Lancashire County Pension Fund

Contents

A Management structure

Scheme management and advisors

Administering authority
Lancashire County Council

Pension fund committee
Lancashire County Council
CC J Burrows*
CC S Clarke*
CC G Dowding*
CC C Edwards*
CC K Ellard*
CC J Fillis**
CC T Martin*
CC J Mein*
CC E Pope (Chair)*
CC A Riggott*
CC A Schofield (Deputy chair)*
CC K Snape***
CC A Snowden*

*Appointed 25 May 2017
**Until 24 May 2018
***Appointed 24 May 2018

Co-opted representatives
P Crewe – Trade union
J Tattersall – Trade union
D Borrow – Borough, City and District councils
I Moran – Borough, City and District councils
M Smith – Blackpool Council
R Whittle – Blackburn with Darwen Council
J Eastham – Further / Higher education institutions

Head of Fund
A Leech

Chief Executive and Director of Resources
A Ridgwell

Director of Financial Resources
N Kissock

Custodian to the Fund
Northern Trust

External auditor
Grant Thornton UK LLP

Investment managers
Capital Dynamics
Knight Frank
Local Pensions Partnership

Actuary
Mercers

Lancashire Local Pension Board
W Bourne (Chair)
S Browne*
C Gibson
K Haigh
J Hall**
B Harvey
Y Moult
T Pounder
S Thompson
CC Wakefield

*Until January 2018
**Until October 2017

Tax advisor
KPMG UK

Independent investment advisors
A Devitt
E Lambert

AVC providers
Equitable Life
Prudential

Legal advisors (non-property)
Lancashire County Council
Addleshaw Goddard
Allen and Overy
Clifford Chance
Eversheds
MacFarlanes
Taylor Wessing

Property solicitors
DWF
Pinsent Masons

Independent property valuer
Bilfinger GVA

Performance measurement
Northern Trust

Governance advisors
Institutional Shareholder Services
Pension and Investment Research Consultants

Bankers
Natwest
Svenska Handelsbanken

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

Welcome to the 2017/18 Annual Report of the Lancashire County Pension Fund. The year has seen an expansion of scheme members with an increase of 4,765 to a total of 172,074. In particular it is pleasing to see an increase in active Members suggesting that the process of auto-enrollment is having a positive effect. The development of the relationship with Local Pension Partnership (LPP) which provides both investment and administration services, has just completed its second year of operation with continued development of this arrangement, both in terms of LPP operations and managing the relationship between LPP and the Fund being a key area of the work in the year.

The year has been a positive one for the Fund and some of the highlights of the year include:

- Delivering a 4.0% return on assets which outperformed the Lancashire Benchmark of 3.8% and resulted in the value of the fund, at 31 March 2018, increasing to £7.5bn with a funding level of 97%.
- Continued development of the pooling of investments with the London Pension Fund via the Local Pensions Partnership. At the end of March 2018, there are 5 asset “pools” (vehicles) across public equities, private equity, infrastructure, credit and fixed income; resulting in 90% of the Funds investment assets now being held in pooling vehicles.
- Revision of the Strategic Asset Allocations, as recommended by the Investment Panel, were 2.5% reduction in Private Equity, 2.5% increase in infrastructure, 1% decrease in alternative credit and a 1% increase in cash. Overall, this increases the allocation to income generating assets, providing extra assurance to Members that future pension payments are secure.

Investment

In the year to 31 March 2018, Lancashire's investment performance was maintained alongside the best of the Local Authority Pension Schemes. . The value of the Fund's net assets at 31 March 2018 was £7,484.2m, up from £7,209.3m at 31 March 2017.

The Fund along with LPFA, uses LPP I to manage all of its investment assets, creating a larger pool (approximately £14 billion as at 31 March 2018) which is jointly invested to ensure greater reductions in management costs.

One of the aims of the pooling arrangements is value for money. As part of this LPP reported to Government that the arrangement is on track to make investment cost savings. Other benefits from the pool include the access to investments and portfolio diversification.

Further details on investment performance is on page 16 of this report.

The approach to responsible investment has been an area of focus to be in the year with the committee ensuring the Fund takes responsibility for its own policies in this area via the work of a Responsible Investment Working Group which was formed in June 2017. The remit of the Group was to:

1. Review whether the current arrangements in relation to Responsible Investment reflect the duties of the Lancashire County Council as an administering authority (the function having been delegated to the Pension Fund Committee) under the LGPS regulations;

2. To identify any gaps in the Lancashire County Pension Fund Responsible Investment approach relative to the regulations or any permissible powers that the Pension Fund Committee may wish to explore;

3. To review current Responsible Investment Reporting to the Pension Fund Committee and make any required recommendations for amendments;

4. To evaluate the possibility of developing a 'dashboard' style report with possible targets/outcomes to summarise LPP's activity and performance in relation to Responsible Investment.

This has resulted is a revised Responsible Investment Policy which reflects the Fund's Investment Strategy Statement and the approach to complying with the UK Stewardship Code. Responsible investment is an on-going issue and the working group is continuing to undertake work on specific areas such as climate change, whilst ensuring its fiduciary duty remains paramount.

Administration

During the year the Fund's administration service, provided by LPP, continued to maintain a high standard of service. It processed around 27,000 items of work (ranging from changes of address to the calculation of pension benefits) all of which were within statutory requirements and 96% were within the tighter internal standards.

County Councillor Eddie Pope
Chair of the Pension Fund Committee

C Governance of the Fund

Lancashire County Pension Fund Governance Policy Statement

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

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

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

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

The Fund’s Governance Compliance Statement is shown on the following page, and the Governance Policy Statement is included as Appendix 1 to this report.

LANCASHIRE COUNTY PENSION FUND GOVERNANCE COMPLIANCE STATEMENT - JANUARY 2018

A. Structure	(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council (b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee (1) (c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. (d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	√ Partial (see Note 1) √ √
B. Representation	(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) These include: (i) employing authorities (including non-scheme employers, e.g. admitted bodies) (ii) scheme members (including deferred and pensioner scheme members) (iii) independent professional observers (2)	Partial (see Notes 1 and 2)

	(iv) expert advisers (on an ad hoc basis)	
C. Selection and Role of Lay Members	(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)	√
D. Voting	(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	√
E. Training/Facility time/expenses	(a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	√ √
F. Meetings - Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary	√ √

	committee or panel meet at least twice a year and is synchronised with the dates when the main committee sit. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	 √
G. Access	(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	√
H. Scope	(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
I. Publicity	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

Notes - Reasons for partial compliance

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

2) Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and

performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by the Fund's independent advisers and officers and it is not apparent what added value such an appointment .would bring.

D Administration of the Fund

Background to Lancashire County Pension Fund and the Local Government Pension Scheme

The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis". Lancashire County Council as "Administering Authority" is required by law to administer the Scheme within the geographical area of Lancashire.

Pension administration services are provided to Lancashire County Pension Fund by the Local Pensions Partnership.

Review of the Year
Over the year Your Pension Service has achieved an overall performance level of 96% against the standards and targets set out within a Service Level Agreement.

During the year to 31 March 2018, 27,433 individual calculations/enquiries were completed, of which 26,337 met the performance standard; an overall performance of 96% was achieved.

Membership and employers
The Scheme is administered on behalf of over 400 organisations including local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector.

The Local Government Pension Scheme is open to 2 main types of employers, “Scheduled Bodies and Admitted Bodies”.

Scheduled Bodies are listed within the LGPS regulations and if they meet criteria are eligible to participate. Admitted Bodies participate through a written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership.

Membership of the LGPS is automatic although employees are able to opt-out of membership if they choose. However, employees are re-enrolled every 3 years under the government's auto-enrolment regulations.

Fund membership	**31 March 2017**	**31 March 2018**
Active scheme members		
Lancashire County Council	26,416	27,059
Other employers	29,499	29,817
Total	**55,915**	**56,874**
Pensioners		
Lancashire County Council	23,141	23,722
Other employers	23,012	23,723
Total	**46153**	**47445**
Deferred members		
Lancashire County Council	34,668	35,477
Other employers	30,573	32,276
Total	65,241	67,753
Total membership	**167,309**	**172,074**

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

Specific service level standards and corresponding service level targets have been agreed between the Fund and the Local Pensions Partnership and an Annual Administration Report is presented to the Pension Fund Committee. A copy of the report for the year to 31 March 2018 is included as Appendix 2 to this annual report.

Performance over the year to 31 March 2018 continues to exceed SLA targets and the key performance indicator;

'to calculate and pay all retirement benefits within 10 working days'

Overall achievement against SLA targets over the year was 96% (97% in the previous year).

The average time elapsed between retirement date and date of first pension payment has been reduced from 45 days in the year to 31 March 2017 to 42 days in the year to 31 March 2018.

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

The annual employer conference was held on the 15th November 2017 at the Hallmark Hotel in Leyland with over 80 employers in attendance. Presentations included a technical update, new GDPR regulations and a training overview covering pensionable pay. The service also hosted a Directors Briefing in December 2017 on behalf of the fund with over 40 finance professionals in attendance.

A dedicated helpdesk, AskPensions provides the first point of contact for members and employers. The helpdesk has a target to answer 90% of calls received. Between 1 April 2017 and 31 March 2018, 85,490 calls were received and 93% of them were answered.

During the year to 31 March 2018, the service received 18 compliments (29 in the previous year), relating to the good customer service provided by the staff within the pensions administration team. During the same period, 49 complaints were received (38 in the previous year). Almost all the complaints were from members relating to the late payment of pension and time taken to process pensions.

The service also received and responded to over 40,000 emails as at 31 March 2018.

Legislative changes
Amendments to the Scheme's rules are expected to take effect during 2018. These include allowing members aged between 55 and 60 who left before 1 April 2014 to draw their deferred benefits at a reduced rate without needing their former employer's consent.

Service developments
During the year the Fund's administration service processed around 27,000 items of work.

Working closely with employers helps to enhance the quality and timeliness of data meaning that Annual Benefit Statements for the year ended 31st March 2018 were published in line with the statutory deadline of 31 August.

Pension surgeries are hosted throughout the county on an annual basis from October through to March. The sessions help members to understand their annual benefit statements.

2 drop in sessions are also hosted during the year where members (including pensioners) can be helped through the process of registering to use the online self-service portal.

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

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

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

Currently around 30% of members are registered online.

Appeals

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

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

Over the year 18 appeals have been received under stage 1 of the process. Of these 1 has been upheld in the members favour and 10 were dismissed. At the close of the year 7 stage 1 cases were outstanding.

In respect of appeal applications that progressed to stage 2 of the IDRP, 8 appeals have been received. Of these 4 have been upheld in the members favour and 4 were dismissed.

As in previous years the majority of appeals continue to relate to ill health.

Charges

Charges are on a per member basis. The on-going level of charge to the Fund is kept under review.

Other information

For further information relating to the administration of the scheme please refer to the Communication Policy Statement and the Pensions Administration Strategy Statement included as Appendices 3 and 4 respectively.

E Knowledge & Skills Framework

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

CIPFA Pensions Finance Knowledge and Skills Framework

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

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

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

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

Training approach

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

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

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

The Policy provides a framework for ensuring members receive appropriate support (both collectively and individually) for gaining the knowledge and understanding they need. Training

is responsive to the learning needs of individuals in their different roles and members have regular opportunities to build skills and knowledge through a range of methods and approaches including:

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

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

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) since 1 April 2017 are detailed below.

Date	Subject	Venue	Attendees	
			PFC	LLPB
15-17 May 2017	Local Authority Conference	De Vere Cotswold Water Park in Gloucestershire	1	1
23 June 2017	Workshop on Annual report and Accounts	County Hall, Preston	8	2
28 June 2017	Local Pension Boards 2 Years On event	Cheapside House, London	0	1
29-30 June 2017	14th Annual LGPS Trustees' Conference - "Brave New World"	Marriott Highcliff Hotel, Bournemouth	1	0
18-20 July 2017	The LAPF Strategic Investment Forum	The Grove, Hertfordshire	1	0
27 July 2017	Workshop on LCPF Risk Register	County Hall, Preston	10	4
7-8 September 2017	LGC Investment Summit 'Navigating the new landscape'	Celtic Manor Resort, Newport, South Wales.	2	0
19 September 2017	LGPS Pension Board Seminar	PLSA offices, London	0	1
20 September 2017	Workshop on LPP Strategic Budget & Accts	County Hall, Preston	14	3
27 September 2017	Introduction to the LGPS	Northern Trust Offices, Canary Wharf, London	3	0
11 October 2017	Local Government Pension Investment Forum	Hilton Tower Bridge Hotel, London	3	0
18-20 October 2017	Annual Conference and Exhibition	Manchester	3	1
2 November 2017	Workshop on revised Investment Strategy	County Hall, Preston	10	5
10 November 2017	Local Pension Board Member Seminar	Liverpool	0	2
15 November 2017	LGPS Practitioners Conference	Hallmark Hotel, Leyland	0	3
23 November 2017	Workshop on General Data Protection Regulations and the	County Hall, Preston	12	3

	Markets in Financial Instruments Derivative.			
6-8 December 2017	Annual Conference (Responsible Investment)	Highcliff Marriott Hotel in Bournemouth	1	0
30 January 2018	Workshop on Pension Law and Regulations – Where do I find the rules?	County Hall, Preston	8	3
1-2 March 2018	LGC Investment Seminar	Carden Park Hotel near Chester	2	0
14 March 2018	Workshop on LPP Development	County Hall, Preston	10	2
27 March 2018	Scheme Advisory Board Cross Pool Forum		0	1
11 April 2018	Workshop on Management of the Property Investment portfolio	County Hall, Preston.	10	4

F Investment Policy and Performance

Macro outlook – the last 12 months

2017 was a year of stronger, broad-based economic expansion, which saw world GDP increase at the fastest pace since 2011 and roughly 70% of global economies seeing stronger growth compared to 2016. Despite this "synchronised growth" the acceleration in world GDP stemmed predominantly from firmer growth in several developed economies. The cyclical improvements in Argentina, Brazil, Nigeria and the Russian Federation, as these economies emerged from recession, explains roughly a third of global economic growth between 2016 and 2017.

After a couple of years of monetary policy divergence, with the Federal Reserve Bank (FED) continuing to tighten alongside advanced economies' ongoing accommodative policies, the first steps towards convergence were taken as the Bank of England (BOE) increased interest rates for the first time in almost a decade and the European Central Bank (ECB) scaled back its asset purchase programme.

This year saw a rise in geopolitical risks around the world, from continuing conflicts in Syria and Yemen to rising tensions between the United States (U.S.) and Iran, Russian sanctions, as well as North Korea (amid the latter's nuclear development programme). Furthermore, an ongoing spat between Qatar and other regional countries including Saudi Arabia increased risks in the Middle East, while trade tensions between U.S. and China raised concerns over the possibility of reciprocal tariffs and other protectionist policies. Despite this backdrop, risk assets performed exceptionally well with global equity indices reaching new highs at the end of 2017.

In the U.S., the economy also expanded at a faster pace in 2017 (full-year growth was at 2.3%), operating close to full employment. The labour market remained strong, with an average 180k new jobs a month, pushing the unemployment rate down to 4.1% from 4.7%. Despite the tightness in the labour market, wage growth only accelerated modestly which together with the FED's gradual interest rate hikes kept inflation in check. The trade weighted dollar was approximately 6% weaker at the end of 2017 compared to 2016 but has since stabilised in the first quarter of 2018 supported by rising rates, stronger growth and an increased supply of government bonds. Additional fiscal spending and the recently enacted tax cuts should further support growth in 2018.

In the U.K., the economy continued to slow down (full-year growth was at 1.8%) amid lingering Brexit negotiations, which have weighed on investment and economic activities. Following the 2016 EU referendum, sterling depreciated sharply leading to inflationary pressures and decreased consumer spending. Consumption fared relatively well in the first half of 2017, buoyed by a further reduction in savings and an increase in short-term credit, but was markedly lower in the second half as inflation continued to exceed wage gains. The BOE raised interest rates by 25 basis points in November 2017 for the first time since July 2007, reiterating that only limited and gradual interest rate hikes will follow. Despite this move, monetary conditions have remained broadly accommodative, as the BOE continues with its Quantitative Easing programme and its proceeds reinvestment. Sterling rebounded slightly on a trade weighted basis throughout the year, reflecting gains mainly against the Dollar, Swiss Franc and Chinese Renminbi, while it was approximately 4% weaker against the Euro, its main trading partner.

In the Eurozone, political risk receded in 2017, although key questions remain regarding the EU's regulatory and fiscal convergence. Growth accelerated to 2.4% as economic indicators reached cyclical highs, investment rebounded, and consumption was solid. The labour markets continued to add new payrolls on a quarterly basis, dragging unemployment to the lowest level since 2008 (8.7%). Headline inflation increased as commodity prices rebounded globally, but core inflation remained subdued. The ECB's asset purchase programme was scaled back to 30 billion Euros a month and announced September 2018 as a likely "soft" end date. Regardless of when it comes to an end, interest rates are expected to remain at near zero levels for an extended period, and the ECB is expected to continue reinvesting asset purchase proceeds in the medium term.

Across emerging markets, China's rising trade tensions with the U.S. have been under the spotlight. After consolidating his power, President Xi Jinping pledged a new era for the Chinese economy, focusing on rebalancing growth between consumption and investment, further opening the economy and improve the increasing levels of corporate debt. Growth accelerated slightly on a full year basis (6.9%) although it appeared to lose some momentum at the end of the year. Commodity producers such as Brazil, South Africa and Russia emerged from recessions, amid higher commodity prices, which boosted their balance sheets.

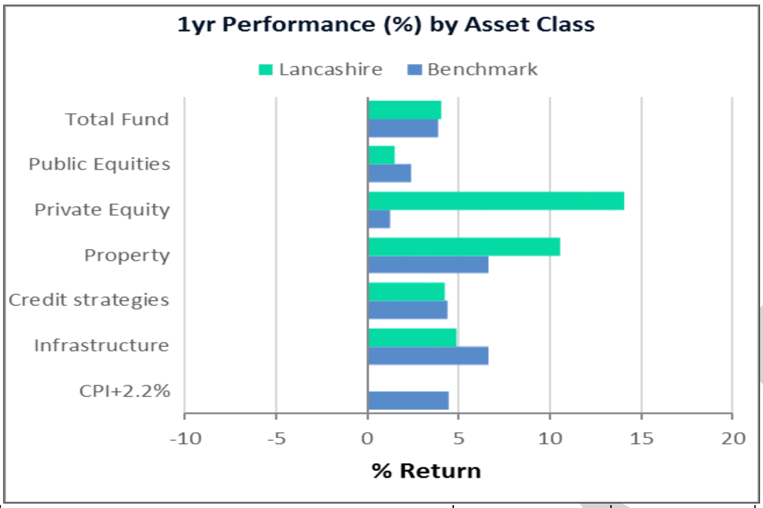
Performance

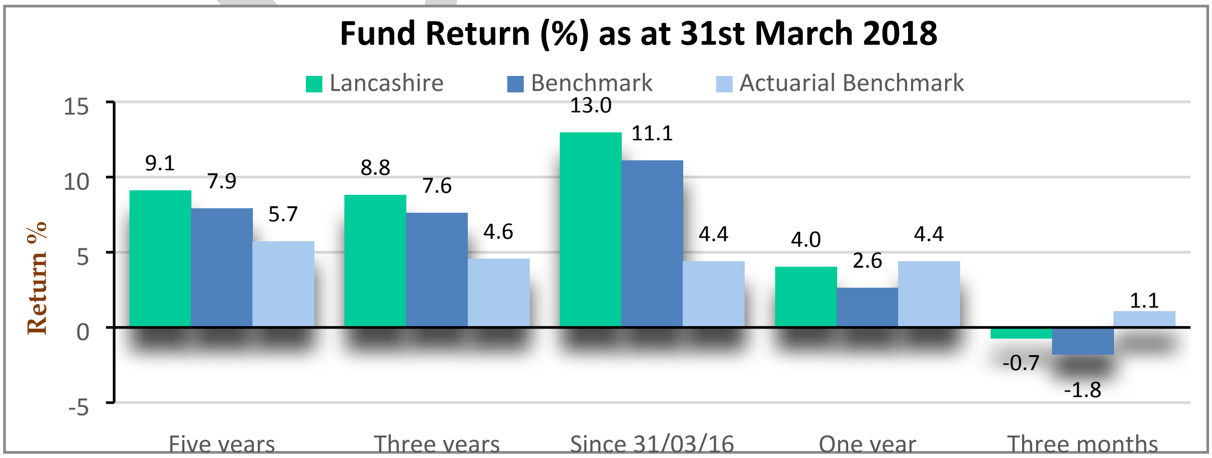
As a pension fund our investment horizon is long term. Our investment strategy is based on the Fund's objectives of balancing capital growth with capital preservation and adequate cash flows to cover all liabilities as they fall due. The Fund invests its assets to meet its liabilities over the long-term, and therefore performance should be better judged against those objectives and over a corresponding period.

In the year to 31 March 2018, the Fund delivered 4.0% return on assets, slightly trailing the Lancashire Plan Benchmark by 0.4%, but outperformed its Policy Portfolio by 0.2%. The value of the Fund's investment assets at 31 March 2018 was £7,610.2m, up from £7,191.4m at 31 March 2017.

Over the year, the Fund's performance was mainly driven by the private equity and real estate assets classes, which strongly outperformed their respective benchmarks. Longer-term (over a 3-year or 5-year horizon) the Fund returns had been strong, comfortably outperforming both its actuarial benchmark and its policy portfolio. The triennial discount rate assumption (the actuarial benchmark) used until 31 March 2016 was based on UK gilts+1.6% p.a. - this was changed with effect from the 2016 actuarial valuation and is now an inflation-linked measure, CPI + 2.2% p.a. At the 31 March 2016 valuation this discount rate was 4.4% p.a. and this is reflected as a fixed actuarial benchmark from that date in the table below. Policy portfolio returns reflect the Fund's long-term strategic asset allocation returns (strategic weights multiplied by a benchmark asset class index).

Period Return	1 Year	3 Year	5 Year
Investment return	4.0%	8.8%	9.1%
Actuarial benchmark	4.4%	4.6%	5.7%
Policy portfolio	3.8%	8.0%	8.2%





Investment pooling

In 2016, LCPF appointed Local Pensions Partnership Investments Limited (LPP I) to manage its assets. LPP I is a FCA regulated investment company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA has also appointed LPP I to manage its assets, creating a larger pool (£13.1 billion as at 31 March 2018) which will be jointly invested. As well as combining the assets of both parties to create a larger investment pool, the investment teams of LCPF and LPFA have also been merged, leading to a more diversified pool of resources. As at the end of March 2018, LPP I had created 5 asset "pools" (vehicles) across public equities, private equity, infrastructure, credit and fixed income to manage clients' assets.

Asset allocation

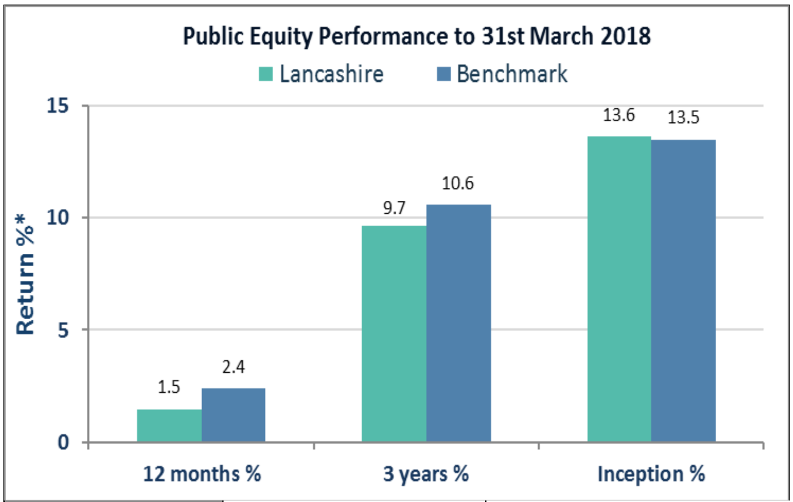
In recent years the Fund has focused on reducing its reliance on listed equities, increasing allocations to other asset classes such as infrastructure, real estate and credit with the intention to better diversify its exposure and increase income yielding assets. Ultimately, the aim is to improve risk-adjusted returns over the long term.

The following tables present LCPF's current asset allocation versus its strategic target (policy portfolio) at the end of this and the previous financial year. In the first quarter of 2018, LCPF decreased its strategic asset allocation (SAA) to private equity and credit by 2.5% and 1.0% respectively, whilst it increased its allocation to infrastructure and cash by 2.5% and 1.0% respectively. In its advice to LCPF, LPP I discussed issues surrounding the scheme's liquidity, income generation and equity exposure. Although the changes to the scheme's SAA were incremental, implying limited impact on the long-term investment performance, they were intended to reduce risks around an income shortfall in a stress case scenario, and provide a "glidepath" for incremental rather than dramatic SAA changes, as the funding and liability dynamics of the scheme evolve over time.

The 2.5% reduction of private equity weight was intended to reduce equity risk and improve liquidity, although given the dynamics of this asset class it is likely that the actual portfolio will remain overweight to the new level for a considerable amount of time. The addition of 1.0% in cash was intended to improve liquidity and reflect the fact that the scheme will always need to have a certain minimum amount of cash available to pay pensions and manage capital drawdowns. The 2.5% addition to infrastructure aimed to increase income yielding assets as the maturing nature of the scheme will likely require an increase in regular cash inflows. Finally, the 1.0% reduction in credit was intended to reduce indirect exposure to general corporate, and therefore equity related, risk.

Asset allocation – March 2018

Asset Class	Assets (GBP Mil)	Current Allocation (%)	Strategic Allocation (%)	Range
Global equities	3,214.4	42.2%	42.5%	40% - 50%
Fixed income	183.8	2.4%	2.5%	0% - 10%
Private equity	547.7	7.2%	5.0%	0% - 10%
Infrastructure	991.2	13.0%	15.0%	10% - 20%



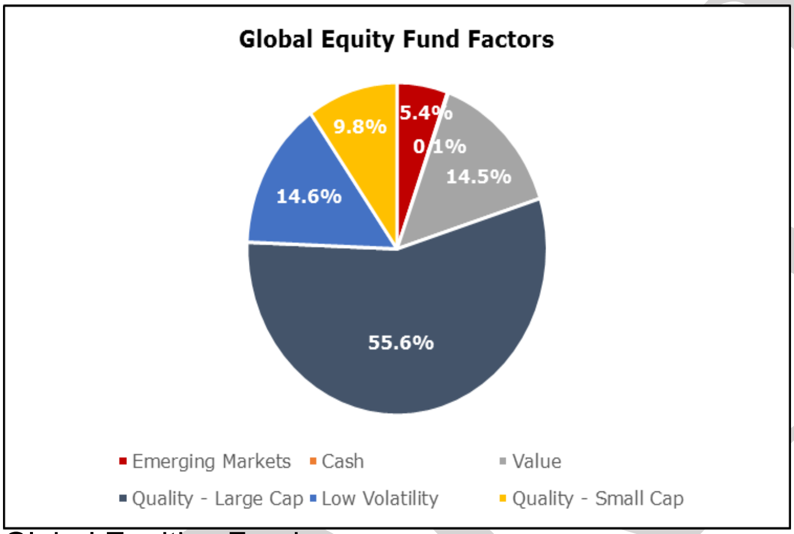
Credit	1,562.3	20.6%	19.0%	10% - 25%
Real estate	828.8	10.9%	15.0%	10% - 20%
Cash	282.0	3.7%	1.0%	0% - 5%
Total	**7,610.2**	**100.0%**	**100.0%**	

Asset allocation – March 2017

Asset Class	Assets (GBP Mil)	Current Allocation (%)	Strategic Allocation %	Range
Global equities	3,168.2	44.1%	42.5%	40% - 50%
Fixed income	0	0.0%	2.5%	0% - 10%
Private equity	480.9	6.7%	7.5%	0% - 10%
Infrastructure	940.6	13.1%	12.5%	10% - 20%
Credit	1,730.2	24.1%	20.0%	10% - 25%
Real estate	736.4	10.2%	15.0%	10% - 20%
Cash	135.1	1.8%	0.0%	0% - 5%
Total	**7,191.4**	**100%**	**100%**	

Global Equities

The LPP I Global Equities ACS combines an internally managed portfolio with a variety of world-class external equity managers, which operate with differing and complementary styles of investment selection. During the year LPP I included additional managers within its Global Equity Fund, increasing diversification. Consequently, the full merits of the new strategies need to be better assessed over the longer-term. Also, please note that the inception of the LPP I Global Equities ACS was in October 2016 and therefore the three and five year returns in the chart below are a combination of historical and new strategies. We have also included a split of the pool across the different styles/factors.

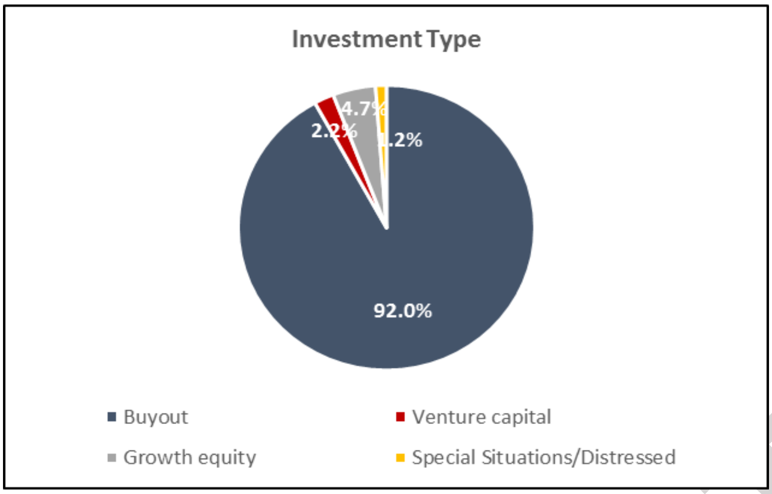


The largest ten equity holdings of the Fund at 31 March 2018, via the LPPI Global Equities Fund were:

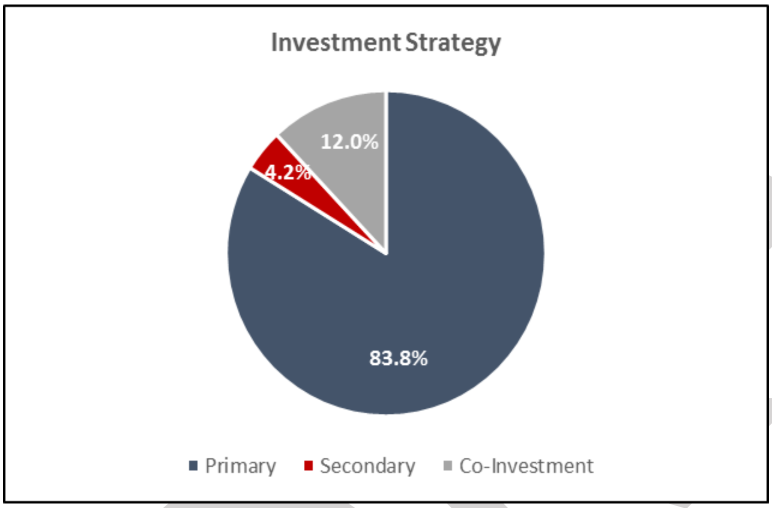
Company	Industry	Market value at 31 March 2018	% of net assets of the Fund
VISA INC	Diversified financial services	109.53	1.5%
NESTLE SA	Food Processing	94.87	1.3%
ACCENTURE PLC	Computers	85.93	1.1%
COLGATE-PALMOLIVE CO	Cosmetics and personal care	79.96	1.1%
STARBUCKS CORP	Retail services	66.12	0.9%
TEXAS INSTRUMENTS INC	Semi-conductors	50.12	0.7%
LONDON STOCK EXCHANGE GROUP PL	UK investment services	49.83	0.7%
AUTOMATIC DATA PROCESSING INC	Commercial services	48.74	0.7%
NIKE INC	Apparel	46.71	0.6%
AON PLC	Insurance	46.08	0.6%
		677.90	**9.1%**

Private Equity

Private equity investments are held through a variety of closed-ended limited partnerships, which are invested over a wide range of inception dates and managed by a diverse collection of different managers. All LCPF's holdings were transferred into a collective vehicle which continues to invest in a diversified portfolio of third party managers, and increasingly making use of direct “co-investments”.



Private equity investments provide alternative opportunities to generate returns linked to movements in stock markets. The higher level of engagement by managers in the investee companies leads to an expectation of better long-term returns; at the same time this return expectation needs to be balanced with the higher risk profile and the lack of liquidity of these investments, which typically need to be held from 7-10 years before gains can be realised.



In 2017/18, private equity investments performed strongly, buoyed by the strong increases in global equity markets. Valuation increases however, are based on managers estimates rather than actual market prices; therefore, it is more appropriate to look at longer term performance during which investments are made and realised as a guide to performance. 3-year returns have been stellar, and longer-term outperformance has also been maintained.

Property

The Fund dedicates a large portion of its investment portfolio to directly owned UK commercial properties managed by Knight Frank, which also comprises an allocation to local investment opportunities. The Fund also has allocations to a European real estate investment fund managed by M&G and a healthcare property fund managed by Kames.

Real estate is an important portion of the Fund's investment portfolio because of both the diversification benefits that real estate investments bring and the rental income generated that is used to fund member benefits without the need to liquidate other investments. The performance during the year was strong with real estate assets comfortably outperforming their respective benchmark. This outperformance is maintained in longer-term timeframes as well.

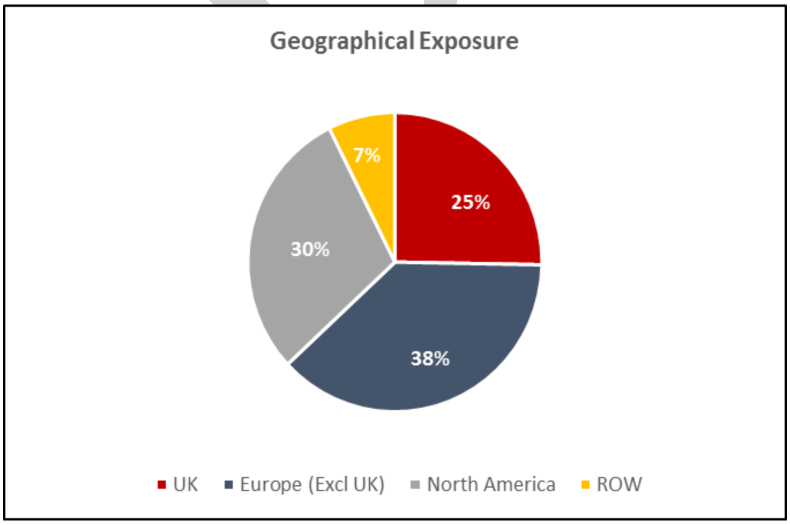
	Investment Strategy	Investment Type	Valuation £ mil	%
Gatefold Hayes	Traditional property & specialist income	Fund	39.0	4.7%
Kames	Traditional property & specialist income	Fund	28.3	3.4%
Knight Frank	Traditional property & specialist income	Direct	554.6	67.1%
Knight Frank	Value-added / Opportunistic	Direct	158.3	19.2%
M&G	Value-added / Opportunistic	Fund	46.00	5.6%
Total			**826.2**	**100%**

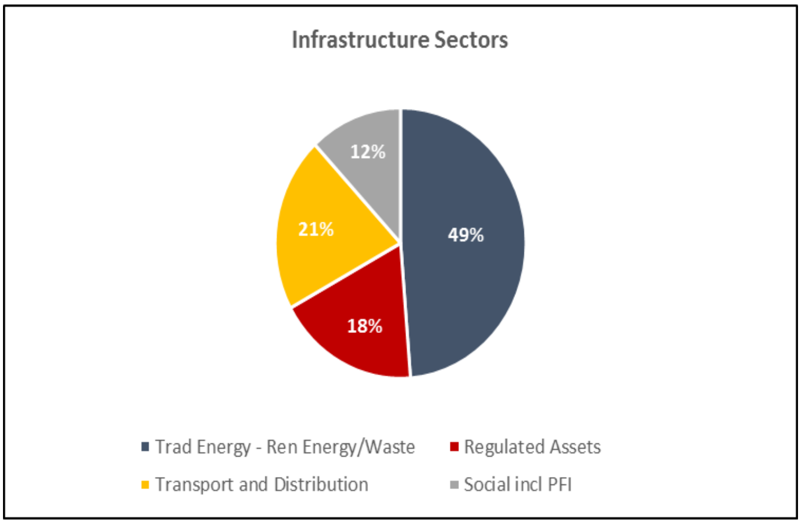
Infrastructure

The Fund has allocations to a number of different global infrastructure funds, and also invests directly in global renewable energy infrastructure projects. In December 2016, LCPF joined GLIL, a partnership between five local authority pension funds, which has a remit to invest in predominantly core UK infrastructure. The approach of bidding and investing alongside key strategic counterparties has continued and LCPF now owns interests in international gas and electricity distribution networks together with significant domestic and international investments in wind-powered electricity generation.

Infrastructure investments offer long-term returns that are expected to closely match the Fund's investment needs, and provide an important source of diversification. As well as investing in traditional infrastructure funds, the Fund has made an increasing number of direct investments in global infrastructure (with significant allocations in the renewable energy sector) through the LPPI Infrastructure Pool and in the UK though the GLIL partnership. The ability to invest directly minimises fee costs and has enabled the Fund to negotiate favourable investment terms which have delivered excellent performance since inception.

Like property, significant initial investment costs associated with the growth in the portfolio could be expected to act as a short-term dampener of performance whilst a further increase in strategic allocation will lead to additional commitments and capital deployed. The asset class return for the year trailed its respective benchmark, however longer-term returns have outperformed benchmark returns.





Credit

During the year, LPP I set up an asset pool (limited partnership) to manage the LCPF's and LPFA's credit assets. At the moment, the majority of LCPF credit asset are managed within the LPP I Credit Pool with a significant portion of legacy assets remaining on the Fund's balance sheet. The Pool comprises four broad categories of investments (target strategy weight in parentheses): emerging markets sovereign debt (15%), direct lending (20%), cyclical credit opportunities (25%), and debt secured on real assets (25%). A fifth element of the credit pool is a diversified credit fund (15%) which will effectively be used to manage liquidity, capital drawdowns and distributions within the pool.

Asset class return (including both pooled and legacy assets) has marginally underperformed its benchmark over the year, whilst longer-term returns have outperformed. The pool's exposure is predominantly in developed markets (c. 60% in North America and 35% in Europe including the UK).

Governance

There are four levels of responsibility for the investment management of the Lancashire County Pension Fund:

- The County Council's Pension Fund Committee takes major policy decisions and monitors overall performance. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing other interested organisations;

- The Investment Panel ("Panel") provides expert professional advice to the Pension Fund Committee in relation to investment strategy. The Panel supports the Head of Fund with the specialist advice required by the Pension Fund Committee. The Investment Panel consists of two independent external investment advisors and the Head of Fund.

- The investment management team of Local Pensions Partnership Investments Limited undertake day-to-day investment fund selection, monitoring and due-diligence;

- Where LPP I have chosen to make allocations to third party investment managers or to invest in third party unitised investment vehicles, those managers fix precise weightings and select the individual investments within their particular remit;

A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement.

Responsible investment

Lancashire County Pension Fund is committed to responsible asset ownership and became a signatory to the Principles of Responsible Investment (PRI) in March 2015.

All PRI Signatories' make the following commitment:

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes;
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices;
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest;
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry;
Principle 5	We will work together to enhance our effectiveness in implementing the Principles;
Principle 6	We will each report on our activities and progress towards implementing the Principles.

The Fund reported against the principles for the second time in March 2018. Transparency reports capturing the detail of the Fund's annual reporting are publicly available from the PRI website. PRI Reporting Framework

The Fund has developed and agreed a Responsible Investment Policy which aims to integrate 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.

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.

The Funds key Responsible Investment principles include:

- 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 Funds key priorities include:

- 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;

Implementation of the Fund's approach to Responsible Investment divides into the following four areas of activity:

a) Voting Globally;

Since November 2016 when the Fund pooled its listed equity investments, LCPF has owned units in a Global Equities Fund managed by LPPI rather than shares in underlying companies. As a beneficial co-owner in the fund LCPF is not entitled to direct shareholder voting but has confirmed voting arrangements with LPPI which reflect responsible investment beliefs and the commitments of signatories to the Principles of Responsible Investment and which complies with good practice under the UK Stewardship Code.

Shareholder voting for the Global Equities Fund is managed centrally by LPPI rather than being delegated to individual portfolio managers. This enables a consistent approach across the equities within the fund in accordance with a single voting policy. LPPI employs Institutional Shareholder Services (ISS) to oversee ballot management and vote execution and to provide information, analysis, voting recommendations, and reporting facilities via an online voting platform.

Voting recommendations are in accordance with sustainability proxy voting guidelines which are actively reviewed on an annual basis and updated to reflect emerging issues and trends.

The recommendations for forthcoming meetings are reviewed by LPPI and where there is a case for departing from the ISS recommendation this is considered carefully as part of making a final decision on voting direction. Where LPPI decides to depart from the ISS voting recommendation the rationale is recorded online and captured in reporting. In the period from 1st April 2017 to 31 March 2018 this occurred in 9 instances (0.2% of resolutions voted).

A record of voting activity is provided to the Pension Fund Committee quarterly as part of responsible investment reporting by LPPI.

b) Engagements through partnerships;
The Fund works in partnership with like-minded bodies. The Fun 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 its membership of the Local Authority Pension Fund Forum (LAPFF) and by joining appropriate lobbying activities. 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.

c) Shareholder litigation;
The Fund has agreed arrangements with LPPI which ensure emerging legal cases are monitored and that the Funds rights and interests are represented via class actions and other shareholder actions globally where possible and where appropriate.

d) Active Investing;
The Fund does not invest directly but, on behalf of the Fund, LPPI actively seeks sustainable investments which meet the Fund'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 investing, 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.

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

Risk Management

The Lancashire County Pension Fund recognise the importance of managing risks effectively. To this end, the fund has a risk officer to manage and monitor all risks through effective risk management processes. A central risk register is maintained to identify, record and mitigate all risks under the following four main group headings:

- Investment and Funding Risk – all financial risks associated with the Fund;

- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – the temporary risks associated with change. Once the change is embedded, the risk lies in one of the other categories above.

Risk management and monitoring is also supported by service level agreements with Local Pensions Partnership, who provides analysis and reporting across the four main groups above.

Risk reporting is carried out each quarter to the Lancashire Pension Fund Committee. Additional oversight is also undertaken by the Lancashire Pension Board.

Compliance with Myners Principles

The Fund is compliant with the Myners Principles, details of which can be found in the Investment Strategy Statement.

G Accounts of the Fund

Responsibilities for the Statement of Accounts

The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Chief Executive and Director of Resources, who is also the Director of Financial Resources to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The responsibilities of the Director of Financial Resources to the Pension Fund

The Director of Financial Resources to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Director of Financial Resources to the Pension Fund has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

In addition, the Director of Financial Resources to the Pension Fund has:

- Kept proper accounting records which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2018 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Angie Ridgwell

Chief Executive and Director of Resources (S151)

22 May 2018

Lancashire County Pension Fund – Annual Governance Statement 2017/18

Introduction

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

At 31st March 2018 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 172,074 members across 287 organisations with active members and a range of other organisations with only deferred or pensioner members.

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

The Pension Fund's Responsibilities

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

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

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

http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. The County Council's Annual Governance Statement is prepared in accordance with the Framework prepared by CIPFA/Solace "Delivering Good Governance in Local Government" (2016 edition). The Framework defines the 7 core principles that should underpin the governance of each local authority namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;

- Developing the Fund's capacity, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management; and
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

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

The Purpose of the Governance Framework

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2018.

The Fund's Governance Framework

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

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

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

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

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

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling 3 year strategic Plan and for monitoring the progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

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

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. Many of these functions are now performed under contract by Local Pension Partnership (LPP). These and the overall strategic plan will continue to be monitored by the Head of Fund

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

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

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

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

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

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

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

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

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

At the top level these requirements are set out in the Governance Policy Statement and within the County Council's Constitution. These are reviewed on a regular basis and are supported by a range of detailed materials appropriate to specific activities.

The management of risk is central to the Fund's activities and the Fund has continued to develop and update its risk register. Key areas of risk include:

- Investment and Funding Risk – all financial risks associated with the Fund;
- Member risk – all risks which may impact on the high levels of service the fund members receive;
- Operational risk – risks which could negatively impact the smooth and effective running of all aspects of Fund operations and governance;
- Transition risk – the temporary risks associated with change. Once the change is embedded, the risk lies in one of the other categories above.

Through the use of a detailed Risk Management Framework, LCPF maintain a detailed risk register covering all the risks identified within the four main risk groups. Mitigating actions are carried out and reviewed quarterly to ensure that each risk is effectively managed and risk ratings are updated accordingly.

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit, Risk and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP investments is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance Team which is independent from the Investment Management.

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

The Fund participates in the National Fraud Initiative, and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee.

Whistle blowing and receiving and investigating complaints from the public

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

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

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

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

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

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

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

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

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

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

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

Review of Effectiveness

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

The key planned activities of the Fund during 2017/18 were:

- To support the new Committee especially by providing appropriate training for new members.
- The review and amend the Admissions and Terminations Policy for implementation from 1 April 2018.
- The production of a new 3 year Strategic Plan.
- The Investment Panel completed a full review of the Fund's investment strategy and recommended some small changes to the asset allocations.

Actions Planned for 2018/19

The following specific actions are proposed for completion during 2018/19.

- Review the Communications Policy
- Continued development of a socially responsible investment policy
- Monitor Pensions administration including impact of LPP's administration transformation plan
- To review the compliance of employers and undertake an assessment of the risk they pose to the Fund.

Signed

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

Date: …………………………………

Independent auditor's report to the members of Lancashire County Council - Lancashire County Pension Fund

The published version will include the Audit Certification on this page.

The published version will include the Audit Certification on this page.

LANCASHIRE COUNTY PENSION FUND

Fund account

2016/17		Note	2017/18
£m			£m
	Dealing with members, employers and others directly involved in the Fund		
245.5	Contributions	6	237.9
10.9	Transfers in from other pension funds	7	11.5
256.4			**249.4**
(261.1)	Benefits	8	(254.8)
(15.7)	Payments to and on account of leavers	9	(17.9)
(276.7)			**(272.7)**
(20.4)	**Net withdrawals from dealings with members**		**(23.3)**
(70.4)	Management expenses*	10	(62.4)
(90.8)	**Net withdrawals including fund management expenses**		**(85.7)**
	Returns on investments		
109.9	Investment income	11	138.7
1,154.0	Profit and losses on disposal of investments and changes in the market value of investments*	13	221.9
1,263.9	**Net return on investments**		**360.6**
1,173.1	**Net increase / (decrease) in the net assets available for benefits during the year**		**274.9**
6,036.2	**Opening net assets of the scheme**		**7,209.3**
7,209.3	**Closing net assets of the scheme**		**7,484.2**

*The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016).* This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

Net asset statement as at 31 March 2018

31 March 2017		Note	31 March 2018
£m			£m
7,135.1	Investment assets	13	7,448.2
56.3	Cash deposits	13	162.0
7,191.4	**Total net investments**		**7,610.2**
30.7	Current assets	19	23.4
(12.8)	Current liabilities	20	(80.9)
-	Long term liabilities	20	(68.5)
7,209.3	**Net assets of the Fund available to fund benefits at the at the period end**		**7,484.2**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 25.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2018 and its income and expenditure for the year then ended.

Angie Ridgwell
Chief Executive and Director of Resources

County Councillor Alan Schofield
Chair of Audit and Governance Committee

NOTES TO THE FINANCIAL STATEMENTS

1. PENSION FUND OPERATIONS AND MEMBERSHIP

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

Benefits payable amounted to £272.7million and were partly funded by contributions of £237.9 million and transfers in of £11.5 million. The resulting net cash outflow from transactions with members, together with management expenses is funded from investment income.

The following description of the Fund is a summary only. For more detail, reference should be made to the Lancashire County Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

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

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

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

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

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

1.2 Membership

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

Organisations participating in the Lancashire County Pension Fund include:

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

There are 412 employer organisations (2016/17: 413 employer organisations) within Lancashire County Pension Fund including the County Council itself, of which 287 have active members (2016/17: 287) as detailed below:

31 March 2017	Lancashire County Pension Fund	31 March 2018
413	Total number of employers	412
287	Number of employers with active members*	287
	Number of active scheme members	
26,416	County Council	27,059
29,499	Other employers	29,817
55,915	**Total**	**56,876**
	Number of pensioners	
23,141	County Council	23,722
23,012	Other employers	23,723
46,153	**Total**	**47,445**
	Number of deferred pensioners	
34,668	County Council	35,477
30,573	Other employers	32,276
65,241	**Total**	**67,753**
167,309	**Total membership**	**172,074**

*Includes employers for whom admission to the Fund is in progress

1.3 Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the Fund in accordance with the LGPS (Amendment) Regulations 2018 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 for the three years commencing 1 April 2017.

1.4 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as detailed in the following summary:

	Service Pre 1 April 2008	**Service post 31 March 2008**	**Service post 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x the pensionable pay for that year (or 1/98th of pensionable pay if member opts for the 50/50 section of the scheme)
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2017/18* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 25 to these accounts.

2.1 Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18,* the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2018 but not yet adopted by the Code.

The 2018/19 Code will introduce the following amendments in respect of:

IFRS 9 Financial Instruments

IFRS 9 replaces *International Accounting Standard (IAS) 39 - Financial instruments: recognition and measurement*. It includes changes to the classification of financial assets and a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39.

The change results in more investments being classified as 'fair value through profit and loss' with any gains or losses impacting on the fund account rather than being held until the investment was sold.

No significant impact is expected on the accounts of the Fund as all financial assets, other than cash and debtors, are already classified as fair value through profit and loss with movements in market value recognised in the fund account during the year.

3. ACCOUNTING POLICIES

3.1 Fund Account - revenue recognition

3.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Member contributions are made in accordance with the LGPS (Amendment) Regulations 2018 and employer contributions are at the percentage rate recommended by the scheme actuary, in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary. Any receipts in advance are accounted for as accrued income.

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

3.1.2 Transfers to and from other schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

3.1.3 Investment income

3.1.3.1 Interest income

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

3.1.3.2 Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend and is included within distributions from pooled funds.

3.1.3.3 Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue

Dividend income arising on equities which are now held within pooled funds is included within distributions from pooled funds. It is Fund policy to reinvest dividend income.

3.1.3.4 Property related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

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

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

3.1.3.5 Movement in the net market value of investments

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

3.2 Fund account – expense items

3.2.1 Benefits payable

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

3.2.2 Taxation

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

3.2.3 Management expenses

The code does not require any breakdown of pension fund management expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016)".*

- 3.2.4 – Administrative expenses
- 3.2.5 – Oversight and governance costs
- 3.2.6 – Investment management expenses

3.2.4 Administrative expenses

Administrative expenses consist of the following:

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

All administrative expenses are accounted for on an accruals basis.

3.2.5 Oversight and governance costs

Oversight and governance expenses include the following costs:

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

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

3.2.6 Investment management expenses

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

All investment management expenses are accounted for on an accruals basis.

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

The fund has negotiated with a number of managers that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the net assets statement date, an estimate based upon the market value of their mandate as at the end of the year is used for the inclusion in the fund account. In 2017/18, £11.5m of fees is based on such estimates (2016/17: £17.5m).

3.3 Net assets statement

3.3.1 Financial assets

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

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

3.3.2 Freehold and leasehold properties

The properties were valued at open market value at 31 March 2018 by independent property valuers Bilfinger GVA in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

3.3.3 Foreign currency transactions

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

3.3.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise of trade and other receivables and cash deposits.

3.3.5 Cash and cash equivalents

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

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

3.3.6 Financial liabilities

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

3.3.7 Actuarial present value of promised retirement benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 25).

3.3.8 Additional voluntary contributions

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

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

4.1 Unquoted private equity and infrastructure investments

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

4.2 Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the net assets statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments	Private equity and infrastructure investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012 or equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The market value of private equity and infrastructure investments in the financial statements totals £1,538.9 m. There is a risk that these investments might be under or overstated in the accounts.
Long-term credit investments	Long-term credit investments are valued as the Fund's percentage share of the independently audited Net Asset Value of each individual strategy as provided by the relevant manager. In some cases the underlying investments will be classified as level 3 investments, defined in note 16 as those investments for which valuation involves at least one input which is not based on observable market data.	The market value of long-term credit investments in the financial statements (excluding the investment in Heylo Housing listed separately below) totals £1,364.0m. There is a risk that these investments might be under or overstated in the accounts.
Loans secured on real assets	The Heylo Housing Trust loans are held at the best estimate of market value. The value is based on long term expectations of interest rates, inflation and credit spreads in the housing association sector. Exact market benchmarks for these estimates may not be easily observable.	The market value of housing authority loans to Heylo Housing totals £198.3m in the financial statements. There is a risk that this may be under or overstated.
Indirect property valuations	Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Indirect property investments in the financial statements total £113.3m. There is a risk that these investments may be under or overstated in the accounts.

Actuarial present value of retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £450m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £100m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £200m.

6. CONTRIBUTIONS RECEIVABLE

2016/17		2017/18
£m	**By category**	**£m**
55.5	**Members**	**56.5**
	Employers:	
124.5	Normal contributions	136.0
48.5	Deficit recovery contributions	38.2
17.0	Augmentation contributions[1]	7.2
190.0	**Total employers contributions**	**181.4**
245.5		**237.9**
	By authority	
109.5	County Council	96.2
114.7	Scheduled bodies	118.2
21.3	Admitted bodies	23.5
245.5		**237.9**

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

Within the employee contributions figure for 2017/18, £0.4m is voluntary and additional regular contributions (2016/17: £0.3m).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17		2017/18
£m		**£m**
10.9	Individual transfers in from other schemes	11.5
10.9		**11.5**

8. BENEFITS PAYABLE

2016/17		2017/18
£m	**By category**	**£m**
207.3	Pensions	213.6
48.2	Commutation and lump sum retirement benefits	35.1
5.6	Lump sum death benefits	6.1
261.1		**254.8**
	By authority	
113.3	County Council	107.1
128.6	Scheduled bodies	126.5
19.2	Admitted bodies	21.2
261.1		**254.8**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17		2017/18
£m		**£m**
0.7	Refunds to members leaving service	0.6
14.4	Individual transfers	17.3
0.6	Group transfers	-
15.7		**17.9**

10. MANAGEMENT EXPENSES

2016/17		2017/18
£m		**£m**
3.2	Fund administrative costs	3.8
63.5	Investment management expenses*	54.1
3.7	Oversight and governance costs[1]	4.5
70.4		**62.4**

*The 2016/17 comparatives for management expenses have been restated to include additional fees previously netted off investment value, in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016).* This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

[1]Oversight and governance costs above include external audit fees which amounted to £34,169 (2016/17: £34,169)

10.1 Investment management expenses

2016/17		2017/18
£m		**£m**
1.1	Transaction costs*	0.4
42.7	Fund value based management fees[1] *	41.8
2.0	Transition costs[2]	0.3
17.5	Performance related fees*	11.5
0.2	Custody fees	0.1
63.5		**54.1**

*****The 2016/17 comparatives transaction costs, fund value based management fees and performance related fees have been restated to include additional fees previously netted off investment value, in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016).* This restatement has an equal impact on management expenses and the change in the market value of investments. There is no impact on the overall net assets of the scheme.

[1] Fund value based management fees include costs invoiced directly to the Fund by investment managers and fees accounted for by investment managers within net asset value and recognised in the fund account in accordance with CIPFA guidance. Fees are charged as a percentage of the value of assets held by each manager. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

[2]Transition costs of £0.3m (2016/17: £2.0m), relate to infrastructure, private equity and credit portfolios transitioned to pooled funds within Local Pensions Partnership Investments Ltd during the year.

12. INVESTMENT INCOME

2016/17 £m		2017/18 £m
1.4	Fixed interest securities	3.3
32.0	Equity dividends*	-
1.5	Index linked securities	0.8
43.1	Pooled investment vehicles**	103.4
2.2	Pooled property investments**	2.2
28.2	Net rents from properties	28.9
0.7	Interest on cash deposits	0.1
0.8	Other***	-
109.9	**Total before taxes**	**138.7**

*Income from equity dividends is included within income from pooled investment vehicles following the transition of global equities during the year ended 31 March 2017.

** £9.0m income from pooled investment vehicles has been reclassified from income from pooled property investments for the year ended 31 March 2017.

***Stock lending income of £0.8m was included within investment income in the year ended 31 March 2017. Since the pooling of equities there is no stock lending income attributable to the Fund and any equivalent income is credited to the global equity fund held with LPPI.

13. PROPERTY INCOME

2016/17 £m		2017/18 £m
31.3	Rental income	32.2
(3.1)	Direct operating expenses	(3.3)
28.2	**Net income**	**28.9**

13. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2017/18

	Market value as at 1 April 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value[1]	Market value as at 31 March 2018
	£m	£m	£m	£m	£m
Fixed interest securities	132.2	341.8	(351.3)	(5.9)	116.8
Index linked securities	127.1	1,940.4	(1,889.4)	(0.1)	178.0
Pooled investment vehicles	6,136.7	1,956.1	(1,879.5)	108.2	6,321.5
Pooled property investments	99.4	-	(0.1)	14.0	113.3
Direct property	637.0	43.0	(17.9)	53.4	715.5
	7,132.4	**4,281.3**	**(4,138.2)**	**169.6**	**7,445.1**
Other investment balances:					
Cash deposits	56.3				162.0
Investment accruals	2.7				3.1
Net Investment assets	**7,191.4**				**7,610.2**

[1] £221.9m on the face of the Fund account includes the change in market value of investments disclosed above (£169.6m), plus profits and losses on disposals and changes in the market value of derivatives held within the pools.

2016/17

	Market value as at 1 April 2016	Purchases at cost and derivative payments*	Sales proceeds and derivative receipts*	Change in market value*	Market value as at 31 March 2017
	£m	£m	£m	£m	£m
Fixed interest securities	123.1	189.5	(190.5)	10.1	132.2
Equities[1]	2,069.9	1,876.6	(4,358.0)	411.5	-
Index linked securities	63.7	125.1	(66.7)	5.0	127.1
Pooled investment vehicles[2]	2,855.0	3,365.7	(779.1)	695.1	6,136.7
Pooled property investments[2]	80.6	13.4	(0.4)	5.8	99.4
Direct property	608.1	33.6	(15.0)	10.3	637.0
	5,800.4	**5,603.9**	**(5,409.7)**	**1,137.8**	**7,132.4**
Derivative Contracts:					
Forward currency contracts asset value	294.5				-
Forward currency contracts liability value	(291.0)				-
Forward currency contracts	**3.5**	**47.7**	**(13.2)**	**(38.0)**	-
Other investment balances:					
Cash deposits	210.3				56.3
Investment accruals	13.1				2.7
Net investment assets	**6,027.3**				**7,191.4**

*Change in market value, purchases at cost and derivative payments and sales proceeds and derivative receipts have been restated to include additional fees previously netted off investment value, in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016).*

[1]All direct equity holdings were transitioned into the Local Pensions Partnership Global Equities Pool with effect from 1 November 2016.

[2]The value of pooled property investments was previously included within total pooled investment vehicles.

Investments analysed by fund manager

31 March 2017			31 March 2018	
£m	**%**		**£m**	**%**
Private equity				
		Investments managed by LPPI Private Equity Fund		
-	-	To be updated	531.0	7.0%
			531.0	**7.0%**
		Investments managed outside of LPPI Private Equity Fund		
452.7	6.3%	Capital Dynamics	16.7	0.2%
28.2	0.4%	Standard Life	-	-
480.9	**6.7%**		**16.7**	**0.2%**
Long term credit investments				
		Investments managed by LPPI Credit Investments Fund		
-	-	To be updated	1071.1	14.1%
-	-		**1,071.1**	**14.1%**
		Investments managed outside of LPPI Credit Investments Fund		
138.6	1.9%	Heylo Housing	198.3	2.6%
152.5	2.1%	CRC	138.0	1.8%
61.9	0.9%	Neuberger Berman	56.6	0.7%
64.8	0.9%	Pimco Bravo	48.3	0.6%
51.2	0.7%	EQT	31.2	0.4%
52.4	0.7%	Hayfin	18.8	0.3%
256.8	3.6%	Prima	-	-
159.6	2.2%	Pictet	-	-
132.5	1.8%	Bluebay	-	-
128.4	1.8%	MFO King Street	-	-
101.7	1.4%	Investec	-	-
83.7	1.2%	Venn Commercial Real Estate	-	-
76.6	1.1%	Permira Credit Solutions	-	-
71.5	1.0%	HSBC	-	-

68.8	1.0%	White Oak	-	-
67.0	0.9%	Monarch	-	-
33.8	0.5%	Kreos	-	-
17.6	0.2%	Muzinich Private Debt Fund	-	-
10.9	0.2%	Westmill	-	-
1,730.2	**24.1%**		**491.2**	**6.4%**
Liquid credit (cash and bonds)				
	Investments managed by LPPI Fixed Income Fund			
-	-	PIMCO	92.0	1.2%
-	-	Wellington	91.8	1.2%
-	-		**183.8**	**2.4%**
	Investments managed outside of LPPI Fixed Income Fund			
135.2	1.9%	LPPI internal and LCC Treasury Management	282.0	3.7%
135.2	**1.9%**		**282.0**	**3.7%**
Global equity funds				
	Investments managed by LPPI Global Equities Fund			
1,292.5	18.0%	LPPI internal managers	1,306.2	17.2%
474.1	6.6%	Magellan	482.5	6.3%
622.5	8.7%	Robeco	469.0	6.2%
		First Eagle	466.7	6.1%
		Wellington	315.1	4.1%
-	-	Baron	174.9	2.3%
779.1	10.8%	MFS		
3,168.2	**44.1%**		**3,214.4**	**42.2%**
Infrastructure				
	Investments managed by LPPI Infrastructure Investments Fund			
-	-	To be updated	727.4	9.6%
-	**-**		**727.4**	9.6%
95.7	1.3%	Arclight Energy	104.6	1.4%

69.8	1.0%	Icon Infrastructure Partners	77.1	1.0%
61.5	0.9%	Highstar Capital	49.4	0.7%
60.5	0.8%	Capital Dynamics Red Rose	32.7	0.4%
146.6	2.0%	Madrilena Red de Gas (MRG)	-	-
130.1	1.8%	Guild Investments Ltd	-	-
101.3	1.4%	ISQ Global Infrastructure	-	-
85.7	1.2%	Capital Dynamics Cape Byron	-	-
60.3	0.8%	Global Infrastructure Partners	-	-
42.6	0.6%	GLIL Infrastructure LP	-	-
31.1	0.4%	Capital Dynamics Clean Energy	-	-
28.9	0.4%	Stonepeak Infrastructure Partners	-	-
26.6	0.4%	EQT Infrastructure	-	-
940.6	**13.1%**		**263.8**	**3.5%**
Property				
637.0	8.9%	Knight Frank	715.5	9.4%
41.0	0.6%	M&G Europe fund	46.0	0.6%
33.4	0.5%	Gatefold Hayes	39.0	0.5%
25.0	0.4%	Kames Target	28.3	0.4%
736.4	**10.2%**		**828.8**	**10.9%**
7,191.4	**100.0%**		**7,610.2**	**100.0%**

Fixed interest securities

31 March 2017		31 March 2018
£m		**£m**
20.9	UK corporate bonds quoted	32.5
13.6	Overseas public sector	14.2
97.7	Overseas corporate bonds quoted	70.1
132.2		**116.8**

Index linked securities

31 March 2017		31 March 2018
£m		£m
127.1	UK quoted	178.0
127.1		**178.0**

Direct property investments

31 March 2017		31 March 2018
£m		£m
538.8	UK – freehold	601.8
98.2	UK – long leasehold	113.7
637.0		**715.5**

Pooled investment vehicles

31 March 2017		31 March 2018
£m	**UK managed funds:**	£m
71.5	Fixed income funds*	183.8
79.5	Private equity	108.2
136.1	Infrastructure*	760.1
189.6	Long term credit investments*	1,110.3
58.3	Property funds	67.3
	Overseas managed funds:	
1,125.1	Fixed income funds*	242.8
401.4	Private equity	439.5
761.8	Infrastructure*	231.1
204.1	Long term credit investments*	31.2
3,168.2	Equity funds	3,214.4
41.0	Property funds	46.0
6,236.1		**6,434.7**

*the pooling of infrastructure, long term credit and fixed income funds with LPPI during the year ended 31 March 2018 has resulted in realignment of these pooled investment vehicles from overseas to UK managed funds. Investments previously classified as overseas fixed income funds have also been transitioned into the UK managed LPPI credit pool.

Property holdings

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

Details of these directly owned properties are as follows.

31 March 2017*		31 March 2018
£m		£m
608.1	**Opening balance**	**637.0**
	Additions:	
14.6	Purchases	18.3
11.9	New construction	15.5
6.7	Subsequent expenditure	9.2
33.2	Total additions	**43.0**
(15.0)	Disposals	(17.9)
10.7	Net increase in market value	53.4
637.0	**Closing balance**	**715.5**

*The movements on property holdings during the year 31 March 2017 have been restated for consistency of classification with the current year.

Operating leases

The Fund leases out property under operating leases.

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

2016/17		2017/18
£m		£m
32.3	Leases expiring in the following year	29.9
101.5	Leases expiring in 2 to 5 years	82.8
106.0	Leases expiring after 5 years	128.7
239.8	**Total future minimum lease payments receivable under existing non-cancellable leases**	**241.4**

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

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

Cash deposits

31 March 2017		31 March 2018
£m		£m
18.2	Sterling	109.1
38.1	Foreign currency	52.9
56.3		**162.0**

14. FINANCIAL INSTRUMENTS CLASSIFICATION

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

31 March 2018	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	116.8		
Index linked securities	178.0		
Pooled investment vehicles	6,321.5		
Pooled property investments	113.3		
Cash deposits		162.0	
Investment accruals	3.1		
Debtors		23.5	
Total financial assets	**6,732.7**	**185.5**	
Financial liabilities			
Creditors			149.4
Total financial liabilities			**149.4**

31 March 2017	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	132.2		
Equities			
Index linked securities	127.1		
Pooled investment vehicles	6,136.8		
Pooled property investments	99.4		
Cash deposits		56.3	
Investment accruals	2.6		
Debtors		30.7	
Total financial assets	**6,498.1**	**87.0**	
Financial liabilities			
Creditors			12.8
Total financial liabilities			**12.8**

15. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The net gain on financial assets at fair value through profit and loss was £221.9m (2016/17: £1,154.0m after adjusting for directly owned property).

16. FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY

16.1 Valuation of financial instruments carried at fair value

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

16.1.1 Level 1

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, including those held in the LPPI Global Equity Fund, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

16.1.2 Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

16.1.3 Level 3

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

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

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

16.1.4 Fair value hierarchy

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

Loans and receivables are excluded from this table as they are held at amortised cost.

31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,399.4	116.9	3,216.4	6,732.7
Non-financial assets at fair value through profit and loss (property holdings)		715.5		715.5
Net investment assets	**3,399.4**	**832.4**	**3,216.4**	**7,448.2**

31 March 2017	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets at fair value through profit and loss	3,549.9	158.7	2,789.5	6,498.1
Non-financial assets at fair value through profit and loss (property holdings)		637.0		637.0
Net investment assets	**3,549.9**	**795.7**	**2,789.5**	**7,135.1**

16.1.5 Basis of valuation

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

16.1.6 Reconciliation of fair value measurements within level 3

	Financial assets at fair value through profit and loss
	£m
Market value 1 April 2017	**2,789.5**
Purchases during the year and derivative payments	2,613.1
Sales during the year and derivative receipts	(2,288.3)
Transfers out of level 3	(15.0)
Unrealised losses	(202.1)
Realised gains	319.2
Market value 31 March 2018	**3,216.4**

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

17.1 Risk and risk management

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

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

17.2 Market risk

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

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

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

17.3 Other price risk

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

The Fund is exposed to share and derivatives price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

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

17.3.1 Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2017/18 reporting period.

Asset type	Potential market movements (+/-)
Total bonds (including index linked)	7.2%
Total equities	9.6%
Alternatives	7.4%
Total property	3.9%

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

Asset type	31 March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	132.7	7.2%	142.3	123.1
Total equities	3,762.1	9.6%	4,123.3	3,400.9
Alternatives	2,721.5	7.4%	2,922. 9	2,520.1
Total property	828.8	3.9%	861.1	796.5
Total assets available to pay benefits	**7,445.1**		**8,049.6**	**6,840.6**

Asset type	31 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Investment portfolio assets:				
Total bonds (including index linked)	1,433.1	6.4%	1,524.8	1,341.4
Total equities	3,649.1	9.6%	3,999.4	3,298.8
Alternatives	1,313.8	6.4%	1,397.9	1,229.8
Total property	736.4	2.4%	746.7	726.1
Total assets available to pay benefits	**7,132.4**		**7,676.2**	**6,588.6**

17.4 Interest rate risk

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

The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors. The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2017	Asset type	31 March 2018
£m		£m
56.3	Cash and cash equivalents	162.0
56.3	**Total**	**162.0**

17.4.1 Interest rate risk - sensitivity analysis

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

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

Asset type		**Change in year in net assets available to pay benefits**	
	31 March 2018	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	162.0	1.6	(1.6)
Total change in assets available		**1.6**	**(1.6)**

Asset type		**Change in year in net assets available to pay benefits**	
	31 March 2017	**+100BPS**	**-100BPS**
	£m	**£m**	**£m**
Cash and cash equivalents	56.3	0.6	(0.6)
Total change in assets available		**0.6**	**(0.6)**

17.5 Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous year end:

31 March 2017	Currency exposure – asset type	31 March 2018
£m		£m
1,071.4	Overseas bonds (including index linked)	84.3
3,569.6	Overseas equities	3,653.8
1,101.9	Overseas alternatives	505.2
41.0	Overseas property	46.0
5,783.9	**Total overseas assets**	**4,289.3**

17.5.1 Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 8.5%.

An 8.5% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant (2016/17 6.1%). An 8.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31 March 2018	+8.5%	-8.5%
	£m	£m	£m
Overseas bonds (including index linked)	84.3	91.5	77.1
Overseas equities	3,653.8	3,964.4	3,343.2
Overseas alternatives	505.2	548.1	462.3
Overseas property	46.0	49.9	42.1
Total assets available to pay benefits	**4,289.3**	**4,653.9**	**3,924.7**

Currency exposure - asset type		Change in year in net assets available to pay benefits	
	31 March 2017	+6.1%	-6.1%
	£m	£m	£m
Overseas bonds (including index linked)	1,071.4	3,787.3	3,351.8
Overseas equities	3,569.6	1,136.7	1,006.0
Overseas alternatives	1,101.9	1,169.1	1,034.6
Overseas property	41.0	43.5	38.5
Total assets available to pay benefits	**5,783.9**	**6,136.6**	**5,431.0**

17.6 Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £162.0m (31 March 2017: £56.3m.) This was held with the following institutions:

31 March 2017	Summary	Rating	31 March 2018
£m			£m
	Bank deposit accounts		
47.9	Northern Trust	A+	154.5
8.4	Svenska Handelsbanken	AA-	7.5
56.3	**Total**		**162.0**

17.7 Liquidity risks

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

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

The Fund has financial liabilities of £149.4m at 31 March 2018, of which £68.5m is due after more than one year. This long term liability represents receipts in advance of employer deficit contributions. See note 20 for more detail.

18. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2017 to 31 March 2018 for Prudential and 1 September 2016 to 31 August 2017 for Equitable Life and are not included in the Pension Fund accounts in accordance with *Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.*

	Equitable Life	Prudential	Total
	£m	£m	£m
Value at start of the year	**0.7**	**24.3**	**25.0**
Income (incl. contributions, bonuses, interest & transfers in)	-	6.6	6.6
Expenditure (incl. benefits, transfers out & change in market value)	-	(3.6)	(3.6)
Value at the end of the year	**0.7**	**27.3**	**28.0**

19. CURRENT ASSETS

31 March 2017		31 March 2018
£m		£m
14.1	Contributions due – employers	7.7
4.6	Contributions due – members	6.3
12.0	Debtors	9.4
30.7		**23.4**

31 March 2017	Analysis of debtors	31 March 2018
£m		£m
14.6	Other local authorities	8.5
16.1	Other entities and individuals	14.9
30.7		**23.4**

20. CURRENT AND LONG TERM LIABILITIES

Current liabilities

31 March 2017		31 March 2018
£m		£m
5.7	Unpaid benefits	1.6
7.1	Accrued expenses	10.8
-	Contributions received in advance*	68.5
12.8		**80.9**

31 March 2017	Analysis of creditors	31 March 2018
£m		£m
5.0	Other local authorities	70.4
7.8	Other entities and individuals	10.5
12.8		**80.9**

Long term liabilities

31 March 2017	Analysis of creditors	31 March 2018
£m		£m
-	Other local authorities*	68.5

*Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit payments upfront, A number of employers opted to do this and as a result receipts in advance of £137.0m are included in the net assets statement of the Fund as at 31 March 2018. Of this balance, £68.5m will be recognised in the year to 31 March 2019 and £68.5m in the year to 31 March 2020.

21. CONTRACTUAL COMMITMENTS

As at 31 March 2018 the commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure part of the portfolio totalled £546.6m (2017: £663.4m). The amounts 'called' by these funds are irregular in both size and timing and commitments to these partnerships are drawn down over a number of years. The term of a fund investment is typically 10 years. Realisation of these investments in the form of distributions normally occurs in the second half of the fund life, when portfolio companies have built value and can be sold.

Commitments to outstanding call payments for credit strategies stood at £462.4m (2017: £390.7m). The majority of these amounts are expected to be called over the coming two years and relate to various different investments including direct lending and distressed credit opportunities which are expected to begin repaying capital after 5 years. In order to maintain a steady level of investment in the long term, the Fund will enter into further commitments to fund this type of strategy over the coming years.

The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £47.3m (2017: £24.6m). These amounts are expected to be drawn down over the next 10 months based on valuation certificates.

There is no outstanding commitment on indirect property investments (2017: £0.6m).

22. RELATED PARTY TRANSACTIONS

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

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

22.1 Lancashire County Council

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

The Council incurred costs of £0.6m (2016/17: £0.4m) in relation to the administration of the Fund. This includes a proportion of relevant officers' salaries in respect of time allocated to pension and investment issues. The Council was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of the members of the Pension Fund and contributed £73.3m to the fund in 2017/18 (2016/17: £87.0m). All monies owing to and due from the Fund were paid in year.

Lancashire County Council is a shareholder in the Local Pensions Partnership (LPP), having an ownership in the company equal to that of the London Pension Fund Authority. LPP manages the investment and administration functions of the Fund and the Fund makes regular payments to LPP to cover investment management charges, scheme administration expenses, employer risk services and liability modelling. Payments made for the year to 31 March 2018 amount to £6.8m (2016/17: £8.2m).

22.2 Employers within the Fund

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions for the year are shown in note 6 and in respect of March 2018 payroll, are included within the debtors figure in note 20.

22.3 Pension Fund Committee, Pensions Board and Senior Officers.

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2017/18 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2018.

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

23. KEY MANAGEMENT PERSONNEL

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

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

2017/18	Employment period	Salary[1]	Employer pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/17 – 31/03/18	54,699	8,228	62,927
Director of Financial Resources	01/04/17 – 31/03/18	4,653	703	5,356
Chief Executive and Director of Resources*	03/01/18 – 31/3/18	874	0	874

2016/17	Employment period	Salary[1]	Employer pension contributions[1]	Total including pension contributions[1]
		£	£	£
Head of Fund	01/04/16 – 31/03/17	52,175	6,664	58,839
Director of Financial Resources	01/04/16 – 31/03/17	4,732	563	5,295

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

*The Chief Executive and Director of Resources is a new post and was appointed on 3 January 2018.

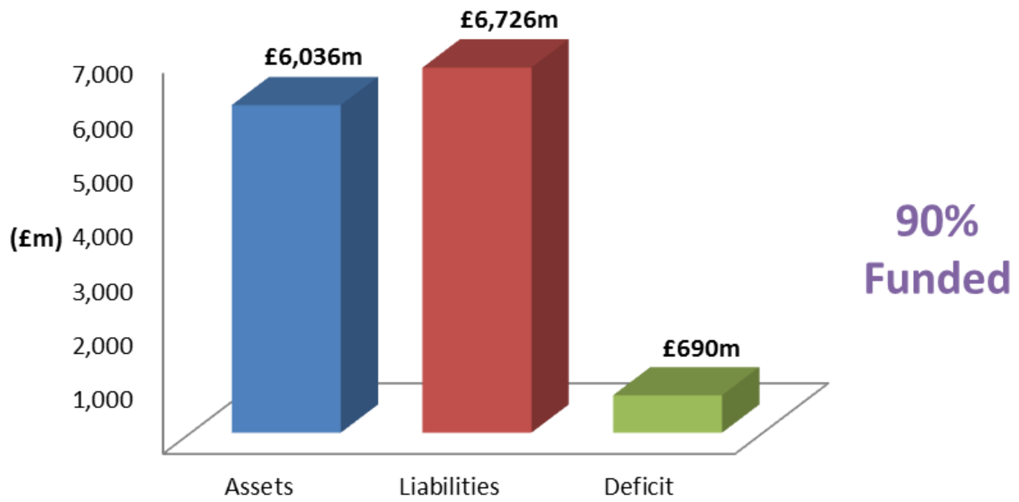
24. FUNDING ARRANGEMENTS

Accounts for the year ended 31 March 2018 - Statement by the Consulting Actuary

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

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,036 million represented 90% of the Fund's past service liabilities of £6,726 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £690 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the “Secondary rate”) for 2018/19 is approximately £43 million. The Secondary rate of the employer’s contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay. For most employers, the Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their contributions, either on an annual basis each April or by paying all 3 years’ contributions in April 2017. In each case, that contribution is reduced to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

25. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £10,065 million. Interest over the year increased the liabilities by c£253 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£105 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £401 million due to "actuarial gains" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £10,022 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

H Lancashire Local Pension Board Annual Report - 2017/18

This is my third report as the first Independent Chair of the Lancashire Local Pension Board (LLPB). Last year I commented that after two years' operation as a Board we had a much clearer view of our role, and how we could both fulfil our duties and add value. I noted three areas we expected to focus on in the interest of all our stakeholders, but particularly the employers and members whom we represent. The first was to encourage appropriate governance procedures and monitoring of the London Pensions Partnership (LPP), the company which the Fund has set up together with the London Pension Fund Authority to manage their assets, liabilities and administration. We need the assurance that it is at all times acting in the Fund's interest. Secondly, we asked the Pension Fund Committee (PFC) to provide us with comfort that the major changes LPP were proposing to the administration function would not involve any risk to the service. Finally, we would continue to look at how to improve engagement with employers and members.

In this report, I will start by reminding readers of the mechanics of the LLPB, then explain how we have fulfilled our legal duty of scrutiny, before going on to comment on each of the three areas above in more detail.

Membership of the Pension Board

The LPB has nine members, four Employer representatives who were chosen to be representative of the Fund's employers, four Scheme Member representatives originally elected in a public election and myself as the Independent Chair. During the year three members of the LLPB resigned and I would like to thank them all for their service during the first three years operation of the Board. The two employer representatives have been replaced by County Councillor Christian Wakeford and Tony Pounder, and I welcome them both to the Board.

The vacant scheme member representative position was advertised by email and on the Your Pension Service website in March 2018. When the LLPB was originally established, we held an election to fill the scheme member vacancies but this time we took the view that this was not a cost-effective way of filling a single vacancy, and that the categorisation of member representatives into active, deferred and pensioner classes was too restrictive. The Terms of Reference of the Board have therefore been amended to refer to scheme members who will represent all elements of the Fund membership, giving us more flexibility and making it easier to attract/recruit candidates. Since the year end, we have held interviews and a suitable candidate has been selected from a strong field and will be formally appointed in due course.

The LLPB meets four times a year and we also create Working Groups if we feel they are needed. In my capacity as Chair I am also on occasion invited to attend PFC meetings, to present reports and advise the Committee on the work of the Board and I have attended three out of the of the four Committees held during the year.

Attendance of Board members at meetings of the Pension Board

Details of individual members' attendance at Board meetings together with changes to the membership of the Board are set out in Annex 'A' to this report.

Training

The Board has a small internal budget, which is used primarily to defray the cost of Members' attendance at training events or conferences. During the year £12,518.33 was spent on the costs of running the Board and training.

The LLPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. Members are actively encouraged to join internal training sessions held jointly with the members of the Pension Fund Committee. During the year, internal training workshops were held on the risk register, LPP administration operations, Investment Strategy and GDPR (the new data protection regulations). Members are also notified of and encouraged to attend external training conferences/event to extend their knowledge and meet other LPB members.

In addition we conduct a gap analysis of training needs once a year as part of our own annual appraisal, which becomes an agenda item at our next meeting. The table below shows the number of training events each Board member attended during the year.

Name	Internal event attended	External events attended
W Bourne	1	3
County Councillor C Wakeford	1	0
S Browne	2	1
S Thompson	2	0
C Gibson	0	1
K Haigh	7	2
R Harvey	7	2
Y Moult	4	1
J Hall	0	0

Information about the Board, including minutes and public papers, are available on can be viewed on the Your Pension Service website the Pension Fund

Much of the work in the past year has been on internal changes and developments resulting from the creation of LPP and I give more details below. However, it has been important that we do not neglect our regular function of monitoring compliance with all the regulations and guidance from the Pensions Regulator, the DCLG (now the MHCLG) and other sources, as well as service level agreements with LPP. We agree a detailed Work Plan at the beginning of each year to ensure that we cover everything within our remit and at every meeting we review the assurance statements given to us. In some cases, such as the Key Performance Indicators or notification of any breach of regulations, we see the detail behind the headline statement. 2018's plan can be seen in the agenda for the April 2018 Board.

One challenge for the LLPB results from the outsourcing of a large part of the Fund's functions to LPP, whose staff therefore create many of the assurance statements which we rely on when we review compliance, but may themselves also form part of the subject matter. In this context, we place particular importance on who else has reviewed the assurance statements and the independent auditor reports, both internal and external. If we are not content, we will ask to see the detail behind the statements.

Our second legal duty is to assist the Pension Fund Committee. As part of that, we regularly review and comment on formal documents which they are considering. I would like to highlight the Risk Register, a revised Responsible Investment policy, the measures put in place ahead of the introduction of two new European Directives (MIFID II and GDPR), compliance with The Pension Regulator's Code of Practice 14 and the annual communications report. In all these cases except for the last, our role was to review and make suggestions to the Board before they finally approved the reports. In the case of the Risk Register, we made substantial recommendations on how to improve its presentation and how the Board's activities could be a significant mitigating factor across a range of risks.

I mentioned last year that we would keep a careful eye on the procedures in place to monitor LPP's performance. The Fund's ability to fulfil its fiduciary duty and thereby pay pensions in full on time, depends on LPP providing an effective service to it. We highlighted last year that we had concerns that there was insufficient governance resource dedicated in this area, and recommended both an increase in the Fund's governance resource and also an independent review. A year later there have been three separate reviews from a legal, compliance and operational perspective, which give us greater confidence. We will continue to monitor this topic going forward, as good governance is a continual process and not a one-off project.

Throughout the year we monitored LPP's project to redesign the administration processes to deliver a better service to its clients, including LCPF. Our objective in the last year, within the limits of our remit, was to gain what assurance we could that the process of change did not involve any risk to the level of service provided to members in the short term. The project is nearing completion and we will be evaluating the improvements in service levels over the next financial year.

We have also, jointly with the LPFA, commissioned an external review of LPP's effectiveness now that the company has been fully operational for two years. We wish to have third-party assurance that it is cost-effective for both Funds, in terms of its establishment but also looking forward. We will also spend time in the next year on reviewing communications to members and employers.

After three years of operation we believe the LLPB has established itself as a valuable part of the Fund's governance. We are using our collective knowledge and experience to try and ensure that members and employers' interests are not lost in the more complex structures which the creation of LPP has inevitably involved. Apart from the activities outlined above, I expect the focus over the next year to be more on our core functions, i.e. monitoring compliance with the regulations and assisting the PFC to run the Fund where we can.

I will end by once again thanking the officers at LCPF who support us in our duties. As part of our annual Board appraisal I speak individually to each member, and I can record unanimous agreement that we are ably and effectively supported by the team at LCPF. In my view it is important that we recognise that publicly in this report.

William Bourne
Independent Chair of the Lancashire Local Pension Board.
May 2018

I Actuarial Valuation

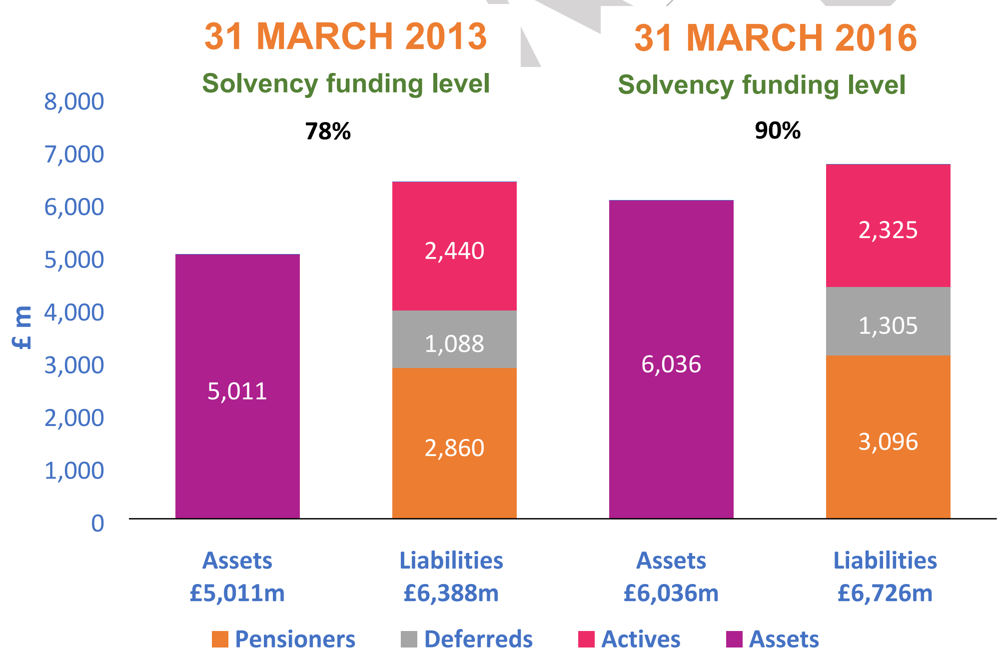
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2016 which determines contribution rates effective from 1 April 2017 to 31 March 2020.

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

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

The valuation (effective from 1 April 2017) revealed a funding level of 90% and an average employer's contribution rate of 14.9% plus a deficit contribution in 2017/18 of £41.5m. For most employers the deficit contribution will increase at 3.7% per annum for 16 years.

The chart below, taken from the certified actuarial valuation as at 31 March 2016, compares the assets and liabilities of the Fund at 31 March 2016. Figures are also shown for the last valuation as at 31 March 2013 for comparison.



The employer contributions for 2017/18 are based on the 2016 valuation and the recommended employer contributions for the period 1 April 2017 to 31 March 2020 are set out in the Schedule to the Rates and Adjustments of this report.

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

The Rates and adjustments certified and accompanying schedule extracted from the actuarial valuation are as follows:

RATES AND ADJUSTMENTS CERTIFICATE ISSUED IN ACCORDANCE WITH REGULATION 62

NAME OF FUND	Lancashire County Pension Fund

PRIMARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2017 is 14.9% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2017 is set out in the attached schedule.

SECONDARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2017 is as follows:

2017/18	£36.0 million plus 0.6% of pensionable pay
2018/19	£37.1 million plus 0.7% of pensionable pay
2019/20	£38.1 million plus 0.9% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2017 is set out in the attached schedule.

CONTRIBUTION AMOUNTS PAYABLE

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in the schedule.

FURTHER ADJUSTMENTS

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

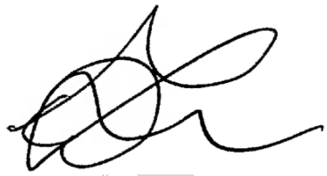
The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

REGULATION 62(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:		**Signature:**	
Name:	John Livesey	**Name:**	Mark Wilson
Qualification:	Fellow of the Institute and Faculty of Actuaries	**Qualification:**	Fellow of the Institute and Faculty of Actuaries
Date of signing:	31 March 2017		

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE DATED 31 MARCH 2017

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Major authorities							
Blackburn with Darwen Borough Council	14.8%	-2.4% plus £4,773,000	-1.4% plus £4,773,000	£4,857,500	12.4% plus £4,773,000	13.4% plus £4,773,000	14.8% plus £4,857,500
Blackpool Borough Council	14.8%	*£3,315,200	*£4,087,500	*£4,501,400	14.8% plus *£3,315,200	14.8% plus *£4,087,500	14.8% plus *£4,501,400
Burnley Borough Council	15.4%	*£1,379,800	*£1,370,600	*£1,361,400	15.4% plus *£1,379,800	15.4% plus *£1,370,600	15.4% plus *£1,361,400
Chorley Borough Council	14.4%	£790,500	£840,500	£966,300	14.4% plus £790,500	14.4% plus £840,500	14.4% plus £966,300
Fylde Borough Council	15.2%	*£583,800	*£579,900	*£576,000	15.2% plus *£583,800	15.2% plus *£579,900	15.2% plus *£576,000
Hyndburn Borough Council	15.3%	12.7%	12.7%	12.7%	28%	28%	28%
Lancashire Chief Constable	14.0%	**£1,791,700	**£1,858,000	**£1,926,700	14% plus **£1,791,700	14% plus **£1,858,000	14% plus **£1,926,700
Lancashire County Council - excluding schools	15.1%	*£9,534,200	*£9,470,300	*£9,406,900	15.1% plus *£9,534,200	15.1% plus *£9,470,300	15.1% plus *£9,406,900
Lancashire County Council schools	15.1%	4.7%	4.8%	4.9%	19.8%	19.9%	20.0%
Lancashire Fire & Rescue Service	14.7%	***(£312,700)	***(£324,300)	***(£336,300)	14.7% less ***£312,700	14.7% less ***£324,300	14.7% less ***£336,300
Lancaster City Council	15.5%	*£945,900	*£939,600	*£933,300	15.5% plus *£945,900	15.5% plus *£939,600	15.5% plus *£933,300
Pendle Borough Council	15.5%	*£1,219,900	*£1,211,700	*£1,203,600	15.5% plus *£1,219,900	15.5% plus *£1,211,700	15.5% plus *£1,203,600
Preston City Council	15.4%	*£1,409,100	*£1,399,700	*£1,390,300	15.4% plus *£1,409,100	15.4% plus *£1,399,700	15.4% plus *£1,390,300

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Ribble Valley Borough Council	16.5%	**£173,500	**£179,900	**£186,500	16.5% plus **£173,500	16.5% plus **£179,900	16.5% plus **£186,500
Rossendale Borough Council	15.6%	*£996,900	*£990,200	*£983,600	15.6% plus *£996,900	15.6% plus *£990,200	15.6% plus *£983,600
South Ribble Borough Council	14.9%	**£547,200	**£567,500	**£588,400	14.9% plus **£547,200	14.9% plus **£567,500	14.9% plus **£588,400
West Lancashire District Council	16.3%	*£985,600	*£979,000	*£972,400	16.3% plus *£985,600	16.3% plus *£979,000	16.3% plus *£972,400
Wyre Borough Council	15.8%	*£707,700	*£702,900	*£698,200	15.8% plus *£707,700	15.8% plus *£702,900	15.8% plus *£698,200

Other scheme employers							
Accrington & Rossendale College	15.1%	£269,300	£279,200	£289,600	15.1% plus £269,300	15.1% plus £279,200	15.1% plus £289,600
Blackburn College	14.2%	£82,800	£85,900	£89,000	14.2% plus £82,800	14.2% plus £85,900	14.2% plus £89,000
Blackburn St Mary's College	14.6%	£9,100	£9,400	£9,800	14.6% plus £9,100	14.6% plus £9,400	14.6% plus £9,800
Blackpool & The Fylde College	14.4%	£192,600	£199,700	£207,100	14.4% plus £192,600	14.4% plus £199,700	14.4% plus £207,100
Blackpool Coastal Housing	13.9%	-1.9%	-1.9%	-1.9%	12%	12%	12%
Blackpool Housing Company Ltd	13.4%	-0.1%	-0.1%	-0.1%	13.3%	13.3%	13.3%
Blackpool Sixth Form College	12.1%	-0.3%	-0.3%	-0.3%	11.8%	11.8%	11.8%
Burnley College	13.2%	£124,900	£129,500	£134,300	13.2% plus £124,900	13.2% plus £129,500	13.2% plus £134,300
Cardinal Newman College	13.9%	£49,400	£51,200	£53,100	13.9% plus £49,400	13.9% plus £51,200	13.9% plus £53,100
County Councils Network	5.2%	£700	£700	£800	5.2% plus £700	5.2% plus £700	5.2% plus £800
Edge Hill University	14.3%	£780,300	£809,200	£839,100	14.3% plus £780,300	14.3% plus £809,200	14.3% plus £839,100

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Lancaster & Morecambe College	15.3%	£121,300	£125,800	£130,400	15.3% plus £121,300	15.3% plus £125,800	15.3% plus £130,400
Myerscough College	14.2%	£165,800	£171,900	£178,300	14.2% plus £165,800	14.2% plus £171,900	14.2% plus £178,300
Nelson and Colne College	14.0%	£50,700	£52,500	£54,500	14% plus £50,700	14% plus £52,500	14% plus £54,500
Police & Crime Commissioner	13.9%	£3,800	£3,900	£4,100	13.9% plus £3,800	13.9% plus £3,900	13.9% plus £4,100
Preston College	13.3%	£259,900	£269,500	£279,500	13.3% plus £259,900	13.3% plus £269,500	13.3% plus £279,500
Runshaw College	15.7%	£86,000	£89,200	£92,500	15.7% plus £86,000	15.7% plus £89,200	15.7% plus £92,500
University of Central Lancashire	14.3%	£949,800	£984,900	£1,021,400	14.3% plus £949,800	14.3% plus £984,900	14.3% plus £1,021,400

Designated / Resolution body							
Blackpool Transport Services Ltd	23.1%	-23.1%	-23.1%	-23.1%	0%	0%	0%
Catterall Parish Council	25.3%	Nil	Nil	Nil	25.3%	25.3%	25.3%
Darwen Town Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Garstang Town Council	17.5%	Nil	Nil	Nil	17.5%	17.5%	17.5%
Habergham Eaves Parish Council	15.8%	Nil	Nil	Nil	15.8%	15.8%	15.8%
Kirkland Parish Council	25.2%	-0.7%	-0.7%	-0.7%	24.5%	24.5%	24.5%
Lancs Sports Partnership Ltd	10.9%	-0.6%	-0.6%	-0.6%	10.3%	10.3%	10.3%
Marketing Lancashire Ltd	12.6%	-1.1%	-1.1%	-1.1%	11.5%	11.5%	11.5%
Morecambe Town Council	19.2%	-1.2%	-1.2%	-1.2%	18%	18%	18%
Old Laund Booth Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Penwortham Town Council	15.8%	-3.4%	-3.4%	-3.4%	12.4%	12.4%	12.4%
Pilling Parish Council	27.6%	£100	£100	£100	27.6% plus £100	27.6% plus £100	27.6% plus £100
Preesall Town Council	23.2%	£100	£100	£100	23.2% plus £100	23.2% plus £100	23.2% plus £100
Rossendale Transport Ltd.	25.6%	Nil	Nil	Nil	25.6%	25.6%	25.6%
St Anne's on Sea Town Council	17.0%	£1,100	£1,100	£1,200	17% plus £1,100	17% plus £1,100	17% plus £1,200
The Lancashire Colleges Ltd	17.8%	-3.7%	-3.7%	-3.7%	14.1%	14.1%	14.1%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Whittle-le-woods Parish Council	17.0%	Nil	Nil	Nil	17%	17%	17%
Whitworth Town Council	12.8%	£2,200	£2,200	£2,300	12.8% plus £2,200	12.8% plus £2,200	12.8% plus £2,300

Academies / schools							
Academy at Worden	14.6%	£13,400	£13,900	£14,400	14.6% plus £13,400	14.6% plus £13,900	14.6% plus £14,400
Accrington Academy	14.3%	-2.9%	-2.9%	-2.9%	11.4%	11.4%	11.4%
Albany Science College (Academy)	16.2%	£23,800	£24,700	£25,600	16.2% plus £23,800	16.2% plus £24,700	16.2% plus £25,600
All Saints CE Primary School (Academy)	14.1%	£16,200	£16,800	£17,400	14.1% plus £16,200	14.1% plus £16,800	14.1% plus £17,400
Anchorsholme Academy	16.0%	£34,900	£36,200	£37,500	16% plus £34,900	16% plus £36,200	16% plus £37,500
ANWET - Darwen Aldridge Community Academy	14.3%	-2%	-2%	-2%	12.3%	12.3%	12.3%
ANWET - Darwen Vale Academy	15.1%	£64,600	£67,000	£69,500	15.1% plus £64,600	15.1% plus £67,000	15.1% plus £69,500
ANWET - Sudell PS Academy	19.1%	£18,300	£19,000	£19,700	19.1% plus £18,300	19.1% plus £19,000	19.1% plus £19,700
Bacup and Rawtenstall Grammar School (Academy)	14.8%	£22,600	£23,400	£24,300	14.8% plus £22,600	14.8% plus £23,400	14.8% plus £24,300
Belthorn Primary Academy	18.6%	£7,300	£7,600	£7,900	18.6% plus £7,300	18.6% plus £7,600	18.6% plus £7,900
BFET (Marton Primary Academy)	16.3%	£22,800	£23,600	£24,500	16.3% plus £22,800	16.3% plus £23,600	16.3% plus £24,500
BFET (South Shore Academy)	14.9%	£48,200	£50,000	£51,800	14.9% plus £48,200	14.9% plus £50,000	14.9% plus £51,800
Bishop Rawstorne C of E High Academy	17.5%	£28,500	£29,600	£30,600	17.5% plus £28,500	17.5% plus £29,600	17.5% plus £30,600
Blackpool MAT (Revoe)	14.6%	£47,500	£49,300	£51,100	14.6% plus £47,500	14.6% plus £49,300	14.6% plus £51,100
Blessed Edward MAT (Christ)	16.3%	£11,900	£12,300	£12,800	16.3% plus £11,900	16.3% plus £12,300	16.3% plus £12,800
Blessed Edward MAT (St Cuthbert)	15.3%	£24,900	£25,800	£26,800	15.3% plus £24,900	15.3% plus £25,800	15.3% plus £26,800
Blessed Edward MAT (St Mary's)	15.5%	£46,500	£48,200	£50,000	15.5% plus £46,500	15.5% plus £48,200	15.5% plus £50,000

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Bowland High Academy Trust	17.6%	£29,000	£30,100	£31,200	17.6% plus £29,000	17.6% plus £30,100	17.6% plus £31,200
Cidari Ed Ltd (Marsden St John)	17.0%	£9,600	£10,000	£10,400	17% plus £9,600	17% plus £10,000	17% plus £10,400
Cidari Edu Ltd (Baines Endowed)	12.7%	£39,300	£40,800	£42,300	12.7% plus £39,300	12.7% plus £40,800	12.7% plus £42,300
Cidari Education Trust	8.8%	£2,400	Nil	Nil	8.8% plus £2,400	8.8%	8.8%
Cidari Education Ltd (St Aidans)	14.0%	£17,100	£17,700	£18,400	14% plus £17,100	14% plus £17,700	14% plus £18,400
Cidari Education Ltd (St Barnabas)	16.2%	£20,100	£20,800	£21,600	16.2% plus £20,100	16.2% plus £20,800	16.2% plus £21,600
Cidari Education Ltd (St James)	13.8%	£17,300	£17,900	£18,600	13.8% plus £17,300	13.8% plus £17,900	13.8% plus £18,600
Clitheroe Royal Grammar School (Academy)	16.7%	£58,000	£60,100	£62,400	16.7% plus £58,000	16.7% plus £60,100	16.7% plus £62,400
CSCST (Burnley High Free School)	13.6%	£300	£300	£300	13.6% plus £300	13.6% plus £300	13.6% plus £300
Devonshire Academy	15.7%	£36,900	£38,300	£39,700	15.7% plus £36,900	15.7% plus £38,300	15.7% plus £39,700
Education Partnership Trust (Coal Clough)	17.6%	£20,000	£20,700	£21,500	17.6% plus £20,000	17.6% plus £20,700	17.6% plus £21,500
Education Partnership Trust (Eden School)	10.7%	£1,400	£1,500	£1,600	10.7% plus £1,400	10.7% plus £1,500	10.7% plus £1,600
Education Partnership Trust (Pleckgate HS)	15.9%	£66,200	£68,600	£71,200	15.9% plus £66,200	15.9% plus £68,600	15.9% plus £71,200
FACT (Unity Academy)	13.5%	£59,500	£61,700	£64,000	13.5% plus £59,500	13.5% plus £61,700	13.5% plus £64,000
FCAT (Aspire Academy)	17.1%	£48,500	£50,300	£52,200	17.1% plus £48,500	17.1% plus £50,300	17.1% plus £52,200
FCAT (Montgomery HS Academy)	14.3%	£55,000	£57,000	£59,100	14.3% plus £55,000	14.3% plus £57,000	14.3% plus £59,100
Fulwood Academy	15.2%	-3.9%	-3.9%	-3.9%	11.3%	11.3%	11.3%
Fylde Coast Academy Trust	13.4%	£1,500	£1,600	£1,600	13.4% plus £1,500	13.4% plus £1,600	13.4% plus £1,600
Garstang Community Academy	17.9%	£27,900	£28,900	£30,000	17.9% plus £27,900	17.9% plus £28,900	17.9% plus £30,000
Hambleton Primary Academy	13.6%	£6,800	£7,100	£7,300	13.6% plus £6,800	13.6% plus £7,100	13.6% plus £7,300
Hawe Side Primary School	15.6%	£17,500	£18,100	£18,800	15.6% plus £17,500	15.6% plus £18,100	15.6% plus £18,800
Hodgson Academy	17.5%	£43,400	£45,000	£46,700	17.5% plus £43,400	17.5% plus £45,000	17.5% plus £46,700
Lancashire Care Foundation	20.1%	-5%	-5%	-5%	15.1%	15.1%	15.1%
Lancaster Girls Grammar School (Academy)	15.5%	£41,900	£43,400	£45,000	15.5% plus £41,900	15.5% plus £43,400	15.5% plus £45,000

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Lancaster Royal Grammar School (Academy)	17.9%	£66,500	£69,000	£71,500	17.9% plus £66,500	17.9% plus £69,000	17.9% plus £71,500
Langdale Free School	15.4%	Nil	Nil	Nil	15.4%	15.4%	15.4%
Lostock Hall Academy Trust	17.2%	£30,100	£31,200	£32,400	17.2% plus £30,100	17.2% plus £31,200	17.2% plus £32,400
Maharishi School (Free School)	18.4%	-0.1%	-0.1%	-0.1%	18.3%	18.3%	18.3%
Moorside Community PS Academy	14.8%	£10,800	£11,200	£11,600	14.8% plus £10,800	14.8% plus £11,200	14.8% plus £11,600
Norbreck Primary Academy	15.0%	£18,400	£19,100	£19,800	15% plus £18,400	15% plus £19,100	15% plus £19,800
Parbold Douglas CE Academy	16.1%	£9,700	£10,100	£10,400	16.1% plus £9,700	16.1% plus £10,100	16.1% plus £10,400
Park Academy	13.2%	£55,300	£57,300	£59,500	13.2% plus £55,300	13.2% plus £57,300	13.2% plus £59,500
Parklands High School (Academy)	14.6%	£25,900	£26,800	£27,800	14.6% plus £25,900	14.6% plus £26,800	14.6% plus £27,800
Pendle Education Trust (Colne Primet)	17.5%	£14,200	£14,700	£15,300	17.5% plus £14,200	17.5% plus £14,700	17.5% plus £15,300
Pendle Education Trust (Castercliff)	17.2%	£24,900	£25,800	£26,800	17.2% plus £24,900	17.2% plus £25,800	17.2% plus £26,800
Pendle Education Trust (Walter Street Primary School)	15.5%	£14,700	£15,200	£15,800	15.5% plus £14,700	15.5% plus £15,200	15.5% plus £15,800
Penwortham Priory Academy	15.4%	£17,100	£17,700	£18,300	15.4% plus £17,100	15.4% plus £17,700	15.4% plus £18,300
Queen Elizabeth's Grammar School	16.1%	£67,100	£69,600	£72,200	16.1% plus £67,100	16.1% plus £69,600	16.1% plus £72,200
Ripley St Thomas C of E Academy	17.6%	£43,000	£44,600	£46,200	17.6% plus £43,000	17.6% plus £44,600	17.6% plus £46,200
Roseacre Primary Academy	15.3%	£23,100	£24,000	£24,800	15.3% plus £23,100	15.3% plus £24,000	15.3% plus £24,800
St Christopher's C of E high School (Academy)	16.1%	£88,000	£91,300	£94,600	16.1% plus £88,000	16.1% plus £91,300	16.1% plus £94,600
St Georges Academy	15.1%	£39,200	£40,700	£42,200	15.1% plus £39,200	15.1% plus £40,700	15.1% plus £42,200
St Luke and St Philip (Academy)	14.7%	£28,100	£29,100	£30,200	14.7% plus £28,100	14.7% plus £29,100	14.7% plus £30,200
St Michael's C of E High School (Academy)	16.5%	£45,600	£47,200	£49,000	16.5% plus £45,600	16.5% plus £47,200	16.5% plus £49,000
St Wilfrid's C of E Academy	13.9%	£91,900	£95,300	£98,800	13.9% plus £91,900	13.9% plus £95,300	13.9% plus £98,800
Tarleton Academy	14.9%	£29,400	£30,500	£31,600	14.9% plus £29,400	14.9% plus £30,500	14.9% plus £31,600
Tauheedul Education Trust	11.2%	-1.1%	-1.1%	-1.1%	10.1%	10.1%	10.1%
Tauheedul ET (Eden BS Preston)	10.8%	£900	Nil	Nil	10.8% plus £900	10.8%	10.8%
Tauheedul ET (Eden GS Birmingham)	10.1%	Nil	Nil	Nil	10.1%	10.1%	10.1%
Tauheedul ET (Eden GS Slough)	12.2%	£100	Nil	Nil	12.2% plus £100	12.2%	12.2%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Tauheedul ET (Olive Blackburn)	8.5%	-1%	-1%	-1%	7.5%	7.5%	7.5%
Tauheedul ET (Olive London)	8.3%	-1.1%	-1.1%	-1.1%	7.2%	7.2%	7.2%
Tauheedul ET Eden BS Bolton FS	14.2%	£100	£100	£100	14.2% plus £100	14.2% plus £100	14.2% plus £100
Tauheedul ET Eden GS Coventry	8.6%	-0.3%	-0.3%	-0.3%	8.3%	8.3%	8.3%
Tauheedul ET Eden GS Waltham	11.6%	£1,300	£1,300	£1,400	11.6% plus £1,300	11.6% plus £1,300	11.6% plus £1,400
Tauheedul ET Islam Girls HS	16.1%	£17,900	£18,600	£19,200	16.1% plus £17,900	16.1% plus £18,600	16.1% plus £19,200
Tauheedul Islam Boys High School (Free School)	10.5%	£900	£900	£1,000	10.5% plus £900	10.5% plus £900	10.5% plus £1,000
Thames Primary Academy	14.2%	£29,100	£30,200	£31,300	14.2% plus £29,100	14.2% plus £30,200	14.2% plus £31,300
The Heights Free School	14.0%	£22,600	£23,400	£24,300	14% plus £22,600	14% plus £23,400	14% plus £24,300
Tower MAT (Blackpool Gateway Academy)	12.0%	£4,400	£4,600	£4,700	12% plus £4,400	12% plus £4,600	12% plus £4,700
Waterloo Primary School (Academy)	14.2%	£30,900	£32,000	£33,200	14.2% plus £30,900	14.2% plus £32,000	14.2% plus £33,200
Wensley Fold CE Primary Academy	14.1%	£29,900	£31,000	£32,200	14.1% plus £29,900	14.1% plus £31,000	14.1% plus £32,200
Westcliff Primary School (Academy)	15.3%	£12,600	£13,100	£13,500	15.3% plus £12,600	15.3% plus £13,100	15.3% plus £13,500
Witton Park Academy Trust	15.8%	£55,900	£58,000	£60,100	15.8% plus £55,900	15.8% plus £58,000	15.8% plus £60,100

Admitted bodies (community)							
Arnold Schools Ltd.	19.4%	£26,200	£27,100	£28,100	19.4% plus £26,200	19.4% plus £27,100	19.4% plus £28,100
Blackpool Fylde Wyre Blind Society	21.6%	-20.6%	-20.6%	-20.6%	1%	1%	1%
Blackpool Zoo	19.6%	-4.4%	-4.4%	-4.4%	15.2%	15.2%	15.2%
Blackpool, Fylde and Wyre Credit Union	21.2%	-1.6%	-1.6%	-1.6%	19.6%	19.6%	19.6%
Calico Housing Limited	13.8%	£209,200	£216,900	£224,900	13.8% plus £209,200	13.8% plus £216,900	13.8% plus £224,900
Catholic Caring Services	16.6%	£65,500	£67,900	£70,400	16.6% plus £65,500	16.6% plus £67,900	16.6% plus £70,400
Chorley Community Housing	16.4%	-3.9%	-3.9%	-3.9%	12.5%	12.5%	12.5%
Community and Business Partners CIC	14.8%	-2%	-2%	-2%	12.8%	12.8%	12.8%
Community Council of Lancashire	19.5%	£26,000	£27,500	£28,500	19.5% plus £26,000	19.5% plus £27,500	19.5% plus £28,500

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Community Gateway Association	16.1%	-1.5%	-1.5%	-1.5%	14.6%	14.6%	14.6%
Contour Housing Group	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
Fylde Community Link	16.8%	£11,200	£11,700	£12,100	16.8% plus £11,200	16.8% plus £11,700	16.8% plus £12,100
Galloways Society for Blind	20.2%	£16,600	£17,200	£17,800	20.2% plus £16,600	20.2% plus £17,200	20.2% plus £17,800
Hyndburn Homes Ltd	18.4%	-2.8%	-2.8%	-2.8%	15.6%	15.6%	15.6%
Kirkham Grammar School (Independent)	19.9%	£29,300	£30,400	£31,500	19.9% plus £29,300	19.9% plus £30,400	19.9% plus £31,500
Lancashire County Branch Unison	18.2%	-18.2%	-18.2%	-18.2%	0%	0%	0%
Lancaster University	13.4%	£504,700	£523,400	£542,700	13.4% plus £504,700	13.4% plus £523,400	13.4% plus £542,700
Leisure in Hyndburn	13.0%	£47,800	£49,600	£51,400	13% plus £47,800	13% plus £49,600	13% plus £51,400
Local Pensions Partnership Ltd	12.4%	Nil	Nil	Nil	12.4%	12.4%	12.4%
Lytham Schools Foundation	18.0%	-4.4%	-4.4%	-4.4%	13.6%	13.6%	13.6%
North West & North Wales Sea Fisheries Committee	16.6%	£25,500	£26,500	£27,500	16.6% plus £25,500	16.6% plus £26,500	16.6% plus £27,500
Pendle Leisure Trust	12.6%	£20,600	£21,400	£22,200	12.6% plus £20,600	12.6% plus £21,400	12.6% plus £22,200
Preston Care and Repair	13.7%	£3,600	Nil	Nil	13.7% plus £3,600	13.7%	13.7%
Progress Housing Group Ltd	17.9%	-2.3%	-2.3%	-2.3%	15.6%	15.6%	15.6%
QEGS Blackburn Ltd	16.5%	-0.3%	-0.3%	-0.3%	16.2%	16.2%	16.2%
Ribble Valley Homes Ltd	18.9%	-10.2%	-10.2%	-10.2%	8.7%	8.7%	8.7%
Rossendale Leisure Trust	13.6%	-2.1%	-2.1%	-2.1%	11.5%	11.5%	11.5%
Surestart Hyndburn	13.8%	£22,400	£23,200	£24,100	13.8% plus £22,400	13.8% plus £23,200	13.8% plus £24,100
The Ormerod Home Trust Ltd.	21.2%	£145,100	£150,400	£156,000	21.2% plus £145,100	21.2% plus £150,400	21.2% plus £156,000
Together Housing	14.7%	£87,700	£90,900	£94,300	14.7% plus £87,700	14.7% plus £90,900	14.7% plus £94,300
University of Cumbria	14.0%	£608,700	£631,200	£654,600	14% plus £608,700	14% plus £631,200	14% plus £654,600
Wyre Housing Association	19.3%	£257,600	£267,100	£277,000	19.3% plus £257,600	19.3% plus £267,100	19.3% plus £277,000
Admitted bodies (contractor)							
Alternative Futures Group Ltd	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Andron (formerly Solar)	21.3%	-21.3%	-21.3%	-21.3%	0%	0%	0%
Bootstrap Enterprises Ltd	18.8%	-17.9%	-17.9%	-17.9%	0.9%	0.9%	0.9%
Bulloughs (Carr Head PS)	25.6%	£500	Nil	Nil	25.6% plus £500	25.6%	25.6%
Bulloughs (Lytham Hall)	21.0%	Nil	Nil	Nil	21%	21%	21%
Bulloughs (Our Lady)	16.8%	-7.3%	-7.3%	-7.3%	9.5%	9.5%	9.5%
Burnley Leisure	13.6%	-2%	-2%	-2%	11.6%	11.6%	11.6%
Capita (Rossendale BC Transfer)	20.7%	-20.7%	-20.7%	-20.7%	0%	0%	0%
Catering Academy Ltd	20.1%	-20.1%	-20.1%	-20.1%	0%	0%	0%
Caterlink (Mount Pleasant School)	16.8%	-1.9%	-1.9%	-1.9%	14.9%	14.9%	14.9%
CG Cleaning (Kennington Rd)	22.7%	-17.4%	Nil	Nil	5.3%	22.7%	22.7%
CG Cleaning (St Augustine)	22.1%	-3%	Nil	Nil	19.1%	22.1%	22.1%
Churchill (Holy Family)	21.4%	-16%	Nil	Nil	5.4%	21.4%	21.4%
Churchill (St Anne St Joseph)	18.5%	-2.8%	Nil	Nil	15.7%	18.5%	18.5%
Cofely FM Ltd (Blake/Cross)	26.7%	-26.7%	-26.7%	-26.7%	0%	0%	0%
Cofely FM Ltd (Lend Lease)	21.9%	-5.4%	-5.4%	-5.4%	16.5%	16.5%	16.5%
Cofely FM Ltd (Pleckgate)	18.8%	-10.8%	-10.8%	-10.8%	8%	8%	8%
Cofely FM Ltd (Witton Park)	23.2%	-3.2%	-3.2%	-3.2%	20%	20%	20%
Compass Contract Services	23.4%	-0.4%	-0.4%	-0.4%	23%	23%	23%
Compass Contract Services (UK) Ltd (Preston College)	20.9%	-0.9%	-0.9%	-0.9%	20%	20%	20%
Consultant Caterers Ltd	22.5%	-17.8%	-17.8%	-17.8%	4.7%	4.7%	4.7%
Creative Support Limited (Midway Mental health)	18.2%	-4.2%	-4.2%	-4.2%	14%	14%	14%
Creative Support Ltd	21.0%	-21%	-21%	-21%	0%	0%	0%
Elite CES Ltd (Fulwood Cadley)	19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
Elite CES Ltd (Moor Nook PS)	23.1%	Nil	Nil	Nil	23.1%	23.1%	23.1%
Elite Cleaning and Environmental Services Ltd	16.7%	-9.8%	-9.8%	-9.8%	6.9%	6.9%	6.9%
Eric Wright Facilities Management Ltd (Highfield High School)	20.2%	-19.5%	-19.5%	-19.5%	0.7%	0.7%	0.7%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
FCC Environment	20.6%	Nil	Nil	Nil	20.6%	20.6%	20.6%
Fylde YMCA	16.5%	-16.5%	-16.5%	-16.5%	0%	0%	0%
I CARE	26.1%	-26.1%	-26.1%	-26.1%	0%	0%	0%
Ind Living Fund (Blackpool BC)	19.7%	-2%	Nil	Nil	17.7%	19.7%	19.7%
Lend Lease Cons.(EMEA) ICT	18.8%	-5.3%	-5.3%	-5.3%	13.5%	13.5%	13.5%
Lend Lease Cons.(EMEA) ph3	13.9%	-3%	-3%	-3%	10.9%	10.9%	10.9%
Lend Lease Construction (EMEA) Limited (Fulwood Academy)	16.9%	-1.9%	-1.9%	-1.9%	15%	15%	15%
Liberata (UK) Ltd (Burnley)	18.7%	-1.4%	-1.4%	-1.4%	17.3%	17.3%	17.3%
Liberata UK Ltd (Pendle)	19.2%	-6.5%	-6.5%	-6.5%	12.7%	12.7%	12.7%
Mack Trading Int. (Ltd)	21.1%	-21.1%	-21.1%	-21.1%	0%	0%	0%
May Gurney Fleet and Passenger Services Limited	21.7%	-21.7%	-21.7%	-21.7%	0%	0%	0%
Mellor's (Bishop Rawstorne)	21.2%	-6%	-6%	-6%	15.2%	15.2%	15.2%
Mellors (Brinscall St John)	18.9%	-0.1%	-0.1%	-0.1%	18.8%	18.8%	18.8%
Mellor's (Hambleton PS)	27.6%	-1.7%	-1.7%	-1.7%	25.9%	25.9%	25.9%
Mellors (Queens Drive)	20.5%	Nil	Nil	Nil	20.5%	20.5%	20.5%
Mellors (Trinity, St Michael)	24.7%	Nil	Nil	Nil	24.7%	24.7%	24.7%
Mellor's (Worden SC)	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Mellor's Catering (Belthorn Academy)	21.1%	Nil	Nil	Nil	21.1%	21.1%	21.1%
NCP Services Ltd	23.6%	-23.6%	-23.6%	-23.6%	0%	0%	0%
RCCN (Basnett Nursery)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Ridge Crest Clean Nrth Sacred	28.8%	-28.8%	-28.8%	-28.8%	0%	0%	0%
Service Alliance (Barnoldswick)	21.3%	Nil	Nil	Nil	21.3%	21.3%	21.3%
Service Alliance (Whalley PS)	22.2%	Nil	Nil	Nil	22.2%	22.2%	22.2%
Service Alliance Ltd (Altham)	25.7%	-3.1%	Nil	Nil	22.6%	25.7%	25.7%
Service Alliance Ltd (RCC)	26.6%	£500	Nil	Nil	26.6% plus £500	26.6%	26.6%
South Ribble Community Leisure (Serco)	13.5%	£80,400	£83,400	£86,500	13.5% plus £80,400	13.5% plus £83,400	13.5% plus £86,500
Urbaser Ltd	23.9%	£400	£400	£400	23.9% plus £400	23.9% plus £400	23.9% plus £400

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
West Lancashire Community Leisure (Serco)	14.9%	-14.9%	-14.9%	-14.9%	0%	0%	0%

Other employers confirmed post valuation							
Freckleton Parish Council	18.6%	Nil	Nil	Nil	18.6%	18.6%	18.6%
PET (West Craven)	17.2%	£18,100	£18,800	£19,500	17.2% plus £18,100	17.2% plus £18,800	17.2% plus £19,500
Andron Heyhouses	23.3%	Nil	Nil	Nil	23.3%	23.3%	23.3%
Blessed Edward Trust	10.7%	Nil	Nil	Nil	10.7%	10.7%	10.7%
Churchill Moorside	25.1%	-4.3%	-4.3%	-4.3%	20.8%	20.8%	20.8%
Clayton-le-Woods Parish Council	17.8%	-0.9%	-0.9%	-0.9%	16.9%	16.9%	16.9%
Cliviger Parish Council	15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Compass HHC	21.6%	Nil	Nil	Nil	21.6%	21.6%	21.6%
Education Partnership Trust	11.2%	-0.4%	-0.4%	-0.4%	10.8%	10.8%	10.8%
FCAT Mereside Primary Academy	16.3%	£27,600	£28,600	£29,700	16.3% plus £27,600	16.3% plus £28,600	16.3% plus £29,700
Mellors Lostock	21.9%	Nil	Nil	Nil	21.9%	21.9%	21.9%
PET	15.5%	£700	£700	£700	15.5% plus £700	15.5% plus £700	15.5% plus £700
Tauheedul Highfield Humanities	16.4%	£57,700	£59,800	£62,000	16.4% plus £57,700	16.4% plus £59,800	16.4% plus £62,000
Tauheedul Olive Birmingham	7.6%	Nil	Nil	Nil	7.6%	7.6%	7.6%
Tauheedul Olive Bolton	11.1%	Nil	Nil	Nil	11.1%	11.1%	11.1%
Tauheedul Olive Preston	9.7%	Nil	Nil	Nil	9.7%	9.7%	9.7%
Taylor Shaw (Parklands HS)	22.4%	-3%	-3%	-3%	19.4%	19.4%	19.4%
Tor View	12.6%	£57,300	£59,400	£61,600	12.6% plus £57,300	12.6% plus £59,400	12.6% plus £61,600
Vision Learning Trust	13.3%	-0.1%	-0.1%	-0.1%	13.2%	13.2%	13.2%

Employers grouped with Council							
Andron Fearns Sport College	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Bulloughs (St Patrick)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Employer	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
		2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Churchill (Clayton Brook)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Churchill (Morecambe Bay)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Consultant Cleaners (St James)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (St Annes)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Elite CES Ltd (Carr Hill)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
I Care (Ind)	14.8%	-2.4%	-1.4%	Nil	12.4%	13.4%	14.8%
Maxim (Acorns PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (Newton Bluecoat)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Maxim (St Matthews CE PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Delph Side PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Holy Cross)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (Little Hoole)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Mellors (White Ash PS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Premiserv (St Peter)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Burscough)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Our Ladys Catholic HS)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (St Johns)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
RCCN (Whitefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Clitheroe Pendle Primary)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Mary Magdalene)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Marys RCP)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (St Wilfred)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Service Alliance (Whittlefield)	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Other interested bodies with no pensionable employees

Employer	Proportion of Pension Increases to be Recharged %

Blackpool & Fylde Society for the Deaf	100
Burnley & Pendle Development Association	100
Burton Manor Residential College	100
Ex Department of Transport	100
Ex National Health Service	100
Fylde Coast Development Association	100
Lancashire South East Probation Committee	100
Spastics Society	100
Notes:	

1. Cash payments in respect of £ lump sums marked * are payable by 30 April 2017. Cash payments in respect of £ lump sums marked ** are payable by 30 April of the year in which they are due. Cash payments in respect of £ lump sums marked *** are payable by the end of the year in which they are due Where applicable these amounts have been reduced to reflect this early payment;

2. With the agreement of the Administering Authority employers may also opt to pay any other element of their employer contributions early, with either all three years being paid in April 2017 or payment being made in the April of the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - Payments made in the April of the certified year will be reduced by 2.1% (i.e. the above amounts will be multiplied by 0.979)
   - 2018/19 payments made in April 2017 will be reduced by 6.3% (i.e. the above amounts will be multiplied by 0.937)
   - 2019/20 payments made in April 2017 will be reduced by 10.2% (i.e. the above amounts will be multiplied by 0.898)

   For these cases the employer will need to estimate in advance the pensionable pay for the entire period, and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 19th April or 22nd April as appropriate following the year-end).

3. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014;

4. The total contributions payable by each employer each year will be subject to a minimum of zero;

5. In cases where an element of an existing Scheme Employer's deficit is transferred to a new employer on its inception, the Scheme Employer's deficit recovery contributions shown in this certificate may be reallocated between the Scheme Employer and the new employer to reflect this, on advice from the actuary.

6. There are a number of additional employers who no longer had any active members within the Fund as at the valuation date. Any final contribution requirement for these employers will be assessed by the Fund in due course on the basis of actuarial advice.

7. The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The employers (both existing and new) that will be included in the captive are those with less than 150 active members (excluding major Councils). New employers entering the Fund who fall into this category will also be included. For those employers in the ill-health captive arrangement, allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

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K Glossary

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

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

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

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

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

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

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

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

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

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

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

Assumed pensionable pay

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

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

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

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

Bid price
The price a buyer pays for a stock.

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

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

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

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

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

Consumer Price Index (CPI)
CPI is a measure of inflation based on the change in the price of a fixed basket of goods and services. The difference between CPI and retail price index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and council tax, and includes other items not

used in RPI. The basket of goods and services on which CPI is based is expected to provide lower, less volatile, inflation increases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Over the Counter (OTC)
A security traded in some context other than on a formal exchange. The phrase "over the counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Past service liability
The value, in present day terms, of the benefits accrued by members up to the valuation date. Calculated on the basis of a set of assumptions agreed between the administering authority and the actuary.

Pension Boards
The role of each board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

Pension boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.

Pooled investment vehicles
Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Private equity
Shares in un-quoted companies.

Property
All buildings and land that the Fund owns, including pooled property funds.

Related party
A person or organisation which has influence over another person or organisation.

Responsible investment
An approach to investment which recognises that the consideration of environmental, social and governance factors forms an important part of the evaluation of the future risks and opportunities facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

Pension funds invest the retirement savings of scheme members in order to fund the benefits they are entitled to receive in the future. There is an underlying fiduciary duty to protect the financial interests of scheme beneficiaries which is exercised through the approach to investment and the evaluation of risks and opportunities as part of investment stewardship.

Stock lending
The act of loaning securities to another investor in return for a fee. When a security is loaned the ownership is also transferred to the borrower.

Transfer values
The value of a pension scheme members benefits available to buy benefits in another scheme.

Triennial actuarial valuation
Every three years the actuary formally reviews the assets and liabilities of the Lancashire LGPS scheme and produces a report on the scheme's financial position.

Venture capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

50:50 scheme
In the LGPS, active members are given an option to accrue a lower benefit in return for paying a lower level of contribution.