

Meeting of the Full Council
Meeting to be held on Thursday, 12 October 2023

Report submitted by: Director of Finance

Part A

Electoral Division affected:
N/A;

Corporate Priorities:
N/A;

Lancashire County Pension Fund Annual Report Year Ending 31 March 2023 & Investment Pooling Consultation
(Appendix 'A' refers)

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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 15 September 2023.

It also provides an update on a government consultation on investment pooling.

Recommendation

Full Council is asked to note the performance and state of the Lancashire County Pension Fund and investment activities for the year ended 31 March 2023 as set out in this report.

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 15 September 2023, the Pension Fund Committee considered the draft 2022/23 Annual Report of the Lancashire County Pension Fund and resolved that the Annual report and accounts of the Fund be approved subject to any minor amendments, inclusion of an updated audit opinion and small accounting updates to be 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 2023.

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.

Valuation 2022

The formal Actuarial Valuation as at 31st March 2022 concluded in 2023. This involves an assessment of the financial health of the Pension Fund and determination of local employer contribution rates. The results showed a strong funding position of 115%. As part of this process, the Funding Strategy Statement, which sets out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward, was revised and implemented.

Investment Performance

The Fund has achieved a return on investments of 3.2% with the overall value of assets rising to £10.8bn. 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 has ensured the Fund continues to be well funded and was the top Fund in the 2022/23 Local Authority Fund league table for total fund performance. 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 implemented a new pension administration system called Universal Pensions Management with Lancashire going live at the end of October 2022. A transition to a new financial system (Oracle) used by the Pension Fund went live in December 2022/January 2023. These changes have presented challenges and overall service levels have been disappointing. However, it is anticipated that long term improvement is achievable for employers and scheme members.



Membership of the Fund now totals 189,608, a further increase of 5910 over the year, emanating from over 300 active employers.

Investment Pooling Arrangements

100% of the Fund's assets are under management with Local Pensions Partnership Investments Limited and over 95% of the Fund's assets in pooled vehicles. This has resulted in investment management fee savings for Lancashire County Pension Fund of £20.8m in 2022/23 and a total £61.1m worth of savings since pooling began in 2016. These savings have continually been re-invested into the Fund to give greater returns.

A consultation on investment pooling within the Local Government Pension Scheme (LGPS) closed on 2nd October 2023. A response was considered by the Pension Fund Committee at its meeting on 15th September 2023 and has now been submitted by the Fund to the Department for Levelling Up, Housing and Communities. A copy of the response is available upon request.

Key themes within the consultation included:

- 1) **Increased pace of pooling** – a short-term requirement for pension funds to transition all listed assets to pools by 2025. The Fund is already 100% transitioned;
- 2) **Levelling up** – an ambition for pension funds to invest up to 5% of their assets under management in projects which support the levelling up agenda. The Fund already has significant investment in local property and UK infrastructure which is expected to exceed government targets; and
- 3) **Private equity** - an ambition for pension funds to allocate 10% of their assets to this asset class. The Fund currently invests over 8% of assets under management in private equity.

There was also a suggestion of a long-term direction of travel to increase pools assets under management to more than £50bn. A separate workstream is currently considering growth options for Local Pensions Partnership Investment 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 the approach is appropriate. The Fund continues to work with the Local Authority Pension Funds Forum which undertakes extensive work in this area and Local Pensions Partnership Investment Limited. Local Pensions Partnership Investment Limited, is 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 £172.5m (202/22 £161.5m)**

Total contribution income from employers and members for 2022/23 was £172.5m. 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. This pre-payment occurred in 2020/21, The Fund policy is to recognise contribution income in the period of receipt. The contributions for the last two financial years have been comparable.

- **Management Expenses £116.8m (2021/22 £168.1m)**

Management expenses include administrative expenses, investment management expenses and oversight and governance costs. The decrease in the expenses (compared to 2021/22) is largely down to the Fund Performance resulting in lower investment management fees.

- **Change in market value of investments £210.9m (2021/22 £1217.8m)**

The change in market value of investments increased during the year.

The Annual Report of the Fund is to be published in line with the statutory deadline of 1 December 2023 and will be made available to view via the county council's website and the Lancashire County Pension Fund website.

Consultations

Local Pensions Partnership Administration Limited
Local Pensions Partnership Investment Limited

Grant Thornton is in the process of reviewing the accounts of the Fund and will provide an opinion on both the accounts, and the consistency of the Annual Report with the accounts in due course.

Implications:

This item has the following implications, as indicated:

Risk management

As the 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

