

**Lancashire County Pension Fund**  
**Annual report for the year ended 31 March 2019**

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## A Management structure

### Administering authority

Lancashire County Council

### Pension Fund Committee

Lancashire County Council committee members

County Councillor J Burrows

County Councillor S Clarke

County Councillor L Collinge\*

County Councillor G Dowding

County Councillor C Edwards

County Councillor K Ellard

County Councillor J Fillis\*\*

County Councillor T Martin

County Councillor J Mein

County Councillor E Pope (Chair)

County Councillor A Riggott

County Councillor A Schofield (Deputy Chair)

County Councillor K Snape\*\*\*

County Councillor A Snowden

\*Appointed 23 May 2019

\*\*Until 24 May 2018

\*\*\* 24 May 2018 to 23 May 2019

### Co-opted representatives

P Crewe – Trade union

J Tattersall – Trade union

D Borrow – City and Borough councils

I Moran – City and Borough councils

M Smith – Blackpool Council

R Whittle – Blackburn with Darwen Council

J Eastham – Further / Higher education

### Head of Fund

A Leech

### Chief Executive and Director of Resources

A Ridgwell

### External auditor to the Fund

Grant Thornton LLP

### Pooled investments manager

Local Pensions Partnership Investments Ltd

### Non-pooled investment managers

Local Pensions Partnership Investments Ltd

Knight Frank LLP

BNP Paribas

### Actuary

Mercer

### Lancashire Local Pension Board

W Bourne (Chair)

C Gibson

K Haigh

B Harvey\*

Y Moulton

T Pounder

S Thompson

C Wakeford (County Councillor)

K Wallbank\*\*

\*Until May 2019

\*\*Appointed October 2018

### Custodian to the Fund

Northern Trust

### Independent investment advisors

A Devitt

E Lambert

### AVC providers

Equitable Life

Prudential

### Legal advisors

Addleshaw Goddard

Allen and Overy

Clifford Chance

DWF

Eversheds

Lancashire County Council

MacFarlanes

Taylor Wessing

Pinsent Masons

### Independent property valuer

Avison Young Partnership

### Performance measurement

Northern Trust

### Governance and research consultants

Pension and Investment Research Consultants

### Bankers

Lloyds Bank plc

Natwest Bank plc

Svenska Handelsbanken

### **B Foreword by County Councillor Eddie Pope, Chair of the Pension Fund Committee – Subject to approval**

Welcome to the 2018/19 Annual Report of the Lancashire County Pension Fund. The year has seen the number of scheme members continuing to increase with total members now being 176,476 an increase of 4,402 in the year. We are now in our third year of our partnership arrangement with the Local Pension Partnership (LPP) who are providing both administration and investment services to the Fund. The investment side of their business has performed well as noted below, however, it has been a challenging year for our administration service as LPP went live with a new operating model for the business in April 2018. Unfortunately this change wasn't implemented as successfully as anticipated and there were failures in services to both employers and members.

I am pleased to report that the administration service is now meeting most of the key performance indicators as can be seen on page 10 of this annual report. This successful turnaround is due to the collaborative working between LPP and members of the Pension Fund committee and Local Pension Board. It is also due to the hard work and commitment of the staff who work within the Pension Administration service.

Some of the highlights of the year are as follows:

- Delivering an 11.7% return on assets which outperformed the Lancashire benchmark of 8.0% and resulted in the value of the fund, at 31 March 2019, increasing to £8.4bn, bringing the Scheme closer to being fully funded and placing Lancashire at the top of the 2018/19 local authority fund league table for total fund performance. This league table is published by Pensions and Investments Research Consultants Ltd (PIRC) and comprises 64 local government pension funds with a combined value of £193bn.

- The continued development of the pooling of investments via Local Pensions Partnership which saw a new diversifying strategies vehicle launched in September. It is anticipated that the final vehicle covering property will be launched later in 2019.
- Responsible investment has continued to be an important issue for the committee. The Responsible Investment Working Group reviewed the Climate Change policy. Along with the Head of Fund I have become a member of the Local Authority Pension Fund Forum (LAPFF) a collaborative shareholder group which aims to promote good corporate governance and responsibility by companies. This has enabled direct engagement with companies in which LAPFF members have investments.

### **Investment**

The value of the Fund's net assets at 31 March 2019 was £8,410m, up from £7,621m at 31 March 2018.

The Fund uses Local Pensions Partnership Investment Ltd (LPP I) to manage all of its investment assets. LPP I initially undertook investments on behalf of Lancashire County Pension Fund and the London Pension Fund Authority to create a larger pool which is jointly invested to ensure greater reductions in management costs. In 2018/19 Royal County of Berkshire Pension Fund also invested in LPP I, therefore the value of the pool has increased to approximately £17bn at 31 March 2019.

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 17 of this report and some examples of Fund investments are set out below.

### **Guild Investments - Infrastructure**

Guild Investments owns six wind farm sites across Portugal, a growing global source of renewable energy which reduces carbon emission intensity.

Portugal is an attractive location for wind farm installations, having a windy terrain, a stable feed-in-tariff regime and the support of local communities. This investment enables us to partner with a top tier renewable energy operator who is a market leader in renewable energy electricity, enjoying technical and local expertise support.

Guild Investments also actively contribute to protecting the endangered species the Iberian Wolf, through formation and membership of the Iberian Wolf Habitat Conservation Association. This organisation was founded in 2006 through constituent members of Guild Investments.



Wind farm, Portugal

### **Forth Ports Group - Infrastructure**

Forth Ports is the third largest Ports Group in the UK, with a diverse operational and port-centric logistic business model across Tilbury in the south east of England and several Scottish ports. Its strategy is focused on the delivery of efficient and low carbon supply chain solutions. This investment was made via the GLIL Infrastructure platform.

Currently undergoing a project to transform an old power station in Tilbury to extend the port. Not only is this initiative creating jobs within the area but the promotion and protection of wildlife is paramount within the scope of the project, including the building of a 12,000 strong water vole park. Further regeneration projects are underway in Scotland.



Investment in Forth Ports Group

## Endeavour Vision – Private equity

Endeavour Vision has invested in medical technology for over 10 years as they recognised an opportunity to invest in devices that can improve the overall standard of care, reduce healthcare costs and have a life-changing impact on patients around the world.

To date, their Endeavour Medtech Growth Fund has invested in 12 medtech companies with a total investment value of over EUR 115 million. Every company they invest in must meet their strict criteria, meaning that the device must be considered 'best-in-class' in terms of patient safety and efficacy and offer superior clinical benefits, both to doctors and patients.

## Friargate Court, Preston – Real estate

Friargate Court is newly built exemplary student accommodation providing future generations of those electing to study at the University of Central Lancashire with modern, stylish and safe lodgings to enhance their experience of university life. En-suite bathrooms, Wi-Fi, 24 hour security and a range of utilities make this property a popular choice.



Friargate Court, Preston

## Park Hotel East Cliff, Preston - Real estate

A landmark property in the area, having originally been built in 1883 as a luxury hotel and formerly serving as offices to Lancashire County Council.

The conversion exercise will revert the property back to 4-star hotel. The property will comprise of 70 bedrooms, a ground floor restaurant and function rooms.

This hotel will be the highest quality hotel facility in Preston and demonstrate how the Council is transforming the area and seeking to increase the number of visitors to the City and the wider County. The rejuvenation and construction plans associated with this project will create jobs and the hotel operator plans to employ 100 staff at the hotel which will bring a direct economic benefit to Preston.



Artist's impression of restored and converted Park Hotel

## **Administration**

During the year the Fund's administration service, provided by LPP processed around 32,637 items of work (ranging from changes of address to the calculation of pension benefits).

As noted above this has been a challenging year for this area of the business and we have been working hard to improve the service received by both members and employers in the Fund.

**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**

<p><b>A. Structure</b></p>	<p>(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</p> <p>(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)</p> <p>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(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.</p>	<p>√</p> <p>Partial (see Note 1)</p> <p>√</p> <p>Partial (see Note 3)</p>
<p><b>B. Representation</b></p>	<p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)</p> <p>These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</p> <p>(ii) scheme members (including deferred and pensioner scheme members)</p> <p>(iii) independent professional observers (2)</p> <p>(iv) expert advisers (on an ad hoc basis)</p>	<p>Partial (see Notes 1 and 2)</p>
<p><b>C. Selection and Role of Lay Members</b></p>	<p>(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).</p>	<p>√</p>



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<b>D. Voting</b>	(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.	√
<b>E. Training/Facility time/Expenses</b>	(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.	√  √
<b>F. Meetings - Frequency</b>	(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.	√  √  √
<b>G. Access</b>	(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.	√
<b>H. Scope</b>	(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	√
<b>I. Publicity</b>	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	√

**Notes - Reasons for partial compliance**

- 1) Unitary councils, district councils and further and higher education employers, are represented. Other admitted bodies only represent 9% of contributors to the Fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important

events. Although employee representatives, i.e. trade unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

- 2) Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is currently performed by the Fund's independent advisers and officers and it is not apparent what added value such an appointment would bring.
- 3) The members of the investment panel are not voting members on the committee. However, all the panel members attend the committee meetings and are able to contribute to any discussions.

## D Administration of the Fund – To be updated

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

The Local Government Pension Scheme is a statutory public sector pension scheme which operates on a "defined benefit basis".

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

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

### Review of the Year

LPP introduced the new target operating model for the pension administration business which went live at the beginning of April 2018, following months of planning and significant changes to the way LPP manage our services.

This new operating model created three main service hubs:

- Member services
- Engagement; and
- Business development.

In particular, the new operating model was designed to provide greater resilience and ultimately give employers and members an improved service and experience.

As a result of the volume of change at the start of the new fiscal year, there were some initial challenges and dips in productivity which were more significant than originally anticipated.

Productivity has subsequently increased. By Q3 2018, remedial action was taken to address backlogs and stabilise the position, including the implementation of an engagement programme to help clients understand the change and the remedial action taken. The improvements from Q3 are demonstrated in the table below:

	Q1	Q2	Q3	Q4	Annual
<b>Performance against SLA</b>	73%	86%	90%	93%	87%
<b>Complaints</b>	49	45	66	48	208
<b>Compliments</b>	4	3	5	5	17

During the year to 31 March 2019, 32,637 individual calculations and enquiries were completed, of which 28,414 met the performance standard; an overall performance of 87%.

The next phase of the service improvement programme will include enhancements to the member and employer experience through new technologies and digital solutions, improved team-learning and reporting, customer satisfaction surveys and embedding best practice.

### Membership and employers

The Scheme is administered on behalf of over 400 organisations including local authorities, further and higher education colleges,

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voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector.

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

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

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

<b>Fund membership</b>	<b>31 March 2018</b>	<b>31 March 2019</b>
<b>Active scheme members</b>		
Lancashire County Council	25,126	25,721
Other employers	26,220	27,422
<b>Total*</b>	<b>51,346</b>	<b>53,143</b>
<b>Pensioners</b>		
Lancashire County Council	23,722	24,692
Other employers	23,723	24,651
<b>Total</b>	<b>47,445</b>	<b>49,343</b>
<b>Deferred members</b>		
Lancashire County Council	37,410	37,691
Other employers	35,873	36,299
<b>Total*</b>	<b>73,283</b>	<b>73,990</b>
<b>Total membership</b>	<b>172,074</b>	<b>176,476</b>

\*The number of active scheme members at 31 March 2019 includes 5,089 pending leavers who are accounted for as a deferred member for the purpose of this report.

### 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 2019 is included as Appendix 2 to this annual report.

### 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 engagement team also undertakes annual pension surgeries and pension drop-in sessions as well as facilitating an annual employer conference.

The annual employer conference was held on 13 November 2018 at the Hallmark Hotel in Leyland with over 100 employers in attendance. Presentations included the role of a Local Pension Board, amendment regulations update, an overview of the ill health process and an update on the LPP administration service. Guest speakers attended from the Pensions Ombudsman and the Pensions Regulator. The service also hosted an employer forum in April 2018 on behalf of the fund with over 40 finance professionals in attendance.

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A dedicated contact centre, AskPensions, provides the first point of contact for members and employers. The contact centre has a target to answer 90% of calls received. Between 1 April 2018 and 31 March 2019, 39,303 calls were received and 87% of them were answered.

In January 2019 the contact centre survey was launched and of those eligible to be surveyed and who agreed to take part, 92.46% indicated they were satisfied with our service, providing us with an average score of 4.67 out of 5.

During the year to 31 March 2019, the service received 17 compliments (18 in the previous year), relating to the helpful, prompt and professional service provided by the staff within the pensions administration team. During the same period, 208 complaints were received (49 in the previous year). The complaints in general related to delays in processing benefits.

### **Legislative Changes**

Amendments to the Scheme's rules took 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 33,000 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 31 March 2019 were issued in line with the statutory deadline of 31 August 2019.

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

Additionally, 28 pre-retirement presentations and 21 scheme basic presentations have been delivered during the year.

### **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 33% of Lancashire County Pension Fund members are registered online.

### **Appeals**

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

The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering

authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer appointed by the administering authority to review the disagreement.

### **Charges**

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.

Senior officers charged with managing and directing the Lancashire County Pension Fund must comply with 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

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

Details of training provided internally and attended externally by members of the Pension Fund Committee (PFC) and Lancashire Local Pension Board (LLPB) during the year ended 31 March 2019 are detailed below.

Date	Subject	Venue	Attendees	
			PFC	LLPB
10 May 2018	ESG and Sustainable Investments for Pension Funds Conference	London	1	0
21/23 May 2018	Local Authority Conference 2018	Gloucestershire	2	0
22 May 2018	Workshop on Credit and Infrastructure	County Hall, Preston.	10	4
8 June 2018	Pre committee briefing – the role of the Lancashire Local Pension Board.	County Hall, Preston	15	0
28 June 2018	Workshop on LCPF Annual Report and accounts	County Hall, Preston	9	2
16/18 July 2018	LAPFF Investment Seminar	Hertfordshire	1	0
6/7 Sept 2018	LGC Investment Seminar	Newport, South Wales	2	0
14 Sept 2018	Pre committee briefing – Media report on LGPS investment in shale gas extraction.	County Hall, Preston	16	0
23/24 Sept 2018	Pension Trustees Circle Seminar	York	1	0
26 Sept 2018	Workshop on 'Analysing the Macro Backdrop for Investing'	County Hall, Preston	7	2
26 Sept 2018	Introduction to the Local Government Pension Scheme	London	1	1
12 Oct 2018	LGPS Autumn Seminar for Pension Board members	Liverpool	0	2
17/19 Oct 2018	PLSA Annual Conference and Exhibition.	Liverpool	2	0
6 Nov 2018	Workshop on the Actuarial Valuation	County Hall, Preston	8	5
15 Nov 2018	Ministry for Housing, Communities and Local Government and Local Government Pension Scheme Advisory Board Infrastructure event.	London	1	0



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22 Nov 2018	Northern Conference on Pension Funds	Manchester	1	0
30 Nov 2018	Pre committee briefing – LCPF Actuarial Valuation.	County Hall, Preston	15	0
5/7 Dec 2018	LAPFF Annual Conference	Bournemouth	1	1
17/18 Jan 2019	LGPS Governance Conference	Bristol	1	2
23 Jan 2019	Workshop on Responsible Investment	County Hall, Preston	9	3
7 Feb 2019	LAPF Strategic Investment Forum	London	1	0
7 Feb 2019	6 <sup>th</sup> Annual Public Sector update for Payroll and HR Professionals	London	0	1
6/8 Mar 2019	PLSA Investment Conference 2019	Edinburgh	2	0
12 March 2019	Workshop on Asset safety and cyber resilience	County Hall, Preston	2	2
13 Mar 2019	SPS Local Authority Pension Fund Investment Issues Conference.	London	1	0
13 Mar 2019	CIPFA Local Pension Board Seminar	Liverpool	0	1
29 Mar 2019	Pre committee briefing on Asset Pooling Guidance	County Hall, Preston	13	0

In addition some members of the Pension Fund Committee and the Lancashire Local Pension Board have completed the following online modules in The Pension Regulators Public Service Toolkit:

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

## F Investment Policy and Performance

### Macro outlook – the last 12 months

The twelve months to the end of March marked a period of gradual slowdown in global economic activity from the strongest level (since 2011) reached in 2017. The deceleration in global GDP was attributable to both the developed and emerging markets, as outlined below.

Headline and core inflation in key developed markets (U.S., UK, Eurozone) reached or exceeded the central banks' 2% target in the first half of 2018, however since, then they started to decrease through the first quarter of 2019. Amid this trend of lower growth and inflation, all the major central banks pivoted to a more "dovish" stance (i.e. accommodative policy) either through their forward guidance and/or their monetary policy tools.

The Fed's monetary tightening path (rate hikes, reduction of its balance sheet size) until the end of 2018 had contributed to a significant tightening of U.S. and global financial conditions. This contributed to rising market volatility and significant drawdowns of risky assets in the fourth quarter of the year. For major developed and emerging market equity indices the fourth quarter's market turbulence led to negative full-year returns for the first time since 2015. In a whipsaw move though, 2019 started strongly for all major equity and credit markets. These trended higher through March buoyed by an improved sentiment and in some cases attractive valuations. In equities, quality outperformed other factors implying that investors positioned their portfolios cautiously and in line with a late cycle stage mentality.

From a regional perspective, the U.S. continued to be the strongest performer among major developed economies, despite a notable slowdown in Q4 2018. The economy has continued to benefit from a tight labour market, with ongoing net employment gains and stronger wage growth – both close to cyclical highs and lows respectively – being a tailwind for consumers' spending (which constitutes the largest part of economy). Following a strong start in the first half of 2018, other areas of the economy, such as manufacturing and industrial production, have since weakened significantly - negatively impacted by a slowdown in global trade, weaker global growth and rising trade tensions. With the pace of expansion mostly unabated in 2018 (full-year growth was c.3%, significantly above the economy's trend growth), the Fed continued its monetary tightening raising rates four times (4 x 25 bps) and reducing the size of its balance sheet. After the severe market drawdown in Q4, the Federal Open Markets Committee announced the roll back of this process with the balance reduction scheduled to end in September 2019. Additionally, it signaled a sustained pause in rate hikes, as its preferred measure of inflation remained below target, and announced a wider review of its monetary policy framework and tools utilised.

In the U.K., growth has been somewhat slower in the past twelve months, although GDP grew strongly in Q3 2018 and Q1 2019. Based on Bank of England's (BoE) assessment, the current pace of expansion (1.8% year-on-year) is close marginally above the expected trend growth for the economy. Despite the slowdown, the labour market has remained healthy, with the unemployment rate dipping to lowest level (3.8%) since December 1974. Nominal and real wage gains (when

# Lancashire County Pension Fund

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accounting for inflation) were close to cyclical highs at the end of March, proving additional support to consumption. Like other major economies, manufacturing and industrial production has had a difficult period especially between September 2018 and February 2019. The Brexit uncertainty amid lingering negotiations was a tailwind for business investment and weighed negatively on the residential market prices - where London almost stagnated. Apart from Brexit, constrained supply and years of rapid price growth have also weighed negatively on houses affordability. The BoE raised rates once during this period (25 bps), and although it signaled on various occasions that moderately higher rates will be needed over its 3-year forecasts horizon (as inflation remained close to 2%), the moderate economic slowdown and the Brexit uncertainty has deterred it from taking further action.

In the Eurozone, GDP growth decreased significantly in the past twelve months (1.2% year-on-year) with activity in Germany and Italy being the biggest headwind. The former was negatively impacted by new emission tests for its dominant car industry and combined with the impact of global and Chinese growth slowdown, almost brought about a recession in Q4 2018. In Italy the economy dipped into recession in Q4 2018 (two quarters of negative growth) and have completely stagnated in the past twelve months. Spain, Netherlands and France have performed somewhat better. In aggregate, the labour market has remained healthy, with the unemployment rate declining to the lowest level since 2008 (7.9%). Wage growth was also stronger, but lower than the U.S. and the UK, as the economy is not yet operating at full employment. The ECB terminated its quantitative purchase programmed in 2018, however, as growth and inflation slowed down (to 1.3% and 0.8% for headline and core inflation in March) it pivoted to a

more accommodative stance, signaling that rates will remain at record low levels for some time.

In China, officials have been in the midst of an ongoing trade dispute with the U.S. After both countries raised tariffs on billion worth of imports from each other, they started bilateral negotiations that have yet to provide a sustainable solution. With this backdrop, economic activity and sentiment have decreased, although headline growth was better than expected over the last twelve months, buoyed by monetary (increased liquidity and cheaper credit) and fiscal policies (tax cuts and increased government spending).

### **Performance**

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

All the performance figures presented on the next page are as at 31 March 2019. Over the year, the Fund delivered 11.7% return on assets, outperforming its Policy Portfolio and its triennial discount rate (the actuarial benchmark) by 3.4% and 7.0% respectively. The actuarial benchmark with effect from the 2016 actuarial valuation is 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

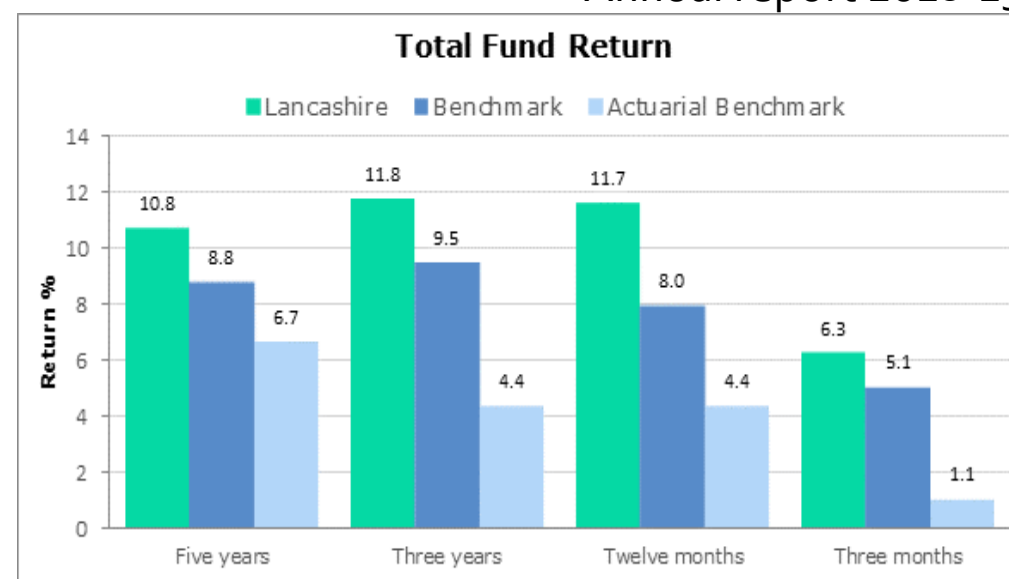
## Lancashire County Pension Fund Annual report 2018-19

weightings multiplied by a benchmark asset class index).

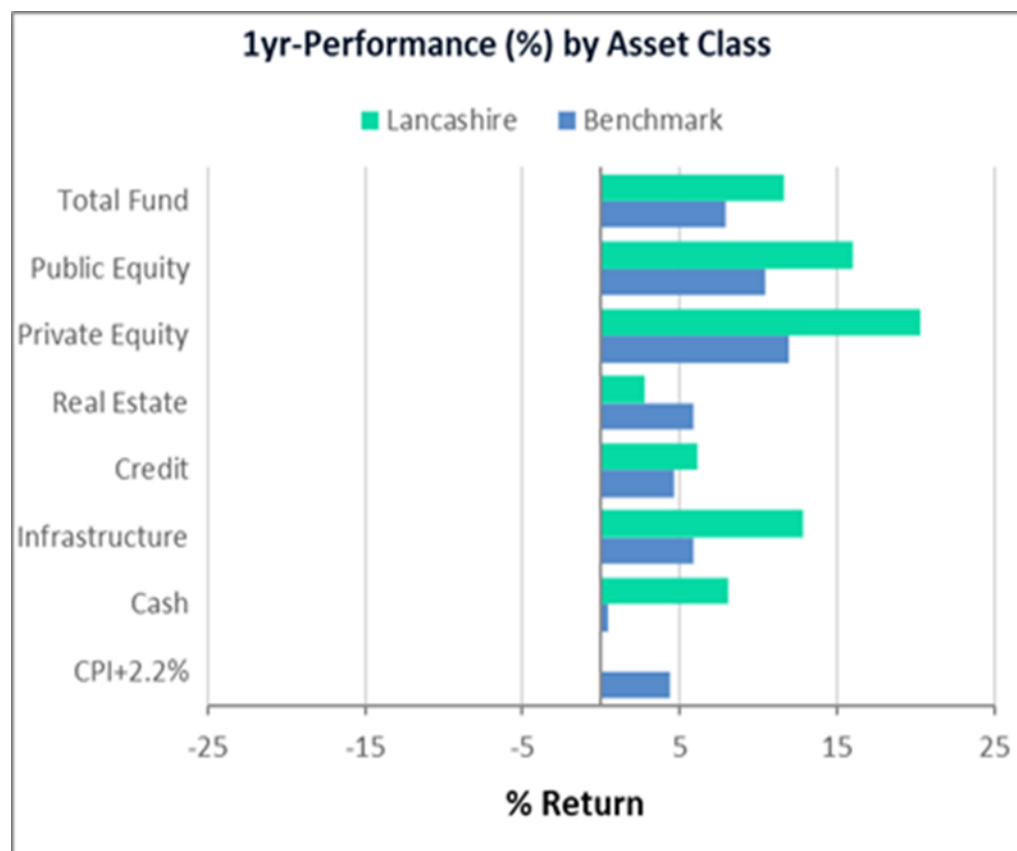
The value of the Fund's investment assets at 31 March 2019 was £8,379 million, up from £7,610 million at 31 March 2018. Public equities, private equity and infrastructure were the top contributors from an asset class perspective. Longer-term (over a 3-year or 5-year horizon) the Fund's returns have been strong, comfortably outperforming both its actuarial benchmark and its policy portfolio.

The following table and charts highlight investment performance to 31 March 2019:

Geometric Return (annualised)	1 Year	3 Year	5 Year
<b>Investment return</b>	11.7%	11.8%	10.8%
<b>Actuarial benchmark</b>	4.4%	4.4%	6.7%
<b>Policy portfolio</b>	8.0%	9.5%	8.8%



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### Investment pooling

In 2016, LCPF appointed Local Pensions Partnership Investments Limited (LPPI) to manage its assets. LPPI is a Financial Conduct Authority (FCA) regulated investment company which is wholly owned by Local Pensions Partnership Limited, a 50:50 joint venture between Lancashire County Council and London Pensions Fund Authority (LPFA). LPFA has also appointed LPPI to manage its assets, in addition to The Royal County of Berkshire Pension

Fund (RCBPF) which joined the pooling initiative in May 2018. The combined assets of all three parties now totals c.£17b. The investment teams of Lancashire County Pension Fund (LCPF), LPFA and RCBPF have been merged, leading to a more diversified pool of resources. As at the end of March 2019, LPPI had created 6 asset “pools” (vehicles) across public equities, private equity, infrastructure, credit, fixed income and diversifying strategies to manage clients’ assets. The final investment vehicle for Real Estate assets is expected to be set up in Q3 2019.

### 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 to increase its income yielding asset allocation. Although the return of the assets is assessed in a “total” way (i.e. income and capital return combined), having adequate cash inflows to pay liabilities as they fall due reduces investment trading (and its impact on fees) and also avoids having to liquidate assets at adverse market periods, which can have a negative effect on assets that are marked-to-market. Ultimately, LPPI’s aim is to improve risk-adjusted returns over the long term, whilst ensuring clients’ objectives are met.

The following table presents LCPF’s current asset allocation versus its strategic target (policy portfolio) at the end of March 2019. The allocation of the Fund’s assets for the previous financial year has been added for comparison purposes. LPPI advises the Fund on its long-term strategic asset allocation (SAA), but LCPF retains autonomy in deciding how this is finally set. LPPI has discretion to manage LCPF’s assets within the asset class ranges set as part of the strategic asset allocation decision. The SAA target and range for each asset class has remained unchanged over the year. The last SAA advice presented to LCPF took place in Q4 2017; the next review is currently anticipated in 2020.

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Deviations from the strategic asset allocation target can occur for many reasons: due to the performance of one or more asset classes, the pace of capital deployment, the pace of investment distributions or even a tactical positioning. One of the decisions taken at the previous SAA review related to a 2.5% reduction in the private equity allocation. In this case, the illiquid nature of the asset class implies that a considerable amount of time is need for investment decisions to manifest into actual exposure. In other cases (such as the public equities), recent strong performance before the time of writing of this report had led to an overweight position. Lastly, the reduction in the credit allocation reflects partly, the reduction of the SAA target (by 1%) under the previous review, as well as LPPI's tactical positioning.

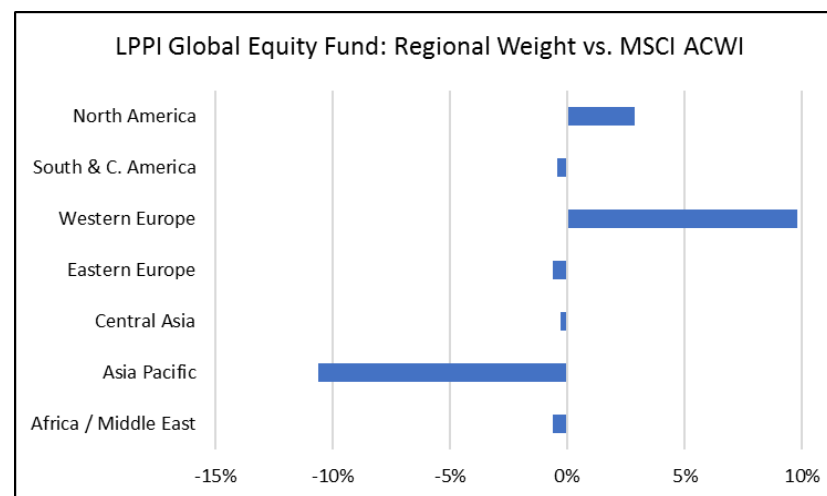
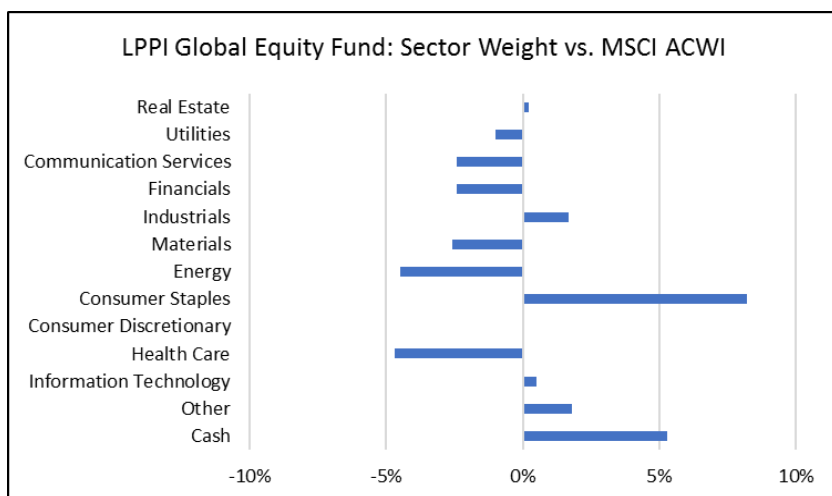
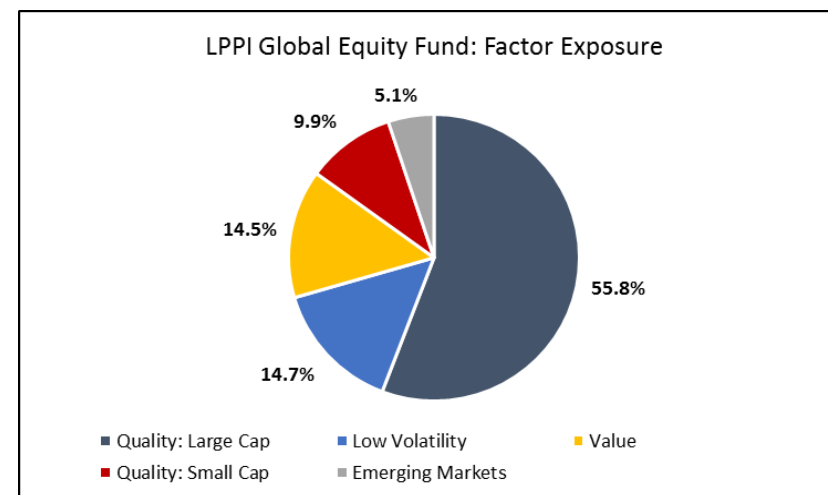
### Asset allocation: March 2019 vs. March 2018

Asset Class	March 2019		March 2018		Strategic Allocation (%)	Range
	Assets (GBP Million)	Allocation (%)	Assets (GBP Million)	Allocation (%)		
Public equities	3,730	44.5%	3,214	42.2%	42.5%	40% - 50%
Fixed income	315	3.8%	184	2.4%	2.5%	0% - 10%
Private equity	650	7.8%	548	7.2%	5.0%	0% - 10%
Infrastructure	1,147	13.7%	991	13.0%	15.0%	10% - 20%
Credit	1,489	17.8%	1,562	20.6%	19.0%	10% - 25%
Real estate	884	10.5%	829	10.9%	15.0%	10% - 20%
Cash	164	2.0%	282	3.7%	1.0%	0% - 5%
<b>Total</b>	<b>8,379</b>	<b>100.0%</b>	<b>7,610</b>	<b>100.0%</b>	<b>100.0%</b>	

## Public Equities (Global)

The LPPI Global Equities Authorised Contractual Scheme (ACS) combines an internally managed portfolio with a variety of external equity managers, which operate with differing and complementary styles of investment selection. During the year LPPI has not changed the composition of external managers within its Global Equity Fund (GEF). The GEF still maintains its quality bias, however other styles are included to provide diversification. Although the GEF's performance has been strong this year, the full merits of its strategies should be better assessed over the longer-term. The inception of the LPPI Global Equities ACS was in October 2016.

The GEF's sector and regional exposures compared to its benchmark (MSCI All Country World – MSCI ACWI) remained broadly unchanged. From a sector perspective, the GEF maintained a big overweight to Consumer Staples versus its benchmark, which follows naturally from its quality style bias. From a regional perspective, Western Europe (which includes the UK) remains the biggest overweight position, whilst the Asia Pacific is the fund's biggest underweight. Overall, the GEF maintains an underweight position to emerging markets compared to the MSCI ACWI exposure. Below are charts to support your understanding of the GEF's positioning at the 31<sup>st</sup> March 2019:



The largest ten equity holdings of the Global Equity Fund as at 31 March 2019 were:

Company	Industry	% of GEF
Visa Inc	IT Services	3.1%
Nestle SA	Food Products	3.1%
British American Tobacco Plc	Tobacco	2.6%
Accenture Plc	IT Services	2.5%
Colgate-Palmolive Co	Household Products	2.4%
Apple Inc	Technoloy Hardware, Storage % Peripherals	2.1%
Starbucks Corp	Hotels, Restaurants & Leisure	2.0%
Pepsico Inc	Beverages	1.7%
Waters Corp	Life Sciences Tools & Services	1.4%
Automatic Data Processing	IT Services	1.4%

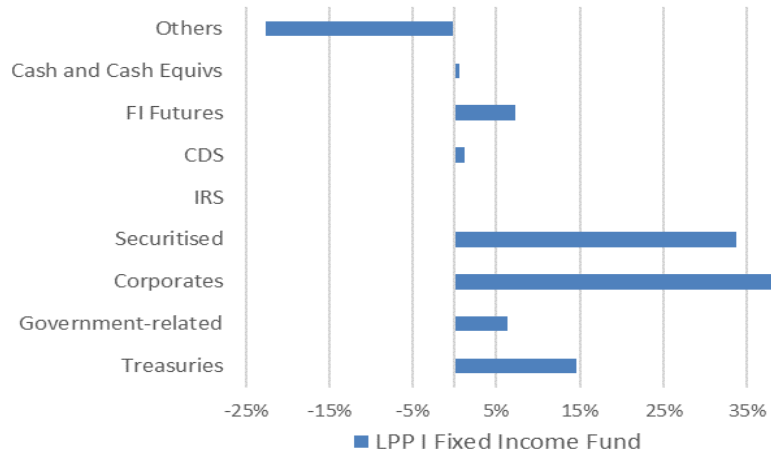
## Fixed Income

LPPI's fixed income fund was setup in Q1 2018 and LCPF entered the pool at launch. The pool currently consists of two complementary managers, one with a "top down" investment style and the other with a "bottom up" focus. The pool's performance since launch has been encouraging, with benchmark outperformance over a three month and one year period. The managers weathered the volatility in Q4 2018 well and demonstrated their ability to reduce duration and position aggregate holdings favorably ahead of troubled waters. Below are three charts, prepared at 31 March 2019, to provide a better understanding of aggregate positioning within the fixed income fund:

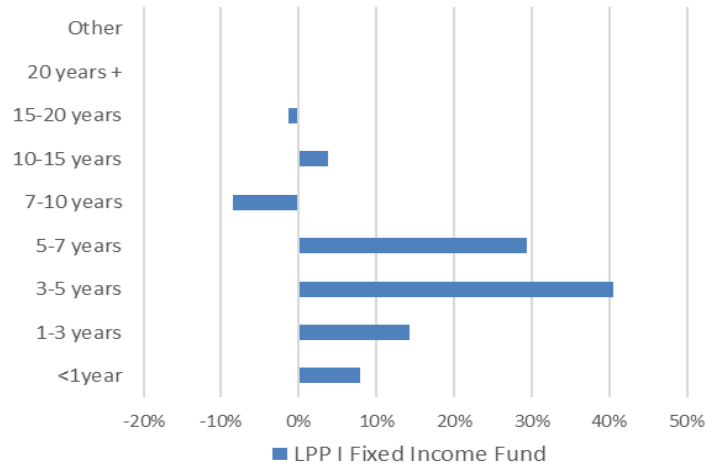


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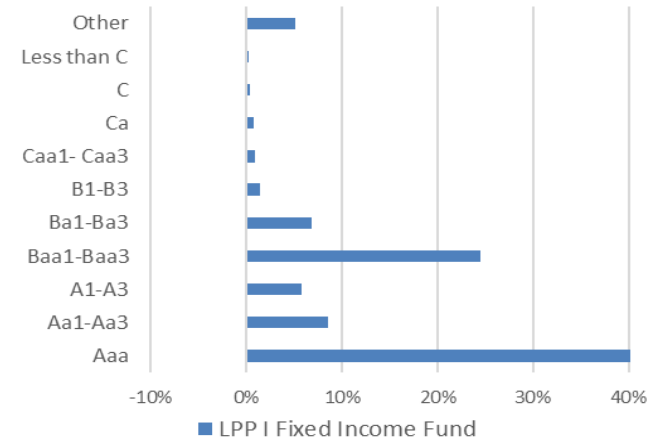
### Sector Exposure



### Maturity Breakout



### Rating Breakout



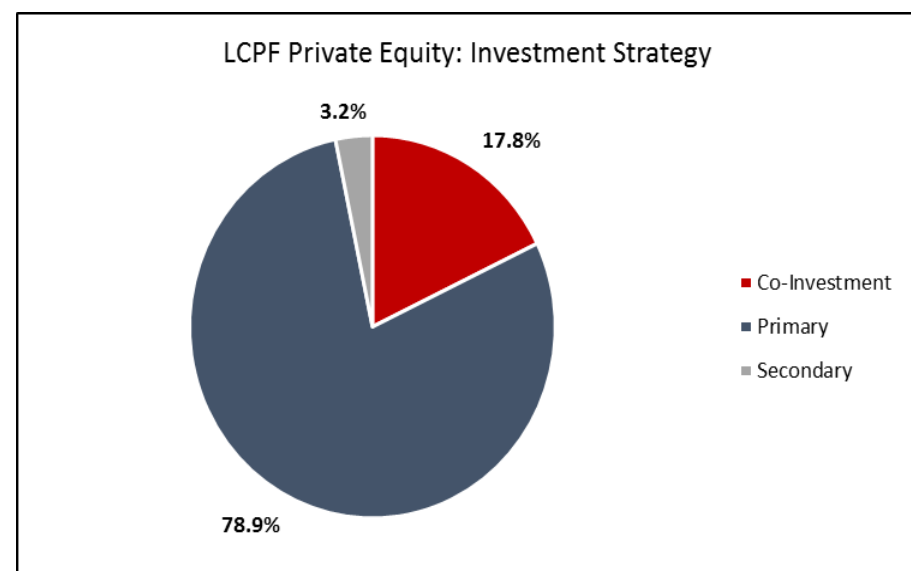
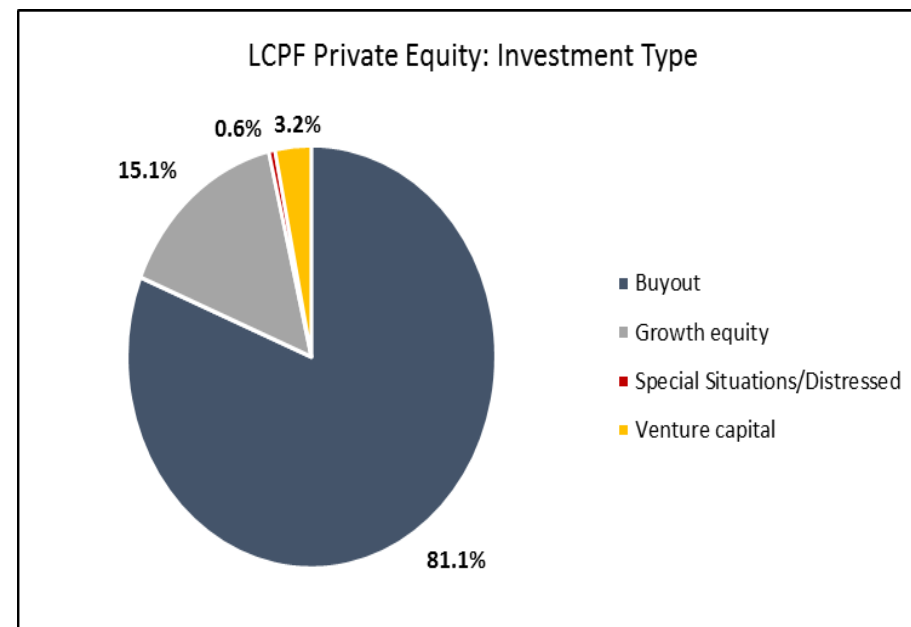
## Private Equity

Private Equity investments are held through a variety of closed-ended limited partnerships, spanning a wide range of vintages and managed by a diverse collection of different managers who, in turn, cover a variety of strategies and geographic areas. Compared to Public Equity, Private Equity offers a higher risk and higher return profile. This comes from generally investing in smaller companies with higher leverage. Private Equity also has reduced liquidity – a 10-year fund life is common – however it has historically outperformed Public Equity in both rising and falling markets.

The last 10 years has seen favourable conditions for private equity, driven by a rise in valuation multiples, low interest rates and improvement in fundamentals. LCPF's Private Equity portfolio has performed particularly well, consistently outperforming the benchmark return due to well diversified exposure to many top quartile managers.

LCPF have committed £71m to Private Equity funds over the last 12 months, which is a significant reduction on previous years and will contribute to a decline in Private Equity exposure over the next few years, whilst keeping some investments to maintain vintage diversification and GP relationships. A reduction in exposure to large buyouts, where valuations and leverage are currently at high levels, has been continued – of the 3 commitments made in 2018, 2 were to co-investment funds and the other was to a primary growth equity fund.

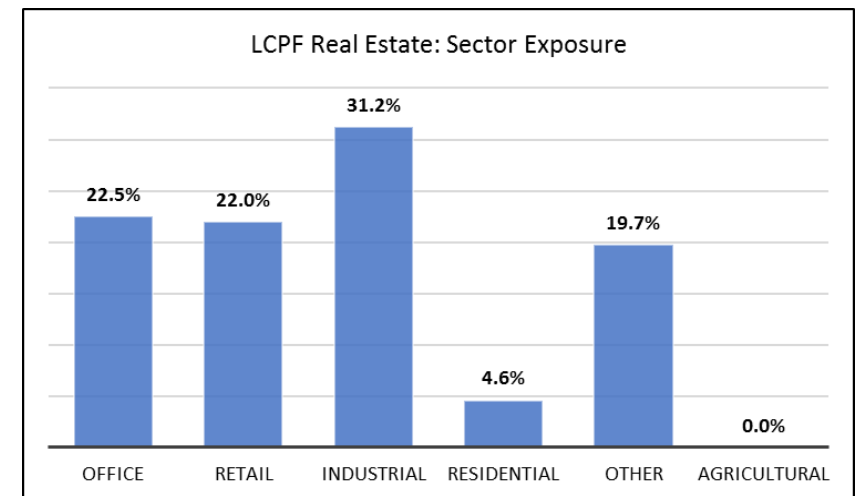
Below are two charts to provide better insight into the apportionment to Primary, Secondary and Co-Investment exposures as well as Investment Type:



## Real Estate

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. As at 31 March 2019, 86% of the real estate portfolio is directly owned and 14% is in real estate funds.

Real estate is an important portion of the LCPF's investment portfolio both because of its diversification benefits as well as the rental income generated that is used to fund member benefits without the need to liquidate other investments. Given the long term-nature of these investments, performance should be judged over corresponding time horizons. LCPF's real estate portfolio has produced strong results over a 3-year horizon (and longer), comfortably outperforming its benchmark. Below are two charts to provide you with a better insight into how LCPF's exposure was positioned at 31 March 2019:



## Infrastructure

LPPI's Fund has allocations to a number of different global infrastructure funds, and also invests directly in infrastructure projects. In December 2016, LCPF gained exposure to 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 various core infrastructure assets in the UK including investments in wind-powered electricity generation, water assets, rolling rail stock and ports. Since 1 April 2018 LPPI has been appointed as the sole manager of the GLIL fund.

Infrastructure as an asset class typically offers long-term returns that are expected to closely match the Fund's investment needs whilst also providing a

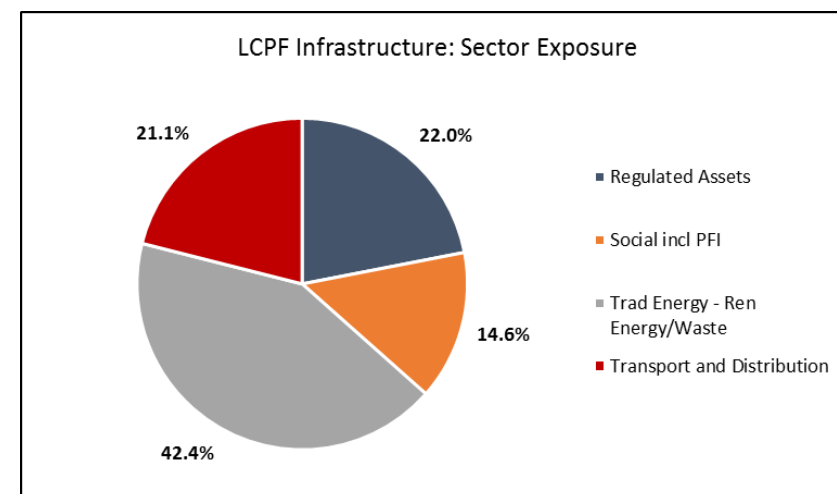
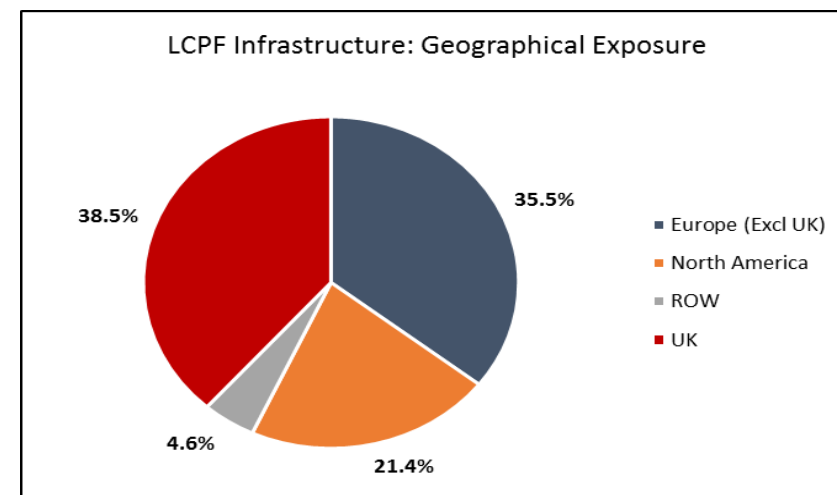
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source of diversification from other asset classes within the portfolio. As well as investing in infrastructure funds, the LPPI Infrastructure Fund has made an increasing number of direct investments in global infrastructure (with significant allocations in the renewable energy sector) through the LPPI Infrastructure Pool and in the UK through the GLIL partnership. The scale that the LPPI Infrastructure Fund and GLIL bring enables investments to be made directly which reduces fee costs and has enabled the Fund to negotiate favourable investment terms

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.

From an exposure perspective the LCPF infrastructure portfolio is well diversified. The exposure to energy within the portfolio is expected to reduce as some of the energy funds on the balance sheet start to return capital. From a geographical perspective the exposure to UK assets has increased (from c.25% to c.39%) with the deployment of capital through GLIL and with some of the global infrastructure funds now starting to return capital.

The geographical and sector exposure of LCPS's infrastructure at 31 March 2019 is shown in the following charts



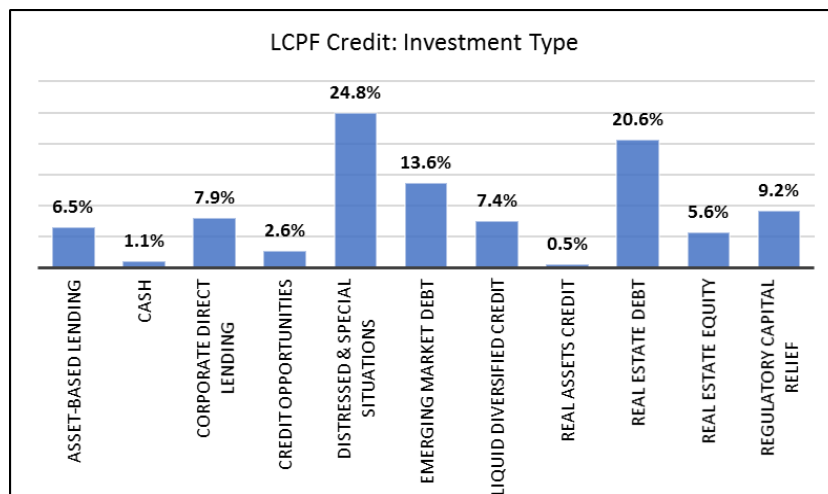
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within Lancashire County Pension Fund:

## Credit

LPPI's credit pool invests in a global range of credit-linked assets, predominantly in illiquid investments on a buy and hold basis, across the ratings spectrum. The income generated from the pool is a material source of cash to meet liability payments and this is incorporated into the cash flow modelling that LPPI conducts on behalf of the Fund.

2018 was a tough year for credit markets and the credit fund's return over one year lagged that of the benchmark set for the strategy. Over the longer-term performance remains strong, notably outperforming the benchmark over a three year period. The broad types of the investments comprising the pool, at 31 March 2019, are included in the graph below.



## Governance

There are four levels of responsibility for the investment management

- The County Council's Pension Fund Committee takes major policy decisions and monitors overall performance. The Pension Fund Committee comprises thirteen 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 Ltd (LPP I) 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 and the Panel is found in the [Governance Policy Statement](#).

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### Responsible investment – TO BE UPDATED

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;

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- Responsible investment is core in our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote responsible investment leadership and ESG best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight;
- Share ideas and best practice to achieve wider and more valuable responsible investment 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 1<sup>st</sup> 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 Fund recognises that to gain the attention of companies in addressing governance concerns, it needs to join other investors with similar concerns and it does this through 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 Fund's 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 responsible investment and ESG. This is reviewed by the investment panel on a 12 monthly basis to ensure it is still appropriate.

### **Risk Management**

The Fund recognises 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 LPP, who provide analysis and reporting across the four main groups above.



Risk reporting is carried out every 6 months to the Lancashire Pension Fund Committee. Additional oversight is also undertaken by the Lancashire Local Pension Board.

The Fund's local pension board plays a vital role in helping the Pension Fund Committee to hold LPP to account. Regular reports on performance across all aspects of pension fund management are provided and discussed. Neither the Local Pension Board, employers nor members play a formal role on the oversight structures of the LPP since the LPP is established as a group corporate structure, with statutory directors sitting on the LPP Boards. It is not a joint committee. However there are robust legal agreements in place which ensure the Fund is able to hold LPP to account.

### **Compliance with Myners Principles**

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

## G Asset pools – To be updated

In 2015, the Department for Housing, Communities and Local Government (DCLG, now MHCLG) issued *LGPS: Investment Reform Criteria and Guidance* which set out how the government expected funds to establish asset pooling arrangements.

The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure.

This led to the creation of eight asset pools, of which the partnership between the LPFA and LCPF is one. Responsibility for determining asset allocation and investment strategy remains with individual pension funds.

In 2016 CIPFA and AON published *Investment Pooling Governance Principles*, in order to support LGPS funds through the transition to asset pools and specifically to ensure they continued to operate strong governance arrangements.

There are a number of governance issues to consider with new pooling arrangements, specifically:

- the relationship between the pension fund and the asset pool
- the governance structure of the pool
- the role and involvement of administering authorities.

The market value and performance of pooled assets is set out in sections F (Investment Policy and Performance) and H (Accounts of the Fund) of this annual report. The implications of pooling for the

governance and risks of the Fund have been considered and incorporated within this annual report and also within the updated policies and strategy statements of the Fund.

The following disclosures aim to provide further detail regarding the transition of assets into pools, pool set up and transition costs, cumulative savings from pooling and ongoing investment management costs.

This section will need to include:

- changes to investment costs through changes in pooled v non pooled asset holdings, changes in investment strategies and allocations, rebalancing of direct and pooled investments
- changes in the split of active and passive
- renegotiated fund mandates, new fee structures, new suppliers
- exceptional costs including set up and transition costs

Information to be updated in template format

### Section header - Pool set up costs

**MUST** report and also **MUST** report cumulative position. **SHOULD** compare to business case submissions.

**[TABLE – set up and transition costs]**

**[SHOULD include table – comparison of actual and planned savings]**

**Section header - Ongoing investment management costs**

**[MUST enable reader to compare ongoing investment management costs between asset pools and non-pooled investment arrangements]**

**[Table – mgt fees, custody and transaction costs split between pooled and non-pooled, direct and indirect]**

**Section header - Asset allocations and performance**

**[SHOULD report separately for pooled and non pooled for gross and net investment returns, compared to relevant passive index and local benchmarks] – *may already be covered in investment section F.***

**Section header - Savings delivery**

**[SHOULD include price and quantity variances and also discussion within context of changes in performance and risk]**

## H Accounts of the Fund

### Responsibilities for the Statement of Accounts

#### The responsibilities of the administering authority

The administering authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the Chief Executive and Director of Resources, who is also the Section 151 Officer to the Pension Fund;
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

#### The responsibilities of the Section 151 Officer to the Pension Fund

The Section 151 Officer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Section 151 Officer to the Pension Fund has:

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

In addition, the Section 151 Officer to the Pension Fund has:

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

The Statement of Accounts relate to the financial year ended 31 March 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**  
**Section 151 Officer**  
**Lancashire County Pension Fund**

## Lancashire County Pension Fund – Annual Governance Statement 2018/19

### *Introduction*

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

At 31<sup>st</sup> March 2019 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 176,476 members across 300 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 Fund and the very different nature of its operations from those of Lancashire County Council more generally it is appropriate to conduct a separate annual review of the governance arrangements of the Fund and this statement sets out that review.

### *The 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 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 [Fund Information](#)

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;

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- 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 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 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 Fund for the year ended 31 March 2019.

### ***The Fund's governance framework***

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

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

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

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

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

The Pension Fund Committee are responsible for establishing the strategic objectives of the Fund through a rolling 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 functions and the overall strategic plan will continue to be monitored by the Head of Fund.

Reports on the performance against 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 of communication and embedding codes of conduct and 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, meets the needs of the Fund in terms of effective delivery of the Investment Strategy. This is reflected in specific reporting arrangements in relation to investment activity.

***Review and update of standing orders, standing financial instructions, a scheme of delegation and supporting procedure***

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### ***notes and 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 members of the Fund 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 through pooling with LPP.

Through the use of a detailed risk management framework, LCPF maintains 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 or reduced.

### ***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 the custodian of either the Fund or LPP. LPP Investments Limited is a Financial Conduct Authority (FCA) registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management function.

The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities generally or to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the County Council's 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 breaches 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.



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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 establishment of a programme of learning opportunities targeted at areas of identified need. In addition, prior to major decisions coming before the Pension Fund Committee, topic based training relating to the decision at hand is provided.

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

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

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage

with specific audiences and on what issues. The key channels of communication are:

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

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

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. The main arrangement which involves the pension fund is the contract with 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.

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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 Fund, the Chief Internal Auditor's annual report, and also reports of the external auditor.

The key planned activities of the Fund during 2018/19 were:

- 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.

### **Actions Planned for 2019/20**

The following specific actions are proposed for during 2019/20.

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

Signed

.....  
 County Councillor Eddie Pope  
 Chair of the Pension Fund  
 Committee  
 Lancashire County Council

.....  
 Abigail Leech  
 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.

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### Fund account

2017/18		Note	2018/19
£m			£m
	<b>Dealing with members, employers and others directly involved in the Fund</b>		
374.9	Contributions <sup>1</sup>	6	170.9
11.5	Transfers in from other pension funds	7	11.0
<b>386.4</b>			<b>181.9</b>
(254.8)	Benefits	8	(275.3)
(17.9)	Payments to and on account of leavers	9	(16.4)
<b>(272.7)</b>			<b>(291.7)</b>
<b>113.7</b>	<b>Net (withdrawals)/additions from dealings with members</b>		<b>(109.8)</b>
(62.4)	Management expenses	10	(65.5)
<b>51.3</b>	<b>Net (withdrawals)/additions including fund management expenses</b>		<b>(175.3)</b>
	<b>Returns on investments</b>		
138.7	Investment income	11	193.5
221.9	Profit and losses on disposal of investments and changes in the value of investments	13	770.7
<b>360.6</b>	<b>Net return on investments</b>		<b>964.2</b>
<b>411.9</b>	<b>Net increase in the net assets available for benefits during the year</b>		<b>788.9</b>
<b>7,209.3</b>	<b>Opening net assets of the scheme</b>		<b>7,621.2</b>
<b>7,621.2</b>	<b>Closing net assets of the scheme</b>		<b>8,410.1</b>

<sup>1</sup> Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m.

## Net assets statement as at 31 March 2019

31 March 2018		Note	31 March 2019
£m			£m
7,448.2	Investment assets	13	8,327.3
162.0	Cash deposits	13	67.1
<b>7,610.2</b>	<b>Total net investments</b>		<b>8,394.4</b>
23.4	Current assets	19	22.0
(12.4)	Current liabilities	20	(6.3)
<b>7,621.2</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>8,410.1</b>

**Note:** The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 24. This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund as at 31 March 2019 and its income and expenditure for the year then ended.

### Notes to the financial statements

#### Note 1 - Pension Fund operations and membership

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

An up-front contribution of £137.0 m was received from employers during the year ended 31 March 2018, relating to the years ending 31 March 2019 and 2020. The upfront contribution was recognised in the year of receipt and therefore contribution income for the year ended 31 March 2019 is significantly reduced when compared to the prior year. Contribution income of £170.9m together with transfers in of £11.0m part funded the payment of £291.7m in respect of benefits and transfers out. The resulting net cash outflow from transactions with members for the year ended 31 March 2019, 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 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

#### General

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

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

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

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

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

The Committee meets at least quarterly, or otherwise as necessary, with the Investment Panel in attendance and is responsible for fulfilling the role of Scheme Manager (which includes the administration of benefits and strategic management of Fund investments and liabilities), the



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establishment of policies for investment management, the monitoring and review of investment activity and Fund performance and the presentation of an annual report to Full Council on the state of the Fund and investment activities for the year.

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

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

The Lancashire Local Pension Board, established in 2015, assists Lancashire County Council in its role as scheme manager and provides a scrutiny role to ensure effective and efficient governance and administration of the Fund. The Board comprises an independent chair together with representatives acting on behalf of employers and members. All members of the Board must be able to demonstrate the knowledge and skills set out in the terms of reference of the Board which are available to view on the Fund website at [Lancashire Fund Information](#).

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

### [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 432 employer organisations (2017/18: 412) within Lancashire County Pension Fund including the County Council itself, of which 300 have active members (2017/18: 287) as detailed in the following table.

March 2018	Lancashire County Pension Fund	31 March 2019
412	Total number of employers	432
287	Number of employers with active members <sup>1</sup>	300
	<b>Number of active scheme members<sup>2</sup></b>	
25,126	County Council	25,721
26,220	Other employers	27,422
<b>51,346</b>	<b>Total</b>	<b>53,143</b>

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<b>Number of pensioners</b>		
23,722	County Council	24,692
23,723	Other employers	24,651
<b>47,445</b>	<b>Total</b>	<b>49,343</b>
<b>Number of deferred pensioners<sup>2</sup></b>		
37,410	County Council	37,691
35,873	Other employers	36,299
<b>73,283</b>	<b>Total</b>	<b>73,990</b>
<b>172,074</b>	<b>Total membership</b>	<b>176,476</b>

<sup>1</sup> includes employers for whom admission to the Fund is in progress

<sup>2</sup>March 2018 membership numbers have been adjusted to transfer 5,330 pending leavers as at that date from active membership category to deferred membership category. An adjustment of 5,089 pending leavers has been made at 31 March 2019.

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

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### Benefits

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

The scheme benefits are summarised in the following table.

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

### Note 2 - Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in United Kingdom 2018/19* which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report the net assets available to pay pension benefits. They do not take account of

obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 24 to these accounts.

The accounts have been prepared on a going concern basis.

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### Accounting standards issued but not yet adopted

Under the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19*, 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 2019 but not yet adopted by the Code. It is anticipated that the 2019/20 code will introduce amendments in respect of:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

The amendments noted above are not considered likely to have a significant impact on the accounts of the Fund.

### Note 3 - Accounting policies

#### Fund account - revenue recognition

##### Contribution income

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

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

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in

the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

##### Transfers to and from other schemes

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

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

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

##### Investment income

###### Interest income

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

###### Dividend income

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

###### Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue.

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Dividend income arising on equities which are now held within pooled funds is included within distributions from pooled funds.

### 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.

### Movement in the net market value of investments

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

### Fund account – expense items

#### Benefits payable

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

#### Taxation

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

### Management expenses

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

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

### Administrative expenses

Administrative expenses consist of the following:

- Expenses related to LGPS members and pensioners. These include all activities the pension scheme must perform to

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administer entitlements and provide members with scheme and benefit entitlement information. Examples of this include pension allocations, benefit estimates, payment of benefits, processing of the transfer of assets, commutation, communications with members and pensioners, and annual benefit statements;

- Expenses related to interaction with scheme employers e.g. data collection and verification, contributions collection and reconciliation, the employer's help desk or other employer support, and communications with employers; and
- Associated project expenses.

All administrative expenses are accounted for on an accruals basis.

### Oversight and governance costs

Oversight and governance expenses include the following costs:

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

- Non-custodian accountancy and banking services; and
- Internal and external audit.

All 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.

### 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 2018/19, £19.3m of fees is based on such estimates (2017/18: £11.5m).

### Net assets statement

#### Financial assets

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

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

#### Freehold and leasehold properties

The properties were valued at open market value at 31 March 2019 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

#### Foreign currency transactions

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

#### Loans and receivables

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

The Fund's loans and receivables comprise of trade and other receivables and cash deposits and are recognised in the net asset statement at amortised cost

#### Cash and cash equivalents

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

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

#### Financial liabilities

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

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### Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards.

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

### Additional voluntary contributions

Lancashire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The AVC providers to the Pension Fund 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 for information in note 18.

## Note 4 - Critical judgements in applying accounting policies

### Pension Fund liability

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

### 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.

### Directly held property

The Fund's property portfolio includes directly owned properties which are leased commercially to various tenants. Under the classifications permitted by IAS7 and the Code, the Fund has determined that the tenant leases are operating leases. The risks and rewards of ownership of the properties remain with the Fund and therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight line basis over the life of the lease.



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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The nature of estimation means that actual outcomes could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are set out in the following table.

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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 £1,796.5 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 Trust listed separately below) totals £1,134.1m.  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 Trust totals £352.0m 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 £124.0m.  There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of promised 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 (Mercer) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £500m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £165m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £220m.

## Note 6 - Contributions receivable

2017/18		2018/19
£m	By category	£m
56.5	<b>Members</b>	58.7
	Employers:	
221.3	Normal contributions <sup>1</sup>	96.8
89.9	Deficit recovery contributions <sup>1</sup>	11.4
7.2	Augmentation contributions <sup>2</sup>	4.0
<b>318.4</b>	<b>Total employers contributions</b>	<b>112.2</b>
<b>374.9</b>	<b>Total contributions receivable</b>	<b>170.9</b>
	<b>By type of employer</b>	
174.9	County Council <sup>1</sup>	57.8
176.5	Scheduled bodies <sup>1</sup>	93.1
23.5	Admitted bodies	20.0
<b>374.9</b>		<b>170.9</b>

<sup>1</sup> Following the actuarial valuation in 2016, the Fund gave some employers the option of paying their 3 year future service rate and deficit contributions up front. A number of employers opted to do this and as a result the normal and deficit recovery contributions from the County Council and scheduled bodies for the year ended 31 March 2018 include 3 years contributions from these employers, amounting to £218.0m

<sup>2</sup> 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 2018/19, £0.3m is voluntary and additional regular contributions (2017/18: £0.4m).

### Note 7 - Transfers in from other pension funds

2017/18		2018/19
£m		£m
11.5	Individual transfers in from other schemes	11.0
<b>11.5</b>		<b>11.0</b>

### Note 8 - Benefits payable

2017/18		2018/19
£m	By category	£m
213.6	Pensions	226.5
35.1	Commutation and lump sum retirement benefits	43.0
6.1	Lump sum death benefits	5.8
<b>254.8</b>		<b>275.3</b>
	By type of employer	
107.1	County Council	116.4
126.5	Scheduled bodies	137.5
21.2	Admitted bodies	21.4
<b>254.8</b>		<b>275.3</b>

### Note 9 - Payments to and on account of leavers

2017/18		2018/19
£m		£m
0.6	Refunds to members leaving service	0.6
17.3	Individual transfers	15.8
<b>17.9</b>		<b>16.4</b>

## Note 10 - Management expenses

2017/18		2018/19
£m		£m
3.8	Fund administrative costs	3.7
57.3	Investment management expenses <sup>1</sup>	60.9
1.3	Oversight and governance costs <sup>1,2</sup>	0.9
<b>62.4</b>		<b>65.5</b>

<sup>1</sup>£3.2m investment property management expenses have been reclassified from oversight and governance costs to investment management expenses in the 2017/18 comparatives.

<sup>2</sup>Oversight and governance costs above include external audit fees which amounted to £34,169 (2017/18: £34,169).

No fees were payable to the external auditors for non-audit services.

### Investment management expenses

2017/18		2018/19
£m		£m
0.4	Transaction costs <sup>1</sup>	0.7
45.0	Fund value based management fees <sup>2</sup>	50.4
0.3	Transition fees	-
11.5	Performance related fees <sup>3</sup>	9.8
0.1	Custody fees	-
<b>57.3</b>		<b>60.9</b>

<sup>1</sup>Transaction costs are not directly invoiced to the Fund and are included within the net asset value of investments by investment managers. In accordance with CIPFA guidance these fees are identified and reported through the Fund account.

<sup>2</sup>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.

<sup>3</sup>Performance related fees in the year ended 31 March 2018 included a non-recurring fee on global equities of £2.3m.

## Note 11 - Investment income

2017/18		2018/19
£m		£m
3.3	Fixed interest securities	2.1
0.8	Index linked securities	-
103.4	Pooled investment vehicles	157.2
2.2	Pooled property investments	1.7
28.9	Net rents from properties	32.0
0.1	Interest on cash deposits	0.5
<b>138.7</b>	<b>Total investment income</b>	<b>193.5</b>

## Note 12 - Property income

2017/18		2018/19
£m		£m
32.2	Rental income	36.7
(3.3)	Direct operating expenses	(4.7)
<b>28.9</b>	<b>Net income</b>	<b>32.0</b>

## Note 13 - Reconciliation of movements in investments and derivatives

	Market value as at 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in value during the year <sup>1</sup>	Market value as at 31 March 2019
	£m	£m	£m	£m	£m
Fixed interest securities	116.8	321.3	(329.1)	1.7	110.7
Index linked securities	178.0	122.2	(3.1)	(13.5)	283.6
Pooled investment vehicles	6,321.5	507.0	(496.3)	711.0	7,043.2
Pooled property investments	113.3	8.3		2.4	124.0
Direct property	715.5	34.8		11.6	761.9
	<b>7,445.1</b>	<b>993.6</b>	<b>(828.5)</b>	<b>713.2</b>	<b>8,323.4</b>
Other investment balances:					
Cash deposits	162.0				67.1
Investment income due	3.1				3.9
<b>Net investment assets</b>	<b>7,610.2</b>				<b>8,394.4</b>

<sup>1</sup> £770.7m on the face of the Fund account includes the change in market value of investments disclosed above (£713.2), plus profits and losses on disposals and changes in the market value of investments held within the pools.

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	Market value as at 1 April 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value <sup>1</sup>	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
	<b>7,132.4</b>	<b>4,281.3</b>	<b>(4,138.2)</b>	<b>169.6</b>	<b>7,445.1</b>
Other investment balances:					
Cash deposits	56.3				162.0
Investment accruals	2.7				3.1
<b>Net investment assets</b>	<b>7,191.4</b>				<b>7,610.2</b>

<sup>1</sup> £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.

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Investments analysed by fund manager

31 March 2018			31 March 2019	
£m	% of net investment assets		£m	% of net investment assets
<b>Investments managed by LPPI Private Equity Fund</b>				
16.1	0.2%	Hg Capital	80.8	1.0%
83.5	1.1%	Capital Dynamics	75.9	0.9%
22.1	0.3%	Hermes GPE	38.5	0.5%
26.1	0.3%	Insight Venture Partners	38.0	0.5%
30.0	0.4%	Permira	35.3	0.4%
32.1	0.4%	Genstar Capital	33.6	0.4%
10.0	0.1%	Adveq TMC	25.7	0.3%
13.1	0.2%	Colbeck Capital Management	23.4	0.3%
17.4	0.2%	BV Investment Partners	22.3	0.3%
15.1	0.2%	Waterland	20.4	0.2%
14.1	0.2%	ECI Partners	18.8	0.2%
14.4	0.2%	Mid Europa Partners	17.6	0.2%
15.1	0.2%	CVC Capital Partners	17.2	0.2%
21.4	0.3%	Nordic Capital	16.8	0.2%
15.2	0.2%	Thoma Bravo	15.4	0.2%
9.6	0.1%	CBPE Capital	14.8	0.2%
10.0	0.1%	Advent Life Sciences	14.0	0.2%
16.5	0.2%	Apax Partners	14.0	0.2%
10.8	0.1%	Rutland Fund Management	12.5	0.2%
7.5	0.1%	Endeavour Vision	12.0	0.1%
14.1	0.2%	Ironbridge Equity Partners	11.3	0.1%
13.2	0.2%	SL Capital Partners	10.9	0.1%



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6.3	0.1%	NorthEdge Capital	9.9	0.1%
6.0	0.1%	Advent Venture Partners	9.8	0.1%
9.9	0.1%	Alpha Group	7.9	0.1%
6.1	0.1%	Littlejohn & Co	6.5	0.1%
6.0	0.1%	Advent International	5.7	0.1%
6.3	0.1%	Triton Partners	5.7	0.1%
7.0	0.1%	LPP internal managers	4.5	0.1%
6.5	0.1%	Chequers Capital	3.6	-
3.5	0.1%	Charterhouse Capital Partners	3.4	-
4.4	0.1%	Accent	3.0	-
-	-	True Capital	1.8	-
-	-	MCP	1.6	-
1.8	-	Abingworth Management	1.0	-
0.8	-	Private Equity Partners	0.8	-
1.8	-	EQT Partners	0.5	-
0.1	-	Italian Capital Management	0.1	-
37.1	0.5%	HGGC	-	-
<b>531.0</b>	<b>7.0%</b>		<b>635.0</b>	<b>7.6%</b>
<b>Private equity investments managed outside of LPPI Private Equity Fund</b>				
16.7	0.2%	Trilantic Capital Partners	15.4	0.2%
<b>16.7</b>	<b>0.2%</b>		<b>15.4</b>	<b>0.2%</b>
<b>Investments managed by LPPI Credit Investments Fund</b>				
200.4	2.6%	Prima Mortgage Investment Trust LLC	180.6	2.2%
114.8	1.5%	Bluebay	96.1	1.2%
-	-	Robeco	87.4	1.0%
73.8	1.0%	White Oak	78.8	0.9%
-	-	Primerica	70.3	0.8%
84.3	1.1%	Apollo	67.1	0.8%
61.9	0.8%	Venn Commercial Real Estate	66.7	0.8%

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67.2	0.9%	King Street	59.2	0.7%
64.5	0.9%	Permira	49.3	0.6%
51.7	0.7%	Monarch	47.1	0.6%
38.5	0.5%	M&G	32.3	0.4%
37.2	0.5%	MFO King Street	29.3	0.3%
35.7	0.5%	Kreos	26.7	0.3%
10.4	0.1%	Muzinich Private Debt Fund	13.5	0.1%
14.4	0.2%	Blackrock	6.6	0.1%
8.5	0.1%	Westmill	6.6	0.1%
79.7	1.0%	LPPI internal managers	5.4	0.1%
128.1	1.7%	Pictet	-	-
<b>1,071.1</b>	<b>14.1%</b>		<b>923.0</b>	<b>11.0%</b>
<b>Credit investments managed outside of LPPI Credit Investments Fund</b>				
198.3	2.6%	Heylo Housing Trust	352.0	4.2%
138.0	1.8%	CRC	111.5	1.3%
56.6	0.7%	Neuberger Berman	52.1	0.6%
48.3	0.6%	Pimco Bravo	31.8	0.4%
31.2	0.4%	EQT	10.1	0.1%
18.8	0.3%	Hayfin	5.6	0.1%
<b>491.2</b>	<b>6.4%</b>		<b>563.1</b>	<b>6.7%</b>
<b>Investments managed by LPPI Fixed Income Fund</b>				
92.0	1.2%	PIMCO	157.6	1.9%
91.8	1.2%	Wellington	155.9	1.6%
-	-	LPPI internal managers	1.2	-
<b>183.8</b>	<b>2.4%</b>		<b>314.7</b>	<b>3.7%</b>
<b>Liquid credit investments managed outside of LPPI Fixed Income Fund</b>				
282.0	3.7%	LPPI internal and LCC Treasury Management	181.6	2.1%
<b>282.0</b>	<b>3.7%</b>		<b>181.6</b>	<b>2.1%</b>

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<b>Investments managed by LPPI Global Equities Fund</b>				
1,306.2	17.2%	LPPI internal managers	1,531.8	18.3%
482.5	6.3%	Magellan	551.1	6.6%
469.0	6.2%	Robeco	548.8	6.5%
466.7	6.1%	First Eagle	540.4	6.4%
315.1	4.1%	Wellington	368.6	4.4%
174.9	2.3%	Baron	188.2	2.2%
-	-	MFS	0.5	-
-	-	Macquarie	0.2	-
<b>3,214.4</b>	<b>42.2%</b>		<b>3,729.6</b>	<b>44.4%</b>
<b>Investments managed by LPPI Infrastructure Investments Fund</b>				
84.2	1.1%	GLIL Infrastructure LLP	266.9	3.2%
95.0	1.2%	Guild Investments Limited	105.4	1.3%
111.4	1.5%	Elisandra Spain	102.1	1.2%
79.5	1.0%	Semperian PPP	93.6	1.1%
44.8	0.6%	ISquared Global Infrastructure	56.7	0.7%
47.2	0.6%	Global Infrastructure Partners	54.3	0.5%
61.6	0.8%	Cape Byron Infrastructure	41.6	0.5%
34.2	0.5%	Meridiam Infrastructure	41.6	0.5%
30.8	0.4%	ISQ Viridian	34.6	0.4%
32.7	0.4%	EQT Infrastructure	31.8	0.4%
35.6	0.5%	LPPI internal managers	29.9	0.4%
24.9	0.3%	Capital Dynamics	27.8	0.4%
20.7	0.3%	Stonepeak Infrastructure	24.2	0.3%
15.5	0.2%	Glennmont	9.0	0.1%
6.3	0.1%	Icon Infrastructure Partners	6.9	0.1%
3.0	0.1%	Stonepeak Claremont	3.9	-
<b>727.4</b>	<b>9.6%</b>		<b>930.3</b>	<b>11.1 %</b>
<b>Infrastructure investments managed outside of LPPI Infrastructure Investments Fund</b>				

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104.6	1.4%	Arclight Energy	103.2	1.2%
77.1	1.0%	Icon Infrastructure Partners	55.6	0.7%
49.4	0.7%	Highstar Capital	31.5	0.4%
32.7	0.4%	Capital Dynamics Red Rose	25.5	0.3%
<b>263.8</b>	<b>3.5%</b>		<b>215.8</b>	<b>2.6%</b>
<b>Property</b>				
715.5	9.4%	Knight Frank	761.9	9.1%
46.0	0.6%	M&G Europe fund	48.0	0.6%
39.0	0.5%	Gatefold Hayes	40.3	0.5%
28.3	0.4%	Kames Target	28.3	0.3%
-	-	BaseCamp Real Estate Partners Ltd	7.4	0.1%
<b>828.8</b>	<b>10.9%</b>		<b>886.0</b>	<b>10.6%</b>
<b>7,610.2</b>	<b>100.0%</b>		<b>8,394.4</b>	<b>100.0%</b>

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

31 March 2018			31 March 2019	
£m	% of total fund		£m	% of total fund
3,214.4	42.2%	LPPI Global Equity Fund	3,729.6	44.4%
727.4	9.6%	LPPI Infrastructure Fund	930.3	11.1%
1,071.1	14.1%	LPPI Credit Strategies Fund	923.0	11.0%
531.0	7.0%	LPPI Private Equity Fund	635.0	7.6%

### Index linked securities

31 March 2018			31 March 2019	
£m			£m	
178.0	UK quoted		283.6	
<b>178.0</b>			<b>283.6</b>	

### Fixed interest securities

31 March 2018		31 March 2019
£m		£m
32.5	UK corporate bonds quoted	63.8
14.2	Overseas public sector	12.0
70.1	Overseas corporate bonds quoted	34.9
<b>116.8</b>		<b>110.7</b>

### Pooled investment vehicles

31 March 2018		31 March 2019
£m	UK funds:	£m
183.8	Fixed income funds	314.7
108.2	Private equity	137.0
760.1	Infrastructure	955.8
1,110.3	Long term credit investments	997.0
67.3	Property funds	68.6
	<b>Overseas funds:</b>	
242.8	Fixed income funds	195.3
439.5	Private equity	513.4
231.1	Infrastructure	190.3
31.2	Long term credit investments	10.1
3,214.4	Equity funds <sup>1</sup>	3,729.6
46.0	Property funds	55.4
<b>6,434.7</b>		<b>7,167.2</b>

<sup>1</sup>Equity funds are held in the LPPI Global Equity Fund which includes UK equities.

### Direct property investments

31 March 2018		31 March 2019
£m		£m
601.8	UK – freehold	624.8
113.7	UK – long leasehold	137.1
<b>715.5</b>		<b>761.9</b>

### Property holdings

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

Details of these directly owned properties are shown in the table.

31 March 2018		31 March 2019
£m		£m
<b>637.0</b>	<b>Opening balance</b>	<b>715.5</b>
	Additions:	
18.3	• Purchases	3.4
15.5	• New construction	31.2
9.2	• Subsequent expenditure	0.9
(17.9)	Disposals	-
53.4	Net increase in market value	10.9
<b>715.5</b>	<b>Closing balance</b>	<b>761.9</b>

### Operating leases

The Fund leases out property under operating leases. The table shows the future minimum lease payments receivable under non-cancellable leases in future years.

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2017/18		2018/19
£m		£m
29.3	Leases expiring within one year	36.3
81.1	Leases expiring between one and five years	109.8
126.1	Leases expiring later than five years	112.2
<b>236.5</b>	<b>Total future minimum lease payments receivable under existing non-cancellable leases</b>	<b>258.3</b>

The above disclosures have been reduced by a credit loss allowance of 2.1 % per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property management agents.

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 property managers to fill these voids.

### Cash deposits

31 March 2018		31 March 2019
£m		£m
109.1	Sterling	43.5
52.9	Foreign currency	23.6
<b>162.0</b>		<b>67.1</b>

### Note 14 - Financial instruments classification

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

#### 31 March 2019

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

#### 31 March 2018

	Fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost
	£m	£m	£m
<b>Financial assets</b>			
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	
<b>Total financial assets</b>	<b>6,732.7</b>	<b>185.5</b>	
<b>Financial liabilities</b>			
Creditors			12.4
<b>Total financial liabilities</b>			<b>12.4</b>



## Note 15 - Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss was £770.7m (2017/18: £221.9m) after adjusting for directly owned property.

## Note 16 - Financial instruments – fair value hierarchy

### Valuation of financial instruments carried at fair value

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

#### Level 1

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

#### Level 2

Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. 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.

#### 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

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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.

### 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 2019

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

#### 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
Loans and receivables	162.0	-	-	162.0
Non-financial assets at fair value through profit and loss (property holdings)	-	715.5	-	715.5
<b>Net investment assets</b>	<b>3,561.4</b>	<b>832.4</b>	<b>3,216.4</b>	<b>7,610.2</b>

Basis of valuation

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

### Sensitivity of assets valued at level 3

Having consulted with the Fund's independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed valuation range <sup>1</sup>	Value at 31 March 2019	Value on increase	Value on decrease
	(+/-)	£m	£m	£m
Fixed income funds	-	198.2	198.2	198.2
Private equity funds	7.7%	650.3	700.4	600.2
Infrastructure funds	7.7%	1,146.1	1,234.3	1,057.9
Long term credit excluding index linked	7.7%	1,007.3	1,084.9	929.7
Index linked long term credit	-	283.6	283.6	283.6
Pooled property investments	4.0%	124.0	129.0	119.0
<b>Level 3 investments</b>		<b>3,409.5</b>	<b>3,630.4</b>	<b>3,188.6</b>

<sup>1</sup> All movements in the assessed valuation range derive from changes in the underlying profitability of component companies and investments.

### Reconciliation of fair value measurements within level 3

	Fixed income funds	Private equity	Infrastructure funds	Long term credit investments	Property funds	Total level 3 investments
	£m	£m	£m	£m	£m	£m
<b>Market value 1 April 2018</b>	<b>242.9</b>	<b>547.7</b>	<b>991.2</b>	<b>1,319.4</b>	<b>113.3</b>	<b>3,214.5</b>
Purchases during the year and derivative payments	-	125.4	191.4	122.7	8.3	447.8
Sales during the year and derivative receipts	(62.8)	(124.9)	(90.7)	(221.0)	-	(499.4)
Unrealised gains / losses	5.0	40.9	4.0	41.3	2.4	93.6
Realised gains / losses	13.1	61.2	50.2	28.5	-	153.0
<b>Market value 31 March 2019</b>	<b>198.2</b>	<b>650.3</b>	<b>1,146.1</b>	<b>1,290.9</b>	<b>124.0</b>	<b>3,409.5</b>

## Note 17 - Nature and extent of risks arising from financial instruments

### Risk and risk management

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

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

### Market risk

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

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

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

### Other price risk

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

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

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

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risks are reasonably possible for the 2018/19 reporting period.

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Asset type	Potential market movements (+/-)
Total bonds (including index linked)	6.7%
Total equities	9.8%
Alternatives	7.7%
Total property	4.0%

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

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Asset type	31 March 2018	Potential market movements (+/-)	Potential value on increase	Potential 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
<b>Total assets available to pay benefits</b>	<b>7,445.1</b>		<b>8,049.6</b>	<b>6,840.6</b>

### 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 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31 March 2018	Asset type	31 March 2019
£m		£m
162.0	Cash and cash equivalents	67.1
<b>162.0</b>	<b>Total</b>	<b>67.1</b>

### 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%).

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The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points for one year to the next and experience suggests that such movements are likely.

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

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

	31 March 2018	Impact of	
		1% increase	1% decrease
Asset type	£m	£m	£m
Cash and cash equivalents	162.0	1.6	(1.6)
<b>Total change in assets available</b>		<b>1.6</b>	<b>(1.6)</b>

### 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 2019 and as at the previous year end.

31 March 2018	Currency exposure – asset type	31 March 2019
£m		£m
3,653.8	Overseas equities	4,243.0
505.2	Overseas alternatives	395.7
46.0	Overseas property	55.4



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84.3	Overseas bonds (including index linked)	46.9
<b>4,289.3</b>	<b>Total overseas assets</b>	<b>4,741.0</b>

### 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 8.0%.

An 8.0% 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 (2017/18: 8.5%).

An 8.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

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

Currency exposure - asset type	Asset value at 31 March 2018	Potential market movement +/- 8.5%	Value on increase	Value on decrease
	£m	£m	£m	£m
Overseas bonds (including index linked)	84.3	7.2	91.5	77.1
Overseas equities	3,653.8	310.6	3,964.4	3,343.2
Overseas alternatives	505.2	42.9	548.1	462.3
Overseas property	46.0	3.9	49.9	42.1
<b>Total assets available to pay benefits</b>	<b>4,289.3</b>	<b>364.6</b>	<b>4,653.9</b>	<b>3,924.7</b>

### Credit risk

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

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

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

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

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

The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £67.1m (31 March 2018: £162.0m) and was held with the following institutions:

31 March 2018	Summary	Rating	31 March 2019
£m			£m
	<b>Bank deposit accounts</b>		
154.5	Northern Trust	A+	58.3
7.5	Svenska Handelsbanken	A+	7.6
	<b>Cash float with property manager</b>		
-	Barclays Bank Plc	A-	1.2
<b>162.0</b>	<b>Total</b>		<b>67.1</b>

### Liquidity risk

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

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

The Fund has financial liabilities of £6.3m at 31 March 2019, all of which is due within one year.

### Note 18 - Additional voluntary contributions (AVC)

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life 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 2018 to 31 March 2019 for Prudential and 1 September 2017 to 31 August 2018 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
<b>Value at start of the year</b>	<b>0.7</b>	<b>27.3</b>	<b>28.0</b>
Income (incl. contributions, bonuses, interest and transfers in)	0.0	5.9	5.9
Expenditure (incl. benefits, transfers out and change in market value)	(0.1)	(4.2)	(4.3)
<b>Value at the end of the year</b>	<b>0.6</b>	<b>29.0</b>	<b>29.6</b>

## Note 19 - Current assets

31 March 2018		31 March 2019
£m		£m
7.7	Contributions due – employers	8.0
6.3	Contributions due – members	4.9
9.4	Sundry debtors	9.1
<b>23.4</b>		<b>22.0</b>

## Note 20 – Current liabilities

31 March 2018		31 March 2019
£m		£m
1.6	Unpaid benefits	0.8
10.8	Accrued expenses	5.5
<b>12.4</b>		<b>6.3</b>

## Note 21 - Contractual commitments

As at 31 March 2019 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 £566.2m (2018: £546.6m). 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 £190.9m (2018: £462.4m). 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.

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The commitments on direct property development contracts relating to properties under construction held in the direct property part of the portfolio totalled £21.9m (2018: £47.3m). These amounts are expected to be drawn down over the next 6 months based on valuation certificates.

During the year, the Fund has invested in an indirect real estate fund with an outstanding commitment of £22.0m as at 31 March 2019(2018: £0m).

### Note 22 - Related party transactions

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

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

#### Lancashire County Council

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

The Council incurred costs of £0.5m (2017/18: £0.6m) 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 £32.6m to the Fund in 2018/19. A contribution prepayment of £118m was received in 2017/18 for the years ending 31 March 2018, 2019 and 2020. Total employer contributions from the Council in 2017/18 amounted to £152m. 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 2019 amount to £5.5m (2017/18: £6.8m).

#### 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 2019 payroll, are included within the debtors figure in note 19.

[Pension Fund Committee, Pensions Board and Senior Officers.](#)

The Pension Fund Committee, Pensions Board members and senior officers of the Pension Fund were asked to complete a related party declaration for 2018/19 regarding membership of, and transactions with such persons or their related parties. No related party transactions were identified during the year to 31 March 2019.

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

## Note 23 - Key management personnel

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

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

### 2018/19

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

<sup>1</sup>The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

### 2017/18

	Employment period	Salary <sup>1</sup>	Employer Pension contributions <sup>1</sup>	Total including pension contributions <sup>1</sup>
		£	£	£
Head of Fund	01/04/17 – 31/03/18	54,699	8,228	62,927
Director of Financial Resources / Finance <sup>3</sup>	01/04/17 – 31/03/18	4,653	703	5,356
Chief Executive and Director of Resources <sup>2</sup>	03/01/18 – 31/03/18	874	-	874

<sup>1</sup>The remuneration amount has been apportioned to the Fund on the basis of time spent on Fund work.

<sup>2</sup>The Chief Executive and Director of Resources was a new post and was appointed on 3 January 2018.

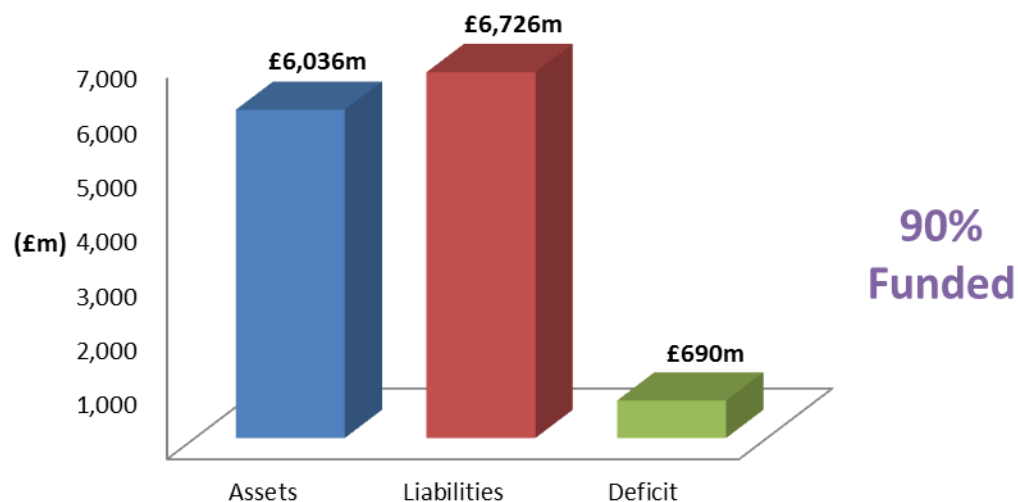
<sup>3</sup>Following a restructure the role of Director of Financial Resources was replaced with Director of Finance during the year ended 31 March 2018.

## Note 24 - Funding arrangements

### Accounts for the year ended 31 March 2019 - 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



## Lancashire County Pension Fund Annual report 2018-19

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 2019/20 is approximately £46 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 are shown in the table below.

	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.

## Actuarial present value of promised retirement benefits for the purposes of IAS 26

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% 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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected rate of long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £10,022 million. Interest over the year increased the liabilities by c£261 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£72 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £568 million due to "actuarial losses" (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 2019 is therefore £10,923 million.

# Lancashire County Pension Fund

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### The McCloud case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to “McCloud”), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements.

In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible.

If the Government ultimately loses these cases then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action.

At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary’s Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required.

Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a “roll-forward” of the 2016 actuarial valuation results rather than being a full recalculation, and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made.

We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

### GMP equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment”, clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the

main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

*John Livesey*

*Mark Wilson*

*Fellow of the Institute and Faculty  
of Actuaries*

*Fellow of the Institute and Faculty  
of Actuaries*

*Mercer Limited*

*Mercer Limited*

*May 2019*

*May 2019*

## I Lancashire Local Pension Board Annual Report – 2018/19

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

When they were set up in 2015, LPBs were new bodies and it has taken time to establish how we should fulfil our duties without duplicating the PFC's role. There is a wide variation in the effectiveness of LPBs across the country and the national Scheme Advisory Board will be conducting a survey into the operation of LPBs in 2019. Your LPB is seen as one of the leading models and I shall be contributing a response in order to spread what I regard as good practice.

We create an annual work plan to ensure that we are methodical in our activities. The core of our work is to review the reports and compliance assurances which support the Fund's activities and comment on them to the PFC. If we believe something requires particular attention, we may make a formal recommendation to them which requires a response. However, we are always aware that our role is to assist the PFC and a good relationship between the two bodies is absolutely essential.

In this report, I will start by reminding readers of the mechanics of the LPB; cover the training we undertake; and finally comment on our activities in the past twelve months, noting where we expect to focus our efforts in the next year.

### **Membership of the Pension Board**

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

During the year we welcomed Keith Wallbank, who was appointed to fill a vacancy for a Scheme Member representative which had arisen in June 2018 and I have been reappointed by the County Council to serve as Chair for up to a further four years.

# Lancashire County Pension Fund

## Annual report 2018-19

The LPB meets four times a year and we additionally create informal groups if we feel they are needed. Members attend training events both in Preston and elsewhere. In my capacity as Chair I am also invited to attend meetings of the Pension Fund Committee to present reports and advise on the work of the Board. I have attended three out of the four Committees held over the past year.

### Attendance of Board members at meetings of the Pension Board

Details of individual members' attendance at Board meetings (between 1 May 2018 and 30 April 2019), together with changes to the membership of the Board, are set out below.

Name	Representing	3 <sup>rd</sup> July 2018	16 <sup>th</sup> October 2018	29 <sup>th</sup> January 2019	30 <sup>th</sup> April 2019
W Bourne	Chair	✓	✓	✓	✓
T Pounder	Employer rep - LCC	apologies	✓	✓	✓
County Councillor C Wakeford	Employer rep - LCC	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	✓	✓	✓
C Gibson	Employer rep - Others	apologies	✓	apologies	✓
K Haigh	Scheme Member rep	✓	✓	✓	✓
R Harvey	Scheme Member rep	✓	✓	apologies	✓
Y Moulton	Scheme Member rep	apologies	✓	✓	✓
K Wallbank	Scheme Member rep	N/A	✓	✓	✓

#### Change to the membership of the Board

K Wallbank appointed in October 2018 to fill a scheme member representative vacancy which arose in June 2018.

## Training

The Board has a small internal budget, which is used primarily for Members' attendance at training events or conferences. During the year £10,474.66 was spent running the Board and training.

The LPB is under a legal obligation to maintain its levels of knowledge and understanding through regular training. We conduct a gap analysis of training needs once a year as part of our own annual appraisal, which becomes an agenda item at our next meeting and have all committed to completing the online training modules from The Pension Regulator's Public Service toolkit

Members are actively encouraged to join internal training sessions held jointly with the members of the Pension Fund Committee. During the year, internal training workshops were held on a number of topics including cyber resilience, infrastructure, property, the triennial fund valuation and responsible investment. Members are also notified of and encouraged to attend external training conferences/event to extend their knowledge and meet LPB members from other funds.

The table below shows the number of training events which individual Board members attended during the period 1 May 2018 to 30 April 2019, and those who have completed online modules from The Pension Regulators Public Service Toolkit.

<b>Name</b>	<b>Internal events</b>	<b>External events</b>	<b>Online Modules</b>
W Bourne	0	2	7
County Councillor C Wakeford	0	0	0
T Pounder	2	1	0
S Thompson	1	1	0
C Gibson	0	1	0
K Haigh	6	1	3

R Harvey	4	0	0
Y Moulton	3	2	7
K Wallbank	4	0	0
D Owen	1	0	0

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

### Activities during the year

A year ago I expected the focus to be largely on the LPB's core scrutinising role. In particular I said we would monitor improvements expected from the Administration Transformation Plan, as well as the governance processes over LPP (Local Pensions Partnership, the entity created with the London Pension Fund Authority to perform the Fund's investment and administration activities). The Fund's ability to fulfil its fiduciary duty and thereby pay pensions in full and on time depends critically on LPP providing an effective service to it.

In practice, we have spent more time than we had envisaged on the changes to the administration service. The LPB was fully supportive of the concept behind the plan but did, in 2017, recommend a risk assessment ahead of its implementation date. With hindsight, had this been done and acted on it might have prevented many of the problems the service encountered in the first half of this year.

We have consequently been actively involved in engaging LPP, both through recommendations to the PFC and on occasion directly, to ensure that client service quality is given priority. We have also been carefully monitoring the recovery of service levels since the implementation of the Administration Plan. At our January 2019 meeting, we set up an informal advisory group together with LPP and officers to assist by providing feedback from the employers' and members' perspectives. We are aware that there is more work to be done to improve the client experience but at the same time remain firmly behind LPP's ambition to use the combination of the two administration services as an opportunity to change things for the better.

I noted last year an external review of LPP's effectiveness, which had been commissioned after two years' operation to provide third-party assurance that it is indeed cost-effective for both funds. The report by PwC was duly delivered but was perhaps too early in LPP's life to provide a definitive answer to the question. The LPB will remain vigilant on this front because LPP's role is so important to the smooth running of the Fund.



# Lancashire County Pension Fund

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With the next valuation due as of 31 March 2019, communication and engagement will remain at the forefront of our work in the next year. Valuations almost always involve changes to employer contributions and effective communication to manage expectations is essential.

I comment next on some of our more routine scrutinising work. At every meeting, we look at any breaches of the regulations and at the key performance indicators in detail. One of our objectives for next year is to review the KPIs to ensure they properly reflect the experience of Fund members. This will help us in our aim of assisting the PFC in monitoring LPP's performance effectively.

During the year we also reviewed and commented on a wide range of documents. These included statutory documents such as the Administration, Investment and Governance Strategy statements, as well as policies such as that on responsible investment and climate change. We also looked for assurance that the Fund is compliant with The Pension Regulator's Code 14 and CIPFA's guidance, as well as internal and external audit requirements. Looking forward to the next year, we expect to be able to spend more of our time on this basic scrutiny. The regulations governing the LGPS are complex and varied, and the LPB's second pair of eyes provides the PFC with a valuable check to ensure that the Fund is fully compliant.

Your Fund is, in my view, currently in a good position. The funding level at 31 March 2019 is likely to be not too far off 100% and fund governance, which is the LPB's major concern, is seen as a market leader in many respects within the LGPS. This can be expected to result in a good outcome for stakeholders i.e. that all pensions are paid in full and on time while employers' contributions are kept no higher than they need be. The LPB is looking forward to being part of the process of continuing to seek improvements, particularly as regards administration service quality.

I would like once again to thank 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 again 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  
April 2019

## J Actuarial Valuation

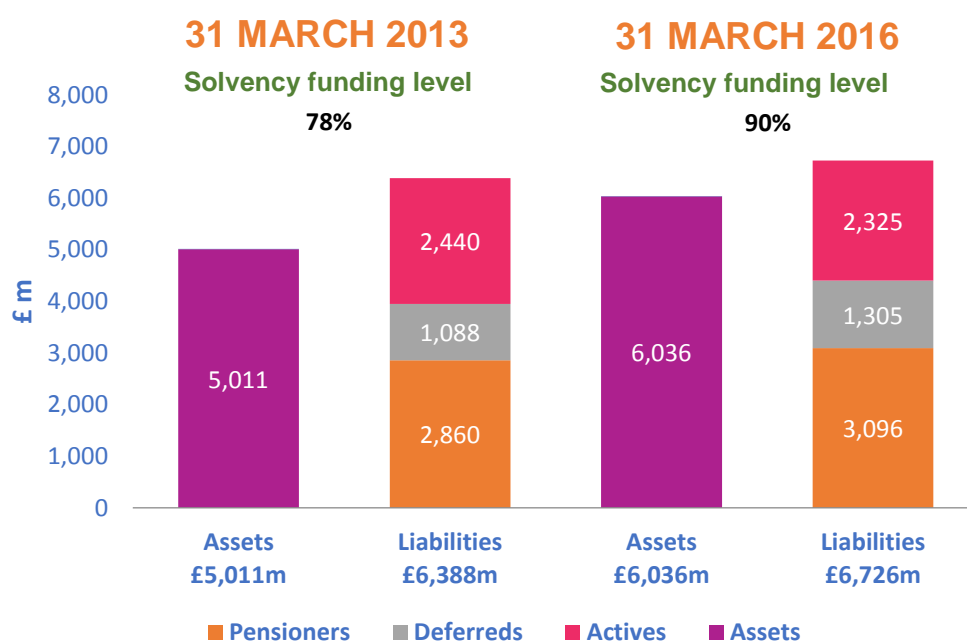
An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2016 which determines contribution rates effective from 1 April 2017 to 31 March 2020.

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.

# Lancashire County Pension Fund

## Annual report 2018-19

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.

# Lancashire County Pension Fund

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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
<b>Major authorities</b>							
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 County Pension Fund Annual report 2018-19

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
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
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

## Lancashire County Pension Fund Annual report 2018-19

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
<b>Other scheme employers</b>							
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
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

## Lancashire County Pension Fund Annual report 2018-19

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
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
Rosendale 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%
Whittle-le-woods Parish Council	17.0%	Nil	Nil	Nil	17%	17%	17%



## Lancashire County Pension Fund Annual report 2018-19

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
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
Anchorholme 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

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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
Bishop Rawston 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
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

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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
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
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

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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
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%
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

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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 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%

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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 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
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%
Rosendale Leisure Trust	13.6%	-2.1%	-2.1%	-2.1%	11.5%	11.5%	11.5%

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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
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
<b>Admitted bodies (contractor)</b>							
Alternative Futures Group Ltd	22.2%	-22.2%	-22.2%	-22.2%	0%	0%	0%
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%

## Lancashire County Pension Fund Annual report 2018-19

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
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%
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%



## Lancashire County Pension Fund Annual report 2018-19

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
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

## Lancashire County Pension Fund Annual report 2018-19

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%

## Lancashire County Pension Fund Annual report 2018-19

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
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 Fearn's 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%
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%

## Lancashire County Pension Fund Annual report 2018-19

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
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

# Lancashire County Pension Fund

## Annual report 2018-19

### 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.

## Lancashire County Pension Fund Annual report 2018-19

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.

## K Contacts

<http://www.yourpensionservice.org.uk>

### Benefits and other administrative issues

LPP – Your Pension Service

PO Box 1381

Preston

PR2 0WP

Phone: 0300 323 0260

Email: [Askpensions@localpensionspartnership.org.uk](mailto:Askpensions@localpensionspartnership.org.uk)

### Investment management

LPP

Norwest Court

Guildhall Street

Preston

PR1 3NU

Phone: 0300 323 0260

Email: [info@localpensionspartnership.org.uk](mailto:info@localpensionspartnership.org.uk)

2nd Floor

169 Union Street

London SE1 0LL

Phone: 020 7369 6000

Email: [info@localpensionspartnership.org.uk](mailto:info@localpensionspartnership.org.uk)

### Pension Fund Accounts

Abigail Leech

Head of Pension Fund

Telephone: 01772 530808

E-mail: [abigail.leech@lancashire.gov.uk](mailto:abigail.leech@lancashire.gov.uk)

## L Glossary

### **Accounting policies**

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

### **Accrual**

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

### **Active management**

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

### **Actuarial strain**

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

### **Actuarial valuation**

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

### **Actuary**

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

### **Additional voluntary contributions (AVC's)**

This is an extra contribution a member can pay to their own pension scheme to increase future pension benefits.

### **Administering authority**

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

### **Admitted bodies**

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

### **Alternative investments**

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

### **Asset allocation**



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

**Assumed pensionable pay**

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

**Auditor**

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

**Auto enrolment**

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

**Benchmark**

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

**Bid price**

The price a buyer pays for a stock.

**Bonds**

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

**Career average revalued earnings (CARE) scheme.**

With effect from 1 April 2014, the benefits accrued by members of the LGPS will be in the form of CARE benefits. Every year a member accrues a pension benefit equivalent to 1/49<sup>th</sup> 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 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.

**Quantitative easing**

The introduction of new money into the money supply by a central bank. The central bank increases the money supply and buys government bonds.

**Related party**

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

**Responsible investment**

An approach to investment which recognises that the consideration of environmental, social and governance factors forms an important part of the evaluation of the future risks and opportunities

facing investee companies. Responsible Investors seek to understand the influences that are likely to impact the performance of investments during their period of ownership in order to assess the balance of risks relative to returns.

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

### **Scheduled bodies**

Organisations which are listed in parts 1 and 2 of schedule 2 to the LGPS Regulations 2013. These bodies automatically have the right to offer LGPS membership to eligible employees.

Organisations listed in part 1 are required to enrol eligible employees into the LGPS. This list includes, but is not limited to: County and District Councils, Combined Authorities, Fire and Rescue Authorities, Police and Crime Commissioners, Chief Constables, Further and Higher Education Corporations, Sixth Form Colleges and Academies.

If an organisation is listed in part 2 it can choose to offer membership to all or some employees. This list includes, but is not limited to: Parish Councils, subsidiaries of County or District Councils, Other precepting authorities not listed in Part 1.

### **Service level agreement**

A commitment between a service provider (for example LPP) and a client (for example, the Fund) that defines exactly which services will be provided and the level or standard expected for those services.

### **Stock lending**

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

### **Transfer values**

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

### **Triennial actuarial valuation**

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

### **Venture capital**

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

### **50:50 scheme**

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