of parent company and the group's consolidated financial statements | **31** | 31 |
| Fee payable to the company's auditor for audit of the company's subsidiaries | **48** | 46 |
| Auditor's remuneration for other services | **7** | 7 |

## 7. Directors' emoluments

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Emoluments | **1,962** | 1,655 |
| Social security costs | **239** | 210 |
| Pension costs | **128** | 158 |
| Other pension costs | **27** | - |
| | **2,356** | 2,023 |

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

| | | |
|---|---|---|
| Emoluments | **391** | 382 |
| Social security costs | **57** | 52 |
| Pension costs | **24** | 46 |
| Other pension costs | **18** | - |
| | **490** | 480 |

## 8. Directors and employees

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Wages and salaries | **16,035** | 13,368 |
| Social security costs | **1,774** | 1,490 |
| Pension costs | **4,552** | 4,807 |
| Other pension costs | **112** | - |
| | **22,473** | 19,665 |

The companies in the Group are members of four defined benefit pension schemes for the benefit of the employees and Directors. The scheme is administered in house. Pension costs recognised as an expense during the year amount to £4,559,000 (2018/19 - £4,807,000). IAS19 accrued pension costs for the year amount to £2,885,000 (2018/19 - £3,348,000), as disclosed in note 17.

Scheme alternative contributions of £112,000 were also paid during the year.

The average monthly number of employees for the Group, during the year to 31 March 2020 was **308** (2019 - 281), of which **14** (2019 - 11) were Directors and **294** (2019 - 270) were staff.

At 31 March 2020, the Group headcount was **318** (2019 - 297).

| | Notes | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Compensation for loss of office** | | | |
| Total | | **249** | 82 |

For the year ended 31 March 2020, LPP Group incurred the cost above in relation to compensation for loss of office. This cost is also included in the consolidated tables in notes 7 and 8.

## 9. Interest payable

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Loan interest | 752 | 745 |

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 10. Taxation

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Analysis of charge in year** | | |
| Current tax: | | |
| UK corporation tax on profits of the year | **678** | 737 |
| Adjustments in respect of previous years | **(50)** | (153) |
| | **628** | 584 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **(743)** | (566) |
| Tax on profit on ordinary activities | **(115)** | 18 |

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**Factors affecting tax charge for year**

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | **194** | 222 |
| **Standard rate of corporation tax in the UK - 19%** | | |
| Profit on ordinary activities multiplied by standard rate of corporation tax | **37** | 42 |
| Expenses not deductible for tax purposes | **75** | 62 |
| Effect of tax rate change | **(178)** | 67 |
| Prior year tax adjustment | **(50)** | (153) |
| **Tax (credit) / charge for the year** | **(115)** | 18 |

**Factors that may affect future tax charges**

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Deferred taxation | | |
| Deferred tax (credit) to income statement for the year | **(743)** | (566) |
| Deferred tax (credit) in OCI for the year | **(269)** | (69) |
| | **(1,012)** | (635) |

## 11. Intangible fixed assets

| Group | Software £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2019 | 546 | - | 546 |
| Transfers | 94 | - | 94 |
| Additions | 31 | 716 | 747 |
| At 31 March 2020 | 671 | 716 | 1,387 |
| **Amortisation** | | | |
| At 1 April 2019 | 161 | - | 161 |
| Transfers | 12 | - | 12 |
| Provided during the year | 140 | - | 140 |
| At 31 March 2020 | 313 | - | 313 |
| **Carrying amount** | | | |
| At 31 March 2020 | 358 | 716 | 1,074 |
| At 31 March 2019 | 385 | - | 385 |

| Company | Software £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2019 | 546 | - | 546 |
| Transfers | 94 | - | 94 |
| Additions | 31 | - | 31 |
| At 31 March 2020 | 671 | - | 671 |
| **Amortisation** | | | |
| At 1 April 2019 | 161 | - | 161 |
| Transfers | 12 | - | 12 |
| Provided during the year | 139 | - | 139 |
| At 31 March 2020 | 312 | - | 312 |
| **Carrying amount** | | | |
| At 31 March 2020 | 359 | - | 359 |
| At 31 March 2019 | 385 | - | 385 |

During the year, assets worth £93,762 were reclassed from tangible to intangible.

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 12. Tangible fixed assets

| Group & Company | Leasehold improvements £'000 | IT equipment £'000 | Fixtures,fittings, & office equipment £'000 | Assets under construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2019 | 196 | 923 | 136 | 23 | 1,278 |
| Transfers | - | (94) | - | (23) | (117) |
| Additions | - | 197 | 5 | 138 | 340 |
| At 31 March 2020 | 196 | 1,026 | 141 | 138 | 1,501 |
| **Depreciation** | | | | | |
| At 1 April 2019 | 70 | 309 | 31 | - | 410 |
| Transfers | - | (12) | - | - | (12) |
| Charge for the year | 39 | 283 | 28 | - | 350 |
| At 31 March 2020 | 109 | 580 | 59 | - | 748 |
| **Carrying amount** | | | | | |
| At 31 March 2020 | 87 | 446 | 82 | 138 | 753 |
| At 31 March 2019 | 126 | 614 | 105 | 23 | 868 |

## 13. Investments

| The Company | Investment in subsidiaries £'000 |
|---|---|
| **Cost** | |
| At 31 March 2020 & 2019 | 10,000 |

| Subsidiaries – direct | Type of capital held | Proportion held | Country of incorporation | Nature of business |
|---|---|---|---|---|
| Local Pensions Partnership Administration Ltd | Equity | 100% | UK | Non-trading |
| Local Pensions Partnership Investments Ltd | Equity | 100% | UK | Investment |

LPPA recommenced trading on 01 June 2020.

| Subsidiaries – indirect | Type of capital held | Proportion held | Country of incorporation | Nature of business |
|---|---|---|---|---|
| LPPI Scotland (No.1) Ltd | Equity | 100% | UK | Investment |
| LPPI Scotland (No.2) Ltd | Equity | 100% | UK | Investment |
| Daventry GP Limited | Equity | 100% | UK | General partner |
| LPPI PE GP (No 1) LLP | Debt | 100% | UK | General partner |
| LPPI PE GP (No 2) LLP | Debt | 100% | UK | General partner |
| LPPI Infrastructure GP LLP | Debt | 100% | UK | General partner |
| LPPI Credit GP Limited | Equity | 100% | UK | General partner |
| LPPI PE GP (No 3) LLP | Debt | 100% | UK | General partner |
| LPPI Diversifying Strategies GP Limited | Equity | 100% | UK | General partner |

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 14. Debtors

| | The Company | | The Group | |
|---|---|---|---|---|
| | **2020 £'000** | 2019 £'000 | **2020 £'000** | 2019 £'000 |
| Trade debtors | **3,335** | 3,159 | **9,127** | 8,836 |
| Amounts owed by group undertakings | **1,325** | 1,260 | **-** | - |
| Corporation tax | **419** | 262 | **-** | 430 |
| Prepayments and accrued income | **921** | 793 | **1,076** | 835 |
| Deferred taxation | **3,177** | 2,474 | **3,906** | 2,895 |
| | **9,177** | 7,948 | **14,109** | 12,996 |

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

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| | The Company | | The Group | |
|---|---|---|---|---|
| | **2020 £'000** | 31 Mar 2019 £'000 | **2020 £'000** | 2019 £'000 |
| Trade creditors | **368** | 502 | **527** | 764 |
| Corporation tax | **-** | - | **152** | - |
| Other taxes and social security costs | **779** | 1,063 | **952** | 1,212 |
| Other creditors | **142** | 148 | **206** | 195 |
| Accruals and deferred income | **1,395** | 1,467 | **2,877** | 2,754 |
| Provisions | **180** | - | **180** | - |
| | **2,864** | 3,180 | **4,894** | 4,925 |

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

| | The Company | | The Group | |
|---|---|---|---|---|
| | **2020 £'000** | 2019 £'000 | **2020 £'000** | 2019 £'000 |
| Amounts owed to group undertakings | **-** | 17,500 | **-** | 17,500 |

The £17.5m loan between LCC and LPP was repaid in full in March 2020. This was part of a capital restructure that saw additional share capital being issued, as shown in note 18. As well as the share capital issued, both LCC and LPFA have granted LPP with unsecured loan facilities of a principal amount not exceeding £5m.

## 17. Pension schemes

### Defined benefit schemes

On 8 April 2016 current employees of LPFA and LCC who were members of the Lancashire County Pension Fund (LCPF), were TUPE transferred to LPP and LPPI. A subsequent transfer of employees into LPP from LPFA took place during the period ending 31 March 2017.

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

Notwithstanding differences between the LPFA and LCPF ongoing 2016 Triennial valuation basis, when the pension liabilities are valued for the purposes of FRS102 disclosures, the discount rate is prescribed by the FRS102 standards to be set with reference to corporate bond yields. The assessment of pension liabilities on this accounting basis at the date of transfer results in pension liabilities greater than those assessed on the LPFA and LCPF ongoing valuation basis. Therefore at the date of transfer LPP and LPPI's pension liabilities on the FRS102 accounting basis were not fully funded.

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972. The benefits under the scheme are based on the length of membership and the average salary. Each member contributes a proportion of their salary, within a 5.5% to 12.5% range depending on their rate of pay. LPP and LPPI, as the employing bodies, also contribute in to the scheme on the employee's behalf up to 12.0% for the LPFA scheme and 12.4% for LCPF, of the employee's salary.

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

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

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

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

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

# **Notes to the financial statements** cont.

for the year ended 31 March 2020

## **17. Pension schemes** (cont.)

In summary, the four defined benefit pension schemes can be summarised, by entity, as follows:

**Post employment benefits summary**

| | Year to 31 March 2020 | | |
|---|---|---|---|
| | **LPP £'000** | **LPPI £'000** | **Total £'000** |
| Net assets | 25,190 | 5,961 | 31,151 |
| Net liabilities | (42,498) | (9,946) | (52,444) |
| | (17,308) | (3,985) | (21,293) |

| | Year to 31 March 2019 | | |
|---|---|---|---|
| | **LPP £'000** | **LPPI £'000** | **Total £'000** |
| Net assets | 24,472 | 3,843 | 28,315 |
| Net liabilities | (39,051) | (6,258) | (45,309) |
| | (14,579) | (2,415) | (16,994) |

| | | | |
|---|---|---|---|
| Net movement on pension deficit | 2,729 | 1,570 | 4,299 |
| Consolidated statement of comprehensive income | (453) | (961) | (1,414) |
| IAS19 pension costs accrued for the year | 2,276 | 609 | 2,885 |



## **17. Pension schemes** (cont.)

## London Pensions Fund Authority

The actuaries for LPFA are Barnett Waddingham.

**LPP pension information**

The normal contributions expected to be paid during the financial year ending 31 March 2020 are **£862,000** (2019: £743,000) for LPP.

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

| | **LPP 31 Mar 2020 £'000** | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Retirement benefit assets | **13,159** | 13,866 |
| Retirement benefit obligations | **(24,579)** | (23,712) |
| Net retirement benefit deficit | **(11,420)** | (9,846) |

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

| | **LPP 31 Mar 2020 £'000** | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Fair value of plan assets at beginning of year | 13,866 | 11,002 |
| Interest income on scheme assets – employer | 343 | 309 |
| Return on scheme assets less interest income | (395) | 777 |
| Other actuarial gains/(losses) | (881) | - |
| Administrative expenses and taxes | (18) | (14) |
| Employer contributions | 752 | 855 |
| Contributions by employees | 446 | 498 |
| Benefits paid | (954) | 439 |
| **Fair value of plan assets at end of year** | **13,159** | **13,866** |

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

| | **LPP 31 Mar 2020 £'000** | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Equity instruments and others | 7,102 | 7,544 |
| Target return portfolio | 3,390 | 3,698 |
| Infrastructure | 959 | 835 |
| Property | 1,306 | 1,304 |
| Cash and other | 402 | 485 |
| **At 31 March** | **13,159** | **13,866** |

# Notes to the financial statements cont.
for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

| | LPP 31 Mar 2020 £'000 | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Benefit obligation at beginning of year | **23,712** | 18,912 |
| Current service cost – employer | **1,767** | 2,170 |
| Effect of changes in financial assumptions | **(1,292)** | 1,205 |
| Effect of demographic assumptions | **251** | (398) |
| Experience loss/(gain) on defined benefit obligation | **(119)** | - |
| Interest cost – employer | **576** | 504 |
| Past service costs | **192** | 382 |
| Benefits paid net of transfers in | **(954)** | 439 |
| Contributions by scheme participants | **446** | 498 |
| **Benefit obligation at end of year** | **24,579** | 23,712 |

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### Amounts recognised in the income statement

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Amounts recognised in operating profit** | | |
| Current service cost | 1,767 | 2,170 |
| Post service cost | 192 | 382 |
| Administrative expenses and taxes | 18 | 14 |
| Recognised in arriving at operating profit | 1,977 | 2,566 |
| **Amounts recognised in interest receivable and similar income** | | |
| Interest cost on scheme liabilities – employer | 233 | 195 |
| **Total recognised in the Income statement** | **2,210** | 2,761 |

## 17. Pension schemes (cont.)

### Amounts recognised in the statement of comprehensive income

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| Remeasurements recognised in the statement of comprehensive income | | |
| Return on scheme assets less interest income | **(395)** | 777 |
| Other actuarial gains/(losses) on assets | **(881)** | - |
| Effect of changes in financial assumptions | **1,292** | (1,205) |
| Effect of changes in demographic assumptions | **(251)** | 398 |
| Effect of experience adjustments | **119** | - |
| **Total pension cost recognised in the statement of comprehensive income** | **(116)** | (30) |

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

| | LPP 31 Mar 2020 % | LPP 31 Mar 2019 % |
|---|---|---|
| Discount rate | **2.4** | 2.5 |
| Future salary increases | **3.0** | 3.7 |
| Future pension increases (CPI) | **2.0** | 2.2 |
| Future pension increases (RPI) | **2.0** | 3.2 |
| Inflation assumption (CPI) | **2.0** | 2.2 |
| Inflation assumption (RPI) | **2.6** | 3.2 |

### Post retirement mortality assumptions

| | LPP 31 Mar 2020 'years' | LPP 31 Mar 2019 'years' |
|---|---|---|
| Current UK pensioners at retirement age – male | **21.8** | 20.6 |
| Current UK pensioners at retirement age – female | **24.4** | 23.4 |
| Future UK pensioners at retirement age – male | **23.2** | 22.1 |
| Future UK pensioners at retirement age – female | **25.9** | 25.0 |

# **Notes to the financial statements** cont.

## for the year ended 31 March 2020

### **17. Pension schemes** (cont.)

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

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

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2020 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2020 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

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| Assumption | Change in assumption % | Impact of assumption change of +0.1% in present value of scheme liabilities £'000 | Impact of assumption change of (0.1%) in present value of scheme liabilities £'000 |
|---|---|---|---|
| | | **Year to 31 March 2020** | |
| **LPP** | | | |
| Discount rate: 2.4% | **0.1** | **23,879** | **25,300** |
| Inflation: 2% CPI | **0.1** | **25,192** | **23,985** |
| Rate of salary increase: 3% | **0.1** | **24,690** | **24,469** |
| | | Year to 31 March 2019 | |
| **LPP** | | | |
| Discount rate: 2.5% | 0.1 | 23,317 | 23,409 |
| Inflation: 2.2% CPI | 0.1 | 24,416 | 22,307 |
| Rate of salary increase: 3.7% | 0.1 | 24,339 | 22,369 |

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.8 - 25.9 years, post retirement age, the change in present value of scheme liabilities would be an increase of **3.4%**.

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

### **17. Pension schemes** (cont.)

## LPPI pension information

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

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Retirement benefit assets | **3,097** | 1,366 |
| Retirement benefit obligations | **(5,178)** | (2,221) |
| **Net retirement benefit deficit** | **(2,081)** | (855) |

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

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Fair value of plan assets at beginning of year | **1,366** | 833 |
| Interest income on scheme assets – employer | **43** | 27 |
| Return on scheme assets less interest income | **(49)** | 68 |
| Other actuarial gain | **991** | - |
| Administrative expenses and taxes | **(2)** | (1) |
| Employer contributions | **341** | 272 |
| Contributions by employees | **243** | 167 |
| Benefits paid | **164** | - |
| **Fair value of plan assets at end of year** | **3,097** | 1,366 |

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

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Equity instruments and other | **1,672** | 744 |
| Target return portfolio | **798** | 364 |
| Infrastructure | **226** | 82 |
| Property | **307** | 128 |
| Cash and other | **94** | 48 |
| | **3,097** | 1,366 |

# Notes to the financial statements cont.
for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

| | LPP 31 Mar 2020 £'000 | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Benefit obligation at beginning of year | **2,221** | 1,364 |
| Current service cost – employer | **775** | 480 |
| Effect of changes in financial assumptions | **(171)** | 175 |
| Effect of demographic assumptions | **91** | (36) |
| Experience loss/(gain) on defined benefit obligation | **1,829** | - |
| Interest cost – employer | **59** | 38 |
| Past service costs | **164** | - |
| Benefits paid net of transfers in | **243** | 167 |
| Contributions by scheme participants | **(33)** | 33 |
| **Benefit obligation at end of year** | **5,178** | 2,221 |

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### Amounts recognised in the income statement

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Amounts recognised in operating profit** | | |
| Current service cost | 775 | 480 |
| Post service cost | (33) | 33 |
| Administrative expenses and taxes | 2 | 1 |
| Recognised in arriving at operating profit | 744 | 514 |
| **Amounts recognised in interest receivable and similar income** | | |
| Interest cost on scheme liabilities – employer | 16 | 11 |
| **Total recognised in the Income statement** | **760** | **525** |

## 17. Pension schemes (cont.)

### Amounts recognised in the statement of comprehensive income

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Remeasurements recognised in the statement of comprehensive income** | | |
| Return on scheme assets less interest income | **(49)** | 68 |
| Other actuarial gains/(losses) on assets | **991** | - |
| Effect of changes in financial assumptions | **171** | (175) |
| Effect of changes in demographic assumptions | **(91)** | 36 |
| Effect of experience adjustments | **(1,829)** | - |
| **Total pension cost recognised in the statement of comprehensive income** | **(807)** | (71) |

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

| | LPP 31 Mar 2020 % | LPP 31 Mar 2019 % |
|---|---|---|
| Discount rate | **2.4** | 2.5 |
| Future salary increases | **3.0** | 3.7 |
| Future pension increases (CPI) | **2.0** | 2.2 |
| Future pension increases (RPI) | **2.6** | 3.2 |
| Inflation assumption (CPI) | **2.0** | 2.2 |
| Inflation assumption (RPI) | **2.6** | 3.2 |

### Post retirement mortality assumptions

| | LPP 31 Mar 2020 'years' | LPP 31 Mar 2019 'years' |
|---|---|---|
| Current UK pensioners at retirement age – male | **23.0** | 20.6 |
| Current UK pensioners at retirement age – female | **24.7** | 23.4 |
| Future UK pensioners at retirement age – male | **24.3** | 22.1 |
| Future UK pensioners at retirement age – female | **26.2** | 25.0 |

# Notes to the financial statements cont.
for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

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

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2020 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2020 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

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| Assumption | Change in assumption % | Impact of assumption change of +0.1% in present value of scheme liabilities £'000 | Impact of assumption change of (0.1%) in present value of scheme liabilities £'000 |
|---|---|---|---|
| | | **Year to 31 March 2020** | |
| **LPPI** | | | |
| Discount rate: 2.4% | **0.1** | **5,019** | **5,343** |
| Inflation: 2% CPI | **0.1** | **5,343** | **5,018** |
| Rate of salary increase: 3% | **0.1** | **5,179** | **5,178** |
| | | Year to 31 March 2019 | |
| **LPPI** | | | |
| Discount rate: 2.8% | 0.1 | 2,161 | 2,277 |
| Inflation: 2.1% CPI | 0.1 | 2,270 | 2,177 |
| Rate of salary increase: 4.2% | 0.1 | 2,283 | 2,163 |

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 23 - 26.2 years, post retirement age, the change in present value of scheme liabilities would be an increase of **3.4%**.

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



## 17. Pension schemes (cont.)

### Lancashire County Pension Fund

The actuaries for LCPF are Mercer.

**LPP pension information** - A summary of the defined benefit pension schemes on the Group balance sheet is as follows:

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Retirement benefit assets | **12,031** | 10,606 |
| Retirement benefit obligations | **(17,919)** | (15,339) |
| **Net retirement benefit deficit** | **(5,888)** | (4,733) |

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

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Fair value of plan assets at beginning of year | **10,606** | 9,255 |
| Interest income on scheme assets – employer | **276** | 254 |
| Return on scheme assets less interest income | **333** | 842 |
| Administrative expenses and taxes | **(23)** | (15) |
| Employer contributions | **466** | 409 |
| Contributions by employees | **246** | 190 |
| Benefits paid | **127** | (329) |
| **Fair value of plan assets at end of year** | **12,031** | 10,606 |

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

| | **LPPI 31 Mar 2020 £'000** | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Equity instruments and other | **10,370** | 9,069 |
| Bonds | **301** | 498 |
| Property | **1,023** | 986 |
| Cash and other | **337** | 53 |
| | **12,031** | 10,606 |

# Notes to the financial statements cont.
for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

| | LPP 31 Mar 2020 £'000 | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Benefit obligation at beginning of year | **15,339** | 12,843 |
| Current service cost – employer | **1,108** | 813 |
| Effect of changes in financial assumptions | **200** | 1,054 |
| Effect of demographic assumptions | **470** | - |
| Interest cost – employer | **388** | 344 |
| Benefits paid net of transfers in | **127** | (329) |
| Contributions by scheme participants | **246** | 190 |
| Curtailments | **-** | 63 |
| Past service costs | **41** | 361 |
| **Benefit obligation at end of year** | **17,919** | 15,339 |



### Amounts recognised in the income statement

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Amounts recognised in operating profit** | | |
| Current service cost | **1,108** | 813 |
| Post service cost | **41** | 361 |
| Curtailment | **-** | 63 |
| Administrative expenses and taxes | **23** | 15 |
| Recognised in arriving at operating profit | **1,172** | 1,252 |
| **Amounts recognised in interest receivable and similar income** | | |
| Interest cost on scheme liabilities - employer | **388** | 344 |
| Interest cost on scheme assets - employer | **(276)** | (254) |
| Recognised in interest receivable and similar income | **112** | 90 |
| **Total recognised in the Income statement** | **1,284** | 1,342 |



## 17. Pension schemes (cont.)

### Amounts recognised in the statement of comprehensive income

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Remeasurements recognised in the statement of comprehensive income** | | |
| Return on scheme assets less interest income | **333** | 842 |
| Changes in financial assumptions | **(200)** | (1,054) |
| Effect of experience adjustments | **(470)** | - |
| **Total pension cost recognised in the statement of comprehensive income** | **(337)** | (212) |

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

| | LPP 31 Mar 2020 % | LPP 31 Mar 2019 % |
|---|---|---|
| Discount rate | **2.3** | 2.5 |
| Future salary increases | **3.6** | 3.7 |
| Future pension increases (CPI) | **2.2** | 2.3 |
| Future pension increases (RPI) | **2.8** | 3.3 |
| Inflation assumption (CPI) | **2.2** | 2.2 |
| Inflation assumption (RPI) | **2.8** | 3.2 |

### Post retirement mortality assumptions

| | LPP 31 Mar 2020 'years' | LPP 31 Mar 2019 'years' |
|---|---|---|
| Current UK pensioners at retirement age – male | **21.9** | 21.9 |
| Current UK pensioners at retirement age – female | **24.5** | 24.2 |
| Future UK pensioners at retirement age – male | **22.7** | 23.3 |
| Future UK pensioners at retirement age – female | **25.8** | 26.1 |

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

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

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2020 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2020 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

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| Assumption | Change in assumption % | Impact of assumption change of +0.1% in present value of scheme liabilities £'000 | Impact of assumption change of (0.1%) in present value of scheme liabilities £'000 |
|---|---|---|---|
| | | **Year to 31 March 2020** | |
| Discount rate: 2.3% | **0.1** | **17,487** | **18,362** |
| Inflation: 2.2% CPI | **0.1** | **18,362** | **17,487** |
| Rate of salary increase: 3.6% | **0.1** | **18,028** | **17,812** |
| | | Year to 31 March 2019 | |
| Discount rate: 2.5% | 0.1 | 14,935 | 14,973 |
| Inflation: 2.2% CPI | 0.1 | 15,754 | 14,446 |
| Rate of salary increase: 3.7% | 0.1 | 15,477 | 14,306 |

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.9 - 25.8 the change in present value of scheme liabilities would be an increase of **2.5%**.

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

## 17. Pension schemes (cont.)

### Lancashire County Pension Fund

**LPPI pension information** - A summary of the defined benefit pension schemes on the Group balance sheet is as follows:

| | LPPI 31 Mar 2020 £'000 | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Retirement benefit assets | **2,864** | 2,477 |
| Retirement benefit obligations | **(4,768)** | (4,037) |
| **Net retirement benefit deficit** | **(1,904)** | (1,560) |

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

| | LPPI 31 Mar 2020 £'000 | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Fair value of plan assets at beginning of year | **2,477** | 2,013 |
| Interest income on scheme assets – employer | **64** | 57 |
| Return on scheme assets less interest income | **133** | 191 |
| Administrative expenses and taxes | **(6)** | (5) |
| Employer contributions | **115** | 129 |
| Contributions by employees | **81** | 92 |
| **Fair value of plan assets at end of year** | **2,864** | 2,477 |

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

| | LPPI 31 Mar 2020 £'000 | LPPI 31 Mar 2019 £'000 |
|---|---|---|
| Equity instruments and other | **2,469** | 2,118 |
| Bonds | **72** | 117 |
| Property | **243** | 230 |
| Cash and other | **80** | 12 |
| | **2,864** | 2,477 |

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

| | LPP 31 Mar 2020 £'000 | LPP 31 Mar 2019 £'000 |
|---|---|---|
| Benefit obligation at beginning of year | **4,037** | 3,226 |
| Current service cost – employer | **261** | 279 |
| Effect of changes in financial assumptions | **44** | 282 |
| Effect of experience adjustments | **243** | - |
| Interest cost – employer | **102** | 88 |
| Contributions by scheme participants | **81** | 92 |
| Past service costs | **-** | 70 |
| **Benefit obligation at end of year** | **4,768** | 4,037 |

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### Amounts recognised in the income statement

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Amounts recognised in operating profit** | | |
| Current service cost | **261** | 279 |
| Post service cost | **-** | 70 |
| Administrative expenses and taxes | **6** | 5 |
| Recognised in arriving at operating profit | **267** | 354 |
| **Amounts recognised in interest receivable and similar income** | | |
| Interest cost on scheme liabilities - employer | **102** | 88 |
| Interest cost on scheme assets - employer | **(64)** | (57) |
| Recognised in interest receivable and similar income | **38** | 31 |
| **Total recognised in the Income statement** | **305** | 385 |

## 17. Pension schemes (cont.)

### Amounts recognised in the statement of comprehensive income

| | LPP Year to 31 Mar 2020 £'000 | LPP Year to 31 Mar 2019 £'000 |
|---|---|---|
| **Remeasurements recognised in the statement of comprehensive income** | | |
| Return on scheme assets less interest income | **133** | 191 |
| Changes in financial assumptions | **(44)** | (282) |
| Effect of experience adjustments | **(243)** | - |
| **Total pension cost recognised in the statement of comprehensive income** | **(154)** | (91) |

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

| | LPP 31 Mar 2020 % | LPP 31 Mar 2019 % |
|---|---|---|
| Discount rate | **2.3** | 2.5 |
| Future salary increases | **3.6** | 3.7 |
| Future pension increases (CPI) | **2.2** | 2.3 |
| Future pension increases (RPI) | **2.8** | 3.3 |
| Inflation assumption (CPI) | **2.2** | 2.2 |
| Inflation assumption (RPI) | **2.8** | 3.2 |

### Post retirement mortality assumptions

| | LPP 31 Mar 2020 'years' | LPP 31 Mar 2019 'years' |
|---|---|---|
| Current UK pensioners at retirement age – male | **21.9** | 21.9 |
| Current UK pensioners at retirement age – female | **24.5** | 24.2 |
| Future UK pensioners at retirement age – male | **22.7** | 23.3 |
| Future UK pensioners at retirement age – female | **25.8** | 26.1 |

# Notes to the financial statements cont.

for the year ended 31 March 2020

## 17. Pension schemes (cont.)

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

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

The sensitivities have been derived in the same manner as the defined benefit obligation as at 31 March 2020 where the defined benefit obligation is estimated using the Projected Unit Credit method. Under this method each participant's benefits are attributed to years of service, taking into consideration future salary increases and the scheme's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The defined benefit obligation as at 31 March 2020 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.



| Assumption | Change in assumption % | Impact of assumption change of +0.1% in present value of scheme liabilities £'000 | Impact of assumption change of (0.1%) in present value of scheme liabilities £'000 |
|---|---|---|---|
| | **Year to 31 March 2020** | | |
| Discount rate: 2.3% | **0.1** | **4,652** | **4,887** |
| Inflation: 2.2% CPI | **0.1** | **4,887** | **4,652** |
| Rate of salary increase: 3.6% | **0.1** | **4,800** | **4,737** |
| | Year to 31 March 2019 | | |
| Discount rate: 2.7% | 0.1 | 3,932 | 4,134 |
| Inflation: 2.1% CPI | 0.1 | 4,130 | 3,952 |
| Rate of salary increase: 3.6% | 0.1 | 4,190 | 3,892 |

If the mortality rate were increased by one year to the post retirement range of assumptions applied for male and female, current and future pensioners from 21.9 - 25.8 the change in present value of scheme liabilities would be an increase of **2.5%**.

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

## 18. Operating leases

The Group and the Company have no operating lease commitments at the period end.

## 19. Contingent liabilities and capital commitments

| | Nominal value | **2020 Number** | 2019 Number | **2020 £'000** | 2019 £'000 |
|---|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | | |
| Ordinary Shares LCC - A | £1 each | **1** | 1 | **-** | - |
| Ordinary Shares LPFA - B | £1 each | **1** | 1 | **-** | - |
| Ordinary Shares LCC - X | £1 each | **12,500,000** | - | **12,500** | - |
| Ordinary Shares LPFA - X | £1 each | **12,500,000** | - | **12,500** | - |
| | | **25,000,002** | 2 | **25,000** | - |

During the year 25,000,000 £1 ordinary shares were issued to existing shareholders and were fully paid. These X shares have no voting, dividends and distributions rights.

Only A and B shares have full rights in the Company with respect to votiing, dividends and distributions.

## 20. Events after the reporting date

Local Pensions Partnership Administration Ltd (LPPA), a member of the Group, recommenced trading on 1 June 2020. LPPA issued 3,999,999 of £1 ordinary shares, to its parent LPP, which were fully paid on 27 May 2020, in order to finance future working capital requirements.

## 21. Contingent liabilities and capital commitments

The Group and the Company have no contingent liabilities at the year end.

The Group and the Company have no capital commitments at the year end.

## 22. Related party transactions

The Key Management Personnel emoluments paid by the Group total £5,269,957 for the year

The Directors of LPP had no transactions with the Company or its subsidiaries during the year other than service contracts and Directors' liability insurance. A summary of Directors' remuneration is disclosed in the notes to the accounts.

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned by LPP. Included within debtors is a balance owed by LPPI to LPP of £758,664

## 23. Controlling party

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

**LPP**
Local Pensions Partnership

**Company Secretary**
Greg Smith

**Company registration number**
09830002

**Business address**
2nd Floor
169 Union Street
London, SE1 0LL

Norwest Court
Guildhall Street
Preston, PR1 3NU

**Registered office**
2nd Floor
169 Union Street
London, SE1 0LL

**Auditor**
**Grant Thornton UK LLP**
Chartered Accountants
& Statutory Auditor
30 Finsbury Square
London, EC2A 1AG

**Bankers**
**National Westminster Bank**
PO Box 35
10 Southwark Street
London, SE1 1TJ

**Handelsbanken**
Winckley Chambers
30 Winkley Square
Preston, PR1 3JJ

@LPPPensions
lpppensions
Local Pensions Partnership

**localpensionspartnership.org.uk**
**info@localpensionspartnership.org.uk**

020 7369 6000

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 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 support the learning and development needs of those 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 participated in the following pension related conference/events.

**12th/16th October 2020 PLSA Virtual Annual Conference -** County Councillors E Pope and K Ellard.

**3rd November 2020 Workshop on the Responsible Investment Dashboard.**
County Councillors E Pope, K Ellard, L Collinge, T Martin, J Mein, G Dowding and Co-opted members - P Crewe, Councillor D Borrow, Ms J Eastham.

**11th/12th November 2020 PLSA Local Authority Update -** Mr P Crewe, Co-opted member.



Lancashire County Council

**12th November 2020 Local Government Pension Scheme Investors Focus on ESG, Responsible & Sustainable Investing Conference -** County Councillors E Pope and L Collinge.

**19th November 2020 – Presentation to Pension Fund Committee on Divestment.** As the agenda for the meeting will be circulated before the presentation takes place the Committee will receive an update on attendance at the meeting.

Individual members of the Committee are invited to provide feedback on their experiences at the meeting regarding the above.

**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 Lancashire County 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 the 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 members of the Committee or Board participating in pension related training events are met by the Lancashire County Pension Fund.

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

| Paper | Dates | Contact/Tel |
|---|---|---|
| Attendance at external Conferences and Events as approved by the Head of Fund under the Scheme of Delegation to Heads of Service | October and November 2020 | Mike Neville (01772) 533431 |
| Attendance sheets for internal pension related workshop and presentation to Committee. | 3rd and the 19th November 2020 | Mike Neville (01772) 533431 |

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

**Pension Fund Committee**
Meeting to be held on Friday, 27 November 2020

Electoral Division affected:
(All Divisions);

**Responsible Investment Report**
(Appendices 'A' and 'B' refer)

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 third quarter of 2020 (July to September).

**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.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the third quarter of 2020. A workshop for members of the Committee and the Lancashire Local Pension Board regarding the new dashboard style reporting was held on the 3rd November. The workshop aimed to provide a better understanding of the dashboard and its contents.

Other matters of note for the Pension Fund Committee:



Lancashire County Council

**British American Tobacco (BAT)**

LPPI have liquidated shares held within the Global Equity Fund (GEF).  BAT had been one of the top ten holdings.  The reasons for the liquidation are outlined fully in Appendix 'A', however the principal factor being the forecast future effects of a shift to lower products (nicotine based alternatives and reduced-risk tobacco products).

**LPP Annual Report on Responsible Investment 2019-20**

LPPI has published its first Annual Report on Responsible Investment as a dedicated supplement to the LPP Annual Report and Accounts 2019/20. The report provides a review of the year to 31 March 2020 and incorporates LPPI's disclosure in line with the recommendations of the Taskforce on Climate related Financial Disclosure (TCFD).

**Workshop and Training**

A workshop was held on the 3rd November, facilitated by the Head of Responsible Investment at LPPI, to provide a better understanding of the RI dashboard report.

Additionally, as agreed at the Pension Fund Committee held on the 18th September 2020, a presentation was arranged to provide an alternative viewpoint regarding divestment.  This presentation took place on the 19th November 2020 and is referenced in the report on feedback from training events elsewhere on the agenda.

**Local Authority Pension Fund Forum (LAPFF)**

County Councillor Eddie Pope was successfully elected to be a Councillor Member of the LAPFF Executive for 2020 and Abigail Leech, the former Head of Fund, stepped down from her position as an Officer Member.

**Robeco: Engagement Themes**

The Quarterly Active Ownership Report, provided via LPPI, is produced by Robeco and a copy of the Report for Q3-2020 has been made available to for members of the Committee in the Pensions Library.

LPPI are now able to influence priority areas for future engagement themes through participation in client panels.  LPPI have participated in two of these panels in November.

**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 |
|---|---|---|
| Robeco Active Ownership Report Q3-2020 | 1/7/20 to 30/9/20 | Mukhtar Master (01772) 532018 |

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

Local Pensions Partnership Investments Ltd

# Responsible Investment Report – Q3 2020

## 1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard and the Quarterly Active Ownership Report. It covers stewardship in the period 1 July to 30 September 2020 plus insights on current and emerging issues for client pension funds.

[R] This symbol indicates a term explained in the reference section at the end of this report.

Key takeaways for the period:

- LPPI has published a first Annual Report on Responsible Investment 2019/20 as a supplement to the LPP Annual Report and Accounts 2019/20.
- British American Tobacco has exited the Global Equity Fund (GEF) Top Ten holdings
- Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 3.07% of the portfolio.
- Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 4.02% of the portfolio.
- LPPI has participated in annual client panels with the Robeco Active Ownership Team on material matters and priority areas for future engagement themes.

## 2. RI Dashboard – portfolio characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix B.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. There have been minimal changes compared with the position reported at Q2 2020.

<u>Listed equities (Dashboard p1)</u>

*Sector Breakdown*
Categorised by GICS[R] the largest sectoral exposures for the GEF are information technology (22%) and consumer staples (15%).

Comparing the GEF with its benchmark (MSCI ACWI) [R] gives insight into how sector exposures for the fund differ from a global market index. The length of each horizontal bar indicates by how much exposures differ in total (+ or –) compared with the benchmark, which is the outcome of active managers making stock selection decisions rather than passively buying an index.

The GEF is underweight energy (GEF 0.5% versus 2.8% for MSCI ACWI) indicating a much lower exposure to companies extracting, transporting, storing, and supplying fossil fuels.

*Top 10 Positions*
Microsoft was added to the GEF in Q2 and now features in the top 10 positions.
British American Tobacco (BAT) has exited the top 10 following the liquidation of shares held by the internal portfolio. The decision to sell BAT reflects a confluence of factors, principally the forecast future effects of a shift to lower harm products (nicotine-based alternatives and reduced-risk tobacco products). It is judged that the growth of such products could result in future ROIC (return on invested capital) being materially less than historic rates for the company due to:

- barriers to entry being lower than in traditional tobacco products
- a lower margin profile for potentially reduced harm products vs traditional tobacco
- the requirement to invest in and build new brands outside BAT's historic brand portfolio.

In these circumstances, the intrinsic growth rate for the company may fall below that attractive to LPPI as a long-term investor. The concentrated nature of the internal portfolio means competition for capital is high and conviction in the risk/reward trade off from existing holdings, versus alternatives in the investment universe is continually being assessed.

*Portfolio ESG Score*
The GEF's Portfolio ESG score has risen slightly from 5.3 (Q2) to 5.4 (Q2). This continues to be a higher (better) score than the equivalent score for the benchmark, which is steady at 5.2 (unchanged from Q2).

*Transition Pathway Initiative (TPI)*
Measurement against TPI [R] Management Quality ratings confirms the GEF has relatively low exposure to highly carbon intensive activities. By value, only 12.5% of the GEF is in companies under TPI assessment as global high emitters (unchanged from Q2).

Compared with Q2, the number of companies in TPI scope has increased by 3 (Q2 38, Q3 41). The change reflects 2 investments added to the GEF, one sold, and 2 investments already in the GEF which are now in TPI scope for the first time (under a refreshed dataset released by TPI).

Of the 41 companies in TPI scope:

- 95% (by value) 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).

Other asset classes (Dashboard p2)

*Private Equity*
Sector and geographical exposures are unchanged from Q2. The portfolio has a strong US presence (47%) and largest sector exposure is to Information Technology (32%).
The Private Equity portfolio is the focus of Real World Outcomes this quarter (Dashboard Pages 6-7) Examples give a flavour of investments making a positive social contribution in addition to achieving returns for the Fund and focus on companies supporting health and

wellbeing through medical services and healthier diets/a healthier planet through alternative foods.

*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 Q2.
The portfolio is 79% UK assets and has a 37% weighting to industrial uses (logistics).

*Green & Brown Exposures*
Calculation of the Fund's exposure to Green and Brown activities focusses specifically on equity assets - listed equity, private equity, and infrastructure, plus green bonds within fixed income. The numbers give an indication, rather than a precise measure, as an assistance to reviewing the overall position. Our methodology continues to develop, particularly as we work to improve look-through to underlying assets held by pooled vehicles and fund of funds.

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.

Overall levels of Green and Brown exposure show minimal change compared to Q2 2020. Brown activities are 3.07% (Q2 3.15%). Green activities are 4.02% (Q2 4.02%).

Brown exposure is 89% infrastructure and is mainly indirect investments in **midstream and downstream** oil and gas through infrastructure pooled funds. Midstream and downstream are **collectively** 66% of total brown exposure.

Green exposure is 98% infrastructure and reflects renewable energy generation from **wind, solar, hydro, and waste** which are collectively **85%** of total green exposure.

## 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) *(Dashboard page 3)*

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.

The period July to September 2020 encompassed 74 meetings and 714 proposals voted.

a) Company Proposals

LPPI supported 90% 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 three directors across two company meetings due to their poor attendance.
Bajaj Finance Limited (India: Consumer Finance)
Divi's Laboratories Ltd (India: Life Sciences Tools & Services)
Parties failed to attend at least 75% of meetings in 12 months with no satisfactory reason for their absence. (Results: between 8.1% and 9.8% Against).

LPPI cast dissenting votes at two company meetings regarding a lack of gender diversity on the Board (no female board members). Opposition voting targeted directors in the Nominating Committee at Olympus Corp. (Japan: Health Care Equipment) and Muthoot Finance Limited (India: Consumer Finance).
(Results: Between 1.9% and 16.6% Against)

At HDFC Bank (India: Diversified Banks), LPPI voted against one director due to concerns of over boarding. (Result: 11.5% Against).

***Insights – Non-salary compensation***

LPPI opposed management in 11 "say on pay" votes across 8 company meetings.

| **Company** | **Results (Against)** |
|---|---|
| Wendel SE (France: Multi-Sector Holdings) | 14.5% - 19.6% |
| Bajaj Finance (India: Consumer Finance) | 6.4% |
| Wizz Air Holdings Plc (UK: Airlines) | 51.6% |
| Titan Company (Jersey: Apparel & Luxury Goods) | 8.8% |
| Fisher & Paykel Corp (New Zealand: Healthcare) | 27.3% |
| Compagnie Financière Richemont (Switzerland: Apparel & Luxury Goods) | Not disclosed |
| Tele2 AB (Sweden: Wireless Telecommunication Services) | Not disclosed |
| Nike (USA: Footwear) | 46.0% |

Reasons included a lack of challenge in bonus incentives, poor transparency on performance measures, and an award (under a long-term incentive programme) relating to performance prior to the executive joining the firm.

b) Shareholder Proposals

Only 1 shareholder proposal arose across the company meetings voted by LPPI in Q3. At Nike (USA: Footwear), shareholders submitted a proposal requesting the company to disclose more information about its political contributions. LPPI voted in favour. Whilst the proposal did not gain majority support, 34.4% of votes were in favour.

**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 completed a third full quarter of engagement activity. As part of the annual process of consulting clients on priorities for future engagement themes LPPI has participated in two client panels with Robeco in November, a first convened with LGPS clients (Robeco provide engagement services to 2 other LGPS pools) and a second including Robeco's broader client base for engagement services. Collectively the insights shared will influence the long list of themes Robeco take forward for further work and eventually reduce to a shortlist for launch in 2021 and beyond.

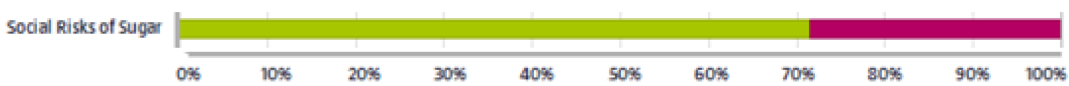
The Active Ownership Report (available via the online Pensions Library) provides narrative on thematic engagements underway with listed companies (representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund).

RI Dashboard (page 4) provides engagement headlines which confirm the Robeco Active Ownership Team engaged with 40 companies in total, the predominant focus was environmental management. Robeco report that Covid-19 is not having a significant impact on the engagement programme in terms of their access to companies, with calls and virtual meetings providing a backstop where face to face dialogue is not possible.

The current status of each live engagement theme (as it stood at the end of Q3) is summarised on page 5 of the Dashboard in the table "Engagement Results per Theme".

18 themes were live at the end of Q3. 4 themes (Sound Environmental Management, Sound Social Management, Good Governance, and Global Controversy Engagement) are evergreen, the remaining 14 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.

One theme concluded during Q3 2020 and is not listed in the status report, the final outcome is shown below.




The social risks of sugar engagement spanned 3 years from 2017 to 2020.

The objective was to press for improved sustainability in the food and beverage sector with a special focus on innovation management, labelling, product reformulation, responsible marketing, and responsible lobbying.

The success rate was 71% for the 7 companies held by LPPI's GEF (Coca-Cola, Danone, General Mills, Nestlé, PepsiCo, Kraft Heinz, Unilever). This reflects that for two of the seven companies engaged, insufficient progress across all 5 key asks meant outcomes were deemed not to have been met in full, but there was nevertheless positive progress in all companies.

Each quarter, we provide further insights into one of the live themes underway by the Robeco Active Ownership Team.

**Case study - Single Use Plastics**

Robeco introduced the Single Use Plastics engagement theme in 2019, as the negative externalities of plastic waste on marine biodiversity and human health via the food chain rose in public awareness.

Robeco recognise that plastic in and of itself is not negative, the low cost and environmental impact of production make it preferable to many alternatives. It is the lack of collection and recycling that drives negative impacts. These are materialising financially as governments seek to minimise harm through enhanced regulation, including product bans and taxes, and as consumer awareness and preferences shift, and the availability of substitutes and reputational risks grow.

The objective of the engagement is to drive the global plastic packaging value chain towards a more circular model, where plastics do not enter landfill or the oceans after one use, and the supply of and demand for recycled plastic improves. To achieve this, Robeco are targeting chemical companies upstream in the plastic value chain, and consumer facing companies with significant packaging footprints. The 5 companies under engagement for LPPI fall into the latter group and are as follows:

- Nestle
- PepsiCo
- Danone
- Procter & Gamble
- Henkel

Robeco have set five objectives for the engagement:

- Innovation management: encouraging innovation in packaging solutions.
- Plastic recycling: an expectation for all companies in the plastic value chain to take responsibility by investing in recycling infrastructure or enabling recycling at the point of sale.
- Plastic harmonisation: reducing the complexity of plastics used and working towards the harmonisation of different plastics to facilitate more efficient waste management.
- Responsible lobbying for regulatory change: an expectation that companies will support actions to make the industry more sustainable, rather than encouraging responses that minimise cost at their firm/position in the value chain.
- Industry collaboration and Public-Private Partnerships: an expectation companies will work transparently with other stakeholders, particularly in developing markets where recycling infrastructure is poor, and contribute to solutions.

Progress so far is neutral to positive, indicating no company has so far been resistant to these conversations, alongside examples of clear progress. Historically, the challenge for closing the loop of plastic use has been the fact that virgin plastics are cheaper and of better quality than recycled plastics. This is especially true in low oil price environments. However, companies are showing they are willing to pay a premium to source recycled plastics, highlighting their cognisance of wider stakeholder concerns and the potential for this to impact their bottom line.

## 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 Q3.

**Workforce Disclosure Initiative (WDI)**

The WDI is a data and engagement platform which seeks to generate new metrics on key characteristics of workforce management (under 'S' within ESG). Having been an investor supporter since inception, LPPI became a paying supporter earlier this year when WDI shifted to an investor-funded model following the conclusion of pilot funding.

Building from a smaller pilot, WDI now sends an annual survey to 750 companies across major markets worldwide. Through it, WDI encourages companies to provide detailed disclosure on workforce matters. To encourage participation, investor supporters can engage with their holdings, persuading them to respond to the survey and disclose the prescribed data. As part of a coalition of investors, LPPI is engaging to encourage target companies who have not yet disclosed to begin to do so. Six companies held by the Internal portfolio have been selected for focus as follows:

| Company | LPPI role | Response to date |
|---|---|---|
| Diageo | Lead | Success: commitment to participate |
| 3M | Lead | No response at the time of writing |
| Nike | Support investor | Acknowledgement of letter. Discussed with lead investor/WDI |
| PepsiCo | Support investor | Acknowledgment of letter and discussion in email exchange. |
| Estee Lauder | Support investor | No response at the time of writing |
| London Stock Exchange Group | Support investor | No response at the time of writing |

For two companies, LPPI is the lead investor. For the other four LPPI is a 'support' investor. Lead investors are the first to make contact after the WDI has shared the survey and requested disclosure. Typically, they play a more proactive role, for example, by joining calls with the company alongside the WDI. Support investors contact companies which have already received communications from other investors within the coalition, confirming the broader investor interest in them disclosing comprehensive workforce data through the WDI survey.

The importance of effective Human Capital Management has been highlighted by the experience of Covid-19 (the policies and processes which govern employer/employee relationships, contracts, and broader financial and personal welfare as part of corporate culture and governance). Requesting companies to disclose on their workforce policies and the outcomes of these is encouraging a broader availability of the type of information not widely available or on a comparable basis currently.

**Investor Mining Initiative**

In the wake of questions and concerns about the management of cultural heritage sparked by Rio Tinto's destruction of an ancient Aboriginal site in Australia, LPPI has signed a joint investor letter calling on mining companies internationally to demonstrate verifiable outcome-oriented processes and standards that will ensure that such events are not repeated.

The initiative has the support of 64 investors ($10.2tn) who are calling on investee companies for assurances about how they gain and maintain their social licence to operate with First Nations and Indigenous communities.

Further information on the initiative and the investor letter is available here.

**LGPS Cross Pool RI Group**

LPPI's Head of RI completes her term as the Chair of the LGPS Cross-Pool RI Group in January 2021 when a new Chair steps in (the role is held in rotation).

In Q3 the group discussed the significant increase in reporting requirements associated with the implementation the revised UK Stewardship Code (2020) and the lack of clarity under current regulations and guidance on whether it is a requirement for LGPS Funds to be signatories to the Code or the requirement is to disclose their stewardship arrangements in line with the Code.

Guidance sought from the Local Govt Assoc (on behalf of Scheme Advisory Board) is that the latter may be presumed currently, but with the reminder that MHCLG has pledged to bring forward a package of amendments to regulations early next year, which are expected to include TCFD[R] reporting and which may also touch on this matter.

The LGPS Scheme Advisory Board has committed to appointing a Responsible Investment Advisory Group to advise on and support its work in this area.
The SAB Investment Committee met in October and agreed the RI Advisory Group's terms of reference and membership profile as follows.

| RIAG Membership | |
|---|---|
| 3.1 To ensure that the group is representative of a wide range of scheme stakeholders including administering authorities; asset pools; investment consultants, asset managers and special interest groups, the Secretariat has compiled the following membership profile for the committee's consideration. | |
| Chair – | Leading Administering Authority on RI |
| AA seats – | London administering authority<br>Shire County administering authority<br>Met District administering authority<br>Welsh administering authority |
| Pools - | Two seats nominated by Cross Pool RI Group |
| Consultants - | Two seats |
| Asset Managers - | Two seats |
| Special Interest – | One seat |
| PLSA (1) – | One seat |

Further details of the meeting and proposals are available from the SAB website.

## 4. Other News and Insights

### LPP Annual Report on Responsible Investment 2019-20

LPPI has published a first Annual Report on Responsible Investment as a dedicated supplement to the LPP Annual Report and Accounts 2019/20. The report provides a review of the year to 31 March 2020 and incorporates LPPI's disclosure in line with the recommendations of the Taskforce on Climate related Financial Disclosure (TCFD) [R]. It is LPP's second TCFD report, the first having been produced for the period 2018/19.

LPP's Annual Report on RI reflects a strong focus on improving communications about LPPI's RI and Stewardship activities which recognises this is an area of growing interest for client pension funds and broader stakeholders.

The full report is available from the LPP website here.

## For Reference

**GICS - Global Industry Classification System**
The most widely used approach to categorising activities into industry sectors. The main standard in use for public markets with growing use for other asset classes.
For more information on GICS and the activities that fall into each sector see:
https://www.spglobal.com/marketintelligence/en/documents/112727-gics-mapbook_2018_v3_letter_digitalspreads.pdf

**MSCI ACWI - MSCI All Country World Index**
A stock index designed to track broad global equity-market performance.
The LPPI Global Equity Fund's benchmark.

**MSCI** - **Morgan Stanley Capital International** A global index provider.

**TPI** - **Transition Pathway Initiative** https://www.transitionpathwayinitiative.org/
The TPI assesses highest emitting companies globally on their preparedness for transition to a low carbon economy.
368 companies are rated TPI 0-4* for Management Quality based on 19 separate datapoints.
TPI Management Quality scores provide an objective external measure of corporate transition readiness.

**TCFD - Taskforce on Climate Related Financial Disclosure**
The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.
Recommendations include annual disclosure under 4 pillars:

| Governance | Strategy | Risk Management | Metrics & Targets |
|---|---|---|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how the organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |

# Responsible Investment Dashboard Q3 2020

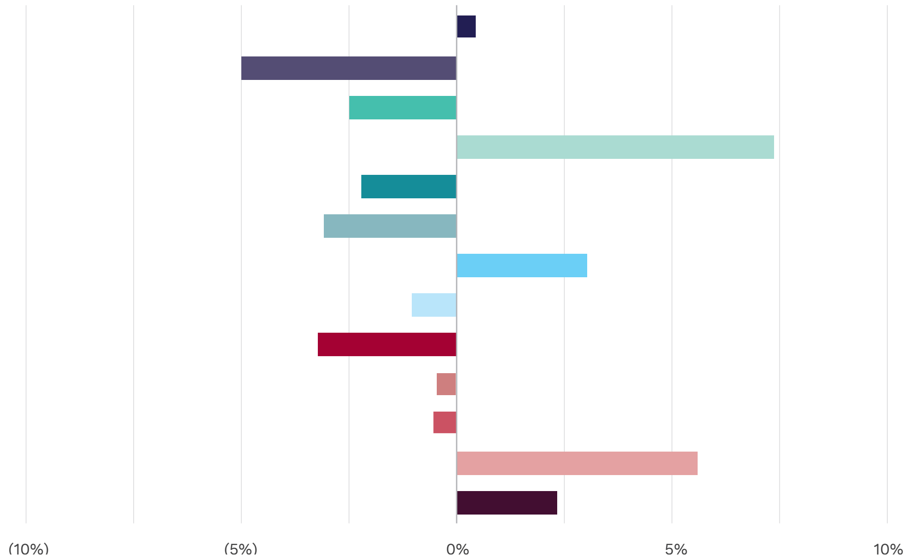
## 1. Portfolio Insights

Listed Equities (LPPI Global Equity Fund)

### Sector breakdown (%)

| | |
|---|---|
| Information Technology | 22.1 |
| Health Care | 7.6 |
| Consumer Discretionary | 10.4 |
| Consumer Staples | 15.1 |
| Energy | 0.5 |
| Materials | 1.7 |
| Industrials | 12.4 |
| Financials | 11.4 |
| Communication Services | 6.1 |
| Utilities | 2.7 |
| Real Estate | 2.2 |
| Cash | 5.7 |
| Others | 2.1 |

### LPPI Global Equities Fund sector weights VS MSCI ACWI ND




### Top 10 positions

| | Portfolio (%) |
|---|---|
| 1. Microsoft | 3.2 |
| 2. Nestle | 3.0 |
| 3. Visa | 2.5 |
| 4. Colgate-Palmolive | 2.3 |
| 5. Accenture | 2.1 |
| 6. Starbucks | 1.8 |
| 7. Pepsico | 1.6 |
| 8. SPDR Gold Shares | 1.5 |
| 9. Alibaba Group Holding | 1.5 |
| 10. Apple Inc | 1.4 |

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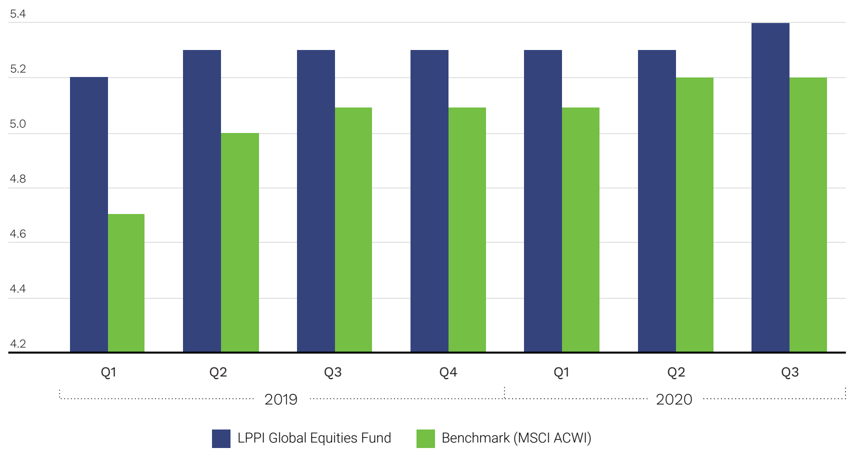
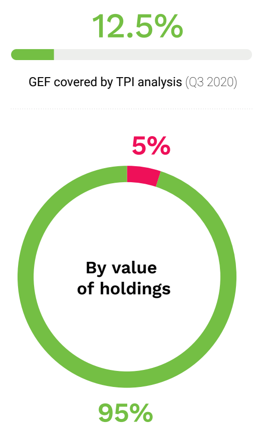
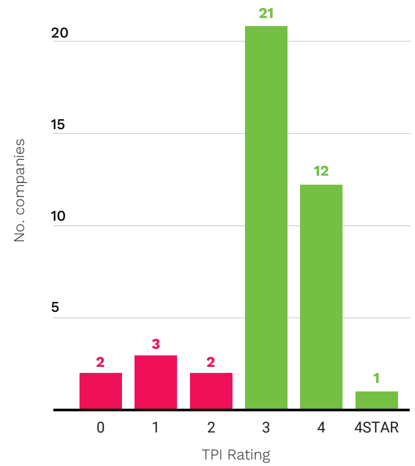
### Portfolio ESG Score (MSCI ESG Metrics)




### 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

Appendix B

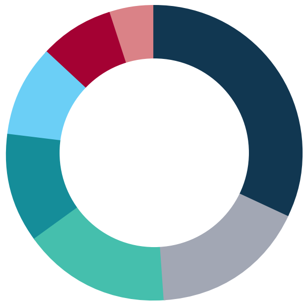
# Responsible Investment Dashboard Q3 2020

## 1. Portfolio Insights

Other asset classes

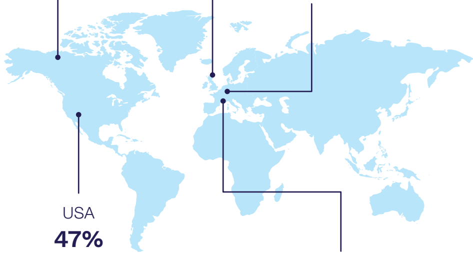
### Private Equity

**Industry Breakdown (%)**



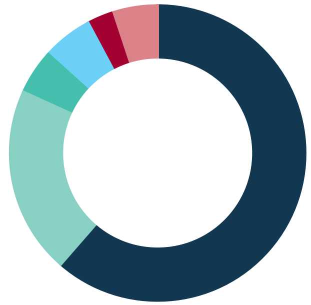
- I.T. 32
- Other 17
- Industrials 16
- Healthcare 12
- Consumer Discretionary 10
- Financials 8
- Consumer Staples 5

**Region Breakdown (%)**



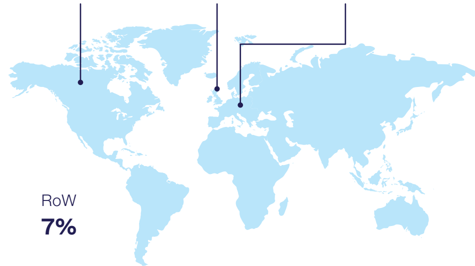

### Infrastructure (LPPI Global Infrastructure Fund)

**Industry Breakdown (%)**



- Utilities 61
- Industrials 20
- Energy 6
- Healthcare 5
- Other 5
- PPP 3

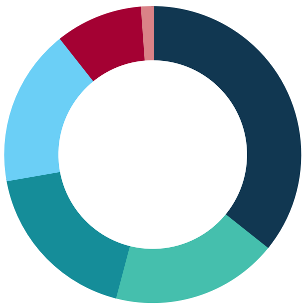
**Region Breakdown (%)**






### 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 0.08%; Private Markets 3.94%

**3.41%** Renewable Energy Generation — Solar 0.12%; Wind 2.14%; Hydro 0.09%; Other 1.06%

**0.61%** Other "Green" — Activities Reducing Carbon 0.61%

**Brown**

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.

**3.07%** of portfolio — Public Markets 0.22%; Private Markets 2.85%

**2.52%** Energy — Upstream 0.20%; Midstream 1.17%; Downstream 0.85%; Integrated 0.30%

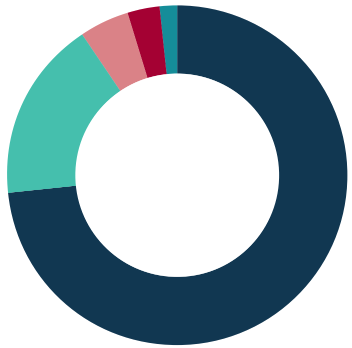
**0.55%** Generation — Power from fossil fuels 0.55%

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

### Headlines

| Meetings Voted | Proposals Voted | Company Proposals | Shareholders Proposals | Meetings with a vote against Management |
|---|---|---|---|---|
| 74 | 714 | 713 (Supported 90%) | 1 (Supported 100%) | 28% |

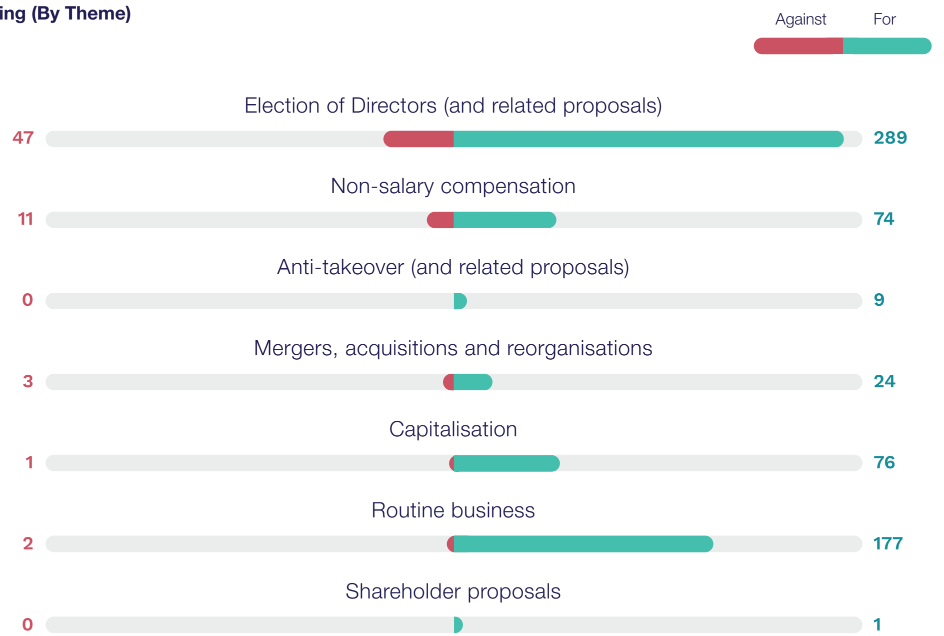


Votes Against Management (By Theme)

- Election of Directors (and related proposals) **47**
- Non-salary compensation **11**
- Mergers, acquisitions and reorganisations **3**
- Routine business **2**
- Capitalisation **1**
- Anti-takeover (and related proposals) **0**

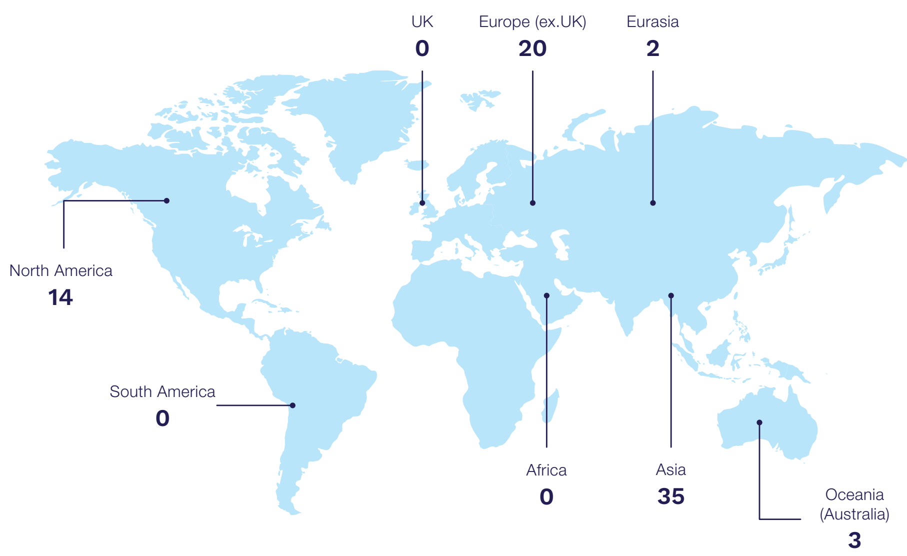


### Voting (By Theme)




| Theme | Against | For |
|---|---|---|
| Election of Directors (and related proposals) | 47 | 289 |
| Non-salary compensation | 11 | 74 |
| Anti-takeover (and related proposals) | 0 | 9 |
| Mergers, acquisitions and reorganisations | 3 | 24 |
| Capitalisation | 1 | 76 |
| Routine business | 2 | 177 |
| Shareholder proposals | 0 | 1 |

### Voting (By Region)



# Responsible Investment Dashboard Q3 2020

## 2. Stewardship Headlines

Engagement (Public Markets)

### Activity (by Topic)

| | |
|---|---|
| Environmental Management | 13 |
| Human Rights | 9 |
| Corporate Governance | 7 |
| Environmental Impact | 5 |
| Global Controversy | 3 |
| Healthy Living | 2 |
| Social Management | 1 |

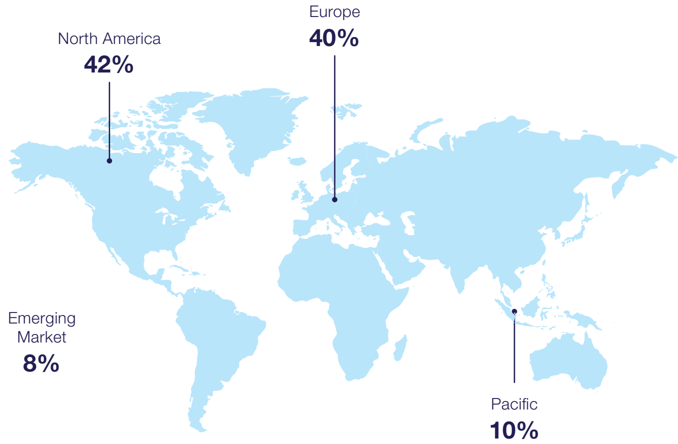
### Activity (by Sector)

- Health Care **8**
- Consumer Staples **7**
- I.T. **5**
- Financials **4**
- Industrials **4**
- Materials **4**
- Energy **3**
- Consumer Discretionary **3**
- Telecommunications **2**
- Utilities **0**

### Activity (by Method)

| | |
|---|---|
| Conference call | 34 |
| E-mail | 19 |
| Analysis (no actual contact with company) | 6 |
| Meeting at company offices | 6 |
| Active voting | 0 |
| Issue press release | 0 |
| Meeting at Robeco offices | 0 |
| (Open) Letter | 0 |
| Shareholder resolution | 0 |
| Speaking at conferences | 0 |
| Speaking at a shareholder meeting | 0 |

### Activity (by Region) (%)



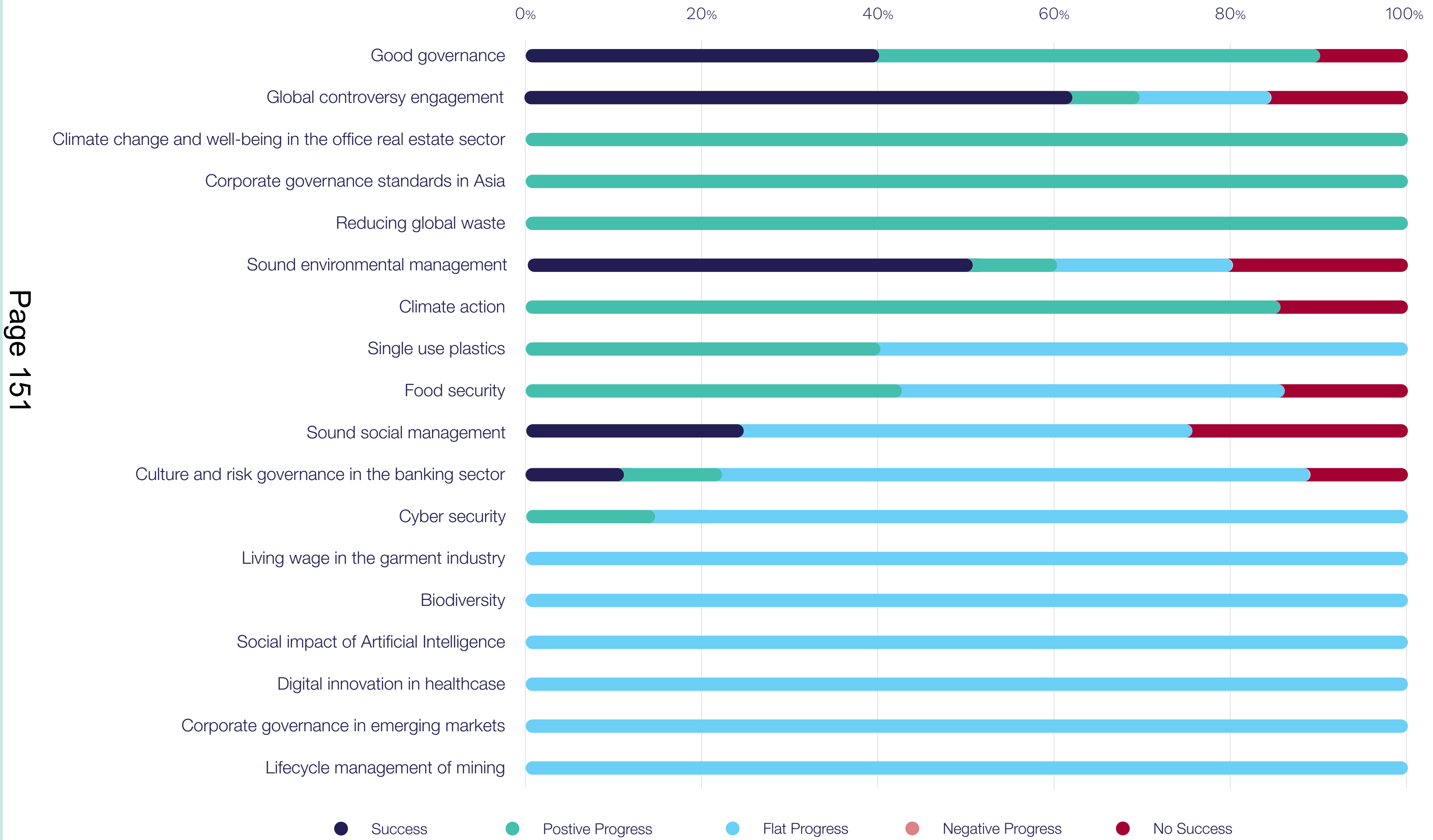

Source: Robeco Active Ownership Report Q3 2020

# Responsible Investment Dashboard Q3 2020

## 2. Stewardship Headlines

Engagement (Public Markets)

**Engagement Results (by Theme)**




Source: Robeco Active Ownership Report Q3 2020

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# Responsible Investment Dashboard Q3 2020

3. Real World Outcomes - Private Equity

## Health & Wellbeing

PE Fund managers raise capital to buy and sell equity in privately owned (unlisted) companies with the objective of securing significant value increase over a defined period and realising this on exit.

The Fund has interests in multiple underlying companies through the LPPI PE portfolio and, through them, in activities with positive real-world outcomes.

### Pharmacy2U

UK's first online pharmacy service. Founding partner in NHS Electronic Prescription Service (EPS)

**500,000 patients**
UK's largest online pharmacy

**Lower cost to NHS**
Reduced number of qualified pharmacists required to fulfil and dispense

Capacity to send
**6,000,000**
medications a month

**COVID 19**
avoiding GP visits, internet/phone/email ordering, home delivery, medication safely to those shielding

www.pharmacy2u.co.uk

### Docplanner Group

Online and mobile healthcare platform (11 countries) enabling patients to find and book appointments 24/7. Helping doctors manage their online presence and digitizing the administrative side of their practice

**Manage client flow**
Software helping to manage efficient client flows and significantly reduce no shows

**15,000**
**COVID 19 consultations p/d**
rollout of video consultations allowing people to see their GP without leaving their home

**35m unique patients**
patients visits every month

**2,000,000 active doctors**
trust in our solutions

www.docplanner.com/about-us

### REGINA MARIA
REȚEAUA PRIVATĂ DE SĂNĂTATE

Leading private healthcare operator in Romania

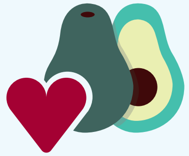
**47** polyclinics
**42** labs
**8** hospitals
**26** diagnostic imaging facilities

**COVID 19**
Romania's largest COVID 19 testing programme for frontline staff

Performing
**10% of all**
Romanian COVID-19 tests

www.reginamaria.ro

## 3. Real World Outcomes - Private Equity



### Alternative Foods

PE Fund managers raise capital to buy and sell equity in privately owned (unlisted) companies with the objective of securing significant value increase over a defined period and realising this on exit.

The Fund has interests in multiple underlying companies through the LPPI PE portfolio and, through them, in activities with positive real-world outcomes.

### Soulfresh

Australian platform for leading brands in healthy snacks and better-for-you food and beverages

**Alternative options**

for consumers focused on healthy and sustainable lifestyles

**11 own-brands**

Brand developer and distributor for plant-based foods and drinks


**Dairy free alternatives to milk**

Meeting the needs of consumers shifting away from traditional products due to taste, environmental concerns, and broader health/ wellbeing benefits including lactose intolerance

soulfresh.co/about-us

### PURIS™

US-based producer of pure plant ingredients non-GMO, plant-based ingredients made from soy, pulses, lentils and corn

**Baked goods, burgers, drinks and snacks**

Producer of PURIS® Pea protein and fibres and starches used in multiple end products

**400 farmers**

**200,000 acres of land**

Working between plant-based food companies and domestic growers

purisfoods.com/

(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)

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# Appendix A

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