

Meeting of the Full Council
Meeting to be held on Thursday, 14 October 2021

Report submitted by: Head of Fund, Lancashire County Pension Fund

Part A

Electoral Division affected:
None;

Lancashire County Pension Fund Annual Report for the Year Ending 31 March 2021

Contact for further information:

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Executive Summary

The Constitution of Lancashire County Council requires the Full Council to receive a report from the Pension Fund Committee on the performance and state of the Lancashire County Pension Fund and on investment activities during the preceding year.

This report summarises key elements of the Fund, as detailed in the Annual Report approved by the Pension Fund Committee on 17 September 2021.

Recommendation

That the performance and state of the Lancashire County Pension Fund and investment activities for the year ended 31 March 2021, as set out in the report and detailed in the Lancashire County Pension Fund Annual Report 2020/21, are noted.

Background and Advice

The Constitution of Lancashire County Council states that the Full Council should receive an annual report from the Pension Fund Committee on the state of the Lancashire County Pension Fund and on investment activities.

On 17 September 2021, the Pension Fund Committee considered the draft 2020/21 Annual Report of the Lancashire County Pension Fund and resolved that the accounts of the Fund are approved subject to any minor amendments and audit/asset pool adjustments agreed by the Head of Fund.

The Fund Annual Report includes the statement of accounts which are included within the county council's Statement of Accounts for the year ended 31 March 2021. The external auditors of the Fund, Grant Thornton, will provide their opinion on the accounts of the county council alongside opinion on the Annual Report of the Fund.

The external audit opinion will focus on whether the information within the Annual Report is consistent with the audited financial statements included within the county council's Statement of Accounts.

Set out below is an outline of the Fund's performance and investment activity for the year, together with a summary of the key financials from the accounts.

Fund of the Year

The Fund was awarded the accolade of Local Government Pension Fund of the Year in December 2020, in particular in relation to the work around Governance, Investments and Responsible Investments.

Investment Performance

Despite the worldwide turmoil in the Financial Markets, due to the COVID-19 Pandemic, the fund achieved a return on investments of 11.7% in the year outperforming the actuarial benchmark (the rate at which the Fund's liabilities are assumed to grow year on year) by 7.9%.

The total asset value of the Fund increased from £8.4bn to £9.6bn There were gains made across the entire portfolio, but public equity was by far the standout contributor.

Small changes were made to strategic asset allocations during the year so as to ensure a well-diversified portfolio, across different asset classes to achieve the best returns.

Administration

The administration service performed to a high standard in the year and achieved an overall performance of 99% with all statutory requirements being met and service level agreement targets being exceeded. Membership of the Fund has decreased slightly and now totals 177,799 members from over 300 active employers, a decrease of 351 members since the previous year.

Investment Pooling Arrangements

100% of the Fund's assets are under pooled management and 92% of the Fund's assets in pooled vehicles. This has resulted in investment management fee savings for Lancashire County Pension Fund and London Pensions Fund Authority who are both shareholders of Local Pensions Partnership Limited.

Responsible Investment

Under the Local Government Pension Scheme regulations, the county council, as administering authority, has delegated Responsible Investment to the Pension Fund Committee to ensure our approach is appropriate. We continue to work with the Local Authority Pension Funds Forum who undertake extensive work in this area and

Local Pensions Partnership Limited has increased its resource in this area to support us by providing regular reports on our progress in this vital area.

Statement of Accounts extracts and key financial results

- **Contributions income £416.3m (2019/20 £177.0m)**

Following the 2019 actuarial valuation the Fund gave some employers the option to pay their 3-year future service rate and deficit contributions up-front. A number of employers opted to do this and as a result the employer contributions for the year ending 31 March 2021 include contributions for the 3 years to 31 March 2023. This had a significant impact on cash flow and reported income in the year.

- **Management Expenses £116.4m (2019/20 £65.0m)**

Management expenses include administrative expenses, investment management expenses and oversight and governance costs.

The movement in investment management expenses, which accounted for most of the increased management expenses, was predominantly due to the significant increase in the value of the fund's assets as referred to below.

- **Investment income £143.8m (2019/20 £206.1m)**

Income from pooled investments decreased compared to the prior year, most notably due to the economic impact of the pandemic.

- **Change in market value of investments £1022.2m (2019/20 £1.4m)**

The significant increase in market value of investments compared to the prior year is due to market conditions – most notably the increase in value of global equity investments due to the unprecedented equity market rally that followed the market drawdown in March 2020.

- **Closing net investments of the Fund £9,599.3m (2019/20 £8,429.4 m)**

The Fund investments value increased by £1,169.90m resulting in a funding level of 108%.

The funding level is based on actuarial assumptions from the 2019 valuation.

The Annual Report of the Fund is to be published in line with the statutory deadline of 1 December 2021 and will be made available to view via the county council's website.

Consultations

Local Pensions Partnership Administration Limited and Local Pensions Partnership Investment Limited were consulted on the reporting of administration and investment information.

Implications:

This item has the following implications, as indicated:

Risk management

As Administering Authority, it is important that the county council receives regular updates from the Pension Fund Committee regarding the activity and performance of the Fund.

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

Paper	Date	Contact/Tel
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None

Reason for inclusion in Part II, if appropriate

N/A