

Pension Fund Committee

Meeting to be held on Thursday, 5 July 2018

Electoral Division affected: None;

LCPF - Annual Report for the year ended 31 March 2018

(Appendix 'A' refers).

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

Executive Summary

This report sets out the draft Lancashire County Pension Fund Annual Report for the year ended 31st March 2018. This report contains the accounts of the Fund for the same period.

The accounts are included in the LCC Statement of Accounts for the year ended 31st March 2018 which are being presented to the Audit, Risk and Governance Committee for approval at its meeting on 30th July 2018.

Recommendations

1. The Committee is asked to review and note the Accounts of the Fund within the draft Annual Report and to recommend them for approval at the LCC Risk, Audit & Governance Committee at its meeting 30 July 2018.
2. The Committee is asked to review the draft Annual Report for the year ended 31 March 2018 and subject to any final changes being minor, approve it for submission to Full Council.

Background and Advice

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

Regulations prescribe that the following should be in the Annual Report:

- A report on the management and financial performance of the fund during the year;
- An explanation of the investment policy;
- A report on the administrative arrangements for the fund;
- A statement from the actuary on the latest funding level;
- The current version of the governance compliance statement;

- The fund account and net asset statement with supporting notes and disclosures;
- The extent to which the fund has achieved its required performance levels; and
- The current version of the funding strategy statement, the statement of Investment principles and communications policy and any other information the authority considers appropriate.

The terms of reference of the Pension Fund Committee require it to approve the annual report for submission to Full Council.

A copy of the Lancashire County Pension Fund Annual Report for the year ended 31st March 2018 is attached at Appendix 'A'.

The Annual Report includes the following sections:

Management Structure

This section lists the management of and advisors to the Fund.

Foreword by the Chair of the Pension Fund Committee

This annual review highlights both the challenges and changes that have impacted on the Fund during the year 2017/18.

Governance of the Fund

This highlights compliance or otherwise with the guidance given by the Secretary of State.

Administration of the Fund

An update on issues arising from the administration of the fund during the year, including any changes to the administration regulations.

Knowledge and skills framework

A summary of the framework and approach used to ensure that the right knowledge and skills mix exists to meet the financial management needs of the pension fund.

A table is included which gives details of internal and external training provided and attended by members of the Pension Fund Committee and Lancashire Local Pensions Board since 1 April 2017.

Reference is made to the Lancashire County Pension Fund Training Plan updated in 2018, complying with the Public Service Pensions Act 2013 and to the revised framework introduced in 2015, focussed on the knowledge requirements of Local Pension Board members.

Investment policy and performance

A summary of the investment activity during the year and an analysis of performance of the investments of the Fund.

The accounts and financial statements

The draft accounts of the Fund were approved by the LCC Chief Executive and Director of Resources on 22 May 2018 and are currently being audited by Grant Thornton and available for public inspection via the LCC website.

The external audit is scheduled to be completed by end of July. Until the date of signing of the accounts on 30 July 2018 it is possible for changes to be requested. Any material changes will be reported to the Committee in September.

The draft accounts are in line with the budget monitoring report presented to the Pension Fund Committee meeting in June with the exception of the reporting of management costs.

At the June meeting the Committee was advised that the investment management costs for both the year ending 31 March 2018 and 2017 were under review in the light of increased information being available from investment managers due to timing and adoption of the transparency code.

The 2016/17 investment management costs have been restated to include additional fees previously netted off investment value. This restatement has an equal impact on management expenses and the change in market value of investments, both increasing by £20.8m. There is no impact on the overall net assets of the scheme as at 31 March 2017. The restatement ensures that the management fees are comparable year on year.

Additional fee information received from LPP since the June meeting has resulted in an increase in reported management expenses of £10.2m for the year ended 31 March 2018. Again there is an equal impact on the change in market value of investments.

Total investment management costs, after restatement, were £63.5m in the year ended 31 March 2017 and are £54.1m for the year ended 31 March 2018, a reduction of £9.4m overall.

The most significant element of investment management costs is fees based upon fund value. This is expected to increase year on year as the Fund value increases, assuming mandates remain unchanged. However there has been a reduction in the year which is attributable to the following:

- Performance fees reducing by £6m. The majority of this (£4.2m) comes from global equities and is line with our expectations given the significant reduction in investment return in the equities market between the two years.
- A reduction in transition costs of £1.7m lower than in the prior year. 2017 was the year that the global equities transition into the LPP pool took place.
- Transaction costs are also reduced by £0.7m.
- LPP made a reduction of their management fee in the year which led to a further £1m of cost savings. The management fee charged is reduced to ensure that the savings received as a result of the asset pooling are passed back to the Funds.

The Fund is adopting guidance issued by CIPFA in May 2018 for *LGPS Fund Reporting in a Pooled World*. The impact of this guidance on the accounts of the Fund is to report on the progress in transitioning investments to asset pools. This is achieved by expanding the note in the accounts which lists assets by investment managers (note 13), enhancing the disclosures around pools to show sub-fund managers.

It is likely that the list of Investment Managers within the first section of the report 'Management Structure' will change although the overall figures will remain the same and Note 13 will be updated before the LCC Statement of Accounts are signed.

Lancashire Local Pension Board Annual Report

Written by the Chair of the Board, this is a summary of the remit of the Board and a discussion of the fulfilment of the Board's legal duty of scrutiny and other activities during the year.

Actuarial valuation

A summary of the latest actuarial valuation carried out at March 2016 and applicable for the three years commencing 1 April 2017.

Standing documents

The following standing policy statements are referred to in the Annual Report as available from the Pension Fund and from its web-site at [Your Pension Service - Lancashire Fund Information](#)

- The Annual Governance Statement
- The Governance Policy Statement
- The Communication Policy Statement
- The Funding Strategy Statement
- The Investment Strategy Statement
- The Pensions Administration Strategy Statement

The Annual Administration Report and a list of organisations with active members at 31 March 2018 are also included as appendices to the Annual Report.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The LCC Statement of Accounts and the LCPF Annual Report for the year ended 31 March 2018 will be signed and published in line with statutory deadlines.

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		