



Lancashire County Pension Fund

Annual Report 2013/14

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Premier Inn

The Entertainer

TheToyShop.com

The Toy Shop

BR
Burger King

Property development at St Albans

OFFICES
TO LET

TO LET

A. Management structure

Management structure as at 31 March 2014

Pension Fund committee 2013/14 (as at March 2014)

Lancashire County Council

L Beavers
D Borrow
M Brindle
T Burns (Chair)
G Dowding
J Gibson
J Oakes
M Parkinson (Deputy Chair)
A Schofield
K Sedgewick
D Stansfield
V Taylor
D Westley

Administering authority Lancashire County Council

Blackburn with Darwen Borough Council Vacant

Blackpool Borough Council M Smith

Lancashire District Councils P Leadbetter I Grant

Co-opted Member representing Trade Unions R P Harvey R Whittle

Co-opted Member representing HE/FE Establishments J McCann

Fund managers

AGF
Baillie Gifford & Co
Capital Dynamics
Knight Frank
BNY Mellon Transition Management
MFS International (UK) Ltd
Morgan Stanley
NGAM UK Ltd
Robeco
In-House

Custodian

Northern Trust

Independent investment advisers

E Lambert

N Mills

Treasurer to the Lancashire County Pension Fund

G Kilpatrick CPFA

Actuary

Mercer

Auditor

Grant Thornton

Property solicitors

Pinsent Masons

DWF

Independent property valuer

Cushman & Wakefield

Corporate governance adviser

PIRC

Performance measurement

Northern Trust

AVC providers

Prudential

Equitable Life

Legal advisors (other than property)

In-House

MacFarlanes

Eversheds

Clifford Chance

Allen and Overy

Taylor Wessing

Addleshaw Goddard

Bankers

National Westminster

B. Foreword by the Chair of the Pension Fund committee and Treasurer to the Pension Fund

Welcome to the Annual Report of the Lancashire County Pension Fund for 2013/14. As you can see from the information elsewhere in this report it has been an eventful year for the Fund.

Amongst other things we have:

- Implemented the enormous changes to the nature of the scheme brought about by the LGPS 2014 reforms.
- Undertaken the latest actuarial valuation of the Fund, which has allowed us to achieve some degree of stability in employer contributions for the next three years.
- Continued to move forward our investment strategy, particularly in the area of credit strategies.

- Expanded our direct investments in infrastructure and begun to undertake some larger scale development within the property portfolio.

At the same time all of this has been going on, we have continued to provide assistance to our ever-growing number of employers in managing both the auto-enrolment process and the pension consequences of the ongoing reductions in the scale of the public sector workforce.

We were delighted that our work to promote membership of the Local Government Pension Scheme and more generally to improve the experience of users of the Fund's services was recognised with the Quality of Service Award at the Local Government Chronicle Investment Awards.

The context in which the Fund is operating continues to be challenging. The world's financial markets continued to be extremely volatile and in this context the implementation of the Fund's strategy of reducing the level of exposure to market volatility while broadly maintaining returns and outperforming the assumptions made by the actuary in setting contribution rates represents a solid achievement.

Equally challenging is the continuing pace of change in the world of the Local Government Pension Scheme. The coming year will see the implementation of new Governance Regulations which will create a new Pension Board to oversee the work of the Pension Fund Committee and the County Council, as the Administering Authority, in the running of the Fund.

We will also see the results of the Government's consultation on their proposals for achieving reductions in the cost of running the scheme which are likely to impact on the investment strategies of all 89 LGPS funds in England and Wales. More locally we will also see the results of work being done to improve the way in which the Fund engages with the issue of Socially Responsible Investment.

The pace and pressure of change will not reduce going forward. However, as this report shows the focus for the Lancashire County Pension Fund continues to be on achieving the simple objective of ensuring that the resources are available to ensure the payment of pensions when they become due.



Cllr T Burns

Chair of the Pension Fund committee



G Kilpatrick CPFA

County Treasurer and Treasurer to the Lancashire County Pension Fund

C. Governance of the Fund

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

Lancashire County Pension Fund governance 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. Given both the scale of the Pension Fund and the very different nature of its operations from those of Lancashire County Council, the Fund is subject to a separate annual review of its governance arrangements.

These can be in the Fund's annual governance statement.

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 Administration Panel and issues delegated to the Treasurer to the Fund.

The Fund's Governance Compliance Statement reports compliance with guidance given by the Secretary of State.

Lancashire County Pension Fund governance compliance statement:

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

Reasons for partial compliance

Note 1: Although District Councils, Scheduled Bodies and employees are represented, Admitted bodies are not. Admitted bodies only represent 7% 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.

Note 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.

C. Selection and role of lay members

(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.



(It is the role of the administering authority to make places available for lay members and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)

D. Voting

(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.



E.

Training/ facility
time/ expenses

(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.



(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.



F.

Meetings –
frequency

(a) that an administering authority's main committee or committees meet at least quarterly.



(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.



(c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.



G.

Access

(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.



H.

Scope

(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

**I.**

Publicity

(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.



D. Administration of the Pension Fund

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

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

Review of the Year

2013 has been a busy year of planning and preparation for the new LGPS2014. This began with a communication campaign and strategy to encourage members to make use of the Service’s “My Pension Online” self service facility. This facility will be a key communication channel in the future and has been used to communicate the 2014 scheme changes.

LGPS2014 road-shows were hosted at 27 locations across Lancashire. Approximately 3,000 scheme members

have attended these events. The road-show was also webcast to make it available to all members and has received over 3,800 hits to date.

Awards

Your Pension Service was awarded the Quality of Service award at the Local Government Chronicle Investment Awards held in December. This award focuses upon the service provided to internal and external customers and on new developments that enhance quality in the delivery of financial services.

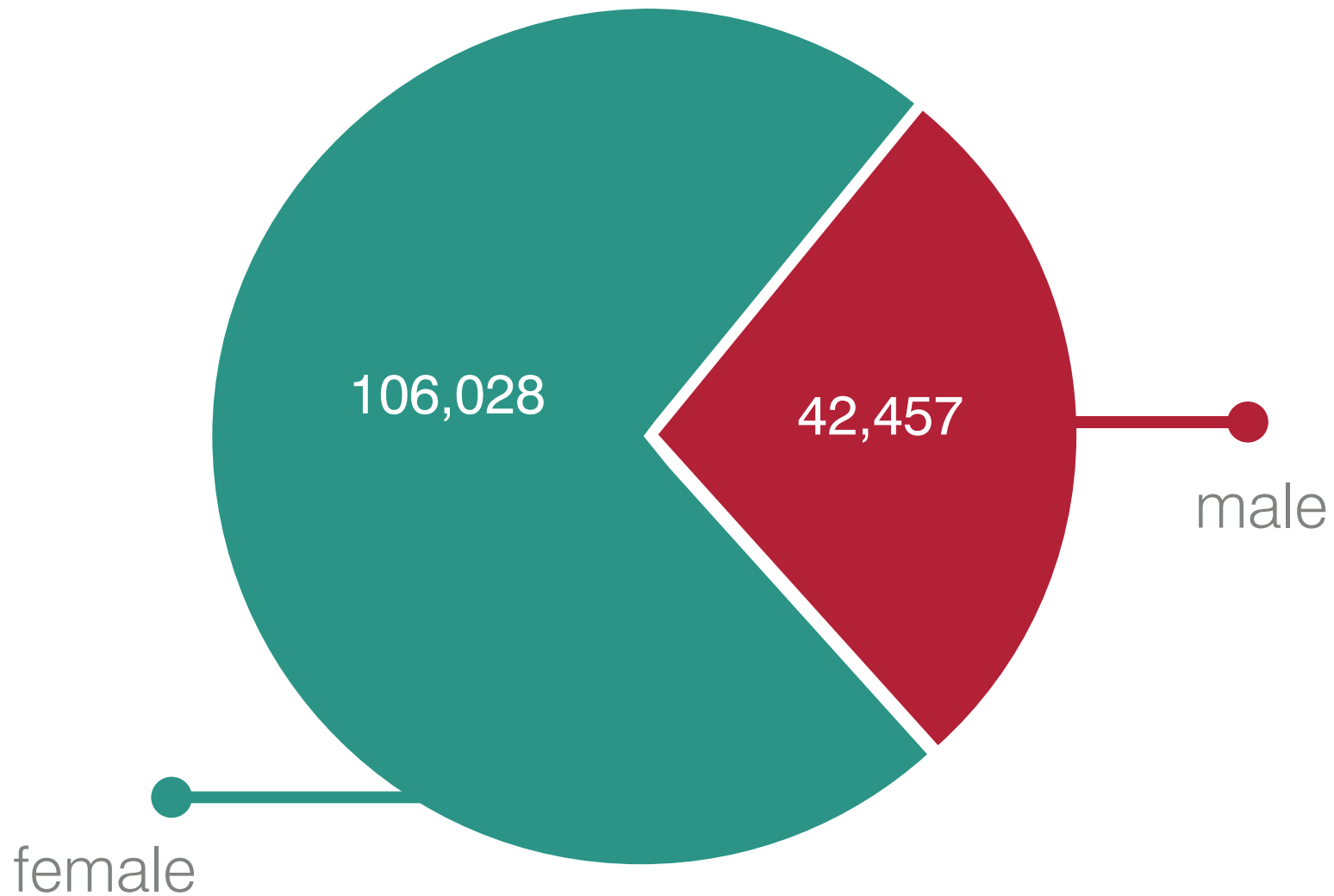


Membership and employers

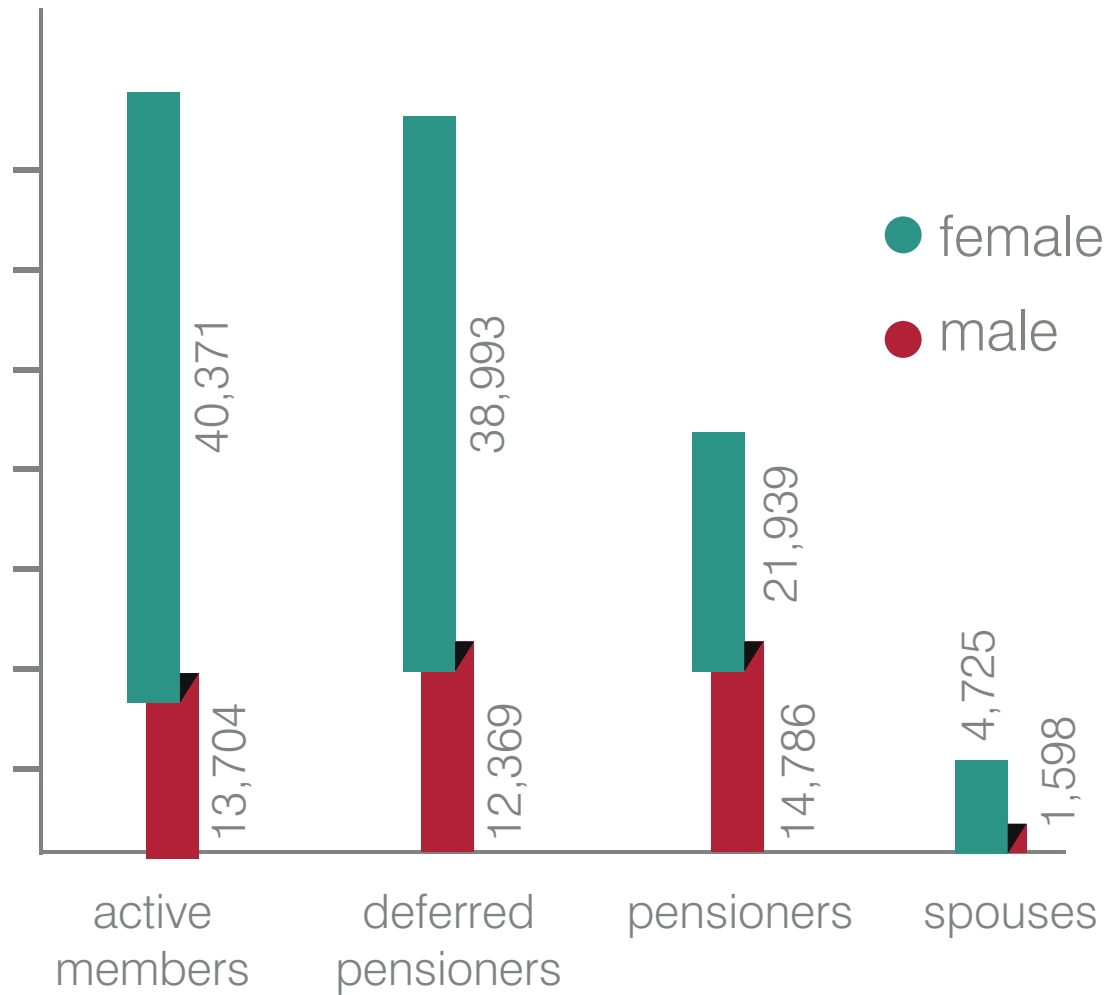
The County Council administers the Scheme for over 290 organisations including organisations such as local authorities, further and higher education colleges, voluntary and charitable organisations and private contractors undertaking a local authority function following outsourcing to the private sector.

Membership of the LGPS is automatic although employees can opt of the Scheme. Employees can opt back into the Scheme at any time.

Total membership as at 31 March 2014



Member profile as at 31 March 2014



Members aged from 16 to 102 years

Average pension in payment **£5,047.60**

Average spouse's pension **£2,772.69**

Membership of the Fund has increased by 5% over the year

At 31 March 2014	Active scheme members	Deferred pensioners	Pensions in payment	Total
Scheduled bodies	50,765	50,374	39,629	140,768
Admitted bodies	3,979	3,521	2,649	10,149
Total	54,744	53,895	42,278	150,917

At 31 March 2013

Scheduled bodies	49,369	46,596	38,386	134,351
Admitted bodies	3,594	3,241	2,499	9,334
Total	52,963	49,837	40,885	143,685

The Pension Fund Committee is required to receive regular reports from the Treasurer to the Fund 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 fund employers that the Fund is being run on an efficient and effective basis. A Service Level Agreement (SLA) exists between the Pension Fund and the service

provider. The SLA contains specific service level standards and corresponding service level targets and an Annual Administration Report is presented to the Pension Fund Committee.

Performance

Pension administration services are provided to Lancashire County Pension Fund by Your Pension Service (YPS). The

service performance continues to exceed SLA targets and consistently exceeds its key performance indicator;

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

Overall achievement against SLA targets over the year was 98%. The service has experienced an unprecedented increase

in workload since November 2013 and the launch of LCC's Budget Challenge. More than 1,300 voluntary redundancy estimates were processed between November 2013 and March 2014.

Over the year the service produced over 100,000 online benefit statements for active and deferred Scheme members. Annual newsletters were posted online alongside the statements. E-mail alerts were also sent to Scheme members who had signed up to "My Pension Online" to promote the roadshows and raise awareness of the 2014 scheme changes.

Customer service

During the year, the service's dedicated Partnerships Team undertook a variety of events, courses and presentations. In addition the team visited a number of employers to maintain and improve working relationships.

The communication and promotion of the new LGPS2014 was a key priority during the year and as well as hosting roadshows, the team also hosted employer training events with payroll and HR practitioners

from employers across Lancashire in attendance.

The service's annual employer conference was held in November. The event showcased new ways of working with employers and the monthly submission of data via the new employer portal; EPIC.

The annual Director's Brief for Chief Finance Officers was held in December. The Fund Actuary attended to report the initial results of the 2013 triennial valuation and the briefing was followed up with one to one surgeries for employers to discuss the financial impact of the results upon their organisation.

A dedicated pensions helpdesk is the first point of contact for members and employers. Over the year 90% of calls were successfully answered, meeting the SLA target.

Legislative changes

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay;
- an accrual rate of 1/49th of pensionable pay;
- revaluation of benefits in line with CPI
- a Normal Pension Age equal to State Pension Age;
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits;
- a vesting period of 2 years.

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing

councillor members as at 31 March 2014 will leave the scheme at the end of their current fixed term of office.

Auto enrolment

Following the changes to the law on workplace pensions, all employers are now legally required to automatically enrol certain staff into a pension scheme and make contributions. Employers have varying staging dates up to the final staging date of April 2017.

In order to support member organisations, the Your Pension Service website was updated to include a dedicated page in the employers area, with guides and links to useful information regarding auto enrolment.

Employers were encouraged to ask questions and seek guidance from the service and auto enrolment was included as an agenda item for the annual employer visits.

Lancashire County Council was the first employer within the Fund to stage auto enrolment.

The following targets were set to measure the success of the Lancashire County Council campaign:

- To increase the number of LCC employees in the LCPF by 5%;
- To achieve an opt out rate of less than 50%.

The campaign resulted in an increase in LCC membership due to auto enrolment of 7% and an indicated opt out rate of 37%, thus exceeding both targets. This work is being replicated with other employers on request.

Service developments

Employer Services is an online tool, launched in December 2013, to allow employers to access their own employees' records. It enables them to check personal and financial data, and run benefit estimates without the need to contact Your Pension Service.

Your Pension Service has worked closely with BT Lancashire Services to develop a solution to meet the additional demands of the LGPS2014.

A new Employer Information Collection system ("EPIC") has been developed to take data securely from employers, with the aim of meeting the requirement for more regular data collection more easily and cost effectively.

Charges

Your Pension Service makes a charge to the Pension Fund on a per member basis which is restricted to the lower quartile as reported in national benchmarking returns. This charge is currently set at £21.50 per member against a benchmark of £23.00.

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.

Your Pension Service can be contacted at:
PO Box 100 , County Hall, Preston ,
PR1 0LD
Telephone: **01772 530530**
E-mail: AskPensions@lancashire.gov.uk
www.yourpensionservice.org.uk

E. Knowledge & skills framework

CIPFA pensions finance knowledge and skills framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) published its code of practice on public sector pensions finance knowledge and skills in October 2011. The Code has been devised in response to Lord Hutton's recommendation that every public sector pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent "Pensions Board". It also represents a key element in complying with the relevant principles of investment practice laid out in Local Government Pension Scheme (Management and Investment of Funds) regulations 2009 regarding Effective Decision making.

The Code is intended to be used in conjunction with the CIPFA Pension Finance Knowledge and Skills Frameworks (KSF) which enhances where necessary,

levels of knowledge and skill held by all those, whether members or officers, involved in the management and oversight of public sector pension funds.

The Code became effective from 1 April 2012 and is mandatory for CIPFA members as part of their standards of professional practice, and was adopted by the Pension Fund Committee at its meeting on 3 February 2012 in order to ensure good governance and training practices, and to support the Treasurer who, as a CIPFA member, has a professional requirement to comply with the Code.

In order to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013, a training plan for those charged with governance and financial management of the Lancashire County Pension Fund (Committee Members and Officers) should be developed on an annual basis. At its meeting of 7 June 2013, the Pension Fund

Committee agreed to the development of such a training programme.

Central to this is the tenet that the Fund should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management or oversight role.

It is not required that each individual demonstrates a level of expertise in every aspect of scheme governance and management, but rather that as a group both the Fund's Officers and the Committee has a level of knowledge and skills to ensure effective decision making.

Committee Members and Officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);

- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the LGPS Governance Compliance Statement.

Approach

The Fund's approach to training is supportive in nature with the intention of providing committee members and officers with regular sessions that contribute to their level of skills and knowledge. Primarily based upon pre-committee meeting training sessions, it also involves updates from officers and independent advisers. Details of external events are also circulated as appropriate. This is in addition to an expectation that committee members will undertake some self-directed learning outside of the formal training. Fund officers are also available to provide additional support and advice.

The key elements of the plan are designed to support members of the Committee in gaining the necessary knowledge and skills as a collective group over the following areas required by the CIPFA Knowledge and Skills Framework:

- Pension Fund governance;
- Accounting and Audit standards;
- Procurement of financial services;
- Investment performance and risk management;
- Financial markets and product knowledge;
- Actuarial methods and valuation.

It is comprised of a combination of internally developed training sessions, updates from officers and independent advisers, external events, and self-directed learning.

Planning and monitoring that both the committee members and the officers of the scheme comply with these requirements is

provided through the adoption of an annual training plan, which was agreed by the Pension Fund Committee on 29 November 2013.

In addition, the Council currently subscribes to a web-based knowledge and skills self-assessment tool, developed by Hymans Robertson in conjunction with the CIPFA Pensions Network, to enable officers and elected members to help identify any gaps in their knowledge or skills. Use of the on-line toolkit was set aside during 2013/14 in favour of other forms of support as set out in the agreed Training Plan.

Details of training provided and attended during 2013/14 are given below:

Date	Subject	Training provider	Venue	Number of attendees
07/06/13	Introduction to the Pension Fund	Internal – Treasurer to the Pension Fund, and other members of the Team	County Hall, Preston	18
06/09/13	Property investment and Private Equity Strategy	Internal – Chief investment Officer	County Hall, Preston	15
29/11/13	The role of the Fund's Actuary and the 2013 Valuation	John Livesey - Mercers	County Hall, Preston	14
15/01/14	Pension Fund Basics 1	Internal – Head of Public Market Investment	County Hall, Preston	13
12/02/14	Pension Fund Basics 2	Internal – Head of Public Market Investment	County Hall, Preston	14
20/03/14	Environmental, Social and Governance Investment Strategy	Seminar	Merseyside Pension Fund	2

F. Investment policy and performance

Structure

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

- 1 The County Council's Pension Fund Committee takes major policy decisions and monitors overall performance. The Pension Fund Committee comprises fourteen County Councillors and seven voting co-optees representing other interested organisations;
- 2 The Investment Panel recommends specific investment allocations in line with the Committee's policy decisions, approves individual investments and monitors the activity of the Fund's external managers. The Investment Panel consists of two independent external investment advisers, the Chief Investment Officer, the Deputy County Treasurer and the Treasurer to the Pension Fund, who acts as Chair;

- 3 The investment management team of Fund employees undertake day-to-day investment fund selection, monitoring and due-diligence;
- 4 Finally, external investment managers (or managers of unitised investments held by the Fund) fix precise weightings and select the individual investments within their particular remit.

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

In line with the investment strategy adopted by the Pension Fund Committee in 2010 and more detailed sub-strategies adopted since then, the Fund's investments are divided into four principal sub groups as follows:

Equities: The Fund holds both public and private equity investments. The public equity investments are managed by five active managers who operate differing and complementary styles of investment selection and two unitised investment funds. The remit of six of these seven pools is unconstrained, high conviction investment in global equities. The final manager has a remit to invest in emerging market equities. Private equity investments are held through a variety of closed-ended limited partnerships, invested over a wide range of inception dates and managed by a diverse collection of different managers all under the oversight of Capital Dynamics.

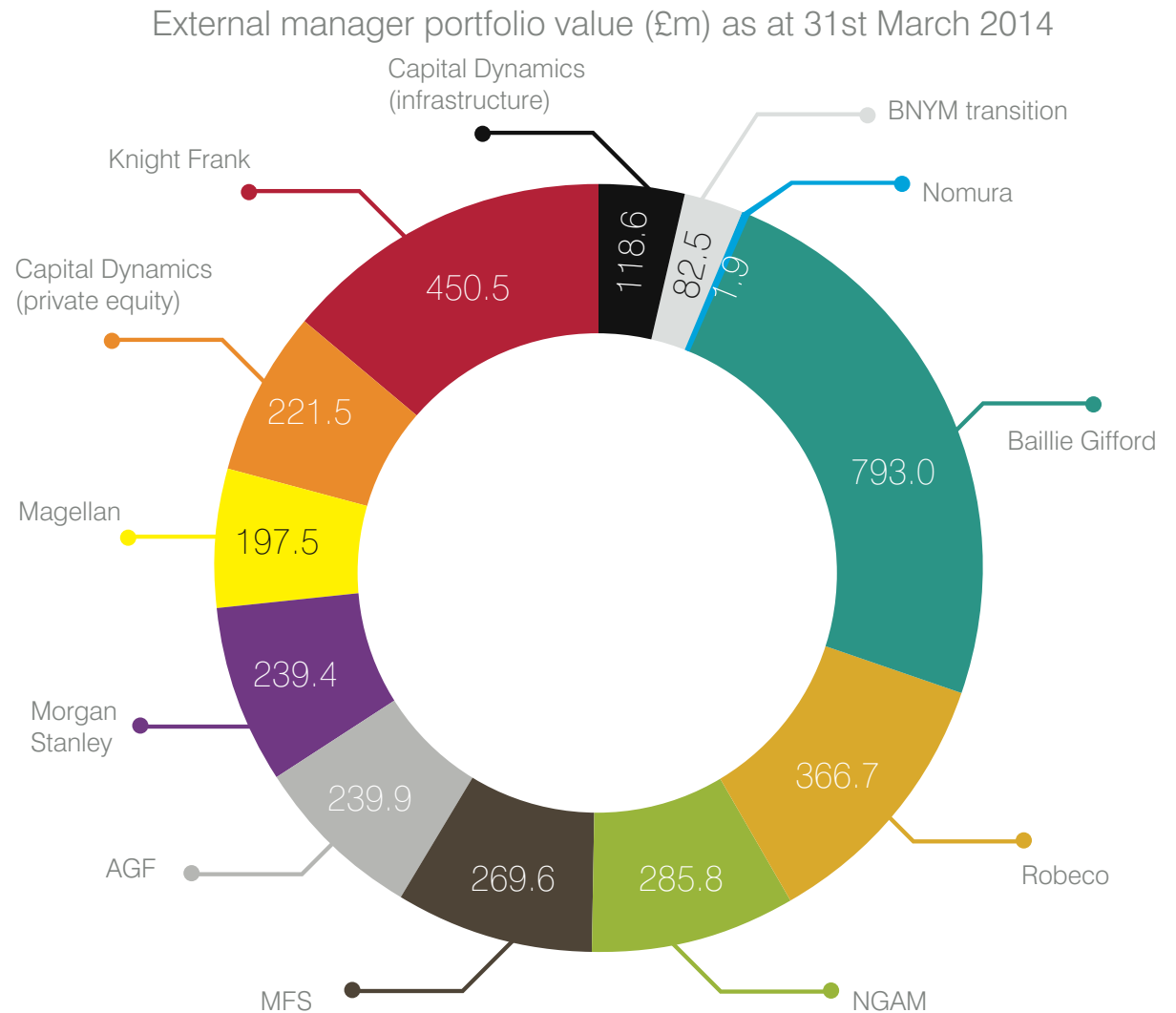
Property: The Fund invests in a significant portfolio of directly owned UK commercial properties which are managed by Knight Frank. In addition, the Fund has a small allocation to a unitised European real estate investment fund managed by M&G.

Infrastructure: The Fund has allocations to a number of different global infrastructure funds, and also invests directly in renewable energy infrastructure projects throughout the world through its majority-owned infrastructure partnership, Red Rose Infrastructure LLP.

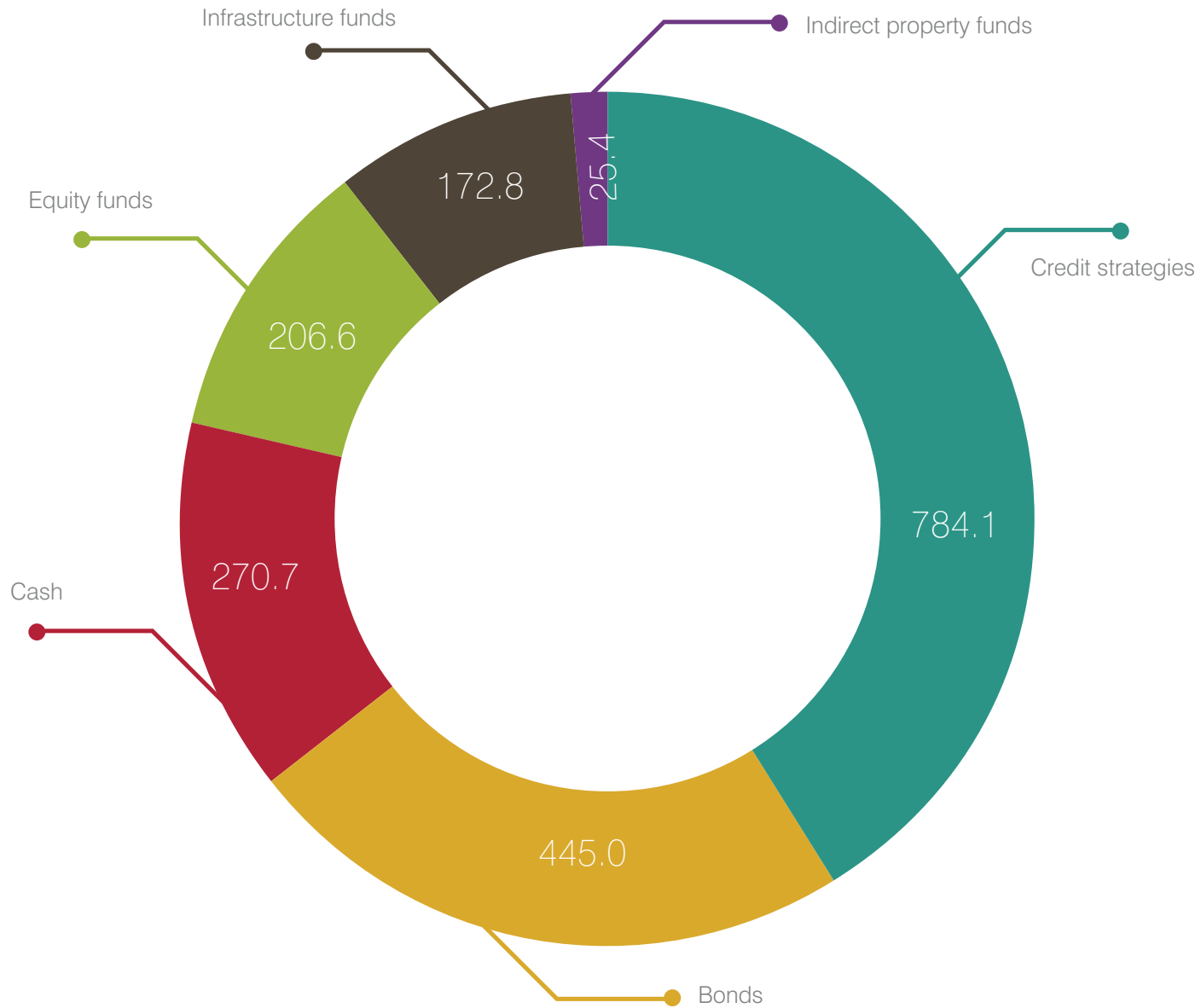
Credit strategies: The Fund has an internally managed portfolio of different types of credit investment, split into four broad categories – emerging markets sovereign debt, non-investment grade secured lending, cyclical credit opportunities and long-dated debt secured on real assets. These investments include both direct loans made by the Fund and a variety of different externally managed funds.

In addition, whilst the Fund continues to reallocate its investments in line with the revised investment strategy, amounts earmarked for future investments are held in transition accounts, cash, liquid bond funds and directly held investment grade bonds.

A summary of portfolio values by investment manager, as at 31 March 2014, is shown below.



Internal portfolio value (£m) as at 31st March 2014





During 2013/14 the implementation of the revised investment strategy continued.

The Fund reduced its exposure to equity markets, finally exiting from residual passive equity mandates whilst adding two actively managed equity investments through seed investments in newly listed UCITS funds launched by AGF (emerging markets) and Magellan (global equities).

The identification of and allocation to investments to the transition of credit and fixed income assets was also completed. Whilst commitments have been made, some of these investment allocations are expected to take a further twelve months to be fully deployed. The Fund also identified a series of liquid investment funds into which assets earmarked for future investments can be held with

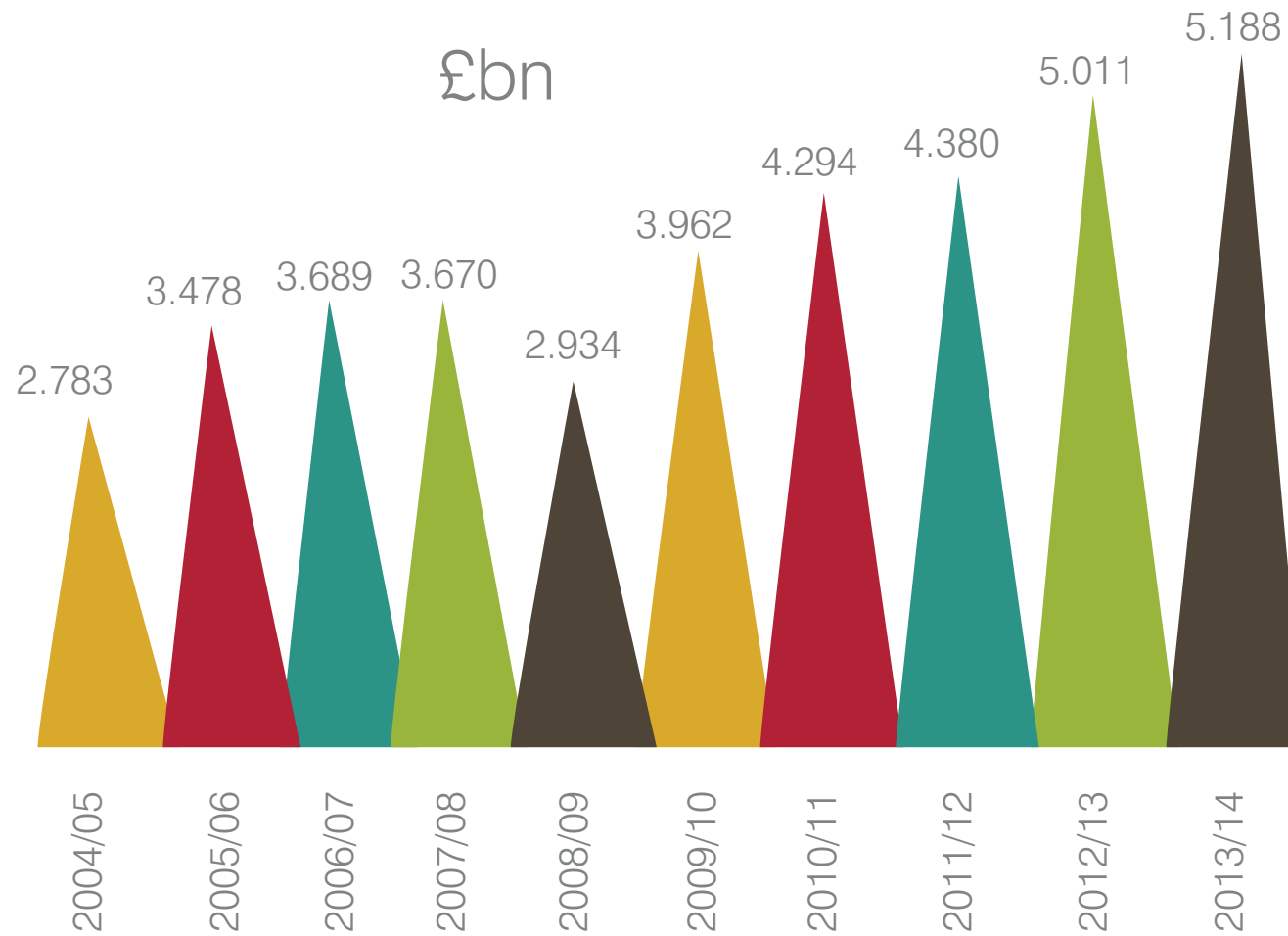
the expectation of low volatility but whilst seeking to reduce investment performance drag associated with the transition.

Performance

The value of the Fund's assets has grown by 87% over the last ten years as shown in the following chart. Fund growth arises from investment returns and contributions made to the scheme by employers and employees, reduced by benefits paid out.

The Fund is invested to meet its own liabilities over the medium to long-term and therefore its performance should be judged not in absolute terms, but rather against those objectives and over a corresponding period. Annual returns can be volatile, as seen in 2008/09 (fund down 20%) and 2009/10 (fund up 35%) and do not necessarily indicate the underlying health of the Fund.

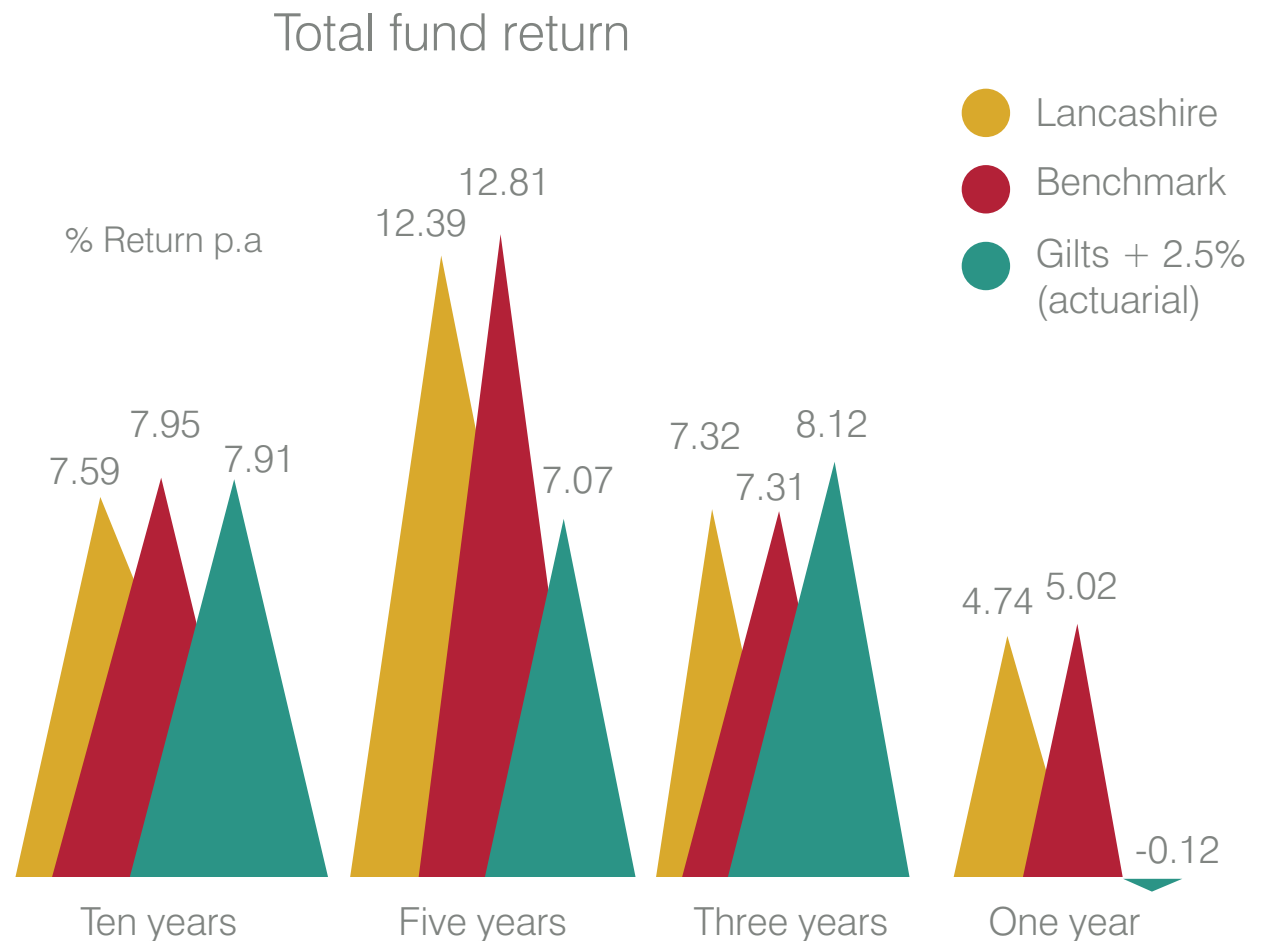
Total net asset value of the fund over 10 years to date



The performance of the Fund is measured against a fund specific benchmark with individual managers being given performance targets which are linked to market returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. The performance of investment managers is reviewed on a regular basis by the investment management team and Investment Panel and any recommendations arising from those reviews are considered by the Committee.

The Fund subscribes to the annual WM Survey of UK Local Authority Pension Funds, which shows comparisons with other local authority pension funds. However, absolute performance versus other local authority funds, which will certainly have different investment strategies designed to meet their own liability profile, may be misleading. The Fund's primary objective, to have assets available to meet pension liabilities as they fall due, requires the fund to consistently match or outperform the actuarial assumption of investment returns, being UK gilts +2.5%.

The chart below shows the total return of the Fund compared to the fund specific benchmark and the actuarial fund return assumption of gilts +2.5% measured over 1, 3, 5 and 10 years to 31 March 2014:



In the year to 31 March 2014, the total fund return amounted to 4.7% against a benchmark of 5.0%. This significantly outperformed the Gilts+2.5% actuarial return assumption of -0.1% for the same period. The five year performance of the fund also shows a comfortable excess return over the actuarial assumption.

The results for the year to 31 March 2014 were adversely affected by a number of factors.

Firstly, the switch to a global investment strategy has increased the Fund's exposure to non-sterling currencies, notably the US Dollar, Euro and various emerging market currencies. During the course of the year, sterling strengthened significantly against these currencies (for example from a rate against the US Dollar of \$1.5229 at 1 April 2013 to a rate of \$1.6662 on 31 March 2014, causing a depreciation in the sterling valuation of dollar denominated assets of 8.6%). The Fund's strategy is to seek out investments with the most favourable characteristics for the Fund in the long run, wherever these may be situated globally. Currency fluctuations will have an

increased impact on short-term investment performance but over the long-term this impact should diminish, to be outweighed by the superior investment characteristics of the new strategy.

Secondly, as mentioned earlier, the transition to the new investment strategy was further accelerated in the past twelve months. This part of the transition has involved switching investments between different investment types and markets and therefore incurring one-off transaction costs including bid/offer spreads. Furthermore, the transition has required the Fund to hold increased levels of cash and other liquid assets which typically deliver a lower investment return than the long-term investments that the fund is targeting. Whilst commitments have been made to new investment strategies, these are not yet fully funded, meaning that the enhanced investment returns that are expected in the long term are not yet reflected in annual performance. It is anticipated that the drag on performance caused by these factors will continue to a lesser extent into the next financial year, but that the year ended 31

March 2014 will be the year that has been most impacted.

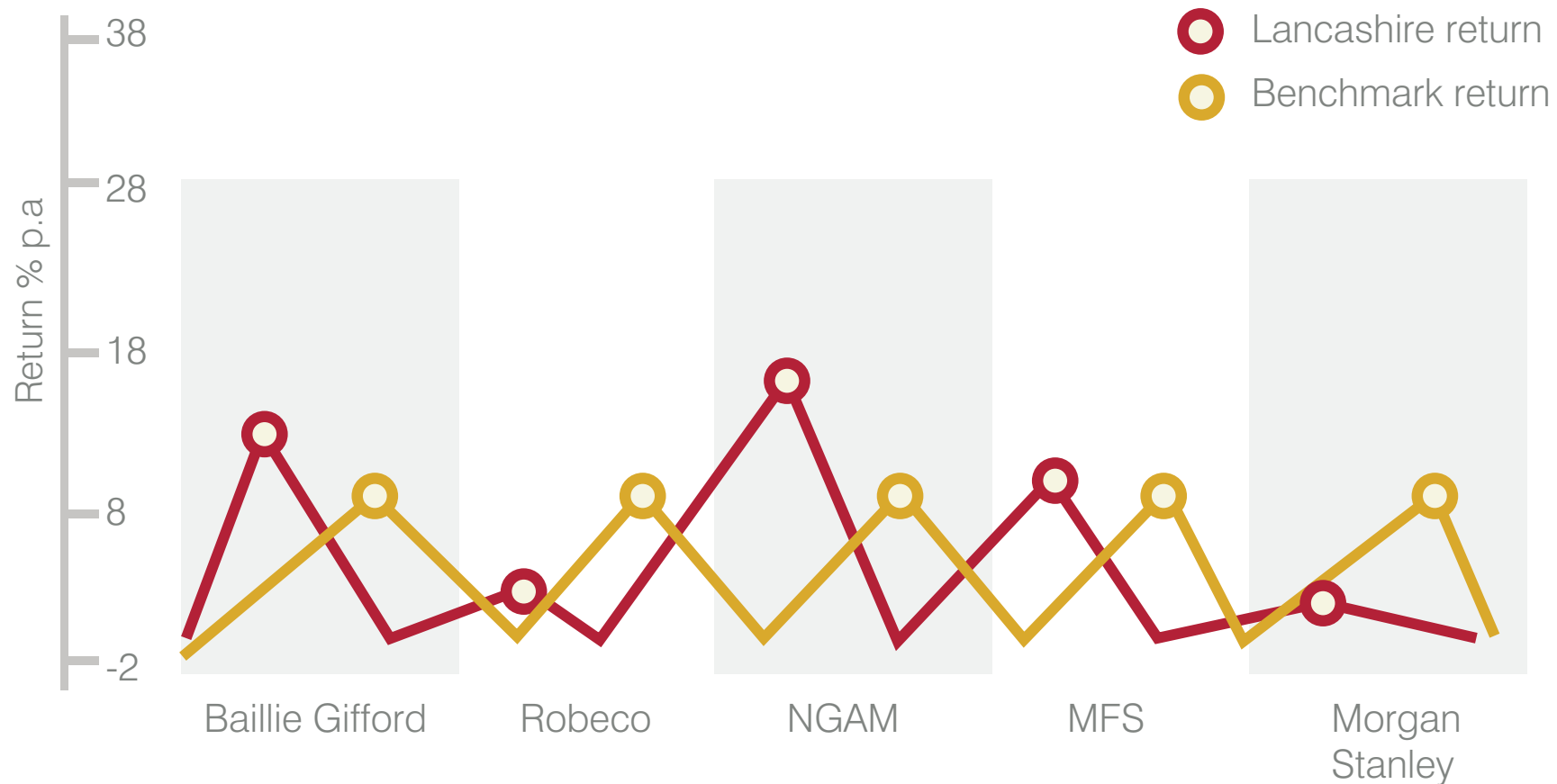
Finally, the long term nature of private equity and infrastructure allocations are such that, investment during the initial stages (years 1-3) creates performance drag but is expected to generate higher returns in the later stages (years 4-7). In a steady-state, with equal proportions of investments at different stages of their life, this effect may balance itself out. However, as the fund is currently in the process of increasing allocations to both private equity and infrastructure, the investment drag of early years is likely to be disproportionately affecting short term investment returns.

Despite these adverse factors, underlying investment performance continues to be strong, with initial local currency investment returns in line with expectations for new investments made during the year. Performance figures where an investment has been in place for less than a year would not be meaningful, but will be reported in future years in line with the broad categories outlined above.

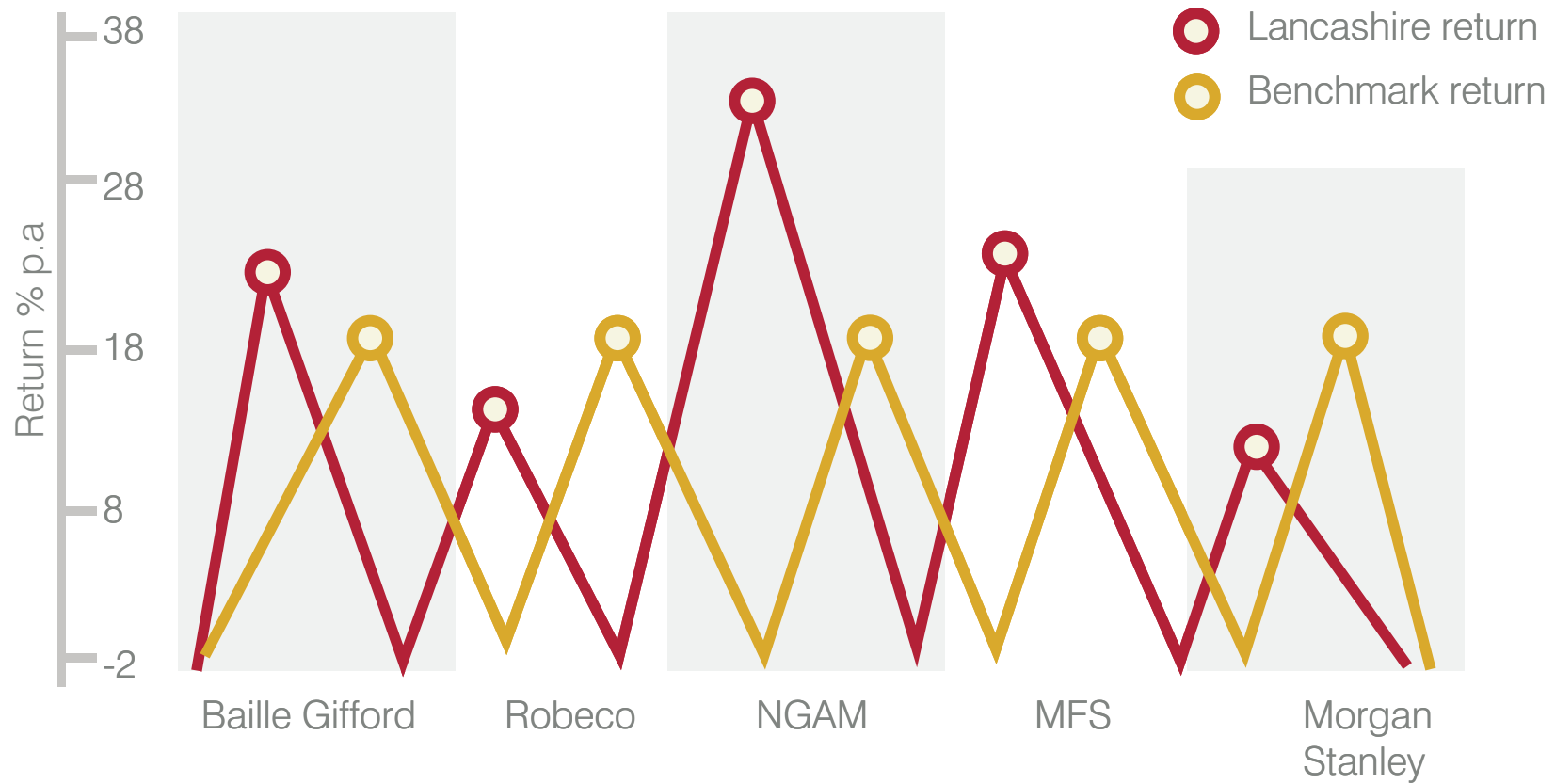
Public equity investments

The performance of active equity managers which have been in place for over a year is shown in the chart below.

One-year active equity manager performance to 31 March 2014



Active equity manager performance since inception to 31 March 2014



Active managers have discretion to make investments that deviate from the benchmark allocation, within agreed constraints and tolerances. These decisions will reflect their views on market conditions within various countries or between different types of instrument.

As part of an overall equity portfolio strategy Robeco and Morgan Stanley were installed as defensive managers. As expected in a strongly performing market they have underperformed their benchmark. Baillie Gifford, NGAM and MFS were appointed with a growth bias and their out-performance against the benchmark reflects this. It is pleasing that these investments are performing as expected.

The largest ten equity holdings of the Fund at 31 March 2014 were:

Equity	Market value at 31 March 2014	Percentage of net assets of the Fund
	£m	%
Prudential GBP 0.05	24.0	0.46
British American Tobacco ORD GBP 0.25	23.3	0.45
Nestle SA CHF 0.10 (Regd)	22.5	0.43
Royal Caribbean Cruises COM STK	21.8	0.42
Naspers 'N' ZAR 0.02	21.6	0.42
Unilever Plc ORD GBO 0.031111	19.1	0.37
Roche Holdings AG GENUSSCHEINE NPV	17.4	0.34
Reckitt Benck GRP ORD GBP0.10	16.4	0.32
Google INC CLA	15.9	0.31
Ryanair Holdings ORD EURO 0.00635	15.6	0.30
Total	197.6	3.82

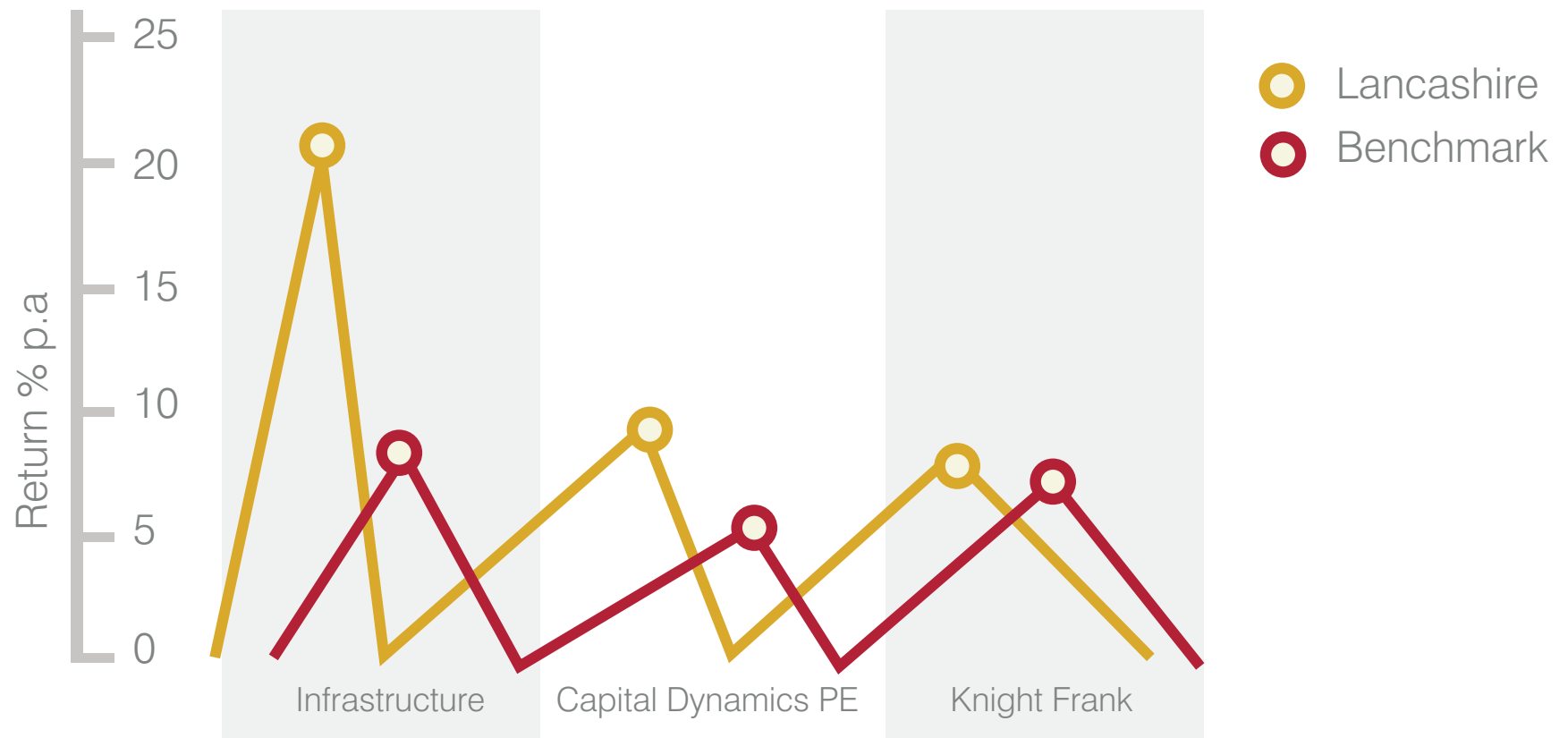
Private equity and real assets

Other investment types that have been in place for more than one year are property, infrastructure and private equity. The annual and since inception performance of these investments is shown in the following graphs.

One year performance by asset class to 31 March 2014



Manager performance since inception as at 31 March 2014



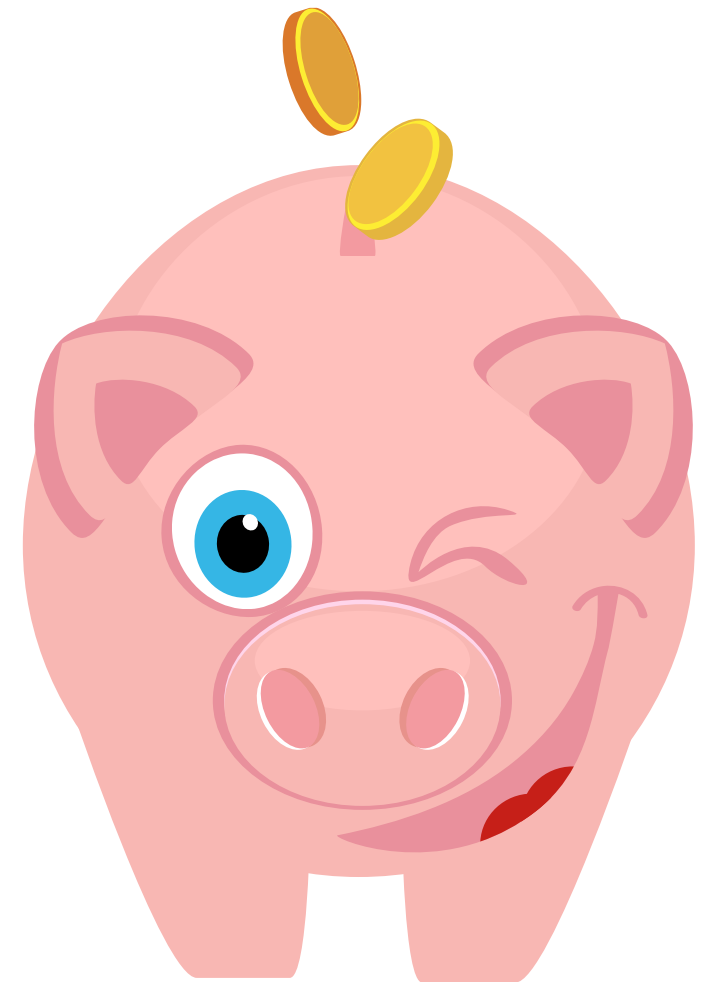
Annual valuations of these less liquid asset types can be affected by a number of factors and as with all of the Fund's investments, it is long term performance and the role that an investment plays in meeting the overall needs of the Fund that is key.

Whilst private equity and infrastructure investments appear to have performed below benchmark during this period, the long term performance since those investments were made is strongly positive.

Private equity investments provide alternative opportunities to generate returns linked to movements in stock markets, but because of the higher level of engagement by asset managers in the investee companies, gives an expectation of better long term returns. This return expectation has to be balanced with the higher risk profile and the lack of liquidity of these investments, which typically have to be held from 7-10 years before gains can be realised.

Infrastructure investments offer long-term returns that are expected to closely match the Fund's investment needs and in addition provide an important source of diversification. As well as investing in traditional infrastructure funds, the Fund has made a number of direct investments in global infrastructure, notably in the renewable energy sector. The ability to invest directly minimises fee costs and has enabled the Fund to negotiate favourable investment terms which have delivered excellent performance since inception.

Property has performed well against benchmark during this period, due to the specific characteristics of the portfolio; and in the long term is slightly ahead of the benchmark return. Property investments play an important role in the Fund, both because of the diversification benefits that they bring and also because of the generated rental income which can be used to fund member benefits without the need to liquidate other investments.



The largest ten direct property holdings of the Fund at 31 March 2014 were:

Property	Sector	Market value £m
Sainsburys Store, Chesham	Shops	31.3
Princes Mead Shopping Centre, Farnborough	Shopping Centre	24.5
St Edmundsbury Retail Park, Bury St Edmunds	Retail Warehouse	19.6
1-3 Dufferin Street, London	Offices	18.5
Tuscany Way, Wakefield	Industrial / Warehouse	17.5
Benson House, Leeds	Offices	17.2
Tuttles Lane, Wymondham	Shops	16.7
Weir Road, Wimbledon	Industrial / Warehouse	15.6
Woodbridge Meadows, Guildford	Hotel / Commercial	15.0
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	14.7
Total		190.5

Credit strategies

The implementation of the credit strategy is ongoing and therefore a number of investments have not yet been held for a meaningful period. However, the initial investments in emerging markets sovereign debt and non-investment grade secured lending have been in place for over twelve months.

Emerging markets sovereign debt returns suffered from a number of different effects, notably the crisis in Ukraine and the strength of sterling as previously mentioned. The investments that have been held for twelve months in this asset class recorded a loss of 13.7% during the year. This category of investment is considered likely to benefit from long-term global economic growth and strengthening of the currencies of emerging economies, even if there is some short term volatility in valuations. In addition, the asset class provides useful diversification from other more mainstream credit investments.

The Fund added further investments to this credit category during the year. Investments in non-investment grade secured debt that were in the portfolio for the full twelve month period were all denominated in US Dollars and recorded a return of 4.5% during the period. When translated into sterling, however, this corresponds to a loss of 4.7%. These investments deliver regular cash flows that are reinvested and the investment team believes that they provide an excellent risk/reward profile when compared to traded non-investment grade bonds. Once again, the fund added further investments to this credit category during the year.

Investments in cyclical credit opportunities were built up during the year. These investments seek to take advantage of specific opportunities where 'technical' factors mean that assets can be acquired at a discount to their long-term economic value. This might include assets that changes in regulation are forcing banks to sell at a discount; bonds that have been downgraded, forcing certain investors to sell; or asset types that are out of

favour in the markets or where liquidity have significantly reduced, such as securitisations. Generating returns in this credit category requires manager skill in terms of identifying investment opportunities and in managing investments to achieve maximum value. The investments may be illiquid, having to be held to maturity in order to realise gains. They provide a diversification benefit and the expectation of excess returns over the medium term.

The final credit strategy to which commitments were made, although no funds are yet invested, is debt secured on real assets. These investments are typically long dated in nature and provide a very low risk profile, being secured, typically, on real estate. If properly underwritten and managed, there is a very low expectation of loss. Whilst generating lower expectations of return, these investments should provide a very good match for the long term needs of the fund to generate income and protect the value of the portfolio.

At the end of the period, investments in emerging market debt amounted to

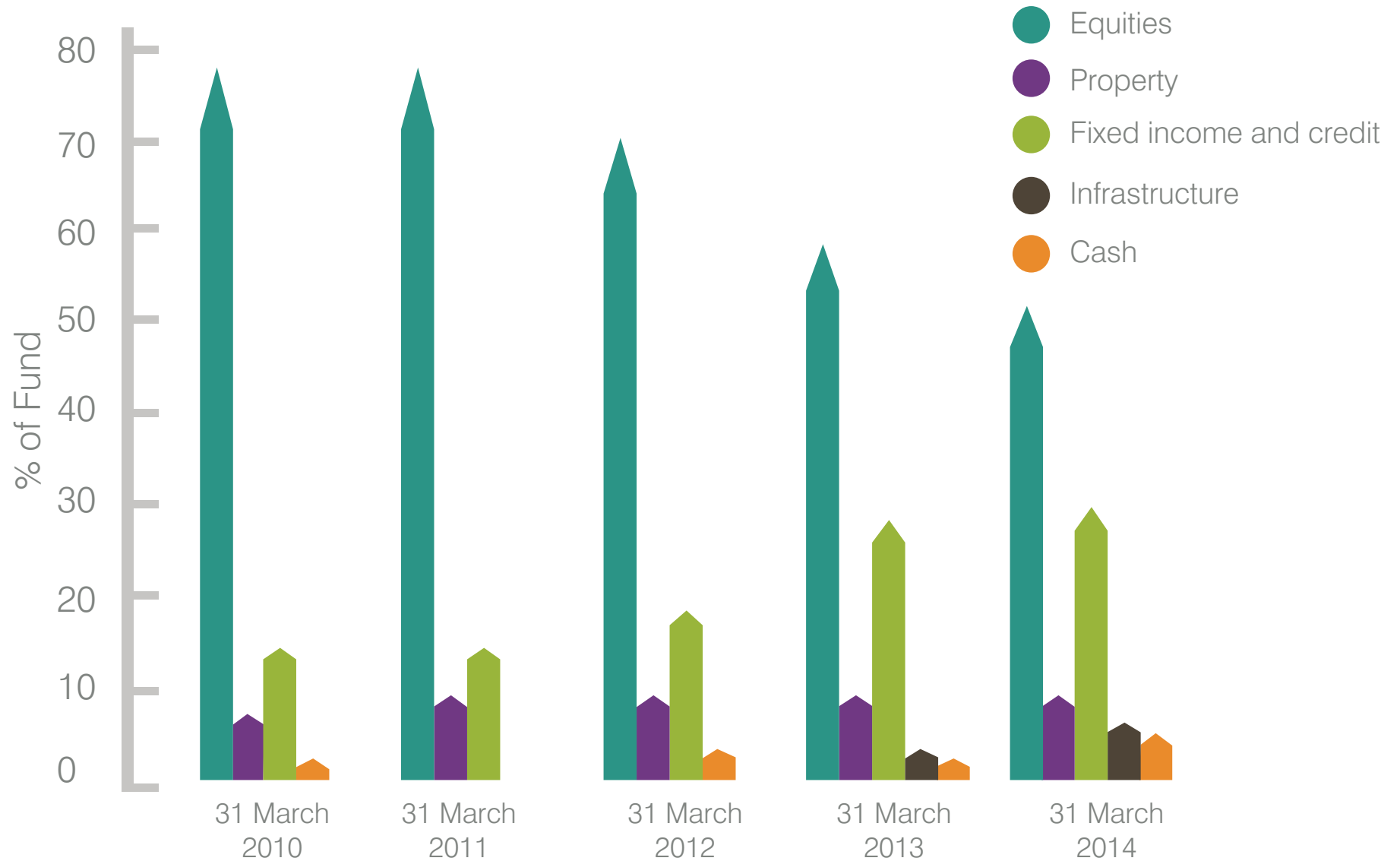
£310.7m (6.0% of the Fund), £280.2m was invested in non-investment grade secured lending and £179.6m in cyclical credit opportunities. Target levels of investment are approximately £360m in each category.

Asset allocations

The Fund is continuing to implement its revised investment strategy agreed in 2010, in actively managing asset allocations toward the agreed proportions. The investment strategy focusses on reducing reliance on assets such as listed equities, in favour of asset classes such as infrastructure and floating rate credit, and to deliver increased diversification, for example through increased allocations to real estate and other alternative asset types.

This move towards a diverse range of asset classes has resulted in equity accounting for 50% of the Fund at 31 March 2014, compared with 77% four years ago. In the same period, infrastructure and credit investments have increased from 16% to 33%.

Fund allocations summary since 31 March 2010



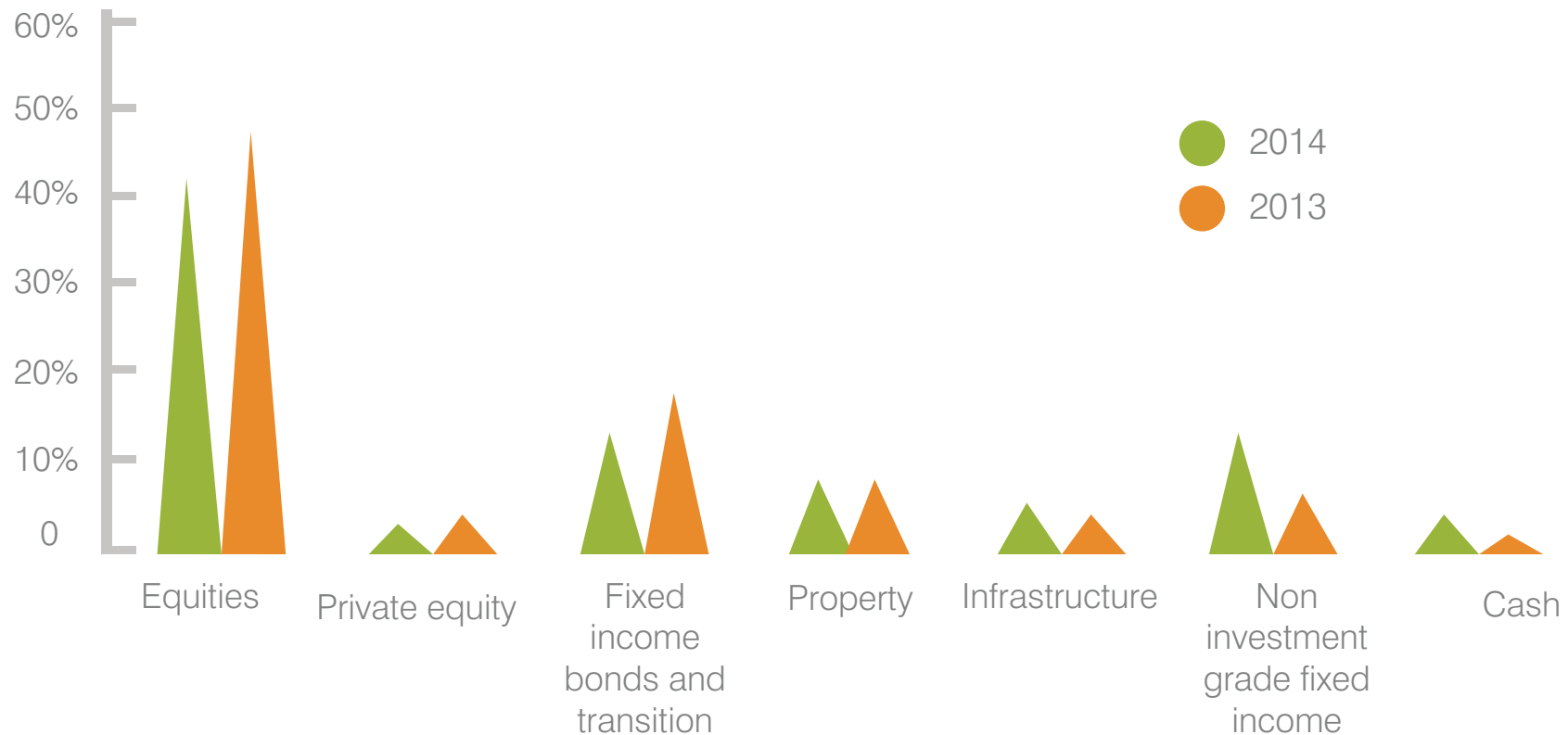
At 31 March 2014, equity holdings were towards the middle of their target range (40%-60%), property remained just below the bottom

of its target range (10%-20%), and credit and infrastructure were mid-range (20%-40%). The Fund was holding higher levels of cash

than would be the strategic level, due to the impact of transitioning between different asset classes.

Detailed asset class allocations, and a comparison with the previous year is shown below:

Asset allocation %





As at 31 March 2014, the fund had committed to invest a further £151.4m in infrastructure investments and £248.7m in various credit strategies, with these commitments expected to be drawn down over the following twelve month period.

Policies in respect of socially responsible investment and voting

Social, environmental and ethical considerations

The Fund takes an active stance on corporate governance issues. It uses Pensions Investment Research Consultants (“PIRC”) to vote on its behalf at shareholder meetings. PIRC advises on Socially Responsible Investment issues and issues voting guidance and commentary for shareholder meetings. PIRC is instructed to vote the Fund’s shares

in accordance with its guidelines unless an Investment Manager requests a different vote for investment management reasons. In the latter case, the Treasurer to the Fund will decide how best to cast the vote in the long-term financial interest of the Fund.

The Fund is a member of the Local Authority Pension Fund Forum (“LAPFF”), which is a group of like-minded local authority pension funds that meet to discuss and act / engage in respect of Socially Responsible Investment and Corporate Governance issues.

Policy on voting

For many years, the Fund has followed the voting recommendations of PIRC with the Fund’s managers being instructed to vote at shareholder meetings in accordance with PIRC’s

recommendations. PIRC has been acting as the Fund's proxy since 2011 and casting the Fund's votes directly at shareholder meetings.

The Fund's investment managers receive advance notice of PIRC's voting intentions and may raise concerns with the Fund if they do not believe the recommended stance on a vote is in the best financial interests of the Fund.

The Committee delegates its agreement of any significant departure from the guidelines proposed by the managers, to the Treasurer as Chair of the Investment Panel. In all voting decisions the long-term financial interests of the Fund are paramount. There were no occurrences of this during 2013/14.

Policy on risk

The consideration of investment risk forms part of the Pension Fund's overall risk register, which is presented to the Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return while reducing volatility. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian.

The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

Compliance with Myners Principles

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

G. Accounts of the Fund

Responsibilities for the statement of accounts

The responsibilities of the administering authority

The Administering Authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer 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 Treasurer to the Pension Fund

The Treasurer 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 Treasurer 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 Treasurer 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 2014 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.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
29 September 2014

Independent auditor's statement to the members of Lancashire county council on the pension fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the County Treasurer and the auditor

As explained more fully in the Statement of responsibilities for the statement of accounts, the County Treasurer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Lancashire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

The other information consists of only Foreword, Administration of Fund, Investment Policy and Performance and Actuarial Valuation.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Lancashire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB
29 September 2014

Fund account

	Note	2013/14 £m	2012/13 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	214.0	202.7
Transfers in	7	7.1	9.9
		221.1	212.6
Benefits	8	(221.1)	(210.2)
Payments to and on account of leavers	9	(15.3)	(12.6)
Administrative expenses	10	(4.5)	(5.0)
		(240.9)	(227.8)
Net withdrawals from dealings with members		(19.8)	(15.2)
Return on investments			
Investment income	11	105.3	120.8
Profit and loss on disposal of investments and change in market value of investments	15	102.9	532.6
Investment management expenses	21	(11.3)	(7.2)
Net return on investments		196.9	646.2
Net increase (decrease) in the net assets available for benefits during the year		177.1	631.0

Net asset statement

	Note	2013/14 £m	2012/13 £m
Investment assets	15	5,192.8	*5,107.4
Investment liabilities	15	(21.3)	*(118.4)
Current assets	22	28.3	31.7
Current liabilities	23	(11.7)	(9.7)
Net assets of the fund available to fund benefits at the period end		5,188.1	5,011.0

*The prior year has been restated to present net forward currency contracts in a comparable manner.

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

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 at 31 March 2014 and its income and expenditure for the year then ended.

G Kilpatrick CPFA
Treasurer to the Lancashire
County Pension Fund

County Councillor Terry Brown
Chair of the Audit and
Governance Committee

Notes to the financial statements

1. Pension Fund operations and membership

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

The published accounts show that in 2013/14 cash inflows during the year consisted of £326.4 million and cash outflows were £252.2 million, representing a net cash inflow of £74.2 million (compared with an inflow of £98.4 million in the previous year). Benefits payable amounted to £221.1 million and were partially offset by net investment income of £105.3 million (including £12.4 million accrued dividends); contributions of £214.0 million and transfers in of £7.1 million produced the positive cash inflow.

a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

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

The investments of the Pension Fund are managed by eleven external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary.

The Panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers.

Full details of the Panel and Committees responsibilities are published in the Fund's Statement of Investment Principles.

b) Membership

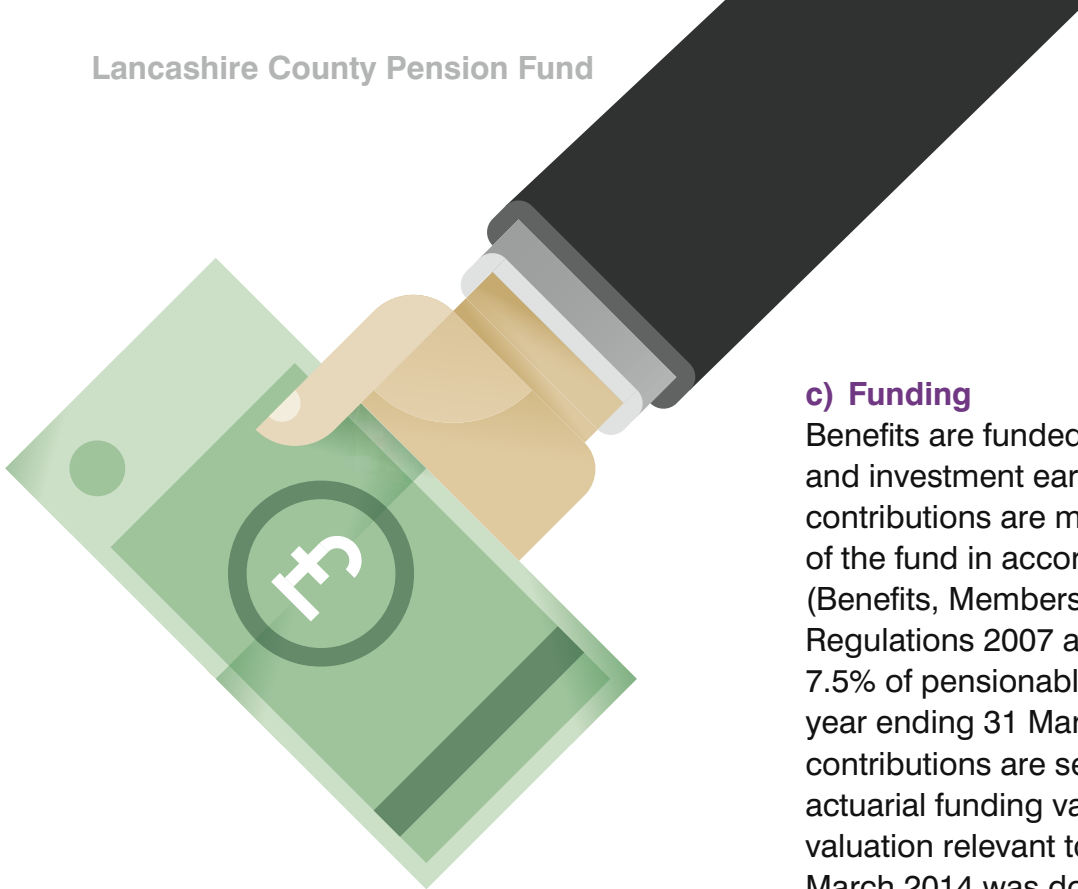
Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

The 297 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.

Participation in the Pension Fund

	Number at 31 March 2014	Number at 31 March 2013
(1) Active scheme members		
Scheduled bodies	50,536	49,391
Admitted bodies	4,208	3,572
Total	54,744	52,963
(2) Pensioners		
Pensions in payment	42,278	40,885
preserved pensions	53,895	49,837
Total	96,173	90,722
Total membership	150,917	143,685



c) Funding

Benefits are funded by contributions and investment earnings. Employee contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employers' contributions are set based on triennial actuarial funding valuations. The last valuation relevant to the year ended 31 March 2014 was done at 31 March 2010.

The latest valuation was carried out at 31 March 2013 and will be applicable for 3 financial years commencing 1 April 2014. Currently employer contributions range from 8.6% to 70.3% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service in the following summary:

	Service Pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

LGPS 2014

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton.

After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2013/14 which is based on

International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 29 of these accounts.

3. Accounting policies

Fund Account revenue recognition

Contribution income

Normal contributions both from members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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

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 Governance Pension Scheme Regulations.

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

i. 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.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.



iv. Rental income

Net 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. Contingent rents are only recognised when contractually due.

v. Movement in the net market value of investments

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

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 asset 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.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged directly to the fund. Management, accommodation, finance and other overheads are apportioned in accordance with council policy.

Investment management expenses

Investment management expenses are accounted for on an accruals basis. They include the fees paid and due to the fund managers, custodian, actuarial fees and performance measurement and investment consultant fees.

Fees of the external investment managers 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.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- MFS;
- Morgan Stanley.

Performance related fees paid in 13/14 were £1.5m. No performance related fees were paid in 12/13 as these managers were only appointed in October 2012. Where an investment manager's fee note has not been received by the net asset statement date, an estimate based on market value of their mandate as at year end is used for the inclusion in the fund account. In 2013/14 £2.8m of fees is based on such estimates (2012/13 £2.2m).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management are also charged to the fund.

Net asset statement

Financial instruments

Financial assets, other than loans and receivables, are included in the net asset statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset 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 by the fund.

The values of investments as shown in the net asset statement have been determined as follows:

Market-quoted investments

The value of an investment for which there is a readily available market price is

determined by bid market price ruling on the final day of the accounting period.

Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private

equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.



Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

Valuation of investments

Investments are shown at their fair value as at 31 March 2014. The fair value is the current bid price for quoted securities and unitised securities.

Transaction costs are included in carrying value of investments. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

Investments in private equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

Currency translation

Assets and liabilities denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2014. Any gains or losses are treated as part of a change in market value of investments.

Acquisition costs of investments

The Acquisition costs of investments are included within the purchase price.

Property

The fund's freehold and leasehold properties were valued on 31 March 2014 by Cushman & Wakefield, acting as external valuer. The valuations were in accordance with the requirements of the RICS Valuation Standards and the International Valuation Standards. The valuation of each property was on the basis of market value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of market value and existing use value was primarily

derived using comparable recent market transactions on arm's length terms.

Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes or for any of the internally managed funds.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in market value.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date.

Cash and cash equivalents

Cash comprises of cash in hand and on demand deposits.

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 asset statement on the date the fund becomes party to a liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in

accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS 26 the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement (note 29).

Additional voluntary contributions

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVCs are invested separately from the Pension Fund's main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). Members participating in these 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 in note 20.

Securities lending

Investments lent under securities lending arrangements continue to be recognised in the net asset statement to reflect the scheme's continuing economic interest in the securities and are measured in accordance with the accounting policy for assets 'at fair value through profit and loss' or 'available for sale' as appropriate. Collateral is marked to market, and adjusted daily. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Fund or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Fund does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or

more uncertain future events beyond the control of the Fund. The Fund does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. Critical judgements in applying accounting policies

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 judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.



5. Assumptions made about the future and other major sources of estimated uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Impact if actual results differ from assumptions
Private equity and infrastructure investments.	Private equity and infrastructure investments are valued at fair value in accordance with British Private Equity and Venture Capital Association guidelines / International Private Equity and Venture Capital Valuation guidelines or equivalent.	The market value of private equity and infrastructure investments in the financial statements totals £512.9m. There is a risk that these investments may be under or overstated in the accounts.
Local authority bond valuations.	The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.	The market value of local authority bonds totals £17.4m in the financial statements and there is a risk that this may be under or overstated.
Indirect overseas property valuations.	Overseas 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.	Overseas indirect property investments in the financial statements total £25.4m. There is a risk that these investments may be under or overstated in the accounts.
Actuarial present value of retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% reduction in the discount rate assumption would increase the value of the liabilities by approximately £300 million. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £128m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £139m.

6. Contributions receivable

	2013/14	2012/13
	£m	£m
Employers' contributions		
County Council	67.5	61.3
Scheduled bodies	74.0	71.2
Admitted bodies	13.1	12.6
	154.6	145.1
	2013/14	2012/13
	£m	£m
Pension strain		
County Council	1.6	2.1
Scheduled bodies	3.6	3.5
Admitted bodies	0.2	0.3
	5.4	5.9
	160.0	151.0
	2013/14	2012/13
	£m	£m
Employee contributions		
County Council	22.2	20.6
Scheduled bodies	26.8	26.3
Admitted bodies	5.0	4.8
	54.0	51.7
	214.0	202.7

Within the employee contributions figure for 2013/14, £0.4m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2013/14	2012/13
	£m	£m
Individual transfers in from other schemes	7.1	9.9
	7.1	9.9

8. Benefits

	2013/14	2012/13
	£m	£m
Pensions	183.9	176.5
Lump sum retirement benefits	33.2	28.3
Lump Sum death benefits	4.0	5.4
	221.1	210.2
Relating to:		
County Council	93.4	91.4
Scheduled bodies	112.9	105.7
Admitted bodies	14.8	13.1
	221.1	210.2

9. Payments to and on account of leavers

	2013/14	2012/13
	£m	£m
Individual transfers to other schemes	12.9	12.6
Bulk transfers to other schemes	2.4	0
	15.3	12.6

10. Administrative expenses

	2013/14	2012/13
	£m	£m
Administration and processing	4.2	3.8
Audit fee*	0.1	0.1
Legal and other professional fees	0.2	1.1
	4.5	5.0

*The total amount payable for external audit services carried out by the appointed auditor in 2013/14 was £38k (£41k in 2012/13).

11. Investment income

	2013/14	2012/13
	£m	£m
Fixed interest securities	31.5	21.5
Equity dividends	36.8	59.5
Index linked securities	1.6	1.2
Pooled investment vehicles	6.4	6.3
Net rents from properties	23.5	25.0
Interest on cash deposits	3.2	2.8
Other	2.3	4.5
	105.3	120.8

12. Net rents from properties

	2013/14	2012/13
	£m	£m
Rental income	27.4	28.1
Direct operating expenses	(3.9)	(3.1)
Net income	23.5	25.0

13. Operating leases

The Pension Fund leases out property under operating leases.

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

	2013/14	2012/13
	£m	£m
Leases expiring in the following year	2.0	2.9
Leases expiring in two to five years	11.9	13.2
Leases expiring after five years	12.4	13.6
	26.3	29.7

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

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

14. Stock lending

Northern Trust, the Fund's custodian, is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2013/14 was £1.2m (2012/13 £0.6m) Securities on loan at the 31 March 2014 were £131.7m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities.

This consisted of £129.9m of equities and £1.8m of bonds. Collateral is marked to market, and adjusted daily. Additional collateral of between 2% and 5% is requested as an additional measure of industry standard practice to mitigate risk. As the Fund has an obligation to return the collateral to the borrowers, collateral is excluded from the Fund valuation. The collateral is non cash and totalled £139.8m of government bonds.

15. Reconciliation of movements in investments and derivatives

	Market value at 1 April 2013	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2014
	£m	£m	£m	£m	£m
Fixed interest securities	843.6	190.2	(765.9)	(34.9)	233.0
Equities	1,749.3	972.5	(954.8)	154.1	1,921.1
Index linked securities	164.9	92.9	(248.5)	(9.3)	0.0
Pooled investments	1,601.2	1,248.5	(559.9)	(50.9)	2,238.9
Property	434.9	15.0	(43.3)	43.9	450.5
	4,793.9	2,519.1	(2,572.4)	102.9	4,843.5
Derivative contracts:					
Forward currency contracts asset value	121.4				21.4
Cash deposits	170.5				315.5
Investment accruals	21.6				12.4
Investment assets	5,107.4				5,192.8
Forward currency contracts liability value	(118.4)				(21.3)
Portfolio value	4,989.0				5,171.5

	Market value at 1 April 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31 March 2013
	£m	£m	£m	£m	£m
Fixed interest securities	623.4	501.1	(471.9)	191.0	843.6
Equities	1,613.7	1,409.8	(1,581.2)	307.0	1,749.3
Index linked securities	124.6	16.1	(29.1)	53.3	164.9
Pooled investments	1,466.3	696.6	(558.9)	(2.8)	1,601.2
Property	383.9	72.1	(5.3)	(15.8)	434.9
	4,211.9	2,695.7	(2,646.4)	532.7	4,793.9
Derivative contracts:					
Futures	0.2	0.4	(0.5)	(0.1)	0.0
Forward currency contracts asset value	3.1				121.4
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
Investment assets	4,361.4				5,107.4
Forward currency contracts liability value	(1.5)				(118.4)
Portfolio value	4,359.9				4,989.0

Within the £102.9m increase in market value of investments during the 2013/14 financial year, a reduction in market value of £33.9m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 18.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2013/14 amounted to £1.4m (2012/13: £2.2m).

The investment assets at 31 March 2014 were managed by eleven external investment managers, with the remaining managed in-house. The following table shows the split of the investment assets by investment manager.

Summary of manager's portfolio values				
	31/03/14		31/03/13	
	£m	%	£m	%
Externally managed				
Equities				
Baillie Gifford	793.0	15%	703.1	14%
Robeco	366.7	7%	354.5	7%
NGAM	285.8	6%	245.7	5%
MFS	269.6	5%	245.0	5%
AGF	239.9	5%	0.0	0%
Morgan Stanley	239.4	5%	234.1	5%
Magellan	197.5	4%	0.0	0%
Nomura transition	1.9	0%	1.7	0%
Private equity				
Capital Dynamics	221.5	4%	229.1	4%
Infrastructure				
Capital Dynamics	118.6	2%	77.5	1%
Credit and fixed income transition				
BNYM transition	82.5	2%	929.4	19%

Property				
Knight Frank	450.5	9%	434.9	9%
Index tracking – multi asset				
Legal & General	0.0	0%	582.1	12%
Externally managed portfolios	3,266.9	64%	4,037.1	81%
Internally managed				
Credit Strategies	784.1	15%	424.0	9%
Bonds and cash	715.7	14%	224.4	5%
Equity funds	206.6	4%	0.0	0%
Infrastructure funds	172.8	3%	76.9	1%
Indirect Property funds	25.4	0%	7.5	0%
Emerging Markets ETF	0.0	0%	219.1	4%
Internally managed portfolios	1,904.6	36%	951.9	19%
Total portfolio values	5,171.5	100%	4,989.0	100%



Fixed interest securities

	31/03/14	31/03/13
	£m	£m
UK public sector quoted	0.0	294.9
UK corporate bonds quoted	76.0	225.0
Overseas corporate bonds quoted	157.0	323.7
	233.0	843.6

Equities

	31/03/14	31/03/13
	£m	£m
UK quoted	231.3	218.3
Overseas quoted	1,689.8	1,531.0
	1,921.1	1,749.3

Index linked securities

	31/03/14	31/03/13
	£m	£m
UK quoted	0.0	164.9
	0.0	164.9

Pooled investment vehicles

	31/03/14	31/03/13
	£m	£m
UK managed funds:		
Equity funds	0.0	166.0
Fixed income funds	47.0	0
Venture capital	264.8	*218.8
Overseas managed funds:		
Equity funds	644.1	632.2
Fixed income funds	970.3	*412.0
Property funds	25.1	7.5
Venture capital	287.6	164.7
	2,238.9	1,601.2

*The custodian has provided the statutory notes for the accounts, this change has led to a review of the prior year disclosure categories and some assets being reclassified and restated.

Properties

	31/03/14	31/03/13
	£m	£m
UK – Freehold	389.8	346.4
UK – Long leasehold	60.7	88.5
	450.5	434.9

	31/03/14	31/03/13
	£m	£m
Balance at start of the year	434.9	383.9
Additions	15.0	72.1
Disposals	(43.3)	(5.3)
Net gain/loss on fair value	43.9	(15.8)
Balance at end of year	450.5	434.9

Cash deposits

	31/03/14	31/03/13
	£m	£m
Sterling	148.0	116.6
Foreign currency	167.5	53.9
	315.5	170.5

Derivative contracts (forward currency positions)

Settlements	Currency bought	Local values m	Currency sold	Local value m	Asset value £m	Liability value £m
one to six months	USD	3.7	AUD	(4.2)	2.2	(2.3)
one to six months	USD	30.5	CHF	(26.6)	18.3	(18.1)
up to one month	GBP	0.1	USD	(0.1)	0.1	(0.1)
up to one month	JPY	17.0	GBP	(0.1)	0.1	(0.1)
up to one month	USD	0.4	EUR	(0.3)	0.3	(0.3)
up to one month	USD	0.7	JPY	(70.1)	0.4	(0.4)

Open forward currency contracts at 31 March 2014 21.4 (21.3)

Net forward currency contracts at 31 March 2014 0.1

Prior year comparative

Open forward currency contracts at 31 March 2013 121.3 (118.4)

Net forward currency contracts at 31 March 2013 2.9

Forward foreign currency contracts are used to hedge against foreign currency movements.

16. Financial instruments classification

The accounting policy on financial instruments describes how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised.

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31/03/14	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	233.0	-	-
Equities	1,921.1	-	-
Pooled investment vehicles	1,661.4	-	-
Pooled property investments	25.1	-	-
Venture capital	552.4	-	-
Derivative contracts	21.4	-	-
Cash deposits	-	315.5	-
Investment accruals	12.4	-	-
Debtors	-	28.3	-
Total financial assets	4,426.8	343.8	-
Financial liabilities			
Derivative contracts	21.3	-	-
Creditors	-	-	11.7
Total financial liabilities	21.3	-	11.7

31/03/13	Fair value through profit or loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m
Financial assets			
Fixed interest securities	843.6	-	-
Equities	1,749.3	-	-
Index linked securities	164.9	-	-
Pooled investment vehicles	1,601.2	-	-
Derivative contracts	4.9	-	-
Cash deposits	-	170.5	-
Investment accruals	21.6	-	-
Debtors	-	31.7	-
Total financial assets	4,385.5	202.2	-
Financial liabilities			
Derivative contracts	1.9	-	-
Creditors	-	-	9.7
Total financial liabilities	1.9	-	9.7

17. Net gains and losses on financial instruments

The net gain on financial assets at fair value through profit and loss is £59.0m (2012/13 £548.4m)

18. Financial instruments – valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value has been classified into three levels according to quality and reliability of information used to determine fair values.

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, 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. The technique for valuing these assets is independently verified.

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 internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK

fixed income investments, private equity, infrastructure, local authority bonds 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 comparables and estimated future cash flows.

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

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

The local authority bond value is based on a valuation technique that requires management judgement including earnings multiples, public market comparables and estimated future cash flows.

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

31/03/14	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,314.6	179.9	929.9	4,424.4
Total financial assets	3,314.6	179.9	929.9	4,424.4
Financial liabilities				
Financial liabilities at fair value through profit and loss	21.3	-	-	21.3
Total financial liabilities	21.3	-	-	21.3
31/03/13	*Level 1	*Level 2	*Level 3	Total
Financial assets				
Financial assets at fair value through profit and loss	*2,881.5	*977.1	*648.3	4,506.9
Total financial assets	2,881.5	977.1	648.3	4,506.9
Financial liabilities				
Financial liabilities at fair value through profit and loss	*118.4	-	-	118.4
Total financial liabilities	118.4	-	-	118.4

* Financial instruments at 31 March 2014 have been categorised into levels 1, 2 and 3 based upon a review of individual investments rather than on the basis of investment manager portfolios as was the policy at 31 March 2013. Comparatives have been restated accordingly.

19. 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

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 2013/14 reporting period.

Asset type	Potential market movements (+/-)
UK bonds	4.8%
Overseas bonds	4.8%
UK equities	11.9%
Overseas equities	11.9%
Index linked gilts	4.8%
Cash	0%
Alternatives	3.8%
Property	2.7%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in value of the asset. 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	31/03/14	Percentage change	Value on increase	Value on decrease
Decrease	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	76.0	4.8%	79.6	72.3
Overseas bonds	157.0	4.8%	164.5	149.5
Total equities	1,921.1	11.9%	2,149.7	1,692.5
Alternatives	2,238.9	3.8%	2,324.0	2,153.8
Property	450.5	2.7%	462.7	438.3
Total assets available to pay benefits	4,843.5		5,180.5	4,506.4

Asset type	31/03/13	Percentage change	Value on increase	Value on decrease
Decrease	£m	%	£m	£m
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.8	496.0
Overseas bonds	323.7	8.7%	351.8	295.5
Total equities	1,749.3	12.8%	1,973.2	1,525.5
Index linked gilts	164.9	8.1%	178.2	151.5
Alternatives	1,601.2	3.6%	1,658.8	1,543.6
Property	434.9	1.8%	442.7	427.1
Total assets available to pay benefits	4,793.9		5,148.5	4,439.2

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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	31/03/14 £m	31/03/13 £m
Cash and cash equivalents	315.5	170.5
Fixed interest securities	1,250.3	1,255.5
Total	1,565.8	1,426.0

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 110 basis point (BPS) movement in interest rates is consistent with the level of

sensitivity applied as part of the Fund's risk management strategy (1BPS = 0.01%). The Fund's investment advisor has advised that long-term average rates are expected to move less than 110 basis points from one year to the next and experience suggests that such movements are likely.



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

Asset type	Change in year in net assets available to pay benefits		
	31/03/14 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	315.5	3.1	(3.1)
Fixed interest securities	1,250.3	12.5	(12.5)
Total change in assets available	1,565.8	15.6	(15.6)

Asset type	Change in year in net assets available to pay benefits		
	31/03/13 £m	+100BPS £m	-100BPS £m
Cash and cash equivalents	170.5	1.7	(1.7)
Fixed interest securities	1,255.5	12.5	(12.5)
Total change in assets available	1,426.0	14.2	(14.2)

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 2014 and as at the previous year end:

Currency exposure – asset type		
	31/03/14	31/03/13*
	£m	£m
Overseas quoted securities	1,689.8	1,531.0
Overseas corporate bonds (quoted)	157.0	323.7
Overseas fixed income	970.3	*412.0
Overseas pooled investments	956.8	*804.4
Total overseas assets	3,773.9	3,071.1

*Classification by asset type has been reviewed at an individual asset level at 31 March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

Currency risk – sensitivities analysis

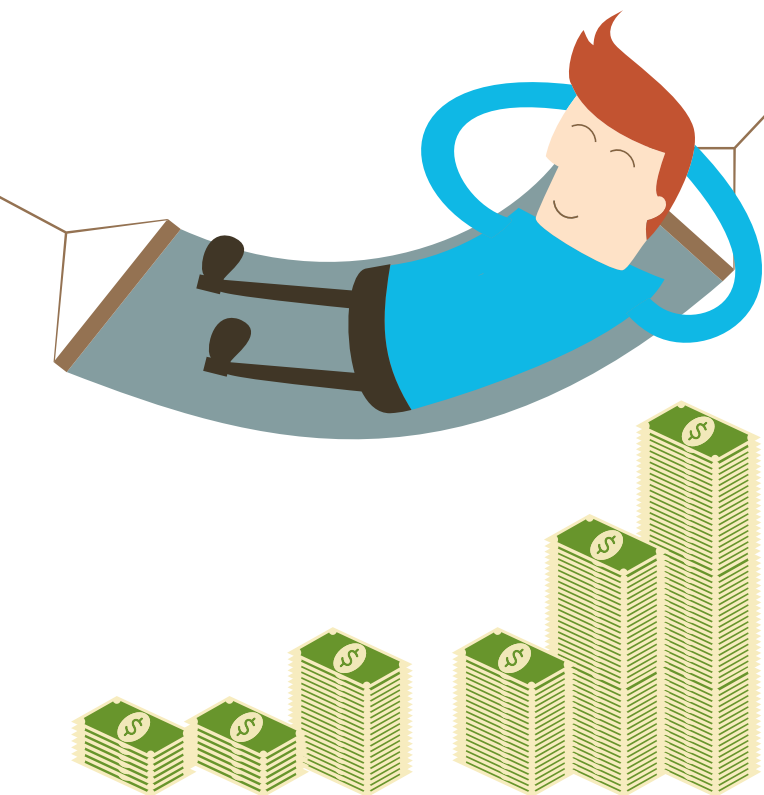
Following analysis of historical data in consultation with the

Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6% (as measured by one standard deviation).

A 6% 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 (previous year = 6.1%).

A 6% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:



Currency exposure – asset type	Change to net assets available to pay benefits		
	31/03/14 £m	+6.0% £m	-6.0% £m
Overseas quoted securities	1,689.8	1,791.1	1,588.4
Overseas corporate bonds (quoted)	157.0	166.4	147.6
Overseas fixed income	970.3	1,028.5	912.1
Overseas pooled investments	956.8	1,014.2	899.4
Total change in assets available	3,773.9	4,000.2	3,547.5

Currency exposure – asset type	* Change to net assets available to pay benefits		
	31/03/13* £m	+6.1% £m	-6.1% £m
Overseas quoted securities	1,531.0	1,624.4	1,437.6
Overseas corporate bonds (quoted)	323.7	343.5	303.9
Overseas fixed income	*412.0	*437.1	*386.8
Overseas pooled investments	*804.4	*853.5	*755.3
Total change in assets available	3,071.1	3,258.5	2,883.6

*Classification by asset type has been reviewed at an individual asset level at 31 March 2014. For 2012/13 reporting the asset type was determined by review at an investment manager level. Comparatives have been restated accordingly.

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 2014 was £315.5m (31 March 2013: £170.5m.) This was held with the following institutions:

Summary	Rating	31/03/14	31/03/13
Bank deposit accounts		£m	£m
Ulster Bank	Baa3	5.0	5.0
Northern Trust	A1	248.0	75.0
Svenska Handelsbanken	Aa3	61.4	0.0
Bank of Scotland	A2	0.0	50.0
Bank current accounts			
NatWest account	Baa1	1.1	40.5
Total		315.5	170.5

Liquidity risks

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

The Fund has immediate access to its cash holdings.

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

All financial liabilities at 31 March 2014 are due within the one year.

20. Additional voluntary contributions (AVCs)

Members participating in these 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. (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 2013 to 31 March 2014 for Prudential and 1 September 2012 to 31 August 2013 for Equitable Life and are not included in the Pension Fund accounts in accordance with Regulations 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

Additional voluntary contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.1	15.9	17.0
Income (incl. contributions, bonuses, interest, transfers in)	0.1	5.3	5.4
Expenditure (incl. benefits, transfers out, change in market value)	(0.1)	(1.4)	(1.5)
Value at the end of the year	1.1	19.8	20.9



21. Investment management expenses

	2013/14 £m	2012/13 £m
Administration, management and custody	11.0	6.9
Performance measurement service	0.1	0.2
Other advisory fees	0.2	0.1
Total	11.3	7.2

22. Current assets

	31/03/14 £m	31/03/13 £m
Contributions due from: employers	14.4	12.5
: members	4.4	4.4
Debtors: bodies external to general government	9.5	14.8
Value at the end of the year	28.3	31.7

	31/03/14 £m	31/03/13 £m
Other local authorities	15.5	18.9
NHS bodies	0.1	0.1
Public corporations and trading funds	0.1	0.1
Other entities and individuals	12.6	12.6
Total	28.3	31.7

23. Current liabilities

	31/03/14 £m	31/03/13 £m
Unpaid benefits	0.6	2.3
Accrued expenses	11.1	7.4
Total	11.7	9.7

	31/03/14 £m	31/03/13 £m
Other local authorities	4.0	4.2
NHS bodies	0.0	0.4
Other entities and individuals	7.7	5.1
Total	11.7	9.7



24. Contingent assets

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigation, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts. The Pension Fund has entered into a number of other claims that are not financially material which may result in additional income for the Fund.

25. Contractual commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the venture capital and infrastructure part of the portfolio totalled £594.5m. 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 an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated.

The Fund entered into a new venture capital commitment in November 2013. This will be internally managed and as at 31st March 2014 there had been no drawdowns on the commitment of £17.9m. In April 2013, the Fund approved the direct investment into a property development in St Albans. The Fund is the sole investor in this town centre hotel and retail development. The Fund has a commitment to pay monthly staged payments to fund the development plus a balancing payment at completion. The outstanding commitment at 31st March 2014 amounts to £7.1m.

26. 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. They include:

- At 31 March 2014, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 99 scheduled and 198 admitted bodies.
- Members of the Pension Fund Committee, comprising 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2013/14. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

Lancashire County Council

The Lancashire County Pension Fund is administered by Lancashire County Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £4.2 million (2012/13: £3.8 million) 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 £69.1 million to the fund in 2013/14 (2012/13: £63.4m million). All monies owing to and due from the Fund were paid in year.

Key management personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and

members' allowances detailed in section 3.4 of the code (which are derived from the requirements of Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management disclosure requirements of paragraph 16 of IAS24.

This applies in equal measure to the accounts of the Lancashire County Pension Fund.

The disclosure required by Regulation 7 (2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lancashire County Council.

27. Icelandic investment

The Lancashire County Pension Fund had £2.4m on deposit with the Icelandic Bank Landsbanki (LBI) when it collapsed in October 2008. The Winding up Board published details of LBI's financial position as at 31 December 2013; this showed that LBI's assets, including partial payments

already made in respect of priority claims were greater than the sum of priority claims. It is therefore still considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations. Approximately 51.8% of the total claim has now been repaid and the outstanding balance at 31 March 2014 is £1.2m. The exact timing and amount of future distributions is not known at this stage. The deposit is treated as an asset on the net asset statement and the carrying value is written down as distributions are received.

28. Funding arrangements

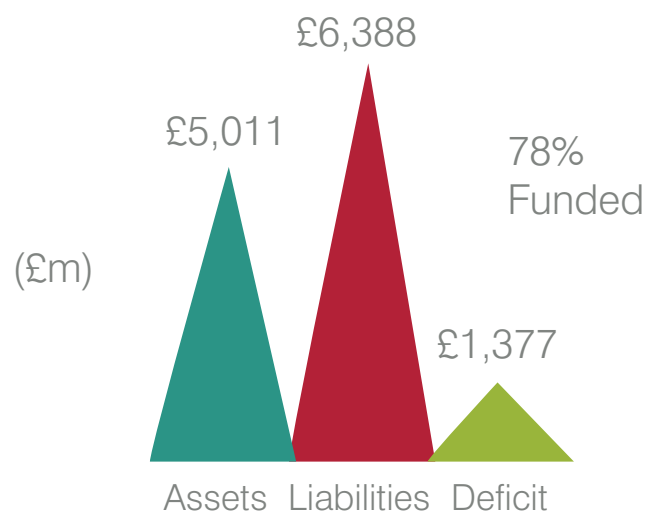
Accounts for the year ended 31 March 2014 - statement by the consulting actuary

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 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. Full details of the valuation are available as part of the funding strategy statement.

On the basis of the assumptions adopted, the Fund's assets of £5,011 million represented 78% of the Fund's past service liabilities of £6,388 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £1,377 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £1,088 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £65m per annum increasing at 4.1% per annum (equivalent to 7.6% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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 common contribution rate were as follows:

	For past service liabilities (funding target)	For future service liabilities (common contribution rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

29. Actuarial present value of promised retirement benefits

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the 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 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year-end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation alongside a reduction in the long-term rate of real pay growth (1.5% p.a. versus 2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £7,373 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as

described above is to decrease the liabilities by c£614 million. Adding interest over the year increases the liabilities by c£310million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£33 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£185 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £6,917 million.

30. Events after the net asset statement date

Greater Manchester Pension Fund has been chosen by the Ministry of Justice to administer the Local Government

Pension Scheme in respect of the National Probation Service and Community Rehabilitation Companies with effect from 1 June 2014. Active and deferred members of Lancashire County Pension Fund who are affected by this change transferred to the Greater Manchester Pension Fund on 1 June 2014.

Probation Service pensioners who are currently members of the Lancashire County Pension Fund are scheduled to transfer out to Greater Manchester Pension Fund at the end of September 2014. The transfer share of assets is expected to be in the region of £85m and the share of liabilities of the order of £109m.

H. Actuarial valuation

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The valuation carried out at 31 March 2010 determined the contribution rates effective from 1 April 2011 to 31 March 2014.

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 Funding Strategy Statement.

The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target date for achieving full funding is being maintained as at the 2007 valuation. The FSS also specifies any transitional arrangements ("phasing") for the implementation of revised employer contribution requirements.

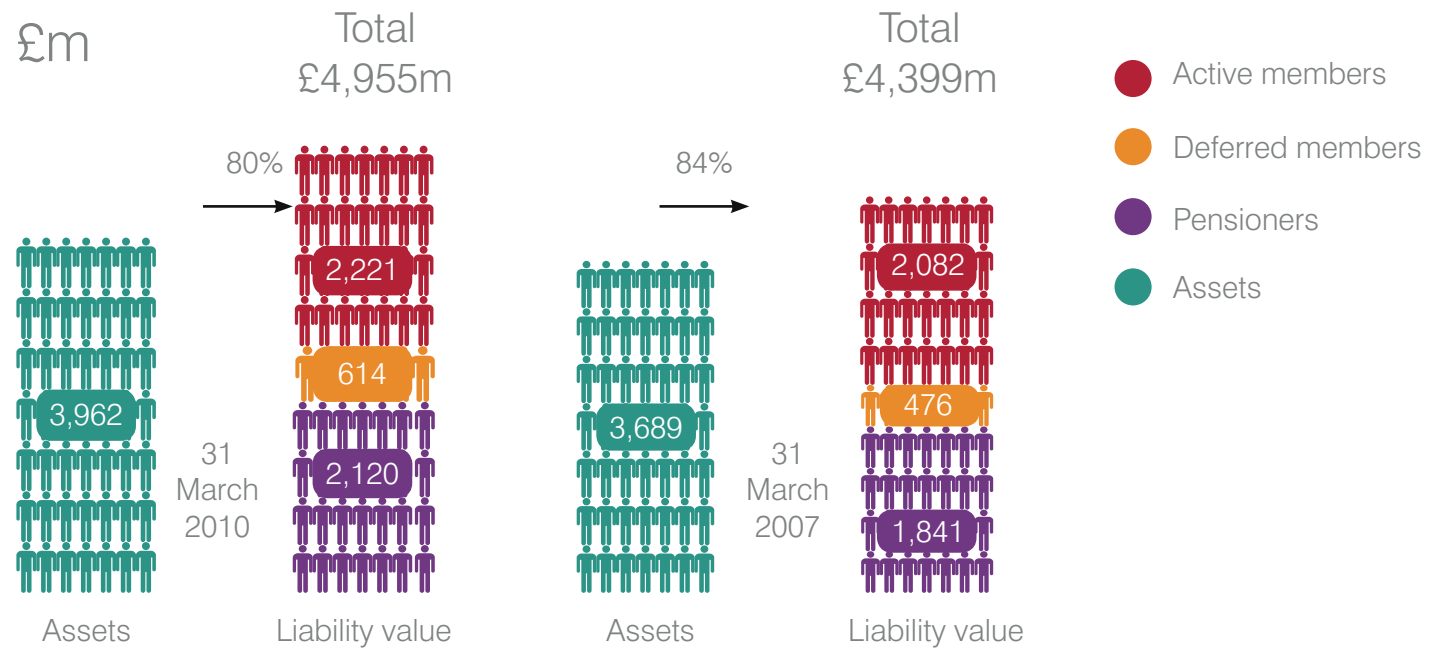
The valuation (effective from 1 April 2011) revealed a funding level of 80% and an average employer's contribution rate of 19.1%. There have been a number of material developments which have impacted on the fund since the previous valuation in 2007. The introduction of

an Inflation Risk Premium (IRP) into the determination of the pension increase assumption used for the valuation has offset the adverse impact of the fall in real yields since the 2007 valuation. The effect of the IRP in conjunction with the change from RPI to CPI indexation more than offsets the negative impact of the yields change. Revisions of the assumptions adopted for the 2010 valuation has overall acted to place a lower value on liabilities and has therefore improved the funding position.

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2010, detailing the breakdown of the 80% funding level is as follows:

Funding results – funding target

The market value of the Fund’s assets at the valuation date is compared with the value of the Fund’s past service liabilities (the Funding Target) below. The funding position at the previous valuation is shown for comparison:



The employer contributions for 2013/2014 are based on the 2010 valuation and the recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in the Schedule to the Rates and Adjustments of this report.

The projected unit method of valuation was used for the valuation and is in common use for funding Pension Funds in the United Kingdom. The Valuation results depend on financial and demographic assumptions and these are detailed in full in the Actuarial Valuation and at Annex 1 of the Funding Strategy Statement.

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 36 of the administration regulations

Name of fund

Lancashire County Pension Fund

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.5 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions. For employers where no allowance for non ill-health early retirement costs is included in the valuation 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. Additional contributions may be paid if requested by the employer concerned.

The 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 against a third party.

Regulation 36(8)

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.

For four employers I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2011 taken into account when setting this employer's contribution rate.

No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions.

Signature



Name

John Livesey

Qualification

Fellow of the Institute of Actuaries

Date of signing

31 March 2011

Schedule to the rates and adjustments certificate dated 31 March 2011

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
ABM Catering Ltd	3.5	16.0	3.5	16.0	3.5	16.0		
Accrington & Rossendale College	7.1	19.6	7.1	19.6	7.1	19.6		
Accrington Academy	-1.8	10.7	-1.8	10.7	-1.8	10.7		
Alternative Futures	1.7	14.2	1.7	14.2	1.7	14.2		
Andron (City of Preston High)	-1.2	11.3	-1.2	11.3	-1.2	11.3		
Andron (Glenburn Sports College)	0.5	13.0	0.5	13.0	0.5	13.0		
Andron (Kennington)	0.0	12.5	0.0	12.5	0.0	12.5		
Andron (Ribblesdale High)	-0.3	12.2	-0.3	12.2	-0.3	12.2		
Arnold Schools	5.0	17.5	6.2	18.7	7.4	19.9		
Beaufort Avenue Day Care Centre	14.0	26.5	17.7	30.2	21.3	33.8		
Blackburn College	2.9	15.4	2.9	15.4	2.9	15.4		
Blackburn St Mary's College	1.7	14.2	1.7	14.2	1.7	14.2		
Blackburn with Darwen Borough Council	3.1	15.6	3.6	16.1	4.1	16.6		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Amount £
Employers							
Blackpool & The Fylde College	5.0	17.5	5.0	17.5	5.0	17.5	£246,000
Blackpool Airport Ltd (from July 2004)	20.5	33.0	24.5	37.0	27.8	40.3	
Blackpool Borough Council	3.9	16.4	4.4	16.9	4.9	17.4	£697,600
Blackpool Coastal Housing	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Sixth Form College	-0.5	12.0	-0.5	12.0	-0.5	12.0	
Blackpool Transport Services Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0	
Blackpool Zoo (Grant Leisure)	5.5	18.0	7.1	19.6	8.8	21.3	
Blackpool, Fylde & Wyre Society for the Blind	29.5	42.0	32.5	45.0	35.5	48.0	
Bootstrap Enterprise Ltd	0.2	12.7	0.2	12.7	0.2	12.7	
Bulloughs (Highfield)	-2.0	10.5	-2.0	10.5	-2.0	10.5	
Bulloughs (St Augustines)	1.9	14.4	1.9	14.4	1.9	14.4	
Bulloughs (St Marys)	4.0	16.5	4.0	16.5	4.0	16.5	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Burnley Borough Council	12.5	25.0	12.5	25.0	12.5	25.0		
Burnley College	2.3	14.8	2.3	14.8	2.3	14.8		
Calico Housing Ltd	6.8	19.3	6.8	19.3	6.8	19.3		
CAPITA	12.2	24.7	14.1	26.6	16.0	28.5		
Capita (Rossendale BC)	3.1	15.6	4.6	17.1	6.0	18.5		
Cardinal Newman College	3.3	15.8	3.3	15.8	3.3	15.8		
Caritas Care Ltd (was Catholic Caring Services)	6.2	18.7	6.2	18.7	6.2	18.7		
Catterall Parish Council	2.3	14.8	2.3	14.8	2.3	14.8		
Chorley Borough Council	6.8	19.3	7.3	19.8	7.8	20.3		
Chorley Community Housing	1.6	14.1	1.6	14.1	1.6	14.1		
Church Road Methodist Day Centre	6.7	19.2	7.0	19.5	7.3	19.8		
Commission for Education & Formation	8.0	20.5	8.0	20.5	8.0	20.5		
Community Council of Lancashire	8.3	20.8	8.3	20.8	8.3	20.8		
Community Gateway Association Ltd	1.7	14.2	2.4	14.9	3.0	15.5		
Connaught Environmental (Blackpool BC)	-3.9	8.6	-3.9	8.6	-3.9	8.6		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
Connaught Environmental (Blackpool Coastal Housing)	0.5	13.0	0.5	13.0	0.5	13.0		
Consultant Caterers Ltd	2.5	15.0	2.5	15.0	2.5	15.0		
Contour Housing Association	4.1	16.6	4.1	16.6	4.1	16.6		
Creative Support Ltd	1.6	14.1	1.6	14.1	1.6	14.1		
CXL Ltd	-0.6	11.9	-0.6	11.9	-0.6	11.9		
Danfo (UK) Ltd	172.2	184.7	172.2	184.7	172.2	184.7		
Darwen Aldridge Community Academy	-1.2	11.3	-1.2	11.3	-1.2	11.3		
E ON UK Plc	6.2	18.7	6.2	18.7	6.2	18.7		
Edge Hill University College	1.5	14.0	2.0	14.5	2.5	15.0		
Enterprise Managed Services Ltd	1.1	13.6	2.4	14.9	3.6	16.1		
Eric Wright Commercial Ltd	5.4	17.9	5.4	17.9	5.4	17.9		
Fulwood Academy	-1.3	11.2	-1.3	11.2	-1.3	11.2		
Fylde Borough Council	7.0	19.5	8.3	20.8	9.5	22.0		
Fylde Coast YMCA (Fylde)	-2.0	10.5	-2.0	10.5	-2.0	10.5		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	
Employers							Amount £
Fylde Community Link	4.3	16.8	4.3	16.8	4.3	16.8	
Galloways Society for the Blind	32.2	44.7	32.2	44.7	32.2	44.7	
Garstang Town Council	-1.3	11.2	-1.3	11.2	-1.3	11.2	
Housing Pendle Ltd	1.8	14.3	1.8	14.3	1.8	14.3	
Hyndburn Borough Council	12.3	24.8	12.3	24.8	12.3	24.8	
Hyndburn Homes Ltd	1.4	13.9	1.4	13.9	1.4	13.9	
I Care	-1.6	10.9	-1.6	10.9	-1.6	10.9	
Kirkham Grammar School	4.1	16.6	4.6	17.1	5.1	17.6	
Kirkland Parish Council	2.5	15.0	2.5	15.0	2.5	15.0	
Lancashire & Blackpool Tourist Board	1.1	13.6	1.1	13.6	1.1	13.6	
Lancashire County Branch Unison	8.0	20.5	8.0	20.5	8.0	20.5	
Lancashire County Council	5.8	18.3	6.2	18.7	6.6	19.1	
Lancashire Fire & Rescue Service	5.0	17.5	5.0	17.5	5.0	17.5	£199,000
Lancashire Police Authority	2.3	14.8	2.8	15.3	3.3	15.8	£450,500

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
Lancashire Probation Committee	6.6	19.1	6.6	19.1	6.6	19.1		
Lancaster & Morecambe College	4.1	16.6	4.1	16.6	4.1	16.6		
Lancaster City Council	8.1	20.6	8.1	20.6	8.1	20.6		
Lancaster University	1.9	14.4	2.2	14.7	2.6	15.1		
Leisure in Hyndburn	3.3	15.8	4.5	17.0	5.7	18.2		
Liberata	6.0	18.5	6.0	18.5	6.0	18.5		
Liberata UK Ltd (Chorley)	8.9	21.4	8.9	21.4	8.9	21.4		
Lytham Schools Foundation	2.2	14.7	2.2	14.7	2.2	14.7		
Mellor's (formerly Wyre)	1.7	14.2	1.7	14.2	1.7	14.2		
Mellor's Catering (Cardinal Newman)	5.0	17.5	5.0	17.5	5.0	17.5		
Myerscough College	0.8	13.3	1.0	13.5	1.1	13.6		
Nelson and Colne College	3.3	15.8	3.3	15.8	3.3	15.8		
New Fylde Housing	42.3	54.8	42.3	54.8	42.3	54.8		
New Progress Housing	3.9	16.4	3.9	16.4	3.9	16.4		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
NHS PCT Blackburn	1.6	14.1	1.6	14.1	1.6	14.1		
NIC Services Group Ltd	2.5	15.0	2.5	15.0	2.5	15.0		
North Western & North Wales Sea Fisheries Committee	13.4	25.9	13.4	25.9	13.4	25.9		
Northgate Managed Services	0.1	12.6	0.1	12.6	0.1	12.6		
NSL Ltd (Lancaster)	4.5	17.0	4.5	17.0	4.5	17.0		
NSL Ltd (Wyre BC)	0.6	13.1	0.6	13.1	0.6	13.1		
Ormerod Home Trust Ltd	11.7	24.2	13.7	26.2	15.5	28.0		
Our Lady Queen of Peace (Bullough Contract Services)	3.5	16.0	3.5	16.0	3.5	16.0		
Pendle Borough Council	12.1	24.6	14.1	26.6	16.2	28.7		
Pendle Leisure Trust Ltd	1.2	13.7	1.2	13.7	1.2	13.7		
Penwortham Town Council	1.5	14.0	1.5	14.0	1.5	14.0		
Pilling Parish Council	4.8	17.3	4.8	17.3	4.8	17.3		
Preston Care and Repair	6.0	18.5	6.0	18.5	6.0	18.5		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
Preston City Council	5.6	18.1	6.1	18.6	6.6	19.1		
Preston College	2.7	15.2	3.0	15.5	3.3	15.8		
Preston Council for Voluntary Services	9.4	21.9	9.4	21.9	9.4	21.9		
Progress Care Housing	3.9	16.4	3.9	16.4	3.9	16.4		
Progress Housing Group Ltd	3.9	16.4	3.9	16.4	3.9	16.4		
Progress Recruitments	2.9	15.4	2.9	15.4	2.9	15.4		
Queen Elizabeth's Grammar School	8.3	20.8	9.3	21.8	10.3	22.8		
Ribble Valley Borough Council	3.6	16.1	4.1	16.6	4.6	17.1		
Ribble Valley Homes	1.8	14.3	1.8	14.3	1.8	14.3		
Rossendale Borough Council	13.8	26.3	15.3	27.8	16.8	29.3		
Rossendale Leisure Trust	0.2	12.7	1.2	13.7	2.1	14.6		
Rossendale Transport Ltd	10.7	23.2	19.3	31.8	27.8	40.3		
Runshaw College	2.6	15.1	2.9	15.4	3.2	15.7		
Signposts MARC Ltd	-12.5	0.0	-12.5	0.0	-12.5	0.0		

	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14	Amount £
	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %	Individual adjustment %	Total contribution rate %		
Employers								
Solar Facilities (Bishop Raws)	-12.5	0.0	-12.5	0.0	-12.5	0.0		
Solar Facilities (Ripley)	8.5	21.0	8.5	21.0	8.5	21.0		
Solar Facilities (Seven Stars)	3.4	15.9	3.4	15.9	3.4	15.9		
Solar Facilities (St Peters)	-3.0	9.5	-3.0	9.5	-3.0	9.5		
Solar Facilities (Tarleton)	1.4	13.9	1.4	13.9	1.4	13.9		
South Ribble Borough Council	6.8	19.3	7.8	20.3	8.8	21.3		
South Ribble Community Leisure Ltd	10.4	22.9	10.4	22.9	10.4	22.9		
St Anne's on Sea Town Council	-1.4	11.1	-1.4	11.1	-1.4	11.1		
Surestart Hyndburn	-2.0	10.5	-1.0	11.5	-0.1	12.4		
Twin Valley Homes Ltd	3.8	16.3	3.8	16.3	3.8	16.3		
University of Central Lancashire	1.6	14.1	1.6	14.1	1.6	14.1		
University of Cumbria (was St Martins College)	1.5	14.0	1.5	14.0	1.5	14.0		
Vita Lend Lease BSF ICT	0.2	12.7	0.2	12.7	0.2	12.7		
Vita Lend Lease Ltd	1.3	13.8	1.3	13.8	1.3	13.8		
West Lancashire Borough Council	7.5	20.0	7.5	20.0	7.5	20.0		
West Lancashire Community Leisure Ltd	-0.5	12.0	-0.5	12.0	-0.5	12.0		
Whitworth Town Council	3.6	16.1	3.6	16.1	3.6	16.1		
Wyre Borough Council	12.6	25.1	12.6	25.1	12.6	25.1		
Wyre Housing Association	57.8	70.3	57.8	70.3	57.8	70.3		

Other interested bodies with no pensionable employees

Former employers	Proportion of pension increases to be recharged %	Former employers	Proportion of pension increases to be recharged %
Alzheimer's Society	See notes	Ex Department of Transport	100
Barnoldswick Town Council	See notes	Ex National Health Service	100
Blackpool & Fylde Mind Association	See notes	Ex National Water Council	100
Blackpool & Fylde Society for the Deaf	100	Fylde Coast Development Association	100
Blackpool Town Centre Forum Ltd	See notes	Lancashire South East Probation Committee	100
Bulloughs (St Albans)	See notes	Lancashire Valuation Tribunal	See notes
Burnley & Pendle Development Association	100	New Directions	See notes
Burton Manor Residential College	100	Preston Vision Ltd	See notes
Carden Croft Ltd	See notes	Salmesbury & Cuerdale Parish Council	See notes
Community Alliance (Burnley & Padiham) Ltd	See notes	Skelmersdale College	See notes
CSB Contract Services	See notes	Spastics Society	100
Elm House Management Committee	See notes		

Note:

Members of the Fund employed by Skelmersdale College have transferred to membership of the Tyne and Wear Fund, and so a bulk transfer payment will be required. Any residual funding shortfall in the LCPF after the transfer payment should then be recovered from the College.

For the remaining employers listed as “see notes” above further calculations are required in connection with them ceasing to participate in the Fund. Further details for these employers will be notified in due course.

I. Contacts

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**KEEP
CALM
AND
START A
PENSION**



Lancashire County Pension Fund –

Annual Governance Statement 2013/14

Introduction

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

At 31st March 2014 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 150,917 members working for 279 employers and is one of the largest funds within the LGPS.

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

The Pension Fund's Responsibilities

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

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

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

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

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*". The code is available from the County Council's website at the following link

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1

This statement sets out both how the Pension Fund has complied with its own Governance Policy Statement and Lancashire County Council's Code of Corporate Governance and also meets the requirements of the Accounts and Audit (England) Regulations which require all relevant bodies to prepare an annual governance statement.

The Purpose of the Governance Framework

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2014.

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 an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce annual service plans within the County Council's overall business planning framework.

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

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary

changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor 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 Fund has three overall objectives and two specific investment objectives. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) 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 and an appropriate level of fees.

An annual report on the performance of the administration service is presented to the Pension Fund Administration Sub-Committee each year and made available to all Fund members and stakeholders. This report shows, amongst other things, performance against target for a range of industry standard process targets.

A programme of ongoing review of both procedures and processes is maintained and the cost of the administration service charged to the Fund is maintained below the lower quartile cost of comparable authorities as published by the Department of Communities and Local Government.

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.

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters

reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

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

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

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

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

The development of a more liability aware investment strategy and changes in the arrangements for data collection from fund employers will increase the amount and quality of information available to support decision making and therefore serve to strengthen the decision making process.

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

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

The management of risk is central to the Fund's activities and efforts have been made to formalise the Fund's risk register as well as increase awareness of risk in various contexts including:

- Investment decision making
- Project Management and Delivery
- Data Quality
- Fund Employer Risks

Fulfilling the core functions of an Audit Committee

In relation to the Fund this role is performed by Lancashire County Council's Audit 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 pensions 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 both by the Fund's custodian and an Investment Compliance Team which is managerially independent from the Investment Management Team.

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

The basic system of financial control mirrors that of Lancashire County Council, and is centred on principles of appropriate segregation of duties, management supervision, delegation and accountability.

Managers undertake maintenance of and input into the system, including review and reporting of actual performance against plans and budgets in the context of investments, administration and accounting.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

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 and Governance Committee annually.

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

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

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific 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. The delivery of this programme is the responsibility of the Head of Investment Compliance.

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 an increasing 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 limited 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. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, 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 County Treasurer, as the County Council's Chief Finance Officer, is separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority.

The Fund seeks to comply with the requirements of CIPFA's Knowledge and Skills Framework. Training is ongoing and will continue to be focussed on the needs identified through an analysis of training needs.

The Fund has, in line with the relevant LGPS regulations taken steps to separate its banking arrangements from those of the County Council and these have been reviewed by both internal and external auditors and been seen to be satisfactory. The Fund is also continuing to develop the way in which it uses its accounting system in order to gain greater efficiency in back office operations and make tasks such as accounts preparation easier.

Review of Effectiveness

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2013/14 were:

- Effective induction and establishment of a new Pension Fund Committee following the County Council elections in May 2013.
- Effective implementation of LGPS 2014
- The completion of the 2013 Actuarial Valuation with associated changes in the Funding Strategy Statement.
- The continuation of the transition of assets into the allocations flowing from the 2010 Investment Strategy following the completion of market research and procurement processes.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved a formalisation of the Fund's overall arrangements for the management of the different categories of risk to which it is exposed.

The Pension Fund Administration Sub Committee is responsible for monitoring the performance of the administration service and agreeing various key policies in this area on behalf of the Committee. The Sub Committee has reviewed a number of key policies including the Pensions Administration Strategy Statement and the Communications Policy Statement in the light of the LGPS 2014 reforms.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor as the County Council's Monitoring Officer carries the same responsibilities in relation to the Fund.

The Fund's Internal Audit Service is provided by the County Council's Internal Audit Service and the Chief Internal Auditor is managerially accountable to the County Treasurer. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.

- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.
- During the year the Chief Internal Auditor's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Chief Auditor's Annual Report for 2013/14 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

External audit of the Fund is provided by Grant Thornton who were appointed by the Audit Commission as a consequence of being appointed as auditor for Lancashire County Council.

- The work is performed to comply with international auditing standards.
- The auditors take a risk based approach to audit planning as set out in the Code of Audit Practice. Grant Thornton will report on the audit of the Fund's financial statements.
- The audit will include a review of the system of internal control and the Annual Governance Statement within the context of the conduct of those reviews relating to the County Council.
- Grant Thornton were appointed for five years following a procurement process managed by the Audit Commission.

Actions Planned for 2014/15

The following specific actions are proposed for completion during 2014/15.

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;
- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.
- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.

- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.
- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;
- To embed the processes associated with the Fund's risk register in the management of the Fund.
- To review the transparency and scale of charges made by the County Council for services provided to the Fund.
- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.
- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

Signed

County Councillor Terry Burns

Chair of the Pension Fund Committee

Gill Kilpatrick

Treasurer to the Lancashire County

Pension Fund

Date:

your
pension
service

LANCASHIRE COUNTY PENSION FUND

Annual Administration Report 2014



1. INTRODUCTION

Purpose

This annual administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service (YPS) against the standards set out in the SLA during the year.

Review of the Year

2013 has been a busy year of planning and preparation for the new LGPS2014. This began with a communication campaign to encourage members to make use of the Service's "My Pension Online" self service facility. This facility

will be a key communication channel in the future and has been used to communicate the 2014 Scheme changes.

LGPS2014 Roadshows were hosted at 27 locations across Lancashire. Approximately 3,000 Scheme members have attended these events. The Roadshow was also webcast to make it available to all members and has received over 3,800 hits to date.

Your Pension Service was delighted to be awarded the Quality of Service award at the Local Government Chronicle Investment Awards held in December. This award focuses upon the service provided to internal and external customers and on new developments that enhance quality in the delivery of financial services.

Annual Plan – 2013/14



Due



Completed

Event	Responsibility Your Pension Service (YPS)											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Application of Pension Increases	○	●	○	○	○	○	○	○	○	○	○	○
Issue Annual Benefit Statement to Active Members	○	○	○	○	○	●	○	○	○	○	○	○
Issue Annual Benefit Statement to Def Members	○	●	○	○	○	○	○	○	○	○	○	○
Issue P60s to Pensioners	●	○	○	○	○	○	○	○	○	○	○	○
Issue Newsletter	●	○	○	○	○	○	○	○	○	○	○	○
Complete HMRC Scheme Returns	○	○	○	○	○	○	○	○	○	●	○	○
Provide FRS17 data	○	○	○	○	○	○	○	○	○	○	●	○

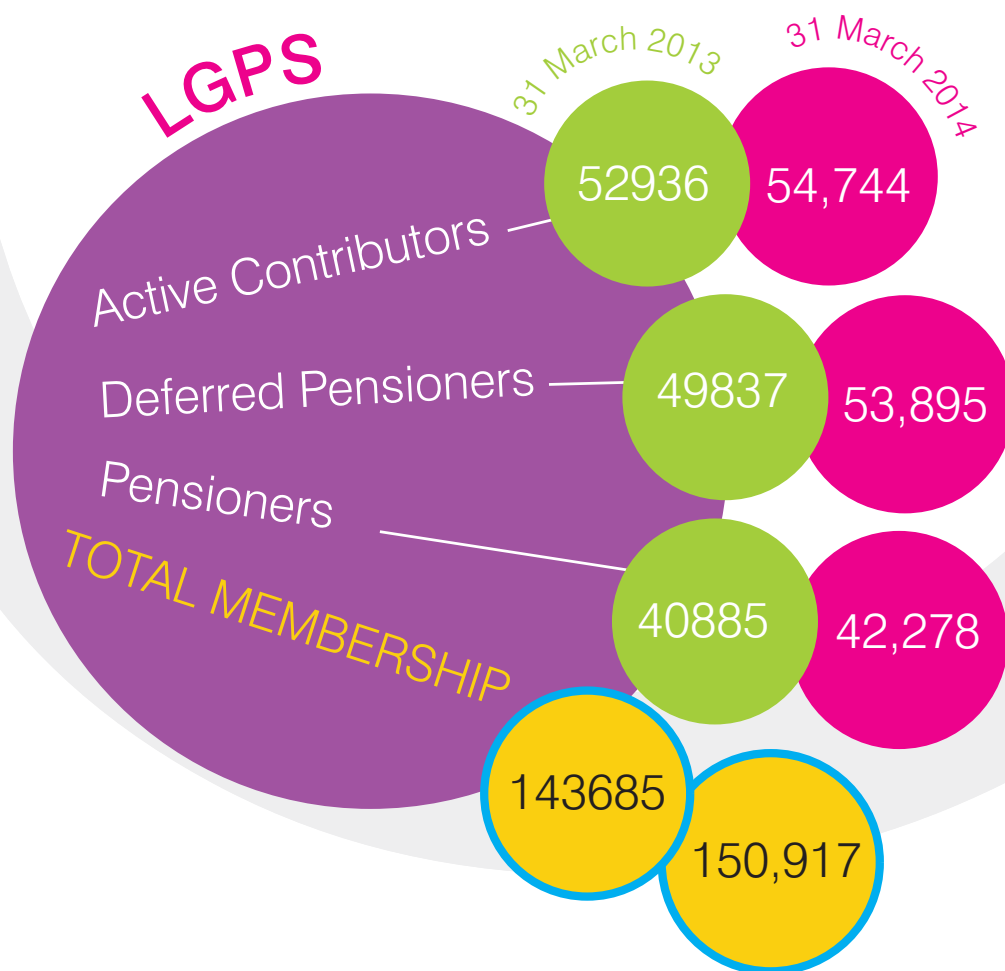
2. PERFORMANCE

Annual Benefit Statements

Over the year the service produced over 100,000 online benefit statements for active and deferred Scheme members. Annual newsletters were posted online alongside the statements. Email alerts were also sent to Scheme members who had signed up to "My Pension Online" to promote the Roadshows and raise awareness of the 2014 Scheme changes.

Membership

Membership of the fund has increased overall by 5% over the year.



Performance

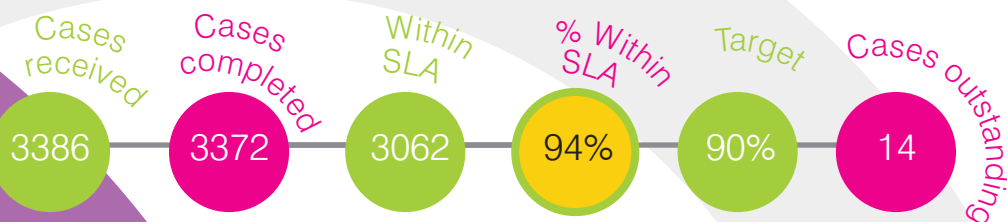
Performance continues to exceed SLA targets and the Service consistently exceeds its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. Overall achievement against SLA targets over the year was 98%. The Service has experienced an unprecedented increase in workload since November 2013 and the launch of LCC's Budget Challenge exercise. More than 1,300 VR estimates were processed between November 2013 and March 2014.

During the reporting period 68036 individual calculations/enquiries were completed, of which 66945 met the performance standard; an overall performance of 98% was achieved.

LGPS

Performance Standard

Estimate benefits within 10 working days



Payment of retirement benefits within 10 working days



Payment of death benefits within 10 working days



Implement change in pensioner circumstance by payment due date



Respond to general correspondence within 10 working days of receipt



Action transfers out within 10 working days



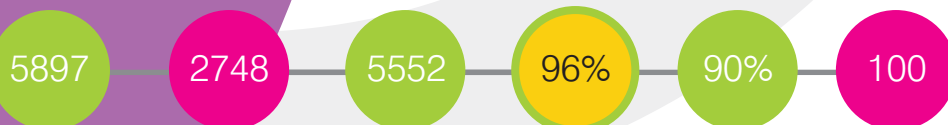
Action transfers In within 10 working days



Pay Refunds within 10 working days



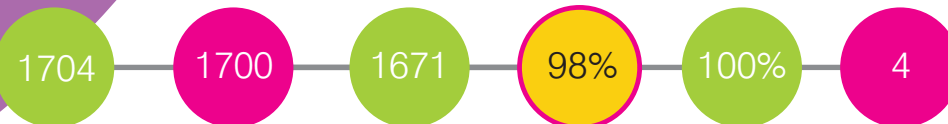
Provide leaver statement within 10 days



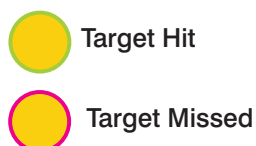
Amend personal records within 10 working days



VR Estimates



VR Payments



3. CUSTOMER SERVICE

Partnership Events

During the year the Service's dedicated Partnerships Team undertook a variety of events, courses and presentations. In addition the Team visited a number of employers to maintain and improve working relationships. Not surprisingly communication of the new LGPS2014 was top priority during the year and, as well as hosting Roadshows, the Team also hosted employer training events with payroll and HR practitioners from employers across Lancashire in attendance.

The Service's annual employer conference was held at Woodlands on 6th November. The main topic was of course the new LGPS2014. The event showcased the new way of working with employers and the monthly submitting of data via the new employer portal; EPIC. The annual Directors Brief for Chief Finance Officers was held in December. The Fund Actuary attended to report the initial results of

the 2013 triennial valuation. The briefing was followed up with one-to-one surgeries for employers to discuss the financial impact of the results upon their organisation.

AskPensions

A dedicated pension's helpdesk is the first point of contact for both Scheme members and employers. Over the year 90% of calls were successfully answered, meeting the SLA target. A dip in service was experienced at the beginning of the year due to the introduction of online P60s alongside the promotion of "My Pension Online". This led to a large increase in calls from pensioners. The Partnerships Team held 'Drop In' sessions at libraries across Lancashire in response to the increase in calls. Performance recovered significantly over the last quarter when 96% of calls were successfully answered.

4. LEGISLATIVE CHANGE

During the year significant legislative change encompassed the introduction of the new Local Government Pension Scheme with effect from 1 April 2014.

The Public Service Pensions Act received royal assent on 25 April 2013 setting out the new legal framework for public service pension schemes, including the LGPS. The Act reflects the recommendations made by the Independent Public Service Pension Commission chaired by Lord Hutton. After completing a statutory consultation in August 2013, legislation outlining the LGPS rules from 1 April 2014 was made to provide:

- a pension scheme design based on career average pay
- an accrual rate of 1/49th of pensionable pay
- revaluation of benefits in line with the CPI
- a Normal Pension Age equal to State Pension Age
- an average contribution rate of 6.5%
- a new low cost 50/50 option where half the contribution rate can be paid in return for half the benefits
- a vesting period of two years

Later in the year legislation was passed to remove access to the Scheme for new councillors from 1 April 2014. Existing councillor members as at 31 March 2014 will leave the Scheme at the end of their current fixed term of office.

5. APPEALS

Members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS 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 at the administering authority to review the disagreement. The Appeals Officer for Lancashire County Council is the Deputy County Treasurer.

During the year, 7 second stage appeals were received, which mainly concerned the Scheme's ill health retirement provisions. The Appeals Officer has dismissed 4 and upheld 2 of these appeals with 1 currently ongoing.

6. e-DEVELOPMENT

EPIC

Your Pension Service has worked closely with BT Lancashire Services to develop a solution to meet the additional demands of the LGPS2014.

The solution will: -

- Record career average pay accurately for all scheme members
- Improve reconciliation of employee and employer contributions
- Ensure that all auto enrolled members are captured correctly
- Improve overall data quality within the Altair Pensions administration system
- Manage and monitor the receipt of employer returns more effectively on a monthly 'real time' basis.

The new Employer Payroll Information Collection "EPIC" system has been in developed to take data securely from employers and will enable YPS to regularly upload contributions and pensionable pay. The system will ensure that contributions and

career average pay reconcile with payments made, and are recorded on individual pension accounts accurately.

Support and guidance has been provided to employers. The first data collection files are due at the end of April 2014.

Employer Services

Employer Services is an online tool to allow employers to access their own employees' records. It enables them to check personal and financial data, and run benefit estimates without the need to contact YPS. The service was launched in December 2013.

The benefits of Employer Services include the mitigation of estimates requests, access to immediate benefit estimates and early retirement costs for employers, and an increase in employer interest and knowledge of pensions. Over the next few months Employer Services will continue to be promoted alongside EPIC.

Immediate Payments

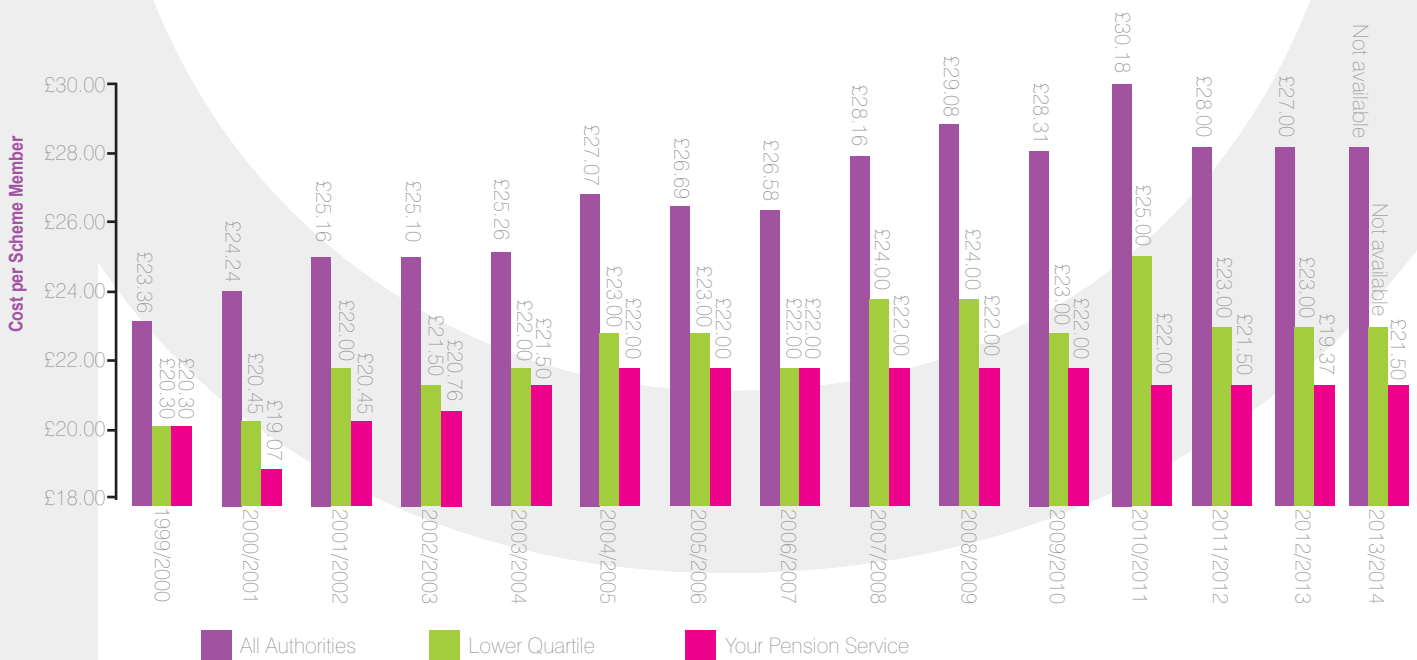
Your Pension Service pays monthly pensions using the Altair payroll system. The payroll system also incorporates the facility to make ad hoc payments to members. This facility is currently being developed and is due to be launched at the end of May 2014.

Implementation of this facility will allow the quick and efficient payment of retirement lump sums, death grants, transfers and refunds out of the Fund. This new development will reduce costs as there will no longer be a need to use the Councils Accounts Payable service.

7. CHARGES

Your Pension Service makes a charge to the Pension Fund on a per member basis which is restricted to the lower quartile as reported in national benchmarking returns. This charge is

currently set at £21.50 per member as against a benchmark of £23.00. The ongoing level of charge to the Fund will be kept under review.



Lancashire County Pension Fund

**Local Government Pension Scheme
Communication Policy Statement**

1 April 2014

Lancashire County Council
as administering authority of
**Lancashire County Pension
Fund**

Local Government Pension Scheme

Communication Policy Statement

Introduction

This is the Communication Policy Statement of Lancashire County Pension Fund which is administered by Lancashire County Council; the administering authority. All Local Government Pension Scheme (LGPS) administering authorities in England and Wales are required to prepare maintain and publish a written statement setting out their policy concerning communications with: -

- **Members;**
- **Representatives of members;**
- **Prospective members; and**
- **Scheme Employers**

In particular, the statement must set out their policy on: -

- ***The provision of information and publicity about the Scheme to members, representatives of members and Scheme Employers;***
- ***The format, frequency and method of distributing such information or publicity; and***
- ***The promotion of the Scheme to prospective members and their employers.***

Policy

Lancashire County Pension Fund recognises the government's objective to help people save for their retirement and will aim to: -

- ***Actively encourage the provision of good pension information and the promotion of pensions in the workplace.***
- ***Increase transparency and build trust, confidence and engagement in pension saving as the norm.***

To achieve its aim the administering authority will undertake to: -

- ***Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.****
- ***Actively promote the Scheme to prospective members and their employers.***
- ***Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders***
- ***Use and encourage the use of electronic/online communication and information sharing.***
- ***Support Scheme employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.***
- ***Treat information security with the utmost importance.***

Communication Policy Statement

Communication Programme

The Fund will regularly review the format, frequency and method of communication. The following programme is currently in use.

Information	Stakeholder*	Format	Frequency	Method of distribution
Actuarial Valuation	All Stakeholders	Presentation, formal report,	Triennial with annual updates	Email, mail, website and face to face briefings.
Fund Policy and Statements	All Stakeholders	website	As amended	Mail/email
Annual Benefit Statements	Members	Online self service	Annual	Online/email alert
Customer Satisfaction Survey	All Stakeholders	Website	Ongoing	Click question
Member Guides	Members	website	On or before employment. On request	Via employer HR/payroll departments Mail/intranet
Employer Updates	Employer	Website, online	As required	email/internet
Pensioner payslips/P60's	Member	Online self service, paper	Annually	email/mail
Employer Guide	Employer	Website,	As amended	email /internet
Employer Training	Employer	Presentation Webcast	On request in line with SLA	Face to face – In house Employer locations. Website
Factsheets	All members	Paper/website	On request / as required	Mail/email/ internet

Communication Policy Statement

Individual member information	All Stakeholders	Paper, Online self service	As required	Mail, email
Employer information pack	Employer	Paper/website	On Admission	Face to Face
Newsletters	Members	Paper/website	Annual	Online
Scheme change and legislative change	All Stakeholder	Presentation/webcast Website	As required and on request	Face to face/internet
Fund Report and Accounts	All Stakeholders	Paper/website	Annually	Mail/email/ internet
Service Level Standards	All Stakeholders	website	As amended	Internet /intranet
Query	All Stakeholders	Telephone/email/online	Mon – Fri	Telephone/email/ Online

**Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).*

Scheme Regulations and Overriding Legislation

Lancashire County Pension Fund undertakes to comply with Local Government Pension Scheme Regulations and the relevant Overriding Legislation; In particular, the Fund undertakes to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]. A full list of Scheme and related legislation is set out below: -

Local Government Pension Scheme Regulations 2013 [2013/2356]

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/]

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

And the following Acts (including relevant secondary legislation made under each Act not mentioned above)

Communication Policy Statement

Finance Act 2004 [c.12]

Pension Schemes Act 1993 [c.48]

Pensions Act 1995 [c.26]

Pensions Act 2008 [c.30]

Public Service Pensions Act 2013 [c.25]

Welfare Reform and Pensions Act 1999 [c.30]

Pensions (Increase) Act 1971 [c.56]

Date Protection Act 1998 [c.29]

Review

This statement will be reviewed where there is any material change to the Funds policy in respect of communication.

Lancashire County Pension Fund

Pension Administration
Strategy Statement
2014

Lancashire County Council
as administering authority of
**Lancashire County Pension
Fund**

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Your Pension Service Undertakings	5 – 13
Scheme Employer Undertakings	14 – 21
Annex A – Regulation 59	22 – 23

Acknowledgement & Review

This statement will be reviewed by Your Pension Service on an annual basis.

Signed and dated

Diane Lister
Head of Your Pension Service

Date

Employer Acknowledgement

Signed and dated

Signature of Fund Employer

Date

_____ Employer

_____ Name

_____ Designation

Background

Lancashire County Council as 'Administering Authority' is required by law to administer the Local Government Pension Scheme in Lancashire.

The Council delegates its functions in respect of Scheme to its Pension Fund Committee who further delegates the administration of the Scheme to Your Pension Service under the terms of a Service Level Agreement.

Purpose

Regulation 59 of the Local Government Pension Scheme Regulations 2013 allows for the Administering Authority to prepare and publish, following consultation with Fund Employers, a 'Pension Administration Strategy' to facilitate best practices and efficient customer service in respect of the following:-

- Procedures for liaison and communication with Scheme employers;
- The establishment of performance levels which the administering authority and fund employers are expected to achieve;
- Procedures to ensure compliance with statutory requirements in connection with the administration of the LGPS;
- Procedures for improving the methods of passing information between the administering authority and fund employers;
- The circumstances when the administering authority may consider recovering additional costs that have been incurred due to the unsatisfactory performance of a Scheme employer;
- Any other matters that the administering authority consider suitable for inclusion in the 'Pension Administration Strategy.'

Regulation 59 is set out fully at Annex A.

Compliance

The undertakings set out within this Pension Administration Strategy will be reviewed annually. Scheme employers will be consulted on any changes to the Strategy. In no circumstance does this Strategy override the contents of the Service Level Agreement with Lancashire County Pension Fund nor does it override any provision or requirement of the Regulations set out at Section 1.6, nor is it intended to replace the more extensive commentary provided by the Employers Guide to the day to day procedures of the LGPS.

1. Your Pension Service' Undertakings

1.1. Liaison and Communication

a) Your Pension Service has a dedicated Partnerships Team who will act as primary contact for employers in respect of all areas of pension administration. The Team are responsible for all aspects of communication and employer liaison.

The Service will:

b) Ensure that Employer Forums and Conferences are held on a regular basis and actively seek to promote the Local Government Pension Scheme via attendance at the following events, in conjunction with the employer:

- Pre Retirement courses
- New Starters Induction courses
- Benefit Statement and AVC surgeries

Attendance by Your Pension Service will be subject to a maximum of 10 working days in any financial year. Attendance in excess of 10 working days will be provided at a daily rate to be determined on request.

c) Provide a Helpdesk facility for enquiries, available during normal office hours, providing a single access point for information relating to the pension scheme.

d) Provide Scheme information: Annual newsletters will be made available to members and potential members of the scheme.

e) Provide employer training in the following areas (as appropriate):

- Pension basics and general employer administration functions
- Changes to the regulations
- New technological developments
- Navigation of systems

f) Develop, promote and encourage electronic/online communication.

g) Carry out annual employer visits for employers with more than 100 employees.

1.2. Performance Levels

A Service Level Agreement is in place for the provision of a range of pension administration services.

The minimum performance targets set are shown below. Performance against these targets is reported to the Pension Fund Committee. The Annual Administration Report as reported to the Pension Fund Committee is available in the Employers area of the Your Pension Service website.

www.yourpensionservice.org.uk

1.2.1. Pensioner Members

<u>Performance Standard</u>	<u>Minimum Target</u>
a) Make payment of pensions on due date.	100%
b) Production and distribution of annual P60s to pensioners within statutory deadlines.	100%

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| c) Implementation of annual pension increases by payment due date. | 100% |
| d) Implementation of change in pensioner circumstance including the calculation and quoting of benefits on death of pensioners and administering the recovery of overpayments by payment due date. | 90% |
| e) Provide information on request in respect of Pension Sharing on Divorce within legislative timescales. | 100% |
| e) Implement Pension Sharing Orders within legislative timescales. | 100% |
| f) Respond to general correspondence within 10 working days of receipt. | 90% |
| g) Calls to the Pensions Helpdesk answered. | 90% |
| h) Undertake annual reviews to establish continuing entitlements to pension for all children over age 17. | 100% |

1.2.2 Active & Deferred Members

<u>Performance Standard</u>	<u>Minimum Targets</u>
a) Amend personal records within 10 working days of receipt of required documentation.	90%
b) Providing an annual statement of benefit entitlement to all active and deferred members.	100%
c) Calculation of additional membership for transfer values within 10 working days of receipt of transfer details.	90%
d) Action agreed transfer values within 10 working days of receipt of acceptance.	90%

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| e) Provide information on request in respect of Pension Sharing on Divorce within legislative timescales. | 100% |
| f) Implement Pension Sharing Orders within legislative timescales. | 100% |
| g) Provide a statement of deferred benefit entitlement on leaving service within 15 working days of date of leaving or receipt of notification, whichever is later. | 90% |
| h) Respond to requests for estimates of benefits in relation to retirement, leaving service or on death within 10 working days following receipt of request. | 90% |
| i) Calculating and paying refunds of pension contributions, including deducting statutory deductions in accordance with HMRC and DWP regulations within 15 working days of receipt of notification. | 90% |
| j) Respond to general correspondence within 10 working days of receipt. | 90% |
| k) Calls to the Pensions Helpdesk answered. | 90% |
| l) Calculation and payment of retirement benefits, deferred benefits and death in service lump sums in accordance with LGPS rules, members' options and statutory limits. The service includes the recalculation and payment of benefits as a result of amended data received by Your Pension Service. Within 10 working days of receipt of notification or date of entitlement to benefit; whichever is later. | 90% |
| m) Advise transfer value out within 15 working days of receipt of necessary documentation. | 90% |
| n) Action agreed transfer values out within 15 working days of receipt of acceptance. | 90% |

1.3. Administration of the LGPS and Compliance

1.3.1. Contributions

Your Pension Service will ensure the following functions are carried out in relation to the Lancashire County Pension Fund:

- a)** Collect and reconcile employer and employee contributions (plus interest as appropriate).
- b)** Maintain and update members' records regarding additional contributions.
- c)** Calculate service credits, additional pensions or maximum cash on retirement where appropriate based on fund values received from the Additional Voluntary Contribution (AVC) providers.
- d)** Maintain and keep up to date additional contracts for members' contributions and provide information to employers on request on members' contributions regarding breaks in service / maternity/paternity/adoption and leave of absence.
- e)** Account to Her Majesty's Revenue and Customs in respect of income tax on pensions, refunds of AVCs and commutation of pensions where appropriate.
- f)** Send quarterly and annual event reports to HRMC in respect of lifetime and annual allowance reporting requirements.

1.3.2. Year End Information

- a)** Your Pension Service will process pensioner payroll year end routines and comply with HRMC PAYE legislation
- b)** Your Pension Service will update its systems and member records each year
- c)** At each Actuarial Valuation period, Your Pension Service will forward the required data in respect of each member and provide statistical information on member movements over the valuation period in order that the Fund Actuaries can determine the assets and liabilities of the Fund.
- d)** Your Pension Service will communicate the results of each Actuarial Valuation to Fund Employers within 12 months of the end of the relevant Valuation period.

1.3.3. Processing

Your Pension Service will ensure the following functions are carried out:

a) Data Collection File

Reconcile contributions and update scheme member personal and financial data received from employers in the LGPS2014 Data Collection File every pay period.

b) New Starters / Disclosure of Information

Create member records for all new starters admitted to the LGPS. Send a welcome letter to all members, by email if possible.

c) Adjustments of Career Average Pay

Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.

d) Change in circumstances

Update and maintain a member's record for any changes received in their circumstances.

e) Absence

Update member records in line with absence notifications, and set up APC arrangements to cover lost absence as appropriate.

f) Benefit Estimates & Annual Benefit Statements

Provide every active, deferred and pension credit member a benefit statement each year.

g) Early Leavers

Process early leavers (deferred benefits / refunds) within 15 working days of the receipt of form YPS Employer – Leaver form. Pensions Increase Order will be applied to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.

h) Payment of Benefits where employment is continuing

Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable.

i) Retirements

Calculate and pay benefits within 10 working days of receipt of notification or date of entitlement, whichever is the later.

Arrange to make pension payments on the last working day of each month.

Make payment of compensatory added years pensions as agreed on behalf of the employer in connection with redundancy retirements and recover these amounts via direct debit collection on the date payment is made to the former employee or by an annual payment in advance as agreed with Your Pension Service. Statements will be provided annually to the relevant employer.

Produce and distribute P60s to pensioners by the 31 May each year.

Apply Pensions Increases to pensions on the due date.

Implement changes in pensioner's circumstances by payment due date in the month of the receipt of the information.

j) Death in Service

Calculate and pay dependants benefits within 10 working days of receipt of notification or date of entitlement, whichever is the later.

Arrange to make pension payments on the last working day of each month.

Make payments to the member's estate / nomination within one month of receipt of the required documentation.

Produce and distribute P60s to pensioners by the 31st May each year.

Apply Pensions Increases to pensions on the due date.

Implement changes in spouse / dependants circumstances.

1.4. Online Communication and Information Sharing

1.4.1 Electronic/online systems

YPS will develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, scheme members and the Service.

1.4.2 Self Service

Your Pension Service will develop and actively promote the use of member and employer online self service systems and provide day to day access and query support.

1.5. Circumstances for recovery of Additional Costs

See section 2.5 Employer Undertakings.

1.6. Other Matters

1.6.1. Decisions

Your Pension Service will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

1.6.2. Policies (Administering Authority Discretions)

Your Pension Service will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations

1.6.3. The Regulations

Your Pension Service will comply with the principal regulations (as amended from time to time) relevant to this Pension Administration Strategy Statement as shown:

- Local Government Pension Scheme Regulations 2013 [2013/2356]
- Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/]
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

And the following Acts (including relevant secondary legislation made under each Act not mentioned above)

- Finance Act 2004 [c.12]
- Pension Schemes Act 1993 [c.48]
- Pensions Act 1995 [c.26]
- Pensions Act 2008 [c.30]
- Public Service Pensions Act 2013 [c.25]
- Welfare Reform and Pensions Act 1999 [c.30]
- Pensions (Increase) Act 1971 [c.56]
- Date Protection Act 1998 [c.29]
- Freedom of Information Act 2000 [c.36]

2. Employer Undertakings

2.1. Liaison and Communication

- a) The employer shall nominate a person / persons who will act as the primary contact(s) for general administration, HR & payroll, financial and regulatory/discretionary issues with Your Pension Service.
- b) The employer will facilitate an annual visit by Your Pension Service with the appropriate primary contact.
- c) The employer shall nominate an authorised signatory/signatories in respect of all documents and instructions received by Your Pension Service
- d) The employer shall ensure representation at Employer Forums and Practitioner Conferences as specified in Section 1.1.
- e) The employer shall undertake to ensure that all personnel dealing with the Local Government Pension Scheme as part of their day to day role undergo appropriate training as noted in Section 1.1.
- f) Where an employer contracts a third party HR or payroll provider the employer must authorise Your Pension Service if they wish YPS to deal directly with the payroll provider in matters of pensions administration.

2.2. Performance Levels

Performance achieved by the Employer in relation to the following will be monitored by Your Pension Service: - .

- Payment of contributions collected, completion and submission of YPS Employer - Contributions Payment form;
- Payment of AVCs to Prudential;
- Submission of YPS LGPS 2014 Payroll Data Collection File every pay period
- Notification of leavers

An annual statement of employer performance will be produced by Your Pension Service.

2.3. Administration of the LGPS and Compliance

2.3.1. Contributions

The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as Your Pension Service may request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member, and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates, and notify Your Pension Service of any changes (see 2.3.3c).

All contributions, but not Prudential or Equitable Life AVC's, must be paid to the Lancashire County Pension Fund on a monthly basis and in any case ***before the 19th of the month following that in which they were deducted.*** Non-compliance may result in a fine on the employer.

Form 'YPS Employer – Contributions Payment' must be completed and returned each month to pensionsfinance@lancashire.gov.uk by 6th of the calendar month following the month in which the contributions were deducted. The amounts specified on the form will then be recovered by direct debit on 19th of that month (or the banking day before if 19th is a non-banking day).

Where the 'YPS Employer – Contributions Payment' form is not received in time the direct debit will be recovered based on the previous month's payment and an adjustment made in the following month. Interest may be charged on any shortfall.

The employer will ensure that employee's Equitable Life and Prudential AVC's are paid direct to the provider as soon as possible after deduction but in any case ***before the 19th of the month following that in which they were deducted*** as stated above.

2.3.2 Pension Strain

Each quarter YPS will issue an invoice to the employer reflecting the cost of any non-ill health early retirements processed in the previous quarter. The employer must pay the amount within one month of the date of the invoice.

2.3.3 Rechargeable Pensions

Where amounts of discretionary pension are paid by YPS on the employer's behalf, the monthly amounts will be recharged to the employer and will be recovered by direct debit on 28th of the month following the month of payment (or the next banking day if 28th is a non-banking day).

This also applies in respect of other rechargeable pension e.g. where the employer has liability to pay for pre 1.4.1974 pensions increase payments and other unfunded pensions.

2.3.4. Year End Information

The employer will provide information requested by YPS at year end by no later than 31 May.

2.3.3 Processing

a) Data Collection file

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly at the end of every pay period. Data on this file must reconcile to contributions paid over each month, and must contain accurate figures of pensionable pay, including assumed pensionable pay where appropriate, for YPS to post to individual member records. Files should be at the latest submitted by 6th of the month following pay period end.

b) New Starters / Disclosure of Information

At the latest, on the first day of employment, the employer will provide all new starters with LGPS information and request that the employee completes a YPS Member – Enrolment Form.

The employer will notify the member of their formal admittance to the scheme, and the contribution rate they will pay.

If the employee opts out of the LGPS with less than three months active membership, the employer must refund contributions through payroll. The employer must not encourage employees not to join, or to opt out of the scheme.

The employer must continue to monitor the workforce in line with Automatic enrolment legislation, and re-enrol eligible employees to the LGPS at their re-enrolment date.

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for scheme membership for any new starters.

c) Adjustments of Career average pay

Employers must submit form YPS Employer – Pension Pot Adjustments in the following circumstances

- Where a retrospective change is made to the scheme section and the scheme section was reported incorrectly in a previous pay period;
- Where a member is brought into the scheme retrospectively and arrears of contributions are recovered;
- Where a leaver is overpaid, and pensionable pay has been reported incorrectly in a previous pay period.

d) Changes in circumstance

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for the update of scheme member records in the following circumstances -

- Change of hours / weeks;
- Change of name;
- Change of marital status;
- Change of contract;
- Change of tiered contribution rate;
- Change of title;
- Change of address.

e) Absence

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, which will provide YPS with information regarding employees who are absent, including assumed pensionable pay where relevant. On return from the following absences, the member will have suffered a loss of pension benefits, and the employer must write to the member with information on how to buy back these benefits through payment of an Additional Pension Contribution (APC).

- Additional Maternity, Paternity or Adoption Leave on no pay
- Unpaid Leave of absence
- Strike

If the member elects to pay APCs to buy lost pension within 30 days of returning from unpaid leave, the employer must fund 2/3rds of the cost. The exception to this is strike where the employee must pay the full cost.

The employer must submit form YPS Employer – Return from Absence within 10 days of return from unpaid leave.

f) Benefit Estimates & Annual Benefit Statements

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period. Where YPS have queries on the data or status of any member these must be dealt with by the employer within 5 working days, so that YPS data is always correct and up to date ready for benefit estimate requests.

Where a scheme member requests a benefit estimate for voluntary retirement, they should be directed by the employer to My Pension Online in the first instance. Once registered, the member can process their own estimate, or view their most recent benefit statement.

Employers are also required to use Altair Employer Services to run ad hoc benefit estimates when requested by their scheme members.

If the member requests a more complex estimate, or is retiring within the next 12 months, then the employer can request the estimate from YPS by completing the eform YPS Employer – Estimate request. Or the member can request this themselves

Where a scheme member or employer requires an early retirement estimate which requires the employer's consent there is likely to be a cost to the employer. Therefore the estimate request must be made by the employer, through completion of eform YPS Employer – Estimate request.

g) Early Leavers

The employer will send completed form YPS Employer – Leaver Form to Your Pension Service when an employee leaves employment (or 'opts out' of the scheme) with no entitlement to immediate payment of retirement benefits. The employer will send the form as soon as reasonably practicable and no later than 10 working days of the final payment of salary following termination from the scheme membership.

h) Payment of benefits where employment is continuing

The employer will send YPS Employer – Confirmation of Flexible Retirement form to Your Pension Service as soon as the flexible retirement has been approved.

Completed YPS Employer – Leaver form and YPS Member – Personal Details form will also be forwarded to Your Pension Service together with all supporting documentation, as soon as reasonably practicable and no more than 5 working days of the final payment of salary following the date of termination.

If the member elects to rejoin the Pension Scheme, the employer will set up a new employment record with a new pay reference number to enable separate reporting of pension cumulative and membership from the retired post.

i) Retirements

Employers must always request an estimate of retirement benefits where they are considering allowing a scheme member to retire with early payment of pension (e.g. redundancy and employer consent retirements). There is likely to be a cost to the employer which should be considered before allowing the retirement. This does not apply to ill health retirements.

The employer will send a YPS Employer – Intention to Retire form to Your Pension Service as soon as it is known that an employee is leaving with an entitlement to immediate payment of pension benefits or is aged 60 or over.

Completed YPS Employer – Leaver forms and YPS Member – Personal Details forms will also be forwarded to Your Pension Service together with all supporting

documentation, as soon as reasonably practicable and no more than 5 working days of the final payment of salary following the date of leaving.

Where an employer determines that preserved pension benefits are to be paid early, notification, including the date that benefits are to be brought into payment, will be provided to Your Pension Service within 5 working days following the date of the decision together with all supporting documentation.

Likewise, the employer should notify the member within 5 working days following the date of the decision, if their application has been refused.

j) Death-in-service

The employer will send a completed YPS Employer – Leaver form to Your Pension Service following the death of a member within 5 working days of being informed of the employees' death. The YPS Employer – Leaver form must provide details of informant and next of kin, if known.

2.4 Online Communication and Information Sharing

2.4.1. Data Sharing

Your Pension Service undertakes to develop alternative methods of data capture to automate processes and ensure that scheme member data held is accurate and up to date. The employer will commit to the online/electronic requirements of Your Pension Service.

2.4.2. Self service

Your Pension Service undertakes to develop member and employer self service system functionality to improve customer service and provide instant access to pension information. The employer will commit to the use of the self service system.

2.4.3. e- forms

Your Pension Service undertakes to develop alternative methods of data capture to automate processes and ensure that scheme member data held is accurate and up to date, including the development of e-forms. The employer will commit to the online/electronic requirements of Your Pension Service, including the requirement to use e-forms.

2.4.2. Access

The Employing Authority can authorise that specified employees are granted access to all scheme member records for that employer using Altair Employer Services. The employer must be satisfied that the individuals that are authorised have received appropriate information security training, and that system access is used for pension administration purposes only. The employer must observe its obligations under the Data Protection Act 1998 (or any legislation which amends or replaces this Act) arising in connection with use of the account and must not do anything which might imply a breach by Your Pension Service of such Act. The employer shall comply with obligations equivalent to those imposed on a data controller by the seventh principle of the Data Protection Act.

2.5 Circumstances for recovery of Additional Costs

2.5.1. Underperformance

Where the Administering Authority considers that the Employer has underperformed against the performance levels set out at section 2.2 of this statement, the Administering Authority will seek to recover additional costs under regulation 70 of the Local Government Pension Scheme Regulations 2013.

2.5.2. Late Payment

In addition the Authority will seek to recover interest on late payment of contributions under the terms of regulation 71 of the Local Government Pension Scheme Regulations 2013 calculated at 1% above base rate on a day to day basis from the due date to the date of payment and compounded with 3 monthly rests.

2.6 Other Matters

2.6.1. Employer Decisions

Any decision made by the employer under the scheme regulations should be notified to the member within 10 working days of the decision being made and must be accompanied by a statement in respect of their right of appeal.

2.6.2. Policies (Employer Discretions)

The employer will ensure that policies are formulated, kept under review and publicised in accordance with the scheme regulations.

Annex A – Regulation 59 Local Government Pension Scheme Regulations 2013

Pension administration strategy

Regulation 59

(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters,
or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and

(b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.



Lancashire County Pension Fund

Funding Strategy Statement 2013

Approved by Pension Fund Committee
on 27 March 2014

Lancashire County Council as
administering authority of
Lancashire County Pension Fund

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Lancashire County Pension Fund

Funding Strategy Statement (FSS)

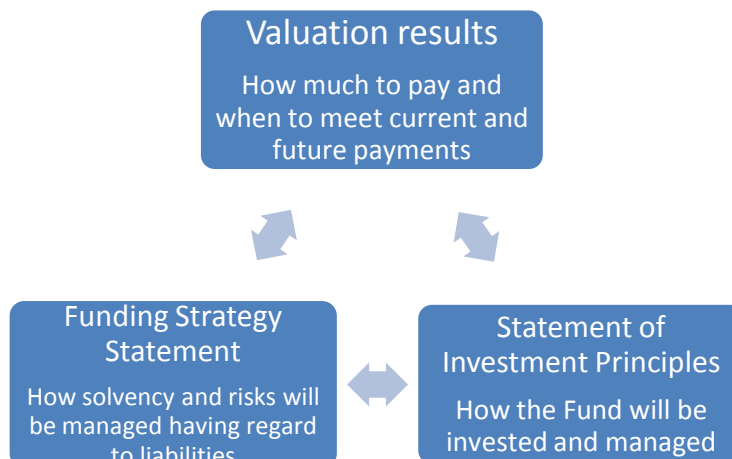
This Statement has been prepared by Lancashire County Council (as Administering Authority) to set out the funding strategy for the Lancashire County Pension Fund (the Fund), in accordance with the Local Government Pension Scheme Regulations and the guidance paper issued in March 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (LGPS) Regulations provide the statutory framework within which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the fund the administering authority will prepare and publish its funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:-
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The FSS should be complete and approved by the Pensions Committee (or equivalent) prior to the completion of each valuation.
- The fund actuary must have regard to the FSS as part of the fund valuation process.

The statements relate as follows:



Benefits payable under the Scheme are guaranteed by statute and therefore the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

The Fund is a defined benefit final salary scheme under which the benefits are specified in governing legislation. The required levels of employee contributions are also specified in the Regulations. The Fund, like many other similar public and private sector funded schemes, has a gap between its assets and pension liabilities which this strategy addresses.

A number of factors have contributed to the funding gap and contribution rates for employers:

- Investment returns relative to movements in liabilities;
- Increases in longevity of pensioners;
- Falling long-term interest rates.

There are some steps that the actuary can take to assist employing bodies. These include:

- Recognising the long-term nature of local government, so that deficits are recovered over time;
- Phasing increases in contributions where appropriate;
- Recognising such financial 'improvements' as a reduction in ill-health retirements, prevalence of spouse's and dependants' benefits on a members' death, and anticipated changes to the LGPS being finalised;
- Giving weight to a balanced investment strategy.

The Fund, since it was established in its current form in 1974, has seen variations in its funding level. The funding level has previously been below 70% and subsequently recovered. Over this long period, there has been a consistent approach with the actuarial valuation process, the link to an investment strategy, and balanced management of the risks. The current arrangements continue this approach, and are focussed upon securing diversified investment market returns from global markets. The approach adopted prioritises the achievement of at least market return and, in line with best practice, utilises asset management to deliver a substantial element of the investment target.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability to maintain as nearly constant a common contribution rate as possible; and
- to take a prudent longer-term view of funding those liabilities.

The Fund currently has a strong net cash inflow (including investment income). The FSS supports the process of ensuring adequate funds are put aside on a regular basis to meet future benefit liabilities. Whilst the LGPS regulations specify the approach and requirements, the implementation of the funding strategy is the responsibility of the Fund acting upon expert advice and following consultation.

The intention is for this strategy to be both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, its focus should at all times be on those long-term interests of the fund as a whole.

The solvency of the Fund is a long-term management issue. It is essential that funds are made available to ensure that all future pension payments can be met when they become due.

3. Aims and purpose of the Pension Fund

The aims of the fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers alike;
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due; and
- seek returns on investment within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations and as required in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. Responsibilities of the key parties

The LGPS regulations set out the responsibilities of the key parties, which are summarised below:

The administering authority (Lancashire County Council) is required to:

- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations;
- pay from the pension fund the relevant entitlements as stipulated in LGPS regulations;
- invest surplus monies in accordance with the LGPS Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend Funding Strategy Statement/ Statement of Investment Principles accordingly;
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the administering authority promptly of all changes to active membership which affect future funding.

The fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement and LGPS Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as required by the regulations
- ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund.

5. Solvency issues and target funding levels

Including income received from investments, the Fund currently has a strong net cash inflow and can, therefore, take a medium to long-term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long-term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.

The Fund recognises the different characteristics of the variety of participating employer organisations, and will set funding strategy appropriately having regard to factors such as:

- strength of covenant, and security of future income streams;
- support or guarantor arrangements from other Scheme employers, particularly those with tax raising powers;
- prospective period of participation in the Fund, and specifically the implications if the employer has closed membership of the scheme to new employees.

Taking these factors into account, case-by-case assessment and review of contribution requirements may, in some cases, prove necessary as part of the triennial valuation process.

In line with its Admissions and Terminations Policy the Fund will continue to seek either guarantees from existing scheduled employers or external insurance in the form of bonds when considering admitting new employers to 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 the Rates and Adjustments Certificate, 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.

LGPS Regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the 'funding target'. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

Individual employers have a range of discretions available to them in terms of the benefits available to scheme members. Where the exercise of these discretions results in the potential for there to be a loss of future contributions to the Fund or an increased deficit a "strain payment" calculated by the Fund's actuary becomes due to the Fund from the employer immediately.

The approach to the actuarial valuation process and key assumptions used at each three-yearly valuation are consulted upon and the valuation forms part of the consultation undertaken with the FSS.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in Annex 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer

(or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A maximum deficit recovery period of 19 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A different period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- Where increases in employer contribution rates are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2014/15 may be implemented in equal steps, over a maximum period of 3 years.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2014/17 in respect of the past service deficit (subject to the review from April 2017 based on the results of the 2016 actuarial valuation).

The contributions for any employer 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 internally within the Fund.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
- relevant guidance issued by the CIPFA Pensions Panel;

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose;
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer and the security of future income streams;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Annex 1.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Annex 1.

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2013 valuation show the liabilities to be 78% covered by the current assets, with the funding deficit of 22% being covered by future deficit contributions due from the participating employers.

In assessing the value of the Scheme's liabilities in the Valuation, allowance has been made for asset out-performance as described in Annex 1, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgoings. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Scheme's assets in line with the least risk portfolio would minimise fluctuations in the Scheme's ongoing funding level between successive actuarial valuations, assuming that the scheme started in a fully funded position.

If, at the Valuation date, the Scheme had been invested in this portfolio, then in carrying out the Valuation it would not be appropriate to make any allowance for out-performance of the investments.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current investment strategy, as set out in the SIP, is shown at Annex 2.

7. Identification of risks and counter-measures

Funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the risks?

Financial

- Investment markets fail to perform in line with expectations;
- Market yields move at variance with assumptions;
- Investment Fund Managers fail to achieve performance targets over the longer term;
- Asset re-allocations in volatile markets may lock in past losses;
- Pay and price inflation significantly more or less than anticipated;
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies.

Demographic

- Longevity horizon continues to expand;
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health).

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees;
- Changes to national pension requirements and/or HMRC rules.

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements);
- Administering Authority not advised of an employer closing to new entrants;
- An employer ceasing to exist with insufficient funding or adequacy of a bond;
- Changes in Committee membership.

These risks are incorporated as part of a comprehensive Fund risk register referred to in Annex 3 below. Such risks will be monitored and reviewed in line with the monitoring and review guidelines identified elsewhere within the Funding Strategy Statement.

Investments

The responsibility for the investment management of the Lancashire County Pension Fund is detailed in the Statement of Investment Principles and is as follows:

Lancashire County Council is responsible for administering the Fund under the Local Government Pension Scheme Regulations. It discharges its responsibilities through:

- The Pension Fund Committee;
- The Fund's Investment Panel;
- The Fund's Investment Managers.

The division of responsibility is detailed below.

Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and monitoring overall performance. The Committee meets four times a year, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 representatives of scheme members and a representative of the Higher and Further Education Sectors in Lancashire.

The Administering Authority ensures that the members of the Pension Fund Committee receive suitable training each year on Pension Fund issues. In addition to the greatest risk, CIPFA have identified a number of other key risks that are shown at Annex 3 of this document. These risks will be subjected to the monitoring and review process as described in section 8 below.

Investment Panel

The Investment Panel consists of two independent advisors, the Treasurer to the Fund (as Chair), the officer of the County Council fulfilling the role of Chief Investment Officer for the Fund and an officer of the County Council identified by the Treasurer to the Fund to oversee investment compliance activities.

The Panel meets at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks. It formulates recommendations to the Treasurer to the Fund and/or the Pensions Fund Committee through meetings of the full Panel.

The Panel is required to provide advice to the Treasurer of the Fund regarding:

- a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
- b. The broad composition of the Fund's investment portfolio, management style and types of investment;

- c. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support.
- d. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their remit and terms of office;
- e. The allocation of ranges and thresholds within which the Investment Managers should operate;
- f. Review of the Statement of Investment Principles and compliance with investment arrangements;
- g. Recommendations on the detailed management of the investment portfolios including the selection of pooled funds; and
- h. To oversee the performance of the investment managers appointed by the Fund and to report on the Fund's performance.

Investment Managers

The management of the Fund's investments is structured so as to provide diversification of management style and produce an acceptable spread of risk across the portfolio whilst maximising returns.

All Fund managers are subject to investment due diligence and all the segregated fund managers are UK FCA or equivalent organisation. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.

The Fund's Investment Managers are listed in its Annual Report.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the following key stakeholders:

- Fund Employers;
- The Pension Fund Committee.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full Actuarial Valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full Actuarial Valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy

- if there have been significant changes to the Scheme membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme.

Annex 1

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments:

- An allowance for supply/demand distortions in the bond market (an "inflation risk premium") is incorporated and
- An allowance for pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation as implied by the investment markets at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the fund. This results in a total salary increase of 1% per annum for 3 years.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on up-to-date information published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the

employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of CPI price inflation) of 3% per annum, with a long term average assumption for price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund financial assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.8% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	100% / 98%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	158% / 115%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	100% / 98%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	100% / 98%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	114% / 105%	CMI_2012	1.5%

Other demographic assumptions are noted below

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Allowance for certain employers

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 5 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

Increases in yields on fixed and index linked gilts

The impact of the assumed yield reversion described above is taken to be equivalent to an immediate increase in fixed and index linked gilt yields of up to 0.5% p.a.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

Annex 2

SIP INVESTMENT STRATEGY

The current investment strategy may be revised in light of the latest actuarial valuation, but will largely follow the same direction set out when the strategy was significantly overhauled in 2010.

In addition, the Investment Panel has had approval to dynamically manage the Fund's interest and inflation rate exposure and the Fund's longevity risk.

The investment strategy sets out a balance between different asset classes as follows:

Asset Class	Range %
Global Equities – Active and Passive, Physical and Index. Private and Publicly Quoted	40-60
Diversified Property –UK and Overseas. Direct and indirect.	10-20
Lower Volatility Strategies - (including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations)	20-40

The Active Public Equity and Fixed Interest Managers have full discretion to invest within each investment category subject to statutory limits and any asset allocation ranges around the benchmark, agreed between the Investment Panel and the Managers. The Property Manager's mandate is advisory with final decisions being taken by the Treasurer to the Fund based upon that advice.

With pooled funds, the manager of the investment fund operates within the constraints imposed by the constitution of the pooled fund, as reviewed and approved by the Investment Panel.

A separate strategy has been approved by the Pension Fund Committee in relation to each of the individual asset classes described in the above table.

Performance Targets

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each manager the Investment Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Investment Panel reviews the appointment of each manager at least every three years or such shorter period as may be necessary.

The targets and benchmarks, where such assets are held, are as follows:

- ◆ The Global Equity specialist managers have a target to outperform the MSCI All World index by 2.5% p.a. (net of fees) on a rolling three year basis. They are benchmarked against the MSCI All World index.
- ◆ The Government Bonds manager is expected to outperform the FTSE All Stocks benchmark performance return by 0.75% p.a. (net of fees) on a rolling three year basis.
- ◆ The Corporate Bonds manager is expected to outperform the IBOXX sterling Non Gilts benchmark on a rolling three year basis.
- ◆ Bonds and cash held for treasury management purposes are expected to outperform the FT 7 day LIBID.
- ◆ The Private Equity Manager has a target to outperform the median return in the British Venture Capital Association (BVCA) survey of Private Equity returns by 3%. Historically, the Private Equity benchmark has been the FTSE All Share. Going forward, an absolute return target may be more appropriate, and the Fund's independent advisers have suggested a target in the range 8-12% per annum, with a natural mid-point of 10%.
- ◆ The Infrastructure managers are expected to outperform an 8% per annum absolute benchmark on a rolling three year basis.
- ◆ The credit and fixed income funds have individual targets and benchmarks relating to their specific sub-class within the overall asset allocation.
- ◆ The UK direct property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis. Overall, and as set out in the property strategy above, the core property strategy targets an Internal Rate of Return (IRR) of 6-8% per annum, whilst the specialist income/ opportunity strategies would be expected to return IRRs of 8-12% per annum.

Annex 3

Key Risks Identified

The following risks, as set out in the Fund's Risk register, will be monitored and reviewed in line with the monitoring and review guidelines identified elsewhere within the Funding Strategy Statement:

- Investment and funding risk;
- Employer risk;
- Skill and resource risk;
- Governance and compliance risk;
- Reputational risk;
- Administration risk.

The measures in place to mitigate the key risks in these areas are detailed below.

Risks and mitigations

Ref	Area	Risk	Cause	Impact	Mitigation in place
I001	Investment and funding risk	Asset / liability mismatch	Assets insufficient to fund liabilities	Inability to make benefit payments, meaning cash injections required from employers	Increasing focus on liability management, new investment strategy, diversified portfolio
I002	Investment and funding risk	Inflation risk	Increases in commodity prices push up the level of inflation	Inflation increases pension payments but assets do not grow at required level	Hold some index linked assets
I003	Investment and funding risk	Concentration of assets	Over reliance of assets in one particular area	A significant allocation in a particular type asset will lead to an over exposure in that area and therefore vulnerability to significant changes.	New investment strategy is moving away from a large investment in equities. Amount of the fund in particular assets is governed by the pension fund regulations. Monthly monitoring of asset allocations by Investment Panel.
I004	Investment and funding risk	Falling share prices and therefore asset value	Actions of companies in who the pension fund invests (fraud, poor corporate governance)	Falling share prices and therefore a decrease in the assets held by the fund.	Investment portfolio is diverse in order to minimise such risks. Member of LAPFF and PIRC to promote engagement.
I005	Investment and funding risk	Under performance by fund managers	Fund managers not meeting required returns	Returns achieved lower than those anticipated in funding strategy leading to a greater funding gap	Mixture of active and passive managers, monitoring of investment manager performance, new investment strategy moving to a greater reliance on the internal team.
I006	Investment and funding risk	Liability risk: Discount rate	Market conditions between valuation dates produces a lower discount rate than expected by the actuary	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	Increasing focus on liability management, new investment strategy, diversified portfolio
I007	Investment and funding risk	Liability risk: Inflation rate	Assumed inflation rate within liability valuation applied to future pension increases and salary rises is lower than actual rate	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	Increasing focus on liability management, new investment strategy, diversified portfolio
I008	Investment and funding risk	Liability risk: Salary increase	Salary increases higher than expected (and maybe linked to inflation expectations)	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	Provision for employers to top-up contributions to offset the increasing liabilities.
I009	Investment and funding risk	Liability risk: Longevity	The assumptions of future life expectancy and improvements in life expectancy may be lower than actual. Members may live longer and benefits may be paid for	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	
I010	Investment and funding risk	Liability risk: Early retirement/ ill-health retirement	Members retiring earlier than normal retirement age with no reduction in benefit will require employers to make greater contributions	The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them	Provision for employers to top-up contributions to offset the increasing liabilities.
I011	Investment and funding risk	Liability risk: Diversification	Diversification of asset portfolio less than expected	Assets move in unpredictable directions, potentially increasing the funding gap between assets and liabilities	Increasing focus on liability management, new investment strategy, diversified portfolio
I012	Investment and funding risk	Liability risk: LGPS Regulations	Pension benefits are governed by statute, and any changes will impact on the fund's liabilities causing them to either increase or decrease	Liabilities are affected by statutory changes to LGPS	Increasing focus on liability management, new investment strategy, diversified portfolio. Lobbying of Government.
I013	Investment and funding risk	Custody risk	Custodian does not adequately meet the requirements of their contract	Problems with custodian leading to missed dividends or corporate actions.	Subscribe to services of Thomas Murray as custodian monitor.
I014	Investment and funding risk	Investment returns below peer groups	Investment managers do not meet the required returns	Reputational risk, increasing gap between assets and liabilities	Regular monitoring and review
I015	Investment and funding risk	Missed investment opportunities	Lack of awareness or slow decision making	Missed investment opportunities could result in reduced returns for the fund	Maintain a good relationship with investment managers and build strength in the internal team. Awareness of timetables and protocols
I016	Investment and funding risk	Mismatch of funding plan and investment strategy	Incorrect assumptions made regarding assets and liabilities	Incorrect contribution rates could be set	Funding strategy and investment strategy to be linked to triennial reviews
I017	Investment and funding risk	Insufficient cash available to meet requirements	Poor management of liquidity	If liquidity is not managed, assets may need to be sold quickly meaning the best price is not achieved	Implement effective cash management strategies
I018	Investment and funding risk	Transition risk of the new investment strategy	Unforeseen events	Incurring unexpected costs while moving the assets	Specialist transition manager has been appointed to oversee this process on behalf of the pension fund.

Ref	Area	Risk	Cause	Impact	Mitigation in place
E001	Employer Risk	Inability of an employer to meet its contribution requirements due to legislative or actuarial changes.	Increased level of contributions required from employer	Overall fund faces increasing liabilities	Monitor risk picture of the employers, particularly with reference to the size of their liability
E002	Employer Risk	Employer ceasing to exist	Employer closes	If there is insufficient funding, bond of guarantee in place any shortfall will be attributed to the whole fund, thereby increasing the level of	Monitor employers risk profiles and ensure bonds are sufficient
S001	Skill and Resource risk	Key person risk	Someone leaving the organisation and only a limited market from which to seek their replacement	Knowledge gap which it may be difficult to fill	Maintain a system of staff cover, succession planning and development
S002	Skill and Resource risk	Lack of expertise / resources of officers involved in the Pension Fund	Insufficient training or continuous development	Either inappropriate staffing or insufficient resources in a particular area meaning that the fund cannot be managed or administered properly and mistakes are made.	Regular performance appraisals and training plans in place. On the job training.
S003	Skill and Resource risk	Insufficient knowledge of pension fund committee members	Insufficient training or continuous development	Inappropriate decisions taken at committee meetings or inability to make decisions through lack of understanding	Implement training for new members. Have an on-going training requirement for members and officers to ensure knowledge remains up to date. Mixture of in-house and external sessions. Officer expert advice.
S004	Skill and Resource risk	Insufficient external expertise	Failure to employ specialist advisers when their skills are required	Under performance of fund	Employ specialists where appropriate from consultancy bench and develop in-house expertise
S005	Skill and Resource risk	Inappropriate decision making	Production of poor or inappropriate performance management information	Incorrect decisions being taken due to the reliance on this information	Use of independent Custodian. Implement regular monitoring in an agreed format. Regular monitoring of performance information and on-line access to NT Passport system.
G001	Governance and compliance risk	Non compliance with LGPS regulations	Lack of technical expertise / staffing to research any regulation changes	Non compliance with legislation change could result in penalties or sanctions leading to financial loss	Monitor legislative changes, engage in consultations, attend pension update briefings / courses.
G002	Governance and compliance risk	Non compliance with investment policies	Lack of understanding of investment policies	Non compliance with investment policies could increase the risk profile of the fund.	Periodic monitoring of investment types against regulations. Individual investments checked in advance of commitment as part of internal Due diligence.
G003	Governance and compliance risk	Production of incorrect financial statements	Production of misleading information and misleading stakeholders	Misunderstanding or wrong decisions	Review and sign off process in place.
G004	Governance and compliance risk	Conflict of interest	Officers or members fail to declare a conflict of interest leading to decisions that are not in the best interest of the fund	Inappropriate decisions taken	Training on what constitutes a conflict and ensuring register of interests/ gift and hospitality entries are made where appropriate.
G005	Governance and compliance risk	Failure to minute meetings correctly	Important decisions are not documented and then there is no record of them when evidence of the decision is	Unable to prove that a decision has been taken	All meetings to be minuted and agreed by members
G006	Governance and compliance risk	Failure to implement an proper monitoring system	Performance of the fund cannot be monitored over time	Incorrect decisions are taken	Implement a regular monitoring system
G007	Governance and compliance risk	Information loss (intellectual property and confidential information)	Sensitive information could be lost damaging the reputation of the fund and putting the fund members at risk	Damaged reputation / litigation risk	Ensure confidential information is secure
G008	Governance and compliance risk	Information governance	Loss of information which means that the fund is unable to operate	Unable to undertake day to day functions	Back up of ICT network. Use of Northern Trust web-based Passport system.
G009	Governance and compliance risk	Non-existent assets	The risk that assets purchased by the pension fund do not exist, or fund managers are not bona fide.	Misrepresentation of assets held. Reputational damage.	Due diligence undertaken as part of investment review process either by Fund officers or investment consultants.
R001	Reputational risk	Actions damage the perception of the fund	Reputation of the fund will be damaged which may impact on participation rates and investment strategies		Good governance, open communication. Use of PIRC/ LAPFF to engage with shareholder companies to encourage good governance.
A001	Administration risk	Failure to process pension payments and lump sums on time	Unavailability of IT / staff, or errors	Maintenance of IT, staff cover and training	Testing of system including audit
A002	Administration risk	Failure to collect contributions from employers and employees	Unavailability of IT / staff, or errors or poor communication	Maintenance of IT, staff cover and training	Robust back-up systems in place
A003	Administration risk	Inability to provide service due to loss of facilities	Fire, flood etc	Unable to provide service	Business continuity
A004	Administration risk	Loss of funds through fraud	Fraud or misappropriation of funds	Financial loss to fund	Internal controls – separation of duties. Internal and external audit reviews.
A005	Administration risk	Failure to hold personal data securely	Poor procedures for data transfer, data retention and back	Data is lost or compromised	Internal ICT controls. Information governance awareness.
A006	Administration risk	Failure to keep records up to date	Poor or non-existent notification of changes	Incorrect records held and therefore incorrect pensions paid	Documented internal controls. Robust training. Regular monitoring.



Lancashire County Pension Fund

Statement of Investment Principles

Approved by Pension Fund Committee
on 27 March 2014

Lancashire County Council
as administering authority of
**Lancashire County Pension
Fund**

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Lancashire County Pension Fund

Statement of Investment Principles

1. Introduction

Lancashire County Council (“LCC”) is the administering authority of the Lancashire County Pension Fund (the “Fund”). This Statement of Investment Principles (“SIP”) sets out the principles governing its decisions about investments made by the Fund. It has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Fund has produced the SIP following consultation with the Fund’s Investment Panel, and a representative of the Fund’s Actuary.

2. Responsibility for Investment Management

Lancashire County Council is responsible for administering the Fund under the Pension Scheme regulations 1997 (as amended). It delegates its responsibilities to:

- ◆ The Pension Fund Committee;
- ◆ The Administration Sub Committee;
- ◆ The Fund's Investment Panel;
- ◆ The Fund's Investment Managers.
- ◆ The Fund's Custodian
- ◆ The Treasurer to the Fund

The division of responsibility is set out in detail in the Governance Policy Statement, which is available at www.yourpensionservice.org.uk or on request from the Fund, but in summary, responsibilities are allocated as follows:

3. Pension Fund Committee

The Pension Fund Committee has overall responsibility for investment policy and monitoring overall performance. The Committee meets four times a year, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 representatives of scheme members and a representative of the Higher and Further Education Sectors in Lancashire.

4. Investment Panel

The Investment Panel consists of two independent advisors, the Treasurer to the Fund (as Chair), the officer of the County Council fulfilling the role of Chief Investment Officer for the Fund and an officer of the County Council identified by the Treasurer to the Fund to oversee investment compliance activities.

The Panel meets at least quarterly, or otherwise as necessary. The Panel may operate through sub groups to undertake particular tasks. It formulates recommendations to the Treasurer to the Fund and/or the Pensions Fund Committee through meetings of the full Panel.

The Panel is required to provide advice to the Treasurer of the Fund regarding:

- a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
- b. The broad composition of the Fund's investment portfolio, management style and types of investment;
- c. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider ("external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support.
- d. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their remit and terms of office;
- e. The allocation of ranges and thresholds within which the Investment Managers should operate;
- f. Review of the Statement of Investment Principles and compliance with investment arrangements;
- g. Recommendations on the detailed management of the investment portfolios including the selection of pooled funds; and
- h. To oversee the performance of the investment managers appointed by the Fund and to report on the Fund's performance.

5. Investment Managers

The management of the Fund's investments is structured so as to provide diversification of management style and produce an acceptable spread of risk across the portfolio whilst maximising returns.

All Fund managers are subject to investment due diligence and all the segregated fund managers are registered with the UK FCA or equivalent organisation. New allocations may be made from time to time and Investment Managers are added to, removed or changed as necessary.

The Fund's Investment Managers are listed in its Annual Report.

Role of Lancashire County Council in-house staff in respect of the accounts and investments of the Pension Fund

Under the Lancashire County Council Scheme of delegation to Chief Officers, the Treasurer to the Fund is responsible for carrying out, in consultation with the Investment Panel, the County Council's duties under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, with regard to the requirement to review the investments made by the Fund Managers. The Treasurer reports to each meeting of the Pension Fund Committee.

The Treasury and Investment, Financial Accounting and Taxation and Investment Compliance Teams within the County Treasurer's Directorate support the Treasurer in respect of their Pension Fund investment and accounting responsibilities and provide the following services:

- Investment management services;
- Production of the Pension Fund Annual Report;
- Preparation and maintenance of the accounts and balance sheet of the Pension Fund;
- Verification and monitoring of the investment data produced by the Fund managers to independent custodian records;
- Completion of various statistical questionnaires;
- Preparation of agenda, working papers and reports for the Investment Panel meetings, Pension Fund Committee meetings and other miscellaneous investment meetings;
- Maintenance of Pension Fund internal cash account and investment of Pension Fund Cash not held by the investment managers;
- Provision of accounting data for IAS19 calculations;
- Monitoring compliance with policy laid down by the Investment Panel and Pension Fund Committee;
- Maintenance of regular dialogue with investment managers and custodians;
- The provision of data for performance monitoring and interpretation of performance results;
- The conducting of procurement exercises to secure the services of Investment Managers and other service providers on behalf of the Fund.
- The identifying of and conducting of due diligence on individual investment opportunities for consideration by the Investment Panel.
- Monitoring voting action by the managers;
- Advice to the Treasurer on Pension Fund Investment issues;
- Verification, monitoring and payment of Pension Fund fee invoices;
- Monitoring the receipt of income due to the Fund;
- Representing the Treasurer at the Local Authority Pension Fund Forum meetings and other relevant Pension Fund Investment meetings;
- Interpretation and implementation of the requirements of new legislation relating to Pension Fund accounting and investments;
- Attendance at various seminars covering new developments in respect of Pension Fund Investment issues; and
- Research initiatives.

6. Investment Objectives

The Fund has two objectives in terms of its investment activities:

1. To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
2. To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.

The current funding target assumptions include an assumed investment return (discount rate) of a yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.6% p.a.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

7. Types of Investment

The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities that fall within its approved strategy, including the following categories of investment:

- Equities;
- Fixed interest and index linked securities;
- Property;
- Cash; and
- Commodities.

Advice will include the management of foreign exchange risk and the use of financial derivatives where appropriate.

Advice on equities will involve the use of active and passive management styles, the use of public and private markets, and the choice of Investment Managers and pooled funds.

Advice on fixed interest and index linked securities will involve the use of investment grade and non-investment grade credit, and the choice of Investment Managers, pooled funds and direct investment opportunities.

Property advice will include the direct acquisition of land and premises, the development of such land, and improvements and refurbishment of such premises. It will also include the use of indirect pooled property investments.

Investments in infrastructure may be separately grouped, but they fall within the above categories.

8. Balance between Different Types of Investment

The investment strategy sets out a balance between different asset classes as follows:

Asset Class	Range %
Global Equities – Active and Passive, Physical and Index. Private and Publicly Quoted	40-60
Diversified Property –UK and Overseas. Direct and indirect.	10-20
Lower Volatility Strategies - (including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations)	20-40

The Active Public Equity and Fixed Interest Managers have full discretion to invest within each investment category subject to statutory limits and any asset allocation ranges around the benchmark, agreed between the Investment Panel and the Managers. The Property Manager's mandate is advisory with final decisions being taken by the Treasurer to the Fund based upon that advice.

With pooled funds, the manager of the investment fund operates within the constraints imposed by the constitution of the pooled fund, as reviewed and approved by the Investment Panel.

The broad target ranges of the overall investment strategy set out above are supplemented by specific strategies relating to individual asset classes. Pension Fund Committee has approved the following sub-strategies:

- Credit and Fixed Income – approved on 22 March 2013;
- Private Equity – approved on 6 September 2013;
- Property – approved on 6 September 2013.

CREDIT AND FIXED INCOME STRATEGY – BROAD ALLOCATIONS

The table below sets out proposed strategic allocation ranges to the various categories of investment which make up the credit and fixed income universe.

The ranges set out are in line with the Investment Strategy range of 20% to 40% for Lower Volatility Strategies (defined as including but not exclusively, Fixed Income, PFI, Credit strategies, Infrastructure, Currency, Commodities, Absolute Return, Cash, funds and index, Local development/PPP type allocations).

The broad allocations below imply that at a minimum, 20% of the fund allocation will be to credit and fixed income (compared to a current exposure to such strategies of 26.1% of the Fund), leaving up to 20% available for investment in other lower volatility strategies. Flexibility remains within the allocations below for the entire lower volatility allocation to be invested in credit should it be considered appropriate.

Credit investment allocation	% of Fund
Long Dated Secured Lending – Real Estate, Infrastructure and Asset Finance	5%-10%
Senior Secured Loans and Direct Lending to SMEs	5%-10%
Emerging Market Local Currency Debt	5%-10%
Impaired Credit and Regulatory Driven	5%-10%
Balanced / Club Credit Opportunities Funds (may incorporate the above allocations)	0%-20%
Investment Grade Bonds, Gilts and Cash (safe haven / interim holdings only)	0%-20%

PRIVATE EQUITY STRATEGY

Private equity is an illiquid investment, for which this increased illiquidity is compensated by the potential for superior returns (i.e. an illiquidity premium).

The new strategy proposes allocating more capital to fewer funds, thereby reducing diversification. However, these investments may be shared across a wider range of managers, but it is not considered that the portfolio risk will be materially higher.

Co-investing in individual deals alongside a fund manager risks negative selection bias, whereby the fund managers offer co-investments in the less attractive opportunities. This risk appears modest and is offset by the fee reduction.

Changes in the strategy are expected to be gradual over a number of years, such that there will be no sudden changes in the portfolio.

PE Strategy Limits (by Fund Type and Geography)

Strategy limits reflect the market and also give the LCPF fund manager the opportunity to be over/ under weight the market:

	Assume Pension Fund Value (£m) 5,000	% of PE Allocation		% of Pension Fund		Example for £5bn Pension Fund (£m)	
		Min	Max	Min	Max	Min	Max
	Fund Type		100%		7.5%		375
1	Buyouts (LBOs)	70%	100%	5.25%	7.50%	263	375
2	Venture Capital (VC)	0%	10%	0%	0.8%	0	38
3	Other PE Sub-Classes	0%	20%	0%	1.5%	0	75
3.1	Max in Any Single Sub-Class	0%	10%	0%	0.8%	0	38
	Geography						
	Europe (incl. U.K.)	50%	75%	3.8%	5.6%	188	281
	Non-Europe	25%	50%	1.9%	3.8%	94	188
	Developed Markets	90%	100%	6.8%	7.5%	84	188
	Emerging Markets	0%	10%	0%	0.8%	0	38

"Emerging Markets" are as defined by MSCI or FTSE listed indices

Concentration Limits (by Fund Structure)

Limits are set on the concentration by fund structure with the aim of ensuring a minimum level of diversification, but discouraging over diversification:

Statement of Investment Principles

Commitment Limits per <u>individual</u> PE Fund (as a % of annual PE commitment target)	Target	Min.	Max	Total PE Portfolio Limit (% of NAV)
Primary Fund	15%	7%	25%	100%
Co-Investment Fund	15%	7%	25%	40% incl Direct
Primary Fund of Fund	20%	10%	30%	50%
Secondary Fund	20%	10%	40%	50%

<u>Direct</u> Co-Investments by LCPF in individual companies (as % of the original fund's investment)		20%	100%	40% incl Co-Investment Funds
-------------------------------------------------------------------------------------------------------	--	-----	------	------------------------------

The central expectation is to commit to 4-6 funds per year, mostly primary, allowing for larger commitments to more diversified funds of funds. In addition to initial commitments to funds, direct co-investments are allowed in individual companies that are held by LCPF's funds.

PROPERTY INVESTMENT STRATEGY

The aim of the Property Investment Strategy is to deliver solid, reliable property returns to the Fund through a diversified portfolio of investments. It aims not only to reduce volatility by seeking exposures across property sectors and geographies but also offer the prospect of higher returns through appropriate diversification and specialist/opportunity investment.

It is proposed that the aim of the property portfolio should be to deliver an absolute return to the Fund rather than track a particular property benchmark. Such an approach promotes long term value decision-making over shorter term drivers to meet a particular index benchmark performance. However, the volatility of returns means that evaluation of performance against an absolute return benchmark is most meaningful when undertaken over longer periods of time.

For performance reporting purposes, it is proposed that an absolute benchmark of 8% per year is used, the same as for the infra-structure investment allocation. In judging the results of individual constituents of the property portfolio, especially in the shorter term, then specialist property benchmarks may be used.

As the absolute benchmark reporting will only become meaningful after a number of years, it is proposed the performance of the property portfolio is also measured against the existing broad IPD UK property index. This performance measure will also measure the value of adding diversity into the property portfolio beyond the existing direct UK portfolio.

The portfolio construction will be influenced not only by the net returns available, but also by the correlation and volatility of returns across sectors and geographies. The value leakage between gross and net returns needs to be taken into account because it varies significantly depending on the investment route chosen.

It is proposed that the mainstay of the property allocation should be to a core property portfolio with additional investments seeking some diversification and higher returns. Where core strategies might have an Internal Rate of Return (IRR) of 6-8% per annum, the specialist income/opportunity strategies would be expected to return IRRs of 8-12% per annum:

		Banded ranges	Example £m
Value of Fund			5000
Percentage allocation to property			15%
Total Property Allocation			<u>750</u>
Diversified Portfolio	Core	Range	70% to 80%
			525 to 600
Specialist Portfolio	/ Opportunity	Range	20% to 30%
			150 to 225

This combination of core and specialist holdings offers the prospect of at least achieving the 8% per annum absolute return benchmark proposed if not exceeding it.

Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund's) Regulations 2009

The 2009 regulations laid down the limits shown in Column 1 and Column 2 below, having consolidated the previous 1998, 2003, and 2005 Regulations. The limits in Column 2 may be used by Local Authority Pension Funds if, following proper advice, they have sought approval by their Pension Fund Committees for the increases and the reasons for adopting the increases are detailed in the Statement of Investment Principles.

The Fund's Investment Panel and Pension Fund Committee have previously reviewed the 2009 Regulations limits and have adopted the increased limits for **any single insurance contract** and also for **all contributions to partnerships**.

The 2013 amendment to the 2009 Regulations increased the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30%.

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	30%
4. with the sum of - (a) all loans; and (b) and deposits with - (i) any local authority, or (ii) any body with power to issue a precept of requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans.	10%	-
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	-
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	-
8. All sub-underwriting contracts.	15%	-

	Column (1) Limits under regulation 14 (2)	Column (2) Limits under regulation 14 (3)
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
9a. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	25%	35%
9b. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
10. Any single insurance contract.	25%	35%
11. All securities transferred under stock lending arrangements.	25%	35%

Stock Lending

Stock lending is undertaken up to the 35% limit above. The programme is run by the Fund's Custodian, which monitors performance, limit and counterparty credit adherence, and voting requirements.

9. Policy on Risk

The consideration of investment risk forms part of the Pension Fund's overall risk register, which is presented to Pension Fund Committee on a bi-annual basis. The key risks and associated mitigations are replicated in the Funding Strategy Statement.

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise return while reducing volatility. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio.

Operational risk is minimised by having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian.

The Fund's Global Custodian is Northern Trust. All public market investments are held in nominee accounts of Northern Trust.

All private market investments, including interests in private equity, property and other pooled funds are held directly in the name of Lancashire County Council as administering authority of the Lancashire County Pension Fund. Northern Trust provides detailed investment accounting and reconciliation services for all private market investments.

The title deeds in respect of the Fund's property holdings are held by Lancashire County Council and its property solicitors.

10. The expected return on investments

Each manager is expected to achieve an excess return on the assets under their management greater than the relevant benchmark. In assessing performance of each manager the Investment Panel takes in to account the long-term nature of the investment process and returns are judged primarily on an annualised basis over a rolling three-year period. The Investment Panel reviews the appointment of each manager at least every three years or such shorter period as may be necessary. The targets and benchmarks in place are as follows:

- ◆ The Global Equity specialist managers have a target to outperform the MSCI All World index by 2.5% (net of fees) on a rolling three year basis. They are benchmarked against the MSCI All World index.
- ◆ The Government Bonds manager is expected to outperform the FTSE All Stocks benchmark performance return by 0.75% (net of fees) on a rolling three year basis.
- ◆ The Corporate Bonds manager is expected to outperform the IBOXX sterling Non Gilts benchmark on a rolling three year basis.
- ◆ Bonds and cash held for treasury management purposes are expected to outperform the FT 7 day LIBID.
- ◆ The Private Equity Manager has a target to outperform the median return in the British Venture Capital Association (BVCA) survey of Private Equity returns by 3%. Historically, the Private Equity benchmark has been the FTSE All Share. Going forward, an absolute return target may be more appropriate, and the Fund's independent advisers have suggested a target in the range 8-12% per annum, with a natural mid-point of 10%.
- ◆ The Infrastructure managers are expected to outperform an 8% absolute benchmark on a rolling three year basis.
- ◆ The credit and fixed income funds have individual targets and benchmarks relating to their specific sub-class within the overall asset allocation.
- ◆ The UK direct property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis. Overall, and as set out in the property strategy above, the core property strategy targets an Internal Rate of Return (IRR) of 6-8% per annum, whilst the specialist income/ opportunity strategies would be expected to return IRRs of 8-12% per annum.

11. Monitoring and Review

The investment activities of the Fund's Investment Managers are reviewed at each Panel meeting and reported on to the Pension Fund Committee. At these meetings, asset allocation and investment performance of the Investment Managers is reviewed.

The WM survey of Local Authority Pension Fund returns is also used by the Fund for comparative information purposes.

The Fund's Actuary carries out a triennial review of the Fund and sets the employers' contribution rates for each three year period. Details of investment strategy and activity are an important element of the actuarial review.

The Annual Report is produced by the Treasurer for all employing bodies within the Fund, and this report, together with various information bulletins produced in respect of the Pension Scheme, provides details of Investment Policy and performance relating to the Investment Managers. Extracts from the Report are circulated to all members with the Fund's newsletter and are posted on the Fund's web site (www.yourpensionservice.org.uk).

12. Policy on Realisation of Investments

As the Fund is cash flow positive after including investment income, there is no need to realise investments in order to pay for benefits.

The Fund Managers realise investments as and when they consider appropriate in accordance with their management discretion. The Treasurer having received advice from the Investment Panel approves the realisation of pooled funds and properties.

Where investments are held in portfolios with a discretionary investment mandate, the funds realised are held to the account of the Investment Manager for reinvestment. In all other cases, the funds realised are as cash and managed through the Fund's usual treasury management processes.

13. Social, Environmental and Ethical Considerations

The Fund takes an active stance on corporate governance issues. It uses Pensions Investment Research Consultants ("PIRC") to vote on its behalf at shareholder meetings. PIRC advises on Socially Responsible Investment issues and issues voting guidance and commentary for shareholder meetings. PIRC is instructed to vote the Fund's shares in accordance with its guidelines unless an Investment Manager requests a different vote for investment management reasons. In the latter case, the Treasurer to the Fund will decide how best to cast the vote in the long-term financial interest of the Fund.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which is a group of like-minded local authority pension funds that meet to discuss and act / engage in respect of Socially Responsible Investment and Corporate Governance issues.

14. Principles of Investment Practice

The Fund's compliance with the six principles of investment practice laid out in Local Government Pension Scheme (Management and Investment of funds) regulations 2009 is described below:

Principle 1: Effective Decision Making

Fully compliant: The decision making process is fully outlined in the Governance Policy Statement, Governance Compliance Statement and Statement of Investment Principles.

Principle 2: Clear Objectives

Fully compliant: The overall objective for the Fund is outlined in the Statement of Investment Principles. The Investment Panel sets benchmarks for measuring the performance of each investment and an overall benchmark for the Fund as a whole in order to monitor the attainment of the objectives.

Principle 3: Risk and liabilities

Fully compliant: The Investment Panel and Pension Fund Committee have considered the appropriate assets for the Fund following Asset/ Liability studies and decided upon an investment strategy involving a diversification of investments amongst equities, property and investments offering the prospect of acceptable returns with lower volatility.

Principle 4: Performance assessment

Fully compliant: Investment performance reports are produced by the Custodian monthly for consideration by the Investment Panel and the Pension Fund Committee. In addition, StateStreet WM produces quarterly benchmarking information for the Pension Fund to compare performance with other LGPS schemes.

Principle 5: Responsible ownership

Fully compliant: PIRC has been appointed the Fund's proxy to vote the Fund's shares at shareholder meetings. PIRC votes in accordance with its voting guidelines unless an Investment Manager requests differently, in which case the Treasurer to the Fund would decide how the vote should be cast in the best interests of the Fund. The Fund is a member of the Local Authority Pension Fund Forum, which is primarily concerned with Corporate Governance issues and shareholder activism. Voting action is monitored on a quarterly basis.

Principle 6: Transparency and reporting

Fully compliant: The Statement of Investment Principles outlines who is responsible for strategic and asset allocation decisions for the Fund and the reasons behind this Structure. It contains the current investment objective and details of the operational aspects of the Fund's investments.

The Fund provides all of its Members with regular information bulletins. The Annual Report and the Fund's statutory statements are made available to all the Fund's employers and members through the web site www.yourpensionservice.org.uk.

MERCER

Lancashire County Pension Fund

Actuarial valuation report
as at 31 March 2010

March 2011

Lancashire County Pension Fund Actuarial valuation as at 31 March 2010

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Summary

An actuarial valuation of the Lancashire County Pension Fund has been carried out as at 31 March 2010.

The key conclusions from the valuation are:

- The Fund showed a deficit of £993m at the valuation date based on the assumptions made for calculating its funding target. This measure compares the Fund's assets with the value of the past service benefits at 31 March 2010. It represents a funding level of 80% relative to the Fund's funding target.
- Based on the assumptions made for assessing the cost of future accrual, the Common Contribution Rate (i.e. the average employer contribution rate in respect of future service only) was 12.5% of Pensionable Pay.
- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to £2,841m.
- If the deficit is recovered through additional employer contributions over a 19 year period then the employer contributions rate required to meet the deficit emerging from the valuation is 6.6% of Pensionable Pay per annum.
- The required overall average employer contribution rate is 19.1% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Where an additional allowance has been made for certain employers for an increased investment return assumption over the duration of the recovery plan, this has offset the certified employer contribution requirement, as specified in the FSS. Contributions for each separate employer will be levied as a percentage of payroll in under the recovery plan. These contributions will commence from 1 April 2011.
- The recommended employer contributions for the period 1 April 2011 to 31 March 2014 are set out in Appendix I to this report. Employee contributions are payable in addition to the employer contributions. These contributions are adequate to meet the funding objective based on the actuarial assumptions detailed in this report. No

additional contributions are required from employers to meet normal scheme expenses since allowance for these are included in the recommended contributions.

- A partial allowance has been made in the employer contributions for certain employers in relation to the anticipated costs of non-ill health early retirements over the 3 years from 1 April 2011. The allowance is shown in Appendix I. Additional capital contributions will be paid on top of the rates shown in respect of non-ill health early retirements in excess of the allowances.
- Any further possible adjustments to contributions for employers in the inter-valuation period are noted on the Certificate in Appendix H.



Signature

Fund Actuary

John Livesey

Date of signing

31 March 2011

Qualification

Fellow of the Institute and Faculty of Actuaries

Compliance Statements

This report is addressed to the Administering Authority and has been prepared in accordance with the version of the Board for Actuarial Standards' 'Guidance Note 9: Funding Defined Benefits – Presentation of Actuarial Advice' current at the date this report is signed. Technical Actuarial Standard R: Reporting Actuarial Information and Technical Actuarial Standard D: Data issued by the Board for Actuarial Standards also apply to this report and the report complies with their requirements, where relevant.

However the following aspects of GN9 are not relevant to the LGPS in the current circumstances and so have not been reported on:

- Paragraph 3.4.16 of GN9 requires the actuary to include the certification of technical provisions in relation to a valuation under Part 3 of the Pensions Act 2004. As Part 3 of the Pensions Act 2004 does not apply to the LGPS, this report does not comply with paragraph 3.4.16 of GN9; and
- Paragraph 3.5 of GN9 requires the actuary to report on the value of the liabilities that would arise had the Fund wound up on the valuation date (based on the cost of buying out the accrued benefits with insurance policies). As the LGPS is a statutory scheme, there is no regulatory provision for scheme wind up and the scheme members have a statutory right to their accrued benefits. Therefore the concept of solvency on a buy-out basis does not apply. Accordingly, this report does not comply with paragraph 3.5 of GN9.

The calculations in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining the appropriate contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Administering Authority if the advice is used for any purpose other than that stated (for example for accounting disclosures or corporate mergers/acquisitions).

The data for the actuarial valuation was provided by the Administering Authority and its accuracy has been relied upon. Whilst reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data which is incomplete or inaccurate.

The report may be disclosed to participating employers and others who have a statutory right to see it. It may also be disclosed, if the Administering Authority and Mercer consent, to any other third parties.

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Appendices

- A. Summary of benefits
- B. Summary of membership data
- C. Distribution of membership by employing bodies
- D. Actuarial assumptions used
- E. Summary of assets
- F. Summary of income and expenditure
- G. Experience analysis of the membership of the Fund for the period 1 April 2007 to 31 March 2010
- H. Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations
- I. Schedule to the Rates and Adjustment Certificate dated 31 March 2011



Introduction

- 1.1 This report sets out the results of the actuarial valuation of the Lancashire County Pension Fund (“the Fund”) as at 31 March 2010. The valuation has been carried out on the instructions of Lancashire County Council (the “Administering Authority”) in accordance with the requirements of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended (the “Administration Regulations”).

Purpose of valuation

- 1.2 The primary aims of the valuation are to review the financial position of the Fund and to determine appropriate employer contributions to the Fund for the future.
- 1.3 In particular, the valuation aims:
- to assess the Fund’s funding position relative to its funding objective;
 - taking the above into account, to determine the appropriate future level of employer contributions.
- 1.4 Under the provisions of the Administration Regulations employer contributions are calculated by the actuary having regard to the assumptions and methodology set out in the Fund’s Funding Strategy Statement (FSS). In accordance with the LGPS Regulations, the FSS has been determined by the Fund’s Administering Authority, having taken the advice of the Fund’s Actuary and after consultation with those parties as it considers appropriate.

Funding objective

- 1.5 The Administering Authority has reviewed its approach to funding strategy and this is published in the Funding Strategy Statement. Consistent with the FSS the funding objective for the valuation is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected

accrued liabilities, including allowance for projected final pay. This approach is also considered appropriate to comply with the requirement of the Administration Regulations to secure the solvency of the Fund.

- 1.6 The funding objective is the same as at the previous valuation.
- 1.7 The methodology and assumptions by which the funding target and contribution rates are calculated have also been determined in accordance with the Fund's FSS.
- 1.8 The FSS specifies a maximum period for achieving full funding of 19 years in most circumstances. This compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target date for achieving full funding is being maintained as at the 2007 valuation. For each individual employer, the funding objective, method and assumptions depend on the particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the FSS. The FSS also specifies any transitional arrangements ("phasing") for the implementation of revised employer contribution requirements.

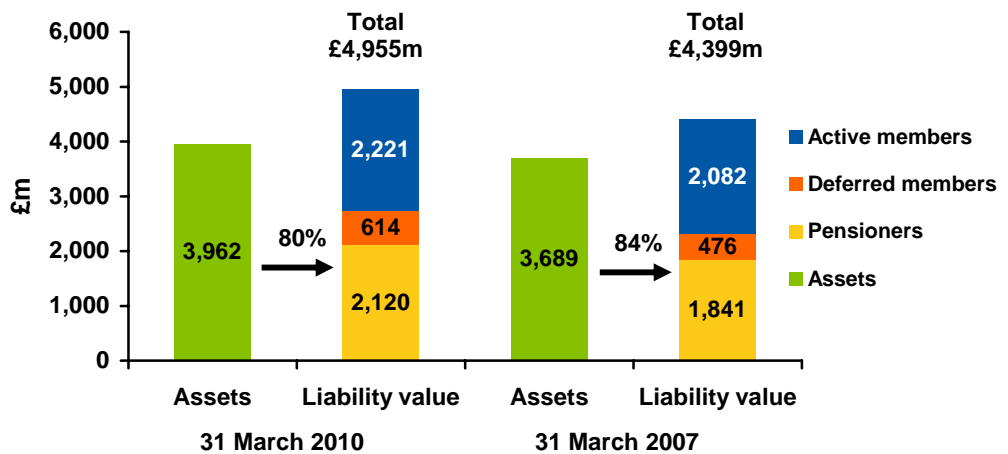
Previous actuarial valuation

- 1.9 The previous actuarial valuation of the Fund was carried out as at 31 March 2007 by ourselves.
- 1.10 At the previous valuation an average employer contribution rate of 17.8% of Pensionable Pay was determined, made up of a normal contribution rate for benefits and expenses of 13.3% of Pensionable Pay plus deficiency recovery contributions of 4.5% of Pensionable Pay. The report on the 2007 actuarial valuation sets out the agreed contribution rates for individual employers for the period 1 April 2008 to 31 March 2011 (the corresponding rates for the year to 31 March 2008 being shown in the 2004 actuarial valuation report). Appendix F includes the amounts of employer contributions which have actually been paid since the last actuarial valuation.



Funding results – funding target

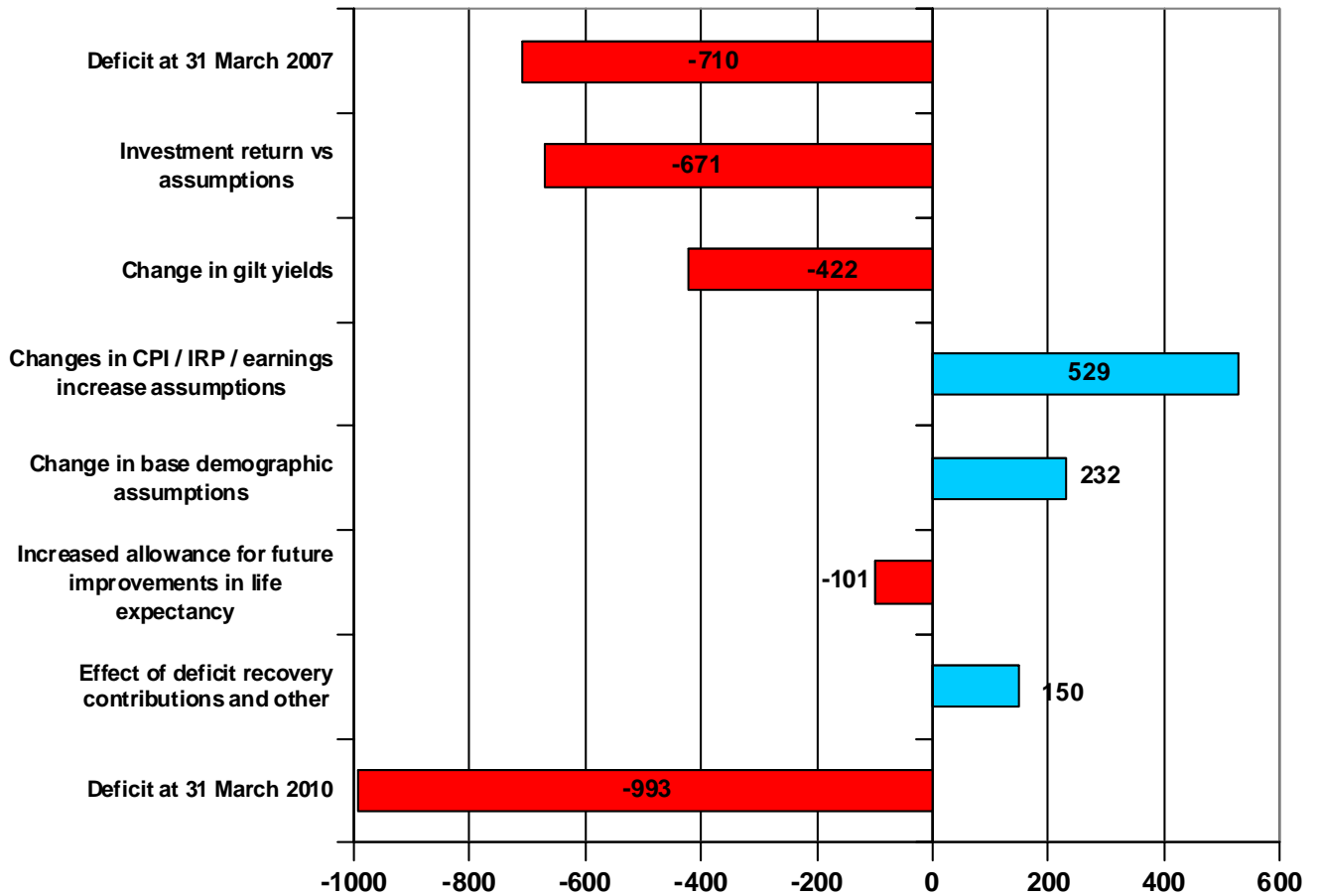
2.1 The market value of the Fund’s assets at the valuation date is compared with the value of the Fund’s past service liabilities (the funding target) below. The funding position at the previous valuation is shown for comparison.



2.2 The shortfall against the funding target at the valuation date was £993 million (£710 million at 2007). This represents a funding level of 80% relative to the funding target (84% at 2007).

Analysis of change in funding position

2.3 The key factors influencing the change in the value of the liabilities since the previous valuation are shown below (figures in £m):



- 2.4 The above analysis highlights a number of material developments affecting the Fund since the previous valuation:
- The introduction of an Inflation Risk Premium (IRP) into the determination of the pension increase assumption used for the valuation has offset to a degree the adverse impact of the falls in real yields since the last valuation. Indeed the effect of the IRP in conjunction with the change from RPI to CPI indexation more than offsets the negative impact of the yields change.
 - Revision of the assumptions adopted for the 2010 valuation, specifically base rates of mortality, ill health retirements, real salary growth and allowance for dependants' benefits, has overall acted to place a lower value on liabilities and so acted to improve the funding position. This has been offset to some extent by the effect of making increased allowance for future improvements in life expectancy.
- 2.5 It also highlights the key differences between what was assumed at the previous valuation and experience since then:
- Investment returns have been below the level required to keep pace with the assumptions adopted at the previous valuation.
 - Liabilities have increased due to changes in market yields

3

Funding results – contribution requirements

- 3.1 This section provides details of the contribution requirements assessed for the Fund as a whole. The contributions payable by the employers for the period 1 April 2011 to 31 March 2014, and the timing and frequency of the contributions, have been certified in Appendices I and H respectively, as is required in accordance with the Administration Regulations.
- 3.2 These contributions have been determined using the funding objective described in Section 1, and are made up of the following elements:
- a contribution to cover the cost of the future service accrual (including death benefits and expenses), known as the “Common Contribution Rate”;
 - an adjustment to address any imbalance of assets relative to the funding target.
 - an allowance of the costs of future early retirements, where applicable.
- 3.3 In practice, each employer’s position is assessed separately. The individual rates shown in Appendix I take into account the differing circumstances of each employer and the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required.

Common Contribution Rate

- 3.4 The table below shows the first of these elements. This cost is calculated as the value of benefits expected to accrue to the membership in respect of one year’s service based on projected salaries. To this is added an allowance for expenses. The figures are expressed as percentages of Pensionable Pay (as defined in Appendix H) and apply for the period to the next formal actuarial valuation.

	2010 %	2007 %
Normal contribution rate for retirement and death benefits	18.5	19.4
Allowance for administrative expenses	0.4	0.4
Total normal contribution rate	18.9	19.8
Average member contribution rate	6.4	6.5
Employer normal contribution	12.5	13.3

Contributions to address shortfall

- 3.5 The funding objective is to achieve and maintain a funding level of 100% of liabilities (the funding target). Adopting the same method and assumptions as used for calculating the funding target, the deficit of £993 million could be eliminated by an average contribution addition of 6.6% of Pensionable Pay for 19 years. This would imply an average employer contribution rate of 19.1% (17.8% at the previous valuation) of Pensionable Pay.
- 3.6 The Schedule to the Rates and Adjustments Certificate (attached as Appendix I) sets out the contributions for each employer over the three year period to 31 March 2014 towards the shortfall against the funding target. The corresponding figures for 2010/11 are set out in the report on the actuarial valuation of the Fund as at 31 March 2007. Contribution requirements for the period from 1 April 2014 onwards will be revised as part of the next actuarial valuation as at 31 March 2013 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

4

Method and assumptions

Funding method

- 4.1 The funding method adopted is known as the projected unit method under which the salary increases assumed for each member are projected until the member is assumed to leave active service.
- 4.2 Under the projected unit method, if the membership profile remains stable in terms of age and sex, and the assumptions are borne out, then the normal future service contribution rate (as a percentage of salaries) will remain stable. The method therefore implicitly allows for new entrants replacing leavers.
- 4.3 For those employers which are closed to new entrants an alternative method is adopted, known as the attained age method. This method makes advance allowance for the anticipated future ageing of the current closed membership group.
- 4.4 The method as specified above is the same as was used at the previous valuation.

Assumptions

- 4.5 The financial and demographic assumptions used to assess the funding target, the normal cost of benefit accrual and the recovery plan are set out in Appendix D. A number of changes have been made to the assumptions used, compared with the previous valuation, as noted below and in Appendix D.
- 4.6 The table below sets out a summary of the market (gilts) yields at the valuation date, implied inflation and inflation adjustment assumptions, together with the equivalent details at the date of the previous valuation:

	31 March 2010	31 March 2007
Long-dated gilt yield	4.5%	4.4%
Long-dated index-linked gilt yield	0.7%	1.3%
Market expectation for long-term inflation (RPI basis)	3.8%	3.1%
Adjustment for Inflation Risk Premium (IRP) and CPI Indexation	-0.8%	0.0%
Adjusted CPI inflation	3.0%	n/a

4.7 The assumptions to which the valuation results are particularly sensitive are shown below.

	2010 funding target	2010 normal cost	2007 funding target	2007 normal cost
Investment return pre-retirement	7.0% p.a.	6.75% p.a.	6.9% p.a.	6.5% p.a.
Investment return post-retirement	5.5% p.a.	6.75% p.a.	5.4% p.a.	6.5% p.a.
Salary increases	5.0% p.a.	5.0% p.a.	4.85% p.a.	4.5% p.a.
Pension increases in payment	3.0% p.a.	3.0% p.a.	3.1% p.a.	2.75% p.a.
Retired members' mortality – base tables	CMI Self Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments		PA92 YoB tables +1 year	
Retired members' mortality – future improvements	CMI 2009 model methodology with 1% p.a. long term trend		CMI Medium Cohort model	

4.8 The mortality rates shown above relate to members retiring in normal health. At this valuation, members retiring in ill-health are assumed to be 3 years older than the above tables (5 years older assumed at the 2007 valuation).

4.9 At this valuation, it has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1p.a. of pension given up. This assumption is unchanged from the last actuarial valuation.

- 4.10 The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, during the period of the recovery plan, for certain employers an increased investment return on existing assets and future contributions is assumed, as specified in Appendix D.
- 4.11 As an illustration of the mortality rates adopted for the valuation, the future life expectancies for a male/female at age 65 are shown in the table below:

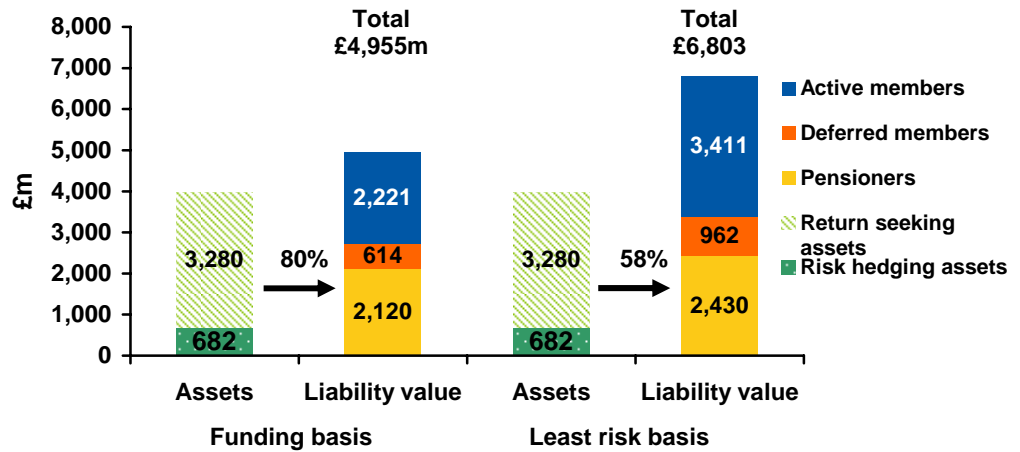
Pensioners	Life expectancy currently aged 65	
	2007 valuation	2010 valuation
Males normal health	21.0	21.5
Female normal health	23.9	24.1
Males ill health	16.9	19.1
Female ill health	19.7	21.6
Male dependants	21.0	20.0
Female dependants	23.9	23.1

- 4.12 The basis of valuing the assets (market value) is consistent with the assumptions used in assessing the funding target liabilities and the recovery plan.

5

Least risk funding results

- 5.1 The results of the 2010 valuation show the funding target to be 80% covered by the current assets.
- 5.2 In assessing the value of the Fund's liabilities (the funding target), allowance has been made for asset out-performance as described in Section 4, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Statement of Investment Principles (SIP).
- 5.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.
- 5.4 If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 37% and the declared funding level would be correspondingly reduced to approximately 58%. This is illustrated in the following chart, which also shows the assets of the Fund broken down into return seeking and risk hedging classes, giving a broad indication of the degree to which a risk based investment strategy is being adopted in funding for the liabilities.



- 5.5 On a least risk basis the deficiency at the valuation date is £2,841 million which compares to a deficit on the ongoing basis of £993 million.
- 5.6 Departure from a least risk investment strategy, in particular to include equity and other risk based return seeking investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

6

Variability and risks

- 6.1 The employer contributions set out in the Schedule to the Rates and Adjustments Certificate have been determined as described in section 3 of this report. These in turn depend on the financial and demographic assumptions used as described in section 4.
- 6.2 The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.
- 6.3 It is likely, especially in the short-term, that the assumptions will not be borne out in practice. It is therefore important to consider the potential impact on the employer contribution rates of actual experience differing from what has been assumed. The details in this section do this, based on the valuation results for the Fund as a whole.

Sensitivity to key assumptions

- 6.4 Real investment return, salary increase and life expectancy assumptions impact significantly on the funding position and the following table illustrates the sensitivity to variations in these key assumptions over the long term. The base point is the funding level of 80%. Each row of the table considers one change in isolation, with all other assumptions being unaltered. An equivalent change in the assumption in the opposite direction would change the funding level value by the equivalent amount in the opposite direction.

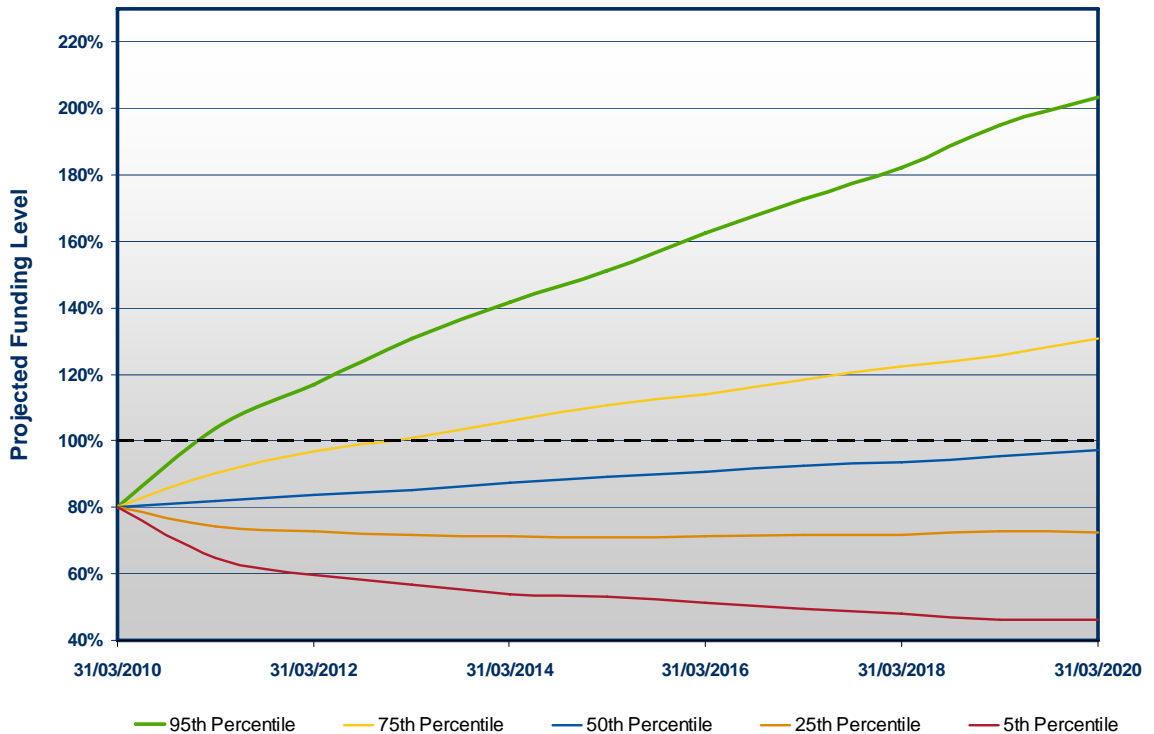
Change in assumption	Revised funding level at 31 March 2010
Pre retirement return reduced by 0.5%	78%
Salary increases increased by 0.25% p.a.	79%
Life expectancy increased by 1 year	78%

- 6.5 Similarly these assumptions impact significantly on the cost of the benefits accruing over the year. The following table illustrates the sensitivity to variations in these key assumptions over the long term. The starting point is the normal contribution rate of 12.5% of Pensionable Pay. Each row of the table considers one change in isolation, with all other assumptions being unaltered. As before, a change in the assumption in the opposite direction would give rise to a change in the employer normal contribution rate of an equivalent amount in the opposite direction.

Change in assumption	Revised employer normal contribution rate at valuation date (% of Pensionable Pay)
Salary increases increased by 0.25% p.a.	13.0
Life expectancy increased by 1 year	12.7

Funding level sensitivity to investment markets

- 6.6 The chart below shows a “funnel of doubt” funding level graph. This illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation, due to possible changes in various risk factors such as investment markets and interest rates.
- 6.7 Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).
- 6.8 The chart adopts the 2010 actuarial valuation results as a starting point, and allows for the planned contributions into the Fund based on the valuation and funding strategy. The chart assumes median investment returns in line with “best estimate” market expectations and variability of those returns broadly in line with historic experience. It assumes continuation of the Fund’s current investment strategy, over the projection period.



Risks that the funding objective will not be met

- 6.9 The Administering Authority's policy for meeting the funding objective carries a number of risks outside of the Administering Authority's control. The following paragraphs comment on some potentially material risks.
- 6.10 If any employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. If the reason for the employer not paying the agreed contributions is one of financial difficulties, then the Administering Authority's focus would switch to the need to secure as far as possible that any debt from the employer on it exiting the fund can be recovered. This risk can be mitigated by regular employer covenant review, strengthening of covenant as appropriate, and monitoring of changes in employer covenant. In the ultimate default of an employer any shortfall would then become the responsibility of a guarantor or all other employers in the Fund.
- 6.11 If the future investment return on assets falls short of the rates assumed in the calculation of the funding target and recovery plan, the funding position will be worse than expected. It is likely that an increase in future employer contributions will be required. The analysis shown earlier in this section illustrates the potential volatility of contribution rates and funding levels to future investment returns.
- 6.12 If market levels and/or market yields change such that the liability values increase by more than the assets, or decrease by less than the assets, the funding position would be worse than expected. An increase in employer contributions

would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Fund show that pensioners are living longer, or if improvements in mortality are found to be at a faster rate than allowed for. The analysis shown earlier in this section illustrates the quantitative impact of such changes.

- 6.13 If members make decisions around their options such that those decisions increased the Fund's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.
- 6.14 There is a specific investment matching risk that is particularly relevant for the Fund. This is the risk inherent in the predominantly equity-based strategy, such that actual asset out-performance between successive valuations could diverge significantly from the investment return assumptions made, as set out in Appendix D.
- 6.15 As mentioned in Section 5, alternative investment strategies could be followed that would minimise the risk of deterioration in the funding position assessed relative to the funding target, for example by raising the proportion of bond investment. Such a strategy would reduce the risk that changing economic conditions would cause deterioration in the Fund's funding position. It would also tend to produce a more stable contribution rate but at a higher overall level than indicated in Section 3.



Appendix A

Summary of benefits

Local Government Pension Scheme Regulations

The benefits and contributions payable under the Fund are set out in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). These regulations have replaced the Regulations which were in force at the previous valuation, except for a number of saved regulations as specified by the Local Government Pension Scheme (Transitional Provisions) Regulations 2008.

With effect from 1 April 2008 new rules were introduced replacing the 1997 scheme, under the provisions of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI2007/1166). The principal changes were: the replacement, for future service, of the existing benefits structure based on a pension of 1/80th of Pensionable Pay for each year of pensionable service plus an automatic lump sum of three times this amount by one based on 1/60th of Pensionable Pay for each year of pensionable service; and an increase in the average level of employee contributions from that date. These changes were taken into account at the 2007 valuation.

The following supplementary Regulations have also been laid in relation to the new scheme:

- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI2008/238)
- The Local Government Pension Scheme (Administration) Regulations 2008 (SI2008/239)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI2009/3150)

The following further amendments to the above Regulations have subsequently been issued:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011 Statutory Instrument No. 561
- The Local Government Pension Scheme (Miscellaneous) Regulations 2010 Statutory Instrument No. 2090
- The Local Government Pension Scheme (Amendment) Regulations 2010 Statutory Instrument No. 528
- The Local Government Pension Scheme (Miscellaneous) Regulations 2009 Statutory Instrument No. 3150
- The Local Government Pension Scheme (Amendment) Regulations 2009 Statutory Instrument No. 1025
- The Local Government Pension Scheme (Administration) (Amendment) Regulations 2009 Statutory Instrument No. 447
- The Local Government Pension Scheme (Administration) (Amendment) Regulations 2008 Statutory Instrument No. 3245
- The Local Government Pension Scheme (Amendment) (No.2) Regulations 2008 Statutory Instrument No. 2989
- The Local Government Pension Scheme (Miscellaneous) Regulations 2008 Statutory Instrument No. 2425
- The Local Government Pension Scheme (Amendment) Regulations 2008 Statutory Instrument No. 1083 (including amendments as per Correction Slip issued in September 2009)

We have made no allowance for other changes which may be introduced in the future.

Benefits recharged to individual employers on a £ for £ basis have been excluded from the calculation of the valuation liabilities.

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

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” judgement) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes (i.e. for schemes other than those which are in the Pension Protection Fund). The valuation

makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Administering Authority seek further professional advice if it is concerned about this issue.

The Government announced in June 2010 that the rate of increase and revaluation that applies to pensions in payment and deferment in the LGPS and the other public sector schemes will in future be determined by reference to the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI). Historically, CPI increases have on average been lower than RPI increases and, due to the nature of the two calculations, they are expected to remain so over the long term. The change is expected, therefore, to lead to lower increases to pensions, both in deferment and once in payment. This change has been taken into account in determining the financial assumptions adopted at this valuation.

Appendix B

Summary of membership data

Pensionable Employees

	At 31 March 2007	At 31 March 2010	Increase (%)
Number	51,056	50,595	-0.9
Annual Pensionable Pay ¹ (£000s)	783,996	847,620	8.1
Average Pensionable Pay (£)	15,356	16,753	9.1
Average Age ² (years)	48.6	49.1	N/A
Average Pensionable Service ³ (years)	11.2	11.3	0.9

Notes: 1 – Pensionable Pay figures include actual pay for part-time employees.

2 – Weighted by accrued pension.

3 – Weighted by salary.

Preserved Pensioners*

	At 31 March 2007	At 31 March 2010	Increase (%)
Number	31,468	42,124	33.9
Annual Pensions inclusive of Pension Increase (£000s)	32,825	43,398	32.2
Average Pension including Pension Increase (£)	1,043	1,030	-1.2
Average Age ² (years)	47.0	47.8	N/A

* including frozen refunds and leaver options pending

Current Pensioners

	At 31 March 2007	At 31 March 2010	Increase (%)
Number	26,983	30,403	12.7
Annual Pensions inclusive of Pension Increase (£000s)	110,854	132,631	19.6
Average Pension including Pension Increase (£)	4,108	4,362	6.2
Average Age ² (years)	68.2	68.6	N/A

Current Widow/Widower Pensioners etc.

	At 31 March 2007	At 31 March 2010	Increase (%)
Number	5,068	5,504	8.6
Annual Pensions inclusive of Pension Increase (£000s)	11,595	13,508	16.5
Average Pension including Pension Increase (£)	2,288	2,454	7.3
Average Age ² (years)	75.5	76.2	N/A

In addition there were 362 current dependant pensioners as at 31 March 2010 with pensions in payment totalling £380,000 per annum.

Appendix C

Distribution of membership by employing bodies

Employing Body	Pensionable Employees	Preserved Pensioners	Pensioners
ABM Catering Ltd	8	1	1
Accrington & Rossendale College	193	173	86
Accrington Academy	55	6	0
Alternative Futures	39	2	2
Andron (City of Preston High)	2	0	0
Andron (Glenburn Sports College)	5	0	0
Andron (Ribblesdale High)	7	0	1
Andron (Kennington)	1	0	0
Arnold Schools Ltd	13	12	14
Beaufort Avenue Day Care Centre	1	2	4
Blackburn College	336	228	127
Blackburn St Mary's College	101	47	14
Blackburn with Darwen Borough Council	4,236	3,797	2,216
Blackpool & Fylde Mind Association	1	3	2
Blackpool & The Fylde College	487	347	216
Blackpool Airport Ltd (from July 2004)	2	1	5
Blackpool Borough Council	4,412	3,249	2,457
Blackpool Borough Transport Ltd	42	44	305
Blackpool Coastal Housing	129	35	10
Blackpool Sixth Form College	54	21	8
Blackpool Zoo (Grant Leisure Ltd)	10	8	2
Blackpool, Fylde & Wyre Society for Blind	4	5	14
Bootstrap Enterprise Ltd	9	1	0
Bulloughs (Highfield)	2	4	0
Bulloughs (St Augustines)	1	0	0
Bulloughs (St Marys)	1	0	0
Bulloughs (Whalley Primary)	2	0	0
Burnley Borough Council	514	646	1,024

Employing Body	Pensionable Employees	Preserved Pensioners	Pensioners
Burnley College	157	142	54
Calico Housing Ltd	110	68	63
CAPITA	114	85	49
Capita (Rossendale BC)	19	5	2
Cardinal Newman College	60	57	26
Caritas Care Ltd (was Catholic Caring Services)	63	64	28
Catterall Parish Council	1	0	0
Chorley Borough Council	323	380	471
Chorley Community Housing	55	32	15
Church Road Methodist Day Centre	9	3	5
Commission for Education & Formation	1	1	0
Community Alliance (Burnley & Padiham) Ltd	1	1	3
Community Council of Lancashire	7	11	7
Community Gateway Association Ltd	80	32	12
Connaught Environmental (Blackpool BC)	6	0	0
Connaught Environmental (Blackpool Coastal Housing)	3	0	0
Consultant Caterers Ltd	8	1	0
Contour Housing Association	7	4	1
Creative Support Ltd	34	1	1
CX Ltd	124	47	10
Danfo (UK) Ltd	1	2	3
Darwen Aldridge Community Academy	65	1	1
E ON UK Plc	1	0	0
Edge Hill University College	742	407	212
Elm House Management Committee	2	7	1
Enterprise Managed Services Ltd	10	7	2
Eric Wright Commercial Ltd	1	0	0
Fulwood Academy	53	3	0
Fylde Borough Council	294	235	450
Fylde Coast YMCA (Fylde)	6	3	0
Fylde Community Link	16	7	1
Galloways Society for the Blind	3	1	23
Garstang Town Council	2	0	0
Housing Pendle Ltd	113	26	15
Hyndburn Borough Council	344	284	622
Hyndburn Homes Ltd	101	23	12
I Care	34	3	1
Kirkham Grammar School	57	37	16
Kirkland Parish Council	1	0	0
Lancashire & Blackpool Tourist Board	19	7	2
Lancashire County Branch Unison	3	3	1
Lancashire County Council	24,553	22,341	18,262
Lancashire Fire & Rescue Service	281	129	75
Lancashire Police Authority	2,286	684	538
Lancashire Probation Committee	477	239	408
Lancashire Valuation Tribunal	2	4	7

Employing Body	Pensionable Employees	Preserved Pensioners	Pensioners
Lancaster & Morecambe College	173	224	79
Lancaster City Council	777	564	920
Lancaster University	970	712	614
Leisure in Hyndburn	44	67	10
Liberata	89	22	13
Liberata UK Ltd (Chorley)	3	0	0
Lytham Schools Foundation	36	14	27
Mellor's (formerly Wyre)	3	0	0
Mellor's Catering (Cardinal Newman)	6	0	0
Myerscough College	347	309	62
Nelson and Colne College	176	235	77
New Fylde Housing	11	3	20
NHS PCT Blackburn	18	0	0
NIC Services Group Ltd	1	2	0
North Western & North Wales Sea Fisheries Committee	8	11	12
Northgate Managed Services	18	0	0
NSL Ltd (Lancaster)	1	0	0
NSL Ltd (Wyre BC)	1	0	0
Ormerod Home Trust Ltd	8	7	3
Our Lady Queen of Peace (Bullough Contract Services)	3	1	0
Pendle Borough Council	337	353	616
Pendle Leisure Trust Ltd	99	76	15
Penwortham Town Council	5	3	0
Pilling Parish Council	2	0	1
Preston Care and Repair	5	4	0
Preston City Council	971	1,032	1,281
Preston College	401	476	139
Preston Council for Voluntary Services	2	3	0
Preston Vision Ltd	3	0	0
Progress Housing Group Ltd	216	84	62
Progress Recruitments	1	2	0
Queen Elizabeth's Grammar School	20	6	11
Ribble Valley Borough Council	232	175	206
Ribble Valley Homes	22	4	7
Rosendale Borough Council	189	244	566
Rosendale Leisure Trust	30	57	12
Rosendale Transport Ltd	15	8	57
Runshaw College	339	235	83
Singposts MARC Ltd	1	1	0
Solar Facilities (Bishop Raws)	1	0	1
Solar Facilities (Seven Stars)	2	0	0
Solar Facilities (St Peters)	2	0	0
Solar Facilities (Tareyton)	3	1	0
Solar Facilities (Ripley)	1	0	1
South Ribble Borough Council	300	295	371

Employing Body	Pensionable Employees	Preserved Pensioners	Pensioners
South Ribble Community Leisure Ltd	41	27	14
St Anne's on Sea Town Council	1	0	0
Surestart Hyndburn	31	25	1
Twin Valley Homes Ltd	295	74	47
University of Central Lancashire	1,279	1,004	432
University of Cumbria (was St Martins College)	799	473	203
Vita Lend Lease BSF ICT	1	0	0
Vita Lend Lease Ltd	22	2	0
West Lancashire Borough Council	541	324	670
West Lancashire Community Leisure Ltd	38	26	13
Whitworth Town Council	2	7	10
Wyre Borough Council	328	278	530
Wyre Housing Association	9	21	25
Former Employers with no Active Members	0	614	1,151
Totals	50,595	42,124	36,269



Appendix D

Actuarial assumptions used

Funding target assumptions

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% p.a. for the period pre-retirement and 1.0% p.a. post-retirement.

The asset out-performance assumption represents the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund (other than for any employers adopting a bespoke investment strategy in accordance with the FSS). In completing the

calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.55% p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOA's.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments.

- An allowance for supply/demand distortions in the bond market is incorporated and
- Due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June 2010. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to market implied RPI inflation at the valuation date is 0.8% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 2.0 % p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases. This has been modified from the assumption at the previous valuation (of 1.75% above the RPI inflation assumption) to reflect future expectations, averaged over the long-term, for real salary increases, and the change in inflation assumption from RPI to CPI.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with inflation (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used reflect the Fund's membership profile, and are set out in the summary section below. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity

seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

Early retirement

Some members are entitled to receive their benefits (or a part of their benefits) unreduced from an age prior to the Fund's normal pension age under the "Rule of 85" provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member's pensionable service. The calculations in respect of the relevant service to which these terms apply (basically pre April 2008 service but with transitional protections for certain members) allow for a proportion of the active membership to retire in normal health prior to age 65, as set out below.

Age	% retiring per annum	
	Males	Females
60	24	41
61	15	20
62	21	20
63	22	19
64	26	23

For post April 2008 service (other than protected service) the situation is different since the "Rule of 85" rule has been removed (and for post October 2006 service for new entrants to the Scheme from that date). For this service we have assumed the earliest age at which unreduced benefits become an entitlement is 65, except for those members who have protected status under the transitional provisions.

Other than for certain employers as specified in Appendix I no allowance has been made for non-ill health early retirements prior to the ages specified above. Additional capital contributions will be paid by employers in respect of the cost of these retirements where that exceeds the allowance made.

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

Age	% leaving per annum	
	Males	Females
35	0.03	0.02
45	0.07	0.07

	% leaving per annum	% leaving per annum
55	0.31	0.27

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below:

	Tier 1	Tier 2	Tier 3
Males	72%	9%	19%
Females	73%	14%	13%

Withdrawals

This assumption relates to those members who leave the scheme with an entitlement to a deferred pension or transfer value. It has been assumed that active members will leave the Scheme at the following sample rates:

	% leaving per annum	
Age	Males	Females
25	13.50	14.92
35	3.39	4.18
45	1.69	2.59

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1p.a. of pension given up.

Proportion married/in civil partnership and age difference

It has been assumed that the proportions of members below will on death give rise to a spouse's/civil partner's/dependant's pension, and that spouses/partners of female (male) members are three years older (younger), on average than the member.

	% spouse/partner	
Age	Males	Females
25	45	25
35	45	47
45	54	55

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of Pensionable Pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Assumptions used in calculating the cost of future accrual

The cost of future accrual (the common contribution rate) has been calculated using the same actuarial assumptions as used to calculate the funding target as set out above except that the financial assumptions adopted are as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0 % per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the common rate of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key assumptions used for calculating funding target and cost of future accrual for the 2010 actuarial valuation

Long-term gilt yields	
Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	7.0 % p.a.
Investment return post-retirement	5.5 % p.a.
CPI price inflation	3.0% p.a.
Salary increases	5.0 % p.a.
Pension increases	3.0 % p.a.
Future service accrual financial assumptions	
Investment return	6.75% p.a.
CPI price inflation	3.0% p.a.
Salary increases	5.0% p.a.
Pension increases	3.0 % p.a.

Post retirement mortality

	Table	Adjustment*
Males normal health pensioners	S1PMA CMI_2009_M [1%]	103%
Female normal health pensioners	S1PFA CMI_2009_F [1%]	96%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	124%
Female dependants	S1DFA CMI_2009_F [1%]	106%
Male future dependants	S1PMA CMI_2009_M [1%]	108%
Female future dependants	S1DFA CMI_2009_F [1%]	101%

*An **age rating** applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

For example, a “+1 year” rating would mean beneficiaries are assumed to have the mortality of someone one year their senior which has the effect of reducing their life expectancy and hence reducing the assessed value of the corresponding liabilities.

A **weighting** applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy.

For example, a “106%” weighting would mean beneficiaries have mortality rates 6% higher than the unadjusted table which reduces the assessed value of the corresponding liabilities.

Other Demographic assumptions

Pre-retirement mortality	PA92 MC YoB tables + 1 year
Commutation	One half of members take maximum lump sum, others take 3/80ths
Ill health retirement and proportions married/civil partnerships	Revised at the 2010 valuation based on up to date detailed analysis of general LGPS experience
Withdrawal and other demographics	As for 2007 Valuation

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the **funding target**, with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

An overall additional return of 3.0% p.a. above the liabilities consistent gilt yield of 4.5% p.a. effective as at the valuation date, reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

This is equivalent to a total rate of investment return of 7.5% p.a. effective as at the 2010 valuation date.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

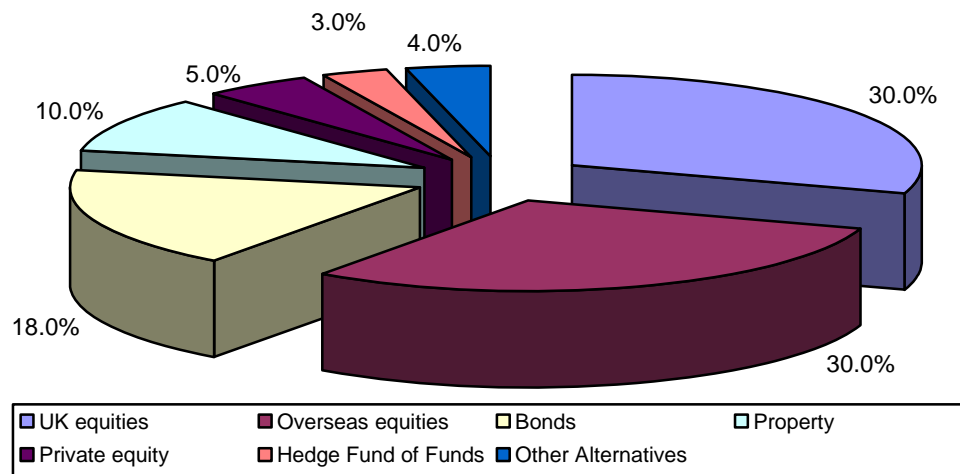
The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where the variation in the assumptions does apply, the resultant total contribution rate(s) implemented following the 2010 valuation will be subject to a minimum of both:

- the contribution rate(s) originally planned for 2011/12 onwards based on the 2007 actuarial valuation plus 1.5%, and
- the normal future service contribution rate for the employer concerned.



Summary of assets

Based on the information supplied, the market value of the assets of the Fund (excluding those additional voluntary contribution funds (AVCs) which are separately invested) was £3,962 million on the valuation date. The target distribution of assets by asset class as per the Fund’s Statement of Investment Principles was as follows:-



The details of the assets at the valuation date and the financial transactions during the inter-valuation period (as summarised in Appendix F) have been obtained from the audited accounts for the Scheme.

Appendix F

Summary of income and expenditure

INCOME	Year ending 31 March			Total
	2008	2009	2010	
	£000s	£000s	£000s	£000s
Fund at beginning of year	3,688,846	3,669,667	2,933,938	3,688,846
Contributions to Fund:				
Employees	49,295	55,047	56,724	161,066
Employers	128,360	138,505	151,695	418,560
Transfer Values received	17,626	16,467	26,697	60,790
Investment income	91,961	80,377	71,431	243,769
Change in market value of investments	-131,691	-815,904	934,980	-12,615
TOTAL:	3,844,397	3,144,159	4,175,465	4,560,416

EXPENDITURE	Year ending 31 March			Total
	2008	2009	2010	
	£000s	£000s	£000s	£000s
Pensions for members/spouses/partners/dependants	122,916	131,625	141,347	395,888
Lump sum benefits	30,289	36,625	41,461	108,375
Refunds on withdrawal	223	19	7	249
Transfer values paid	11,423	21,518	21,787	54,728
Investment expenses	6,939	5,614	5,807	18,360
Prior year adjustment	0	11,447	0	11,447
Administration expenses	2,940	3,373	3,471	9,784
Fund at end of year	3,669,667	2,933,938	3,961,585	3,961,585
TOTAL:	3,844,397	3,144,159	4,175,465	4,560,416

Appendix G

Experience analysis of the membership of the Fund for the period 1 April 2007 to 31 March 2010

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2010 valuation.

III Health Retirements

	Actual	Expected	%
Males	131	96	136
Females	228	145	157
Total	359	241	149

In considering the above it should be noted that the introduction of the 2008 scheme included substantial changes to the eligibility criteria for ill health retirement and so the experience over the period is not expected to be representative of that going forward. The ill health assumptions for this 2010 valuation are in accordance with the analysis and advice reported separately to the Administering Authority, based on observed experience across all Mercer LGPS clients.

1. Withdrawals

	Actual	Expected	%
Males	3,967	1,302	305
Females	14,142	4,144	341
Total	18,109	5,446	333

Note that actual withdrawals include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

2. Pensioner Deaths

a. Based on amounts of pension payable

	Actual (£000s)	Expected (£000s)	%
Males	6,822	6,285	109
Females	4,580	4,270	107
Total	11,402	10,555	108

b. Based on number of pensions in payment

	Actual	Expected	%
Males	1,444	1,146	126
Females	1,748	1,564	112
Total	3,192	2,710	118

Appendix H

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund

Lancashire County Pension Fund

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.5 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions.

For employers where no allowance for non ill-health early retirement costs is included in the valuation 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. Additional contributions may be paid if requested by the employer concerned.

The 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 against a third party.

Regulation 36(8)

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.

For four employers I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2011 taken into account when setting this employer's contribution rate.

No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions.

**Signature****Name**

John Livesey

Qualification

Fellow of the Institute of Actuaries

Date of signing

31 March 2011

Appendix I

Schedule to the Rates and Adjustment Certificate dated 31 March 2011

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	
ABM Catering Ltd	3.5%	16.0%	3.5%	16.0%	3.5%	16.0%	
Accrington & Rossendale College	7.1%	19.6%	7.1%	19.6%	7.1%	19.6%	
Accrington Academy	-1.8%	10.7%	-1.8%	10.7%	-1.8%	10.7%	
Alternative Futures	1.7%	14.2%	1.7%	14.2%	1.7%	14.2%	
Andron (City of Preston High)	-1.2%	11.3%	-1.2%	11.3%	-1.2%	11.3%	
Andron (Glenburn Sports College)	0.5%	13.0%	0.5%	13.0%	0.5%	13.0%	
Andron (Kennington)	0.0%	12.5%	0.0%	12.5%	0.0%	12.5%	
Andron (Ribblesdale High)	-0.3%	12.2%	-0.3%	12.2%	-0.3%	12.2%	
Arnold Schools Ltd	5.0%	17.5%	6.2%	18.7%	7.4%	19.9%	
Beaufort Avenue Day Care Centre	14.0%	26.5%	17.7%	30.2%	21.3%	33.8%	
Blackburn College	2.9%	15.4%	2.9%	15.4%	2.9%	15.4%	
Blackburn St Mary's College	1.7%	14.2%	1.7%	14.2%	1.7%	14.2%	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Amount £
Blackburn with Darwen Borough Council	3.1%	15.6%	3.6%	16.1%	4.1%	16.6%	
Blackpool & The Fylde College	5.0%	17.5%	5.0%	17.5%	5.0%	17.5%	£246,000
Blackpool Airport Ltd (from July 2004)	20.5%	33.0%	24.5%	37.0%	27.8%	40.3%	
Blackpool Borough Council	3.9%	16.4%	4.4%	16.9%	4.9%	17.4%	£697,600
Blackpool Borough Transport Ltd	-12.5%	0.0%	-12.5%	0.0%	-12.5%	0.0%	
Blackpool Coastal Housing	-0.5%	12.0%	-0.5%	12.0%	-0.5%	12.0%	
Blackpool Sixth Form College	-0.5%	12.0%	-0.5%	12.0%	-0.5%	12.0%	
Blackpool Zoo (Grant Leisure Ltd)	5.5%	18.0%	7.1%	19.6%	8.8%	21.3%	
Blackpool, Fylde & Wyre Society for Blind	29.5%	42.0%	32.5%	45.0%	35.5%	48.0%	
Bootstrap Enterprise Ltd	0.2%	12.7%	0.2%	12.7%	0.2%	12.7%	
Bulloughs (Highfield)	-2.0%	10.5%	-2.0%	10.5%	-2.0%	10.5%	
Bulloughs (St Augustines)	1.9%	14.4%	1.9%	14.4%	1.9%	14.4%	
Bulloughs (St Marys)	4.0%	16.5%	4.0%	16.5%	4.0%	16.5%	
Bulloughs (Whalley Primary)	2.3%	14.8%	2.3%	14.8%	2.3%	14.8%	
Burnley Borough Council	12.5%	25.0%	12.5%	25.0%	12.5%	25.0%	
Burnley College	2.3%	14.8%	2.3%	14.8%	2.3%	14.8%	
Calico Housing Ltd	6.8%	19.3%	6.8%	19.3%	6.8%	19.3%	
CAPITA	12.2%	24.7%	14.1%	26.6%	16.0%	28.5%	
Capita (Rossendale BC)	3.1%	15.6%	4.6%	17.1%	6.0%	18.5%	
Cardinal Newman College	3.3%	15.8%	3.3%	15.8%	3.3%	15.8%	
Caritas Care Ltd (was Catholic Caring Services)	6.2%	18.7%	6.2%	18.7%	6.2%	18.7%	
Catterall Parish Council	2.3%	14.8%	2.3%	14.8%	2.3%	14.8%	
Chorley Borough Council	6.8%	19.3%	7.3%	19.8%	7.8%	20.3%	
Chorley Community Housing	1.6%	14.1%	1.6%	14.1%	1.6%	14.1%	
Church Road Methodist Day Centre	6.7%	19.2%	7.0%	19.5%	7.3%	19.8%	
Commission for Education & Formation	8.0%	20.5%	8.0%	20.5%	8.0%	20.5%	
Community Council of Lancashire	8.3%	20.8%	8.3%	20.8%	8.3%	20.8%	
Community Gateway Association Ltd	1.7%	14.2%	2.4%	14.9%	3.0%	15.5%	
Connaught Environmental (Blackpool BC)	-3.9%	8.6%	-3.9%	8.6%	-3.9%	8.6%	
Connaught Environmental (Blackpool Coastal Housing)	0.5%	13.0%	0.5%	13.0%	0.5%	13.0%	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	
	Consultant Caterers Ltd	2.5%	15.0%	2.5%	15.0%	2.5%	
Contour Housing Association	4.1%	16.6%	4.1%	16.6%	4.1%	16.6%	
Creative Support Ltd	1.6%	14.1%	1.6%	14.1%	1.6%	14.1%	
CX Ltd	-0.6%	11.9%	-0.6%	11.9%	-0.6%	11.9%	
Danfo (UK) Ltd	172.2%	184.7%	172.2%	184.7%	172.2%	184.7%	
Darwen Aldridge Community Academy	-1.2%	11.3%	-1.2%	11.3%	-1.2%	11.3%	
E ON UK Plc	6.2%	18.7%	6.2%	18.7%	6.2%	18.7%	
Edge Hill University College	1.5%	14.0%	2.0%	14.5%	2.5%	15.0%	
Enterprise Managed Services Ltd	1.1%	13.6%	2.4%	14.9%	3.6%	16.1%	
Eric Wright Commercial Ltd	5.4%	17.9%	5.4%	17.9%	5.4%	17.9%	
Fulwood Academy	-1.3%	11.2%	-1.3%	11.2%	-1.3%	11.2%	
Fylde Borough Council	7.0%	19.5%	8.3%	20.8%	9.5%	22.0%	
Fylde Coast YMCA (Fylde)	-2.0%	10.5%	-2.0%	10.5%	-2.0%	10.5%	
Fylde Community Link	4.3%	16.8%	4.3%	16.8%	4.3%	16.8%	
Galloways Society for the Blind	32.2%	44.7%	32.2%	44.7%	32.2%	44.7%	
Garstang Town Council	-1.3%	11.2%	-1.3%	11.2%	-1.3%	11.2%	
Housing Pendle Ltd	1.8%	14.3%	1.8%	14.3%	1.8%	14.3%	
Hyndburn Borough Council	12.3%	24.8%	12.3%	24.8%	12.3%	24.8%	
Hyndburn Homes Ltd	1.4%	13.9%	1.4%	13.9%	1.4%	13.9%	
I Care	-1.6%	10.9%	-1.6%	10.9%	-1.6%	10.9%	
Kirkham Grammar School	4.1%	16.6%	4.6%	17.1%	5.1%	17.6%	
Kirkland Parish Council	2.5%	15.0%	2.5%	15.0%	2.5%	15.0%	
Lancashire & Blackpool Tourist Board	1.1%	13.6%	1.1%	13.6%	1.1%	13.6%	
Lancashire County Branch Unison	8.0%	20.5%	8.0%	20.5%	8.0%	20.5%	
Lancashire County Council	5.8%	18.3%	6.2%	18.7%	6.6%	19.1%	
Lancashire Fire & Rescue Service	5.0%	17.5%	5.0%	17.5%	5.0%	17.5%	£199,000
Lancashire Police Authority	2.3%	14.8%	2.8%	15.3%	3.3%	15.8%	£450,500
Lancashire Probation Committee	6.6%	19.1%	6.6%	19.1%	6.6%	19.1%	
Lancaster & Morecambe College	4.1%	16.6%	4.1%	16.6%	4.1%	16.6%	
Lancaster City Council	8.1%	20.6%	8.1%	20.6%	8.1%	20.6%	
Lancaster University	1.9%	14.4%	2.2%	14.7%	2.6%	15.1%	
Leisure in Hyndburn	3.3%	15.8%	4.5%	17.0%	5.7%	18.2%	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	
Liberata	6.0%	18.5%	6.0%	18.5%	6.0%	18.5%	
Liberata UK Ltd (Chorley)	8.9%	21.4%	8.9%	21.4%	8.9%	21.4%	
Lytham Schools Foundation	2.2%	14.7%	2.2%	14.7%	2.2%	14.7%	
Mellor's (formerly Wyre)	1.7%	14.2%	1.7%	14.2%	1.7%	14.2%	
Mellor's Catering (Cardinal Newman)	5.0%	17.5%	5.0%	17.5%	5.0%	17.5%	
Myerscough College	0.8%	13.3%	1.0%	13.5%	1.1%	13.6%	
Nelson and Colne College	3.3%	15.8%	3.3%	15.8%	3.3%	15.8%	
New Fylde Housing	42.3%	54.8%	42.3%	54.8%	42.3%	54.8%	
New Progress Housing	3.9%	16.4%	3.9%	16.4%	3.9%	16.4%	
NHS PCT Blackburn	1.6%	14.1%	1.6%	14.1%	1.6%	14.1%	
NIC Services Group Ltd	2.5%	15.0%	2.5%	15.0%	2.5%	15.0%	
North Western & North Wales Sea Fisheries Committee	13.4%	25.9%	13.4%	25.9%	13.4%	25.9%	
Northgate Managed Services	0.1%	12.6%	0.1%	12.6%	0.1%	12.6%	
NSL Ltd (Lancaster)	4.5%	17.0%	4.5%	17.0%	4.5%	17.0%	
NSL Ltd (Wyre BC)	0.6%	13.1%	0.6%	13.1%	0.6%	13.1%	
Ormerod Home Trust Ltd	11.7%	24.2%	13.7%	26.2%	15.5%	28.0%	
Our Lady Queen of Peace (Bullough Contract Services)	3.5%	16.0%	3.5%	16.0%	3.5%	16.0%	
Pendle Borough Council	12.1%	24.6%	14.1%	26.6%	16.2%	28.7%	
Pendle Leisure Trust Ltd	1.2%	13.7%	1.2%	13.7%	1.2%	13.7%	
Penwortham Town Council	1.5%	14.0%	1.5%	14.0%	1.5%	14.0%	
Pilling Parish Council	4.8%	17.3%	4.8%	17.3%	4.8%	17.3%	
Preston Care and Repair	6.0%	18.5%	6.0%	18.5%	6.0%	18.5%	
Preston City Council	5.6%	18.1%	6.1%	18.6%	6.6%	19.1%	
Preston College	2.7%	15.2%	3.0%	15.5%	3.3%	15.8%	
Preston Council for Voluntary Services	9.4%	21.9%	9.4%	21.9%	9.4%	21.9%	
Progress Care Housing	3.9%	16.4%	3.9%	16.4%	3.9%	16.4%	
Progress Housing Group Ltd	3.9%	16.4%	3.9%	16.4%	3.9%	16.4%	
Progress Recruitments	2.9%	15.4%	2.9%	15.4%	2.9%	15.4%	
Queen Elizabeth's Grammar School	8.3%	20.8%	9.3%	21.8%	10.3%	22.8%	
Ribble Valley Borough Council	3.6%	16.1%	4.1%	16.6%	4.6%	17.1%	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	
Ribble Valley Homes	1.8%	14.3%	1.8%	14.3%	1.8%	14.3%	
Rossendale Borough Council	13.8%	26.3%	15.3%	27.8%	16.8%	29.3%	
Rossendale Leisure Trust	0.2%	12.7%	1.2%	13.7%	2.1%	14.6%	
Rossendale Transport Ltd	10.7%	23.2%	19.3%	31.8%	27.8%	40.3%	
Runshaw College	2.6%	15.1%	2.9%	15.4%	3.2%	15.7%	
Singposts MARC Ltd	-12.5%	0.0%	-12.5%	0.0%	-12.5%	0.0%	
Solar Facilities (Bishop Raws)	-12.5%	0.0%	-12.5%	0.0%	-12.5%	0.0%	
Solar Facilities (Ripley)	8.5%	21.0%	8.5%	21.0%	8.5%	21.0%	
Solar Facilities (Seven Stars)	3.4%	15.9%	3.4%	15.9%	3.4%	15.9%	
Solar Facilities (St Peters)	-3.0%	9.5%	-3.0%	9.5%	-3.0%	9.5%	
Solar Facilities (Tarelton)	1.4%	13.9%	1.4%	13.9%	1.4%	13.9%	
South Ribble Borough Council	6.8%	19.3%	7.8%	20.3%	8.8%	21.3%	
South Ribble Community Leisure Ltd	10.4%	22.9%	10.4%	22.9%	10.4%	22.9%	
St Anne's on Sea Town Council	-1.4%	11.1%	-1.4%	11.1%	-1.4%	11.1%	
Surestart Hyndburn	-2.0%	10.5%	-1.0%	11.5%	-0.1%	12.4%	
Twin Valley Homes Ltd	3.8%	16.3%	3.8%	16.3%	3.8%	16.3%	
University of Central Lancashire	1.6%	14.1%	1.6%	14.1%	1.6%	14.1%	
University of Cumbria (was St Martins College)	1.5%	14.0%	1.5%	14.0%	1.5%	14.0%	
Vita Lend Lease BSF ICT	0.2%	12.7%	0.2%	12.7%	0.2%	12.7%	
Vita Lend Lease Ltd	1.3%	13.8%	1.3%	13.8%	1.3%	13.8%	
West Lancashire Borough Council	7.5%	20.0%	7.5%	20.0%	7.5%	20.0%	
West Lancashire Community Leisure Ltd	-0.5%	12.0%	-0.5%	12.0%	-0.5%	12.0%	
Whitworth Town Council	3.6%	16.1%	3.6%	16.1%	3.6%	16.1%	
Wyre Borough Council	12.6%	25.1%	12.6%	25.1%	12.6%	25.1%	
Wyre Housing Association	57.8%	70.3%	57.8%	70.3%	57.8%	70.3%	

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged %
Alzheimer's Society	See notes
Barnoldswick Town Council	See notes
Blackpool & Fylde Mind Association	See notes
Blackpool & Fylde Society for the Deaf	100
Blackpool Town Centre Forum Ltd	See notes
Bulloughs (St Albans)	See notes
Burnley & Pendle Development Association	100
Burton Manor Residential College	100
Carden Croft Ltd	See notes
Community Alliance (Burnley & Padiham) Ltd	See notes
CSB Contract Services	See notes
Elm House Management Committee	See notes
Ex Department of Transport	100
Ex National Health Service	100
Ex National Water Council	100
Fylde Coast Development Association	100
Lancashire South East Probation Committee	100
Lancashire Valuation Tribunal	See notes
New Directions	See notes
Preston Vision Ltd	See notes
Salmesbury & Cuerdale Parish Council	See notes
Skelmersdale College	See notes
Spastics Society	100

Note:

Members of the Fund employed by Skelmersdale College have transferred to membership of the Tyne and Wear Fund, and so a bulk transfer payment will be required. Any residual funding shortfall in the LCPF after the transfer payment should then be recovered from the College.

For the remaining employers listed as "see notes" above further calculations are required in connection with them ceasing to participate in the Fund. Further details for these employers will be notified in due course.

MERCER

Argentina

Australia

Austria

Belgium

Brazil

Canada

Chile

China

Colombia

Czech Republic

Denmark

Finland

France

Germany

Hong Kong

India

Indonesia

Ireland

Italy

Japan

Malaysia

Mexico

Netherlands

New Zealand

Norway

Philippines

Poland

Portugal

Saudi Arabia

Singapore

South Korea

Spain

Sweden

Switzerland

Taiwan

Thailand

Turkey

United Arab Emirates

United Kingdom

United States

Venezuela

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Scheme employers with active members as at 31 March 2014

A
Academy@Worden
Accrington & Rossendale College
Accrington Academy
Albany Academy
All Saints CE Primary School Academy
Alternative Futures Group Ltd
Anchorsholme Academy
Andron (Former Solar contracts)
Andron (Kennington Primary School)
Andron (Ribblesdale High School)
Arnold Schools Ltd
B
Bacup & Rawtenstall Grammar School (Academy)
Balfour Beatty WorkPlace Ltd (Blakewater / Crosshill)
Balfour Beatty WorkPlace Ltd (Darwen Vale)
Balfour Beatty WorkPlace Ltd (Pleckgate School)
Balfour Beatty WorkPlace Ltd (Witton Park)
Belthorn Primary Academy
Bishop Rawstorne High Academy
Blackburn College
Blackburn St Mary's
Blackburn with Darwen Borough Council
Blackpool & The Fylde College
Blackpool Coastal Housing
Blackpool Borough Council
Blackpool Sixth Form College
Blackpool Transport Services Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bowland High Academy Trust
Blackpool Airport post July 2004
Blackpool Fylde & Wyre Society for the Blind
Bulloughs (Our Lady)
Bulloughs Cleaning
Bulloughs (St Augustines)
Bulloughs(Whalley Primary)
Burnley Borough Council

Burnley College
Burscough Parish Council
C
Calico Housing
Capita Business Services
Capita(Rossendale BC)
Cardinal Newman College
Caritas Care Limited
Cater Link Limited (Ripley St Thomas)
Catterall Parish Council
CG Cleaning Ltd (Balladen)
CG Cleaning Ltd (Heysham High School)
CG Cleaning Ltd (St James School)
CG Cleaning Ltd (St Patricks)
Chorley Borough Council
Chorley Community Housing Ltd
Church Rd Day Care Unit
Clitheroe Royal GS (Academy)
Community and Business Partners
Community Council of Lancashire
Community Gateway Association Ltd
Consultant Caterers Ltd
Contour Housing Group
Creative Support Ltd
Creative Support Ltd (Midway)
D
Darwen Aldridge Community Academy
Darwen Town Council
Devonshire Academy
E
E ON UK PLC
Edge Hill University
Elite Cleaning & Environmental Services Ltd
Enterprise Managed Services
Eric Wright Facilities Management
Eric Wright Facilities Management (Site Supervisors)

F

Four Seasons Health Care Group (No 7) Ltd

Fulwood Academy

Fylde Borough Council

Fylde Coast Academy Trust (MAT)

Fylde Coast Unity Academy

Fylde Coast YMCA

Fylde Community Link

G

Galloways Society for the Blind

Garstang Community Academy

Garstang Town Council

H

Habergham Eaves Parish Council

Hambleton Primary Academy

Hawes Side Academy

Hodgson Academy

Housing Pendle Ltd

Hyndburn Borough Council

Hyndburn Homes Ltd

I

I Care

J

Jewson Ltd (Chorley Homes)

K

Kirkham Grammar School (Independent)

Kirkland Parish Council

L

Lancashire County Council

Lancashire Care Foundation Trust

Lancashire Constabulary

Lancashire County Branch Unison

Lancashire Probation Trust

Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School Academy
Lancaster Royal Grammar School Academy
Lancaster University
Lancashire and Blackpool Tourist Board
Lancashire Fire and Rescue Service
Lancashire Sports Partners Ltd
Lancashire Workforce Development Partnership
Langdale Free School
Leisure in Hyndburn
Liberata UK Ltd (Chorley)
Liberata UK Ltd (Pendle)
Lostock Hall Academy Trust
Lowther Pavillion & Gardens
Lytham Schools Foundation
M
Mack Trading International Ltd
Maharishi Free School
May Gurney Fleet & Passenger Services Ltd
Mellors (Bishop Rawstorne)
Mellors (Hambleton Primary School)
Mellors (Worden Sports College)
Mellors Catering (Fulwood Academy)
Mellors Catering (Trinity & St Michaels)
Mellors Catering Services
Mellors Catering Services (Brinscall St John)
Montgomery High School (Academy)
Moorside Community Primary Academy School
Morecambe Town Council
Myerscough College
N
Nelson and Colne College
New Fylde Housing Ltd
New Progress Housing
NIC Services Group Ltd
Norbreck Primary Academy
NSL Ltd.(Lancaster)
NW Inshore Fisheries and Conservation

O

Old Laund Booth

P

Parbold Douglas CE Academy

Park Academy

Parklands High School Academy

Pendle Borough Council

Pendle Education Trust - Colne Primet HS Academy

Pendle Education Trust - Walter St PS Academy

Pendle Leisure Trust Ltd

Penwortham Priory Academy

Penwortham Town Council

Pilling Parish Council

Places for People Individual Support Ltd

Preesall Town Council

Preston Care and Repair

Preston City Council

Preston College

Preston Council for Voluntary Service

Progress Care Housing

Progress Housing Group

Progress Recruitments (SE) Ltd

Q

Queen Elizabeth's Grammar School

R

Ribble Valley Borough Council

Ribble Valley Homes Ltd

Ripley St Thomas C E Academy

Roseacre Primary Academy

Rossendale Borough Council

Rossendale Leisure Trust

Rossendale Transport Ltd

Runshaw College

S

School Lettings Solutions

Service Alliance Ltd.

Service Alliance Ltd. (Ribblesdale Childrens Centre)
South Ribble Borough Council
South Ribble Community Leisure
South Shore Academy
St Annes on Sea Town Council
St Christopher's CE Academy
St Michael's CE High Academy
St Wilfrid's C of E Academy
Superclean Services Wothorpe Ltd
Sure Start Hyndburn
T
Tarleton Academy
Tauheedul Free Schools Trust (The Olive School Blackburn)
Tauheedul Free Schools Trust (The Olive School London)
Tauheedul Free Schools Trust
Tauheedul Islam Boys HS Free School
Thames Primary Academy
The Heights Free School
The Lancashire Colleges Ltd
The Ormerod Home Trust Ltd
The Via Partnership
Twin Valley Homes Ltd
U
University of Central Lancashire
University of Cumbria
V
Vita Lend Lease (BSF ICT)
Vita Lend Lease Ltd
W
Waterloo Primary Academy
Wensley Fold CE Primary Academy
West Lancashire Borough Council
West Lancs Community Leisure
Westcliff Primary School Academy
Whitworth Town Council
Wyre Borough Council
Wyre Housing Association