**Lancashire County Council**

**Pension Fund Committee**

**Friday, 26th November, 2021 at 10.30 am in Committee Room 'A' - The Tudor Room, County Hall, Preston**

**Agenda**

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



Lancashire County Council

**11. Programme of Meetings for 2022/23**

On the 14th October 2021, the full Council approved the 2022/23 programme of meetings which includes the following dates for the Pension Fund Committee.

17th June 2022
16th September 2022
25th November 2022
10th March 2023

All meetings will start at 10.30am in Committee Room 'C' – The Duke of Lancaster Room at County Hall, Preston.

**12. Date of the Next Meeting**

The next meeting of the Committee will be held on Friday the 11th March 2022 at County Hall, Preston, starting at 10.30am.

**13. 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)**

**14. 2022 Valuation process and timetable** (Pages 133 - 138)

**15. Local Pensions Partnership Update** (Pages 139 - 202)

**16. Investment Performance Report** (Pages 203 - 228)

**17. Investment Panel Report** (Pages 229 - 248)

**18. Lancashire County Pension Fund Risk Register** (Pages 249 - 272)

**19.** **Appointment of Independent Investment Adviser to the Pension Fund** (Pages 273 - 276)

L Sales
Director of Corporate Services

County Hall
Preston

**Lancashire County Council**

**Pension Fund Committee**

**Minutes of the Meeting held on Friday, 17th September, 2021 at 10.30 am in the Council Chamber, County Hall, Preston.**

**Present:**

County Councillor E Pope (Chair)

**County Councillors**

| | |
|---|---|
| M Brown | M Goulthorp |
| J Burrows | M Pattison |
| M Clifford | A Schofield |
| F De Molfetta | S Smith |
| G Dowding | D Westley |

R Woollam

**Co-opted members**

Councillor D Borrow, Borough and City Councils
Councillor M Hindley, Borough and City Councils
Ms J Eastham, Further Education/Higher Education Institutions
Mr P Crewe, Trade Unions

**In attendance:**
Mr S Greene, Head of Pension Fund, Lancashire County Council.
Ms L Sales, Director of Corporate Services, Lancashire County Council.
Ms A Devitt, LCPF Independent Investment Adviser.
Mr E Lambert, LCPF Independent Investment Adviser
Mr M Neville, Senior Democratic Services Officer, Lancashire County Council.
Mr C Rule, Chief Executive, Local Pensions Partnership.
Mr G Smith, Director of Strategy, Local Pensions Partnership.
Ms J Darbyshire, Director of Administration, Local Pensions Partnership.

**Dialling into the meeting via Zoom:**
Mr W Bourne, Chair of the Lancashire Local Pension Board.

## 1. Welcome and Apologies

Apologies for absence were received from Co-opted members Councillor M Smith and Councillor R Whittle.

## 2. Disclosure of Pecuniary and Non-Pecuniary Interests

No disclosures of Pecuniary/Non-Pecuniary interest were made at this point in the meeting.

## 3. Minutes of the Meeting held on 18th June 2021

The Chair referred to the external audit report presented at the previous meeting and informed the Committee that a letter had been received from the Engagement Lead - Public Sector Assurance at Grant Thornton, providing further clarification on the reasoning behind the fee increases proposed in the audit plan, a copy of which would be made available to members of the Committee outside of the meeting.

**Resolved:**

1. That the Minutes of the meeting held on the 18th June 2021 are confirmed as an accurate record and signed by the Chair.

2. That the letter received from Grant Thornton providing further clarification on the reasons for fee increases as proposed in the audit plan presented on the 18th June 2021, be made available to members of the Committee via the online pension library of reference material.

## 4. Lancashire County Pension Fund - Debt Management Policy

The Committee considered a report on the proposed Debt Management Policy for the Fund, which had been developed in conjunction with the County Council's Debt Recovery Team, the Pension Fund Finance Team and Local Pensions Partnership Administration Limited.

**Resolved:** That the Debt Management Policy, as set out at Appendix 'A' to the report presented, is approved.

## 5. Lancashire County Pension Fund - 2021/22 Budget Monitoring Report

The Committee considered a report on the income and expenditure of the Fund for the 3-month period up to the 30th June 2021 which included a forecast for the financial year ending 31st March 2022. The Head of Fund reported that investment fees were based on assets under management and, as the Fund's investments had performed better than expected over the previous Quarter, fees had increased as a result.

**Resolved:** That the financial performance of the Fund for the 3 months up to the 30th June 2021, together with the budget and forecast variances, as set out in the report presented, are noted.

## 6. Lancashire County Pension Fund Annual Report 2020/21

The Committee considered a report on the draft Lancashire County Pension Fund Annual Report for the year ended 31 March 2021 which included the statement of accounts (within the Lancashire County Council Statement of Accounts) as approved by the Audit, Risk and Governance Committee in July 2021 and the Annual Report of the Local Pension Board, approved at the last Committee. During the discussion it was suggested that the Fund should be more proactive in relation to promoting performance and the Chair proposed that a summary document, highlighting activity/performance be produced for circulation to scheme members and employers.

**Resolved:**

1. That subject to any minor amendments and audit/asset pool adjustments agreed by the Head of Fund, the Annual Report set out at Appendix 'A' is approved for publication on or before the 1st December 2021.

2. That a summary document highlighting key areas of activity and performance be produced for circulation to scheme members and employers once the Annual Report is published.

**7. Responsible Investment Report**

The Committee considered a detailed update report from Local Pensions Partnership Investments Limited regarding responsible investment activity during the second quarter of 2021 (April to June). The Chair also reported that the Task and Finish Group review of the Responsible Investment policy was underway and that recommendations would be presented to the Committee in November 2021.

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

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

The Chair presented a report on two training events which had taken place since the last meeting and encouraged all members of the Committee to make use of internal/external training opportunities to broaden their knowledge regarding pensions. Councillor Borrow referred to the challenges of participating in online conferences/workshops during the pandemic and welcomed the gradual return to face to face meetings.

**Resolved:** That the report and feedback from individual members given at the meeting is noted.

**9. Urgent Business**

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

**10. Date of Next Meeting**

It was reported that the next scheduled meeting would be held on the 26th November 2021 in Committee Room 'C' – the Duke of Lancaster Room at County Hall, Preston starting at 10.30am, preceded by a briefing at 10.00am on the impact of the pandemic on investments.

## 11. 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 is considered that in all the circumstances the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## 12. 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.

Representatives from LPP presented a report on activity by the Local Pensions Partnership Group which included updates on strategy, finance, service performance by the pension administration service and in relation to the East Cliff development in Preston.

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

## 13. Lancashire County Pension Fund - Performance Overview

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

Mr Lambert, Independent Investment Adviser to the Fund, presented a report on the performance of the Lancashire County Pension Fund which included details of the total portfolio return over different periods, the performance of individual asset allocations against benchmarks and the current funding level.

He explained how the Local Government Pension Scheme differed from other pension schemes, discussed cashflow and investment management fees and also reminded the Committee that the purpose of the Fund was to pay benefits when due, achieve and maintain full funding, establish stable and sustainable contributions from employers and be aware of opportunities for responsible investment.

**Resolved:** That the summary of the Fund's performance up to the 31st March 2020, as set out in Appendix 'A' to the report presented is noted.

## 14. 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 Investment Adviser to the fund, presented a report on the macro-economic factors which influenced the investment market in which the Lancashire County Pension Fund operated. In considering the report the Committee noted that as the economy faced a series of challenges as it emerged from the pandemic which would impact on inflation, investments, labour, and supply chains.

**Resolved:**

1. That the report from the Investment Panel is noted.

2. That future reporting to Committee on macro-economic factors include a section on the impact of Brexit on the UK economy.

## 15. Independent Investment Adviser to the Pension Fund – New Contract

Exempt information as defined in paragraphs 1 and 2 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 a proposal to award one of the Independent Investment Advisers a new 3-year contract, as continuity in the role was considered essential for the Pension Fund in order to ensure a continuing level of expertise and advice in respect of pensions investment matters.

**Resolved:** That approval is given for the awarding of a new contract to the Fund's Independent Investment Adviser specified in the report for a further three years to the 28th February 2025, subject to the Cabinet agreeing a waiver of the County Council's procurement rules.

L Sales
Director of Corporate Services

County Hall
Preston

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

Electoral Division affected:
N/A;

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

Contact for further information:
Sean Greene, Head of Fund, Sean.Greene@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 2021. The report was presented to the Council's Audit, Risk and Governance Committee on 18 October 2021, and has been slightly updated to reflect the completion of some of the outstanding items.

The external auditor expects to provide an unqualified audit opinion, 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 18 October 2021 and a copy is attached as Appendix 'A' to this report. This version has been slightly updated to reflect the completion of some of the outstanding items.

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 18 June 2021.

The following items are highlighted on page 3 of Appendix 'A' as being outstanding as at the date of issue of the audit findings report:

- final quality assurance procedures;
- receipt of signed management representation letter; and
- review of the final set of signed financial statements

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

The Committee should note that the adjustments specified in Appendix 'B' of the Grant Thornton Audit Finding Report have now been updated within the accounts of the Pension Fund contained in the Annual Report.

**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 2021**

Lancashire County Pension Fund

1 October 2021



Appendix A

# Contents

Section | Page



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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


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# 1. 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 2021 for those charged with governance.



## 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 give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- 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 between July and September. Our findings are summarised on pages 4 to 13. We have identified no adjustments to the financial statements that have 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.

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 following outstanding matters;

- final quality assurance procedures;
- receipt of signed management representation letter; and
- review of the final set of signed financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified. The Pension Fund audit report cannot be signed until the County Council audit is complete.

# 2. Financial Statements

## 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 will be discussed with the Audit, Risk and Governance Committee.

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;
- 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 unmodified audit opinion following the completion of the Lancashire County Council financial statements audit., as detailed in Appendix D. These outstanding items are listed on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

# 2. 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 the same as reported in our audit plan on 26 April 2021.

We detail in the table below our determination of materiality for Lancashire County Pension Fund.

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| | Pension Fund Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 92,000,000 | 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 | 69,000,000 | Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements. |
| Trivial matters | 4,600,000 | This equates to 5% of materiality. |
| Materiality for Senior officer remuneration disclosures. | 10,000 | We design procedures to detect errors in specific accounts at a lower level of precision for Senior Officer Remuneration |

# 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Management override 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 determined 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 considered their reasonableness with regard to corroborative evidence,<br>• gained an understanding of the control environment in the Local Pensions Partnership (LPP) including review of relevant 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 evidence of management override of controls. |



# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **ISA240 Revenue and expenditure recognition – the risk of revenue including fraudulent transactions and expenditure manipulation**<br>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition.<br>These presumptions can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition.<br>Having considered the risk factors set out in ISA240 and PN10 and the nature of the revenue and expenditure streams at the Fund, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition and expenditure are very limited<br>• classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material<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 these to be significant risks for Lancashire County Pension Fund. | The risks of revenue including fraudulent transactions and expenditure manipulation were rebutted for Lancashire County Pension Fund. This assessment remains appropriate.<br>There are no issues to bring to your attention. |

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# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of Level 3 investments**<br>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.<br><br>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.<br><br>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.<br><br>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.<br><br>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. | We have:<br>• evaluated management's processes for valuing Level 3 investments<br>• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met<br>• reviewed the work of custodians, especially in respect of independent valuations of the fund<br>• for a sample of investments, including indirect property funds, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments, agreeing these to the fund manager reports at that date, and ensured, for indirect property funds, that they were valued in line with the latest RICS guidance. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period.<br>• where available reviewed investment manager service auditor report on design effectiveness of internal controls,<br>• reviewed any transfers to the Pool for any level 3 investments during the year, and<br>Our audit work has not identified any issues in respect of the valuation of Level 3 investments.<br>See page 9 for further explanation of our work on the key judgements and estimates around Level 3 investments. |

# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Level 3 Investments – £3.584 billion | The Pension Fund has investments in pooled property investments, fixed income funds, private equity, long term credit and infrastructure investments that are valued on the balance sheet as at 31 March 2021 at £3.584 billion.<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 £113m in 2020/21, largely due to 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 an immaterial estimation uncertainty of around £48.2m in the valuation of Level 3 investments. Around 91% of this was due to LPPI investments being valued in the accounts based on their 31 December 2020 valuation due to the unavailability of audited accounts as at 31 March 2021 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

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**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Level 2 Investments – £1,074.4m | The Pension Fund have investments in corporate and overseas government bonds, direct property holdings and pooled investment properties that are valued on the balance sheet as at 31 March 2021 at £1.074 billion.<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 decreased by £61.9m 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>For directly held properties we have assessed the valuer used as management's expert, Avision Young, to be competent, capable and objective. We have confirmed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate. For a sample of assets, we have evaluated the method, data and assumptions used by management's expert to derive the accounting estimate to be reasonable. We confirmed that the valuation method remains consistent with the prior year. We confirmed the consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. We have confirmed the adequacy of disclosure of estimate in the financial statements.<br><br>We have found an immaterial estimation uncertainty of around £6.2m in the valuation of Level 2 investments. This was due to LPPI investments being valued in the accounts based on their 31 December 2020 valuation due to the unavailability of audited accounts as at 31 March 2021 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.<br><br>For a similar reason, there we identified an immaterial estimation uncertainty of around £14.6m in the valuation of Level 1 investments. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |



**Assessment**

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

# 2. Financial Statements - other communication requirements

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.

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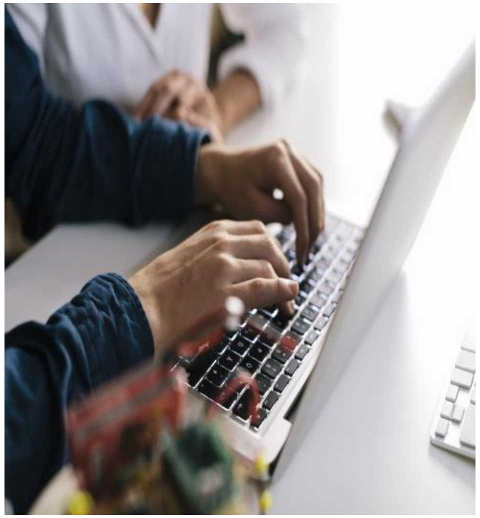

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 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. All of these requests were returned with positive confirmation. |
| Accounting practices | We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. A couple of minor improvements were recommended for the disclosure of Assumptions made about the future and other major sources of estimation uncertainty. See Appendix B for details. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management was provided.<br>The financial statements were published on 26 May 2021, more than two months 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. |

# 2. Financial Statements - other communication requirements

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**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).

| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.<br><br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Pension Fund and the environment in which it operates<br>• the Pension Fund's financial reporting framework<br>• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Disclosures | Our review found no material omissions or inconsistencies in the financial statements. Details of adjustments and disclosure changes can be found at Appendix B. |
| 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 on the Pension Fund Accounts. The opinion on the Pension Fund Accounts cannot be issued until the opinion on the administering body (Lancashire County Council) is issued. |

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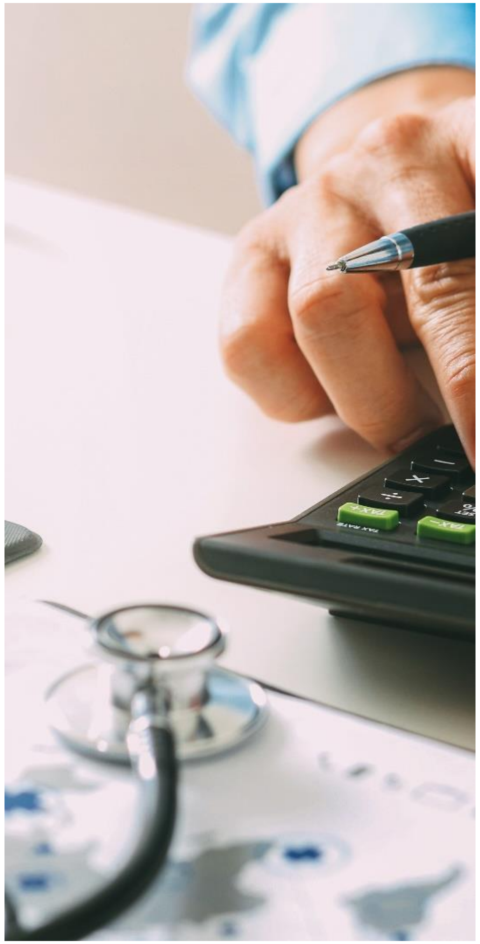


# 3. Independence and ethics

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 Council'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 Council'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 D

## 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.



| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| IAS19 assurance procedures for other bodies admitted to the Pension Fund | 9,500 | 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 £9,500 in comparison to the total fee for the audit of £39,300 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. |
| Non-audit Related | | | |
| Local Pensions Partnership<br>Authorised Contractual Scheme and investment funds structures audit. | TBC | 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.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

# Appendices

# A. 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 one recommendations being reported in our 2018/19 and 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note it is still to be completed.



| Assessment | Issue and risk 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**<br>The same personnel-based controls remain in place as in 2018/19 and 2019/20, 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. |

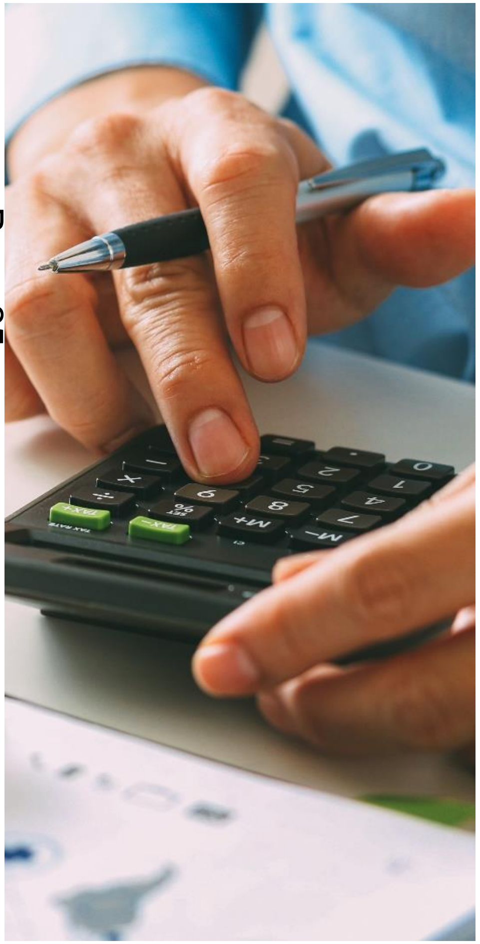
**Assessment**

✓ Action completed

X Not yet addressed

# B. 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.



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### Impact of adjusted misstatements

There are no adjusted misstatements identified as part of the 2020/21 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 | Auditor recommendations | Adjusted? |
|---|---|---|
| **Audit Fees**<br>In the draft financial statements, the 2020/21 audit fee was disclosed as £77,060 in Note 10. This includes external audit fees for the financial statements and IAS 19 assurance, and some internal audit fees. The disclosure should show external audit fees for the financial statement audit and IAS 19 assurance work separately, and not include internal audit fees. | Update the disclosure in the final version of the accounts. | ✓ |
| **Key management personnel**<br>In the draft financial statements, Note 23 notes the position of Head of Fund was covered on an interim basis by an agency member of staff from 20/10/20 – 01/03/2021. The costs of the interim cover was not included within the disclosure, as is required by the CIPFA Code. | Update the disclosure in the final version of the accounts to include the agency costs of the interim cover for the Head of Fund position. | ✓ |
| **Assumptions made about the future and other major sources of estimation uncertainty**<br>In the draft financial statements, we noted two issues with the disclosure in Note 5:<br>• There was no sensitivity analysis for directly held properties.<br>• There was no requirement to disclose estimation uncertainty related to the non-core property holdings as they were sold shortly after year end for close to the carrying value, so there was little estimation uncertainty. | Update the disclosure in the final version of the accounts to:<br>• Include sensitivity analysis for directly held properties.<br>• Remove the estimation uncertainty disclosure for non-core property holdings. | ✓ |

### Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2020/21 audit.

### Impact of prior year unadjusted misstatements

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

# C. 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 Audit | £39,300 | £TBC |
| Total audit fees (excluding VAT) | £39,300 | £TBC |

As noted in Appendix C an amendment was required to the disclosure of the audit fees. In the updated financial statements, the fees reconcile to the fees in the table on the right.

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| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services | £9,500 | £9,500 |
| **Total non-audit fees (excluding VAT)** | **£9,500** | **£9,500** |

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.

Lancashire County Pension Fund's share of the £15m grant for local bodies to meet anticipated rises in fees from MHCLG is £13,563.

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 Services | Final fee |
|---|---|
| Local Pensions Partnership<br>Authorised Contractual Scheme and investment funds structures audit | £107,500 |

# D. Audit opinion

Our audit opinion is included below.

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 2021 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 2020/21.

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 2021 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 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Executive and Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Executive and Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements' section of this report.

### Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group'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 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 the 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 (2020) 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 Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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 in relation to the Pension Fund.

### 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, 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,

# D. Audit opinion

in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, 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 for the Pension Fund. 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.

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### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit, Risk and Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraudulent financial reporting We determined that the principal risks were in relation to:
  - large and unusual journals that impacted the fund account made during the year and after the balance sheet date; and
  - accounting estimates and critical judgements made by management.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals that were unusual and high-risk journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments, directly held investment property and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to level 3 investments, directly held investment property and IAS 26 pensions liability valuations;
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

### 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

# D. Audit opinion

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]

grantthornton.co.uk

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

Electoral Division affected:
N/A;

**2021/22 Budget Monitoring Report**
(Appendix 'A' refers)

Contact for further information:
Sean Greene, Head of Fund, Sean.Greene@lancashire.gov.uk

**Executive Summary**

This report sets out the income and expenditure of the Fund for the 6-month period to 30 September 2021 and provides a forecast for the year ending 31 March 2022.

**Recommendation**

The Committee is asked to review the financial results for the 6 months to 30th September 2021 and note the budget and forecast variances, as set out in the report.

**Background and Advice**

The budget for the financial year ending 31 March 2022 was approved by the Pension Fund Committee on the Friday 12th March 2021. The budget was based on the information available at that time. The forecast provided gives the latest estimate of expenditure and income for the financial year in light of updated information to date.

The forecast for the year ending 31 March 2022 indicates that money available for investment will be below that set out in the budget for the same period. Details are shown in Appendix 'A' with significant variances by budget line set out below.

**Contribution's income**

**Actual £78.3m (Budget £174.7m, revised forecast at Q2 £159.6m)**

The forecast was adjusted, as discussed in the previous Committee meeting in September 2021, to take into account actual experience to that point. Actual contributions income for 6 months ended 30 September 2021 is in line with that forecast. The forecast has been slightly revised on the basis that the actual for the remainder of the year will be consistent with the first and second quarters.



Lancashire County Council

**Transfers In**

**Actual £5.7m (Budget £9.9m, forecast at Q2 £10.7m)**

Income from transfers is dependent on the number and timing of new members joining the Fund and is not an item that can be predicted with great accuracy. The actual is within the anticipated range.

**Investment income**

**Actual £106.2m (Budget £179.5, forecast at Q2 £195.9m)**

Investment income consists mainly of income from the pooled investment funds (95% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds.

Over the 6 months to 30 September 2021 investment income received has been above budget by £16.4m.

The investment income is above budget, including pooled investment income and fixed interest income. However, property investment income – both direct and pooled - is below budget. The forecast has previously been revised due to an unexpected £18.5m dividend being received by the Fund prior to the sale of an asset.

**Total benefits payable**

**Actual £152.9m (Budget £294.6m, forecast at Q2 £301.0m)**

The forecast for the year is broadly in line with budget, with an overall adverse variance due to lump sum benefits in excess of budget.

**Transfers out**

**Actual £7.4m (Budget £16.2m, forecast at Q2 £15.5m)**

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. The actual is broadly in line with expectations.

**Investment management expenses**

**Actual £93.1m (Budget £84.2m, forecast at Q2 £140.7m)**

Investment management expenses encompass fees related to the ongoing management, custody, and performance of investments.

**Management fees**

Management fees (related to ongoing management) are expected to directly relate to the value of the assets. At the point that the budget is set, management fees are estimated based on asset values at that point projected forwards. As discussed at previous Committee meetings, actual experience during the year to date has shown that asset values have increased at a much greater rate than projected. During the 6 months to 30 September 2021, the value of the Fund's assets has increased from £9.6 billion to £10.3 billion, and this exceptional asset performance has resulted in an increase in management fees.

**Performance fees**

Performance related fees are highly difficult to estimate as they are dependent on returns generated over a particular period, there are specific thresholds to be met before being payable and provisions whereby prior performance fees can be returned to investors. As such, it is the Fund’s policy not to forecast performance-related fees. Rather, the budget/estimate for the current year is based on the previous year’s actual performance fees subject to some relevant adjustments. Differences between budgeted/estimated fees and actual fees are likely to be exacerbated by periods of market volatility under this approach.

**Overall position**

The 6-month actuals to 30$^{th}$ September show the investment management fees continue to be higher than anticipated with the forecast being adjusted for unexpected additional costs in relation to performance fees. This variation it is not totally unexpected.

**Fund administration and oversight and governance fees**

**Actual £2.6m (Budget £5.5m, forecast at Q3 £5.6m)**

These cover the cost for administration expenses payable to Local Pensions Partnership Administration Limited comprises core administration services, charged on a cost per member basis and costs such as legal and actuarial fees incurred in running the fund.

**Consultations**

Local Pensions Partnership Investments Limited has been consulted for investment management fee and investment income analysis.

**Implications**:

This item has the following implications, as indicated:

**Risk management**

The full year financial performance is included in the Fund's annual report and statement of accounts for the year ended 31 March 2021. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| N/A | | |

Reason for inclusion in Part II, if appropriate

N/A

# Lancashire County Pension Fund
## Fund Account - Year ending 31 March 2021

| | PRIOR YEAR ACTUAL<br>Year ended 31 March 2021<br>£'000 | BUDGET<br>Year ending 31 March 2022<br>£'000 | BUDGET<br>6 months ended 30 September 2021<br>£'000 | ACTUAL<br>6 months ended 30 September 2021<br>£'000 | FORECAST<br>Year ending 31 March 2022<br>£'000 | FORECAST VARIANCE<br>Year ending 31 March 2022<br>£'000 | FORECAST VARIANCE<br>Year ending 31 March 2022<br>% of budget | FAVOURABLE / ADVERSE |
|---|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | | |
| **Contributions Receivable** | | | | | | | | |
| From Employers | | | | | | | | |
| Future service rate contributions | (327,386) | (99,190) | (52,256) | (41,502) | (82,620) | 16,570 | 16.7% | ADV |
| Deficit recovery contributions | (17,961) | (4,646) | (2,323) | (2,470) | (4,939) | (293) | (6.3%) | FAV |
| Pension strain / augmented pensions | (6,432) | (6,800) | (3,400) | (1,138) | (4,538) | 2,262 | 33.3% | ADV |
| From Employees | (77,374) | (64,105) | (32,053) | (33,170) | (67,501) | (3,396) | (5.3%) | FAV |
| **Total contributions receivable** | **(429,153)** | **(174,741)** | **(90,032)** | **(78,280)** | **(159,598)** | **15,143** | **8.7%** | ADV |
| **Transfers in** | (10,761) | (9,900) | (4,950) | (5,727) | (10,677) | (777) | (7.8%) | FAV |
| **Total Investment Income** | (146,700) | (179,488) | (89,744) | (106,155) | (195,899) | (16,412) | (9.1%) | FAV |
| **TOTAL INCOME** | **(586,615)** | **(364,129)** | **(184,726)** | **(190,162)** | **(366,174)** | **(2,046)** | **(0.6%)** | FAV |
| **EXPENDITURE** | | | | | | | | |
| **Benefits Payable** | | | | | | | | |
| Pensions | 246,869 | 249,251 | 124,626 | 125,385 | 250,770 | 1,519 | 0.6% | ADV |
| Lump Sum Benefits | 44,928 | 45,300 | 22,650 | 27,556 | 50,206 | 4,906 | 10.8% | ADV |
| **Total benefits payable** | **291,796** | **294,551** | **147,276** | **152,941** | **300,976** | **6,425** | **2.2%** | ADV |
| **Transfers out** | 16,549 | 16,200 | 8,100 | 7,400 | 15,500 | (700) | (4.3%) | FAV |
| **Refund of Contributions** | 768 | 730 | 365 | 397 | 762 | 33 | 4.5% | ADV |
| **Contributions Equivalent Premium** | (13) | 50 | 25 | (6) | 19 | (31) | (61.1%) | FAV |
| **Fund administrative expenses** | | | | | | | | |
| Administrative and processing expenses: | | | | | | | | |
| Total administrative expenses (includes LPP expenses) | 3,952 | 4,206 | 2,103 | 2,005 | 4,256 | 50 | 1.2% | ADV |
| **Total administrative expenses** | **3,952** | **4,206** | **2,103** | **2,005** | **4,256** | **50** | **1.2%** | ADV |
| **Investment management expenses** | | | | | | | | |
| Investment management fees: | | | | | | | | |
| LPP directly invoiced investment management fees | 995 | 1,178 | 589 | 470 | 939 | (239) | (20.3%) | FAV |
| DIRECTLY INVOICED non LPP investment management fees - direct holdings | 573 | 163 | 82 | 80 | 163 | 0 | 0.0% | FAV |
| Investment management fees on pooled investments | 109,754 | 80,043 | 40,022 | 89,712 | 135,187 | 55,144 | 68.9% | ADV |
| Transition costs | 0 | 0 | 0 | 0 | 0 | 0 | 0.0% | FAV |
| Custody fees | (14) | 60 | 30 | 24 | 54 | (6) | (9.4%) | FAV |
| Commission, agents charges and withholding tax | 1,092 | 1,425 | 713 | 1,977 | 2,690 | 1,265 | 88.7% | ADV |
| LCC recharge for treasury management costs | 29 | 58 | 29 | 29 | 58 | 0 | 0.0% | FAV |
| Property expenses | 1,764 | 1,276 | 638 | 844 | 1,589 | 313 | 24.5% | ADV |
| **Total investment management expenses** | **114,193** | **84,204** | **42,102** | **93,137** | **140,681** | **56,477** | **67.1%** | ADV |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Oversight and Governance expenses** | | | | | | | | |
| Performance measurement fees (including Panel) | 112 | 85 | 43 | 43 | 85 | 0 | 0.0% | FAV |
| Lancashire Local Pensions Board | 0 | 12 | 6 | 3 | 12 | 0 | 0.0% | FAV |
| IAS19 advisory fees | 11 | 0 | 0 | 7 | 0 | 0 | 0.0% | FAV |
| Other advisory fees (including abortive fees) | 124 | 160 | 80 | 43 | 160 | 0 | 0.0% | FAV |
| Actuarial fees | 113 | 166 | 83 | 75 | 166 | 0 | 0.0% | FAV |
| Audit fees | 109 | 41 | 21 | 17 | 31 | (10) | (24.4%) | FAV |
| Legal & professional fees | (89) | 14 | 7 | 1 | 14 | 0 | 0.0% | FAV |
| LCC staff recharges | 689 | 763 | 382 | 425 | 862 | 98 | 12.9% | ADV |
| Bank charges | 3 | 2 | 1 | 2 | 3 | 1 | 73.4% | ADV |
| **Total oversight and governance expenses** | **1,072** | **1,244** | **622** | **617** | **1,333** | **90** | **7.2%** | ADV |
| **TOTAL EXPENDITURE** | **428,317** | **401,195** | **200,593** | **256,492** | **463,529** | **62,343** | **15.5%** | ADV |
| **MONEY AVAILABLE FOR INVESTMENT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS** | **(158,298)** | **37,067** | **15,867** | **66,330** | **97,354** | **60,298** | **162.7%** | ADV |

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

Electoral Division affected:
None;

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

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

**Executive Summary**

An update on pension related training involving members of the Committee since the last meeting.

**Recommendation**

The Committee is asked to note the report and any feedback from individual members given at the meeting in relation to training they have received.

**Background and Advice**

The Training Policy of the Lancashire County Pension Fund sets out the approach to supporting the learning/development needs of individuals with responsibility for the strategic direction, governance and oversight of the Fund through their membership of the Pension Fund Committee or the Lancashire Local Pension Board.

Since the last meeting members of the Committee have attended the following pension related conference/events.

| **Date(s)** | **Event** | **Participants** |
|---|---|---|
| 6th October 2021 | Pensions workshop on responsible investment | County Councillors M Clifford, E Pope, A Schofield and D Westley and Co-opted members Ms J Eastham, Mr P Crewe and Councillors D Borrow and R Whittle. |
| 12th to 14th October 2021 | PLSA Annual Conference | County Councillor E Pope and Mr P Crewe, Co-opted member. |
| 28th October 2021 | Overview of the Local Government Pension Scheme Webinar | County Councillors E Pope and F De Molfetta |

Individual members of the Committee are invited to provide feedback on their experiences at the meeting.

Lancashire County Council

**Consultations**
N/A

**Implications**:

This item has the following implications, as indicated

**Risk management**

Without the required knowledge and skills, those charged with governance and decision making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Policy and Framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

**Financial**

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure that the members of the Pension Fund Committee and the Lancashire Local Pension Board are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

The cost of attendance, together with associated travel and subsistence costs, were met by the Lancashire County Pension Fund

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

| **Paper** | **Date** | **Contact/Tel** |
|---|---|---|
| Approved by the Head of Fund under the Scheme of Delegation to Heads of Service for attendance at external Conferences/Events | 9th July 2021<br>17th August 2021<br>7th October 2021 | Mike Neville<br>(01772) 533431 |
| Attendance sheet for internal workshop. | 6th October 2021 | Mike Neville<br>(01772) 533431 |
| Reason for inclusion in Part II, if appropriate<br>N/A | | |

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

| Electoral Division affected: N/A; |
|---|

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

Contact for further information:
Sean Greene, Head of Fund, Sean.Greene@lancashire.gov.uk

**Executive Summary**

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

The Annual Report and Accounts for the year ended 31 March 2021 (a copy of which is set out at Appendix 'A') were approved by the Local Pensions Partnership Limited Board and, at the time of producing this report, are due to be filed with Companies House within the coming weeks.

**Recommendation**

The Committee is asked to note the content of the 2020/21 Annual Report and Accounts for the Local Pensions Partnership Limited as set out at Appendix 'A' to this report.

**Background and Advice**

The Pension Fund Committee is charged with overall governance of the Fund and overseeing the investment and administration functions operated within the Local Pensions Partnership Limited (LPP).

The shareholders agreement requires the shareholder to receive the Annual Report and Accounts for LPP and the Terms of Reference of the Pension Fund Committee state that the Committee should receive the annual accounts for the LPP.

The Annual Report and Accounts for the year ended 31 March 2021 are attached at Appendix 'A'.

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

- 2020-21 was the first year of LPP's 5 Year Strategic Plan and key projects were delivered during 2020-21 which align to the strategy. Further information on this was provided to the Committee at the meeting on 17th September 2021;

- Despite Covid-19, services provided by Local Pension Partnership Investments Limited and Local Pension Partnership Administration Limited to clients and their members have largely been maintained as “business as usual” with businesses continuing to operate remotely but offices available if required;

- LPP manages around £20.4bn of pensions assets on behalf of three LGPS clients including the committed capital of the GLIL Infrastructure investment fund; and

- Pension administration services are provided to more than 600,000 LGPS, Police and Firefighters’ pension scheme members across over 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 the 31st March 2021 and of the Group’s loss for the year then ended.

The accounts of the LPP Group report a loss of £5m for the year to 31$^{st}$ March 2021 compared to a profit of £0.3m for the year to 31 March 2020.

**Consultations**

N/A

**Implications**:

This item has the following implications, as indicated:

**Risk management**

Annual accounts of LPP are to be received by the Pension Fund Committee under its Terms of Reference.

**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

Local Pensions Partnership

Company number 09830002

# LOCAL PENSIONS PARTNERSHIP LTD

## ANNUAL REPORT
## and
## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 March 2021

# Contents

# Local Pensions Partnership Ltd

**Registration number: 09830002**

# Company Information

**Directors**
Sir Peter Rogers (Chair)
Sally Bridgeland
Terence Jagger
Christopher Rule
Alan Schofield
Adrian Taylor

**Secretary**
Greg Smith

**Registered Office**
First Floor
1 Finsbury Avenue
London
EC2M 2PF

**Auditors**
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

**Bankers**
National Westminster Bank
PO Box 35
10 Southwark Street
London
E1 1TJ

Handelsbanken
Winckley Chambers
30 Winckley Square
Preston
Lancashire
PR1 3JJ

# Strategic Report

## Principal activities

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

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

LPP initially 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 which make up the Local Government Pension Scheme (LGPS). 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 LPP manages around £20.4bn of pensions assets on behalf of three LGPS clients including the committed capital of GLIL Infrastructure LLP (GLIL). We also provide pensions administration services for more than 600,000 LGPS, Police and Firefighters' pension scheme members across over 1,900 employers.

## Section 172(1) Statement 2020-21

LPP is required to publish a statement explaining key decisions that have been taken during the year and how the Directors have discharged their duty to promote the success of the Company.

Board and Committee papers, that require decisions to be made, 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 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 pensions 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; 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.

The key decisions taken during 2020-21 are outlined below 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.

## Section 172(1) Statement 2020-21 (continued)

| Decision taken | Impact on stakeholders |
|---|---|
| LPP Board decision to restructure the businesses and re-establish Local Pensions Partnership Administration Ltd (LPPA) as a standalone entity.<br><br>During 2020-21 LPP moved from a position where staff were largely employed by LPP, to one where both front line and corporate services teams were employed directly by the subsidiaries Local Pensions Partnership Investments Ltd (LPPI) and LPPA.<br><br>LPPI had always been a fully operational subsidiary, directly employing investment management teams. The change required corporate services teams, previously employed by LPP, to be transferred into LPPI.<br><br>LPPA was established as a fully operational entity with a new Board and with both front line and corporate services teams now being directly employed by LPPA. | Staff: 260 staff were TUPE transferred into either LPPI or LPPA. A staff consultation period lasted two months in the run up to the change and a significant internal communications programme supported the change.<br><br>Shareholders: Shareholders were consulted on the proposals and welcomed the greater clarity on costs of running the two businesses – pension administration and investment management. In addition, the establishment of the LPPA Board provides for more direct oversight of the pension administration business including shareholder nominated directors on the LPPA Board.<br><br>Clients: All clients were informed of the changes and the rationale behind them.<br><br>The resulting structure provides for greater cost clarity and expertise. |
| LPP Board decision to inject capital into LPPA. This occurred twice during the financial year 2021-22. | LPP injected equity capital into LPPA on 27 May 2020 and 8 March 2021.<br><br>When taking this decision, the LPP Board considered the Group cashflow, LPPA's clients, suppliers and employees.<br><br>The capital injection puts LPPA on a strong financial footing as a newly operating business. |
| LPPI and LPP Board decision to move London Offices. The new London Office, 1 Finsbury Avenue opened on 1 October 2020. | Employee wellbeing was the primary consideration for the office move. The new London office provides enhanced collaboration space and is suitable for social distancing requirements mandated by the Covid-19 pandemic. |
| LPP Board endorsement of the investment in technology to support the move to homeworking | The outbreak of the Covid-19 pandemic and the move to homeworking from March 2020 for all staff provided the business with an opportunity to bring forward the scheduled investment of the 3 Year IT Strategy. The 3 Year IT Strategy had already been endorsed by the LPP Board, and budgetary approval had been obtained.<br><br>From March 2020 the business commenced an extended period of homeworking. Significant investment in laptops and home office equipment was made to facilitate this move.<br><br>This move had a positive impact on staff, shareholders, clients, and the fund members of the clients who LPP serves. In particular solutions were put in place which enabled an immediate operation of the contact centre. |

### Section 172(1) Statement 2020-21 (continued)

| Decision taken | Impact on stakeholders |
|---|---|
| LPPI decision to participate in the London Fund collaboration. | The London Fund represents a collaboration between LPPI and London Collective Investment Vehicle (London CIV). The fund was launched with clients in mind to provide access to London-wide real estate and other alternative asset classes. |
| Decision of the LPP Board to approve the Remuneration Policy and to recommend its approval to the Shareholders. The LPPI and LPPA Boards individually adopted the Remuneration Policy. | A new principle included in the Remuneration Policy allowed for a distinction to be made between the remuneration activities of LPPI and LPPA. It also excluded LGPS membership as a matter of principle to higher earners.<br><br>The decision primarily impacted staff and a consultation was launched which ran between March and April 2021. Alternative pension options and comparable life/ill health benefits were offered to LPP and LPPI staff who were no longer eligible to be members of the LGPS. In line with the flexibility within the Policy, the LPPA Board decided to continue to allow its higher earning staff access to the LGPS. |

### Strategic Plan 20-25

2020-21 was the first year of LPP's 5 Year Strategic Plan.

The Strategic Plan can be summarised in three key objectives:

- prioritise financial stability and sustainability
- deliver excellent investment performance in excess of LPPI's client targets and benchmarks, and
- focus on improving the member and employer experience

Key projects delivered during 2020-21 which align to our strategy are outlined below. The year was also impacted by the Covid-19 pandemic, but it was pleasing to see delivery across both "business as usual" and strategic tasks during this period.

### Covid-19

As Covid-19 struck we moved almost our entire workforce swiftly to homeworking. We have supported our people and operations to ensure we are as close as possible to operating on a "business as usual basis". This was achieved by a significant investment in IT to support homeworking.

Our approach incorporated a heavy emphasis on employee wellbeing with regular communications, surveys and virtual team "get togethers". This was supported by dedicated health and safety and remote working initiatives. Throughout the year LPP operated under various degrees of Business Continuity protocols and had dedicated business continuity teams for LPPI and LPPA.

At the time of writing both LPPI and LPPA continue to operate remotely but the offices are being made available in line with Government guidelines including social distancing measures where required.

Thanks to the efforts of our staff and support of our clients, services provided by LPPI and LPPA to clients and their members have largely been maintained as "business as usual".

### Key strategic deliverables achieved 2020-21

***Robust financial performance:*** Investment cost savings against the pre-pooling position for LCPF, LPFA, and RCBPF have been published. In aggregate LPPI has achieved £74m of savings compared with the pre-pooling position.

***Responsible Investment***: Responsible Investment has been integrated with the investment process and high-quality dashboards published quarterly.

***LPPA:*** LPPA delivered a virtually undisrupted move to home working during pandemic. Performance metrics consistently in excess of 99% against the SLAs for all clients. Enhancements were made to the member journey in the form of a new contact centre telephony system, website procurement of a new core system on which to base future member and employer enhancements.

***Corporate restructure of the business***: LPP moved to operating on a "skinny Group" basis including establishing LPPI and LPPA as fully operational subsidiaries. Both front line and corporate services staff are dedicated to and employed directly by each subsidiary which provides for increased cost transparency and expertise.

***London office move:*** LPPI relocated its office to premises which afford the possibility of more flexible and hybrid working.

### Future Strategic Direction

2021-22 will see LPPI and LPPA move into Year 2 of the 5 Year Group Strategy. The Boards of LPPI and LPPA have re-assessed the strategic deliverables for the coming year. No significant strategic shifts are anticipated and the LPP Group will continue to deliver in line with the 5 Year Group Strategy.

### Principal risks

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, operate and report a regular program of Group-wide risk analysis, stress testing, scenario development, thematic review and reverse stress testing
- Integrate risk management into the culture of the Group

LPPI and LPPA each have their own dedicated risk and compliance functions. These are responsible for applying the above risk framework across the subsidiaries. The LPP Board is responsible for identifying key risks facing LPP which are not already owned by the LPPI and LPPA Boards. This will typically be risks associated with achieving the Group Strategy, relations with stakeholders and Group financial resilience.

During 2020-21 the two main risks which were managed were in relation to Brexit and Covid-19. The business was able to operate largely uninterrupted and continues to do so. LPPI is naturally impacted in the short term by movements in the investment markets but also has the benefit of being a long-term investor with a long-term horizon.

Looking forward the LPP will continue to monitor the legislative landscape in relation to asset pooling in the UK and respond accordingly to Government guidance.

### Staff Engagement

The Covid-19 pandemic has been a testing time for staff. All staff have responded admirably and have been well supported by the business. LPP has continued to deliver both "business as usual" activities and strategic projects such as corporate reorganisations and the London Office moves. Communication and surveys have demonstrated overall improvements in staff engagement. Wellness and diversity initiatives have been progressed.

- LPPA engagement increased from 6.8 to 7.9 out of 10 with a participation rate 94%.
- Diversity & Inclusion surveys returned 7.2 (LPPI) and 8.5 (LPPA) out of 10

## Executive Remuneration Across the Group

LPP is committed to reporting the total remuneration of its Directors and higher earners. The remuneration disclosure goes beyond what legislation requires and reflects LPP's commitment to transparency. The table below shows total remuneration (base salary plus incentives plus pension or cash alternative) of 'higher earners' (employees earning over £100,000) across the LPP Group.

| Range | No. of Employees |
|---|---|
| £100,001 – £150,000 | 28 |
| £150,001 – £200,000 | 10 |
| £200,001 – £250,000 | 6 |
| £250,001 – £300,000 | 1 |
| £300,001 – £350,000 | 3 |
| £350,001 – £400,000 | 3 |
| £400,001 – £450,000 | 0 |
| £450,001 – £500,000 | 0 |
| £500,001 – £550,000 | 1 |

## Environmental Initiatives

LPP has signed up to the Planet Mark initiative. During 2020-21 LPP has been collecting data from across the Group to produce our business operations carbon emissions report. A plan will be put in place based on this data to report on and reduce annually where possible LPP's carbon footprint.

LPPI has produced a Responsible Investment Report for the second year running which can be found on LPP's website. This covers topics such as LPPI's approach to responsible investment, our beliefs, voting, investor engagement and our Climate Change Disclosure/TCFD reporting.

## Corporate Governance Statement

The LPP website provides information on LPP's Governance Framework. LPP is now operating a model whereby the core operational activities are fully carried out by LPPI and LPPA. The LPP Board is responsible for the oversight of the subsidiaries plus Group performance, strategy and shareholder engagement.

## Conflicts of interest and independence

The process by which Directors' conflicts might be authorised is set out in detail in the relevant Articles of Association. Conflicts of interest policies are also in place, ensuring a proper process for the identification, consideration of, authorisation and appropriate recording of any conflicts of interest. These policies are reviewed regularly, and any amendments approved by the respective Board. Directors declare any conflicts at the start of each Board or Committee meeting to be recorded in the minutes of the meeting and the conflicts of interest register.

This report was approved by the Board of Directors on 5 October 2021 and signed on their behalf.

Christopher Rule
Director
12 October 2021

# Directors' Report

The Directors present their report and financial statements for the year ended 31 March 2021.

## Directors

The following persons served as Directors during the year and up to the Statement of Financial Position signing date:

| | |
|---|---|
| Adrian Taylor | |
| Alan Schofield | |
| Christopher Rule | |
| Dermot 'Skip' McMullan | (resigned 31 December 2020) |
| Jill Mackenzie | (resigned 11 September 2020) |
| Michael O'Higgins | (resigned 30 June 2021) |
| Robert Vandersluis | (resigned 11 September 2020) |
| Sally Bridgeland | |
| Sarah Laessig | (resigned 11 September 2020) |
| Sir Peter Rogers | |
| Terence Jagger | (appointed 1 January 2021) |
| Thomas Richardson | (resigned 11 September 2020) |

## 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 for the Group 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 and have done so though the provision of a detailed report on LPP's website.

### Results and dividends

The result for the Group for the year is a loss after tax of £5,161k (2020 - profit of £309k). LPP itself made a profit after tax of £15,505k (2020 – loss of £3,252k). Included in the result for the Group is an FRS102 defined benefit charge of £3,322k (2020 – £2,885k), and a credit of £17,454k (2020 – charge of £2,276k) for LPP entity. No dividends were paid during the year (2020 - 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, and 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's forecasts and projects, and the Covid-19 virus outbreak in the year, the Directors are satisfied that the Group 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

As part of LPP's environmental strategy to reduce its carbon emissions relating to its business operations, a small contribution of 5% of our external suppliers fee of £7,250 is donated to support The Eden Project which funds their education program to visit schools around the UK and help engage students in the importance of the environment and nature.

### Research and Development

No research and development expenditure was made during the year (2020 - 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.

### Employee engagement and representation

Organisational-wide changes are communicated to employees and major strategic projects are discussed with employees. Staff representatives continue to support staff in their discussions with Executive Management. 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 Management Team.

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

### 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

None.

## 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. Grant Thornton UK LLP was reappointed as auditor of the Company, in accordance with s487 of the Companies Act 2006 by a written shareholder resolution on 6 October 2020.

This report was approved by the Board of Directors on 5 October 2021 and signed on their behalf.

Christopher Rule
Director
12 October 2021

# Independent Auditor's Report

## Opinion

We have audited the financial statements of Local Pensions Partnership Ltd (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021, which comprise the consolidated income statement, the consolidated and the company statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the 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 2021 and of the Group's loss 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 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 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.

## Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Group's and the Parent Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Group's and the Parent Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

## 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 on 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 by the Parent Company, 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 directors' responsibilities statement, 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.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and the Parent Company and the industry in which it operates. We determined that the following laws and regulations were most significant; FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland, Companies Act 2006 (United Kingdom Generally Accepted Accounting Practice) and FCA regulations. We obtained an understanding of how the Group and the Parent Company is complying with these legal frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated the results of our enquiries through our review of the minutes of the Group and the Parent Company’s various meetings and its correspondence with the regulators. We did not identify any matters relating to non-compliance with laws and regulation or matters in relation to fraud.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Group and Parent Company’s operations, including the nature of its operations, and of its objective to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
  - the Group and the Parent Company’s control environment to mitigate risks of fraud or non-compliance with the relevant laws and regulations.
- In assessing the appropriateness of the collective competence and capabilities of the engagement team, the engagement partner considered the engagement team's:
  - Understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the industry in which the client operates.
- We assessed the susceptibility of the Group and the Parent Company’s financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included review of manual journal entries. We also reviewed the financial statements disclosures and the corresponding supporting documentation.

### Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent 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
12 October 2021

# Consolidated Income Statement
## For the year ended 31 March 2021

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | **£'000** | **£'000** |
| Turnover | 5 | 36,567 | 34,709 |
| Administrative expenses | | (41,372) | (34,612) |
| Other operating income | | 878 | 795 |
| **Operating (Loss) / Profit** | 6 | **(3,927)** | **892** |
| Interest receivable | | 14 | 54 |
| Interest payable | 9 | - | (752) |
| **(Loss) / Profit before taxation** | | **(3,913)** | **194** |
| Taxation | 10 | (1,248) | 115 |
| **(Loss) / Profit for the financial year** | | **(5,161)** | **309** |

# Consolidated and Company Statement of Comprehensive Income

## For the year ended 31 March 2021

| **Group** | **2021** | **2020** |
|---|---|---|
| | **£'000** | **£'000** |
| **(Loss) / Profit for the financial year** | **(5,161)** | **309** |
| **Other comprehensive income** | | |
| Remeasurement of defined benefit obligation | (12,444) | (1,414) |
| Total tax on components of other comprehensive income | 610 | 269 |
| **Other comprehensive income for the year, net of tax** | **(11,834)** | **(1,145)** |
| **Total comprehensive income for the year** | **(16,995)** | **(836)** |

| **Company** | **2021** | **2020** |
|---|---|---|
| | **£'000** | **£'000** |
| **Profit / (Loss) for the financial year** | **15,505** | **(3,252)** |
| **Other comprehensive income** | | |
| Remeasurement of defined benefit obligation | (8,970) | (453) |
| Total tax on components of other comprehensive income | - | 86 |
| **Other comprehensive income for the year, net of tax** | **(8,970)** | **(367)** |
| **Total comprehensive income for the year** | **6,535** | **(3,619)** |

# Consolidated Statement of Financial Position

## As at 31 March 2021

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Fixed assets** | | | |
| Intangible assets | 11 | 1,324 | 1,074 |
| Tangible assets | 12 | 767 | 753 |
| | | 2,091 | 1,827 |
| **Current assets** | | | |
| Debtors | 14 | 10,711 | 14,109 |
| Cash at bank and in hand | | 28,943 | 27,138 |
| | | 39,654 | 41,247 |
| Creditors: amounts falling due within one year | 15 | (6,122) | (4,894) |
| **Net current assets** | | **33,532** | **36,353** |
| Total assets less current liabilities | | 35,623 | 38,180 |
| Post-employment benefits | 16 | (37,059) | (21,293) |
| **Net assets** | | **(1,436)** | **16,887** |
| **Capital and reserves** | | | |
| Share capital | 17 | 25,000 | 25,000 |
| Retirement benefit obligations reserve | | (19,572) | (3,866) |
| Profit and loss account | | (6,864) | (4,247) |
| **Total equity** | | **(1,436)** | **16,887** |

The notes on pages 22 to 43 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 5 October 2021 and signed on their behalf.

Adrian Taylor
Director
12 October 2021

# Company Statement of Financial Position

## As at 31 March 2021

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Fixed assets** | | | |
| Intangible assets | 11 | 251 | 358 |
| Tangible assets | 12 | 517 | 753 |
| Investments | 13 | 17,000 | 10,000 |
| | | 17,768 | 11,111 |
| **Current assets** | | | |
| Debtors | 14 | 974 | 9,177 |
| Cash at bank and in hand | | 6,787 | 10,959 |
| | | 7,761 | 20,136 |
| Creditors: amounts falling due within one year | 15 | (423) | (2,864) |
| **Net current assets** | | **7,338** | **17,272** |
| Total assets less current liabilities | | 25,106 | 28,383 |
| Post-employment benefits | 16 | (8,824) | (17,308) |
| **Net assets** | | **16,282** | **11,075** |
| **Capital and reserves** | | | |
| Share capital | 17 | 25,000 | 25,000 |
| Retirement benefit obligations reserve | | (1,244) | (3,605) |
| Profit and loss account | | (7,474) | (10,320) |
| **Total equity** | | **16,282** | **11,075** |

The notes on pages 22 to 43 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 5 October 2021 and signed on their behalf.

Adrian Taylor
Director
12 October 2021

# Consolidated Statement of Changes in Equity

## For the year ended 31 March 2021

| | Share capital £'000 | Retirement benefit obligations reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|
| **Balance as at 1 April 2019** | - | (3,866) | (3,411) | **(7,277)** |
| Profit for the year | - | - | 309 | **309** |
| Other comprehensive income for the year | - | - | (1,145) | **(1,145)** |
| **Total comprehensive income for the year** | **-** | **-** | **(836)** | **(836)** |
| Share issue | 25,000 | - | - | **25,000** |
| **Total transactions with owners recognised directly in equity** | **25,000** | **-** | **-** | **25,000** |
| **Balance as at 31 March 2020** | **25,000** | **(3,866)** | **(4,247)** | **16,887** |
| **Balance as at 1 April 2020** | 25,000 | (3,866) | (4,247) | **16,887** |
| Loss for the year | - | - | (5,161) | **(5,161)** |
| Other comprehensive income for the year | - | - | (11,834) | **(11,834)** |
| **Total comprehensive income for the year** | **-** | **-** | **(16,995)** | **(16,995)** |
| Transfer of net liability relating to new pension scheme members | - | (14,378) | 14,378 | **-** |
| Pension reverse deferred tax movement | - | (1,328) | - | **(1,328)** |
| **Balance as at 31 March 2021** | **25,000** | **(19,572)** | **(6,864)** | **(1,436)** |

# Company Statement of Changes in Equity

## For the year ended 31 March 2021

| | Share capital | Retirement benefit obligations reserve | Retained earnings | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 1 April 2019** | - | (3,605) | (6,701) | **(10,306)** |
| Loss for the year | - | - | (3,252) | **(3,252)** |
| Other comprehensive income for the year | - | - | (367) | **(367)** |
| **Total comprehensive income for the year** | **-** | **-** | **(3,619)** | **(3,619)** |
| Share issue | 25,000 | - | - | **25,000** |
| **Total transactions with owners recognised directly in equity** | **25,000** | **-** | **-** | **25,000** |
| **Balance as at 31 March 2020** | **25,000** | **(3,605)** | **(10,320)** | **11,075** |
| **Balance as at 1 April 2020** | **25,000** | **(3,605)** | **(10,320)** | **11,075** |
| Profit for the year | - | - | 15,505 | **15,505** |
| Other comprehensive income for the year | - | - | (8,970) | **(8,970)** |
| **Total comprehensive income for the year** | **-** | **-** | **6,535** | **6,535** |
| Transfer of net liability relating to new pension scheme members | - | 3,689 | (3,689) | - |
| Pension reverse deferred tax movement | - | (1,328) | - | (1,328) |
| **Balance as at 31 March 2021** | **25,000** | **(1,244)** | **(7,474)** | **16,281** |

# Consolidated Statement of Cash Flows

## For the year ended 31 March 2021

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **Operating activities** | | **£'000** | **£'000** |
| (Loss) / Profit for the financial year | | (5,161) | 309 |
| Adjustments for: | | | |
| Tax on (loss) / profit on ordinary activities | | 1,248 | (115) |
| Depreciation | 12 | 478 | 350 |
| Loss on disposal of fixed assets | | 72 | - |
| Amortisation of intangible assets | 11 | 251 | 140 |
| Pensions movement in the year | | 3,322 | 3,154 |
| Increase / (decrease) in debtors | | 1,856 | (532) |
| Decrease / (increase) in creditors | | 1,380 | (183) |
| Cash generated from operating activities | | 3,446 | 3,123 |
| | | | |
| Corporation tax paid | | (574) | (314) |
| **Net cash generated from operating activities** | | **2,872** | **2,809** |
| | | | |
| **Investing activities** | | | |
| Payments to acquire intangible fixed assets | | (501) | (841) |
| Payments to acquire tangible fixed assets | | (566) | (223) |
| **Cash used in investing activities** | | **(1,067)** | **(1,064)** |
| | | | |
| **Financing activities** | | | |
| Proceeds from the issue of shares | | - | 25,000 |
| Repayment of loans | | - | (17,500) |
| **Cash generated from financing activities** | | **-** | **7,500** |
| | | | |
| **Net movement in cash and cash equivalents** | | | |
| Cash generated from operating activities | | 2,872 | 2,809 |
| Cash used in investing activities | | (1,067) | (1,064) |
| Cash generated from financing activities | | - | 7,500 |
| | | **1,805** | **9,245** |
| | | | |
| **Cash and cash equivalents at 1 April** | | **27,138** | **17,893** |
| **Cash and cash equivalents at 31 March** | | **28,943** | **27,138** |
| | | | |
| **Cash and cash equivalents comprise:** | | | |
| Cash at bank | | 28,943 | 27,138 |

## 1. Introduction

The Company is a private company limited by shares and is incorporated (as a limited liability company under the laws of England and Wales) in the UK. The Registered Office is located at 1 Finsbury Avenue, London, EC2M 2PF.

The financial statements are presented in sterling (£) which is the functional and presentational currency of the Company and rounded to the nearest £'000 except where otherwise stated.

## 2. Statement of compliance

LPP and its subsidiaries (together 'the Group') financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The financial statements of the Company have also adopted the following disclosure exemptions, which the shareholder has been informed about:

- 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.
- related party transactions (s33 FRS 102).

## 3. Going concern

The financial position of the Group is presented in the primary financial statements and disclosure notes on pages 22 to 43. The Group manages and monitors its capital and liquidity, and various assessments and stresses are applied to those positions to understand potential impacts of market downturns. Based upon the available information, the Directors consider that the Group remains financially strong.

The Directors have taken into consideration the guidance provided by the Financial Reporting Council ("FRC") on 'Going Concern and Liquidity Risk' published in April 2016. The Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for a period of, but not limited to, 12 months from the date of approval of the financial statements. Therefore, they have considered it appropriate to continue to adopt the going concern basis of accounting when preparing the financial statements.

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

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

## 4. Basis of presentation and significant accounting policies

### Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of Preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The Company has taken advantage of the exemption in section 408 of the Companies Act from presenting its individual profit and loss account.

### (b) Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings results made up to 31 March 2021. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

All intra-group transactions, balances, income, and expenses are eliminated on consolidation.

### (c) Investment in subsidiaries

Investment in a subsidiary company is held at cost less accumulated impairment losses.

### (d) Intangible fixed assets

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

Amortisation is charged 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:

- Software costs - length of licence or 3 years

### (e) Tangible fixed assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Costs includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation is calculated, using the straight-line method, to allocate the depreciable amount over their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| • Fixtures and Fittings | 3 to 5 years |
| • Office equipment | 3 to 5 years |
| • IT equipment | 3 to 5 years |

## Notes to the Financial Statements Year Ended 31 March 2021

### Summary of significant accounting policies (continued)

**(f) Debtors**

These amounts generally arise from the normal operating activities of the Company. Debtors that are receivables within one year are recorded at the undiscounted amount expected to be received.

**(g) 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.

**(h) Creditors**

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

**(i) Leases**

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight-line basis.

**(j) Provisions for liabilities**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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, considering the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

**(k) Taxation**

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

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.

The tax charge (credit) is presented either in income statement, other comprehensive income or equity depending on the transaction that resulted in the tax charge (credit), comprehensive income or equity depending on the transaction that resulted in the tax charge (credit).

## Summary of significant accounting policies (continued)

### (l) 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.

### (m) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (n) Inter and intra company debtors and creditors

These amounts generally arise from normal operating activities within the LPP Group. Due to the short-term nature of these receivables and payables usually less than one year, the carrying amount is the same as the fair value.

### (o) Employee benefits

**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 Company employees in two administered defined benefit scheme funds 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 dependent upon several factors including age, length of service and remuneration.

The liability is recognised in the statement of financial position in respect of the defined benefit scheme, and 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 Company 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 Company’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 together with the return on scheme assets, less amounts included in net interest, are disclosed as ‘Remeasurements of net defined benefit obligations’.

The cost of the defined benefit scheme, recognised in the income statement as staff 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.

## Summary of significant accounting policies (continued)

### Annual Bonus scheme

The Company operates an annual bonus scheme for its employees. An expense is recognised in the income statement when the Company has legal or constructive obligation to make payments under the scheme as a result of past events and a reliable estimate of the obligation can be made.

### Significant judgements and estimates

The preparation of the financial statements requires management to make significant judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about carrying amounts of assets and liabilities that are not objectively verifiable.
Actual results may differ from the estimates made. Estimates and underlying assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions. The accounting estimates discussed in this section are those considered to be particularly critical to an understanding of the financial statements of the Company and Group because their application places the most significant demands on our ability to judge the effect of inherently uncertain matters on the financial results.

### Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts to the assets and liabilities within the next financial year are addressed below.

#### (i) Taxation

The Company establishes provisions based on reasonable estimates. The amount of such provisions is based on various factors including interpretations of tax regulations.

Estimation is required by management to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits together with an assessment of the effect of future tax planning strategies.

#### (ii) 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. Two consulting actuaries were engaged to provide the Company 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.

#### (iii) Useful economic life

The Group estimates useful economic life of tangible assets based on the number of years they are likely to remain in service for based on condition at time of purchase and nature of use.

The Group’s intangible assets are deemed to have a finite life in line with legal or contractual provisions and consideration of our historical experience in renewing or extending similar arrangements.

## Notes to the Financial Statements Year Ended 31 March 2021

### Summary of significant accounting policies (continued)

**Critical judgements**

On 1 June 2020 and 1 July 2020, employees of the Company, who are members of the London Pensions Fund Authority ("LPFA") Pension Fund and Lancashire County Pension Fund ("LCPF") respectively, were transferred to LPPA and LPPI under the Transfer of Undertakings (Protection of Employment) Regulations ("TUPE"). These transactions were part of the restructuring carried out during the year. As the transactions were part of the Group's strategic plan, management has made a judgement that they had the commercial substance akin to a transaction carried out at arms-length basis with independent third parties. As a result, these transfers have been accounted for in these financial statements as commercial transactions.

The transfer of employees from LPP to LPPA participating in LCPF was carried out on a share of funds basis. A subsequent actuarial calculation revealed a short fall of £0.3m in pension fund assets at the date of transfer.

Legal advice obtained supported management's judgement that no distribution at law had taken place, notwithstanding the £0.3m shortfall, as the overall transaction was carried out on a commercial basis and was deemed to be at market value.

See note 16 for additional information.

### 5. Analysis of Turnover

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Investment management fees | 23,125 | 22,422 |
| Pension administration fees | 12,046 | 11,227 |
| Risk management services | 1,396 | 1,855 |
| **Total** | **36,567** | **35,504** |
| Geographical analysis | | |
| UK | 36,567 | 35,504 |
| **Total** | **36,567** | **35,504** |

### 6. Operating Profit

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Operating Profit is stated after charging: | | |
| Wages and salaries | 19,290 | 16,035 |
| Social security costs | 2,218 | 1,774 |
| Defined benefit pension costs | 5,479 | 4,552 |
| Other pension costs | 129 | 112 |
| **Staff costs** | **27,116** | **22,473** |
| Reorganisation expense | 52 | 180 |
| Loss on disposal of tangible assets | 72 | - |
| Impairment of trade receivables | (13) | 13 |
| Operating lease charges | 1,882 | 1,403 |

Defined benefit pension costs include a one-time gain of £57k, relating to a defined benefit scheme settlement during the year

| Included within administration expenses are: | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Audit services: | | |
| Fees payable to the company's auditor for the audit of the parent company and the group's consolidated financial statements | 35 | 31 |
| Fees payable to the company's auditor for other services: | | |
| • Audit of the company's subsidiaries | 73 | 48 |
| • Audit-related assurance services | 8 | 7 |
| **Total amount payable to the company's auditor** | **116** | **86** |

## 7. Directors and employees

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| The Directors' emoluments were as follows: | | |
| Aggregate remuneration | 2,139 | 2,117 |
| The number of Directors who are members of a defined benefit pension scheme: | 3 | 4 |

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Highest paid Director (included in the above figures) | | |
| Total amount of emoluments | 509 | 391 |
| Defined benefit pension costs | - | 24 |
| Other pension costs | 31 | 18 |
| **Total** | **540** | **433** |

The average monthly number of employees for the Group during for the year (including executive Directors) was 361 (2020: 308).

The Group headcount as at 31 March 2021 was 382 (2020 – 318).

## 8. Interest receivable and similar income

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Bank interest received | 14 | 54 |
| **Total** | **14** | **54** |

## 9. Interest payable and similar charges

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Interest payable on loans | - | 752 |
| **Total** | - | **752** |

## 10. Taxation

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Analysis of charge in year** | | |
| Current tax: | | |
| - UK Corporation tax charge on profits for the year | 59 | 678 |
| - Adjustments in respect of previous years | (2) | (50) |
| **Total current tax charge** | **57** | **628** |
| **Deferred taxation:** | | |
| - Origination and reversal of timing differences | 1,191 | (743) |
| **Total Deferred tax** | **1,191** | **(743)** |
| **Tax charge / (credit) in the Profit and Loss Account** | **1,248** | **(115)** |

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Tax expense / (income) included in Other Comprehensive Income Statement** | | |
| Deferred tax: | | |
| - Origination and reversal of timing differences | (596) | (269) |
| - Impact of change in tax rate | (14) | - |
| **Total tax expense / (income) included in Other Comprehensive Income** | **(610)** | **(269)** |

## 10. Taxation (continued)

### Reconciliation of tax charge

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows: | | |
| (Loss) / profit before Tax | (3,913) | 194 |
| (Loss) / profit multiplied by the standard rate of tax in the UK of 19% | (744) | 37 |
| Effects of: | | |
| - Unrecognised deferred tax | 1,956 | - |
| - Expenses not deductible for tax purposes | 20 | 75 |
| - Adjustments to tax charge in respect of prior years | 17 | (50) |
| - Re-measurement of deferred tax - change in UK tax rate | - | (178) |
| - Loss brought forward from prior years | (1) | - |
| **Tax charge / (credit) for the year** | **1,248** | **(115)** |

The Finance Bill 2021 contained provisions to increase the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. As this change had not been substantially enacted at 4 June 2021, no account was taken of this in providing for deferred tax in the financial statements. However, if deferred tax had been provided at the rate of 25%, rather than 19%, the impact would have been to increase the deferred tax asset by £631,000.

## 11. Intangible assets

| | Company | | | Group | | |
|---|---|---|---|---|---|---|
| | Software | Assets Under Construction | Total | Software | Assets Under Construction | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | | |
| **At 1 April 2020** | **670** | **-** | **670** | **670** | **716** | **1,386** |
| Transfers | - | - | **-** | 858 | (858) | **-** |
| Additions | **8** | **-** | **8** | **39** | **462** | **501** |
| **At 31 March 2021** | **678** | **-** | **678** | **1,567** | **320** | **1,887** |
| Accumulated amortisation | | | | | | |
| **At 1 April 2020** | **312** | **-** | **312** | **312** | **-** | **312** |
| Amortisation during the year | 115 | - | **115** | 251 | - | **251** |
| **At 31 March 2021** | **427** | **-** | **427** | **563** | **-** | **563** |
| **Net book value at 1 April 2020** | **358** | **-** | **358** | **358** | **716** | **1,074** |
| **Net book value at 31 March 2021** | **251** | **-** | **251** | **1,004** | **320** | **1,324** |

## 12. Tangible assets

| | Company | | | | | Group | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Leasehold Improvem't | IT Equipm't | Fixtures Fittings Office Equipm't | Assets Under Const'n | Total | Leasehold Improvem't | IT Equipm't | Fixtures Fittings Office Equipm't | Assets Under Const'n | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | | | | | | |
| **At 1 April 2020** | **196** | **1,026** | **141** | **138** | **1,501** | **196** | **1,026** | **141** | **138** | **1,501** |
| Transfers | 71 | - | 67 | (138) | **-** | 71 | - | 67 | (138) | **-** |
| Additions | - | 233 | 15 | - | **248** | - | 487 | 79 | - | **566** |
| Disposals | - | (119) | (63) | - | **(182)** | - | (119) | (76) | - | **-195** |
| **At 31 March 2021** | **267** | **1,140** | **160** | **-** | **1,567** | **267** | **1,394** | **211** | **-** | **1,872** |
| Depreciation | | | | | | | | | | |
| **At 1 April 2020** | **109** | **580** | **59** | **-** | **748** | **109** | **581** | **58** | **-** | **748** |
| Charge for the year | 57 | 318 | 46 | - | **421** | 57 | 361 | 60 | - | **478** |
| On Disposals | - | (91) | (28) | - | **(119)** | - | (91) | (30) | - | **(121)** |
| **At 31 March 2021** | **166** | **807** | **77** | **-** | **1,050** | **166** | **851** | **88** | **-** | **1,105** |
| **Net book value at 1 April 2020** | **87** | **446** | **82** | **138** | **753** | **87** | **445** | **83** | **-** | **753** |
| **Net book value at 31 March 2021** | **101** | **333** | **83** | **-** | **517** | **101** | **543** | **123** | **-** | **767** |

## 13. Investment in Subsidiaries

| | Company | |
|---|---|---|
| | **2021** | **2020** |
| Cost | **£'000** | **£'000** |
| At 1 April 2020 | 10,000 | 10,000 |
| Investment during the year | 7,000 | - |
| **At March 2021** | **17,000** | **10,000** |

| | **Type of Capital held** | **Proportion held** | **Country of incorporation** | **Nature of business** |
|---|---|---|---|---|
| **Subsidiaries - direct** | | | | |
| Local Pensions Partnership Administration Ltd | Equity | 100% | UK | Administration Services |
| Local Pensions Partnership Investments Ltd | Equity | 100% | UK | Investments |

## 13. Investment in Subsidiaries (continued)

| | | | | |
|---|---|---|---|---|
| **Subsidiaries - indirect** | | | | |
| LPPI Scotland (No.1) Ltd | Equity | 100% | UK | Investments |
| LPPI Scotland (No.2) Ltd | Equity | 100% | UK | Investments |
| LPPI Credit GP Limited | Equity | 100% | UK | General Partner |
| LPPI Diversifying Strategies GP Limited | Equity | 100% | UK | General Partner |
| LPPI Infrastructure GP LLP | Debt | 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 PE GP (No.3) LLP | Debt | 100% | UK | General Partner |
| **Associate - indirect** | | | | |
| The London Fund GP LLP | Debt | 49% | UK | General Partner |

Daventry GP Limited was dissolved on 17 November 2020.

## 14. Debtors

| | Company | | Group | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade debtors less than one year | 69 | 3,335 | 3,086 | 9,127 |
| Trade debtors more than one year | - | - | 215 | - |
| Amounts owed by group undertakings | 307 | 1,325 | - | - |
| Corporation tax | 399 | 419 | 366 | - |
| Deferred taxation | - | 3,177 | 1,998 | 3,906 |
| Other taxes and social security costs | 35 | - | - | - |
| Prepayments and accrued income | 164 | 921 | 5,046 | 1,076 |
| **Total** | **974** | **9,177** | **10,711** | **14,109** |

Amounts owed by Group undertakings are unsecured, interest free, no fixed repayment date and repayable on demand.

Group Trade debtors are stated after provisions for impairment of £16,685 (2020 - £63,707).

Company Trade debtors are stated after provisions for impairment of £7,125 (2020 - £63,707).

| 15. Creditors: amounts falling due within one year | Company | | Group | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade creditors | 5 | 368 | 477 | 527 |
| Corporation tax | - | - | - | 152 |
| Other taxation and social security | - | 779 | 494 | 952 |
| Other creditors | 5 | 142 | 291 | 206 |
| Accruals and deferred income | 370 | 1,395 | 4,817 | 2,877 |
| Provisions | 43 | 180 | 43 | 180 |
| **Total** | **423** | **2,864** | **6,122** | **4,894** |

Amounts owed by Group undertakings are unsecured, interest free, no fixed repayment date and repayable on demand

**16. Post-employment benefits**

**Defined benefit schemes**

On 1 June 2020 and 1 July 2020, some current employees of LPP, who are members of the London Pensions Fund Authority ("LPFA") and Lancashire County Pension Fund ("LCPF"), were transferred to Local Pensions Partnership Investments Ltd ("LPPI") and Local Pensions Partnership Administration Ltd ("LPPA") under the Transfer of Undertakings (Protection of Employment) Regulations ("TUPE").

The transferring employees are all members of the Local Government Pension Scheme ("LGPS") through participation in either LPFA or LCPF. The transfer from LPP to LPPI was carried out on a fully funded basis, and the transfer from LPP to LPPA was carried out on a share of funds basis. The liabilities were calculated on the ongoing basis appropriate for funding, using either the LPFA or LCPF 2019 Triennial valuation basis assumptions depending on the Fund from which employees' liabilities were transferred. LPPI and LPPA acquired their share of assets and liabilities based upon members transferred. The net liability acquired at the time of transfer was £2.1m and £15.8m for LPPI and LPPA respectively. The transaction was accounted for in LPP's financial statements by crediting the settlement gain to the profit and loss and debiting the pension liability. The corresponding introduction expense was accounted for in the profit and loss of LPPI and LPPA. This was accounted for on an FRS 102 valuation basis.

It has subsequently been identified there was a deficit in relation to the funding of LCPF of £0.3m based on the latest available triennial valuation. The Directors of LPP have undertaken to invest an additional £0.3m in LPPA to compensate for this shortfall which was calculated on an ongoing basis.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgements and the 2016 cost cap process. Currently, each member contributes a proportion of their salary to the scheme, between 5.5% to 12.5% per annum depending on their rate of pay. LPP and its subsidiaries, as the employing bodies, also contribute to the scheme as determined by each Fund's respective Fund actuary on the employee's behalf, currently between 12.0% and 14.9% of salary p.a. The liabilities of the LGPS attributable to the Group are included in the Consolidated Statement of Financial Position.

In accounting for the defined benefit schemes, the Group has applied the principle that no pension assets are invested in the Group's own financial instruments or property.

## 16. Post-employment benefits (continued)

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 Funds hold investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Funds' liabilities for accounting purposes are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Funds hold assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. The benefits under the Funds are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation;
- Longevity risk. In the event that the members live longer than assumed, a deficit will emerge. There is also other demographic risk; 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.

| **Post-employment benefits summary** | | **Year to 31 March 2021** | | |
|---|---|---|---|---|
| | **LPP** | **LPPA** | **LPPI** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value of plan assets | 7,704 | 20,586 | 10,170 | 38,460 |
| Defined benefit obligation | (16,528) | (38,272) | (20,719) | (75,519) |
| **Net defined benefit liability** | **(8,824)** | **(17,686)** | **(10,549)** | **(37,059)** |

| | | **Year to 31 March 2020** | | |
|---|---|---|---|---|
| | **LPP** | **LPPA** | **LPPI** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value of plan assets | 25,190 | - | 5,961 | 31,151 |
| Defined benefit obligation | (42,498) | - | (9,946) | (52,444) |
| **Net defined benefit liability** | **(17,308)** | **-** | **(3,985)** | **(21,293)** |
| | | | | |
| Consolidated statement of comprehensive income | 8,970 | 339 | 3,135 | 12,444 |
| IAS19 pension costs accrued for the period | (17,454) | 17,347 | 3,429 | 3,322 |

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 2021 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 2021 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.

## 16. Post-employment benefits (continued)

| LPP Pensions Information | LPFA | | LCPF | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **The principal actuarial assumptions used were as follows:** | **%** | % | % | % |
| Discount rate | 2.1 | 2.4 | - | 2.3 |
| Future salary increases | 3.9 | 3.0 | - | 3.6 |
| Future pension increases (CPI) | 2.9 | 2.0 | - | 2.2 |
| Future pension increases (RPI) | 3.4 | 2.0 | - | 2.8 |
| Inflation assumption (CPI) | 2.8 | 2.0 | - | 2.2 |
| Inflation assumption (RPI) | 3.4 | 2.6 | - | 2.8 |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Longevity at age 65 for current pensioners** | **2021** | **2020** | **2021** | **2020** |
| | **Years** | **Years** | **Years** | **Years** |
| - Men | 21.0 | 21.8 | - | 21.9 |
| - Women | 24.4 | 24.4 | - | 24.5 |
| **Longevity at age 65 for future pensioners** | | | | |
| - Men | 23.2 | 23.2 | - | 22.7 |
| - Women | 26.0 | 25.9 | - | 25.8 |

The defined benefit pension scheme on the LPP Company Statement of Financial Position is as follows:

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Reconciliation of defined benefit obligation** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Defined benefit obligation at start of year** | **24,579** | **23,712** | **17,919** | **15,339** |
| Current service cost | 544 | 1,767 | 212 | 1,108 |
| Past service cost | - | 192 | - | 41 |
| Benefits (received) / paid | (333) | (954) | (12) | 127 |
| Contributions by employees | 143 | 446 | 49 | 246 |
| Scheme settlements | (16,398) | - | (21,559) | - |
| Interest cost | 352 | 576 | 70 | 388 |
| **Remeasurements** | | | | |
| Effect of changes in financial assumptions | 7,967 | (1,292) | 3,321 | 200 |
| Effect of changes in demographic assumptions | (154) | 251 | - | - |
| Effect of experience adjustments | (172) | (119) | - | 470 |
| **Defined benefit obligation at end of year** | **16,528** | **24,579** | **-** | **17,919** |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Reconciliation of fair value of plan assets** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Fair value of plan assets at beginning of year** | **13,159** | **13,866** | **12,031** | **10,606** |
| Interest income on scheme assets - employer | 174 | 343 | 47 | 276 |
| Administrative expenses and taxes | (17) | (18) | (4) | (23) |
| Employer contributions | 214 | 752 | 112 | 466 |
| Contributions by employees | 143 | 446 | 49 | 246 |
| Benefits paid | (333) | (954) | (12) | 127 |
| Scheme settlements | - | - | (12,845) | - |
| **Remeasurements** | | | | |
| Return on scheme assets less interest income | 1,370 | (395) | 622 | 333 |
| Actuarial gains / (losses) | - | (881) | - | - |
| **Fair value of plan assets at end of year** | **7,704** | **13,159** | **-** | **12,031** |

## 16. Post-employment benefits (continued)

### LPP Pensions Information

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Analysis of assets** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Equities instruments and others | 4,186 | 7,102 | - | 10,370 |
| Bonds | - | - | - | 301 |
| Target return portfolio | 1,813 | 3,390 | - | - |
| Infrastructure | 653 | 959 | - | - |
| Property | 701 | 1,306 | - | 1,023 |
| Cash and other | 351 | 402 | - | 337 |
| **Total assets** | **7,704** | **13,159** | **-** | **12,031** |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Defined benefit costs recognised in income statement** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Current service cost | 544 | 1,767 | 212 | 1,108 |
| Past service cost | - | 192 | - | 41 |
| Net interest on defined liability | 178 | 233 | 23 | 112 |
| Administrative expenses and taxes | 17 | 18 | 4 | 23 |
| Settlements received | (9,392) | - | (8,714) | - |
| **Total defined benefit costs recognised in income statement** | **(8,653)** | **2,210** | **(8,475)** | **1,284** |

No amounts were included (2020: nil) in the cost of assets.
No amounts included in assets (2020: nil) relate to property leased by the Company.

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Defined benefit costs recognised in other comprehensive income** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Return on scheme assets less interest income | (1,370) | (395) | (622) | (333) |
| Other actuarial losses | - | (881) | - | - |
| Effect of changes in financial assumptions | 7,967 | 1,292 | 3,321 | 200 |
| Effect of changes in demographic assumptions | (154) | (251) | - | - |
| Effect of experience adjustments | (172) | 119 | - | 470 |
| **Total defined benefit costs recognised in other comprehensive income** | **6,271** | **(116)** | **2,699** | **337** |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Reconciliation of funded position** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Net defined benefit liability at start of the year** | **(11,420)** | **(9,846)** | **(5,888)** | **(4,733)** |
| Expense recognised in profit and loss | (739) | (2,210) | (239) | (1,284) |
| Transfer of assets and liabilities | 9,392 | - | 8,714 | - |
| Loss recognised in OCI | (6,271) | (116) | (2,699) | (337) |
| Contributions by the Company | 214 | 752 | 112 | 466 |
| **Net defined benefit liability at end of the year** | **(8,824)** | **(11,420)** | **-** | **(5,888)** |

## 16. Post-employment benefits (continued)

### LPP Pensions Information

**Sensitivity analysis**

The sensitivity to principal assumptions used to measure the scheme liabilities are set out below:

**Approximate increase to defined benefit obligation**

| | LPFA | | LCPF | |
|---|---|---|---|---|
| | **%** | **£'000** | **%** | **£'000** |
| 0.1% decrease in discount rate | 2.52 | 416 | - | - |
| 0.1% increase in long-term salary increases | 0.23 | 38 | - | - |
| 0.1% increase in pension increases | 2.26 | 374 | - | - |
| +1 year in life expectancy assumption | 3.94 | 652 | - | - |

| **Post-employment benefits summary** | LPFA | | LCPF | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value of plan assets | 7,704 | 13,159 | - | 12,031 |
| Defined benefit obligation | (16,528) | (24,579) | - | (17,919) |
| **Net defined benefit liability** | **(8,824)** | **(11,420)** | - | **(5,888)** |

## 16. Post-employment benefits (continued)

| **LPPA Pensions Information** | **LPFA** | | **LCPF** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **The principal actuarial assumptions used were as follows:** | **%** | % | % | % |
| Discount rate | 2.1 | - | 2.2 | - |
| Future salary increases | 3.8 | - | 4.2 | - |
| Future pension increases (CPI) | 2.8 | - | 2.7 | - |
| Future pension increases (RPI) | 3.4 | - | 3.4 | - |
| Inflation assumption (CPI) | 2.8 | - | 2.7 | - |
| Inflation assumption (RPI) | 3.4 | - | 3.4 | - |

| | **LPFA** | | **LCPF** | |
|---|---|---|---|---|
| **Longevity at age 65 for current pensioners** | **2021** | **2020** | **2021** | **2020** |
| | **Years** | **Years** | **Years** | **Years** |
| - Men | 21.5 | - | 21.9 | - |
| - Women | 23.7 | - | 24.6 | - |
| **Longevity at age 65 for future pensioners** | | | | |
| - Men | 22.8 | - | 22.7 | - |
| - Women | 25.2 | - | 25.8 | - |

The defined benefit pension scheme on the LPPA Company Statement of Financial Position is as follows:

| | **LPFA** | | **LCPF** | |
|---|---|---|---|---|
| **Reconciliation of defined benefit obligation** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Defined benefit obligation at start of year** | **-** | **-** | **-** | **-** |
| Current service cost | 667 | - | 1,417 | - |
| Benefits received | (5) | - | (120) | - |
| Contributions by employees | 105 | - | 264 | - |
| Interest cost | 175 | - | 289 | - |
| Curtailments | - | - | 61 | - |
| Scheme introductions | 12,687 | - | 21,559 | - |
| **Remeasurements** | | | | |
| Effect of changes in financial assumptions | 1,725 | - | (280) | - |
| Effect of changes in demographic assumptions | (184) | - | - | - |
| Effect of experience adjustments | (88) | - | - | - |
| **Defined benefit obligation at end of year** | **15,082** | **-** | **23,190** | **-** |

| | **LPFA** | | **LCPF** | |
|---|---|---|---|---|
| **Reconciliation of fair value of plan assets** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Fair value of plan assets at beginning of year** | **-** | **-** | **-** | **-** |
| Interest income on scheme assets - employer | 79 | - | 177 | - |
| Administrative expenses and taxes | (6) | - | (23) | - |
| Employer contributions | 179 | - | 648 | - |
| Contributions by employees | 105 | - | 264 | - |
| Benefits Paid | (5) | - | (120) | - |
| Scheme introductions | 5,609 | - | 12,845 | - |
| **Remeasurements** | | | | |
| Return on scheme assets less interest income | 341 | - | 493 | - |
| **Fair value of plan assets at end of year** | **6,302** | **-** | **14,284** | **-** |

## 16. Post-employment benefits (continued)

### LPPA Pensions Information

| | LPFA | | LCPF | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Analysis of assets** | **£'000** | **£'000** | **£'000** | **£'000** |
| Equities instruments and others | 3,425 | - | 6,700 | - |
| Target return portfolio | 1,483 | - | - | - |
| Infrastructure | 534 | - | - | - |
| Property | 573 | - | 2,028 | - |
| Cash and other | 287 | - | 5,556 | - |
| **Total assets** | **6,302** | **-** | **14,284** | **-** |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Defined benefit costs recognised in income statement** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Current service cost | 667 | - | 1,417 | - |
| Past service cost | - | - | 61 | - |
| Net interest on defined liability | 96 | - | 112 | - |
| Administrative expenses and taxes | 6 | - | 23 | - |
| Scheme introductions | 7,078 | - | 8,714 | - |
| **Total defined benefit costs recognised in income statement** | **7,847** | **-** | **10,327** | **-** |

No amounts were included (2020: nil) in the cost of assets.
No amounts included in assets (2020: nil) relate to property leased by the Company.

| **Defined benefit costs recognised in other comprehensive income** | LPFA | | LCPF | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Return on scheme assets less interest income | (341) | - | (493) | - |
| Effect of changes in financial assumptions | 1,725 | - | (280) | - |
| Effect of changes in demographic assumptions | (184) | - | - | - |
| Effect of experience adjustments | (88) | - | - | - |
| **Total defined benefit costs recognised in other comprehensive income** | **1,112** | **-** | **(773)** | **-** |

| Reconciliation of funded position: | | LPFA | | LCPF |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Net defined benefit (liability) / asset at start of the period** | - | - | - | - |
| Expense recognised in profit and loss | (769) | - | (1,613) | - |
| Transfer of assets and liabilities | (7,078) | - | (8,714) | - |
| Gain recognised in OCI | (1,112) | - | 773 | - |
| Contributions by the Company | 179 | - | 648 | - |
| **Net defined benefit liability at end of the period** | **(8,780)** | **-** | **(8,906)** | **-** |

## 16. Post-employment benefits (continued)

### LPPA Pensions Information

**Sensitivity analysis**

The sensitivity to principal assumptions used to measure the scheme liabilities are set out below:

**Approximate increase to defined benefit obligation**

| | LPFA | | LCPF | |
|---|---|---|---|---|
| | **%** | **£'000** | **%** | **£'000** |
| 0.1% decrease in discount rate | 3.18 | 479 | 2.41 | 562 |
| 0.1% increase in long-term salary increases | 0.72 | 108 | 0.55 | 129 |
| 0.1% increase in pension increases | 2.44 | 368 | 2.47 | 576 |
| +1 year in life expectancy assumption | 3.81 | 575 | 2.85 | 665 |

| **Post-employment benefits summary** | LPFA | | LCPF | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value of plan assets | 6,302 | - | 14,284 | - |
| Defined benefit obligation | (15,082) | - | (23,190) | - |
| **Net defined benefit liability** | **(8,780)** | **-** | **(8,906)** | **-** |

## 16. Post-employment benefits (continued)

| LPPI Pensions Information | LPFA 2021 | LPFA 2020 | LCPF 2021 | LCPF 2020 |
|---|---|---|---|---|
| **The principal actuarial assumptions used were as follows:** | **%** | % | % | % |
| Discount rate | 2.1 | 2.4 | 2.2 | 2.3 |
| Future salary increases | 3.8 | 3.0 | 4.2 | 3.6 |
| Future pension increases (CPI) | 2.8 | 2.0 | 2.8 | 2.2 |
| Future pension increases (RPI) | 3.4 | 2.6 | 3.4 | 2.8 |
| Inflation assumption (CPI) | 2.8 | 2.0 | 2.7 | 2.2 |
| Inflation assumption (RPI) | 3.4 | 2.6 | 3.4 | 2.8 |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Longevity at age 65 for current pensioners** | **2021** | **2020** | **2021** | **2020** |
| | **Years** | **Years** | **Years** | **Years** |
| - Men | 22.9 | 23.0 | 21.9 | 21.9 |
| - Women | 24.3 | 24.7 | 24.6 | 24.5 |
| **Longevity at age 65 for future pensioners** | | | | |
| - Men | 24.2 | 24.3 | 22.7 | 22.7 |
| - Women | 25.7 | 26.2 | 25.8 | 25.8 |

The defined benefit pension scheme on the LPPI Company Statement of Financial Position is as follows:

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Reconciliation of defined benefit obligation** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Defined benefit obligation at start of year** | **5,178** | **2,221** | **4,768** | **4,037** |
| Current service cost | 1,683 | 775 | 275 | 261 |
| Past service cost | - | (33) | - | - |
| Benefits paid | 229 | 164 | 47 | - |
| Contributions by employees | 548 | 243 | 89 | 81 |
| Interest cost | 180 | 59 | 111 | 102 |
| Scheme introductions | 3,637 | - | - | - |
| **Remeasurements** | | | | |
| Effect of changes in financial assumptions | 3,356 | (171) | 907 | 44 |
| Effect of changes in demographic assumptions | (127) | 91 | - | - |
| Effect of experience adjustments | (162) | 1,829 | - | 243 |
| **Defined benefit obligation at end of year** | **14,522** | **5,178** | **6,197** | **4,768** |

| | LPFA | | LCPF | |
|---|---|---|---|---|
| **Reconciliation of fair value of plan assets** | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Fair value of plan assets at beginning of year** | **3,097** | **1,366** | **2,864** | **2,477** |
| Interest income on scheme assets - employer | 117 | 43 | 69 | 64 |
| Administrative expenses and taxes | (4) | (2) | (6) | (6) |
| Employer contributions | 729 | 341 | 172 | 115 |
| Contributions by employees | 548 | 243 | 89 | 81 |
| Benefits paid | 229 | 164 | 47 | - |
| Scheme introductions | 1,380 | - | - | - |
| **Remeasurements** | | | | |
| Return on scheme assets less interest income | 579 | (49) | 260 | 133 |
| Actuarial gains/(losses) | - | 991 | - | - |
| **Fair value of plan assets at end of year** | **6,675** | **3,097** | **3,495** | **2,864** |

## 16. Post-employment benefits (continued)

### LPPI Pensions Information

| Analysis of assets | LPFA 2021 £'000 | LPFA 2020 £'000 | LCPF 2021 £'000 | LCPF 2020 £'000 |
|---|---|---|---|---|
| Equities instruments and others | 3,627 | 1,672 | 1,639 | 2,469 |
| Bonds | - | - | - | 72 |
| Target return portfolio | 1,571 | 798 | - | - |
| Infrastructure | 566 | 226 | - | - |
| Property | 607 | 307 | 496 | 243 |
| Cash and other | 304 | 94 | 1,360 | 80 |
| **Total assets** | **6,675** | **3,097** | **3,495** | **2,864** |

| Defined benefit costs recognised in income statement | LPFA 2021 £'000 | LPFA 2020 £'000 | LCPF 2021 £'000 | LCPF 2020 £'000 |
|---|---|---|---|---|
| Current service cost | 1,683 | 775 | 275 | 261 |
| Past service cost | - | (33) | - | - |
| Net interest on defined liability | 63 | 16 | 42 | 38 |
| Administrative expenses and taxes | 4 | (2) | 6 | 6 |
| Scheme introductions | 2,257 | - | - | - |
| **Total defined benefit costs recognised in income statement** | **4,007** | **760** | **323** | **305** |

No amounts were included (2020: nil) in the cost of assets.
No amounts included in assets (2020: nil) relate to property leased by the Company.

| Defined benefit costs recognised in other comprehensive income | LPFA 2021 £'000 | LPFA 2020 £'000 | LCPF 2021 £'000 | LCPF 2020 £'000 |
|---|---|---|---|---|
| Return on scheme assets less interest income | (579) | (49) | (260) | 133 |
| Other actuarial gains | - | 991 | - | - |
| Effect of changes in financial assumptions | 3,356 | 171 | 907 | (44) |
| Effect of changes in demographic assumptions | (127) | (91) | - | - |
| Effect of experience adjustments | (162) | (1,829) | - | (243) |
| **Total defined benefit costs recognised in other comprehensive income** | **2,488** | **(807)** | **647** | **(154)** |

| Reconciliation of funded position | LPFA 2021 £'000 | LPFA 2020 £'000 | LCPF 2021 £'000 | LCPF 2020 £'000 |
|---|---|---|---|---|
| **Net defined benefit liability at start of the year** | **(2,081)** | **(855)** | **(1,904)** | **(1,560)** |
| Expense recognised in profit and loss | (1,750) | (760) | (323) | (305) |
| Transfer of assets and liabilities | (2,257) | - | - | - |
| Loss recognised in OCI | (2,448) | (807) | (647) | (154) |
| Contributions by the Company | 729 | 341 | 172 | 115 |
| **Net defined benefit liability at end of the year** | **(7,847)** | **(2,081)** | **(2,702)** | **(1,904)** |

## 16. Post-employment benefits (continued)

### LPPI Pensions Information

**Sensitivity analysis**

The sensitivity to principal assumptions used to measure the scheme liabilities are set out below:

**Approximate increase to defined benefit obligation**

| | LPFA | | LCPF | |
|---|---|---|---|---|
| | **%** | **£'000** | **%** | **£'000** |
| 0.1% decrease in discount rate | 3.37 | 489 | 2.42 | 150 |
| 0.1% increase in long-term salary increases | 0.17 | 25 | 0.61 | 38 |
| 0.1% increase in pension increases | 3.17 | 460 | 2.49 | 154 |
| +1 year in life expectancy assumption | 3.78 | 549 | 2.79 | 173 |

| **Post-employment benefits summary** | LPFA | | LCPF | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Fair value of plan assets | 6,675 | 3,097 | 3,495 | 2,864 |
| Defined benefit obligation | (14,522) | (5,178) | (6,197) | (4,768) |
| **Net defined benefit liability** | **(7,847)** | **(2,081)** | **(2,702)** | **(1,904)** |

## 17. Share Capital

| | Number | £'000 |
|---|---|---|
| Ordinary shares of £1 each Allotted and fully paid | | |
| **At 1 April 2020 and at 31 March 2021** | **25,000,002** | **25,000** |
| **At 31 March 2021** | **25,000,002** | **25,000** |

During the year no ordinary shares were issued.

There are two classes of ordinary shares. X shares have no voting rights but have full rights in respect of dividends and distributions. Only A and B shares have full rights in the Company with respect to voting, dividends and distributions.

There are no restrictions on the distribution of dividends and the repayment of capital.

## 18. Deferred tax

| The provision for deferred tax consists of the following deferred tax assets: | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Accelerated capital allowances | 16 | 58 |
| Post-employment benefits | 1,981 | 3,848 |
| **Total asset** | **1,998** | **3,906** |

## 19. Capital and other commitments

| | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Contracts for future capital expenditure not provided in the financial statements | 13 | - |

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| **Payment due** | 2021<br>£'000 | 2020<br>£'000 |
|---|---|---|
| Not later than one year | 1,484 | 1,221 |
| Later than one year and not later than five years | 798 | 363 |
| **Total** | **2,282** | **1,585** |

## 20. Related party transactions

In accordance with Section 33 of FRS102, the Company is exempt from disclosing related party transactions within other companies that are wholly owned within the Group.

The Key Management Personnel emoluments paid by the Group total £3,510,285 (2020 - £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.

## 21. Contingent liabilities

There are no contingent assets or liabilities. (2020 - nil).

## 22. Controlling Party

The Company is a joint venture and its ultimate parents and controlling parties are London Pensions Fund Authority and Lancashire County Council.

## 23. Events after the end of the reporting period

There are no known Post Balance Sheet Events at the point of signing.

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

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 Investments Limited which provides the Committee with an update on responsible investment matters during the third quarter of 2021 (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 November 2018.

Attached as Appendix 'B' is the dashboard style report together with the qualitative overview of LPPI stewardship activities for the third quarter of 2021 (July - September).

Other matters of note for the Committee:

**Responsible Investment Policy Review**

A Task and Finish Group established by the Pension Fund Committee are due to present the outcome of a review of the Responsible Investment Policy at the

Committee meeting today. The paper will table a revised Responsible Investment Policy for approval by the Committee.

**Key Points from LPPI Responsible Investment Report Q3 2021**

- LPPI was confirmed as a new signatory to the Institutional Investor Group on Climate Change (IIGCC) Net Zero Asset Manager Commitment;
- LPPI have submitted its first Annual Report on Stewardship and Responsible Investment (2020/21) to the Financial Reporting Council. This is in relation to the revised UK Stewardship Code (2020). The FRC will confirm 'in early 2022' whether or not LPPI have achieved the relevant standard for attaining signatory status;
- LPPI's Responsible Investment Team have developed 'Shareholder Voting Guidelines' for the LPPI Global Equities Fund. A link to the guidelines can be found in Appendix A.

**Local Authority Pension Fund Forum (LAPFF)**

LAPFF business meetings continue to be held online. The last meeting held on the 6th October 2021 covered topics such as:

- Carbon taxes, levies and subsidies, offset trading and overlaps with ‘greenwash’;
- Nuclear power and net zero;
- Direct air capture (DAC);
- LAPFF Executive Committee election results – County Councillor Eddie Pope, Chair of the Pension Fund Committee, has been elected to continue as a member of the LAPFF Executive Committee.

Papers from the meeting can be made available on request.

**Consultations**

Frances Deakin, the Head of Responsible Investment at the Local Pensions Partnership Investments Limited, 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 oversight and lack of independence.

Responsible investment practices underpin the fulfilment of the Fund's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments Limited.

Quarterly Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by Local Pensions Partnership Investments Limited and enable the Committee to monitor the activities undertaken.

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

| Paper | Date | Contact/Tel |
|---|---|---|
| Robeco Active Ownership Report Q3-2021 | 01/07/21 to 30/09/21 | Mukhtar Master (01772) 532018 |

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

# Lancashire County Pension Fund Responsible Investment Report – Q3 2021

This report has been prepared by LPPI for Lancashire County Pension Fund (LCPF) as a professional client.

## 1. Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix 1) and the Quarterly Active Ownership Report (Appendix 2 – available from the online Pensions Library).

It covers stewardship in the period 1st July - 30th September 2021 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:

- In Q3 2021 LPPI voted on 100% of company proposals, supporting 89% of these.
- Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 2.38% of the portfolio.
- Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 3.08% of the portfolio.
- LPPI has joined the Occupational Pensions Stewardship Council (OPSC), a new industry peer group set up by the Department for Work and Pensions (DWP) to promote and facilitate high standards of stewardship for pensions assets.
- The Responsible Investment Team, in cooperation with the Equities team, has developed Shareholder Voting Guidelines for the LPPI Global Equities Fund (GEF).
- LPPI has submitted its Annual Report on Stewardship and Responsible Investment (2020/21) to the Financial Reporting Council (FRC).

## 2. RI Dashboard – portfolio characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix 1.

Asset class metrics (*Dashboard pages 1 & 2*) offer insights on the composition of the portfolio and its general characteristics. See the summary for Q3 2021 outlined below.

Listed equities (Dashboard p1)

### *Sector Breakdown*

Categorised by GICS[R] the largest sectoral exposures for the GEF are Information Technology (26%), Consumer Staples (15%), and Financials (12%).

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.

### *Top 10 Positions*

The top 10 companies (10 largest positions) make up 24% of the total LPPI GEF.

In Q3 2021 Microsoft remains the largest holding in the GEF, Nestlé has overtaken Visa to become the second largest holding in the GEF, and Visa remains in the top 3 as the third largest holding. Below the top 3 holdings, Accenture moved above Colgate-Palmolive, becoming the 4th largest holding, with Colgate-Palmolive becoming 5th largest holding. There were also changes to the bottom 2 positions. Nike and Waters Corporation (9th and 10th in Q2) have been replaced by Experian and Costco respectively. Starbucks, Pepsi, and Alphabet's positions remain unchanged (6th, 7th, and 8th respectively) between Q2 and Q3.

### *Portfolio ESG Score*

The GEF's Portfolio ESG score increased from 5.2 to 5.3 between Q2 and Q3. In the same period the equivalent score for the benchmark remained unchanged at 5.1.

### *Transition Pathway Initiative (TPI)*

Monitoring against TPI[R] Management Quality ratings confirms the GEF continues its relatively low exposure to highly carbon intensive activities with minimal changes in ratings since Q2. By value, the coverage of the GEF represented within the globally high emitting companies under TPI assessment remains unchanged from Q2, at 12%.

The number of GEF companies in scope of TPI scoring has not changed since Q2 2021, remaining at 24.

Of the 24 companies in TPI scope:

- 90% (by value) are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and into their strategic planning (TPI 4). This is unchanged from Q2 2021.
- 7 companies are scored below TPI 3 and under monitoring.

<u>Other asset classes (Dashboard p2)</u>

### *Private Equity*

Sectoral and geographical exposures remained similar to those reported in Q2 2021. The portfolio continued to have a strong presence in the United States (47%) and the largest sectoral exposure continued to be Information Technology (31%).

The Real-World Outcomes section of the dashboard features examples of socially positive investments and this quarter the focus is on Private Equity. Pages 6-8 share information on a selection of investments within the Lancashire Fund portfolio which are developing solutions for sustainable consumption, production, and development.

### *Infrastructure*

The geographical exposure to UK based infrastructure continued to increase, moving from 43% exposure in Q2 to 47% in Q3.  The largest sectoral exposure remained in Traditional Energy, Renewable Energy, Waste, which makes up 37% of the portfolio. Please note, we continue to use updated categorisation from Q2, which reflects amendment made by the Infrastructure Team to align with the ACM limits applied to LPPI Infrastructure.

### *Real Estate*

Sectoral and geographical exposures remained similar to those reported in Q2 2021.  The portfolio continued to be largely deployed in the UK, with 74% of assets here. The largest sectoral exposure continued to be in Industrial assets, making up 31% of the portfolio.

### *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 corporate bonds within fixed income. Figures give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to real world decarbonisation, principally through renewable energy generation, but 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.

The dashboard presents information on the trend in green and brown exposures (commencing in Q4 2019). Quarterly changes in Green and Brown exposure reflect multiple factors at play including funds reaching maturity, assets being revalued, and investments being made and sold. The total value of the LCPF portfolio (as the denominator) also affects brown and green % shares quarterly.

Compared with Q2 2021, brown exposure has decreased from 2.66% to 2.38%. The change reflects a net reduction in the total value of brown infrastructure assets (including the sale of an asset within one of the Infrastructure funds). Whilst the value of brown assets fell slightly, the biggest influence on the proportion of brown was growth in the value of Lancashire Fund (as the denominator) between Q2 and Q3.

Compared with Q2 2021, green exposure has decreased from 3.22% to 3.08%. This decrease results from changes in the overall value of assets identified as green (predominantly resulting from a small net reduction in infrastructure asset valuations) but in total green assets are a smaller proportion of the total Fund in Q3 due to the increase in the value of the Lancashire Fund (as the denominator) between Q2 and Q3.

Investments in renewable energy generation from wind, solar, hydro, and waste make up 78% of total green exposure, and 97% of green exposure comes from Infrastructure assets.

## 3. Core Stewardship

This section of the report gives an overview of stewardship activities in the last quarter. 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 are publicly available from the LPP website within quarterly shareholder voting reports.

The period 1st July - 30th September 2021 encompassed 48 meetings and 383 proposals voted. LPPI voted at 100% meetings where GEF shares entitled participation.

a) Company Proposals

LPPI supported 89% of company proposals in the period.

Opposition voting concentrated on:

- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, use of discretion, and the quantum of proposed rewards), 47% of votes against company proposals.
- the election of directors (addressing individual director issues, overall board independence, and over-boarding), 42% of votes against company proposals.

***Case study – Election of directors***

LPPI voted against 11 directors across eight companies due to a lack of Board independence. At AARTI Industries Limited (India: Specialty Chemicals) for example, LPPI voted against two executive directors who served on the majority non-independent Audit Committee (results not disclosed).

At Titan Company Limited (India: Apparel, Accessories & Luxury Goods), LPPI voted against one director due to poor attendance without satisfactory explanation. Result: 17.5% Against.

At Berkeley Group Holdings (UK: Homebuilding), LPPI voted against the Chair of the Nomination Committee due to the lack of gender diversity on the Board. Result: 12.8% Against.

***Case study – Non-salary compensation***

LPPI voted against 18 out of 49 (37%) compensation votes across 23 companies.

At Prosus NV (Netherlands: Internet & Direct Marketing Retail), LPPI voted against the remuneration policy and report. This was due to factors including a significant portion of long-term incentives that were not performance related, early vesting of the long-term performance grant, and excessive remuneration from an insufficiently transparent incentive plan. Results: 15.0-16.0% Against.

At Godrej Properties Limited (India: Real Estate Development), LPPI voted against the CEO's remuneration plan. This was due to a lack of transparency in the context of weak financial performance. Result: 11.1% Against.

### *Shareholder proposals*

There were no shareholder proposals at companies in the global equities fund during the quarter.

## 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 fifth full quarter of engagement activity. The RI Dashboard (page 4) presents engagement headlines for the quarter which confirm the Robeco Active Ownership Team undertook 36 activities in total, and the predominant focus (by topic) was Human Rights.

Page 5 of the Dashboard summarises the status of each live engagement theme (as it stood at the end of Q3 2021).

The Active Ownership Report at Appendix 2 (a copy of which is available for Committee members to view in the online Pensions Library) provides detailed 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).

Each quarter, we provide further insights into one of the live themes underway by the Robeco Active Ownership Team.

### *Robeco Active Ownership case study – Food Security*

Food insecurity stems from economic and social conditions that hinder sufficient availability of and access to food. This differentiates food insecurity from the personal state of hunger and creates an important link to investors. Agricultural input providers and food companies play an important role in shaping the circumstances that could foster food security. Therefore, investors in these companies have a significant opportunity to contribute to SDG[R] 2: End Hunger, achieve food security and improved nutrition and promote sustainable agriculture.

The persistent concern for food insecurity in civil society is reflected in an increased awareness of the issue among regulators. There is widespread recognition of food security as a defining development challenge for the 21st century. With that in mind, agricultural policy is being stretched in new dimensions. New factors and challenges that need to be considered by policymakers are as diverse as poverty, food price volatility, climate change, the role of gender in rural areas, and developing agricultural technology. All of these strands make concerted action for food security an imperative. Regulators will expect international agricultural companies to make valuable contributions to retain their social, or even legal, license to operate.

Progress so far for LPPI's companies under engagement has been positive. An agricultural machinery producer managed to adapt its conventional tractors to service the needs of smallholder farmers. India constitutes a hub for the company's small tractor business, which manufactures tractors of 20-35 horsepower. Sales of tractors with lower horsepower represent 10-15% of global tractor sales. The same company has been allocating research and development (R&D) expenditures for developing products tailored to low- and middle-income countries. Our engagement objective focused on 'innovation management' was successfully closed due to evidence of the company's efforts to support farmer productivity and incomes in food-insecure region.

***Robeco Active Ownership case study – Cyber Security***

At theme launch in 2018, the significance of cybersecurity had come of age: research showed the annual cost of cybercrime had reached approximately $500bn. Furthermore, an increasing body of evidence pointed to the materiality of cybersecurity in relation to stock prices. One study found an average negative stock price reaction of 5% as a result of companies' cyber breaches, with the negative impact in the cases of 'mega breaches' reaching far higher levels. The growing number of cyberattacks has prompted companies to dramatically increase spending on products to counter the threat among governments, corporations, and individuals alike. The scale of the recent SolarWinds breach suggests this is a trend that will not be reversing soon.

One company in our engagement group scored well on most engagement objectives, showing an exemplary approach to cyber governance & oversight. This approach is embodied in the Audit & Risk committee overseeing related risks and the significant technology experience on the board. Over the course of our engagement, the company committed to improve its reporting on how cyber risks are addressed throughout the company, including details on how cybersecurity is included in the executive compensation criteria. Another best practice is that the company holds third party assessments on the maturity of its program, with high scores compared to its peers.

## 4. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which provide opportunities for shared learning and a platform for collective action. The following are headlines for 2021 Q3 2021.

### *IIGCC Net Zero Announcement*

LPPI was confirmed as a new signatory to the Institutional Investor Group on Climate Change (IIGCC) Net Zero Asset Manager Commitment within announcements made by IIGCC on the first day of COP26 (1st November 2021). The Net Zero Asset Manager commitment forms part of the IIGCC's Net Zero Investment Framework, which sets a range of requirements for the development and disclosure of net zero strategy, targets and activities. LPPI will continue to keep client funds updated as our work on net zero evolves.

### *Stewardship Code Submission*

LPPI has submitted its Annual Report on Stewardship and Responsible Investment (2020/21) to the Financial Reporting Council, ahead of the October 2021 deadline. The report is our submission to be a signatory to the revised UK Stewardship Code (2020) and reflects LPPI's commitment to high standards of stewardship defined as the responsible allocation, management, and oversight of capital.

The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners. The Principles are supported by reporting expectations which indicate the extensive information organisations must publicly disclose.

The Code has four main sections:

- Purpose and Governance
- Investment Approach
- Engagement
- Exercising Rights and Responsibilities

The FRC will assess LPPI's Report and confirm (in early 2022) whether it meets the standard required for gaining signatory status.

### *PRI Reporting – Update*

For the 2021 reporting cycle, PRI piloted a new reporting system for signatories, which resulted in issues with specific areas in the reporting system. These issues resulted in some investor and service provider signatories not being able to submit a full and complete dataset, affecting the 2021 data quality.

As a result of this, PRI have decided to take a staged approach to release the 2021 outputs.

The first stage commenced in October 2021, with the release of the Private Transparency Reports. Given the issues with the submission, signatories (including LPPI) have a period of four weeks to communicate any changes needed to the indicators affected by the issues. The PRI will then make the changes.

The second stage will be the release of the Public Transparency Reports and the Private Assessment Reports in the summer of 2022.

Finally, they have also delayed the next reporting cycle until 2023, to allow for improvements to be made to the process and reduce the occurrence of issues in the future.

For more information, please see here.

### *Local Authority Pension Fund Forum (LAPFF) Annual Holdings Exercise Completion*

LPPI has supported client funds to share information on listed equity holdings with LAPFF. This exercise is completed annually to support the planning of engagement activities by the Forum. LAPFF's engagement activity on behalf of LGPS pension funds is summarised in 'Quarterly Engagement Reports', available here.

### *Occupational Pensions Stewardship Council (OPSC)*

LPPI has become a member of the newly launched OPSC (the Council). The Council is a new industry peer group set up to promote and facilitate high standards of stewardship of pensions assets.

The Council has been created by the Department for Work and Pensions (DWP) to provide schemes with a forum for sharing experience, best practice, research, and providing practical support. Through this, the DWP aim to develop a stronger overall voice of trustees within the market, especially in relation to service providers. It also hopes to enable opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics.

For more information, please see here.

### *CDP Non-disclosure Campaign*

LPPI participated in the 2021 CDP (formerly Carbon Disclosure Project) non-disclosure campaign which targets persistent non-respondents to their questionnaires in industries the CDP has identified as high impact across the themes of climate, water, and forests. At the headline level, LPPI was one of 168 investors participating (a 56% increase in the year before). LPPI co-signed letters to nine companies requesting their participation in the 2021 cycle. The results of this engagement can be found below.

| | Total engaged | | |
|---|---|---|---|
| | Total engaged | Total disclosed | % |
| Distinct companies | 9 | 3 | 33% |
| Climate change | 5 | 2 | 40% |
| Forests | 3 | 0 | 0% |
| Water security | 4 | 1 | 25% |

## 5. Other News and Insights

### *Shareholder Voting Guidelines*

The Responsible Investment Team, in cooperation with the Equities team, have drafted Shareholder Voting Guidelines for the LPPI Global Equities Fund. Recognising evolving market practices and the desire for additional detail and colour from a range of stakeholders (such as clients, beneficiaries, and asset managers) on how we approach shareholder voting, we have produced a public document that can be shared with all interested parties. The Guidelines have been approved by the LPPI Stewardship Committee and are now in operation.

### *Creation of the TPI Global Climate Transition Centre*

From early 2022 the Transition Pathway Initiative (TPI), of which LPPI is a supporter and Steering Committee member, will begin to dramatically scale up its work through the creation of a TPI Global Climate Transition Centre. This change will allow a significant increase in the number of companies being assessed, moving from 400 to 10,000 over time. It will also enable TPI to begin assessing corporate and sovereign bonds.

The centre will support investors in:

- Aligning their portfolios with net zero targets covering three major asset classes (listed equites, corporate bonds and sovereign bonds)
- Support global investor engagement initiatives such as Climate Action 100+ (which targets real world emissions reductions by the 167 most carbon intensive companies).
- Enable much more detailed analysis of the most carbon intensive companies and sectors as demonstrated by the recently launched Net Zero Standard for the Oil and Gas Sector that details exacting standards of disclosure intended to create a level playing field in corporate reporting.
- Place transparency and independent analysis at the heart of investor decision making within public equity, corporate debt and sovereign debt markets.

The increase in coverage will enhance and strengthen LPPI's responsible investment practices and considerably expand the amount of data available for reviewing transition planning by investee companies and presenting an objective evaluation of this to clients.

## For Reference

**CDP (formerly Carbon Disclosure Project) –** A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action.

**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

**GRESB –** Global Real Estate Sustainability Benchmark. GRESB Assessments capture information on ESG performance and sustainability best practices for real estate and infrastructure funds, companies, and assets worldwide, based on detailed information submitted by organisations applying to be assessed.

**IIGCC –** Institutional Investor Group on Climate Change. LPPI is a member.

**INVESTOR AGENDA –** The Investor Agenda is a common leadership agenda on the climate crisis that is unifying, comprehensive, and focused on accelerating investor action for a net-zero emissions economy. It draws expertise from across the investor landscape to clearly set out joint expectations. The founding partners are seven major groups working with investors: Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment and UNEP Finance Initiative. https://theinvestoragenda.org/

**LONG-TERM INCENTIVE PLAN (LTIP) –** A company policy that rewards employees for reaching specific goals that lead to increased shareholder value.

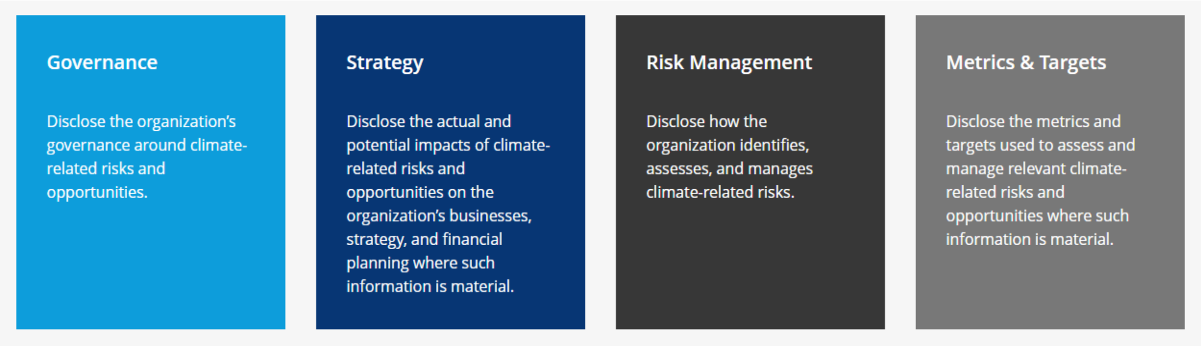
**MSCI ACWI - MSCI All Country World Index**
A stock index designed to track broad global equity-market performance.
The LPPI Global Equity Fund's benchmark.

**MSCI** - **Morgan Stanley Capital International** A global index provider.

**SHARE BLOCKING –** The share-blocking system requires investors who intend to vote at a company meeting to surrender the right to dispose of their shares for a period in advance of the meeting. LPPI submit a DNV (Do Not Vote) where share-blocking is in place, to maintain control, flexibility, and liquidity.

**TCFD -** Taskforce on Climate Related Financial Disclosure
The Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information by companies and investors.

Recommendations include annual disclosure under 4 pillars:




**TOTAL SHAREHOLDER RETURN (TSR) –** (or simply total return) is a measure of the performance of a company's stocks and shares over time.

**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.

**UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDG) –** The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

# Responsible Investment Dashboard Q3 2021

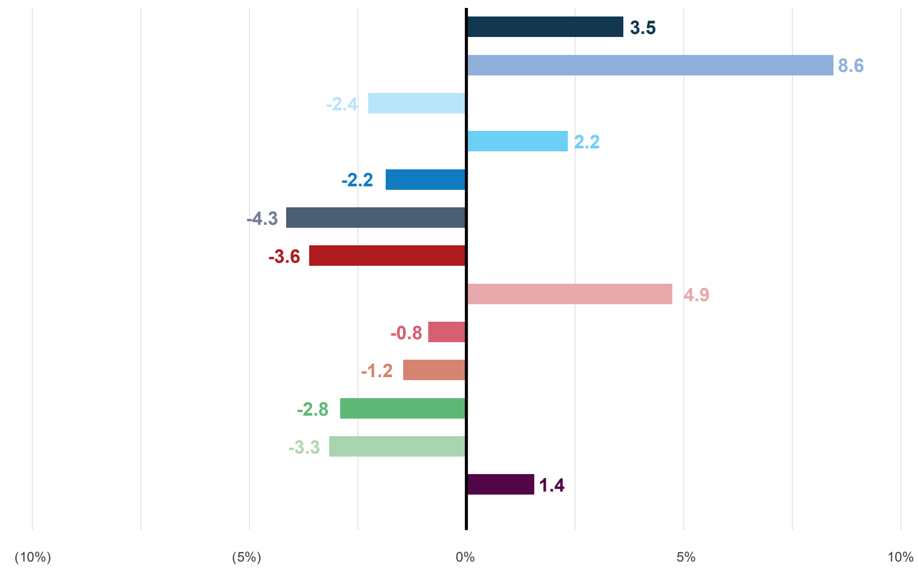
## 1. Portfolio Insights

Listed Equities (LPPI Global Equity Fund)

### Sector breakdown (%)

| | |
|---|---|
| Information Technology | 26 |
| Consumer Staples | 15 |
| Financials | 12 |
| Industrials | 12 |
| Consumer Discretionary | 10 |
| Health Care | 7 |
| Communication Services | 6 |
| Cash | 5 |
| Real Estate | 2 |
| Utilities | 2 |
| Energy | 1 |
| Materials | 1 |
| Others | 1 |

### LPPI Global Equities Fund sector weights VS MSCI ACWI ND (%)




### Top 10 positions

| | Portfolio (%) |
|---|---|
| 1. Microsoft | 4.0 |
| 2. Nestle | 3.3 |
| 3. Visa | 3.2 |
| 4. Accenture | 2.5 |
| 5. Colgate-Palmolive | 2.4 |
| 6. Starbucks | 2.1 |
| 7. Pepsico | 1.9 |
| 8. Alphabet | 1.5 |
| 9. Experian | 1.4 |
| 10. Costco Wholesale | 1.4 |

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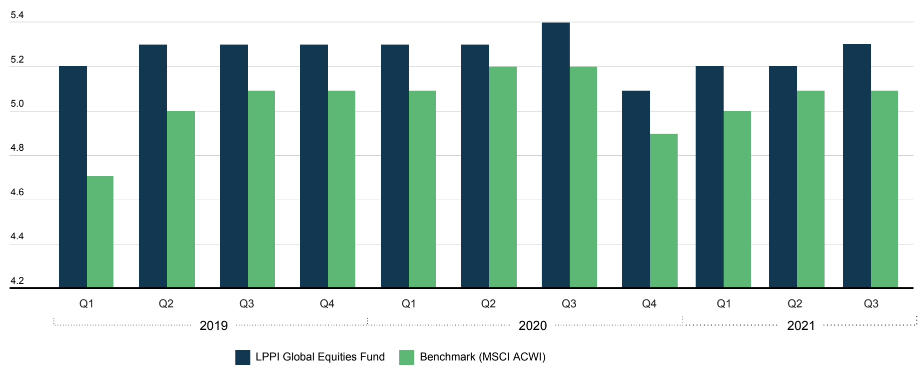
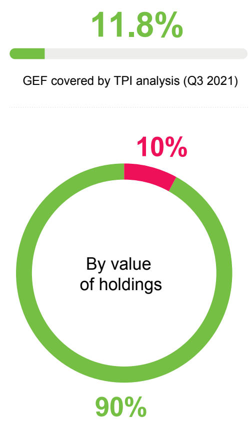
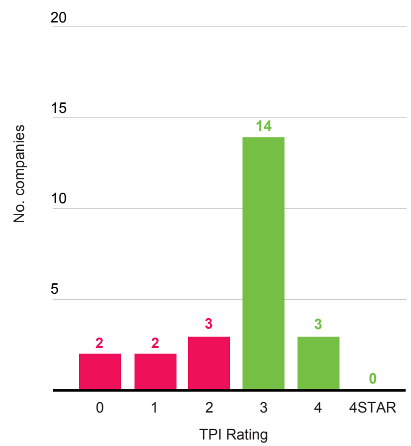
### Portfolio ESG Score (MSCI ESG Metrics)




### 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 2021

1. Portfolio Insights

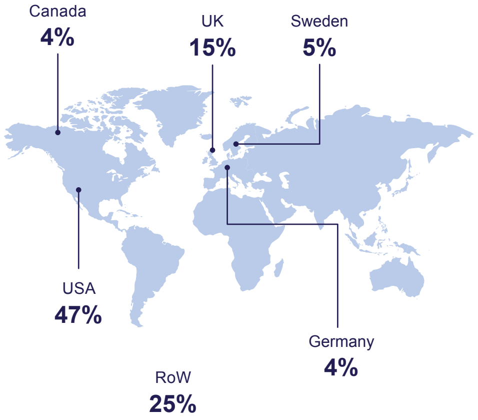
Other asset classes

## Private Equity

**Industry Breakdown (%)**

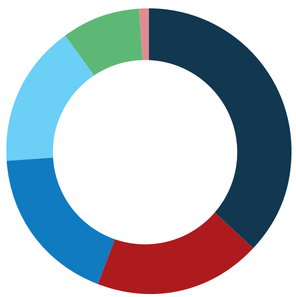
- I.T. 31
- Industrials 14
- Healthcare 14
- Other 12
- Consumer Discretionary 12
- Financials 7
- Remaining Industries 6
- Consumer Staples 4

**Region Breakdown (%)**



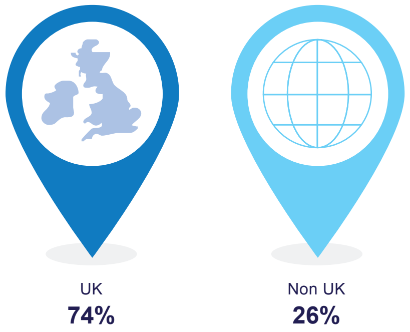

## Real Estate (LPPI Real Estate Fund)

**Sector Breakdown (NAV %)**



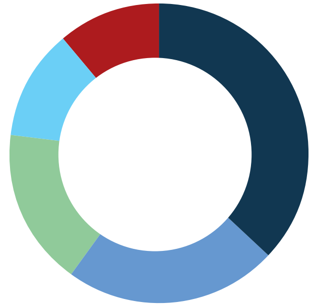
- Industrial 37
- Office 19
- Other 18
- Retail 16
- Residential 9
- Agriculture 1

**Geographical Exposure (NAV %)**



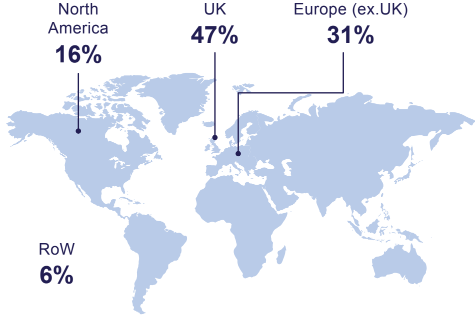

## Infrastructure (LPPI Global Infrastructure Fund)

**Industry Breakdown (%)**



- Traditional Energy, Renewable Energy, Waste 37
- Transport and Distribution 23
- Regulated Assets 17
- Social (incl PFI) 12
- Other 11

**Region Breakdown (%)**




## 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.

**3.08%** of portfolio

Listed equity 0.00% | Private equity 0.00% | Green Bonds 0.08% | Infrastructure 3.00%

Public Markets 0.08% | Private Markets 3.00%

**2.40%** Renewable Energy Generation

Solar 0.03% | Wind 1.73% | Hydro 0.06% | Other 0.58%

**0.68%** Other "Green"

Clean tech funds 0% | Decarbonising 0.68%

### Brown

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.

**2.38%** of portfolio

Listed equity 0.35% | Fixed income 0.06% | Private equity 0.07% | Infrastructure 1.90%

Public Markets 0.41% | Private Markets 1.97%

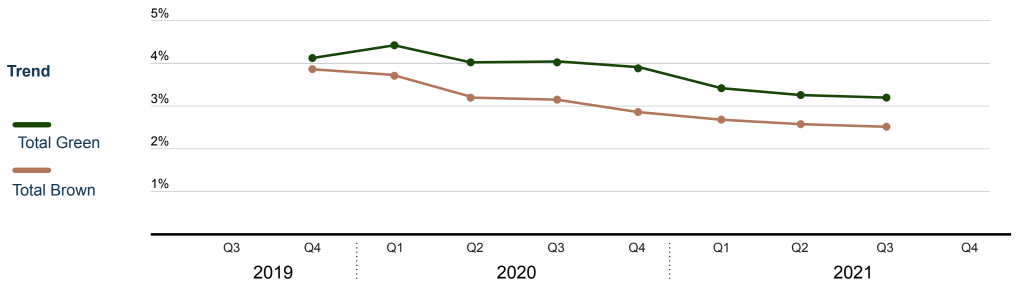
**1.97%** Energy

Upstream 0.27% | Midstream 0.67% | Downstream 0.72% | Integrated 0.31%

**0.41%** Generation

Electricity Generation 0.41%

**Trend**



# Responsible Investment Dashboard Q3 2021

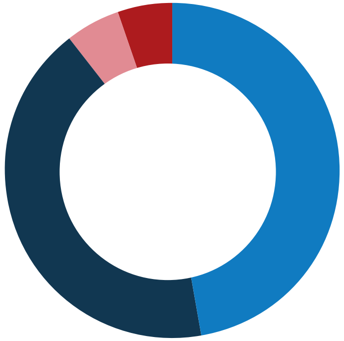
## 2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

### Headlines

| | | Supported |
|---|---|---|
| 48 | Total Votable Meetings | |
| 48 | Meetings Voted | |
| 383 | Proposals Voted | |
| 383 | Company Proposals | 89% |
| 0 | Shareholders Proposals | N/A |
| 40% | Meetings with a vote against Management | |



Votes Against Management (By Theme)

- Non-salary compensation 18
- Election of Directors (and related) 16
- Mergers, acquisitions and reorganisations 2
- Routine business 2

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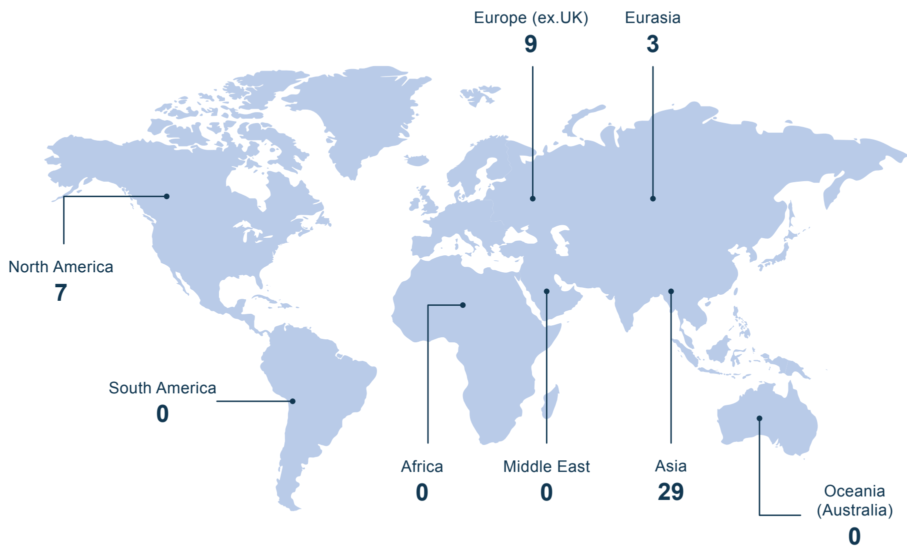
### Voting (By Theme)

| | | Against | For |
|---|---|---|---|
| Election of Directors (and related proposals) | 173 | 16 | 157 |
| Routine business | 109 | 2 | 107 |
| Non-salary compensation | 49 | 18 | 31 |
| Capitalisation | 37 | 0 | 37 |
| M&A and reorgs | 12 | 2 | 10 |
| Anti-takeover & related | 3 | 0 | 3 |
| Shareholder proposals | 0 | 0 | 0 |

### Voting (By Region)

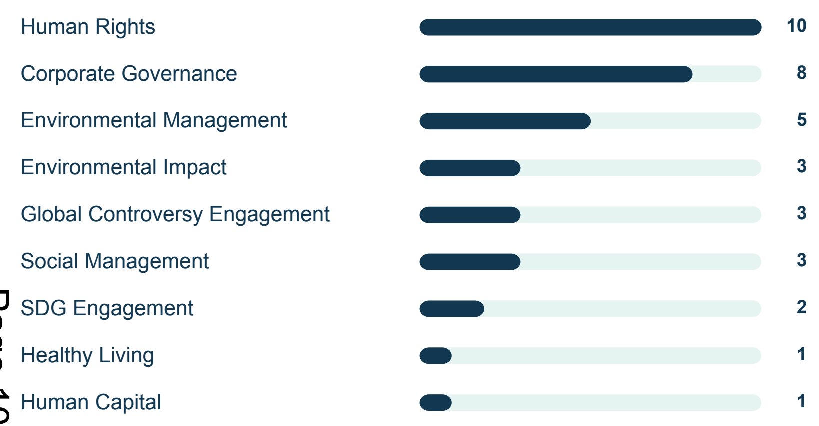


# **Responsible Investment Dashboard** Q3 2021

2. Stewardship Headlines

Engagement (Public Markets)

**Activity (by Topic)**

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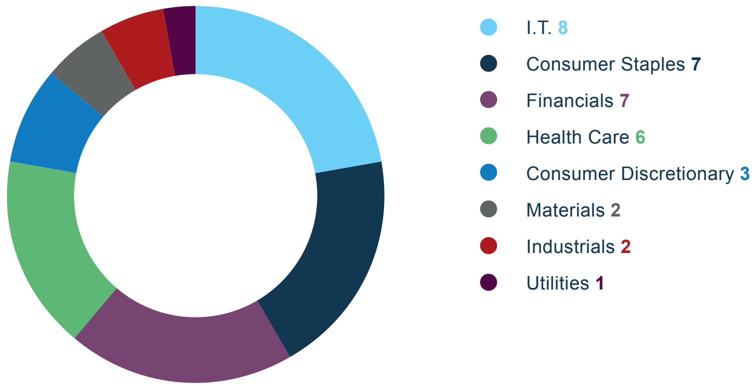
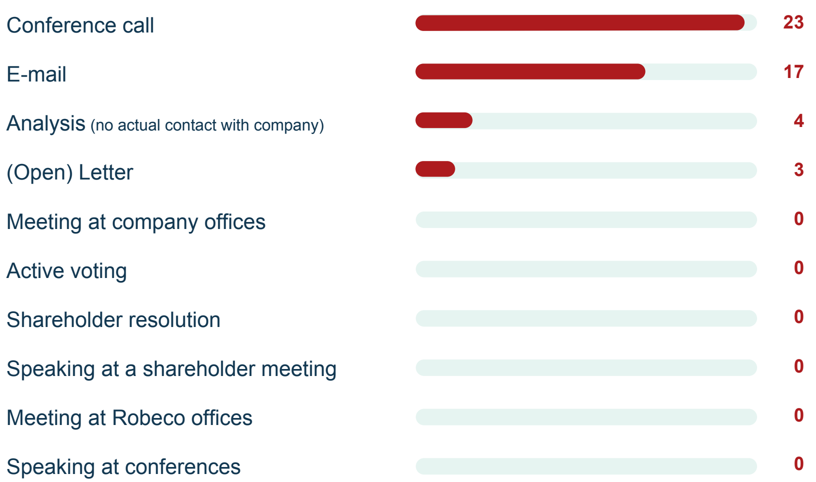
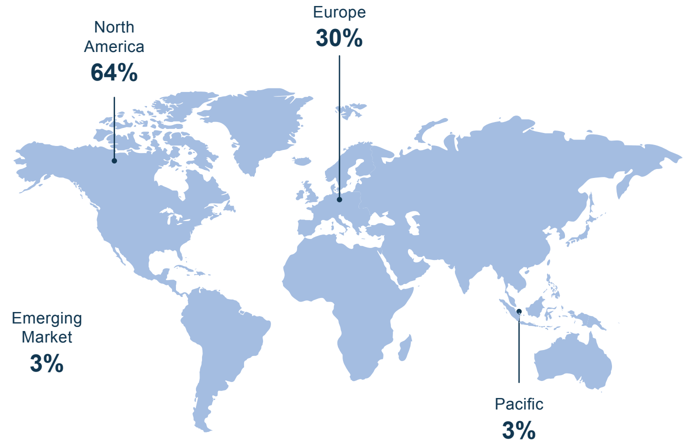
**Activity (by Sector)**




**Activity (by Method)**




**Activity (by Region) (%)**

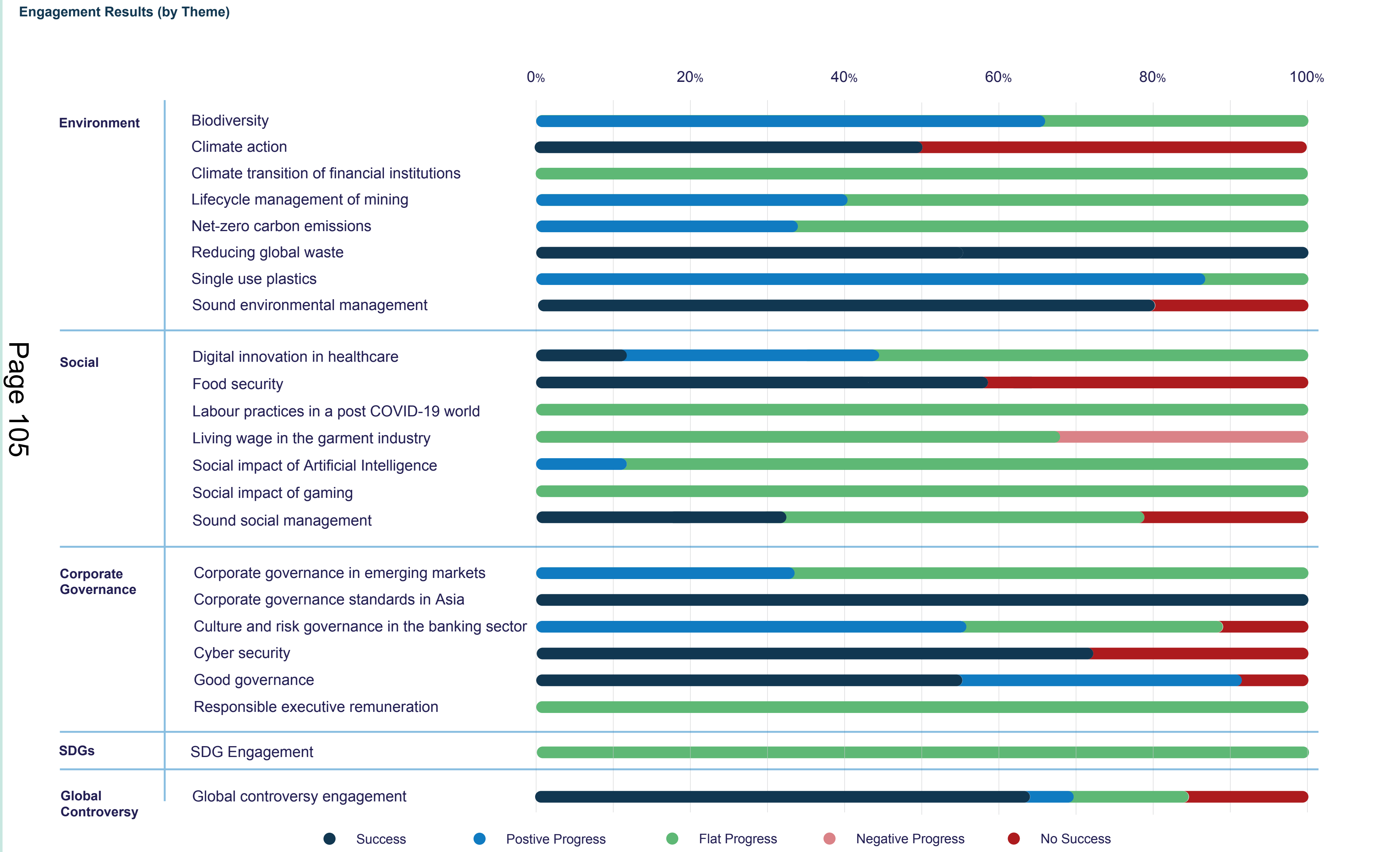



Source: Robeco Active Ownership Report Q3 2021

# **Responsible Investment Dashboard** Q3 2021

2. Stewardship Headlines

Engagement (Public Markets)




Source: Robeco Active Ownership Report Q3 2021

The Fund's Private Equity portfolio includes investments in privately owned (unlisted) companies that are developing solutions for sustainable:

- **consumption**
- **production**
- **development patterns.**

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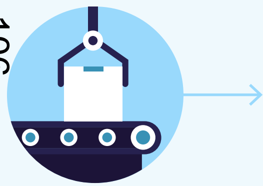


**Production**



Consumption

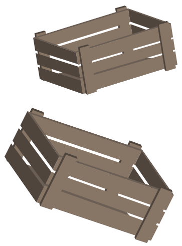
# LAMINAM
SUPERIOR NATURAL SURFACES

Laminam are the world leading manufacturer of high-end large-size ceramic slabs used in furnishing, design, cladding, and flooring.

Many aspects of the Laminam production process and resulting products such as ceramic slabs have been developed to utilise the circular economy model to increase resource efficiency and reduce waste.

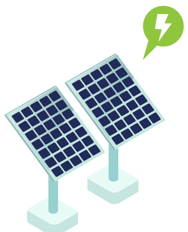
## 20-60%
**recycled material**

Laminam products contain **20-60% recycled material.**



## 736
**tonnes**

In 2020, Laminam **recovered 736 tonnes of materials** directly from customers, including metal A-frames and wooden boxes.



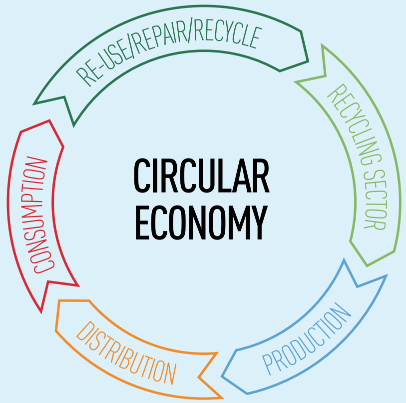
## 1MW
**energy production**

Produce **1MW of energy** for production processes via an onsite photovoltaic solar energy plant. There are plans to increase this by 20% to 1.2MW by the end of 2021.

## 95%
**returned material**

In 2020, **95% of non-sintered (raw) material was returned** to the production cycle - a figure that is up from 91% in 2019.

## Circular Economy




*"A circular economy is an industrial system that is restorative or regenerative by intention and design. It replaces the end-of-life concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair reuse and return to the biosphere, and aims for the elimination of waste through the superior design of materials, products, systems, and business models."*

**WORLD ECONOMIC FORUM'S DEFINITION**

At its core, a circular economy model has the intention of designing out waste.

# **Responsible Investment Dashboard** Q3 2021

3. Real World Outcomes - **Private Equity**

The Fund's Private Equity portfolio includes investments in privately owned (unlisted) companies that are developing solutions for sustainable:

- **consumption**
- **production**
- **development patterns.**

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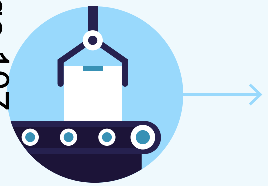

**Production**



Consumption

DES TERRES, DES PROJETS, LA VIE

**ECT offers communities and local authorities' solutions for their land-use development projects that incorporates the re-use of inert soil from the sites of the construction & public works sector.**

**ECT works in a circular economy of upcycling excavated soil from construction sites and public works, enhancing the sustainability of developmental production.**

## Development

**Developing urban farms**, giving land back to agriculture or conserving it.

## Growth

Planting **10,000 to 30,000 trees per annum** to develop country and urban parks that will be open to the public. This seeks to bring back nature and rehabilitate work sites.

## Improvement

**Improving the quality of life for residents,** with noise-reducing and landscaped embankments.

**17MW**
solar energy

**11,000**
new homes

## Creation

**Creating landscapes** to optimise photovoltaic solar energy production including a **17MW solar energy** park in Île-de-France, which generates enough energy to power **11,000* homes per year**.

* Based on the plant running for 12 hours per day over 200 days over sun.

## Safety

**Making mines and quarries safe** through backfilling with materials re-used from construction and public sector works.

www.groupe-ect.com/en/

The Fund's Private Equity portfolio includes investments in privately owned (unlisted) companies that are developing solutions for sustainable:

- **consumption**
- **production**
- **development patterns.**

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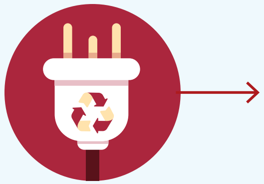
Production



**Consumption**

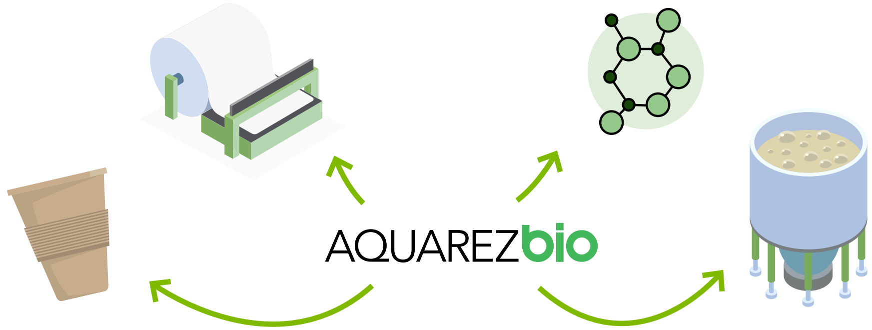
# AQUAREZbio

Aquaspersions Limited is a manufacturer of high-quality, water-based additives, for the polymer latex, paints and adhesive industries.

Building on 47-years of experience in this industry they are now producing water-based, compostable, barrier coatings to fight plastic waste and enhance sustainable consumption.

## Applications

**Development of biodegradable, compostable packaging** that can be used to avoid the creation and use of single use plastic food packaging.




## AquarezBIO solutions

Aquarezbio solutions can be applied to various substrates, including **paper, cellulose film and biopolymer films,** to impart barrier properties to the likes of beverage cups, food-to-go packaging, and laminates.

**The solutions are:**

- Certified compostable polymers
- Renewably sourced sustainable biopolymers
- Excellent repulp-ability (recyclability) profiles

aquaspersions.co.uk/aquarezbio

**Pension Fund Committee**
Meeting to be held on Friday, 26 November 2021

Electoral Division affected:
(All Divisions);

**Responsible Investment Policy**
(Appendices 'A' and 'B' refer)

Contact for further information:
Sean Greene, 01772 530777 , Head of Fund, Sean.Greene@lancashire.gov.uk

**Executive Summary**

Within its terms of reference, the Committee is required to consider and (if appropriate) approve key policy documents, including the Responsible Investment Policy. On the 18th June 2021 the Committee established a Task & Finish Group to review and produce a revised Responsible Investment Policy, a copy of which is attached at Appendix 'A'.

**Recommendation**

The Committee is asked to approve the revised Responsible Investment Policy as set out at Appendix 'A'.

**Background**

It is a requirement under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 that an administering authority demonstrates that it considers any factors that are financially material to the performance of the Fund's investments, including social, environmental, and corporate governance (ESG) factors, depending on the time horizon over which their liabilities arise. This can be done as part of the Investment Strategy Statement or as a separate, supplementary document.

Responsible Investment is an approach to investment which recognises that the consideration of ESG factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns (this definition is included in the LCPF Annual Report Glossary).



Lancashire County Council

The current Responsible Investment Policy[1] ('RI Policy') was updated and approved by the Committee in November 2018. A copy is enclosed for ease of reference at Appendix 'B'. In line with the requirement to review the Investment Strategy Statement at least every three years, the RI Policy has been reviewed by the Responsible Investment Task and Finish Group ('the Group').

**Task and Finish Group**

At the Pension Fund Committee on the 18th June 2021, it was resolved to establish the Group, comprising four members of the Committee (as determined by the Chair of the Committee), to review the existing RI policy and ensure it best reflects the values and beliefs of the Fund. The following four members of the Committee were selected to serve on the Group:

- County Councillor - A Schofield (Chair)
- County Councillor - M Brown
- County Councillor - G Dowding
- Co-opted member - Ms J Eastham

The aims of the Group were as follows.

1. To review the current LCPF RI Policy (approved by Pension Fund Committee on 30th November 2018) and ensure it best reflects the values and beliefs of the Fund, whilst being mindful of the County Council's duties as an administering authority under the LGPS regulations.

2. To identify any gaps in the current LCPF approach to responsible investment relative to the current regulations, prospective developments, and best practice.

3. To review the current reporting on responsible investment to the Pension Fund Committee via reports/Dashboard provided and make any recommendations for amendments or enhancements.

The Group have met on four occasions, supported by officers and Aoifinn Devitt, Independent Investment Adviser and Francis Deakin, Head of Responsible Investment at LPPI.

At the point of finalising the revised RI Policy, the 2021 UN Climate Change Conference of the Parties (COP26), was taking place in Glasgow between 1st and 12th November 2021. The COP brings together, once a year, governments who have signed the UN Framework Convention of Climate Change (UNFCCC) to discuss how to jointly address climate change. At the point of drafting this report, a draft COP26 text has been released, which it's hoped will form the basis of an agreement at the end of the conference. Future consideration will be given by the pensions team and LPPI to any implications for local government pensions, including the Lancashire County Pension Fund, arising from COP26.

[1] The RI Policy is supplementary to the Fund's Investment Strategy Statement and they are necessarily and demonstrably linked.

**ESG Priorities**

The Group has reviewed the priorities within the current RI Policy and recommends that the RI Policy be updated to reference the broad range of ESG factors as detailed in the table in section 4 of the revised RI Policy at Appendix 'A'.

Furthermore, key priorities were reidentified within section 5 of the RI Policy. These priorities ensure coverage of all three components of ESG with refreshed or additional text relating to the priorities:

- **Climate Change** – the Fund continues to recognise that climate change is to be managed as a systemic and long-term investment concern.
- **Depletion of Natural resources** – encouragement of sustainable business practices which avoid the reduction of over-exploitation of natural resources.
- **Human Rights** – it is important to recognise and protect human rights in line with international, legal and regulatory obligations.
- **Modern Slavery** – which involves the severe exploitation of people for personal or commercial gain, including forced labour and child labour.
- **Local Investment and Affordable Housing** - projects which meet our investment requirements whilst also delivering a positive impact are favourable.
- **Corporate Governance** – the Fund supports the case for well managed companies which promote fair and just employment practices.
- **Tax strategy** - Fair tax treatment is important to the Fund as a responsible investor.

The revised RI Policy goes on to outline how the priorities are implemented in practice and any priorities under ESG would be subject to the Fund's preferred method of engagement, litigation and active investment before any consideration was given to divestment.

**Other considerations**

During its meetings, the Group considered several other matters which are referenced below.

It was noted that the overall investment objective of the Fund was to ensure that over the long term there would be sufficient assets to meet all pension liabilities as they fall due and in order to do this the Pension Fund Committee maintained an investment policy to (i) maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met and (ii) contribute towards achieving and maintaining a future funding level of 100%.

Importantly, fiduciary responsibility suggests that financial return needs to have primacy to ensure the payment of pensions as they fall due and to enable ongoing affordability of contributions to the scheme. Whilst the funding level is currently above 100% this does not mean that more risk can be taken and other objectives inserted into the mandate (e.g. allowing other non-financial outcomes to have primacy in the investment process). To support this understanding, an additional definition is included in the revised RI Policy covering fiduciary duty. A definition of 'stewardship' is also included.

The Group discussed the issue of including explicit mention of occupied territories within the Human Rights priority and confirmed it should be in line with UK foreign policy.

The Group considered the issue of the Living Wage (as referred to in the revised RI Policy in section 6 Priorities / Governance / (a) corporate governance) and noted that there were currently two definitions used in the UK. Several options were discussed, and it was agreed that the term "appropriate" would be added before "Living Wage".

Whilst the Group has been in operation, Local Pensions Partnership Limited (LPPI) has made its net zero greenhouse gas emissions by 2050 commitment in September 2021. This commits LPPI to:

- Set net zero targets and measures and reporting on progress towards portfolio decarbonisation;
- Set an interim target for 2030 for the decarbonisation of the initial assets in scope;
- Seek to progressively increase the share of assets in scope, with a view to reaching 100% by 2050;
- A stewardship and engagement programme, which encourages investee companies to set and disclose robust net zero targets; and
- Advocacy for public policy supportive of net zero as a global outcome.

This commitment by LPPI will ensure that the investment within the Fund can transition to a low-carbon economy and a sustainable climate for the future.

**Local Pensions Partnership Investments Limited**

The role of LPPI has been noted within the RI Policy (including in section 3) and involvement of the Head of Responsible Investment within the Group was important and ensured that there are no unintended consequences of the revised RI Policy and it is coherent with LPPI's approach to pooling and managing the joint portfolio for the common good of all clients

**Lancashire Local Pension Board**

A draft of the RI policy was shared with the Lancashire Local Pension Board, and the Chair of the Group attended their meeting on 19th October 2021. Feedback was provided by Board members and this was in line with the Board's role of reviewing the key policy documents for the Fund to ensure they are fit for purpose. The Group considered this feedback at its meeting on 9th November 2021 and, where appropriate, amendments were included within the final draft of the RI policy.

**Dashboard**

The Group noted that the Pension Fund Committee receive from LPPI quarterly reports on responsible investment which includes a dashboard and were asked to provide feedback on the Dashboard.

Feedback was classified as follows:

**a) Substantive items**

These items will require further analysis by LPPI to determine how the amendment could be implemented within the Dashboard. An example of such an amendment is ensuring that data within the Dashboard clearly reflects the identified priorities within the revised RI Policy. A further meeting of the Group will take place to agree these changes once the analysis has been undertaken by LPPI and the Officers and any relevant changes will be recommended to the Committee.

**b) Annex to Dashboard**

Several items have been identified that can be dealt with by additional content being added to the Dashboard in the form of an annex. For example, a brief explanatory note on the Transition Pathway Initiative.

**Potential Future Amendments**

The Group acknowledged that, given the pace of change within the Responsible Investment space, more frequent refreshes of the RI policy may be required in future. The Group agreed to raise the following specific points with the Pension Fund Committee as these may need to be considered as part of future refresh work:

- Taskforce on Climate related Financial Disclosure (TCFD) - mandatory reporting for LGPS Funds under this disclosure framework will be required from 2023. A consultation on this is due to be published by the Department for Levelling Up, Housing & Communities (DLUHC) imminently.

- Re-entry into DLUHC Guidance of a restriction on LGPS Funds setting policy or strategy stances (boycotts) not aligned with UK government policy is expected.

- Expectation (though perhaps not an actual requirement) for disclosure which exemplifies the revised (much tougher standards) of the UK Stewardship Code (2020).

- Dashboard, as detailed above, further analysis is required before development of substantive changes to the Dashboard.

The officers will monitor and review these matters and report back to the Pension Fund Committee as appropriate.

**Consultations**

Local Pensions Partnership Investments Limited, Local Pension Board, Independent Investment Adviser

**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 from poor oversight and lack of independence. Responsible investment practices underpin the fulfilment of the Fund's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments Limited.

**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

Reviewed Responsible Investment Policy presented to the Committee in November 2021.

| Key: | |
|---|---|
| | New wording/content is indicated in yellow<br>Deleted wording/content is indicated as strike through in yellow |
| | Existing wording/content relocated within the policy is indicated in green<br>The original location of Existing wording/content is indicated as strike through in green |

# Lancashire County Pension Fund (LCPF)<br>Responsible Investment Policy

## 1. Introduction.

This policy defines the commitment of Lancashire County Pension Fund (the Fund) to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the Local Government Pension Scheme Management and Investment of Funds Regulations (2016), Ministry of Housing Communities & Local Government (MHCLG)[1] – Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement (2017*)* and the Fund's fiduciary duty to act in the best long-term interest of our members.

The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

## 2. Definitions.

| | |
|---|---|
| Responsible Investment | The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.<br><br>(Based on UN Principles on Responsible Investment) |
| Fiduciary Duty | A core responsibility, of such as trustees or equivalent persons, to act in the best interests of the pension scheme beneficiaries in order to assure that such scheme / fund members in retirement, or dependants in the case of member death, can enjoy the expected income benefits. It includes the requirement that all participants should act in good faith, in the best long-term interests of the client and their beneficiaries, with loyalty and prudence, and in line with generally prevailing standards of decent behaviour.<br><br>The term "fiduciary duty" is used in different ways by different people. The above definition is intended to reflect the ethos of the Fund and is based on ~~a~~ definitions in the UKSIF's trustee best |

[1] From September 2021 renamed Department for Levelling Up, Housing & Communities (DLUHC)

| | |
|---|---|
| | practice guide 2017 (UK Sustainable Investment and Finance Association www.uksif.org) and a Law Commission Report 2014. |
| ESG | Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.<br>Specific examples of each are in section 5. |
| Governance | ~~The process and principles by which a company or organisation undertakes its business. For LCPF, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.~~<br><br>Corporate Governance is the authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability. |
| Active Ownership | ~~Refers to the responsibility of LCPF t~~To participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company representatives, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth. |
| Stewardship | The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. (UK Stewardship Code 2020 of the Financial Reporting Council) |

## 3. Responsible Investment Context

LCPF is a Local Government Pension Scheme (LGPS). It is a defined benefit (DB) pension scheme. To remain affordable, sustainable levels of investment income, and growth in asset values, are essential to sufficiently supplement contributions to the pension fund from employers and active members (contributing employees). Thus, the primary focus of investment is achieving strong risk-adjusted returns.

There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship. (per Glossary item for Responsible Investment in LCPF Annual Report)

Where possible and compatible with this, the Fund also wishes to support positive social outcomes both locally and globally. For example, LCPF has non-pooled investment allocation in property/real estate focused on Lancashire. ~~Through owning~~

~~real estate (in the capacity of landlord) the Fund's investments are helping to provide employment, premises and wider accommodation which directly supports the people and the economy of Lancashire.~~

The implementation of LCPF's RI policy is through the activities of Local Pensions Partnership Investments (LPPI), a Financial Conduct Authority (FCA) regulated Investment Manager responsible for 100% of the Fund's assets, comprising mostly pooled investment vehicles, with a smaller non-pooled allocation.

All investment asset allocations, pooled or non-pooled, are subject to Investment Panel advice, with regard to the LCPF Investment Strategy Statement approved by the Pension Fund Committee, and to operational investment selection and management by LPPI as part of agreements of the Local Pensions Partnership joint venture (LPP).

## 4. Responsible Investment Values and Principles

The Funds' values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

**Responsible Investment Values:**

| | |
|---|---|
| Consultative | The Funds' RI priorities are a reflection of the views of its members (through consultation with the Lancashire Local Pension Board), and of evolving best practice within the pension arena. |
| Being Proactive | A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty. |
| Engagement | The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour. We are supportive of targeted dialogue with appropriate representatives of investee companies in which the Fund invests, in situations where positive changes can be brought about to align governance standards with our investment needs. |
| Collaborative | The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member. |
| Flexible | The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities. |

| | |
|---|---|

**Responsible Investment Principles**

The Funds' RI principles translate our values and commitments into RI practices which can help to deliver a sustainable and sufficient return on all LCPF investments. LCPF's RI principles inform the stewardship arrangements ~~we have~~ agreed with LPPI, as our provider of ~~pension administration and~~ investment management services. LPPI is wholly owned by Local Pensions Partnership Limited (LPPL), a joint venture between ~~LCPF,~~ Lancashire County Council (LCC) and London Pensions Fund Authority (LPFA).

A summary of the key RI principles:

- Effective management of financially material ESG risks will support the Fund's requirement to protect returns over the long term.
- Apply a robust approach to effective stewardship.
- Seek sustainable returns from well governed and sustainable assets.
- RI is core in our skills, knowledge and advice.
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice.
- Achieve improvements in ESG through effective partnerships that have robust oversight.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

~~The implementation of LCPF's RI policy is through the activities of Local Pensions Partnership Investments (LPPI), a Financial Conduct Authority (FCA) regulated Investment Manager responsible for 100% of the Fund's assets, comprising mostly pooled investment vehicles, with a smaller non-pooled allocation.~~

## 5. Environmental, Social and Governance (ESG) Factors

ESG issues are important to LCPF for a number of reasons. ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes, with an overarching goal of achieving resilience to ESG risks at the Portfolio level. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to LCPF and its beneficiaries.

Examples of ESG factors:

| **Environmental** | **Social** | **Governance** |
|---|---|---|
| Animal Welfare | Affordable Housing | Board diversity/structure |
| Climate Change | Alcohol | Bribery and corruption |
| Deforestation | Betting/gaming | Executive pay |
| Plastics | Child Labour | Lobbying and donations |
| Pollution | Controversial Weapons | Tax strategy |
| Resource Depletion | Employee Relations | Treatment of employees |

| | | |
|---|---|---|
| Waste | Human Rights | |
| | Modern Slavery | |
| | Tobacco | |
| | Working Conditions | |

## 6. Priorities

Identifying core priorities for RI is an important part of focussing the attention of LPPI on the issues of greatest importance to us. It also helps us to monitor the stewardship activities they undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are listed below.~~:~~

- ~~Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change.~~
- ~~Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices and address excessive corporate pay differentials.~~

~~The above mentioned are our main priorities. However, there are a number of other RI issues which are of interest to the Fund and will be subject to review, including:~~

- ~~Companies with appropriate tax practices which incorporate transparent disclosure.~~
- ~~Companies with a proven record of supporting the Living Wage.~~
- ~~Encouraging investment in property/real estate in Lancashire where suitable, according to the investment criteria, and including the dedicated sleeve of Real Estate investment that is invested in the Lancashire and surrounding local area~~.
- ~~Reducing investments in products such as single use plastics, tobacco and alcohol.~~

**ENVIRONMENT**

### a) Climate change

LCPF recognises the imperative to address and manage climate change as a systemic and long-term investment concern for the Fund, as it poses material risks across all asset classes (with the potential for loss of shareholder value, including via stranded assets), as well as opportunities.

The Fund will endeavour to carry out the following:

- Engage~~ing~~ with pension funds and other stakeholders to develop and share best practice.~~ recognising and managing the risks and opportunities investments face from climate change~~

- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global transition to a low-carbon economy and for the future emissions reduction targets under the **Paris Agreement** 2015 or other appropriate initiatives. Where they are not, and opportunities for engagement and reform of the company or project are not possible or do not exist, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment to the Fund (either through increased costs or increased investment risk).

- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

- The Fund is committed to seeking sustainable investments which include projects that support the global transition to lower carbon products, services and infrastructure including renewable energy generation.

LCPF expects LPPI to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored, and also to remain current with the revised reporting standards and targets such as those set out in the **Paris Agreement** 2015 as may be amended from time to time by subsequent international agreements. This will involve the use of appropriate investigative and analytical tools such as the Transition Pathway Initiative to increase information and provide appropriate input around investment decision making and will be reflected in regular reporting and assurance provided to LCPF. LCPF also expects LPPI to research suitable investment opportunities ~~products~~ being developed to address these standards and assess their suitability for the Fund.

### b) Depletion of Natural Resources

The depletion and degradation of natural resources, such as plants, water, air and soil, poses risk to businesses, economies and society. As part of supporting good environmental stewardship by investee companies the Fund places an emphasis on engaging to encourage sustainable business practices which support biodiversity and avoid the over-exploitation of natural resources and contribute to a more circular economy (through efforts to reduce waste creation and keep materials capable of re-use within economic circulation through recycling).

## SOCIAL

### a) Human Rights

Societal expectations of companies increasingly include a positive record of recognising and protecting human rights in line with international, legal and regulatory obligations across all territories. As investors we recognise a responsibility to support this principle and to urge improvement in company practices through voting and engagement where this is warranted. We recognise an obligation as an investor to encourage practices which recognise human rights and protect against exploitation. This extends to expecting compliance with normative standards and relevant legislation.

**b) Modern Slavery**

Modern slavery is the severe exploitation of people for personal or commercial gain, including forced labour and child labour, and is a grave violation of human rights. Modern Slavery breaches fundamental international law, as well as in most national jurisdictions and poses a material business risk to companies and ultimately investors. As investors it is our responsibility to consider that we have an obligation to contribute to improving company practices. LCPF should seek to investigate the practice of the companies it invests in, or is looking to invest in, and hold these to appropriate standards, including (in the UK) the Modern Slavery Act 2015 (which introduces a number of measures to combat slavery and human trafficking and requires certain commercial organisations to publish an annual statement setting out the steps they take to prevent modern slavery in their supply chain).

**c) Local Investment**

The Fund already encourages~~ing~~ investment in property/real estate in Lancashire where ~~suitable, according to~~ suitable projects meet the Fund's investment criteria. Through owning real estate (in the capacity of landlord) the Fund's investments will help~~ing~~ to provide employment, premises and wider accommodation (including affordable housing) which directly supports the people and the economy of Lancashire.

**GOVERNANCE**

**a) Corporate Governance**

The Fund, through its asset managers, ~~promotes high standards of employment practice~~ supports the case for well managed companies which promote fair and just employment practices, the importance of a diverse and inclusive workforce and reasonable and equitable pay differentials for employees (including appropriate Living Wage). This is done through actively seeking to invest in companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

~~LPPI is a named supporter of the Workforce Disclosure Initiative (WDI), a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".~~

LCPF supports the signing by LPPI of the Asset Owner Diversity Charter in August 2021, which aims to improve diversity across the fund management industry.

Our expectations of good corporate governance include transparency on lobbying activities undertaken by investee companies as assurance of consistency between publicly-stated positions (communicated through announcements and corporate documents) and influence employed via other routes including trade bodies, and lobbying.

**b) Tax Strategy**

Fair tax treatment is important to us as a responsible investor. Tax provides a direct source of government funding for programmes of social benefit and is a democratic function. Tax evasion is an illegal activity where an entity deliberately avoids paying a true tax liability. Aggressive tax avoidance presents reputational and regulatory risks for companies and is misaligned with responsible corporate behaviour.

As an institutional investor we seek to:

- invest in organisations that ~~to~~ pay the right amount of corporation tax at the right time and in the right place, according to the local jurisdiction;
- invest in organisations that provide the degree of transparency in tax reporting that investors need to make sound judgements on the tax position of investee companies; and
- identify and engage on aggressive tax practices which prioritise the minimisation of tax liabilities without due regard for reputational risk and responsible conduct.

## 7. Responsible Investment Implementation and Monitoring

The Pension Fund Committee monitors the stewardship of the Fund's assets and RI activities undertaken by LPPI via quarterly reporting including an RI Dashboard, which provides key data on the portfolio's RI attributes and stewardship activities.

The implementation of Fund's approach to RI priorities divides into five ~~four~~ areas of activity.

**a) Voting Globally.**

~~The Fund recognise that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contributes to enhancing the value of the Fund's investments. All aspects of shareholder voting is a fundamental part of the Fund compliance with the UK Stewardship Code.~~

The Fund's stewardship actions are implemented by LPPI which also manages the Fund's entire investment portfolio. ~~as an integral part of the investment management services LCPF receives from Local Pensions Partnership (LPP). The Fund's entire investment portfolio is under management by Local Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.~~

All aspects of shareholder voting are carried out in line with the LPPI 'Shareholder Voting Policy' which can be viewed at LPPI Shareholder Voting Policy 2.0 Dec19

FINAL_LPPI.pdf (localpensionspartnership.org.uk). The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

~~The responsible investment priority areas identified by the Fund for voting purposes are:~~

1. ~~Action on Climate Change.~~
2. ~~Strong Corporate Governance, with particular emphasis on reducing pay differentials.~~
3. ~~Progressive employment practices.~~

**b) Engagement through Partnerships.**

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing ~~governance concerns~~ ESG priorities, it needs to join other investors with similar concerns, and it does this through the LAPFF and joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of ESG best practice ~~corporate governance~~ among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

LCPF are members of LAPFF and as such representatives of the Fund attend and contribute to the quarterly business meetings.

**c) Shareholder Litigation.**

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

**d) Active Investing.**

LCPF do not invest directly but, on behalf of the Fund, LPPI actively seek sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG ~~and~~ including corporate governance. Such investments include renewable and clean energy, and real estate/property ~~including affordable housing~~.

As part of its commitment to Active Ownership LPPI seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

~~Finally, LCPF does not have any strategic asset allocations in specific areas in relation to RI and ESG. This is reviewed to ensure it is still appropriate by the Investment Panel on a 12-monthly basis.~~

**e) Divestment.**

The Fund may, at its discretion, prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment to the Fund (either through increased costs or increased investment risks).

Updated
November 2021

**Current Responsible Investment Policy updated and approved by the Committee in November 2018.**

# Lancashire County Pension Fund (LCPF)
# Responsible Investment Policy

## 1. Introduction

This policy defines the commitment of Lancashire County Pension Fund (the Fund) to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) issues into its investments. This is consistent with the LGPS Management and Investment of Funds Regulations (2016) and the Fund's fiduciary duty to act in the best long-term interest of our members. The Policy reflects the Fund's Investment Strategy Statement and our approach to complying with the UK Stewardship Code.

## 2. Responsible Investment Values and Principles

The Funds' values and principles reflect the need to deliver sustainable investment returns in order to pay pension benefits. They recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

**Responsible Investment Values:**

| | |
|---|---|
| **Consultative** | The Funds' RI priorities are a reflection of the views of its members (through consultation with the Local Pension Board), and of evolving best practice within the pension arena. |
| **Being Proactive** | A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the Fund and is aligned with fulfilling our fiduciary duty. |
| **Engagement** | The Fund considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour.<br><br>We will be supportive of targeted dialogue in situations where positive changes can be brought about to align governance standards with our investment needs. |
| **Collaborative** | The Fund recognises that working collaboratively can achieve greater influence than acting unilaterally. The Fund seeks to align itself with likeminded investors through collective organisations such as the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member. |
| **Flexible** | The Fund considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice and addressing emerging priorities. |

**Responsible Investment Principles**

The Funds' RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on all our investments. Our RI principles inform the stewardship arrangements we have agreed with the Local Pensions Partnership as our provider of pension administration and investment management services.

A summary of the key Responsible Investment principles:

- Effective management of financially material ESG risks will support the Fund's requirement to protect returns over the long term;
- Apply a robust approach to effective stewardship;
- Seek sustainable returns from well governed and sustainable assets;
- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and Environmental, Social and Governance (ESG) best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of LCPF's RI policy is through the activities of Local Pension Partnership Investments Ltd (LPPI) an FCA regulated Investment Manager responsible for 100% of the Fund’s assets which are managed within pooled arrangements.

**3. Priorities**

Identifying core priorities for RI is an important part of focussing the attention of LPP I on the issues of greatest importance to us. It also helps us to monitor the stewardship activities they undertake on our behalf. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – engaging with pension funds and other stakeholders to develop and share best practice, recognising and managing the risks and opportunities investments face from climate change;
- Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices and address excessive corporate pay differentials;

The above mentioned are our main priorities. However there are a number of other RI issues which are of interest to the Fund and will be subject to review, including:

- Ethical practices regarding off shore investments and tax havens;
- Companies with a proven record of supporting the Living Wage;
- Encouraging investment **pan** Lancashire;
- Reducing investments in products such as plastics, tobacco and alcohol.

**Climate change**

LCPF recognise the imperative to address climate change as a systemic and long-term investment concern for the fund, as it poses material risks across all asset classes with the potential for loss of shareholder value. The Fund will endeavour to carry out the following:

- Where existing investments in fossil fuel companies are in place and identified, we expect those companies to be able to demonstrate planning for the global transition to a low-carbon economy and for the future emissions reduction targets under the Paris Agreement or other appropriate initiatives. Where they are not, and opportunities for engagement and reform of the company or project are not possible or do not exist, the Fund will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through increased costs or increased investment risk).

- Where our fiduciary duty allows, the Fund will not consider new investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change.

**Corporate Governance**

The Fund will, through our asset managers, promote high standards of employment practice and reasonable and equitable pay differentials for employees. This will be done through actively seeking companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

LPP I is a named supporter of the Workforce Disclosure Initiative (WDI), a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains".

## 4. Responsible Investment Implementation

The implementation of Fund's approach to Responsible Investment divides into four areas of activity.

### a) Voting Globally.

The Fund recognise that effective stewardship arrangements protect the financial interest of scheme beneficiaries and contributes to enhancing the value of the Fund's investments. All aspects of shareholder voting is a fundamental part of the Fund compliance with the UK Stewardship Code.

The Fund's stewardship actions are implemented as an integral part of the investment management services LCPF receives from Local Pensions Partnership (LPP). The Fund's entire investment portfolio is under management by Local

Pensions Partnership Investments Ltd (LPP I), a subsidiary of LPP and an FCA authorised investment manager.

All aspects of shareholder voting are carried out in line with the LPP I 'Shareholder Voting Policy' which can be viewed at https://www.localpensionspartnership.org.uk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fLPPI+Shareholder+Voting+Policy+July+2017.pdf

The policy covers areas including voting arrangements, 'reporting and disclosures' and voting philosophy.

The responsible investment priority areas identified by the fund for voting purposes are:

1. Action on Climate Change;
2. Strong corporate governance, with particular emphasis on reducing pay differentials;
3. Improving Employment Practices.

**b) Engagement through Partnerships.**

The Fund's second approach involves working in partnership with like-minded bodies. The Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns and it does this through the Local Authority Pension Fund Forum (LAPFF) and joining appropriate lobbying activities.

In terms of its engagement approach with other investors, it is most significant through LAPFF. This Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies in which they invest. See the LAPFF website for further details: www.lapfforum.org

LCPF are members of LAPFF and as such representatives of the Fund attend and contribute to the quarterly business meetings.

**c) Shareholder Litigation.**

The third approach, adopted by the Fund in order to encourage corporate management to behave responsibly and honestly, is through shareholder litigation. The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

**d) Active Investing.**

LCPF do not invest directly but, on behalf of the Fund, LPP I actively seeks sustainable investments which meet LCPF's requirements for strong returns combined with best practice in ESG and corporate governance. Such investments include renewable and clean energy, and affordable housing.

As part of its commitment to Active Ownership LPP I seeks to use the ownership rights conveyed by the assets under its management to exert a positive influence in favour of transparent and sustainable management behaviour which recognises and addresses the broader trends which bring both risks and opportunities to their business.

Finally, LCPF does not have any strategic asset allocations in specific areas in relation to RI and ESG.  This is reviewed to ensure it is still appropriate by the investment panel on a 12 monthly basis.

**e) Divestment.**

**The Fund may at its discretion prefer to divest from a sector due to RI considerations, provided that this would not result in any material financial detriment (either through increased costs or increased investment risks).**

## 5. Definitions

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|---|---|
| **Responsible Investment** | The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance. |
| **ESG** | Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function. |
| **Governance** | The process and principles by which a company or organisation undertakes its business. For LCPF, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members. |
| **Active Ownership** | Refers to the responsibility of LCPF to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth. |

L Sales
Director of Corporate Services

County Hall
Preston

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

# Appendix A

(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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# Agenda Item 15

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# Appendix B

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# Appendix C

(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 D

(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 E

(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 F

(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 G

(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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