

Meeting of the Full Council
Meeting to be held on Thursday, 13 October 2022

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

Part A

Electoral Division affected:
N/A;

Corporate Priorities:
N/A;

Lancashire County Pension Fund Annual Report Year Ending 31 March 2022

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Brief 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 16 September 2022.

Recommendation

That the performance and state of the Lancashire County Pension Fund and investment activities for the year ended 31 March 2022, as set out in the report and detailed in the Lancashire County Pension Fund Annual Report 2021/22, are noted.

Detail

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 16 September 2022, the Pension Fund Committee considered the draft 2021/22 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 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 2022. The external auditors of the Fund, Grant Thornton, will provide their opinion on the accounts of the county council alongside an 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.

Investment Performance

The Fund has achieved a return on investments of 13.1% on its assets which exceeded actuarial benchmarks (the rate at which the Fund's liabilities are assumed to grow year on year) by 9.3%.

The total asset value of the Fund increased from £9.6bn to £10.6bn. There were gains made across the entire portfolio, however public equity was the standout performer. This asset class represents approximately £5.1bn of the total asset value.

The Strategic Asset Allocation (that is, the target allocations for different asset classes) was slightly modified during the year in response to the sale of a Legacy Shared ownership asset class resulting in slightly higher strategic weights to Public Equities, Credit and Infrastructure.

The Fund strategic asset allocations continue to be a well-diversified portfolio across different asset classes which supports in ensuring the investments are able to achieve the best returns.

Investment Recognition

The investment performance outlined above placed the Fund in the top three Funds of the 2021/22 Local Authority Fund league table for total fund performance in that year. This league table is published by Pensions and Investment Research Consultants Ltd and the vast majority of Local Government Pension Funds are covered by this.

Administration

The administration service performed to a high standard in the year and achieved an overall performance of 97.05% against a performance target of 95% with all statutory requirements being met.

Membership of the Fund has increased by approximately 6,000 members and now totals 183,698 members from over 300 active employers.

Management of the Lancashire County Pension Fund relies on various IT systems. Changes are due to be implemented in respect of certain systems including a new



pensions administration system called Universal Pensions Management which is being implemented in 2 phases – phase one clients went live in early 2022 whilst phase 2 clients (including the Pension Fund) will go live at the end of October 2022. A transition in the financial system (Oracle) used by the Pension Fund is also scheduled. Performance will need to be managed during this implementation phase.

Investment Pooling Arrangements

100% of the Fund's assets are under pooled management with Local Pensions Partnership Investments Limited and 92% of the Fund's assets in pooled vehicles. This has resulted in investment management fee savings for Lancashire County Pension Fund of £15m in 2021/22 and a total £40.3m worth of savings since pooling began in 2016.

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 the approach is appropriate. We continue to work with the Local Authority Pension Funds Forum which undertakes extensive work in this area and Local Pensions Partnership Investment Limited.

In 2021/22 the Pension Fund reviewed its Responsible Investment policy to ensure that it reflects developments within this fast-moving area. In addition to the existing responsible investment priorities such as climate and governance, new priorities were identified and incorporated into the revised policy.

Local Pensions Partnership Investment Limited, within the year committed to a net zero carbon footprint across all the assets that it manages by 2050.

Statement of Accounts extracts and key financial results

- **Contributions income £161.5m (2020/21 £416.3m)**

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 £168.1m (2020/21 £116.4m)**

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 market value of the fund's assets as referred to below.

- **Investment income £200.1m (2020/21 £143.8m)**

Investment income increased across all types of investments in 2021/22.

- **Change in market value of investments £1,217.80m (2020/21 £1,022.2m)**

The increase in market value of investment was due to market conditions. Performance was achieved against a backdrop of strong economic recovery in the



first three quarters of the year. However, conditions in the final quarter were challenging (for example, equity markets began to decline at the beginning of 2022).

The Fund investments value increased to £10.6bn which contributed to an ongoing increase in the funding level in excess of 100%.

The funding level is based on actuarial assumptions from the 2019 valuation. The Fund Actuary is in the process of undertaking the actuarial valuation of the Pension Fund as at 31 March 2022. This valuation is undertaken every 3 years to assess the financial health of the Fund and determine employer contribution rates.

The Annual Report of the Fund is to be published in line with the statutory deadline of 1 December 2022 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		
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Reason for inclusion in Part II, if appropriate

N/A

