Lancashire County Pension Fund

Annual Report 2012/13

www.lancashire.gov.uk

Lancashire County Council

Contents

A	Management Structure	3
B	Overview of Management and Financial Performance	4
C	Governance of the Fund	6
D	Administration of the Fund	8
E	Knowledge and Skills Framework	10
F	Investment Policy and Performance	11
G	Accounts of the Fund	21
H	Actuarial Valuation	56
I	Contacts	64

Appendices

1 Governance Policy Statement
2 Administration Report
3 Communication Policy Statement
4 Pensions Administration Strategy Statement
5 Funding Strategy Statement (FSS)
6 Statement of Investment Principles (SIP)
7 Actuarial Valuation
8 List of Member Organisations as at 31st March 2013

A: Management Structure

Management Structure as at 31 March 2013

Pension Fund Committee *
2012/2013 (as at March 2013)

Lancashire County Council
D A Westley (Chair)
M J Welsh (Deputy Chair)
T Aldridge
M Brindle
M Devaney
P Evans
K Iddon
J Lawrenson
F De Molfetta
M Parkinson
T Pimblett
S Riches
G Roper
K Young

Blackburn with Darwen Borough Council
D Walsh

Blackpool Borough Council
M Smith

Administering Authority
Lancashire County Council

Lancashire District Councils
P Leadbetter
I Grant

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

Co-opted Member representing HE/FE Establishments
J McCann

Fund Managers
Legal & General Investment Management
Knight Frank
Capital Dynamics
Baillie Gifford & Co
MFS International (UK) Ltd
Robeco Institutional Asset Management
Morgan Stanley Investment Management
NGAM UK Ltd
Mellon Transition Management

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 Curtis Biddle
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

*Membership of the Pension Fund Committee changed following the Lancashire County Council elections in May 2013.
The new chair of the committee is Cllr T Burns.

B: Overview of Management and Financial Performance

The investment performance of the Lancashire County Pension Fund during 2012/13 has been driven primarily by the substantial asset allocation and manager changes made from late 2011 onwards.

Markets benefited from perceived reduction in risks, in particular those emanating from the Eurozone which had produced a highly volatile backdrop to global investment activity during the previous year. The actions of Mario Draghi, the head of the European Central Bank, in particular can be credited with reducing market volatility.

The continued efforts by many of the world's central banks in adding liquidity to global markets also helped reduce financial anxiety, helping to create a general improvement in asset prices. The economy of the United States has been the principal beneficiary of this stability as consumer confidence has returned, particularly to the housing market. Late in the year the new Japanese government announced its own aggressive version of Quantitative Easing (QE) adding yet more liquidity to the system.

There are still many strong cross currents to be negotiated in world markets, in particular a slow down in emerging market growth, the potential for developed world deflation and residual risks in European sovereign and bank debt markets.

The strong rally in world Equity markets in the final quarter of the year produced a 9.1% rise in the FTSE100, whilst with the additional benefit of the fall in the value of Sterling produced a rise in the MSCI all world of 14.2%. Credit markets continued to perform positively as the perception of risk fell, the IBOX non Gilt Sterling index (a published index based on a broad range of high quality corporate bonds of varying maturity) rose 7.0%.

Government bond markets in the US, UK and core Europe performed well over the 12 month period, the IBOX 15yr+ Gilt index rose 8.9% buoyed by the addition of liquidity by monetary authorities.

2012/13 was a period of implementation of revised investment allocations for the Fund. The early steps into lower volatility investment made late in the previous year were augmented by radical changes to the Funds approach to equity investing, shifting focus away from the UK to a global bias and the use of more active investing styles. Whilst the Fund should always view performance over the medium rather than short term it has been pleasing to see changes having immediate effects, both in terms of absolute and relative performance but also of total Fund volatility.

The overall return achieved by the Fund during 2012/13 was 14.9% compared to the benchmark return of 13.5% and the actuarial liability benchmark of Gilts +2.5% (7.9%) and average local authority return of 13.8%. This ranked in the 24th percentile of the WM Local Authority Universe, the majority of out performance coming from the new active equity mandates, property and the internally managed funds. The major drag on performance came from the funds fixed income mandates, which have been reallocated after the end of the reported period.

During the year the Fund was cash flow positive, with income from contributions and investments exceeding expenditure on benefits and expenses by £98.4m but excluding investment income, and accounting for transfers in, it should be noted that the Fund was cash flow negative (£15.2m).

The on going implementation of the Fund's investment strategy together with improvements in governance, place the Fund in a strong position to deal with developments in global risk, the international regulatory framework and the future structure of pensions in general.

Capital for long term investment remains scarce in light of the effects of forthcoming regulation for the banking (Basle 3) and insurance (Solvency 2) sectors, leaving open defined benefit Pension Funds in a strong position to positively address the goals of full funding and sustainable cost. The challenges for the future remain risk management and judicial diversified asset allocation.

The Fund was nominated for the CIO 'European Public Sector Fund of the Year' award and received the 'Renewable Energy Association Pioneer Award' for its activity in Solar energy financing.

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.

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. These can be found in the Fund's Governance Policy Statement.

The Fund's Governance Compliance Statement is shown below reporting 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) (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.	✓ **Partial** (see note1 below) ✓ ✓
B Representation	(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1) 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)	**Partial** (see notes 1 and 2 below)
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 pensioner 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.	✓

Principle		Full Compliance
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.	✓

Lancashire County Council's Annual Governance Statement

The County Council has produced its Annual Governance Statement for 2012/13. This statement sets out assurances on the County Council's governance arrangements, internal control and the way the County Council manages its affairs.

As the County Council is responsible for the administration of the Pension Fund, including the provision of systems, controls and governance, this statement embraces the activities of the Pension Fund.

D: Administration of the Pension Fund

Overview

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.

The County Council administers the Scheme for over 150 employers. These employers include organisations such as local authorities, further and higher education colleges and voluntary and charitable organisations. This includes a number of 'Admitted Bodies'. These are organisations that have entered into an agreement with the County Council to participate in the Fund.

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.

Review of the Year

2012 has been a year of change within the Pension Service. The biggest development was the launch of a member self service function 'my pension online'. This development allows scheme members to access their pension records online and this service will become the primary method of communication with scheme members in the future.

Overall performance continues to meet the targets set. At the beginning of 2013 the service was restructured and as a result dedicated client teams were created to deliver more efficient customer focussed services. A Performance Manager was appointed to ensure that standards and targets are met. The overall achievement against service level targets over the year was 96%.

The Service also continues to be cost effective with the cost of administration remaining below the Government's key indicator as reported in national benchmarking returns.

Public Sector Pension Reform

A Statutory Consultation started on 21 December 2012 on new benefit regulations for the Local Government Pension Scheme (LGPS) from 1 April 2014. A number of further consultations have followed with the intention of having a new LGPS in place by 1 April 2014. This new Scheme will reflect the provisions of the Public Service Pensions Bill which having worked its way through Parliament reached Royal Assent on 25 April 2013.

The main provisions of the new LGPS 2014 are:

- The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme with an accrual rate of 1/49th and will be re-valued in line with the Consumer Price Index (CPI)
- Normal Pension Age will be the same as the individuals State Retirement Age (minimum 65)

The next step of the statutory consultation process will ensure that the regulations covering protections for current scheme members (known as the transitional regulations) are set. These regulations will describe how the move from current to new rules will take place and set the foundation for protections. In particular, protections will include a final salary link and protected retirement age for benefits built up to March 2014.

More details can be found at (www.lgps.org.uk) and within the full Annual Administration Report.

Other information

Further statements relating to the administration of the Scheme include 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: connect2pensions@oneconnectlimited.co.uk
http://www.yourpensionservice.org.uk

E: Knowledge and 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.

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.

The toolkit comprises six areas of core technical requirements for both officers and members:

- Pensions legislation and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship management;
- Investment performance and risk management;
- Financial markets and products knowledge;
- Actuarial methods, standards and practices.

The frameworks are intended to have two primary uses, as a tool for organisations to determine whether they have the right skill mix to meet their pension scheme financial management needs and as an assessment tool for individuals to measure their progress and plan their development.

This process was initiated for officers in 2012/13 and needs to be fully completed for all relevant officers and members. Once completed, a training programme for both members and officers will be developed, incorporating the training materials available in the toolkit, relevant seminars, conferences and internal training days.

The implementation of the KSF has not advanced as quickly as intended, and it was decided to delay involving members of the Pension Fund Committee until after its reconstitution following the County Council elections in May 2013. (Since then, members of the new Committee and relevant officers have been provided access to the toolkit, and a modular programme established to assess particular areas of knowledge throughout the year. This will be supplemented with regular training and awareness sessions linked to Committee meetings and the identification of ad hoc training opportunities.)

F: Investment Policy and Performance

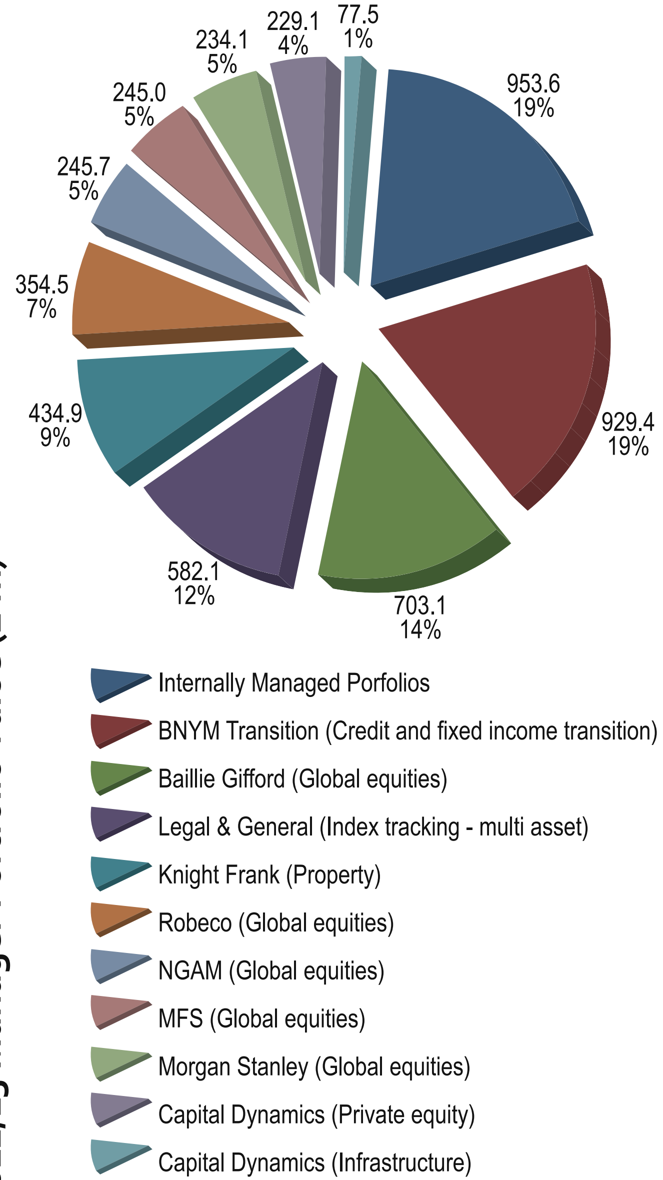
Structure

There are three levels of responsibility for the investment management of the Lancashire County Pension Fund. First, the County Council's Pension Fund Committee takes major policy decisions and monitors overall performance. Second, the Investment Panel recommends specific investment allocations in line with the Committee's policy decisions and monitors the activity of the Fund's managers. Third, the investment managers fix precise weightings and select stock within the allocations set by the Panel and Committee. A more detailed description of the responsibilities of the Committee, its Sub-Committees and the Panel is found in the Governance Policy Statement.

The 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. The investments of the Fund are currently principally managed by five specialist global equity managers, one external index-tracking manager (multi-asset) and in-house provision. The internal team carries out its own treasury management and holds investments in infrastructure funds and non-investment grade credit funds directly.

A summary of portfolio values by investment manager, as at 31 March 2013, is shown on the right.

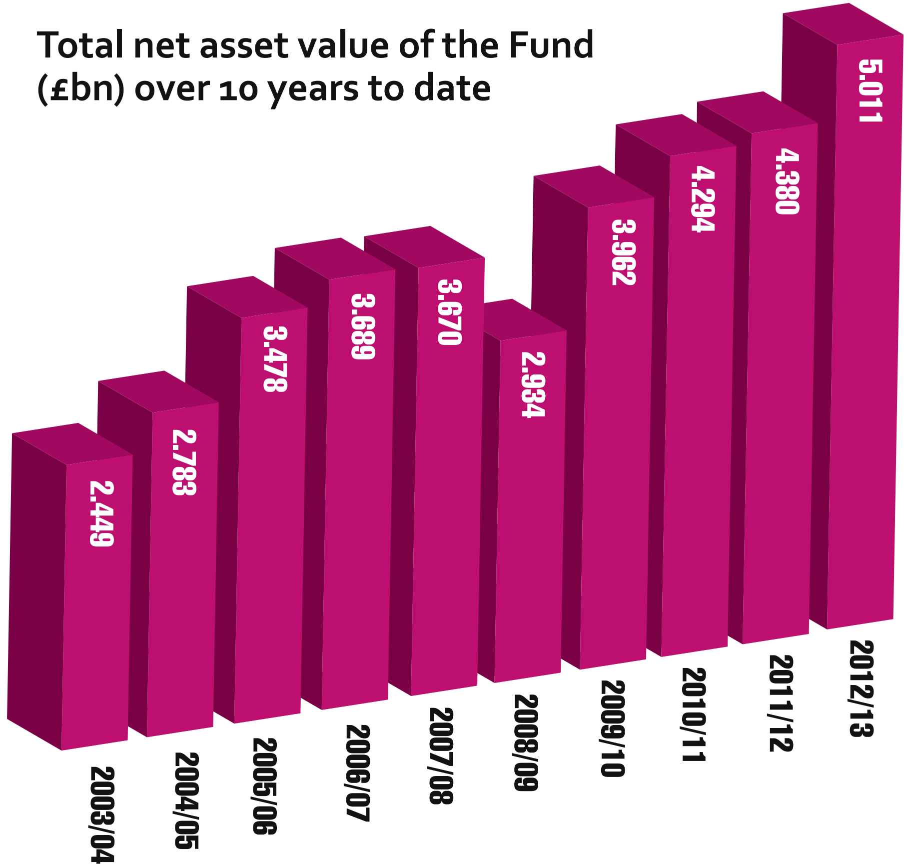
2012/13 Manager Portfolio Value (£'m)



During 2012/13 the implementation of the revised investment strategy, agreed in 2010, continued. The Fund successfully completed the transition to the new global equities investment managers with effect from 1 October 2012. The three existing equity mandates with JP Morgan (UK equities), Newton (Overseas equities) and BNY Mellon (Balanced tracking equity mandate) were sold and replaced by mandates with 5 managers each with an unconstrained global equity mandate (Baillie Gifford, MFS, Morgan Stanley, Robeco and NGAM) totalling £1.5 bn. The transition of credit and fixed income assets has been undertaken by the appointed transition manager, Bank of New York Mellon. The resulting proceeds (£929m) are currently residing in a transition account in advance of future investment decisions being made into less commoditised and more specialist funds, including but not limited to secured lending, long-term lending, non-sterling lending, investment opportunities driven by changes to banking regulations, and index linked loans giving inflation protection.

Performance

The value of the Fund's assets has more than doubled over the last ten years, as shown in the chart below:



The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile, as seen in 2008/09 and do not necessarily indicate the underlying health of the Fund.

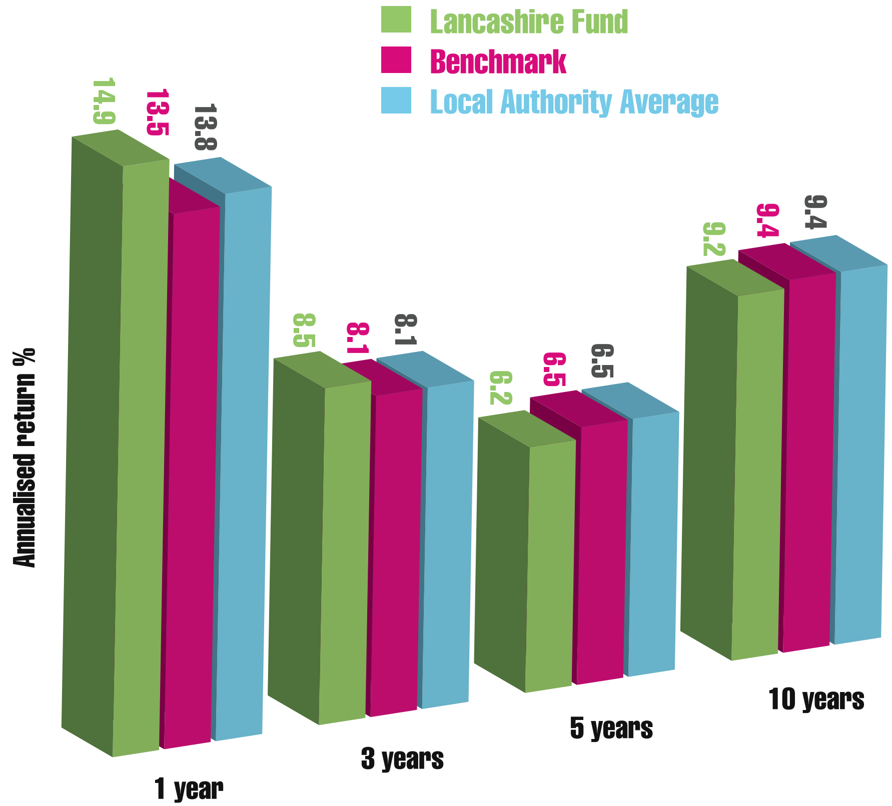
The performance of the Fund is measured against a Fund specific benchmark with individual managers being given performance benchmarks and targets which are linked to index returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. The Fund also subscribes to the annual WM Survey of UK Local Authority Pension Funds, which shows comparisons with other local authority pension funds. The performance of the investment managers is reviewed on a regular basis by the Panel and any recommendations arising from those reviews are considered by the Committee.

Looking first at total Fund returns, the chart shows the total return of the Fund compared to the Fund specific benchmark and the average local authority pension fund return measured over 1,3,5 and 10 years to 31 March 2013:

The Fund's return of 14.9% is above that of the average local authority pension fund of 13.8%. It ranks as the 24th percentile in the WM analysis of local authority funds.

In the year to 31 March 2013, the total Fund return amounted to 14.9% against a benchmark of 13.5%. This significantly outperformed the Gilts +2.5% actuarial measure of 7.9% for the same period. A significant proportion of this performance was derived from global equities, delivering 20.9% in the year against a benchmark of 18.0%. Property and bonds asset classes also exceeded their respective benchmarks, with non-investment grade assets being approximately on parity.

Total Fund Return



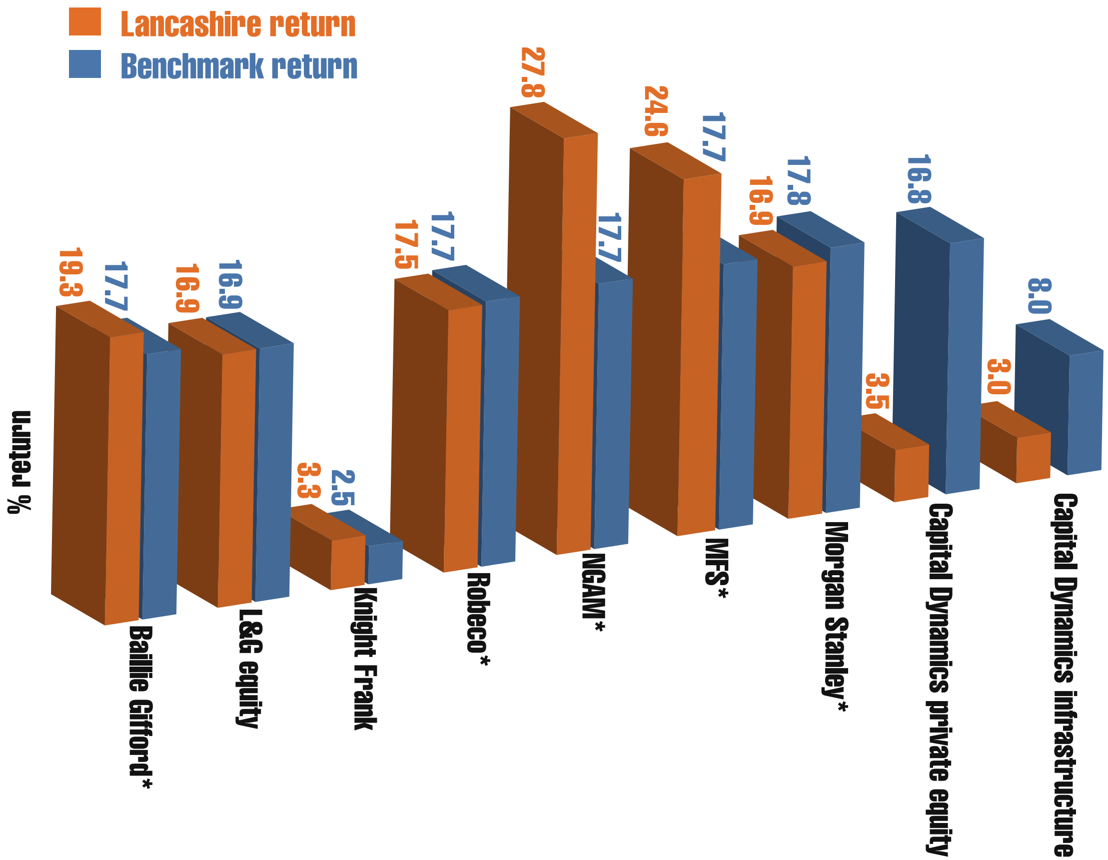
Infrastructure assets, whose performance has been strong throughout the year, has now fallen back as the significant returns produced by the Red Rose infrastructure vehicle dropped out of the one year rolling performance.

Whilst all of the new equity managers have produced significant returns since the October 2012 inception of their mandates, Baillie Gifford, MFS, and NGAM have exceeded their benchmarks most notably with the other two managers, with being more defensive strategies, also close to benchmarks. Capital Dynamics produced a disappointing return of 3.5% for the year to 31 March 2013 against a benchmark of 16.8% but continues to provide strong long-term performance with returns of 9.9% since inception against a benchmark of 4.98%.

The Fund's investment managers are set performance targets as shown in the Statement of Investment Principles. The overall performance target of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance. These targets are set for the active managers i.e. those with a mandate to outperform a benchmark through active stock picking and sector allocations. The transition portfolio and that managed by Legal and General are passive portfolios where the manager seeks to track the benchmark.

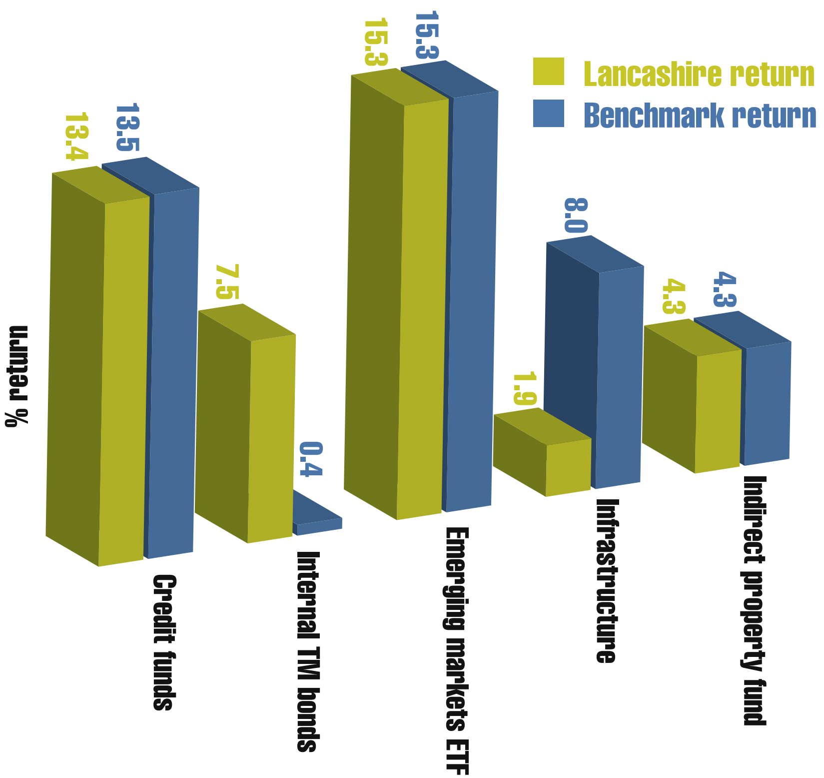
Active managers have the discretion to invest a smaller or greater amount than the benchmark allocation, within agreed constraints and tolerances. These decisions will reflect their views on market conditions within various countries or between different types of instruments. The one year performance of the managers and asset classes to 31 March 2013 are shown in the following charts :

One-year External Manager performance to 31 March 2013 (* since 1 October 2012)



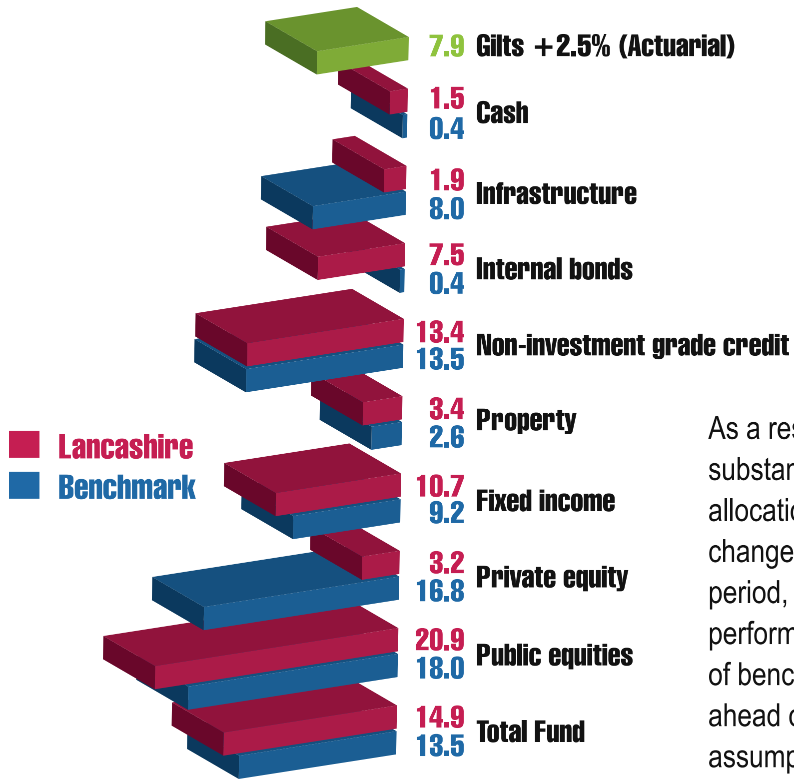
As part of an overall portfolio strategy Robeco and Morgan Stanley were hired as defensive managers. As expected in a strongly performing market they have underperformed their benchmark. NGAM and MFS were appointed with a growth bias and the significant out-performance against benchmark reflects this. It can be argued that the long term nature of private equity and infrastructure allocations are such that one year measures are invalid, as investment during the initial stages (years 1-3) generates returns in the later stages (years 4-7).

One-year Internal Manager performance to 31 March 2013



Emerging markets are passively managed and have therefore performed on a par with their benchmark. Whilst both credit funds and infrastructure are in the early stages of investment, credit funds are currently performing on a par with their benchmark whereas infrastructure as expected at a relatively early stage in the investment cycle is performing below benchmark.

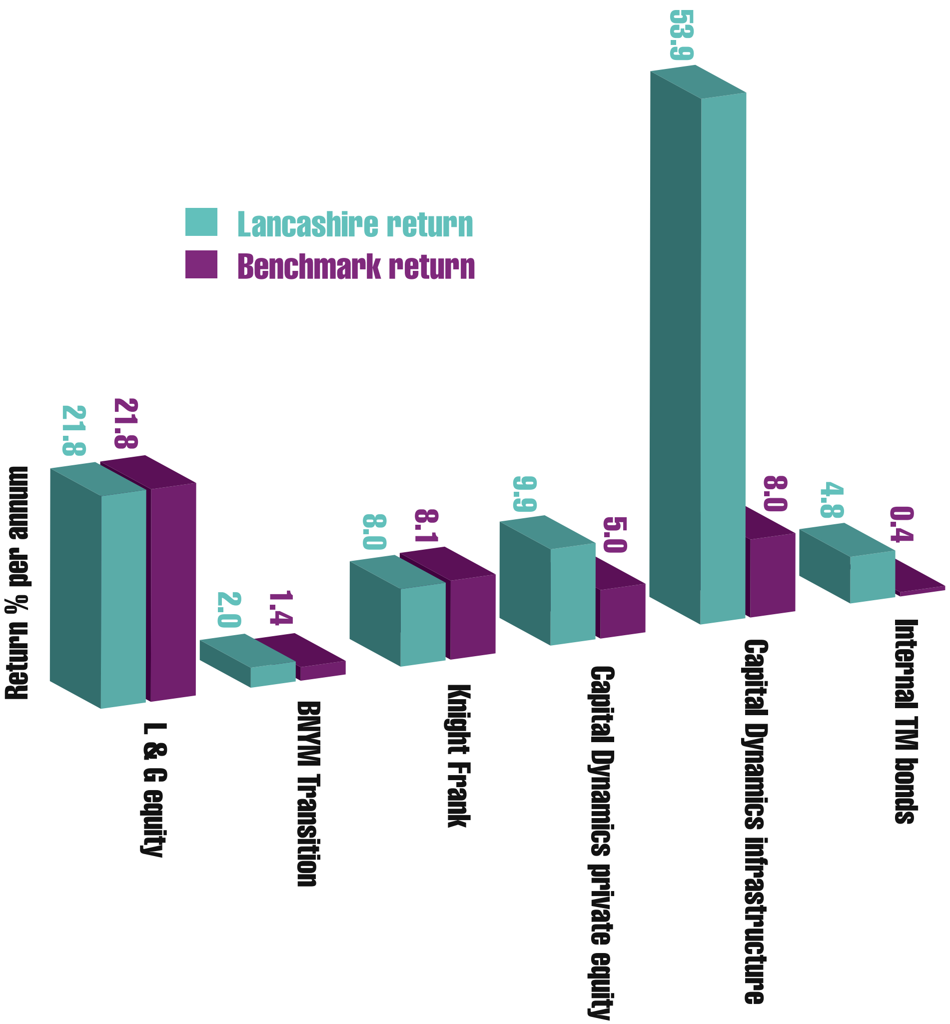
One-year performance by asset class to 31 March 2013



As a result of substantial asset allocation classes changes made in the period, the total fund performance is ahead of benchmark and ahead of actuarial assumptions.

An analysis of the specialist managers' performance since inception is shown in the chart below :

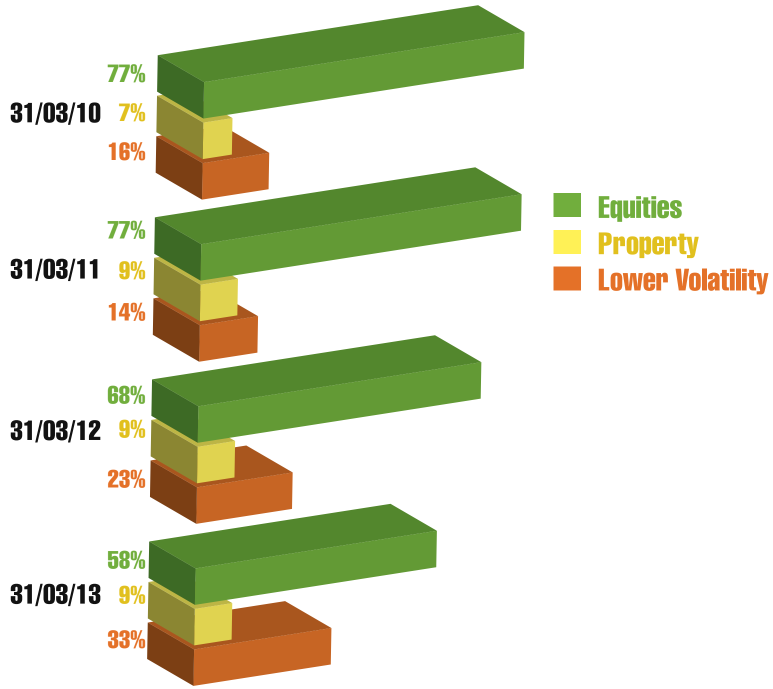
Manager performance since inception



Since inception all managers have performed in line or in excess of their benchmark.

This move towards lower volatility asset classes has resulted in equities accounting for 58% of the Fund at 31 March 2013, compared with 77% three years ago. In the same period, lower volatility assets have increased from 16% to 33%. Against target allocations, equities however remain towards the top of their respective target (40%-60%), property remains just below the bottom of its target range (10%-20%), and lower volatility assets are mid-range (20%-40%).

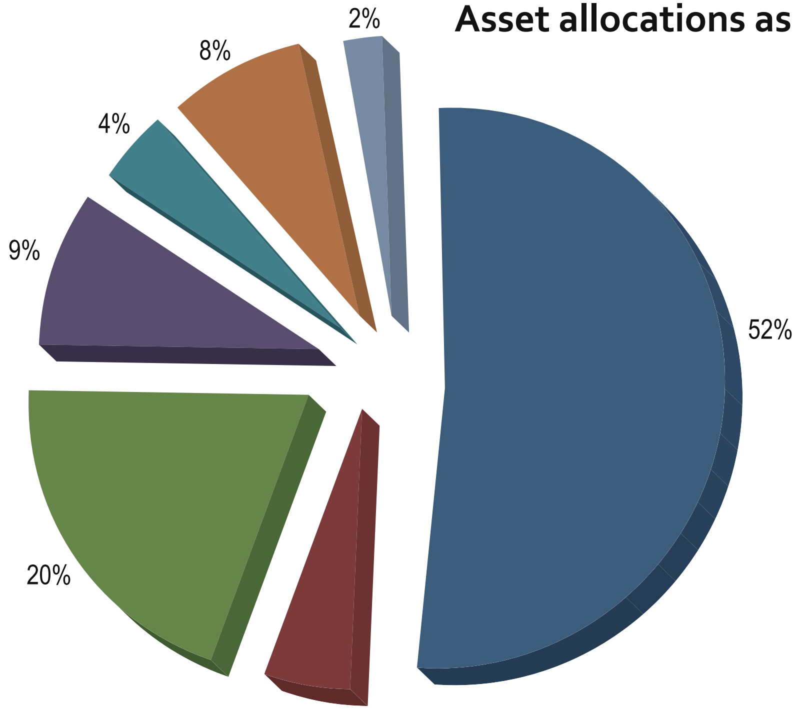
Full allocations sumary since 2010



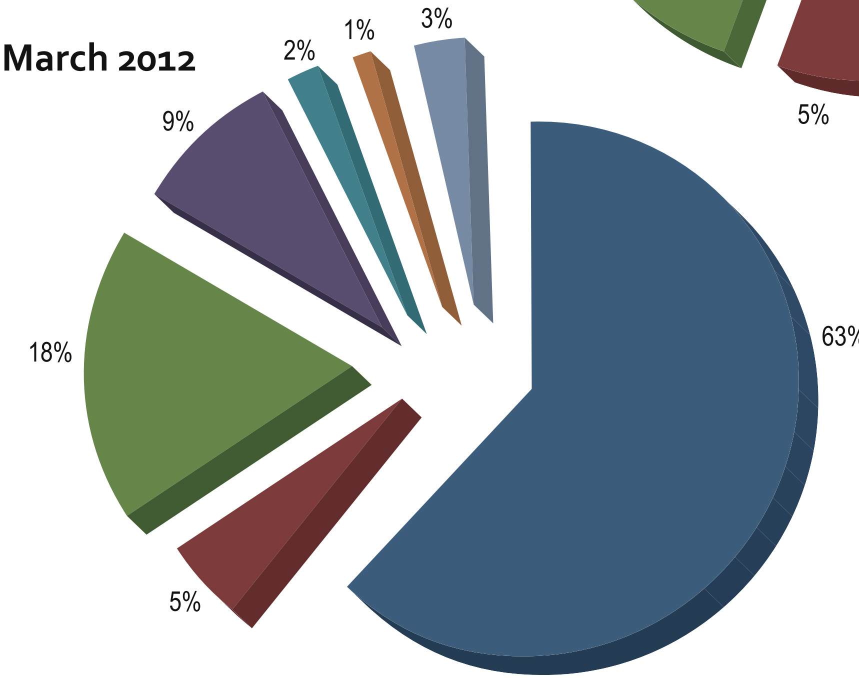
Asset allocations

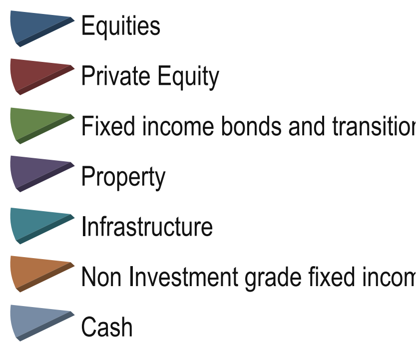
The Fund is continuing to implement its revised investment strategy agreed in 2010, in actively bringing asset allocations up to the agreed benchmarks, in order to reduce the reliance on more volatile assets such as equities, in favour of less volatile asset classes such as infrastructure, senior secured loans, and emerging market debt funds. Detailed asset class allocations, and a comparison with the previous year is shown below:

Asset allocations as at 31 March 2013



Asset allocations as at 31 March 2012





While paid up investments in infrastructure funds represent 4% of the value of the Fund, the Fund also has unpaid commitments to infrastructure funds equivalent to 3.8% of the value of the Fund at 31 March 2013. Similarly, unpaid private equity commitments at 31 March 2013 are £137m, comprising 2.7% of the Fund in addition to the paid up investments representing 5.6% of the Fund.

The largest ten equity and direct property holdings of the Fund at 31 March 2013 are:

Equity	Market value 31 March 2013 £m	Percentage of net assets of the Fund %
Nestle SA CHF0.10 (Regd)	54.5	1.09
British American Tobacco Ord GBP0.25	33.8	0.68
Reckitt Benck Grp Ord GBP0.10	29.0	0.58
Visa Inc Com CL A STK	27.7	0.55
Omnicom Group Inc Com	24.8	0.50
Diageo Ord Plc	24.4	0.49
Accenture Plc SHA CL A New	23.4	0.47
CIE Financie Richemont CHF	22.2	0.45
Philip Morris Intl Com Stk NPV	22.0	0.44
Mastercard Inc CL A	21.9	0.44
Total	**283.7**	**5.69%**

Property	Sector	Market value 31 March 2013 £m
10 Brook St, London	Offices	34.5
Sainsburys Store, Elgiva Lane, Chesham	Shops	29.2
Princes Mead Shopping Centre, Farnborough	Shopping Centre	23.8
St Edmundsbury Retail Park, Bury St Edmunds	Retail Warehouse	18.7
Benson House, Leeds	Offices	17.2
Somerfield Store, Wymondham	Shops	15.3
1-3 Dufferin St, London	Offices	14.6
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	14.5
Weir Road, Wimbledon	Ind/Warehouse	14.4
Tuscany Park, Wakefield	Ind/Warehouse	14.1
Total		**196.3**

Policies in respect of Socially Responsible Investment and Voting

Social, Environmental and Ethical Considerations

The Fund is active on governance issues through its membership of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

The Fund also uses the services of Pensions Investment Research Consultants (PIRC), which is a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

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 2012/13.

Policy on Risk

The overriding objective of the Fund in respect of its investments is to strike a balance between minimising risk and maximising return. The structure of the investment management arrangements has been implemented in order to produce a balanced spread of risk for the portfolio. Within this the managers are regularly challenged by the Panel about the risk profile of the portfolios that they manage for the Fund.

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 2013 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
30 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COUNTY PENSION FUND

Opinion on the Pension Fund financial statements

We have audited the Pension Fund financial statements of Lancashire County Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The Pension Fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Lancashire County Pension Fund 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 of 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 Treasurer to the Pension Fund and Auditor

As explained more fully in the Statement of 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 financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Pension Fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer to the Pension Fund; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the Pension Fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

In our opinion the Pension Fund's financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Karen Murray
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor
4 Hardman Square, Spinningfields
Manchester M3 3EB
30 September 2013

Fund Account

	Note	2012/13 £m	*2011/12 £m
Dealing with members, employers and others directly involved in the fund			
Contributions	6	202.7	209.3
Transfers in	7	9.9	11.1
		212.6	220.4
Benefits	8	(210.2)	(219.1)
Payments to and on account of leavers	9	(12.6)	(13.7)
Administrative expenses	10	(5.0)	(3.8)
		(227.8)	(236.6)
Net withdrawals from dealings with members		**(15.2)**	**(16.2)**
Return on investments			
Investment income	11	120.8	117.6
Profit and loss on disposal of investments and change in market value of investments	14	532.6	(7.9)
Investment management expenses	20	(7.2)	(7.1)
Net return on investments		**646.2**	**102.6**
Net increase in the net assets available for benefits during the year.		**631.0**	**86.4**

*Prior year has been restated to reflect net rental income from properties in investment income

Net Asset statement for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Investment assets	14	4,990.9	4,361.4
Investment liabilities	14	(1.9)	(1.5)
Current assets	21	31.7	23.3
Current liabilities	23	(9.7)	(3.2)
Net assets of the fund available to fund benefits at the period end		**5,011.0**	**4,380.0**

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 2013 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund

Cllr Clare Pritchard
Chair of the Audit 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 2012/13 cash inflows during the year consisted of £333.4m and cash outflows were £235m, representing a net cash inflow of £98.4m (compared with an inflow of £94.3m in the previous year). Benefits payable amounted to £210.2m and were partially offset by net investment income of £120.8m (including £21.6m accrued dividends); contributions of £202.7m and transfers in of £9.9m produced the positive cash inflow.

The increase in net gain resulted from the Fund executing a switch from a domestic equities strategy to a global strategy in October 2012. Since that date, the US Dollar has appreciated significantly against the Pound. This, along with long term interest rates which fell slightly whilst credit spreads tightened significantly, lead to an increase in the capital values of fixed-rate securities as the discount rates used to value them fell, contributing to an additional increase in market value.

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

It 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 County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The investments of the Pension Fund are managed by nine 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 Funds 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.

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 2013	Number at 31 March 2012
(1) Active Scheme Members		
Scheduled Bodies	49,391	46,422
Admitted Bodies	3,572	3,716
Total	**52,963**	**50,138**
(2) Pensioners		
Pensions in Payment	40,885	39,933
Preserved Pensions	49,837	47,526
Total	**90,722**	**87,459**

c) Funding

Benefits are funded by contributions and investment earnings. 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 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. 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

A Statutory Consultation started on 21 December 2012 on new benefit regulations for the Local Government Pension Scheme (LGPS) from 1 April 2014. A number of further consultations have followed with the intention of having a new LGPS in place by 1 April 2014. This new Scheme will reflect the provisions of the Public Service Pensions Bill which having worked its way through Parliament reached Royal Assent on 25 April 2013.

The main provisions of the new LGPS 2014 are:

- The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme with an accrual rate of 1/49th.
- The Scheme will be re-valued in line with Consumer Price Index (CPI).
- Pay will include non-contractual overtime and for part time staff pay will include additional hours.
- Flexibility in contributions will mean an optional arrangement allowing 50% of main benefits to be accrued by paying a 50% contribution rate.
- Normal Pension Age will be the same as the individual member's State Pension Age (minimum 65).

The next step of the ongoing statutory consultation process is to ensure that the regulations covering the protections for current scheme members (known as the transitional regulations) are in place. These regulations describe how the move from current to new rules take place and set the foundations for protections. In particular protections will include a final salary link and protected retirement age for benefits built up to March 2014.
Over the forthcoming year the Fund will be putting together a comprehensive communications plan in order to keep scheme members informed of these changes.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2012/13 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, value on an International Accounting Standard (IAS) 19 basis, is disclosed in note 30 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 normally 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 item

- 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 other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

- Investment Manager 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

As yet no performance related fees have been paid to these managers due to them having only been 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 2012/13 £2.2m of fees is based on such estimates (2011/12 £1.3m).

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 are included in the net asset statement on a fair value basis other than loans and receivables 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 assets and liabilities held by Lancashire County Pension Fund are classified as fair value through profit and loss, loans and receivables and liabilities at amortised cost.

- 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 2013. 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.

The methodologies adopted in valuing financial instruments are explained in greater detail in note 17.

- 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 2013. 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 2013 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 is on the basis of market value, assuming that the property will be sold subject to any existing leases. The valuer's opinion of market value and existing use value is 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.

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.

Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin.

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 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 other than loans and receivables 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 30).

- Additional voluntary contributions

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC's 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 19.

- 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 income statement' 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 a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4. Critical judgements in applying accounting policies

The Fund has recognised a deposit with Landsbanki as an asset on the net asset statement as at 31 March 2013. Judgement is required in determining the recoverability of this asset at each net asset statement date. The Fund has assessed recoverability with reference to Landsbanki's financial position as at 31 December 2012 as published by the bank's Winding Up Board and considers that it is likely that 100% of the deposit, subject to exchange rate fluctuations, will be recovered. This is in line with advice issued by CIPFA and LAPFF.

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 2013 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, infrastructure, local authority bonds and indirect overseas property	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. Local authority bonds are based on valuation techniques that require management judgements based on various factors. 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.	The private equity, infrastructure, local authority bonds and overseas indirect property investments in the financial statements total £408.5m. There is a risk that this investment may be under or overstated in the accounts.
Pensions liability	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 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £624m. A 0.25% increase in assumed earnings inflation would increase the value of the liabilities by approximately £86m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £146m.

6. Contributions receivable

	2012/13 £m	2011/12 £m
Employers' contributions		
County Council	63.4	68.5
Scheduled Bodies	74.7	75.7
Admitted Bodies	12.9	12.9
	151.0	157.1
Employees' contributions		
County Council	20.6	20.5
Scheduled Bodies	26.3	26.8
Admitted Bodies	4.8	4.9
	51.7	52.2
Total contributions	**202.7**	**209.3**

Within the employee contributions figure for 2012/13, £0.2m is voluntary and additional regular contributions. All employer contributions are normal contributions.

7. Transfers in

	2012/13 £m	2011/12 £m
Individual transfers in from other schemes	9.9	11.1
	9.9	**11.1**

8. Benefits

	2012/13 £m	2011/12 £m
Pensions	176.5	163.6
Lump Sum retirement benefits	28.3	51.0
Lump Sum death benefits	5.4	4.5
	210.2	**219.1**
Relating to:		
County Council	91.4	91.9
Scheduled Bodies	105.7	112.6
Admitted Bodies	13.1	14.6
Total	**210.2**	**219.1**

9. Payments to and on account of leavers

	2012/13 £m	2011/12 £m
Refunds to members leaving service	0.0	0.1
Contributions equivalent premium	0.0	(0.1)
Individual transfers to other schemes	12.6	13.7
	12.6	13.7

10. Administrative expenses

	2012/13 £m	2011/12 £m
Administration and processing	3.8	3.4
Audit fee	0.1	0.1
Legal and other professional fees	1.1	0.3
Total	5.0	3.8

11. Investment income

	2012/13 £m	*2011/12 £m
Fixed interest securities	21.5	27.7
Equity dividends	59.5	46.5
Index linked securities	1.2	2.8
Pooled investment vehicles	6.3	5.5
Net rents from properties	25.0	24.8
Interest on cash deposits	2.8	0.7
Other	4.5	9.6
	120.8	117.6

12. Net rents from properties

	2012/13 £m	2011/12 £m
Rental income	28.1	26.0
Direct operating expenses	(3.1)	(1.2)
Net income	25.0	24.8

13. Stock lending

Northern Trust the Fund's custodian, are 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 2012/13 was £643,034 (2011/12 £467,745)

Securities on loan at 31 March 2013 were £107.9m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities. This consisted of £91.9m of equities and £16m 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 £116.6m of government bonds.

*Prior year has been restated to reflect net rental income from properties in investment income

14. Reconciliation of movements in investments and derivatives

	Market value at 1 April 2012 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2013 £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	1.6				3.0
Cash deposits	126.8				170.5
Investment accruals	19.4				21.6
	4,359.9				**4,989.0**

	Market value at 1 April 2011 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Market value at 31 March 2012 £m
Fixed interest securities	559.1	696.0	(657.8)	26.1	623.4
Equities	1,735.1	401.0	(441.9)	(80.5)	1,613.7
Index linked securities	141.0	120.9	(159.1)	21.8	124.6
Pooled investments	1,395.5	399.2	(359.6)	31.2	1,466.3
Property	397.5	24.2	(34.1)	(3.7)	383.9
	4,228.2	**1,641.3**	**(1,652.5)**	**(5.1)**	**4,211.9**
Derivative contracts:					
Futures	0.9	41.4	(39.3)	(2.8)	0.2
Forward currency contracts	0.9				1.6
Cash deposits	36.6				126.8
Investment accruals	14.6				19.4
	4,281.2				**4,359.9**

Of the £532.7m increase in market value of investments during the 2012/13 financial year, £30.0m relates to assets for which fair value is not based on observable market data. The valuation policy for these assets is outlined in note 17.

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 2012/13 amounted to £2.2m (2011/12: £2.0m).

Summary of manager's portfolio values as at 31 March 2013

		2012/13		2011/12	
		£m	%	£m	%
Externally managed					
BNYM Transition (Credit and fixed income transition)		929.4	19%	-	0%
Baillie Gifford (Global equities)		703.1	14%	-	0%
Legal & General (Index tracking - multi asset)		582.1	12%	1,057.4	24%
Knight Frank (Property)		434.9	9%	383.9	9%
Robeco (Global equities)		354.5	7%	-	0%
NGAM (Global equities)		245.7	5%	-	0%
MFS (Global equities)		245.0	5%	-	0%
Morgan Stanley (Global equities)		234.1	5%	-	0%
Capital Dynamics (Private equity)		229.1	4%	222.4	5%
Capital Dynamics (Infrastructure)		77.5	1%	50.4	1%
Newton (Global equities)		-	0%	615.6	14%
JP Morgan (UK equities)		-	0%	501.4	12%
BNYM Transition (Global equities)		-	0%	617.1	14%
UBS (Bonds)		-	0%	672.7	15%
Externally managed portfolios		**4,035.4**	**81%**	**4,120.9**	**95%**
Internally managed					
Credit funds		424.0	9%	49.3	1%
Cash and bonds	Note 27	226.1	5%	166.8	4%
Emerging markets ETF		219.1	4%	-	0%
Infrastructure funds		76.9	1%	22.9	1%
Indirect property funds		7.5	0%	-	0%
Internally managed portfolios		**953.6**	**19%**	**239.0**	**5%**
Total portfolio values		**4,989.0**	**100%**	**4,359.9**	**100%**

The investment assets at 31 March 2013 are managed by nine external investment managers, with the remaining cash deposits managed in-house. Details of the split of the investment assets by investment manager is on the left:

	2012/13 £m	2011/12 £m
Fixed interest securities		
UK public sector quoted	294.9	234.3
UK corporate bonds quoted	225.0	289.0
Overseas corporate bonds quoted	323.7	100.1
	843.6	**623.4**

	2012/13 £m	2011/12 £m
Equities		
UK quoted	218.3	772.8
Overseas quoted	1,531.0	840.9
	1,749.3	**1,613.7**

	2012/13 £m	2011/12 £m
Index linked securities		
UK quoted	164.9	124.6
	164.9	**124.6**

	2012/13 £m	2011/12 £m
Pooled investment vehicles		
UK managed funds:		
Equities	166.0	537.0
Private equity	120.6	31.9
Infrastructure	98.2	67.6
Fixed income	-	192.2
O/S managed funds:		
Equities	632.2	400.3
Private equity	108.5	182.3
Infrastructure	56.2	5.7
Property	7.5	-
Credit funds	412.0	49.3
	1,601.2	**1,466.3**

	2012/13 £m	2011/12 £m
Properties		
UK – freehold	346.4	292.9
UK – long leasehold	88.5	91.0
	434.9	**383.9**

	2012/13 £m	2011/12 £m
Balance at start of the year	383.9	397.5
Additions	72.1	24.2
Disposals	(5.3)	(34.1)
Net loss on fair value	(15.8)	(3.7)
Balance at the end of the year	**434.9**	**383.9**

	2012/13 £m	2011/12 £m
Derivative contracts		
Futures contracts	-	0.2
	-	**0.2**

Derivative contracts (forward currency positions)

Settlement date	Bought £m EQV	Sold £m EQV	£m
Investment assets			
6 months and under	51.8	46.9	4.9
Investment liabilities			
6 months and under	65.5	67.4	(1.9)
Over 6 months	4.0	4.0	0.0

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

Cash deposits	2012/13 £m	2011/12 £m
Sterling	116.6	110.9
Foreign currency	53.9	15.9
	170.5	**126.8**

15. Financial instruments classification

Accounting policy 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.

2013	Designated at fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £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**

2012	Designated at fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
Financial assets			
Fixed interest securities	623.4	-	-
Equities	1,613.7	-	-
Index linked securities	124.6	-	-
Pooled investment vehicles	1,466.3	-	-
Derivative contracts	3.4	-	-
Cash deposits	-	126.8	-
Investment accruals	19.4	-	-
Debtors	-	23.3	-
Total financial assets	**3,850.8**	**150.1**	**-**
Financial liabilities			
Derivative contracts	1.6	-	-
Creditors	-	-	3.2
Total financial liabilities	**1.6**	**-**	**3.2**

16. Net gains and losses on financial instruments

	2013 £m	* 2012 £m
Financial assets		
Fair value through profit and loss	548.4	(4.2)
Loans and receivables	-	-
Financial liabilities		
Fair value through profit and loss	-	-
Loans and receivables		
Financial liabilities at amortised cost	-	-
Total	**548.4**	**(4.2)**

*Restated to exclude property which is not a financial instrument.

The increase in net gain resulted by the Fund executing a switch from a domestic equities strategy to a global strategy in October 2012. Since that date, the US Dollar has appreciated significantly against the Pound. This, along with long term interest rates which fell slightly whilst credit spreads tightened significantly, lead to an increase in the capital values of fixed-rate securities as the discount rates used to value them fell, contributing to an additional increase in market value.

17. Financial instruments – valuation

Valuation of financial instruments carried at fair value

The valuation of financial instruments 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. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.
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.
*This investment class comprises of credit funds which in 11/12 were classified as level 1. 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 would include 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 overseas indirect property fund is valued monthly by external valuers, CB Richard Ellis (CBRE). CBRE are one of the largest firms of valuers in Europe, and are required to ensure that the assets in the Fund are valued each month at the current open market value, as defined by the RICS Appraisal and Valuation Standards. The valuation methodology is also subject to independent review by E&Y.

The local authoriy bond value is based on a valuation technique that requires mangement judgement including earning 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.

2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,553.0	424.0	408.5	4,385.5
Total financial assets	**3,553.0**	**424.0**	**408.5**	**4,385.5**
Financial liabilities				
Financial liabilities at fair value through profit and loss	1.9	-	-	1.9
Total financial liabilities	**1.9**	**-**	**-**	**1.9**

2012	£m	£m	£m	£m
Financial assets				
Financial assets at fair value through profit and loss	*3,497.4	*49.3	*304.1	3,850.8
Total financial assets	**3,497.4**	**49.3**	**304.1**	**3,850.8**
Financial liabilities				
Financial liabilities at fair value through profit and loss	1.6	-	-	1.6
Total financial liabilities	**1.6**	**-**	**-**	**1.6**

*Prior year has been restated due to a review of the previous years information

18. 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.

a) 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 2012/13 reporting period.

Asset type	Potential market movements (+/-)
UK bonds	4.6%
Overseas bonds	8.7%
UK equities	12.8%
Overseas equities	12.8%
Index linked gilts	8.1%
Cash	0.0%
Alternatives	3.6%
Property	1.8%

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	Value as at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	195.1	0.0%	195.1	195.1
Investment portfolio assets:				
UK bonds	519.9	4.6%	543.6	496.1
Overseas bonds	323.7	8.7%	351.8	295.6
Total equities	1,749.3	12.8%	1,973.2	1,525.4
Index linked gilts	164.9	8.1%	178.2	151.6
Alternatives	1,601.2	3.6%	1,658.9	1,543.6
Property	434.9	1.8%	442.7	427.0
Total assets available to pay benefits	**4,989.0**		**5,343.5**	**4,634.4**

Asset type	Value as at 31 March 2012 £m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	147.9	0.0%	147.9	147.9
Investment portfolio assets:				
UK bonds	695.7	5.7%	735.3	656.1
Overseas bonds	100.0	11.8%	111.8	88.2
UK equities	1,341.4	15.3%	1,547.3	1,135.6
Overseas equities	1,236.9	14.8%	1,420.3	1,053.5
Index linked gilts	166.9	7.6%	179.6	154.2
Alternatives	287.4	7.7%	309.6	265.2
Property	383.8	9.4%	419.7	347.9
Total assets available to pay benefits	**4,359.9**		**4,871.5**	**3,848.5**

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 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2013 £m	As at 31 March 2012 £m
Cash and cash equivalents	170.5	126.8
Fixed interest securities	1,255.5	815.6
Total	**1,426.0**	**942.4**

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. The Fund's investment advisor has advised that long–term average rates are expected to move less than 110 basis point for one year to the next and experience suggests that such movements are likely.

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

Asset type	Carrying amounts as at 31 March 2013	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£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)**

Asset type	Carrying amounts as at 31 March 2012	Change in year in net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash and cash equivalents	126.8	1.3	(1.3)
Fixed interest securities	815.6	8.1	(8.1)
Total change in assets available	**942.4**	**9.4**	**(9.4)**

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 sterling.

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 2013 and as at the previous year end:

Currency exposure asset type	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£m	£m
Overseas equities	1,531.0	1,236.9
Overseas bonds	323.7	100.0
Overseas alternatives	164.7	187.9
Overseas pooled	1,051.7	449.6
Total overseas assets	**3,071.1**	**1,974.4**

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movement to be 6.1% (as measured by one standard deviation).

A 6.1% 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.

A 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure asset type	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
		+6.1%	-6.1%
	£m	£m	£m
Overseas equities	1,531.0	1,624.4	1,437.2
Overseas bonds	323.7	343.5	303.9
Overseas alternatives	164.7	174.8	154.6
Overseas pooled	1,051.7	1,115.8	987.5
Total change in assets available	**3,071.1**	**3,258.5**	**2,883.2**

Currency exposure asset type	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+9.7%	-9.7%
	£m	£m	£m
Overseas equities	1,236.9	1,357.0	1,116.8
Overseas bonds	100.0	109.7	90.3
Overseas alternatives	187.9	206.2	169.7
Overseas pooled	449.6	493.3	406.0
Total change in assets available	**1,974.4**	**2,166.2**	**1,782.8**

a) 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 assets 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 derivative 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 2013 was £170.5m (31 March 2012: £126.8m). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2013 £m	Balances as at 31 March 2012 £m
Bank deposit accounts			
Ulster Bank	Baa2	5.0	5.0
Northern Trust	A1	75.0	51.7
Bank of Scotland	A2	50.0	-
Bank current accounts			
Natwest	A3	40.5	70.1
Total		**170.5**	**126.8**

b) 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 Funds investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

c) Refinancing risk

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19. Additional Voluntary Contributions (AVC's)

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 below. (This summary has not been subject to audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2012 to 31 March 2013 for Prudential and 1 September 2011 to 31 August 2012 for Equitable Life.

Additional Voluntary Contributions

	Equitable Life £m	Prudential £m	Total £m
Value at the start of the year	1.2	14.2	15.4
Income (incl. contributions, bonuses, interest, transfers in)	0.1	4.0	4.1
Expenditure (incl. benefits, transfers out, change in market value)	(0.2)	(2.3)	(2.5)
Value at the end of the year	**1.1**	**15.9**	**17.0**

20. Investment management expenses

	2012/13 £m	*2011/12 £m
Administration, management and custody	6.9	6.7
Performance measurement service	0.2	0.1
Other advisory fees	0.1	0.3
Total	**7.2**	**7.1**

* Prior year has been restated to exclude property direct operating expenses.

21. Current assets

	2012/13 £m	2011/12 £m
Contributions due from:		
Employers	12.5	10.4
Members	4.4	2.4
Debtors: bodies external to general government	14.8	10.5
Total	**31.7**	**23.3**

22. Analysis of debtors

	2012/13 £m	2011/12 £m
Other local authorities	18.9	5.5
NHS bodies	0.1	-
Public corporations and trading funds	0.1	-
Other entities and individuals	12.6	17.8
Total	**31.7**	**23.3**

23. Current liabilities

	2012/13 £m	2011/12 £m
Unpaid benefits	2.3	2.8
Accrued expenses	7.4	0.4
Total	**9.7**	**3.2**

24. Analysis of creditors

	2012/13 £m	2011/12 £m
Other local authorities	4.2	(1.2)
NHS bodies	0.4	-
Other entities and individuals	5.1	4.4
Total	**9.7**	**3.2**

25. Contingent asset and liability

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 £10.0m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.3m. This issue is still progressing through the courts.

26. Contractual commitments

The commitments relating to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure income part of the portfolio totalled £327.2m. 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.

There was also a signed commitment to a non-investment fixed grade income investment at 31 March 2013 which totalled £65m.

27. 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 2013, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 85 scheduled and 172 admitted bodies.
- The Pension Fund Committee comprises: 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire 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 2012/13. 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 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 £3.8m (2011/12: £3.4m) 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 £63.4m to the Fund in 2012/13 (2011/12:£68.5m). All monies owing to and due from the Fund were paid in year.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Lancashire County Council. The cash and bond holdings at 31 March 2013 are detailed in note 14.

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.

28. Icelandic investment

The Lancashire County Pension Fund had £2.4m on deposit. The Winding Up Board published details of LBI's financial position as at 31 December 2012, 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 49.7% of the total claim has now been repaid. The exact timing and amounts 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.

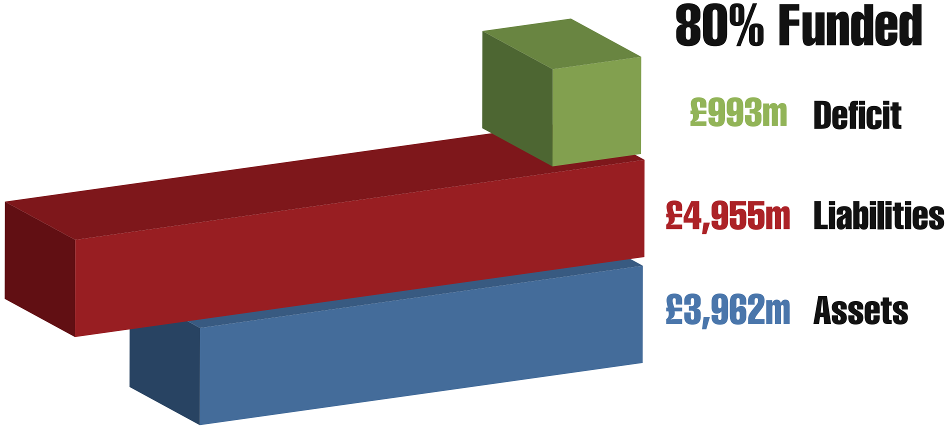
29. Funding arrangements

Accounts for the year ended 31 March 2013 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Lancashire County Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £3,962m represented 80% of the Fund's past service liabilities of £4,955m (the Funding Target) at the valuation date.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our 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 (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing 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)		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

30. 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 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.5% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £6,254m. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£814m. Adding interest over the year increases the liabilities by a further c£306m, and allowing for net benefits accrued/ paid over the period decreases the liabilities by c£1m. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £7,373m.

The policy for funding the promised retirement benefits is set out in the Funding Strategy Statement, the long term funding objective being for the Fund to achieve and maintain sufficient assets to cover 100% of projected accrued liabilities.

H. Actuarial valuation

An actuarial valuation of the Fund is carried out every three years by the Fund's actuary Mercer. The most recent valuation carried out was at 31 March 2010 which determines 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. 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.

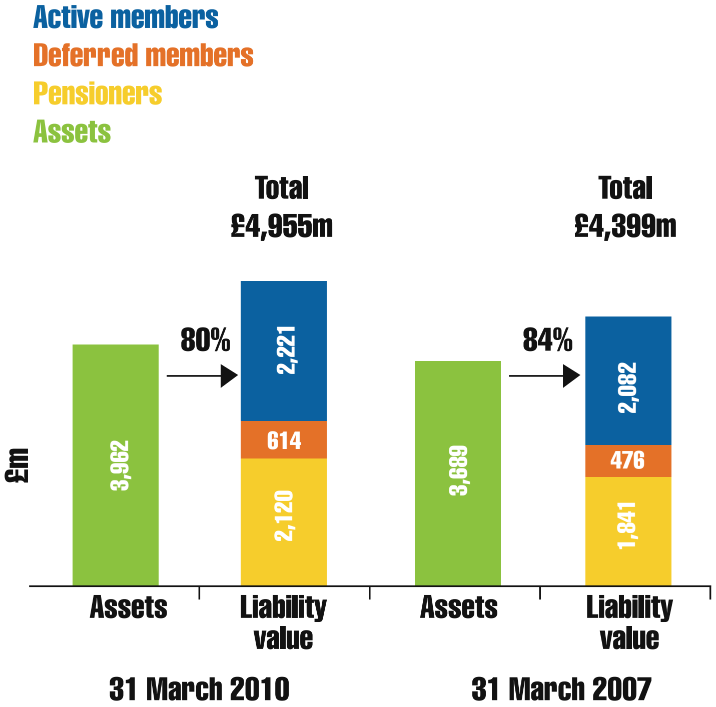
The Funding Strategy Statement specifies a maximum period for achieving full funding of 19 years, this compares to a maximum period of 22 years adopted at the 2007 valuation in accordance with the then published FSS. The maximum deficit recovery period is now three years shorter so that the same target 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 2012/2013 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.

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 30 March 2011

Employers	2011/12 Individual Adjustment %	2011/12 Total Contribution Rate %	2012/13 Individual Adjustment %	2012/13 Total Contribution Rate %	2013/14 Individual Adjustment %	2013/14 Total Contribution Rate %	Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
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	
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 Individual Adjustment %	2011/12 Total Contribution Rate %	2012/13 Individual Adjustment %	2012/13 Total Contribution Rate %	2013/14 Individual Adjustment %	2013/14 Total Contribution Rate %	Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
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	
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	

Employers	2011/12 Individual Adjustment %	2011/12 Total Contribution Rate %	2012/13 Individual Adjustment %	2012/13 Total Contribution Rate %	2013/14 Individual Adjustment %	2013/14 Total Contribution Rate %	Non-ill health early retirement allowance included for the 3 years 2011/14 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
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	

Employers	2011/12 Individual Adjustment %	2011/12 Total Contribution Rate %	2012/13 Individual Adjustment %	2012/13 Total Contribution Rate %	2013/14 Individual Adjustment %	2013/14 Total Contribution Rate %	Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
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	16.4	
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	

Employers	2011/12 Individual Adjustment %	2011/12 Total Contribution Rate %	2012/13 Individual Adjustment %	2012/13 Total Contribution Rate %	2013/14 Individual Adjustment %	2013/14 Total Contribution Rate %	Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
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 %
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

Former Employers	Proportion of Pension Increases to be Recharged %
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
Samlesbury & Cuerdale Parish Council	See notes
Skelmersdale College	See notes
Spastics Society	100

Notes

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

http://www.yourpensionservice.org.uk

Benefits and other Administrative Issues

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Appendix 'A'

LANCASHIRE COUNTY PENSION FUND
GOVERNANCE POLICY STATEMENT

(Updated as at July 2011)

INTRODUCION

1. This is the Governance Policy Statement of Lancashire County Pension Fund, administered by Lancashire County Council, the administering authority.

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under regulation 31 of the LGPS (Administration) Regulations.

2. This statement has been prepared by the administering authority in consultation with appropriate interested persons.

PURPOSE of Governance Policy Statement

3. The regulations regarding governance policy statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

(a) whether it delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

(b) if it does so –

the frequency of any committee or sub-committee meetings;
the terms, structure and operational procedures of the delegation;
whether such a committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and if so, whether those representatives have voting rights.

(c) the extent to which a delegation, or absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

GOVERNANCE of Lancashire County Pension Fund

4. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the council's constitution. The Pension Fund Committee reports directly to Full Council. The County Treasurer is designated Treasurer to the Pension Fund.

COUNTY COUNCIL
THE PENSION FUND COMMITTEE
(non-executive committee)

Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:

   a. One co-optee representing the Further and Higher Education sector in Lancashire;
   b. One co-optee from Blackburn with Darwen Council;
   c. One co-optee from Blackpool Council;
   d. Two co-optees representing Trade Unions; and
   e. Two co-optees representing the Lancashire borough and city councils.

2. The role of the Committee is to:

   a. exercise responsibility for the administration of the Lancashire County Pension Fund ("the Fund");
   b. establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future investment policy for the Fund;
   c. monitor and review investment activity and the performance of the Fund; and
   d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.

3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix ‘H’ to the County Council's Constitution.

Terms of Reference

1. To exercise Lancashire County Council’s responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.

2. To have overall responsibility for investment policy and monitor overall performance.

3. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.

4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.

5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.

6. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.

7. To approve the policies and procedures for any internally managed Fund investments.

8. To establish a Pension Fund Administration Sub-Committee and agree its composition, role and terms of reference.

9. To receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

10. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:

    a. .external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
    b. external property agents and advisors;
    c. an external corporate governance adviser;
    d. an external Fund custodian;
    e. external performance measurement advisers;
    f. the Fund Actuary; and
    g. the Fund's AVC Provider

11. To approve an Annual Business Plan, Statement of Investment Principles, Governance Policy Statement, Treasury Management Strategy and Policy and Governance Compliance Statement.

12. To approve the Pension Fund Annual Report.

13. To approve a Funding Strategy statement to include the Fund's policy in respect of:

    a. the Funding Target;
    b. the collection of employee contributions;
    c. the collection of employer contributions;

d. the collection of additional employer contributions; and
e. Admissions and Terminations.

14. To determine which pension related functions and responsibilities should be exercised under the Council's Scheme of Delegation to Chief Officers.

15. To approve the overall appropriate and necessary training requirements for members of the Committee.

PENSION FUND ADMINISTRATION SUB-COMMITTEE
(Sub-Committee of the Pension Fund Committee)

Composition and role

1. The role of the Pension Fund Administration Sub-Committee ("the Sub-Committee") is to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.

2. The Sub-Committee shall meet at least twice a year or otherwise as necessary.

3. The membership of the Sub-Committee shall be determined by the Pension Fund Committee ("the Committee"). The current membership is five County Councillors, one Trade Union representative and one representative from either the Lancashire borough and city councils or the Lancashire Unitary Authorities. All members have voting rights.

Terms of Reference

1. To ensure that the Committee's functions as Administering Authority are discharged and approve an Annual Administration Report.

2. To agree the terms of a Service Level Agreement in relation to the provision of administration services and support.

3. To submit reports and make recommendations to the Committee relating to the administration of the Lancashire County Pension Fund.

4. To respond to any Government consultations relating to the administration and benefits of the Local Government Pension Scheme.

5. To approve the following:

    a. Pensions Administration strategy statement;
    b. Communication Policy statement;
    c. Internal Dispute Resolution procedure;
    d. Death Grant procedure;
    e. Bulk Transfer Payment policy;
    f. Commutation policy (small pensions);
    g. Transfer policy; and
    h. Abatement policy.

INVESTMENT PANEL

Composition and role

1. The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities, including the following categories of investment:

    a. fixed interest securities managed by Investment Managers;
    b. UK equities managed by the Investment Managers;
    c. overseas equities and bonds managed by Investment Managers;
    d. local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
    e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
    f. acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
    g. indirect pooled property investments;
    h. designated index linked funds;
    i. investments managed internally and not by Investment Managers; and
    j. any other monies to be invested other than in the above categories; provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.

2. The Panel will:

    a. review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
    b. monitor the performance of the Fund's Investment Managers; and
    c. report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.

3. The Panel does not exercise any delegated powers but instead will provide advice to the Treasurer to the Fund who will either exercise his/her delegated powers or make recommendations to the Pension Fund Committee taking into account the advice and views from the Panel.

4. The membership of the Panel comprises:

    a. The Treasurer to the Fund (as Chair);
    b. Not less than two independent advisers appointed in accordance with arrangements determined by the Pension Fund Committee;
    c. The officer of the County Council fulfilling the role of Chief Investment Officer for the Fund; and
    d. An officer of the County Council identified by the Treasurer to the Fund to oversee investment activities.

5. The Panel will meet at least quarterly, or otherwise as necessary.

6. The Panel may operate through sub groups to undertake particular tasks, but will formulate recommendations to the Treasurer to the Fund and or the Pensions Fund Committee through meetings of the full Panel.

<u>Terms of Reference</u>

1. 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 performance management of Investment Managers;
    c. The broad composition of the Fund's investment portfolio, management style and types of investment;
    d. 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;
    e. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their terms of office and remit;
    f. The allocation of ranges and thresholds within which the Investment Managers should operate;
    g. Review of the Statement of Investment Principles and compliance with investment arrangements;
    h. Recommendations on the detailed management of the investment portfolios to respond to requests from investment managers to vary certain aspects of their mandates;
    i. The performance management of an internally managed investments; and
    j. The securing of specialist advice within allocated budgets.

DELEGATION

Under the Scheme of Delegation to Chief Officers, Council and Committee Functions are delegated as follows: -

County Treasurer

Pensions Fund

As Treasurer of the Lancashire County Pension Fund:

1. Subject to the prior agreement of the two independent advisers on the Investment Panel to allocate monies for investment in the following categories of investment:

    a. categories fixed interest securities managed by Investment Managers;
    b. UK equities managed by Investment Managers;
    c. overseas equities and bonds managed by Investment Managers;

d. local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
f. acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
g. indirect pooled property investments;
h. designated index linked funds;
i. investments not to be managed by Investment Managers; and
j. other monies to be invested other than the above categories. Provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.

2. To report to each meeting of the Pension Fund Committee:

   a. the investments authorised by the Treasurer to the Fund in accordance with paragraph 1 above since the previous meeting of the Pension Fund Committee, including the recommendations made by the Investment Panel in relation to each investment ;and
   b. any investments that were considered by the Investment Panel but were not actioned by the Treasurer to the Fund together with the reasons for this.

3. To set the appropriate funding target for the Fund.

4. To place any monies not allocated to investments on short term deposit in accordance with the Treasury Management Strategy and Policy approved by the Pension Fund Committee.

5. In consultation with the Investment Panel, to monitor and review the performance of investments made by Investment Managers and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.

6. To be responsible for the management of the Fund's property portfolio in accordance with the policy guidelines of the Pension Fund Committee and subject to the Procurement rules and Financial Regulations of the County Council, comprising:-

   a. the negotiation and acceptance of terms for the acquisition, development and redevelopment and disposal of land and buildings;
   b. the acquisition and disposal of incidental property vehicles;
   c. the negotiation and acceptance of terms for the granting, renewing, reviewing, varying or assignment of leases, underleases, tenancies, licences and any other interest in Fund property;
   d. the preparation and implementation of schemes of works of modernisation, improvement, maintenance and repair to Fund property together with the invitation and acceptance of tenders and the authorisation of expenditure on such works;

e. the appointment and supervision of managing agents and professional advisors necessary for the effective management of the Fund's property portfolio, within budget provision;
f. the collection of all rents, the setting of management and collection of service charges, insurance premiums and any other monies arising out of the Fund's property portfolio, together with the approval of any in-house systems established to achieve this; and
g. The placing of insurance cover for the Fund's property portfolio to such value and for such risks as shall be considered appropriate.

7. To execute documentation relating to the implementation of a new investment mandate or existing investment mandates, including the renewal of property leases.

8. To maintain all necessary accounts and records in relation to the Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Administration Sub-Committee.

9. To arrange and authorise the provision of appropriate training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.

10. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.

11. To prepare and submit the following to Pension Fund Administration Sub-Committee:

    a. Pension Administration Strategy statement;
    b. Commutation policy (small pensions);
    c. Internal Dispute Resolution procedure;
    d. Death Grant procedure;
    e. Bulk Transfer Payment policy;
    f. Transfer policy;
    g. Abatement policy; and
    h. Communication policy statement;

and to arrange for the implementation and review as necessary of the abovementioned statements, strategies, policies and procedures.

12. To prepare and submit the following to the Pension Fund Committee:

    a. Pension Fund Annual Report;
    b. Annual Business Plan;
    c. Statement of Investment Principles;
    d. Funding Strategy statement including the Fund’s policy in respect of:

(i) the Funding Target;
(ii) the collection of employee contributions;
(iii) the collection of employer contributions;
(iv) the collection of additional employer contributions;
(v) Admissions and Terminations;

e. Governance Policy Statement;
f. Governance Compliance Statement; and
g. Treasury Management Strategy and Policy and to arrange for the implementation and review as necessary of the abovementioned statements, strategies, policies and procedures.

13. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme, under the terms of a Service Level Agreement.

14. The payment of death grants in accordance with the agreed Death Grant Procedures.

15. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.

16. To arrange and authorise appropriate and necessary training for members of the Committee.

17. To appoint any required external support (subject to the role of the Pension Fund Committee and the Independent Investment Panel), their terms of office and remit

CURRENT REPRESENTATION

The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Training sessions have been held for the Pension Fund Committee, usually immediately before or after Committee meetings. The sessions cover all aspects of funding, investments, Scheme management and administration and are facilitated by an appropriate Officer, Investment Manager or Fund Actuary.

Under section 102 of the Local Government Act 1972, it is for the appointing council to decide upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council and such members may be given voting rights by virtue of section 13 of the Local Government and Housing Act 1989.

On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay representatives, with or without voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989). Membership of the Lancashire Pension Fund Committee is set out on page 2 of this statement

DCLG is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy Statement, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by DCLG, and where an authority has chosen not to comply, to state the reasons why. The Fund's statement is set out at Appendix I.

INCLUSION

Lancashire County Council is committed to the widest inclusion of all stakeholders in respect of consultation and communication outside of the formal governance arrangements. The arrangements include;

<u>With Employing Authorities</u>

The ratio of contributors from the various employing authorities in the Lancashire County Pension Fund may be analysed as follows

Scheduled bodies 93%
Admitted Bodies 7%

Lancashire County Council hosts an annual Employer Forum targeted at the Chief Officers of all employing authorities. At this forum Chief Officers are briefed on current funding, fund performance and actuarial matters including the latest valuation. Any other topical pension fund matters are also raised at this forum.

In December of actuarial valuation years, a forum is held between the Fund Actuary and the Fund Employers to discuss the outcome of the actuarial valuation and the reasons for proposed contribution changes and how they will be applied.

All employing authorities are kept abreast of events, such as proposed changes in the regulations and their implications, and they are encouraged to get in touch if they have questions.

In addition to the briefings outlined above, Lancashire County Council holds an annual Practitioners Conference. The opportunity is taken at these meetings to brief attendees on the investment side of the scheme as well as practical administration issues.

Communication is covered in detail in the Fund's Communication Strategy Statement. Lancashire County Council also provide an employer training service to ensure that Fund employers, particularly payroll and HR staff are aware and conversant with their obligations as employing authorities and have a sound understanding of LGPS regulation and administration.

With Employees

Lancashire County Council provides all members of the scheme with an annual Pensions Newsletter, which includes a summary of the annual report and financial summary of the scheme. Lancashire County Council's intranet and internet web site includes the following fund documents;

• *Full annual report*
• *Statement of Investment Principles*
• *Funding Strategy Statement*

In addition various documents are available on Lancashire County Council's intranet and internet site including, the LGPS Guide, latest news updates, and other information relating to the Scheme and Fund. Lancashire County Council maintains a working relationship with the unions.

The County Council's Joint Negotiating and Consultative Forum may discuss pension issues at its meetings, and invites Pensions and/or HR representatives to discuss current issues. Trades Unions are consultees of the Government in their own right in the same way as employers and LGPS Administering Authorities.

In addition to the above the LGPS Administration Regulations 2008 includes regulation 65, which sets out the provision for Administering Authorities to prepare a written statement of 'its Pensions Administration Strategy'.

REVIEW

This document is reviewed following any material changes to the administering authority's governance policy and was last reviewed on 15 April 2011.

Lancashire County Pension Fund Governance Compliance Statement:

Principle		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) (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) 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)	✗ ✗
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.	✓

Notes

(1) The reasons for partial compliance in respect of Structure are as follows. District Councils, Scheduled Bodies and Scheme are represented. 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.

(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 essentially that currently performed by officers and it is not apparent what added value such an appointment would bring. This is the reason for partial compliance in respect of Representation.

Appendix 'A'

your pension service

LANCASHIRE COUNTY PENSION FUND

Annual Performance Report 2012/13

Lancashire County Council

comms:3081

1. INTRODUCTION

a) 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 the Pension Service against the standards set out in the SLA during the year.

The report also explains the activities and events undertaken by the Pension Service over the reporting year.

b) Review of the Year

2012 has been another year of change within the service. The biggest development was the launch of the member self service function "my pension online". This development allows scheme members to access their pension records online. This service will become our primary method of communication with scheme members in the future.

During the year the service also launched the 'I'm In' communications campaign to coincide with the County Councils auto enrolment date of 1 January 2013. The campaign was designed to promote the benefits of the Local Government Pension Scheme and to encourage staff to stay in the scheme following auto enrolment. The campaign resulted in an increase in LCC's membership of 7% against a target of 5%.The opt out rate was 37% against a target of 50%. This means that 63% of staff who where auto enrolled on 1 January 2013 chose to stay in the scheme; working and saving for their retirement.

The service was also delighted to be shortlisted, together with Cumbria County Council, as a finalist in the Shared Services category at this year's Municipal Journal Achievement Awards. These awards recognize the best work of local government. An Awards evening will be held on 20 June 2013 to announce the winners.

Annual Plan – 2012/13

Due Completed

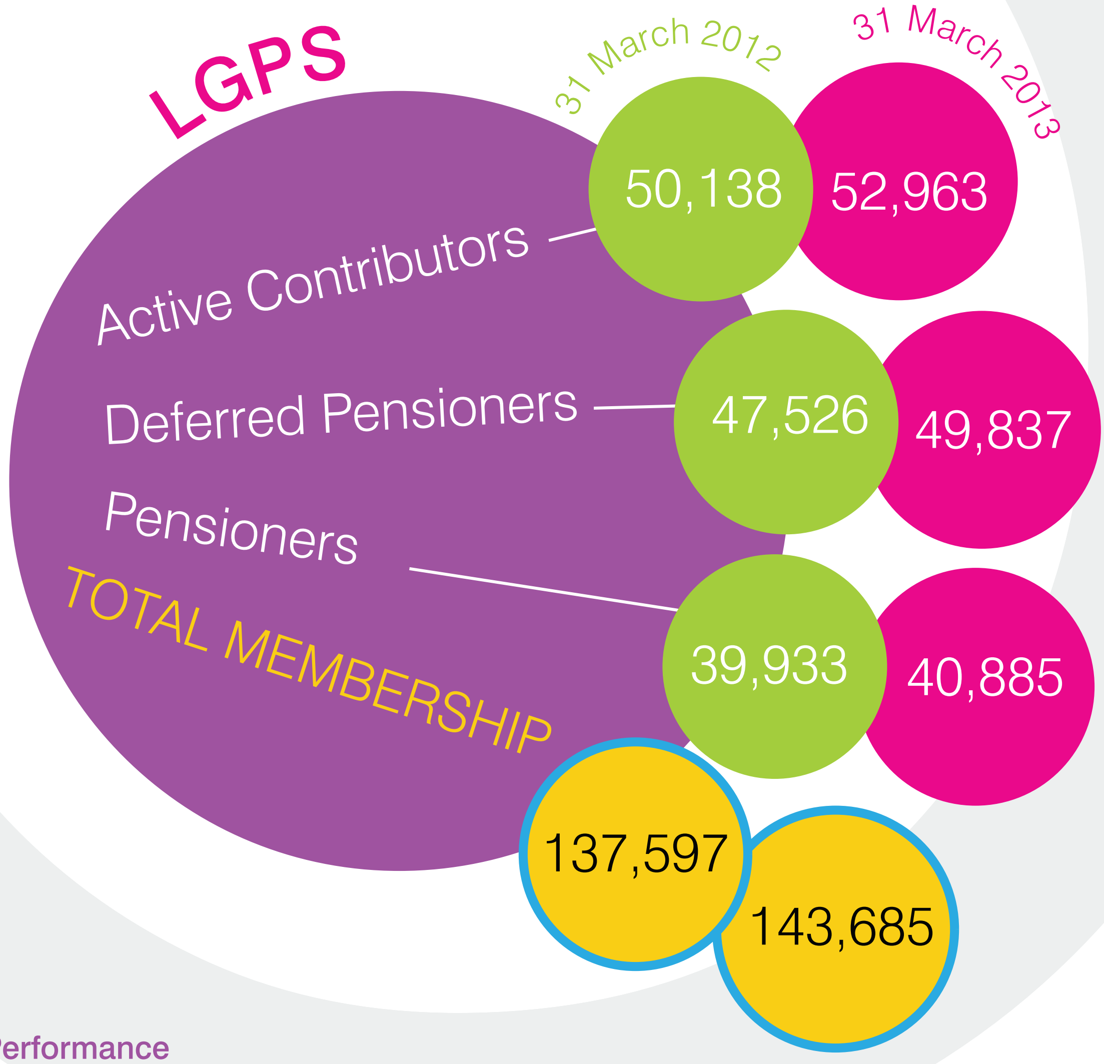
Responsibility Your Pension Service (YPS)

Event	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Application of Pension Increases		Completed										
Issue Annual Benefit Statement to Active Members						Completed						
Issue Annual Benefit Statement to Def Members		Completed										
Issue P60s to Pensioners	Completed											
Issue Newsletter	Completed											
Complete HMRC Scheme Returns										Completed		
Provide FRS17 data											Completed	

2. PERFORMANCE

a) Membership

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



b) Caseload & Performance

Performance continues to meet, and in some cases exceed, the SLA targets set. The service continues to meet its key performance indicator; 'to calculate and pay all retirement benefits within 10 working days'. At the beginning of 2013 the service was restructured and as a result dedicated client teams were created to deliver more efficient customer focussed services. A Performance Manager was appointed to ensure that SLA targets are met. The overall achievement against SLA targets over the year is 96%.

c) Annual Benefit Statements

Over the year the service has produced 102,000 benefit statements online for scheme members in accordance with a rolling programme. Over 49,000 deferred scheme members received statements during May 2012 whilst almost 53,000 active scheme members received their benefit statements towards the end of 2012.

LGPS

During the reporting period 59,226 individual calculations/ enquires were completed, of which 56,497 met the performance standard;an overall performance of 96% was achieved.

Performance Standard	Cases received	Cases completed	Within SLA	% Within SLA	Target	Cases outstanding
Estimate benefits within 10 working days	3350	3287	3062	94%	90%	63
Payment of retirement benefits within 10 working days	1973	1939	1836	95%	90%	34
Payment of death benefits within 10 working days	2805	2726	2480	91%	90%	79
Implement change in pensioner circumstance by payment due date	40656	39951	39410	99%	95%	705
Respond to general correspondence within 10 working days of receipt	2117	2037	1822	90%	90%	80
Action transfers out within 10 working days	830	802	725	91%	90%	28
Action transfers In within 10 working days	1224	1132	1021	91%	90%	92
Pay Refunds within 10 working days	213	202	165	82%	90%	11
Provide leaver statement within 10 days	4304	4101	3150	77%	90%	203
Amend personal records within 10 working days	3142	3049	2826	93%	95%	93
	60614	59226	56497	96%	95%	1388

Target Hit Target Missed

3. CUSTOMER SERVICE & EMPLOYER LIAISON

a) Connect2Pensions

Connect2Pensions is a dedicated pension's helpdesk facility and is the first point of contact for both scheme members and employers. Over the year 93.5% of calls were successfully answered against a target of 90%.

b) Training Courses for Scheme Members & Employers

During the year the following training courses and presentations were delivered:

- Scheme information was presented at 16 pre retirement courses.
- A number of promotional events were attended at the request of the employer. Scheme information was available and the team delivered presentations and responded to general member enquiries relating to the membership of the pension scheme.
- At the request of employers 4 bespoke training events were delivered and a further 4 academy training visits were undertaken.
- Each year, following the issue of Annual benefit statements, a series of 'pension surgeries' are arranged at locations throughout the county. This year 11 events took place with over 500 members attending.
- Financial planning "drop in" sessions were held at 7 locations within Lancashire to support the auto enrolment campaign and promote the scheme to non members. Over 100 individuals attended.

c) Communication with Scheme Members

'Scheme Talk', the annual newsletter for active members, was sent promoting "my pension" online as a way to access their annual benefit statements. This was issued September 2012.

d) Annual Conferences

Our annual employer conference was held at Woodlands on 27th September 2012. Topics covered included auto enrolment, future developments within the Service and the 2014 scheme changes so far. Over 120 delegates attended on the day. In addition, a briefing for Chief Finance Officers and Directors was held at County Hall on 4th December 2012. The Fund Actuary attended to present current funding issues. Over 50 delegates attended.

e) Scheme Promotion

The "I'm in" communications campaign was undertaken to promote the Scheme in advance of Lancashire County Councils auto enrolment go live date of 1 January 2013. The aim of this campaign was to educate and raise awareness of scheme benefits to discourage opt outs and to increase scheme membership. The scope also included staff not captured by auto enrolment to encourage them to join. The campaign included posters and leaflets, letters to home addresses and online live 'Q and A' sessions. Drop in awareness sessions were also held throughout Lancashire to support the campaign. Lancashire's Chief Executive was a high profile sponsor of the campaign, raising staff awareness of auto-enrolment. The campaign resulted in an increase in LCC's membership of 7% against a target of 5%.The opt out rate was 37% against a target of 50%. This means that 63% of staff who where auto enrolled on 1 January 2013 chose to stay in the scheme; working and saving for their retirement.

4. LEGISLATIVE CHANGE

a) Public Sector Pension Reform - LGPS 2014

A Statutory Consultation started on 21 December 2012 on new benefit regulations for the Local Government Pension Scheme (LGPS) from 1 April 2014.

A number of further consultations have followed with the intention of having a new LGPS in place by 1 April 2014. This new Scheme will reflect the provisions of the Public Service Pensions Bill which having worked its way through Parliament reached Royal Assent on 25 April 2013.

The main provisions of the new LGPS 2014 are:

- The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme with an accrual rate of 1/49th.
- The Scheme will be re-valued in line with Consumer Price Index (CPI).
- Pay will include non-contractual overtime and for part time staff pay will include additional hours.
- Flexibility in contributions will mean an optional arrangement allowing 50% of main benefits to be accrued by paying a 50% contribution rate.
- Normal Pension age will be the same as the individual member's State Pension Age (minimum 65).

The next step of the ongoing statutory consultation process is to ensure that the regulations covering the protections for current scheme members (known as the transitional regulations) are in place. These regulations describe how the move from current to new rules take place and set the foundations for protections. In particular protections will include a final salary link and protected retirement age for benefits built up to March 2014.

Over the forthcoming year the Service will be putting together a comprehensive communications plan in order to keep scheme members informed of these changes. The Service will also work closely with its systems supplier to ensure that the pension's administration system is compliant with the new regulations.

5. APPEALS

Under the terms of the Local Government Pension Scheme appeals from members are dealt with under the Internal Dispute Resolution Procedure (IDRP) which applies to members of the LGPS whose position may be affected by decisions taken by their employer, former employer or LGPS administering authority.

The IDRP is a formal procedure for individuals to appeal about their treatment under the LGPS regulations. The arrangements in place allow for a 2 stage appeal process. Responsibility for determinations under the first stage of the procedure can rest with the employing authority or administering authority depending on the reason for appeal.

Responsibility for determinations under the second stage of the procedure rests solely with the Administering Authority and for Lancashire the Appeals officer position has been designated to the Deputy County Treasurer.

During the year, 22 stage 2 appeals were received. 16 of these cases related to disputes concerning the award of ill health benefits either because benefits had not been granted or a dispute concerning the level of ill health awarded.

Of the 22 cases received 11 have been dismissed, 1 has been upheld and 10 are currently on-going.

6. e-DEVELOPMENT

a) Member self service "My Pension online"

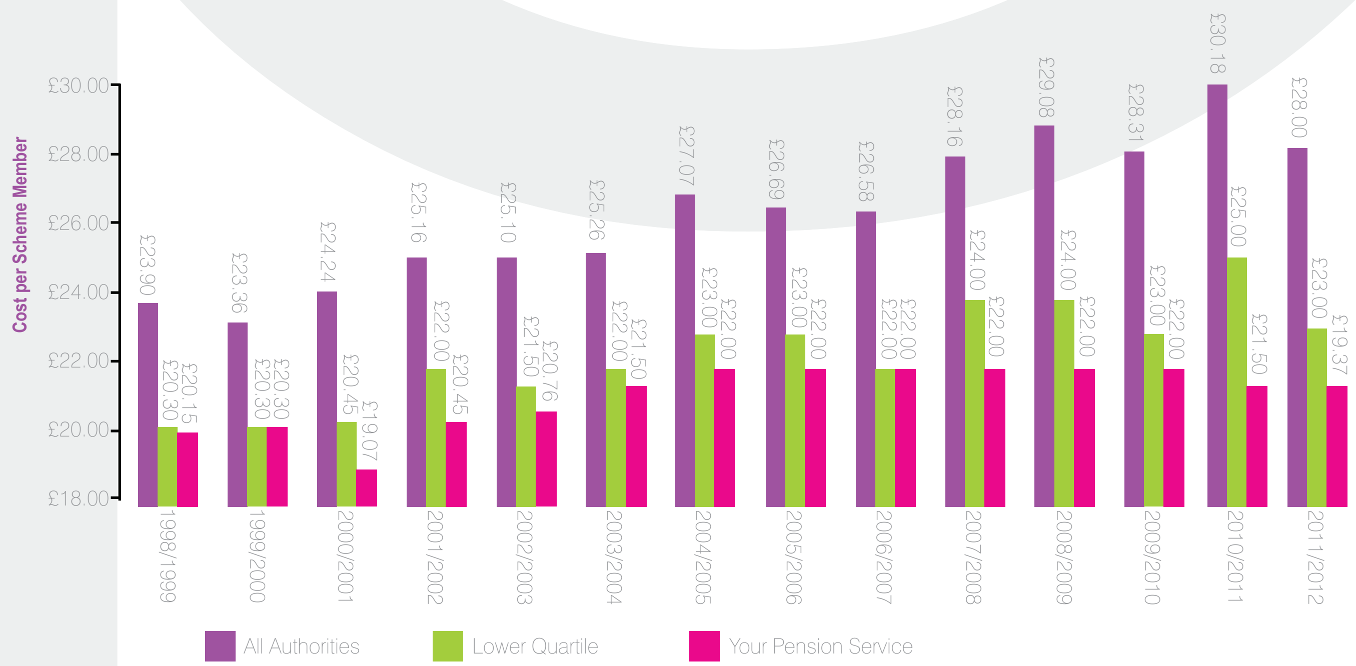
The service launched an innovative interactive self service function for scheme members. This development allows members to access their pension records online, including payslips for pensioner members and benefit statements for active and deferred members. The service aims to use this online facility as its primary means of communication in the future. A promotional campaign is planned for 2013 to encourage Scheme members to register for this service.

b) Future Developments

The service has agreed a project plan of future developments. One of these developments is to launch the Employer online facility to Fund employers. This service will enable employers to view scheme member records for their organisation, complete basic tasks and process estimates electronically.

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. For 2012/13 the financial performance of the service across all the areas of work which it undertakes has generated an exceptional underspend and in order not to overcharge the Fund the County Treasurer has reduced the charge on a one off basis to £19.37 per member generating a rebate of £0.300m to the Fund. The ongoing level of charge to the Fund will be kept under review.



Lancashire County Pension Fund
Local Government Pension Scheme
Communication Policy Statement
March 2006

Introduction

This is the Communication Policy Statement of the 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 publish a Statement by 1st April 2006, under the LGPS (Amendment) (No.2) Regulations 2005 which came into force on 14th December 2005.

The regulations require the administering authority to prepare maintain and publish a written statement setting out their policy concerning communications with …

- Members;
- Representatives of members;
- Prospective members; and
- Employing authorities

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 employing authorities;
- The format, frequency and method of distributing such information or publicity; and
- The promotion of the Scheme to prospective members and their employing authorities.

The Policy

Lancashire County Council as administering authority is responsible for communications relating to the Local Government Pension Scheme and will ensure that an appropriate communications strategy is in place and is in line with Scheme regulations and overriding legislation.

Lancashire County Council recognises the measures contained in the Pensions Act 2004 and is committed to the Governments wider informed choice agenda. As administering authority, Lancashire County Council will actively encourage the provision of good pension information and the promotion of pensions in the workplace.

The administering authority's communications strategy includes …

- Clear, accurate and timely communication of the provisions and requirements of the Local Government Pension Scheme to all stakeholders*

- Scheme promotion targeting prospective members and their employers.
- The use of various media as appropriate to ensure that information reaches all stakeholders.
- Recognition that different styles and methods of communication will suit different stakeholders
- Robust feedback and evaluation processes
- Encouragement and assistance for all stakeholders in respect of their own communication and information responsibilities in relation to the Scheme.

Provision of Information

Lancashire County Council, as administering authority, undertakes to provide information and publicity about the Scheme to members, representatives of members and employing authorities.

Format and Frequency

The format and frequency of information is set out in the Communication Programme at Appendix I of this Statement.

Promotion

The administering authority undertakes to promote the LGPS to employing authorities. In particular the authority will target prospective members i.e. the employing authority's new employees and current employees who are eligible to join the Local Government Pension Scheme and are not currently members of the Scheme.

Review

This statement will be reviewed if there is any material change in the administering authority's communications policy. The policy will be reviewed no less frequently than annually.

Appendices

Appendix I Communication Programme
Appendix II Statement of Risk
Appendix II Scheme Regulations and Overriding Legislation

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

Communication Programme

Communication / Information	Stakeholder*	Format	Frequency	Method
Actuarial Valuation	All Stakeholders	Paper / website	Triennial	Mail / email / internet
Administering Authority Policies	All Stakeholders	Paper	As amended	Mail / email
Annual Benefit Statements (ABS)	Active and Deferred Members	Paper	Annual rolling schedule	Mailed to home address
Axise – On Line	Active Members	Interactive On-line Service	24/7	Intranet
Communication Policy Statement	All Stakeholders	Paper / website	As amended	Email / internet/intranet
Customer Surveys	Members	Paper	Annual Rolling schedule	Mail to home address
Employee Bulletins	Members and Prospective Members	Paper / website / DVD	As required	Mail / email / internet
Employee Guide	Members	Paper / website	On or before employment. On request	Via HR Depts Mail / intranet
Employee Surgeries	Active Members	Appointment / drop in	Co-ordinated with ABS annual rolling schedule	Face to face
Employer Bulletins	Employer	Paper / website / DVD	As required	Mail / email / internet
Pensions administration Strategy Statement	Employer	Paper / email / website	On admission and as amended	Face to face / mail

Employer Forum (Directors Brief)	Employer	Presentation	Annually	Face to face / email
Employer Guide	Employer	website	As amended	Internet
Employer Training	Employer	Presentation DVD	On request / as required	Face to face – in house and employer locations. Mail
Fact Sheets	All Members	Paper / website	On request / as required	Mail / email / internet
Focus Group	Members and Prospective Members	Meeting	Quarterly	Face to face
Funding Strategy Statement	All Stakeholders	Paper / website	As amended	Intranet / internet
Governance Policy Statement	All Stakeholders	Paper / website	As amended	Email / internet / intranet
Letter	All Stakeholders	Paper	As required	Mail
New Employer information pack	Employer	Paper / website	On Admission	Face to Face
New Starter information pack	Prospective Members	Paper / website	On or before employment On request	Via HR Depts / Mail / internet
Newsletters	Members & prospective Members	Paper/ website	Annual	Mail / internet / intranet
Pension Fund Committee meeting agenda & minutes	All Stakeholders	Website	Annual rolling schedule	internet / intranet
Practitioner Conference	Employer	Presentation	Annually	Face to face
Pre – Retirement presentations	Active members / Employers	Presentation	On request	Face to face
Report and Accounts	All Stakeholders	Paper / website	Annual	Mail / email / internet

Service Standards Leaflet	All Stakeholders	Paper / website	As amended	Internet / internet
Statement of Investment Principles	All Stakeholders	Paper / website	As amended	Intranet / internet
Telephone Helpdesk	All Stakeholders	Telephone	Mon – Fri 8.45 am to 4.30 pm	Oral
Viewpoint Leaflet	All Stakeholders	Paper / website	As amended	Internet / internet
Website	All Stakeholders	Website	24/7	Intranet / internet

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

Summary Risk Register
(A Full risk register can be found at Appendix 1 of the Lancashire County Pension Fund Funding Strategy Statement)

<u>Key Risks Identified</u>

Administering Authority

Deterioration of funding level
Local Government reorganisation
Changes to LGPS Regulations
Changes to overriding legislation
Resources
Unclear decision process
Change in Scheme Profile (increase/decrease membership)

Employing Authority

Deterioration of funding level
Change in employing authority circumstances (increase/decrease in membership).
Employer unclear of obligations and responsibilities in respect of the LGPS

This list may be amended from time to time as part of the review process.

Scheme Regulations and Overriding Legislation

The Local Government Pension Scheme (Transitional Provisions) Regulations 1997

The Local Government Pension Scheme Regulations 1997 (as amended)

The Occupational Pensions Schemes (Disclosure of Information) Regulations 1986

The Pensions Act 2004

The Finance Act 2004

The Data Protection Act 1998

The Freedom of Information Act

Lancashire Pensions Services

Pension Administration Strategy Statement

2010

Lancashire County Council

Lancashire Pensions Services

THE BEST FOR LANCASHIRE AND BEYOND

CONTENTS

CONTENTS 2
Acknowledgement & Review 4
Background 5
Purpose 5
Compliance 5
1. Lancashire Pensions Services' Undertakings 6
1.1. Liaison and Communication 6
1.2. Performance Levels 7
1.2.1. Pensioner Members 7
1.2.2 Active & Deferred Members 8
1.3. Administration of the LGPS and Compliance 9
1.3.1. Contributions and AVCs 9
1.3.2. Year End Information 9
1.3.3. Processing 9
a) New Starters / Disclosure of Information 9
b) Benefit Estimates & Annual Benefit Statements 10
c) Changes in Circumstance 10
d) Early Leavers 10
e) Retirements 10
f) Death in Service 11
1.4. Improving methods of Passing Information 11
1.4.1 E-Government 11
1.5. Circumstances for recovery of Additional Costs 11
1.6. Other Matters 12
1.6.1. Decisions 12
1.6.2. Policies (Administering Authority Discretions) 12
1.6.3. The Regulations 12
2. Employer Undertakings 13
2.1. Liaison and Communication 13
2.1.1. Customer Liaison 13
2.2. Performance Levels 13
2.3. Administration of the LGPS and Compliance 14
2.3.1. Contributions and AVC's 14
2.3.2. Year End Information 14
2.3.3 Processing 15
a) New Starters / Disclosure of Information 15
b) Benefit Estimates & Annual Benefit Statements 15
c) Changes in circumstance 15
d) Leave of Absence 16
e) Early Leavers 16
f) Payment of benefits where employment is continuing 16
g) Retirements 17
h) Death-in-service 17
2.4. Improving methods of Passing Information 17
2.4.1. E-Government 17

2.5 Circumstances for recovery of Additional Costs 18
2.6 Other Matters 18
2.6.1. Employer Decisions 18
2.6.2. Policies (Employer Discretions) 18
Annex A – Regulation 65 Local Government Pension Scheme (Administration) Regulations 2008 19
Annex B – Discretions (England & Wales) 21
Annex C – Year end returns 37

Acknowledgement & Review

This statement will be reviewed by Lancashire Pensions Services on an annual basis.

Signed and dated

______________________________ ____________________

Diane Lister Date
Head of Pensions & Exchequer
Lancashire Pensions Services

Employer Acknowledgement

Signed and dated

______________________________ ____________________

Signature of Fund Employer Date

______________________________ Employer

______________________________ Name

______________________________ Designation

Background

Lancashire Pensions Services is responsible for the administration of the Local Government Pension Scheme (LGPS). This service is carried out on behalf of Lancashire County Council, the Administering Authority, which is required by law to provide an administration service for the LGPS within the geographical area of Lancashire.

Purpose

Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008 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 fund 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 fund employer;
- Any other matters that the administering authority consider suitable for inclusion in the 'Pension Administration Strategy.'

Regulation 65 is set out fully at Annex A.

Compliance

The undertakings set out within this Pension Administration Strategy will be reviewed annually by Lancashire Pensions Services. Employers will be consulted on any changes to the Strategy. In no circumstance does this Strategy override the contents of the Service Level Agreement between the Lancashire County Pension Fund and Lancashire Pensions Service. It does not 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. Lancashire Pensions Services' Undertakings

1.1. Liaison and Communication

a) Lancashire Pensions Services shall nominate persons who will act as the Fund Employers primary contact in respect of the following areas:

- Technical
- Systems
- Administration
- Communication

In addition, Lancashire Pensions Services will:

b) Ensure that Employer Forums and Pensions Practitioner 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
- Mid Career courses
- New Starters Induction courses
- Benefit Statement and AVC surgeries

n.b. Attendance by Lancashire Pensions Services 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 separately by the parties to this statement.

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

d) Provide Scheme information: An annual member newsletter will be produced and distributed to all members and be available to 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 and promote electronic communication.

g) Carry out annual employer visits in order to report performance in line with this Pension Administration Strategy.

1.2. Performance Levels

Lancashire Pensions Services has a Service Level Agreement with the Pension Fund Committee 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. Statistics relevant to individual Employer's will be reported annually and will form the basis of an annual Employer visit carried out by Lancashire Pensions Services.

The Annual Administration Report reported to the Pension Fund Committee is available in the Employers area of Lancashire Pensions Services' website.

1.2.1. Pensioner Members

Performance Standard	Minimum Target
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.	95%
g) Calls to the Pensions Helpdesk answered.	90%
h) Undertake annual reviews to establish continuing entitlements to pension for all children over age 17/18.	100%

1.2.2 Active & Deferred Members

Performance Standard	Minimum Targets
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 Lancashire Pensions Services. 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 and AVCs

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

a) Collect and control employer and employee contributions (plus interest as appropriate).

b) Maintain and update members' records regarding AVC contributions.

c) Calculate service credits, additional pensions or maximum cash on retirement where appropriate based on fund values received from the 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 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.

1.3.2. Year End Information

a) Lancashire Pensions Services will update its systems and member records each year on receipt of the employer's year end data.

b) At each Actuarial Valuation period, Lancashire Pensions Services 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.

c) Lancashire Pensions Services 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

Lancashire Pensions Services will ensure the following functions are carried out:

a) New Starters / Disclosure of Information

Create member records for all new starters admitted to the LGPS, and provide the employer with a statutory notification for each employee within 10 working days of the commencement of their employment. (If the member is transferring service from a previous employer, the notification will be sent within 10 working days of the completion of the transferred service.)

b) Benefit Estimates & Annual Benefit Statements

Provide every active, deferred and pension credit member with a benefit statement each year based on total membership and estimated final pay.

Lancashire Pensions Services will compare the data with employers as specified at Section 2.3 before producing the statements and will liaise with the employer to determine whether to send statements out to home address or via the employing department.

Provide one further estimate each year as requested by the employer on form LPS12 within 10 working days of receipt of the request.

c) Changes in Circumstance

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

- Change of hours / weeks
- Change of name
- Change of marital status
- Change of contract
- Change of employee contribution rate
- Change of title
- Change of address
- Breaks in service

Within 10 working days of receipt of the notification of change.

d) Early Leavers

Process early leavers (deferred benefits / refunds) as soon as is reasonably practicable or at the latest within 15 working days of the receipt of form LPS08. This form is required to calculate the members leaving entitlement.

We will apply Pensions Increases to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.

e) Retirements

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

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

Make payments 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 Lancashire

Pensions Services. 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.

Where a member takes flexible retirement and elects to rejoin the scheme, the procedure for *'New Starters / Disclosure of Information'* at Section 1.3 will be followed.

f) Death in Service

Calculate and pay dependants benefits within 10 working days of receipt of notification or date of entitlement, which ever 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. Improving methods of Passing Information

1.4.1 E-Government

Lancashire Pensions services will seek to improve and promote electronic facilities for data interchange between employers, scheme members and the Service in line with e-government strategy.

Provide day to day system support to all employers who have access to the AXIS system.

1.5. Circumstances for recovery of Additional Costs

See section 2.5 Employer Undertakings.

1.6. Other Matters

1.6.1. Decisions

Lancashire Pensions Services will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 5 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)

Lancashire Pensions Services will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations (see Annex B).

1.6.3. The Regulations

The regulations relevant to this Pension Administration Strategy Statement are:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)
- The Occupational Pensions Schemes (Disclosure of Information) Regulations 1986
- The Pension Acts 1995 & 2004
- The Data Protection Act 1998
- Finance Act 2004

2. Employer Undertakings

2.1. Liaison and Communication

2.1.1. Customer Liaison

a) The employer shall nominate a person / persons who will act as the primary contact(s) for general administration/payroll issues and regulatory/employer discretion issues with Lancashire Pensions Services.

b) The employer will facilitate an annual visit by Lancashire Pensions Services with the appropriate primary contact.

c) The employer shall nominate an authorised signatory / signatories in respect of all documents and instructions received by Lancashire Pensions Services.

d) The employer shall ensure representation at Employer Forums and The Pensions Practitioner Conference as specified in Section 1.1.

e) The employer shall undertake to ensure that all personnel linked to the Lancashire Pensions Service will undergo appropriate training as noted in Section 1.1.

2.2. Performance Levels

Performance achieved by the Employer in relation to the following will be reported annually by Lancashire Pensions Services and will form the basis of an annual visit to the Employer by Lancashire Pensions Services: - .

- Payment of AVCs to Prudential;
- Payment of contributions collected, completion and submission of LPS14;
- Submission of year end return.

In addition, Lancashire Pensions Services will monitor and report on Employer performance in the following areas:

- Submission of new starter and changes in circumstances information;
- Notification of leave of absences (submission of LPS3, LPS4 and LPS5);
- Notification of leavers (submission of LPS8, LPS16 and LPS 17 where appropriate);
- The % of transactions carried out via e-forms

2.3. Administration of the LGPS and Compliance

2.3.1. Contributions and AVC's

The employer will ensure that both employee and employer contributions are deducted at the correct rate (including any contributions due to leave of absence with reduced or no pay and any additional contributions as Lancashire Pensions Services may request the employer to collect). The employer must maintain a policy to review employee tiered contribution rates, and notify Lancashire Pensions Services of any changes (see 2.3.3c).

a) All contributions, but not Prudential or Equitable Life AVC's, should be paid to the Lancashire County Pension Fund on a monthly basis via direct debit and in any case ***before the 19th of the month following that in which they were deducted***. This is in line with the Pensions Act 1995 and non-compliance may result in a fine on the employer.

b) Form LPS14 should be completed and returned by the 6th of each month to the Pension Contribution Section of LCC's Treasury Management. We will then take payment via direct debit on 19th of the month unless that falls on a non banking day and in this case the payment will be taken on the last banking day prior to the 19th.

Alternatively
Should payments be made via BACS they should be directed to:

National Westminster Bank	
Sort Code	: 01-67-14
Account No	: 05900824
Account Name	: General County Fund Account
Reference	: "pen conts – [employer name or ref no.]"

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

2.3.2. Year End Information

The employer shall provide Lancashire Pensions Services with a year-end return to 31 March each year in an agreed format no later than 31 May.

Acceptable method(s) of returning year end information are shown at annex C.

The Employer shall also provide Lancashire Pensions Services with a Year-end Return to 31 March of the total hours worked.during the year for variable time employees. This return should be submitted by no later than 30 June.

2.3.3 Processing

a) New Starters / Disclosure of Information

At the latest, on the first day of employment, the employer will provide all new starters with a ‘New Starter Pack’. This pack contains a form for opting out of receiving a state pension forecast within their annual benefit statement (it is a legal requirement that each member receives this option). In addition, Pensions Starter form LPS1 is processed by Employer Finance Section on the first day of employment.

The employer will also complete and send form LPS2 (notification of appointment of pensionable employee), attached to form LPS1, to Lancashire Pensions Services within 5 working days of the first payment of salary.

The employer will verify and forward a statutory notification to the member informing them of their formal admittance to the scheme.

n.b. form LPS2 is <u>not</u> necessary where the new starter records are sent in electronic format (see section 2.4).

b) Benefit Estimates & Annual Benefit Statements

Individual requests for retirement estimates must be processed via the employer. The employer will complete form LPS12 and send to Lancashire Pensions Services no more than 5 working days after the request is made.

In respect of Annual Benefit Statements, the employer will:

1. Provide electronic scheme member data as requested by Lancashire Pensions Services, or
2. Check scheme member data as provided by Lancashire Pensions Services

All data will need to be clean and accurate at least one month prior to the production of statements (please see attached production timetable in Annex C).

The employer will also collate queries arising from the statements and check membership and pay details for accuracy, before forwarding to Lancashire Pensions Services as appropriate.

c) Changes in circumstance

The employer will send a completed form LPS6 to Lancashire Pensions Services when one of the following individual membership changes occurs, as soon as reasonably practicable and no later than 5 working days of the payment of salary following notification of the change in 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.

n.b. LPS6 is not necessary where changes in circumstance are sent in electronic format (see section 2.4).

d) Leave of Absence

The employer will send the relevant notification form to Lancashire Pensions Services as soon as reasonable practicable and no later than 5 working days of the payment of salary following notification of :-

- Maternity/Adoption Leave (LPS3);
- Confirmation of Return to Duty (LPS4);
- Unpaid Leave of Absence (LPS5);
- Absence due to Trade Disputes;
- Absence due to Reserve Forces Service.

e) Early Leavers

The employer will send completed form LPS8 to Lancashire Pensions Services 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.

f) Payment of benefits where employment is continuing

The employer will send form LPS17 (Notice of Flexible Retirement) to Lancashire Pensions Services as soon as the flexible retirement has been approved.

Completed forms LPS8 and LPS10 will also be forwarded to Lancashire Pensions Services 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 agrees to follow the *‘New Starters / Disclosure of Information*’ procedure at Section 2.3.

g) Retirements

The employer will send form LPS16 (Notice of Intention to Retire) to Lancashire Pensions Services 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 forms LPS8 and LPS10 will also be forwarded to Lancashire Pensions Services 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.

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 Lancashire Pensions Services within 5 working days following the date of the decision together with form LPS10 and 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.

h) Death-in-service

The employer will send a completed form LPS8 to Lancashire Pensions Services following the death of a member within 5 working days of being informed of the employees’ death. Form LPS8 must provide details of informant and next of kin, if known.

2.4. Improving methods of Passing Information

2.4.1. E-Government

a) Lancashire Pensions Services 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 agrees to make reasonable attempts to embrace the E-Government Strategies proposed by Lancashire Pensions Services. Current options include sending bulk information by spreadsheet using secure email, and sending individual information by Eform. Contact Lancashire Pensions Services if you are interested in using these facilities.

b) Where an Employing Authority is granted (read-only) access to their scheme member records using the AXISe Pension Administration system, the employer will be given an account to be used. The employer is responsible for ensuring that only designated users use the account, and that the information 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 Lancashire Pensions

Services 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.

c) Similarly where third party administrators are used to fulfil the employers payroll/personnel function, the employer will take steps to ensure that its obligations are kept.

2.5 Circumstances for recovery of Additional Costs

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. Specifically the Authority will seek to recover interest on late payment of contributions 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.

n.b. Regulation 43 and 44 of the Local Government Pension Scheme (Administration) Regulations 2008 apply.

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 5 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 (see annex B).

Annex A – Regulation 65 Local Government Pension Scheme (Administration) Regulations 2008

Pension administration strategy

65—(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 employing authorities in relation to which it is the administering authority ("its employing authorities");

(b) the establishment of levels of performance which the administering authority and its employing authorities 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 employing authorities 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 employing authorities 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 employing authorities under regulation 43(2) on account of that authority'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 employing authorities 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 employing authorities 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 employing authorities 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) When an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its employing authorities and to the Secretary of State.

(7) An administering authority and its employing authorities must have regard to the current version of any pension administration strategy when carrying out their Scheme functions.

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

Annex B – Discretions (England & Wales)

Discretions from 01/04/08 in relation to post 31/3/08 active members (excluding councillor members) and post 31/03/08 leavers (excluding councillor members), being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (as amended) [prefix OT]

Discretion	**Regulation**	**Exercised by**
To whom to offer membership of the LGPS (designation bodies)	**A**4(3) & **A**Sch2(Pt2) & **A**8(1)	Employer
Whether to agree to an admission agreement with a community body	**A**5(1) & **A**7(4)	Admin. Authority
Whether to approve a community admitted body under **A**5(2)(a)(ii)	**A**5(2)(a)(ii) & **A**5(3)	Secretary of State
Whether to agree to an admission agreement with a transferee body	**A**6(1) & **A**6(10)(a)	Transferor employer
Define what is meant by "employed in connection with"	**A**6(12)	Transferor employer
Whether to approve a transferee admitted body under **A**6(2)(b)	**A**6(2)(b) & **A**6(4)	Secretary of State
Which employees to nominate for membership (admission bodies)	**A**7(1) & **A**12(6)	Employer
Whether to agree to an admission agreement with a Care Trust or NHS Scheme employing authority	**A**12(6)	Admin. Authority
Whether to terminate a transferee admission agreement in the event of - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**A**Sch3, para 10	Admin. Authority

Whether to set off against payments due to a transferee admission body any sums due to the Fund by that body	**A**Sch3, para 12(b)	Transferor employer
Whether to extend the 12 month option period for aggregation of deferred benefits	**A**16(4)(b)(ii)	Employer
Determine rate of employees' contributions	**B**3 & **T**9	Employer
Allow an "outsourced" manual worker to make a late option to continue to pay 5% contribution rate upon return to the LGPS (where option is made more than 30 days after rejoining the LGPS) **NB:** it would appear from **T**9 that the protection to pay the manual worker rate under **L**14 only continues to 31/03/11 for those who were active members at both 31/03/08 and 01/04/08, but not to those who left before 01/04/08 and return after then. This is not logical.	**T**9 & **L**12(3) & **L**14(3)(b)	Employer
Frequency of payment of member's contributions	**B**3(11)	Admin. Authority
Specify in an employee's contract what other payments or benefits, other than those specified in **B**4(1)(a) and not otherwise precluded by **B**4(2) or (3), are to be pensionable	**B**4(1)(b)	Employer
Whether to recover employee contributions that had been reduced or waived after 40 years pensionable local government service prior to the deletion of **L**15 by SI 2006/966	Reg 8 of SI 2006/966	Employer
Whether to extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted requesting that the service should not be treated as relevant reserve forces service	**A**19(8)(b)	Admin. Authority
Whether to allow a late application by member to pay optional contributions for a period of unpaid child related leave, strike, or unpaid leave of absence beyond 30 days	**A**22(2)	Employer
Whether to augment membership of an active member (by up to 10 years)	**B**12*	Employer
Whether to grant additional pension to a member (by up to £5,000 p.a.)	**B**13*	Employer
Agree method of paying for augmented membership granted under **B**12 or additional pension granted under **B**13	**A**40(2) & (4)	Employer / Admin. Authority
Whether to extend the one month period within	**A**40(9)(b)	Employer / Admin.

which a lump sum payment by the employer under A40(2) has to be made (to pay for any augmented membership granted under **B**12 or additional pension granted under **B**13)		Authority
Whether to require a satisfactory medical before agreeing to an additional regulation contribution (ARC) election under **B**14	**A**23(3)	Admin. Authority
Whether, how much, and in what circumstances to contribute to a shared cost AVC scheme	**A**25(3) & **B**15(3)	Employer
Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC / SCAVC funds	**A**28(2)	Admin. Authority
Allow late application to convert scheme AVCs into membership credit i.e. allow application more than 30 days after cessation of active membership	**T**Sch1 & **L**66(8) & former **L**66(9)(b)	Employer
Governance policy must state whether the admin authority delegates their function of part of their function in relation to maintaining a pension fund to a committee, a sub committee or an officer of the admin authority and, if they do so delegate, state - the frequency of any committee or sub-committee meetings - the terms of reference, structure and operational procedures appertaining to the delegation - whether representatives of employing authorities or members are included and, if so, whether they have voting rights The policy must also state the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying.	**A**31*	Admin. Authority
Whether to set up a separate admission agreement fund	**A**32(1)	Admin. Authority
Decide on Funding Strategy for inclusion in funding strategy statement	**A**35*	Admin. Authority
Whether to obtain revision of employer's contribution rate on termination of an admission agreement where underfunding not met by insurer, bond or indemnity	**A**38(3)	Admin. Authority

Whether to obtain revision of employer's contribution rate with a view to ensure no underfunding by time admission agreement terminates	**A**38(4)	Admin. Authority
Whether to require any strain on Fund costs to be paid 'up front' by employing authority following redundancy, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible retirement (but not waiver of reduction in full on compassionate grounds). **NB:** there is no provision equivalent to that in regulation 80(5) of the 1997 Regulations which permits strain on Fund costs to be charged for early voluntary retirements (i.e. after age 50/55 and before age 60) or early payment of a deferred benefit on health grounds.	**A**41(2)	Admin. Authority
Decide frequency of payments to be made over to Fund by employers.	**A**42(1)	Admin. Authority
Decide form and frequency of information to accompany payments to the Fund	**A**42(4)	Admin. Authority
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	**A**43	Admin. Authority
Whether to charge interest on payments by employers overdue by more than 1 month	**A**44(1)	Admin. Authority
Extend time period for capitalisation of added years contract	**T**Sch1 & **L**83(5)	Admin. Authority
No right to return of contributions due to offence of a fraudulent character or grave misconduct unless employer directs a total or partial refund is to be made	**A**47(2)	Employer
Employer may deduct contributions from an employee's pay or reserve forces pay	**A**45(1) & (2)	Employer
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3)	Admin. Authority
Contribution Equivalent Premium (CEP) in excess of the Certified Amount (CA) recovered from a refund of contributions can be recovered from the Pension Fund	**A**49(1) & (2)	Employer
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	**A**52(2)	Admin. Authority
Approve medical advisors used by employers	**A**56(2)	Admin. Authority

(for ill health benefits)		
Whether to extend six month period to lodge a stage one IDRP appeal	**A**58(7)(b)	Person making stage one IDRP decision
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	**A**60(8)	Admin. Authority
Whether admin. authority should appeal against employer decision (or lack of a decision)	**A**63(2)	Admin. Authority
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	**A**63(3)(b)	Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**A**64(1)(b)	Admin. Authority
Whether to have a written pensions administration strategy and, if so, the matters it should include	**A**65(1) & (2)	Admin. Authority
Communication policy must set out policy on communicating with members, representatives of members, prospective members and employing authorities and format, frequency and method of communications	**A**67*	Admin. Authority
Date to which benefits shown on annual benefit statement are calculated	**A**68	Admin. Authority
Decide policy on abatement of pensions following re-employment	**A**70(1)* & **A**71(4)(c) & **T**12	Admin. Authority
Whether to apply to Secretary of State for a forfeiture certificate (where member is convicted of a relevant offence)	**A**72(1)	Employer
Where forfeiture certificate is issued, whether to direct that benefits are to be forfeited	**A**72(3)	Employer
Where forfeiture certificate is issued, whether to direct interim payments out of Pension Fund until decision is taken to either apply the certificate or to pay benefits	**A**73(1) & (2)	Employer
Whether to recover from Fund any monetary obligation or, if less, the value of the member's benefits (other than transferred in pension rights or AVCs / SCAVCs) where the obligation was incurred as a result of a criminal, negligent or fraudulent act or omission in connection with the employment and as a result of which the	**A**74(2)	Employer

person has left employment		
Whether to recover from Fund any financial loss caused by fraudulent offence or grave misconduct of employee (who has left because of that), or amount of refund if less	**A**76(2) & (3)	Employer
Agree to bulk transfer payment	**A**81(1)(b)	Employer / Admin. Authority
Determine adjustments to bulk transfer payment	**A**82(2)	Fund actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	**A**82(5)	Fund actuary
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	**A**83(8)	Employer
Allow transfer of pension rights into the Fund	**A**83(9)	Admin. authority
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	**A**86(3)	Actuaries for both Funds
Whether to extend normal time limit for acceptance of restitution transfer value beyond 12 months from joining the LGPS	**T**Sch1 & **L**122A(2)(c)	Admin. Authority
Whether to allow a member to select final pay period for fees to be any 3 consecutive years ending 31 March in the 10 years prior to leaving	**B**11(2)	Employer
Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement)	**B**18(1)*	Employer
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	**B**18(3)*	Employer
Decide which ill health tier leaver falls into	**B**20	Employer
Whether to grant application for early payment of benefits on or after age 50 / 55 and before age 60	**B**30(2)*	Employer
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early	**B**30(5)*	Employer
Decide whether deferred beneficiary meets permanent ill health criteria	**B**31	Employer
Decide to whom death grant is paid	**B**23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4)	Admin. Authority

Decide evidence required to determine financial dependence of nominated co-habitee on scheme member or financial interdependence of nominated co-habitee and scheme member	**B**25	Admin. Authority
Decide to treat child as being in continuous education or training despite a break	**B**26(5)(a)	Admin. Authority
Decide to suspend child's pension during a break in education or training	**B**26(5)(b)	Admin. Authority
Decide whether to commute small pension	**B**39 & **T**14(3)	Admin. Authority
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**B**42(1)(c)	Admin. Authority
Whether to accept a partial restitution payment	**T**Sch1 & **L**122A(8)	Admin. Authority
How to discharge Pension Credit liability	**T**Sch1 & **L**147	Admin. Authority
To accept (late) elections after 31/03/98 from members who want to count membership between 01/04/72 and 05/04/88 for widower's pensions. If a late election is allowed the employer must pass a resolution, within 6 months of agreeing to accept the election, to state that the membership will count for widower's pensions.	**T**6(3) & **L**42(4) [which still refers to the 1997 Transitional Regulations] & **OT**9	Employer

* These are matters about which the regulations require there must be a written policy.

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to active councillor members and pre 01/04/08 scheme leavers

Discretion	**Regulation**	**Exercised by**
Allow a councillor who has opted out more than once to rejoin	7(9)(a)	Employer
Frequency of payment of councillors' contributions	12(5)	Admin. Authority
Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service	17(4),(7),(8), & 89(4) & Sch 1	Admin. Authority
Allow a late application by a councillor member	18(6) & (7)	Employer

to pay optional contributions for a period of absence		
Grant application from a post 31/03/98 / pre 01/04/08 leaver or from a councillor for early payment of benefits on or after age 50 / 55 and before age 60	31(2)*	Employer
Waive, on compassionate grounds, the actuarial reduction applied to benefits paid early for a post 31/03/98 / pre 01/04/08 leaver or a councillor leaver	31(5)*	Employer
Councillor optants out only to get benefits paid from NRD if employer agrees	31(7A)*	Employer
Whether to extend 12 month period for aggregation of deferred benefits (where deferred councillor member wishes to aggregate with current councillor membership in the same Fund)	32(8A)	Employer
Decide, in the absence from a post 31/03/98 / pre 01/04/08 leaver of an election from the member within 3 months of being able to elect, which benefit is to be paid where the member would be entitled to a pension or retirement grant under 2 or more regulations in respect of the same period of Scheme membership	34(1)(b)	Employer
Decide to whom death grant is paid in respect of councillor members and post 31/03/98 / pre 01/04/08 leavers	38(1) & 155(4)	Admin. Authority
Treat child as being in continuous education or training despite a break (children of councillor members and children of post 31/03/98 / pre 01/04/08 leavers)	44(3)	Admin. Authority
Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31/03/98 / pre 01/04/.08 leavers)	47(1)	Admin. Authority
Pay child's pension to another person for the benefit of the child (children of councillor members and children of post 31/03/98 / pre 01/04/08 leavers)	47(2)	Admin. Authority
Agree to commutation of small pension	49 & 156	Admin. Authority
Commute benefits due to exceptional ill-health (councillor members and pre 01/04/08 leavers)	50 and 157	Admin. Authority
Whether acceptance of AVC election is subject to a minimum payment (councillors only)	60(5)	Admin. Authority

Whether to require any strain on Fund costs to be paid "up front" by employing authority following early voluntary retirement of a councillor (i.e. after age 50 / 55 and before age 60), or early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01/04/08 leavers).	80(5)	Admin. Authority
Frequency of employer's payments to the fund (in respect of councillor members).	81(1)	Admin. Authority
Form and frequency of information to accompany payments to the Fund (in respect of councillor members)	81(5)	Admin. Authority
Interest on payments by employers overdue by more than 1 month (in respect of councillor members)	82(1)	Admin. Authority
No right to return of contributions due to offence of a fraudulent character unless employer directs a total or partial refund is to be made (councillors and pre 01/04/08 leavers)	88(2)	Employer
Employer may deduct contributions from an councillor's pay or reserve forces pay	89(1) & (2)	Employer
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (councillors and pre 01/04/08 leavers)	89(3)	Admin. Authority
Timing of pension increase payments by employers to fund (pre 01/04/08 leavers)	91(6)	Admin. Authority
Contribution Equivalent Premium (CEP) in excess of the Certified Amount (CA) recovered from a refund of contributions can be recovered from the Pension Fund (councillor leavers and pre 01/04/08 leavers)	92	Employer
Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of councillor or pre 01/04/08 leaver)	95	Admin. Authority
Approve medical advisors used by employers (re ill health benefits for councillors and re pre 01/04/08 preserved benefits payable on health grounds)	97(10)	Admin. Authority
Decide procedure to be followed by admin authority when exercising its IDRP functions and decide the manner in which those functions are to be exercised (councillors and	99	Admin. Authority

pre 01/04/08 leavers)		
Appeal against employer decision, or lack of a decision (councillors and pre 01/04/08 leavers)	105(1)	Admin. Authority
Abatement of pensions following re-employment (councillors and pre 01/04/08 leavers)	109* & 110(4)(b)	Admin. Authority
Forfeiture of pension rights on issue of Secretary of State's certificate (councillors and pre 01/04/08 leavers)	111(2) & (5)	Employer
Where forfeiture certificate is issued, direct interim payments out of Pension Fund until decision is taken to either apply the certificate or to pay benefits (councillors and pre 01/04/08 leavers)	112(1)	Employer
Recovery from Fund of monetary obligation owed by former employee or, if less, the value of the member's benefits (other than transferred in pension rights) (councillors and pre 01/04/08 leavers)	113(2)	Employer
Recovery from Fund of financial loss caused by employee, or amount of refund if less (councillors and pre 01/04/08 leavers)	115(2) & (3)	Employer
Retention of CEP where member transfers out (councillors and pre 01/04/08 leavers)	118	Admin. Authority
Discharge Pension Credit liability (councillors)	147	Admin. Authority

*These are matters about which the regulations require there must be a written policy.

Discretions under the Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (as amended)

Discretion	Regulation	Exercised by
To accept (late) elections after 31/03/98 from members who want to count membership between 01/04/72 and 05/04/88 for widower's pensions. If a late election is allowed the employer must pass a resolution, within 6 months of agreeing to accept the election, to state that the membership will count for widower's pensions.	9	Employer
Extending time limit for repayment of a previous refund (01/04/74 to 31/12/79)	17(3)	Former employer and new Admin. authority
Spouse's pensions for life for pre 01/04/98	Para 21 of Sch 3	Admin. authority

retirees / deferreds who die on or after 01/04/98.		

Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to pre 01/04/98 scheme leavers

Discretion	**Regulation**	**Exercised by**
Grant application from a pre 01/04/98 leaver for early payment of deferred benefits on or after age 50 on compassionate grounds	D11(2)(c)	Employer
Decide, in the absence from a pre 01/04/98 leaver of an election from the member within 3 months of being able to elect, which benefit is to be paid where the member would be entitled to a pension or retirement grant under 2 or more regulations in respect of the same period of Scheme membership	D10	Employer
Decide to whom death grant is paid in respect of pre 01/04/98 leavers	E8	Admin. Authority
Treat child as being in continuous education or training despite a break (children of pre 01/04/98 leavers)	G1	Admin. Authority
Apportionment of children's pension amongst eligible children (children of pre 01/04/98 leavers)	G11(1)	Admin. Authority
Pay child's pension to another person for the benefit of the child (children of pre 01/04/98 leavers)	G11(2)	Admin. Authority

Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (as amended)

Under Regulation 7 of the Discretionary Compensation Regulations, each authority (other than an Admitted Body) is required to formulate and keep under review a policy which applies in respect of exercising their discretion in relation to:

Discretion	Regulation	Exercised by
To base redundancy payments on an actual weeks pay where this exceeds the statutory weeks pay limit.	5	Employer
To award lump sum compensation of up to 104 weeks pay in cases of redundancy,	6	Employer

termination of employment on efficiency grounds, or cessation of a joint appointment.		
To award compensatory added years to a person aged 50 or over with 5 or more years membership (or notional membership) of the LGPS in cases of redundancy, termination of employment on efficiency grounds, or cessation of a joint appointment which occurred after 30 September 2006 and before 1 April 2007 (but only if employment had commenced pre 1 October 2006)	11(2)	Employer

Note: 'local government' means employment with an employer who offers membership of the LGPS to its employees, regardless of whether or not the employee chooses to join the LGPS (except where the employer is an Admitted Body). Technically, an employee of an Admitted Body (i.e. a body that has applied to the administering authority to allow its employees to join the LGPS and has entered into a formal admission agreement) is only employed in 'local government' if he / she is a member of the LGPS.

<u>Formulating and publishing a policy under the Discretionary Compensation Regs 2006</u>

The employer must formulate, publish and keep under review a statement of their policy.

If the employer decides to amend the policy, no change can come into effect until one month has passed since the date the amended policy statement was published.

In formulating and reviewing its policy an employer is required by the Regulations to:

- have regard to the extent to which the exercise of their discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service, and

- be satisfied that the policy is workable, affordable and reasonable having regard to the foreseeable costs.

Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)

Under Regulation 26 of the Discretionary Compensation Regulations, each authority (other than an Admitted Body) is required to formulate and keep under review a policy which applies in respect of exercising their discretion in relation to:

How to apportion any surviving spouse's annual compensatory added years payment where the deceased person is survived by more than one spouse	21(4)	Employer
How it will decide to whom any children's annual compensatory added years payments are to be paid where children's pensions are not payable under the LGPS (because the employee had not joined the LGPS) and, in such a case, how the annual added years will be apportioned amongst the eligible children	25(2)	Employer
Whether, in respect of the spouse of a person who ceased employment before 1 April 1998 and where the spouse or civil partner remarries, enters into a new civil partnership or cohabits after 1 April 1998, the normal pension suspension rules should be disapplied i.e. whether the spouse's or civil partner’s annual compensatory added years payments should continue to be paid	21(7)	Employer
If, under the preceding decision, the authority's policy is to apply the normal suspension rules, whether the spouse's or civil partner’s annual compensatory added years payment should be reinstated after the end of the remarriage, new civil partnership or cohabitation	21(5)	Employer
Whether and to what extent to reduce or suspend the member's annual compensatory added years payment during any period of re-employment in local government	17	Employer
How to reduce the member's annual compensatory added years payment following the cessation of a period of re-employment in local government	19	Employer
Agree to pay compensation on behalf of employer and recharge payments to employer	31(2)	Admin. Authority

Note: 'local government' means employment with an employer who offers membership of the LGPS to its employees, regardless of whether or not the employee chooses to join the LGPS (except where the employer is an Admitted Body). Technically, an employee of an Admitted Body (i.e. a body that has applied to the administering authority to allow its employees to join the LGPS and has entered into a formal admission agreement) is only employed in 'local government' if he / she is a member of the LGPS.

Formulating and publishing a policy under the Discretionary Compensation Regs 2000

The employer must formulate, publish and keep under review a statement of their policy.

If the employer decides to amend the policy, a new written statement must be published within a month of when the employer decided on the amendment(s). No change can come into effect until one month has passed since the date the amended policy statement was published.

In formulating and reviewing its policy an employer is required by the Regulations to:

- have regard to the extent to which the exercise of their discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service, and

- be satisfied that the policy is workable, affordable and reasonable having regard to the foreseeable costs.

Discretions under the Local Government (Discretionary Payments) Regulations 1996 (as amended)

Discretion	Regulation	Exercised by
Amount of injury allowance following loss of employment through permanent incapacity after sustaining an injury or contracting a disease as a result of anything required to do in carrying out duties of job.	34(2) and 38	Employer
Suspend or discontinue injury allowance if person becomes capable of working again	34(4)	Employer
Amount of injury allowance following reduction in pay after sustaining an injury or contracting a disease as a result of anything required to do in carrying out duties of job.	35 and 38	Employer
Amount and duration of injury allowance following cessation of employment where reg 35 payment was being made but reg 34 does not apply.	36	Employer
Amount and duration of a dependant's, spouse's or civil partner's injury allowance following death of employee after sustaining an injury or contracting a disease as a result of anything required to do in carrying out duties of job.	37(3), 37(6) and 38	Employer
Reinstate spouse's or civil partner's injury	37(4)	Employer

allowance following earlier cessation due to cohabitation, remarriage or registration of a new civil partnership		
Amount of death in service gratuity payable to surviving dependant, spouse or civil partner	40	Employer
Amount or retirement gratuity payable	41	Employer
Amount of gratuity payable to surviving dependant, spouse or civil partner where amount of annuity payments fall short of their capital value at date of award	41(4)	Employer
Amount if redundancy gratuity payable	42	Employer
Amount of gratuity payable to surviving dependant, spouse or civil partner where amount of redundancy annuity payments fall short of their capital value at date of award	42(4)	Employer
Amount of gratuity payable to any other surviving dependant, spouse or civil partner where amount of annuity payments paid under 42(4) fall short of their capital value at date of award	42(7)	Employer
Formulate and keep under review the injury allowance and gratuity policies to be operated by the authority	46A	Employer

Discretions under the Local Authorities (Members' Allowances) (England) Regulations 2003 [SI 2003/1021]

Discretion	Regulation	Exercised by
Scheme of allowances made by a district council, county council or London borough council must specify which members will be eligible to join the LGPS and whether the basic and / or special responsibility allowances will be pensionable	11	Relevant Authority

Discretions under the Local Authorities (Allowances for Members) (Wales) Regulations 2007 [SI 2007/1086]

Discretion	Regulation	Exercised by
Scheme of allowances made by a county council or county borough council must specify which members will be eligible to join the LGPS and that the basic and special responsibility allowances will be pensionable	38	Relevant Authority

Annex C – Year end returns

Acceptable methods of returning year end information are as follows:

Less than 30 active employees	Spreadsheet (see Appendix II(i) for column headings of data to be included) or Paper listings – Lancashire Pensions Services will automatically forward a schedule to the employer for completion.
Over 30 active employees	Spreadsheet (see Appendix II(i) for column headings of data to be included)

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 Scheme), in accordance with the Local Government Pension Scheme Regulations and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme Regulations provide the statutory framework from 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 Scheme the Administering Authority will prepare and publish their 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.

Benefits payable under the Scheme are guaranteed by statute and thereby 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.

The Scheme 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.

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.

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 regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the Scheme 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, it must remain a single strategy for the Administering Authority to implement and maintain.

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The aims of the fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers’ liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters. (A detailed statement of the Fund's Investment Objective is found in the Statement of Investment Principles)

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

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions by the due dates
- invest surplus monies in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after due consultation with interested parties, and
- monitor all aspects of the Scheme’s performance and funding and amend Funding Strategy Statement/Statement of Investment Principles.
- Ensure sound corporate governance in respect of all aspects of the administration and investment of the Fund.

The Individual Employer should:

- deduct contributions from employees’ pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions 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 membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers’ contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy.

5. Solvency issues and target funding levels

The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing basis including allowance for projected final pay.

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.

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:

- 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 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2010/11 may be implemented in equal steps, over a maximum period of 3 years.
- 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.

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 a level percentage of pensionable payroll.

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;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the **funding target**. This higher level of return assumed will, in particular, reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. 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 2010 valuation show the liabilities to be 80% covered by the current assets, with the funding deficit of 20% 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 based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the out-performance currently required on the basis of the 2010 Valuation assumptions.

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 approval of the investment policy and strategy, the appointment of suitable persons to implement the policy and regular review of the Fund's performance investments and investment managers. The Committee meets at least four times per annum, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 Trade Union representatives, a and representative from Lancashire's Further Education/Higher Education establishments. The 21 members of the Committee have full voting rights. Members of the Investment Panel also attend meetings of the Committee but they do not have any voting rights.

Investment Panel

The Investment Panel consists of two external investment advisors, the Head of Pension Fund and Treasury Management, the Assistant Director of Finance and the Treasurer to the Pension Fund. The Panel meet five times a year to monitor the investment activities and performance of the Fund's investment managers. The Panel is responsible for making recommendations to the Pension Fund Committee regarding taking strategic decisions relating to the broad sector composition of the portfolio, subject to general guidelines set by the Committee.

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.

The Fund Managers have full discretion to invest within the policy limits laid down by the Pension Fund Committee and the Investment Panel.

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.

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 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.

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. 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. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.55% 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 AOAs.

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 of 0.3% p.a. for supply/demand distortions in the bond market (an "inflation risk premium") is incorporated and

- An allowance of 0.5% p.a. for pensions being increased annually in future 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 RPI inflation as implied by the investment markets 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 inflation assumption as described above. This includes allowance for promotional increases.

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 the most 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 derivation of the mortality assumption is based on Fund specific analysis. Members who retire on the grounds of ill heath 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.

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 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 whole Fund financial assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

Long-term gilt yields	
Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Market-implied RPI price inflation	3.8% p.a.
Assumed CPI price inflation	3.0% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	7.0% p.a.
Investment return post-retirement	5.5% 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.

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% p.a. above the liabilities consistent gilt yield (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, and

- the normal future service contribution rate for the employer concerned.

Appendix 'A'

Annex 2

SIP INVESTMENT STRATEGY

The investment strategy is currently being revised by the Investment Panel taking into consideration the result of the latest actuarial valuation. A proposed new approach for investment strategy was approved by the Pension Fund Committee in the meeting held on 10 December 2010. 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 Panel are proposing that the fund adopts a "target range" asset allocations for increased flexibility. The specifics of this range and the performance measures for managers is still being finalised by the Investment Panel.

The Fund is currently still being measured by the approved benchmark allocation as shown in the current Statement of Investment Principles (Table 1).

Table 1

Current benchmark asset allocation as shown in the Statement of Investment Principles

Asset Class	Allocation (%)	Managed on an Active Basis (%)	Managed on a Passive Basis (%)
UK Equities	32	14	18
Overseas Equities	32	10	20
Bonds	17	11	6
Property	6	6	
Hedge Fund of Funds	3	3	
Private Equity	3	3	
Index Linked	4	1	3
Cash	3	3	
Total	100	73	27

Performance Targets

The current performance targets are as follows:

- The active equity managers are expected to outperform the Fund specific benchmark return (index return) by 1.5% (net of fees) over rolling three years.
- The active bonds manager is expected to outperform the Fund specific benchmark return by 0.75% (net of fees) over rolling three years.
- The property manager is expected to outperform the IPD small funds benchmark return (£10m to £300m) by 1% over rolling three years.
- The Private Equity manager is expected to outperform the BVCA median return.
- The Hedge Fund of Funds manager is expected to outperform cash returns by 6% (net of fees) over rolling three years.
- The index tracking manager is expected to track indices.

Key Risks Identified

The following risks will be monitored and reviewed in line with the monitoring and review guidelines identified within section 8 of the Funding Strategy Statement

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 employers contribution rate on service delivery and admitted / scheduled bodies

Demographic

Longevity horizon continues to expand
Deteriorating pattern of early retirements

Regulatory

Changes to Regulations, eg more favourable benefits package, potential new entrants to scheme, eg part time employees.
Changes to national pension requirements and/or Inland Revenue rules

Governance

Administering Authority unaware of structural changes in employers membership (eg 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 bond.
Lack of frequent Pension Fund Committee meetings
Insufficient member training
Unclear decision making procedures
Changes to Pension Fund Committee membership

It should be noted that this list is not exhaustive and may be amended from time to time as part of the monitoring and review process.

Lancashire County Pension Fund
Funding Strategy Statement (FSS)

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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 regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the Scheme 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, it must remain a single strategy for the Administering Authority to implement and maintain.

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as defined in the Local Government Pension Scheme Regulations

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- monitor all aspects of the Scheme's performance and funding and amend Funding Strategy Statement/Statement of Investment Principles.
- Ensure sound corporate governance in respect of all aspects of the administration and investment of the Fund.

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- deduct contributions from employees' pay correctly
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- exercise discretions 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
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Underlying these assumptions are the following two tenets:

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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.

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- 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

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- 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.

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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 a level percentage of pensionable payroll.

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;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the **funding target**. This higher level of return assumed will, in particular, reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. 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 2010 valuation show the liabilities to be 80% covered by the current assets, with the funding deficit of 20% 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 based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the out-performance currently required on the basis of the 2010 Valuation assumptions.

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 approval of the investment policy and strategy, the appointment of suitable persons to implement the policy and regular review of the Fund’s performance investments and investment managers. The Committee meets at least four times per annum, and currently comprises 14 elected County Councillors, 4 representatives of the District Councils and Unitary Authorities within the Fund, 2 Trade Union representatives, a and representative from Lancashire’s Further Education/Higher Education establishments. The 21 members of the Committee have full voting rights. Members of the Investment Panel also attend meetings of the Committee but they do not have any voting rights.

Investment Panel

The Investment Panel consists of two external investment advisors, the Head of Pension Fund and Treasury Management, the Assistant Director of Finance and the Treasurer to the Pension Fund. The Panel meet five times a year to monitor the investment activities and performance of the Fund’s investment managers. The Panel is responsible for making recommendations to the Pension Fund Committee regarding taking strategic decisions relating to the broad sector composition of the portfolio, subject to general guidelines set by the Committee.

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.

The Fund Managers have full discretion to invest within the policy limits laid down by the Pension Fund Committee and the Investment Panel.

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.

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 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.

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. 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. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.55% 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 AOAs.

<u>Inflation (Consumer Prices Index)</u>

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 of 0.3% p.a. for supply/demand distortions in the bond market (an "inflation risk premium") is incorporated and

- An allowance of 0.5% p.a. for pensions being increased annually in future 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 RPI inflation as implied by the investment markets at the valuation date is 0.8% per annum.

<u>Salary increases</u>

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 inflation assumption as described above. This includes allowance for promotional increases.

<u>Pension increases</u>

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).

<u>Mortality</u>

The mortality assumptions will be based on the most 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 derivation of the mortality assumption is based on Fund specific analysis. Members who retire on the grounds of ill heath 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.

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 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 whole Fund financial assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

Long-term gilt yields	
Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Market-implied RPI price inflation	3.8% p.a.
Assumed CPI price inflation	3.0% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	7.0% p.a.
Investment return post-retirement	5.5% 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.

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% p.a. above the liabilities consistent gilt yield (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, and

- the normal future service contribution rate for the employer concerned.

SIP INVESTMENT STRATEGY

The investment strategy is currently being revised by the Investment Panel taking into consideration the result of the latest actuarial valuation. A proposed new approach for investment strategy was approved by the Pension Fund Committee in the meeting held on 10 December 2010. 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 Panel are proposing that the fund adopts a "target range" asset allocations for increased flexibility. The specifics of this range and the performance measures for managers is still being finalised by the Investment Panel.

The Fund is currently still being measured by the approved benchmark allocation as shown in the current Statement of Investment Principles (Table 1).

Table 1

Current benchmark asset allocation as shown in the Statement of Investment Principles

Asset Class	**Allocation (%)**	**Managed on an Active Basis (%)**	**Managed on a Passive Basis (%)**
UK Equities	**32**	**14**	**18**
Overseas Equities	**32**	**10**	**20**
Bonds	**17**	**11**	**6**
Property	**6**	**6**	
Hedge Fund of Funds	**3**	**3**	
Private Equity	**3**	**3**	
Index Linked	**4**	**1**	**3**
Cash	**3**	**3**	
Total	**100**	**73**	**27**

Performance Targets

The current performance targets are as follows:

- The active equity managers are expected to outperform the Fund specific benchmark return (index return) by 1.5% (net of fees) over rolling three years.
- The active bonds manager is expected to outperform the Fund specific benchmark return by 0.75% (net of fees) over rolling three years.
- The property manager is expected to outperform the IPD small funds benchmark return (£10m to £300m) by 1% over rolling three years.
- The Private Equity manager is expected to outperform the BVCA median return.
- The Hedge Fund of Funds manager is expected to outperform cash returns by 6% (net of fees) over rolling three years.
- The index tracking manager is expected to track indices.

Key Risks Identified

The following risks will be monitored and reviewed in line with the monitoring and review guidelines identified within section 8 of the Funding Strategy Statement

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 employers contribution rate on service delivery and admitted / scheduled bodies

Demographic

Longevity horizon continues to expand
Deteriorating pattern of early retirements

Regulatory

Changes to Regulations, eg more favourable benefits package, potential new entrants to scheme, eg part time employees.
Changes to national pension requirements and/or Inland Revenue rules

Governance

Administering Authority unaware of structural changes in employers membership (eg 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 bond.
Lack of frequent Pension Fund Committee meetings
Insufficient member training
Unclear decision making procedures
Changes to Pension Fund Committee membership

It should be noted that this list is not exhaustive and may be amended from time to time as part of the monitoring and review process.

Lancashire County Pension Fund

Statement of Investment Principles

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.

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:

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.

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 FSA registered. 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 Fund’s) Regulations 1998, (as amended) with regard to the requirement to review the investments made by the Fund Managers. She reports at 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 her Pension Fund investment and accounting responsibilities and provide the following services:

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

Investment Objective

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 reflect a market consistent discount rate for the profile and duration of the Fund’s 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 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 Fund, 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 allows for a gradual shift in the overall equity/bond weighting of the fund as the liability profile of the membership matures over time.

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.

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.

<u>Investment Limits imposed under the Local Government Pension Scheme (Management and Investment of Fund’s) (Amendment) Regulations 2003</u>

The limits shown in Column 1 below are those laid down under the 1998 Regulations. The limits in Column 2 are those allowed under the 2003 and 2005 Regulations and 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 reviewed the 1998 Regulations limits and have adopted the increased limits for any single insurance contract and also for all contributions to partnerships.

	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%	15%
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%	-
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

Policy on Risk

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

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%. The Private Equity benchmark is FTSE All Share
- The Infrastructure managers are expected to outperform an 8% absolute benchmark on a rolling three year basis.
- The Non Investment grade bond mandate is expected to outperform the Credit Suisse leveraged loan BB & B Benchmark on a rolling three year basis.
- The property manager is expected to outperform the IPD All Property Index Benchmark return on a rolling three year basis.

<u>Monitoring and Review</u>

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).

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.

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.

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. A Pension Fund Business Plan is approved by the Pension Fund Committee on an annual basis.

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 and by WM Company quarterly for consideration by the Investment Panel and the Pension Fund Committee.

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.yourpensionsservice.org.uk.

MERCER

Lancashire County Pension Fund

Actuarial valuation report as at 31 March 2010

Consulting. Outsourcing. Investments.

March 2011

Lancashire County Pension Fund
Actuarial valuation as at 31 March 2010

MERCER

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.

Contents Page

1. Introduction 1

2. Funding results – funding target 3

3. Funding results – contribution requirements 6

4. Method and assumptions 8

5. Least risk funding results 11

6. Variability and risks 13

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

1

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

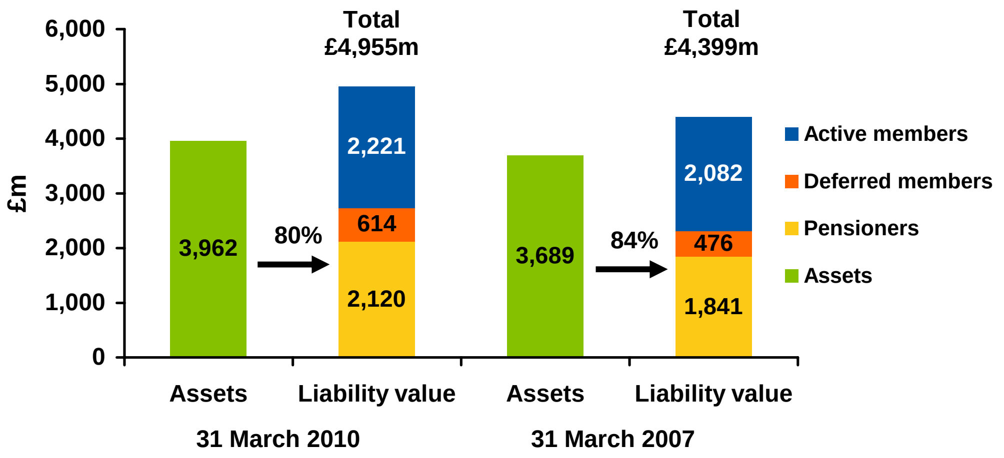
1.9 The previous actuarial valuation of the Fund was carried out as at 31 March 2007 by ourselves.

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.

2

Funding results – funding target

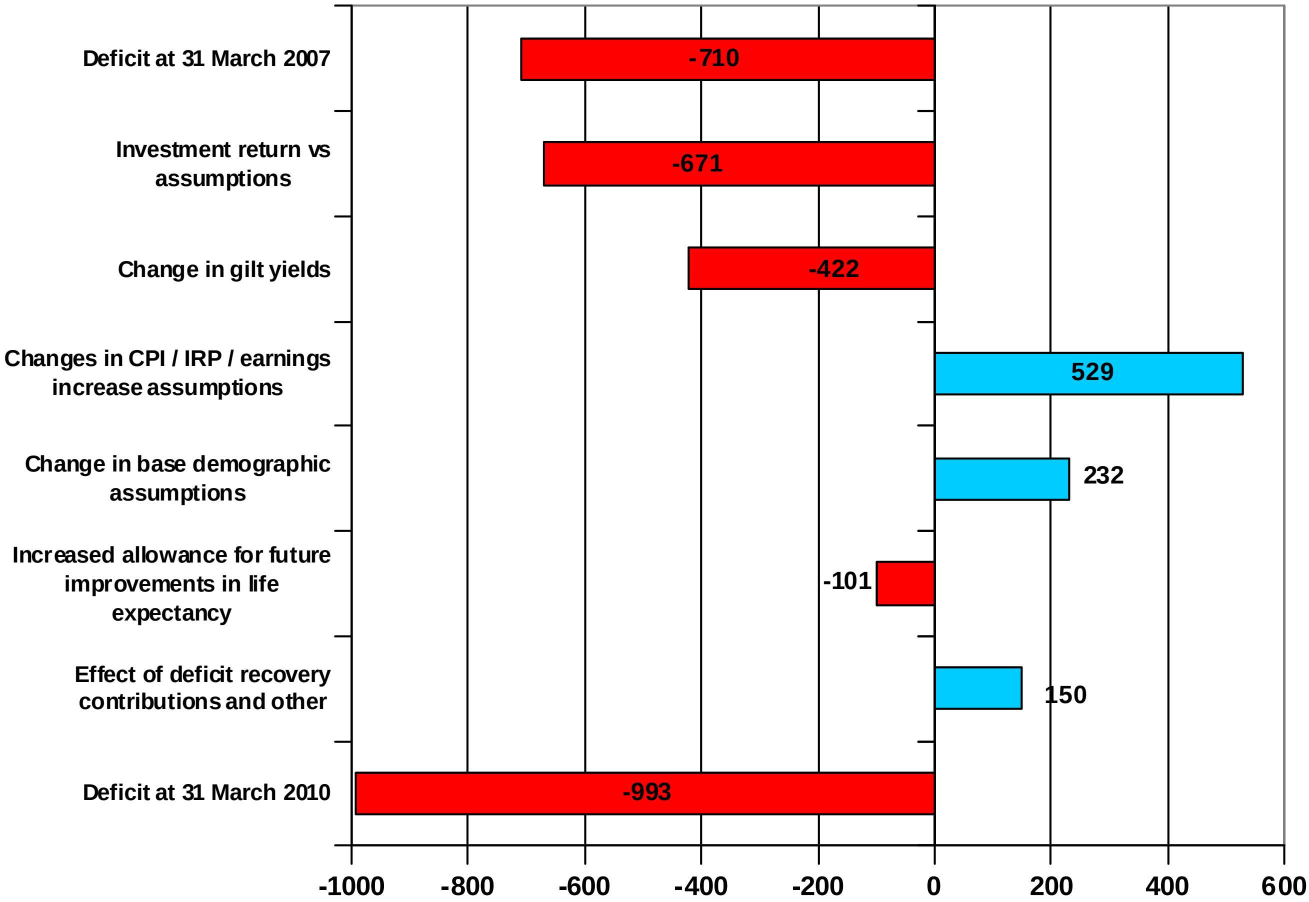
2.1 The market value of the Fund's assets at the valuation date is compared with the value of the Fund's past service liabilities (the funding target) below. The funding position at the previous valuation is shown for comparison.



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

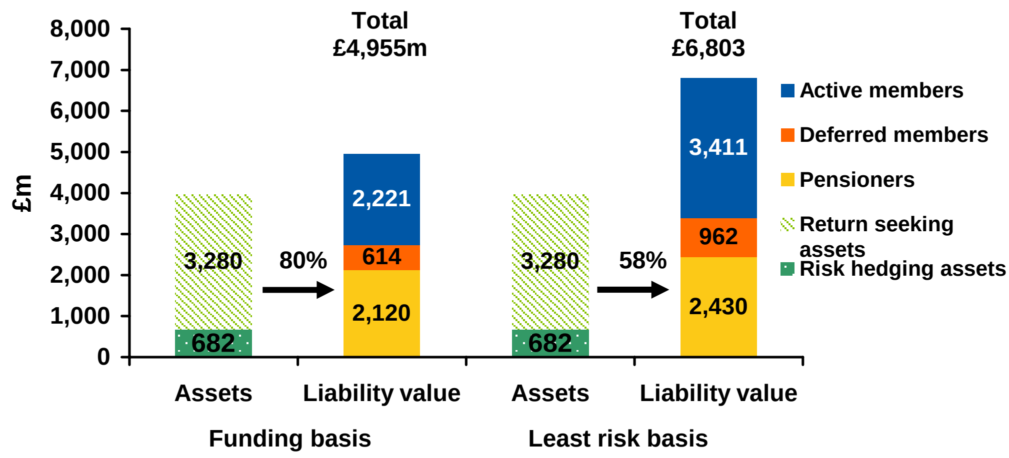
Least risk funding results

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.

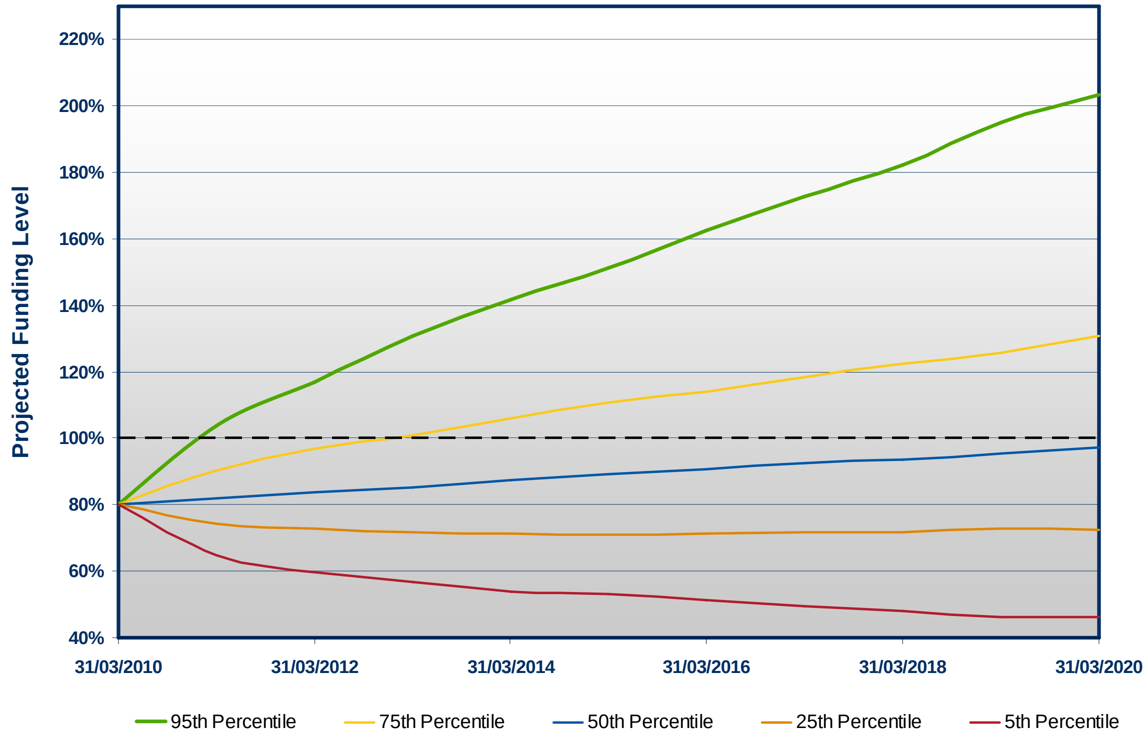
Change in assumption	Revised employer normal contribution rate at valuation date (% of Pensionable Pay)
Salary increases increased by 0.25% p.a.	13.0
Life expectancy increased by 1 year	12.7

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
Rossendale Borough Council	189	244	566
Rossendale Leisure Trust	30	57	12
Rossendale 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 (Tarelton)	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 AOAs.

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 heath 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.

	% retiring per annum	% retiring per annum
Age	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:

	% leaving per annum	% leaving per annum
Age	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	% 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	% 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.

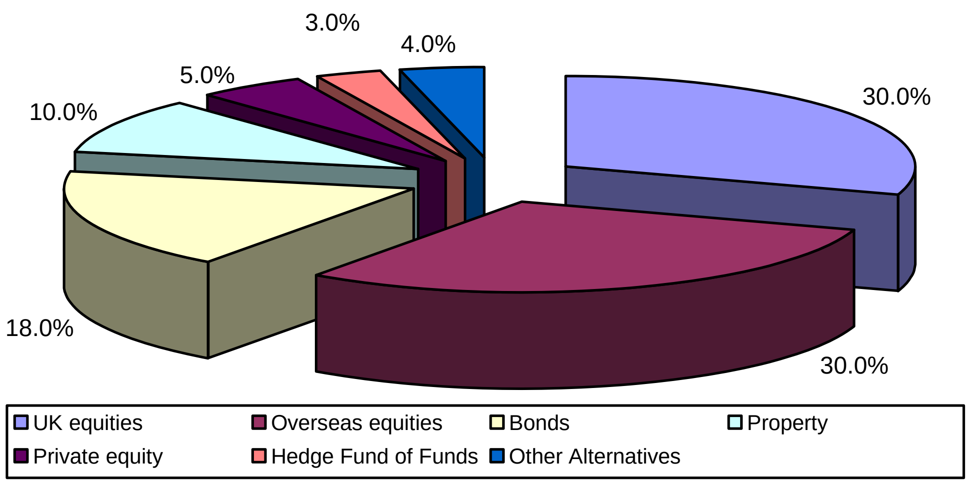
The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration 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.

Appendix E

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			
	2008	**2009**	**2010**	**Total**
	£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			
	2008	**2009**	**2010**	**Total**
	£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.

Ill 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 heath 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
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Amount £
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
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Amount £
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%	
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
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Amount £
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
	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Individual Adjustment	Total Contribution Rate (% of pay)	Amount £
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.

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INVESTOR IN PEOPLE

1. Scheme employers with active members as at 31 March 2013

A	Bulloughs (St Marys)
ABM Catering Ltd	Bulloughs(St Stephens CP)
Academy@Worden	Bulloughs(Whalley Primary)
Accrington & Rossendale College	Burnley Borough Council
Accrington Academy	Burnley College
Albany Academy	Burscough Parish Council
All Saints CE Primary School Academy	
Alternative Futures Ltd	**C**
Alzheimers Society	Calico Housing
Andron (Former Solar contracts)	Capita Business Services
Andron (Glenburn Sports College)	Capita(Rossendale BC)
Andron (City of Preston High School)	Carden Croft and Co Ltd
Andron (Kennington Primary School)	Cardinal Newman College
Andron (Ribblesdale High School)	Caritas Care Limited
Arnold Schools	Cater Link Limited (Ripley St Thomas)
	Catterall Parish Council
B	CG Cleaning Ltd (Balladen)
Bacup & Rawtenstall Grammar School (Academy)	CG Cleaning Ltd (Heysham High School)
Balfour Beatty WorkPlace Ltd (Pleckgate School)	CG Cleaning Ltd (St James School)
Barnoldswick Town Council	CG Cleaning Ltd (St Patricks)
Beaufort Ave. Day Care Centre	Chorley Borough Council
Belthorn Primary Academy	Chorley Community Housing Ltd
Bishop Rawstorne High Academy	Church Rd Day Care Unit
Blackburn College	Clitheroe Royal GS (Academy)
Blackburn St Mary's	Commission for Education & Formation
Blackburn with Darwen Borough Council	Community and Business Partners
Blackpool & The Fylde College	Community Council of Lancashire
Blackpool Coastal Housing	Community Gateway Association Ltd
Blackpool Borough Council	Consultant Caterers Ltd
Blackpool Sixth Form College	Contour Housing Group
Blackpool Transport Services Ltd	Creative Support Ltd
Blackpool Zoo (Grant Leisure)	Creative Support Ltd (Midway)
Bootstrap Enterprises Ltd	CSB Contract Services Ltd
Bowland High Academy Trust	CX Ltd
Blackpool Airport post July 2004	
Blackpool Fylde & Wyre Mind Association .Ltd	**D**
Blackpool Fylde & Wyre Society.for the Blind	DANFO (UK) Ltd
Bulloughs (Our Lady)	Darwen Aldridge Comm. Academy
Bulloughs (St Augustines)	
Bulloughs (St James Primary)	

E	Lancaster City Council
E ON UK PLC	Lancaster Girls Grammar School Academy
Edge Hill University	Lancaster Royal Grammar School Academy
Enterprise Managed Services	Lancaster University
Eric Wright Commercial Ltd	Lancashire and Blackpool Tourist Board
	Lancashire Economic Partnership Ltd
F	Lancashire Fire and Rescue Service
Fulwood Academy	Lancashire Sports Partners Ltd
Fylde Borough Council	Lancashire Workforce Development Partnership
Fylde Coast YMCA	Leisure in Hyndburn
Fylde Community Link	Liberata UK Ltd (Chorley)
	Liberata UK Ltd (Pendle)
G	Lostock Hall Academy Trust
Galloways Society for the Blind	Lytham Schools Foundation
Garstang Community Academy	
Garstang Town Council	**M**
	Mack Trading International Ltd
H	Maharishi Free School
Hambleton Primary Academy	Mellor's (Bishop Rawstorne)
Hawes Side Academy	Mellor's (Hambleton Primary School)
Hodgson Academy	Mellor's (Worden Sports College)
Housing Pendle Ltd	Montgomery High School (Academy)
Hyndburn Borough Council	Morecambe Town Council
Hyndburn Homes Ltd	Myerscough College
I	**N**
I Care	Nelson and Colne College
	New Directions
J	New Fylde Housing Ltd
Jewson Ltd (Chorley Homes)	New Progress Housing
	NHS PCT Blackburn with Darwen
K	NIC Services Group Ltd
Kirkham Grammar School (Independent)	Norbreck Primary Academy
Kirkland Parish Council	Northgate Managed Services
	NSL Ltd.(Lancaster)
L	North West & North Wales Sea Fisheries
Lancashire County Council	
Lancashire Constabulary	**P**
Lancashire County Branch Unison	Parbold Douglas CE Academy
Lancashire Probation Trust	Parklands High School Academy
Lancashire Valuation Tribunal	Pendle Borough Council
Lancaster & Morecambe College	Pendle Education Trust - Colne Primet HS Academy

Pendle Education Trust - Walter St PS	**U**
Pendle Leisure Trust Ltd	University of Central Lancashire
Penwortham Priory Academy	University of Cumbria
Penwortham Town Council	
Pilling Parish Council	**V**
Places for People Individual Support Ltd	Vita Lend Lease (BSF ICT)
Preston Care and Repair	Vita Lend Lease Ltd
Preston City Council	
Preston College	**W**
Preston Council for Voluntary Service	Waterloo Primary Academy
Preston Vision Ltd	West Lancashire Borough Council
Progress Care Housing	West Lancs Community Leisure
Progress Housing Group	Westcliff Primary School Academy
Progress Recruitments (SE) Ltd	Whitworth Town Council
	Wyre Borough Council
Q	Wyre Housing Association
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	
Signposts MARC Ltd	
South Ribble Borough Council	
South Ribble Community Leisure	
St Annes on Sea Town Council	
St Christopher's CE Academy	
St Michael's CE High Academy	
St Wilfrid's C of E Academy	
Sure Start Hyndburn	
T	
Tarleton Academy	
Tauheedul Free Schools Trust	
Tauheedul Islam Boys HS Free School	
Thames Primary Academy	
The Lancashire Colleges Ltd	
The Ormerod Home Trust Ltd	
Twin Valley Homes Ltd	