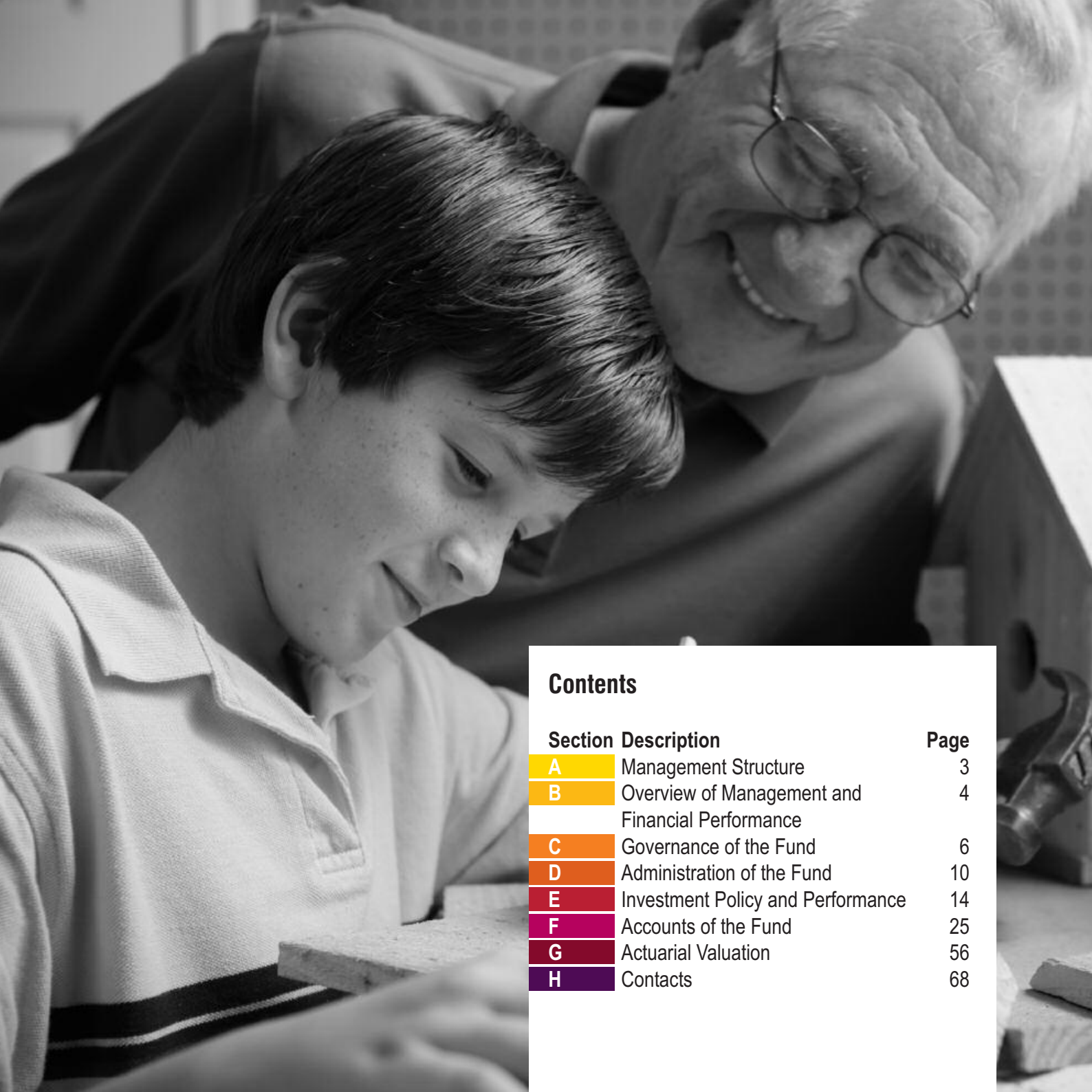


Lancashire County Pension Fund

Annual report 2010





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Overview of Management and Financial Performance

Management Structure as at 31 March 2010

Pension Fund Committee 2009/2010

Lancashire County Council

D A Westley (Chair)
M J Welsh (Vice Chair)
T Aldridge
M R Barron
M Brindle
S M G Charles
F De Molfetta
M P France
M A Green
R J C Lawrenson
M Parkinson
A E Pimblett
S Riches
G W Roper

Blackburn with Darwen Borough Council S Huggill

Blackpool Borough Council G B L Bell

Lancashire Leaders' and Chief Executives' Group

P Doyle
P Goldsworthy

Co-opted Members representing Trade Unions

R P Harvey
Trade Union Vacancy

Co-opted Member representing HE/FE Establishments P Hyett

Administering Authority Lancashire County Council

Fund Managers

Legal & General Investment
Management
Newton Investment
Management
J P Morgan Asset
Management
UBS Global Asset
Management
Knight Frank
(Rutley Capital Partners)
Capital Dynamics
Gottex Fund Management

Custodian

BNY Mellon Asset Servicing

Independent Investment Advisers

E Lambert
N Mills
Investment Consultant
A Owens (Mercer)

Treasurer to the Lancashire County Pension Fund

P Halsall CPFA

Actuary

Mercer

Auditor

Audit Commission

Property Solicitors

Pinsent Curtis Biddle
Cobbetts

Independent Property Valuer

Cushman & Wakefield

Corporate Governance Adviser PIRC

Performance Measurement WM Company

AVC Providers

Prudential
Equitable Life

Legal Advisors (other than property) In House

Bankers

National Westminster

Overview of Management and Financial Performance

The investment activities of the Lancashire County Pension Fund (the Fund) during 2009/10 have taken place against an extremely volatile economic background. The monetary levers used by authorities globally in 2009/10 were unprecedented and the effects on asset prices worldwide have been substantial. Global recovery driven by China, India and Latin America has had a very positive impact on risk markets, the FTSE All World index rising 48.4% and the FTSE All share rising 52.3%. Credit markets also experienced an extensive rebound on the previous year's dramatic losses, the IBOX non Gilt Sterling index rising 27%.

Government bond markets in the US, UK and core Europe generally performed fairly strongly over the 12 month period against the global market financial situation and the actions of central banks in aggressively adding liquidity.

The fiscal position of a number of countries began to cause concern to international credit markets in early 2010 as the borrowing requirements of many governments ballooned. The growth of deficits of several members of the Euro zone, in particular, led to much wider prices for such debt when compared to bonds issued by Germany. The stability

of the Euro itself came under scrutiny. This situation is ongoing and the effects on investment markets is as yet unclear and hence a source of market volatility. The Pension Fund Committee (the Committee) agreed to re-instate securities lending as this market had proved to be very resilient during and following the Lehman Brothers' failure.

The Committee would like to express its thanks to Mr Mark Bennett, Principal Accountant to the Fund, who retired in October 2009 after over 40yrs of service to the Authority and the Fund. Mr Mike Jensen – Head of Treasury Management and Pension Fund, Ms Abigail Payne – Senior Accountant to the Fund and Mr George Graham – Assistant Director of Finance, have joined the investment team during the year.

2009/10 has been a period of review for the fund, the Committee agreeing to await the results of the triennial actuarial valuation before addressing asset allocation and risk budgeting. The Fund has been at best an average performer over recent years and it is the Committee's desire that it should set its sights higher in the future.

The change in management and advisory teams, combined with the review and the dramatic changes in investment and risk landscapes will lead to the application of new thinking and revised strategies for the Fund. The scarcity of capital in world markets should place the Fund and schemes like it, in a privileged position in the medium term. With this situation in mind, the Investment Panel and Committee will look to construct a suitable investment and liability management strategy fit for the challenges of the new environment during 2010/11.

The Pensions Administration team has continued to be a top performer winning the Local Government Chronicle Finance Award for Quality of Service (Pension Funds).



Phil Halsall CPFA

Treasurer to the Lancashire County Pension Fund



D A Westley

Chair of the Lancashire County Pension Fund





Governance of the Fund

The Committee has considered the governance arrangements relating to the administration and investments of the Fund in the light of the 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 which is available from the Fund and can be accessed via the Fund's website at <http://www.lancs-pensions.org.uk>

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⁾	X
(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	X
(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. ⁽¹⁾ These include employing authorities (including non-scheme employers, e.g. admitted bodies)	X
(ii) scheme members (including deferred and pensioner scheme members)	X
(iii) independent professional observers ⁽²⁾	X
(iv) expert advisers (on an ad hoc basis)	X

⁽¹⁾ The reasons for partial compliance in respect of Structure are as follows. District Councils, Scheduled Bodies and employees are represented. Admitted bodies only represent 6% of contributors to the fund and are therefore not represented, however, all employers receive a full annual report and are alerted to important events. The employee representatives do not formally represent deferred and pensioner scheme members, but this could be pursued.

Traditionally LGPS committees have focused on the management and investment of funds under their supervision. However, administering authorities have become responsible for formulating a significant number of policy decisions and the exercise of discretions under the scheme's regulations, which are key decisions which should be subject to the supervision of the main committee. LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are met and targeted.

⁽²⁾ This requirement was added after the end of the informal consultation. The guidelines envisage an independent professional observer could be invited to participate in the governance arrangement 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.

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.	✓

Principle		Full Compliance
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.	✓

County Council's Annual Governance Statement

The County Council has produced its Annual Governance Statement in the County Council's Statement of Accounts for 2009/10, approved by the Audit Committee on 28 June 2010. 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. Copies of this document are available from the Fund and are available on the Fund's website at: <http://www.lancs-pensions.org.uk>.

Administration of the Pension Fund

Overview

The Local Government Pension Scheme is a statutory pension scheme, and operates on a “defined benefit basis”. Lancashire County Council is required by law to administer the Scheme within the geographical area of Lancashire.

The County Council administers the Scheme for over 100 employers within Lancashire (a complete list of employers is set out in Note 1 of the Notes to the Financial Statements). 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 admission agreement with the County Council to participate in the Fund.

A Service Level Agreement (SLA) is in place between Lancashire Pensions Services and the Pension Fund Committee for the provision of pension administration services and support.

An Annual Administration Report is produced in accordance with the SLA and describes the performance of Lancashire

Pensions Services (LPS) against the standards set out in the Agreement during the year. The Administration Report also details events and activities undertaken by LPS over the year and sets out any Scheme specific regulatory change.

A summary of the Annual Administration Report is set out below.

Summary

The main focus over the year has been to support a number of Fund employers through extensive staff redundancy programmes, and in particular to provide benefits estimates to agreed timescales as well as processing actual retirements on time. In addition to this, a number of local authorities have requested our support in respect of pension's issues arising from Equal Pay Reviews and subsequent Job Evaluation exercises.

LPS has also supported the Fund's AVC provider, Prudential, in the promotion of AVCs. Particular focus has been centred on promotion across Lancashire County Council. As a result, new AVC applications have more than

trebled during 2009/10 compared with the previous year resulting in an increase of total AVC funds under management of £2.7m rising from £11.1m in 2008/09 to £13.8m for 2009/10.

LPS continues to achieve key performance indicators set out in the Service Level Agreement and continues to be cost effective with the cost of administration remaining below the Government's key indicator. This year, in recognition of outstanding performance and excellent customer service, LPS was delighted to win the prestigious Local Government Chronicle's Finance Award for Quality of Service (Pension Funds).

The full Annual Administration Report can be accessed via the Fund's website at: <http://www.lancs-pensions.org.uk>.

Changes to the Local Government Pension Scheme

Miscellaneous amendments to the Local Government Pension Scheme Regulations were made during 2009/10.

A summary of the main changes are set out below:

- Regulations were introduced to assist with the introduction of the Cost Sharing Mechanism setting out timescales in providing data for a national model fund.
- Changes to the management and investment regulations brought in further restrictions to the limits on borrowing from the pension fund and introduced a requirement for a separate bank account to be put in place.
- Improvements were introduced for potentially larger civil partner and nominated co-habiting partners benefits as well as introducing greater scope to the way in which benefits can be protected following a reduction in pay
- Regulations were introduced to assist with the merging of Probation Boards and in relation to the dissolution of the Learning and Skills Council

A full commentary on legislative amendments over the year can be accessed via the Fund Website.

Other information

Further statements relating to the administration of the Scheme are required under the Local Government Scheme Regulations. The Communication Policy Statement and the Pensions Administration Strategy Statement are available from the Fund and can be accessed via the Fund Website at: <http://www.lancs-pensions.org.uk>.

Lancashire Pensions Services can be contacted at:
PO Box 100
County Hall
Preston
PR1 0LD

Telephone: 01772 530530

E-mail: pensions.helpdesk@lancashire.gov.uk.

Participation in the Fund

	Number at 31 March 2010	Number at 31 March 2009
(1) Active scheme members:		
Scheduled Bodies	49,707	49,693
Admitted Bodies	4,021	3,970
Total	53,728	53,663
(2) Pensioners:		
Pensions in Payment	35,933	34,540
Preserved Pensions	41,330	38,199
Total	77,263	72,739

The continued growth in deferred membership can be attributed to the 2004 regulatory change. The Local Government Pension Scheme was amended to allow all Scheme Members vested rights to Scheme benefits after 3 months membership. The vesting period was previously 2 years. In practice this means that significantly more Scheme Members have retained benefits in the Scheme on leaving.

Additional Voluntary Contributions (AVCs)

The AVC providers to the Fund are Prudential and Equitable Life. The AVCs are invested separately from the Fund's main assets and are used to acquire additional money purchase benefits. Members participating in these AVC arrangements each receive an annual statement from the provider confirming the amounts held in their account and the movements during the year.

New AVC applications have risen during 2009/10 compared with the previous year resulting in an increase of total AVC funds under management of £2.7m rising from £11.1m in 2008/09 to £13.8m for 2009/10.

Note 11 of the Notes to the Financial Statements of this report contains a detailed breakdown of the current value of the Fund's AVC's.

Risk Management

The Fund's governance arrangements, described in this report, ensure that the management of fund administrative, management and investment risk is undertaken at the

highest levels. The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The Funding Strategy Statement identifies the risks, counter measures and monitoring and reviewing risks associated with the funding strategy of the Pension Fund. The key risks are shown in Annex 3 of the Funding Strategy Statement.

The policy in respect of investment risk, including monitoring and review of performance is found in the Statement of Investment Principles.

The County Council's Annual Governance Statement identifies how the system of internal control throughout the County Council is designed to manage risk to a reasonable level.

Copies of these documents are available from the Fund and are published on the Fund website at:
<http://www.lancs-pensions.org.uk>

Investment Policy and Performance

Structure

There are three levels of responsibility for the investment management of the Lancashire County Pension Fund (the Fund). First, the County Council's Pension Fund Committee (the Committee) takes major policy decisions and monitors overall performance. The Statement of Investment Principles is available from the Fund and on the Fund website. Second, the Investment Advisory Panel (the Panel) recommends to the Committee broad sector weightings for the portfolio's investment composition and monitors the activity of the Fund's managers on a regular basis. 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 available from the Fund and on the Fund website.

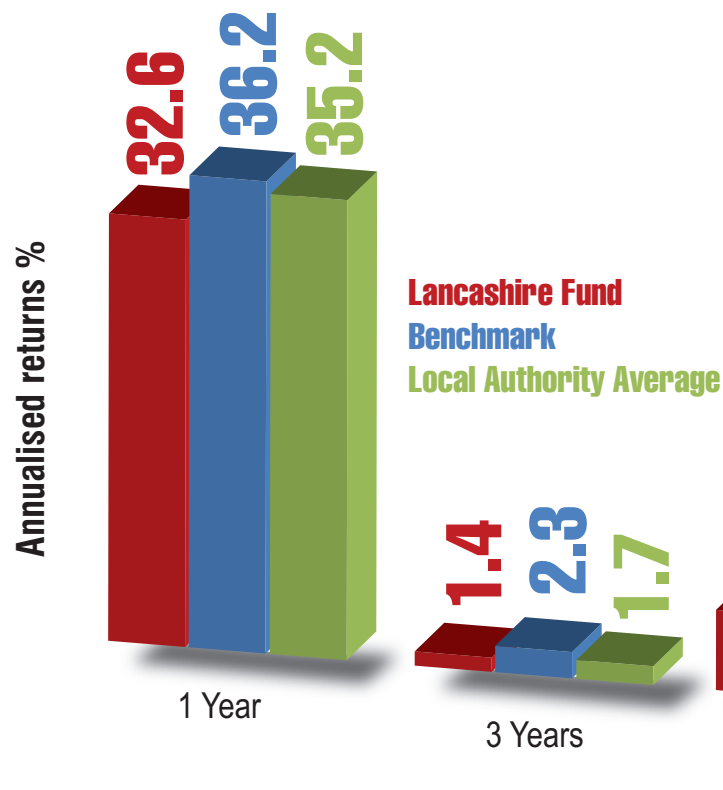
The Panel consists of two independent external investment advisers, the Head of Pension Fund and Treasury Management, the Assistant Director of Finance and the Treasurer to the Pension Fund, who acts as Chairman. The Fund is currently managed by six specialist external managers and one external index-tracking manager (multi-asset) with a balance of cash managed in-house. The various mandates, including their value at 31 March 2010 are shown below.

Manager	Mandate	Value £000
Legal & General Investment Management	Index tracking - multi asset	1,728,782
Newton Investment Management	Global Equities	588,498
JP Morgan Asset Management	UK Equities	457,029
UBS Global Asset Management	Bonds	567,274
Knight Frank	Property	306,115
Capital Dynamics	Private Equity	145,089
Gottex Fund Management	Hedge Fund of Funds	66,058
In-House	Cash	91,485
Total		£3,950,330

Performance

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 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 available from the Fund and on the Fund website. The Fund also subscribes to the annual WM Survey of UK 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 forwarded to the Committee for consideration.



Looking first at total Fund returns, the chart below 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 2010:

Looking at market returns generally, an average return of 35.2% amongst local authority pension funds in 2009/10 reflected the extraordinary and volatile nature of investment markets during the year. The impact of the stimulus measures employed by monetary authorities to counter the credit crisis and the general slowdown in global economic activity generated positive returns in all asset classes, apart from private equity, data from which is always in arrears of the public markets.

The most significant positive returns were experienced in UK, Europe, Pacific and Emerging Markets equities, bond and hedge funds. Amidst this volatile performance background in 2009/10 the Fund return was 32.6%, compared to the benchmark return of 36.2% and the average local authority return of 35.2% ranking the Fund in the 73rd percentile of local authority funds measured. Looking at individual asset classes, the fund outperformed its benchmark return in hedge funds, cash, and bonds, but returns in private equity, property, global and UK equities were below benchmark returns. An analysis of the Fund's performance by asset class can be seen in the chart below. It shows the relative returns for each asset class i.e. the ratio of the actual return to the benchmark return and is

weighted to reflect that a 1% out-performance on a small return of say 6% has a greater impact than a 1% out-performance on a large return of say 20%.

Relative returns of Fund compared to benchmark return 2009/10

The chart over shows that the major contributors to the Fund's relative performance in 2009/10 came from bonds, hedge funds and cash and the main detractor was private equity.

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 a rolling three year period, as inevitably there will always 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 portfolio managed by Legal and General is a passive portfolio, where the manager does not seek to outperform the benchmark, but merely to track the index for each asset class. Although each manager's performance is measured against a fund



specific benchmark allocation, managers are given discretion to invest a smaller or greater amount than the benchmark allocation, within agreed tolerances for some of the managers' portfolios. The global equities portfolio is fully unconstrained other than by certain market restrictions. 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 to 31 March 2010 is shown in the chart on the next page:

One year manager performance against benchmark

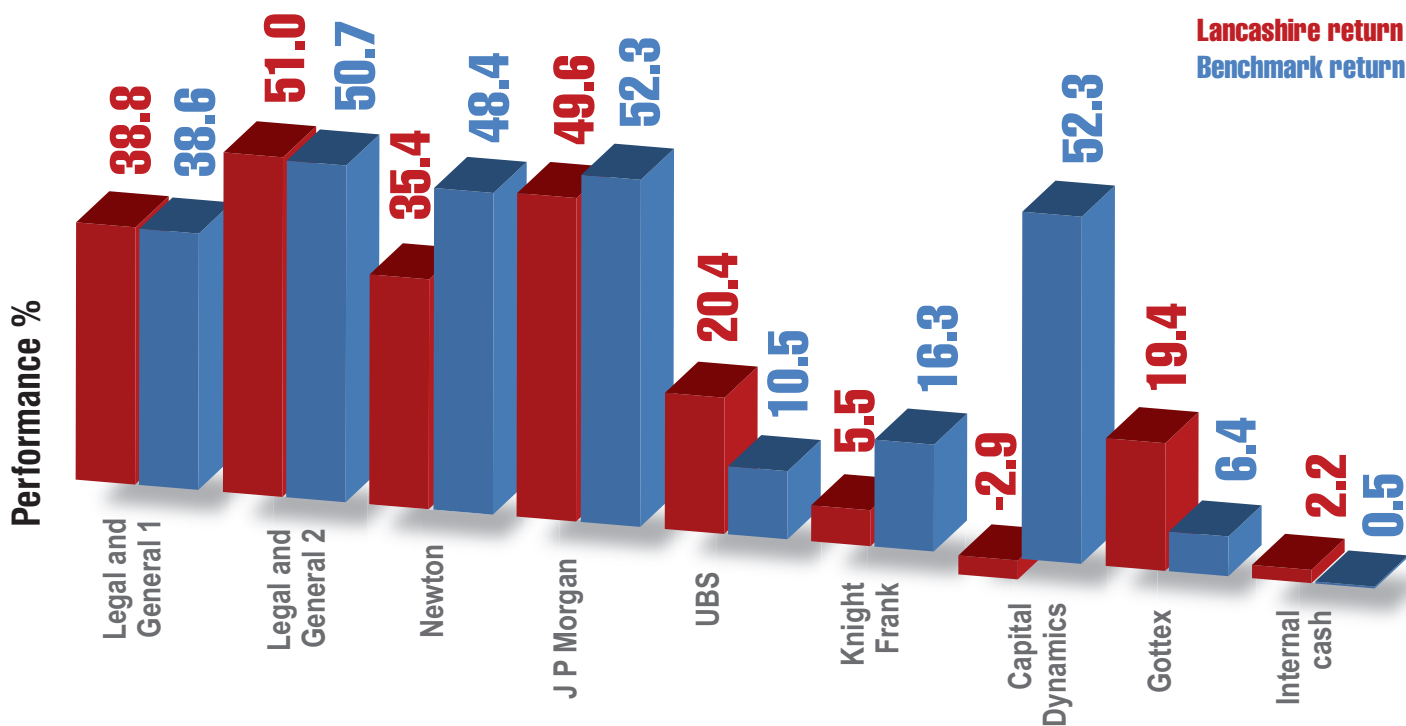
The portfolios managed by J P Morgan (UK equities), Newton (global equities), Knight Frank (property) and Capital Dynamics (private equity) under-performed the benchmark returns. Underperformance by Capital Dynamics (private equity) and Newton (global equities) contributed most significantly to overall underperformance. The portfolios managed by UBS (bonds), Gottex (hedge

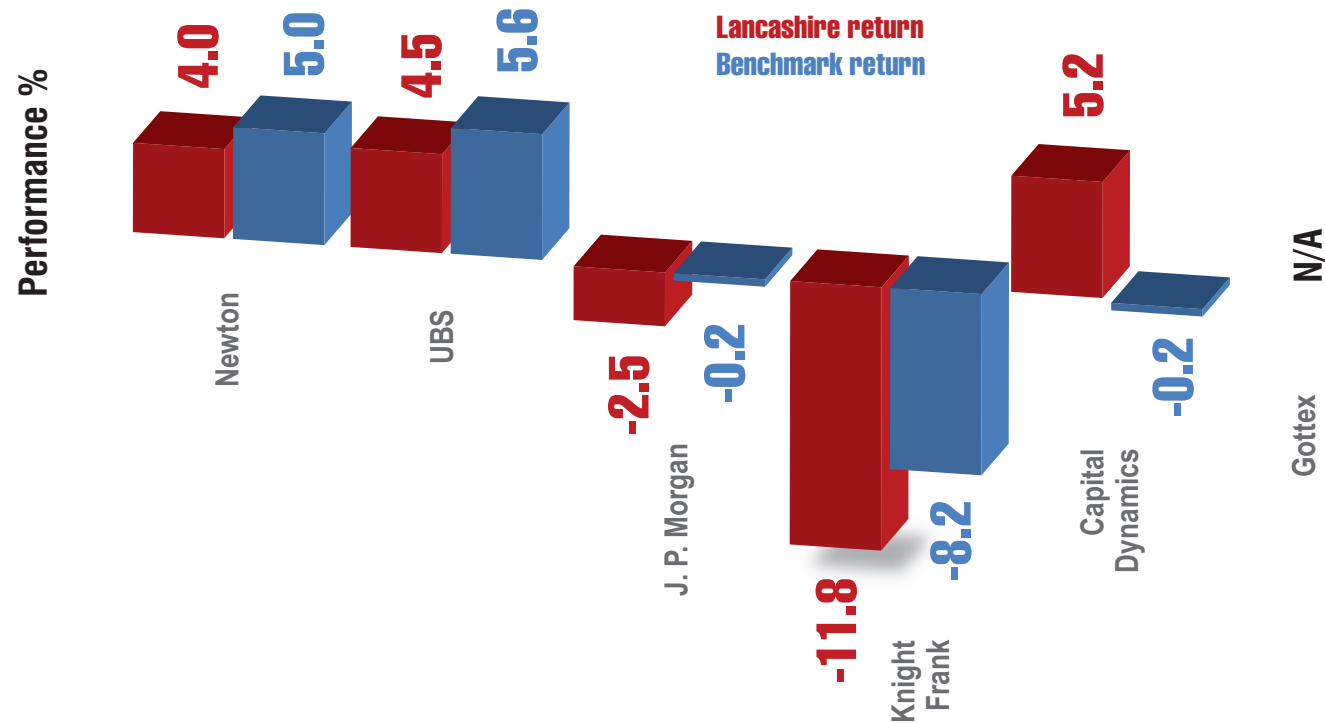
funds) and internally managed cash outperformed the benchmark returns. The portfolios managed by Legal and General matched the index return. The property and private equity funds were the worst performing asset classes during 2009/10, although over three years (see below) private equity continues as one of the best performing funds. Property and private equity are generally slower to recover than the more liquid public markets and it should

be noted that private equity is being measured against a public equity benchmark, the FTSE All Share index.

Over one, three and five years, the Legal and General passively managed portfolios are producing returns very close to the index return. An analysis of the specialist managers' performance over three years is shown in the chart opposite:

One year manager performance against benchmark

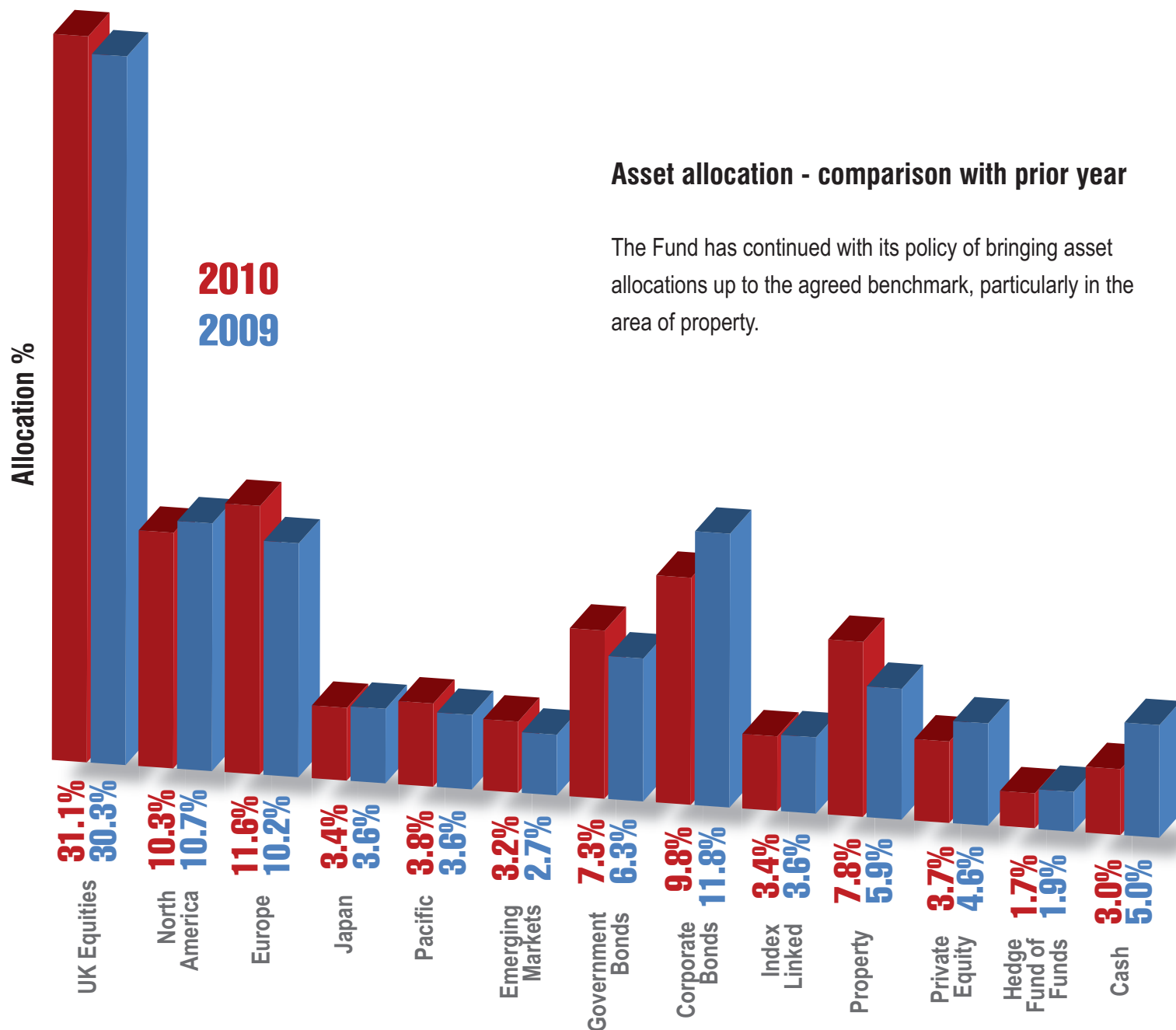




Three year manager performance against benchmark

Over three years, Capital Dynamics (private equity) has outperformed the benchmark, while J P Morgan (UK equities), Newton (global equities), UBS (bonds) and Knight Frank (property) have underperformed. Newton's return over the rolling three years is under target by 1%, a small part of this under-performance against benchmark (estimated as 3%-4% of the total) can be attributed to

geographical restrictions placed on the mandate by the Committee. The longer term performance results of these managers will continue to be reviewed by the Panel and Committee during the coming year.



Largest ten equity holdings of the Fund at 31 March 2010

Equity	Market value 31 March 2010 £'000	Percentage of net assets of the Fund %
BP Plc Ord	46,455	1.18%
Vodafone Group Ord	31,712	0.80%
Royal Dutch Shell 'B' Shares	29,318	0.74%
GlaxoSmithKline Ord	26,794	0.68%
HSBC Holdings Ord	24,957	0.63%
AstraZeneca Ord	19,612	0.50%
British American Tobacco Ord	17,711	0.45%
Anglo American	16,715	0.42%
Rio Tinto Ord	16,325	0.41%
Standard Chartered Ord	16,034	0.41%
Total	£245,633	6.22%

Largest ten property holdings of the Fund at 31 March 2010

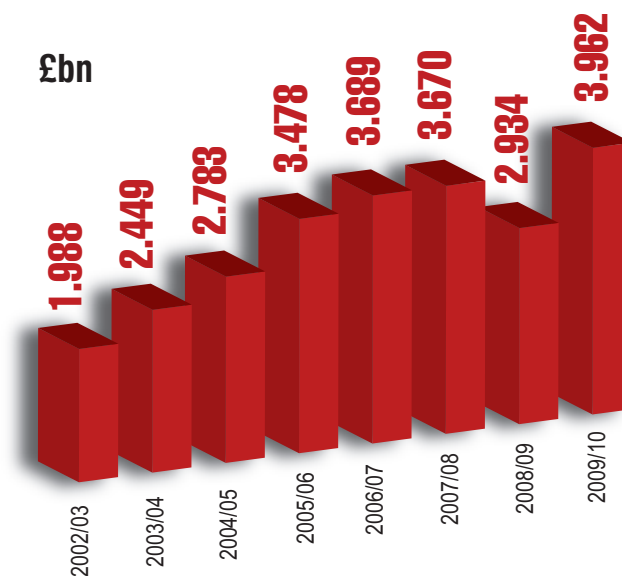
Property	Sector	Market value 31 March 2010 £'000
10 Brook St, London	Offices	30,250
Sainsburys Store, Elgiva Lane, Chesham	Shops	23,400
Benson House, Leeds	Offices	19,500
Tuscany Park, Wakefield	Industrial / Warehouse	16,350
Stukeley Road Retail Park, Huntingdon	Retail Warehouse	15,550
Somerfield Store, Wymondham	Shops	14,800
Princes St, Edinburgh	Shops	12,500
Effra Road Retail Park, Brixton	Retail Warehouse	11,400
16/18 Clarence Street, Kingston Upon Thames	Shops	10,300
Endeavour Way, Wimbledon	Retail Warehouse	10,100
Total		£164,150

Sector weightings of the Fund's property holdings at 31 March 2010

Sector	Market value 31 March 2010 £'000	Percentage of property portfolio %
Shops	97,340	32
Retail Warehouse	53,125	17
Industrial / Warehouse	55,240	18
Offices	87,035	28
Office / Warehouse	8,925	3
Workshop / Garage	4,450	2
Total	£306,115	100

Value of Fund 2002/03 to date

The effects of the economic situation in the financial markets during 2009/10 had a dramatic effect on the value of the assets of pension funds and the effect on the Lancashire Fund can be seen in the above chart.



Policies in respect of Socially Responsible Investment and Voting

The following policies are extracted from the Fund's Statement of Investment Principles.

Social, Environmental and Ethical Considerations

In general, the Fund takes an active stance on corporate governance issues. It is a client of Pensions Investment Research Consultants (PIRC), who advise the Fund on socially responsible investment issues. It is also a member of the Local Authority Pension Fund Forum, which is a group of like-minded authorities that meet to discuss and act / engage in respect of socially responsible investment and corporate governance issues.

Policy on Voting

The PIRC shareholder principles and voting guidelines are used as general guidance for the exercise of the Fund's voting rights.

The Fund's investment managers exercise the Fund's voting rights on the Committee's behalf, having regard to the PIRC guidelines, but also taking account of the

particular circumstances of individual companies.

The Committee delegates its agreement of any significant departure from the guidelines, proposed by the managers, to the Treasurer as Chairman of the Panel.

In all voting decisions the long-term financial interests of the Fund are paramount.

Policy on Risk

The overriding objective of the Fund in respect of its investments is to minimise risk and maximise 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 questioned 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 available from the Fund and on the Fund website at <http://www.lancs-pensions.org.uk>.

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 Executive Director of Resources, 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 2010 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.



Phil Halsall CPFA

Treasurer to the Lancashire County Pension Fund
24 June 2010



Independent auditor's report to the Members of Lancashire County Council

I have audited the Pension Fund accounting statements for the year ended 31 March 2010. The Pension Fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The Pension Fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Lancashire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Treasurer to the Pension Fund and auditor

The Treasurer to the Pension Fund is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this Pension Fund accounting

statements, the Treasurer to the Pension Fund is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the Pension Fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Pension Fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay

pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the Pension Fund accounting statements. That information comprises the Accounts of the Fund, Administration of the Fund and Investment Policy and Performance.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Pension Fund accounting statements and related notes and consider whether it is consistent with the audited Pension Fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report:

- Management structure
- Overview of management and financial performance
- Actuarial valuation
- Contacts.

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Pension Fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of

evidence relevant to the amounts and disclosures in the Pension Fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Pension Fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Pension Fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Pension Fund accounting statements and related notes.

Opinion

In my opinion:

- the Pension Fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Clive Portman

30 September 2010

District Auditor, Audit Commission
2nd Floor, Aspinall House, Aspinall Close
Middlebrook, Bolton BL6 6QQ



Fund Account

	Note	2009/10 £000	2008/09 £000
Contributions and Benefits			
Contributions	5	208,419	193,552
Transfers in	6	26,697	16,467
		<u>235,116</u>	<u>210,019</u>
Benefits	7	182,808	168,250
Payments to and on account of leavers	8	21,794	21,537
Administrative expenses	9	3,471	3,373
		<u>208,073</u>	<u>193,160</u>
Net additions from dealings with members		<u>27,043</u>	<u>16,859</u>
Return on investments			
Investment income	10	71,431	80,377
Change in market value of investments	11	934,980	(815,904)
Investment management expenses	14	(5,807)	(5,614)
Prior year adjustment		0	(11,447)
Net return on investments		<u>1,000,604</u>	<u>(752,588)</u>
Net increase (decrease) in the fund during the year		<u>1,027,647</u>	<u>(735,729)</u>
Net assets of the scheme			
At 1 April		2,933,938	3,669,667
At 31 March		3,961,585	2,933,938

Statement of Net Assets

Year Ended 31 March	Note	2010 £000	2009 £000
Investment assets	11	3,951,836	2,924,852
Investment liabilities	11	(1,506)	(3,312)
Current assets	15	13,277	13,379
Current liabilities	16	(2,022)	(981)
		3,961,585	2,933,938

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 2010 and its income and expenditure for the year then ended.



Phil Halsall CPFA

Treasurer to the Lancashire
County Pension Fund
24 June 2010



County Councillor Sam Chapman
Chairman of the Audit Committee
28 June 2010

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is administered by Lancashire County Council. With the exception of teachers, to whom separate arrangements apply. Membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2009/10 cash inflows during the year consisted of £306.547 million and cash outflows were £213.880 million, representing a net cash inflow of £92.667 million (compared with an inflow of £91.622 million in the previous year). Benefits payable amounted to £182.808 million and were partially offset by net investment income of £71.431 million (including £12.688 million accrued dividends); contributions of £208.419 million and transfers in of £26.697 million produced the positive cash inflow.

The investments of the Pension Fund are managed by seven 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 also meets separately five times a year to monitor the activities and performance of the investment managers.

The participation in the Pension Fund is shown in the attached table, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

	Number at 31 March 2010	Number at 31 March 2009
(1) Active Scheme Members		
Scheduled Bodies	49,707	49,693
Admitted Bodies	4,021	3,970
Total	53,728	53,663
(2) Pensioners		
Pensions in Payment	35,933	34,540
Preserved Pensions	41,330	38,199
Total	77,263	72,739

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
Barnoldswick Town Council
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Town Council
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council

Lancashire Fire & Rescue Service

Lancashire Police Authority
Lancashire Probation Services
Lancashire Valuation Tribunal
Lancaster & Morecambe College
Lancaster City Council
Myerscough College
Nelson & Colne College
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd
Ribble Valley Borough Council
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Mary's College, Blackburn
University of Central Lancs
West Lancs District Council
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (Worden Sports College)
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd

Bulloughs Contract Services Ltd (Our Lady)	Consultant Caterers Ltd	Mellors Catering Services Ltd (Wyre)
Bulloughs Contract Services Ltd (St Marys)	Creative Support Ltd	NIC Services Group Ltd
Bulloughs Contract Services Ltd (St Augustine)	CSB Contract Services Ltd	NSL Ltd (Lancaster) (formerly NCP Services Ltd)
Bulloughs Contract Services Ltd (St Albans)	Danfo UK Ltd	NSL Ltd (Wyre)
Bulloughs Contract Services Ltd (Highfield)	Elm House Management Committee	New Directions
Calico Housing Ltd	Enterprise Managed Services Ltd	New Fylde Housing
Capita Business Services (Blackburn)	E ON UK Plc	New Progress Housing Association
Capita Business Services (Rossendale)	Eric Wright Commercial Ltd	Northgate Managed Services Ltd
Carden Croft and Co. Ltd	Fylde Coast YMCA (Fylde)	North West & North Wales Sea Fisheries Committee
Catholic Caring Services	Fylde Community Link	Ormerod Home Trust Ltd
Chorley Community Housing Ltd	Galloway Society for the Blind	Pendle Leisure Trust Ltd
Church Road Day Care Unit	Housing Pendle Ltd	Preston Care & Repair
Commission for Education & Formation	Hyndburn Homes Ltd	Preston Council for Voluntary Services
Community Council of Lancashire	I Care	Progress Care Housing Association
Community Gateway Association	Kirkham Grammar School (Independent)	Progress Housing Group
CX Ltd	Lancashire and Blackpool Tourist Board	Progress Recruitment (SE) Ltd
Contour Housing Group	Lancashire Branch of Unison	Queen Elizabeth Grammar School
	Lancaster University	Ribble Valley Homes
	Leisure in Hyndburn	Rossendale Leisure Trust
	Liberata UK Ltd (Chorley)	Signposts MARC Ltd
	Liberata UK Ltd (Pendle)	Solar Facilities Management Ltd (Bishop Rawstorne)
	Lytham Schools Foundation	

Solar Facilities Management Ltd
(Tarleton)

Solar Facilities Management Ltd
(Seven Stars)

Solar Facilities Management Ltd
(St Peters)

Solar Facilities Management Ltd
(Ripley)

South Ribble Community Leisure Ltd

Sungard Vivista Ltd

Surestart Hyndburn

Twin Valley Homes Ltd

University of Cumbria

Vita Lend Lease

West Lancs Community Leisure Ltd

Wyre Housing Association

Other

Blackpool Transport Services Ltd

Rossendale Transport Ltd

(Membership restricted to employees
"deemed" at deregulation in 1986)

Former Employers

Blackpool Airport Ltd (pre 05/07/2004)

Blackpool & Fylde Society for the Deaf

Blackburn Borough Transport Ltd

Blackpool Challenge Partnership

Blackpool Council for Voluntary
Services

Bulloughs Contract Services
(Glenburn)

Burnley & Pendle Development
Association

Burnley & Pendle Joint Transport
Committee

Burnley & Pendle Transport
Company Ltd

Burnley District Citizens Advice
Service

Burton Manor Residential College

Central Lancs Development
Corporation

Clitheroe Town Council

Department of Transport

Dignity Funerals Ltd

Enterprise

Ex National Water Council

Ex NHS

Fylde Borough Transport Ltd

Fylde Coast Developments Association

Fylde Coast YMCA (Wyre)

Greater Deepdale Community
Association

Hyndburn Homewise

Hyndburn Transport

Kirkham Grammar School (Boarding)

Lancashire County Enterprises Ltd

Lancashire Economic Partnership

Lancashire Federation of Young
Farmers Clubs

Lancashire Magistrates Courts
Committee

Lancashire Waste Services Ltd

Lancashire West Partnership

Lancaster City Transport Ltd

Lancashire On-Line Learning

Lancaster Royal Grammar School
(Boarding)

Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council
Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Spastics Society
The Community Alliance (Burnley & Padiham) Ltd
Wigan & District M&T College



2. Basis of Preparation

The financial statements have been prepared in accordance with the provisions of Chapter 2: Recommended Accounting Practice of the Pension SORP 2007.

The financial statements summarise the transactions and net assets of the Pension Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial position of the Pension Fund does take account of such obligations

3. Actuarial Position

The actuarial position of the Pension Fund is dealt with in detail in the Actuarial Report section of the Pension Fund Annual Report. In summary, the last actuarial valuation was undertaken by Mercer Consulting as at 31 March 2007.

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 projected accrued liabilities, including allowance for projected final pay. The Administering Authority's Funding Strategy Statement

specifies a maximum period of 22 years for achieving full funding. The Funding Strategy Statement also specifies any transitional arrangements (phasing) for the implementation of employers' contributions. At the time of the actuarial valuation the level of funding was 84% (compared to 80% at the previous 2004 valuation), with an average employers' contribution rate of 17.8% (in respect of future and past service), being set for the three years from 1 April 2008 to 31 March 2011. The key developments affecting the Pension Fund since the previous valuation were:

- Very strong investment returns which have more than offset the increases in liabilities due to falls in real yields.
- The effect of assuming longer life expectancies has had a significant impact on the valuation results.

The 2007 valuation was based on assets with a market value of £3.689bn and utilised the projected unit actuarial method, which is consistent with the funding objective and is in common use in the United Kingdom. The key assumptions used in the actuarial valuation are detailed in the Pension Fund Annual Report and relate to:

- Financial assumptions – expected investment returns, discount rate for liabilities and projected salary growth.

- Demographic assumptions – mortality, ill health retirements, commutation rates.
- Funding strategy – length of recovery period, phasing, segmentation of employers etc.

4. Accounting Policies

General

The financial statements have been prepared on an accruals basis except for transfers to and from the Pension Fund and contributions refunded, which are treated on a cash basis. Investment Management expenses are generally linked to the value of Funds under management. There are no performance related fees payable during 2009/10.

Valuation of Assets

Investments are shown at their fair value as at 31 March 2010. The fair value is the current bid price for quoted securities and unitised securities.

Investments denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2010.

Futures are exchange traded and fair value is determined using exchange prices at their reporting date.

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.

Direct property holdings are valued at fair value. The valuation is undertaken by an independent property valuer, Cushman and Wakefield.

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

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

Employers' Contributions

Employers' contributions are based on rates determined, at their triennial valuation, by the Actuary of the Pension

Fund. (The rates used for the year ending 31 March 2010 came into effect 1 April 2008, following the Actuary's Valuation of the Pension Fund at 31 March 2007).



4. Contributions receivable

		2009/10 £000	2008/9 £000
Employers' contributions			
Scheduled			
County Council	Normal	64,580	55,827
	Augmentation	0	0
District Councils/Unitaries	Normal	48,722	48,228
	Augmentation	25	6
Other	Normal	24,844	22,486
	Augmentation	0	17
		<u>138,171</u>	<u>126,564</u>
Admitted	Normal	13,524	11,940
	Augmentation	0	1
		<u>13,524</u>	<u>11,941</u>
Employees' contributions			
Scheduled			
County Council		22,421	21,873
District Councils/Unitaries		17,630	17,364
Other		<u>11,230</u>	<u>10,557</u>
		51,281	49,794
Admitted		5,443	5,253
Total contributions		208,419	193,552

Within the employee contributions figure for 2009/10, £315,700 are voluntary and additional regular contributions. All employee contributions are normal contributions.

5. Transfers in

	2009/10 £000	2008/9 £000
Individual transfers in from other schemes	24,900	16,467
Bulk transfers in from other schemes	1,797	0
	26,697	16,467

6. Benefits

	2009/10 £000	2008/9 £000
Pensions	141,347	131,625
Lump Sum retirement benefits	36,835	32,647
Lump Sum death benefits	4,626	3,978
	182,808	168,250

7. Payments to and on account of leavers

	2009/10 £000	2008/9 £000
Refunds to members leaving service	14	25
Contributions equivalent premium	(7)	(6)
Individual transfers to other schemes	21,787	13,507
Bulk transfers to other schemes	0	8,011
	21,794	21,537

8. Administrative expenses

	2009/10 £000	2008/9 £000
Administration and processing	3,117	2,859
Audit fee	95	77
Legal and other professional fees	259	437
	3,471	3,373

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.

9. Investment income

	2009/10 £000	2008/9 £000
Income from fixed interest securities	21,440	25,707
Dividends from equities	27,638	27,313
Income from index linked securities	3,169	330
Income from pooled investment vehicles	313	2,405
Net rents from properties	16,980	14,417
Interest on cash deposits	2,447	7,615
Other	(556)	2,590
Total Investment Income	71,431	80,377

The above investment income is shown net of irrecoverable withholding tax, which amounted to £583,533 in 2009/10 (2008/9: £706,918). Income received in respect of Legal and General pooled funds is automatically reinvested within the relevant sector fund and is therefore excluded from the above analysis.

10. Investments

	Value at 1 April 2009 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2010 £000
Investment assets					
Fixed interest securities	324,267	427,517	361,678	58,009	448,115
Equities	705,025	443,544	405,469	268,599	1,011,699
Index linked securities	70,456	81,937	54,058	4,905	103,240
Pooled investment vehicles	1,501,134	94,919	204,061	570,211	1,962,203
Derivative contracts	408	478	223	(640)	23
Property	173,031	100,088	900	33,896	306,115
	2,774,321	1,148,483	1,026,389	934,980	3,831,395
Derivative contracts (forward currency positions)	1,960				1,573
Cash deposits	134,880				106,180
Other investment balances	13,691				12,688
	2,924,852				3,951,836
Investment liabilities					
Derivative contracts (forward currency positions)	3,312				1,506
Net investments	2,921,540				3,950,330

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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 2009/10 amounted to £2,381,789 (2008/9: £2,695,557).

The investment assets at 31 March 2010 are managed by seven external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Manager	2009/10 £000	%
Legal & General Investment Management	1,728,782	44
Newton Investment Management	588,498	15
J P Morgan Asset Management	457,029	11
UBS Global Asset Management	567,274	14
Knight Frank	306,115	8
Capital Dynamics	145,089	4
Gottex Fund Management	66,058	2
In-House	91,485	2
	3,950,330	100

	2009/10	2008/9
	£000	£000
Fixed Interest Securities		
UK public sector quoted	193,424	83,022
UK corporate bonds quoted	239,967	182,860
Overseas public sector	240	6,309
Overseas corporate bonds	14,484	52,076
	448,115	324,267
	2009/10	2008/9
	£000	£000
Equities		
UK quoted	456,182	326,882
Overseas quoted	555,517	378,143
	1,011,699	705,025
	2009/10	2008/9
	£000	£000
Index Linked Securities		
UK quoted	103,240	70,456
	103,240	70,456

	2009/10	2008/9
	£000	£000
Pooled Investment Vehicles		
Managed/Unitised funds – UK Equities	757,116	548,180
- Overseas Equities	711,962	516,967
- Public Sector Bonds	94,864	94,079
- Corporate Bonds	134,664	110,981
- Index Linked	30,176	27,354
Unit trusts – UK Equities	16,082	10,174
- Overseas Equities	6,192	4,044
Private Equity investments – UK	28,689	30,853
- Overseas	116,400	103,973
Hedge Fund of Funds	66,058	54,529
	1,962,203	1,501,134
	2009/10	2008/9
	£000	£000
Properties		
UK – Freehold	238,750	156,176
UK – Long Leasehold	67,365	16,855
	306,115	173,031
	2009/10	2008/9
	£000	£000
Derivatives Contracts		
Futures Contracts Gilts	23	408
	23	408

Type of future	Expiration	Economic Exposure £000	Asset £000	Liability £000
UK gilt exchange traded	3 months	(21,229)	23	

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought £ EQV	Sold £ EQV	£'000
Investment assets			
6 months and under	55,022,326	53,449,326	1,573
Investment liabilities			
6 months and under	67,561,394	69,067,394	1,506

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

	2009/10	2008/9
	£000	£000
Cash Deposits		
Sterling	105,970	134,024
Foreign currency	210	856
	106,180	134,880

	2009/10	2008/9
	£000	£000
Other investment balances		
Outstanding dividend entitlements and recoverable withholding tax	12,688	13,691
	12,688	13,691

11. Additional Voluntary Contributions (AVC's)

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 regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). 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 2009 to 31 March 2010 for Prudential and 1 September 2008 to 31 August 2009 for Equitable Life.

	Equitable Life £000	Prudential £000	Total £000
Value at the start of the year	1,553	11,179	12,732
Income (incl. contributions, bonuses, interest, transfers in)	37	3,643	3,680
Expenditure (incl. benefits, transfers out, change in market value)	145	1,024	1,169
Value at the end of the year	1,445	13,798	15,243

12. Custody of Investments

The Pension Fund's Custodian, Bank of New York Mellon is responsible for the safekeeping of assets, collection of income due, settlement of trades and provides an independent confirmation and valuation of assets held by the Pension Fund. The Pension Fund's index tracking manager, Legal and General Investment Management, invests funds with Legal and General Assurance (Pensions Management) Ltd in a unitised policy of assurance, which is reported on by the Custodian.

Lancashire County Council is the custodian of the Pension Fund's private equity and property portfolios.

Citco Fund Services Europe B.V. is the custodian of the Hedge Fund of Funds portfolio.

The Pension Fund's Custodian is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. However, in the prevailing economic circumstances, there was no stock lending during the year (income generated in 2008/9 was £176,171).

13. Investment management expenses

	2009/10 £000	2008/9 £000
Administration, management and custody	5,270	4,556
Performance measurement service	73	52
Other advisory fees	464	1,006
	5,807	5,614

14. Current assets

	2009/10 £000	2008/9 £000
Contributions due from: Employers	5,985	6,588
Members	2,545	2,799
Miscellaneous debtors	4,747	3,992
	13,277	13,379

15. Current liabilities

	2009/10 £000	2008/9 £000
Accrued expenses	2,022	981
	2,022	981

Taxation

The Pension Fund has been approved by the Inland Revenue as an exempt approved scheme and is, therefore, exempt from UK income tax and capital gains tax on the profits resulting from the sale of investments. The Pension Fund is also exempt from United States withholding tax on dividends and recovers withholding taxes on other foreign dividends where authorised by the relevant tax treaty or foreign legislation. As Lancashire County Council is the administering authority of the Pension Fund, VAT input tax is recoverable on all the Pension Fund's activities, including expenditure on investment and property expenses.

16. 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 £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

17. Contractual Commitments

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2010 being £145.1m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2010 are £182.4m.

18. Related Party Transactions

In accordance with FRS 8, 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:

- The Pension Fund invests cash with Lancashire County Council, the administering authority for the Pension Fund. At 31 March 2010 the balance invested with the County Council is £91,473,321. Cash invested with

Lancashire County Council has generated interest of £2,405,055 during 2009/10.

- At 31 March 2010, Phil Halsall, CPFA, was Treasurer to the Pension Fund and Executive Director of Resources for Lancashire County Council.
- The Pension Fund includes 46 scheduled and 138 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.
- The Pension Fund Committee comprises 14 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from District Councils, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

19. Impairment of Icelandic Investment

At the time the Icelandic banks collapsed in October 2008, Lancashire County Council had an investment of £10.0m with Landsbanki. The Pension Fund's share of the deposit with Landsbanki was £2.487m.

In November 2009 the Landsbanki Winding Up Committee confirmed that wholesale depositors, including local

authority deposits, would be treated as preferential creditors within the administration process. This decision was expected and is the basis of estimates that creditors could expect an eventual payout of around 83p in the pound. In its accounts, the Pension Fund has assumed that it will receive back 83p in the pound without interest payable over a number of years. The impairment on the Pension Fund's investment in Landsbanki has been increased accordingly from £474,846 at 31 March 2009 to £518,280 at 31 March 2010.

The Winding Up Committee of another Icelandic bank, Glitnir, has subsequently ruled that wholesale depositors are not preferential creditors in the administration process. There is no direct connection between the Glitnir and Landsbanki decisions but clearly the two decisions are inconsistent. Both decisions have been appealed. If the Landsbanki decision were overturned, local authority depositors can expect a much lower return from the administration process, currently estimated at between 23p and 27p in the pound. The appeals process continues with Lancashire County Council being represented by the Local Government Association and legal advisors, Bevan Brittan.

All information is subject to legal privilege due to commercial confidentiality and unfortunately there is considerable uncertainty around the expected date of a conclusion to the appeals process.

20. Statement of Investment Principles

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at

<http://www.lancs-pensions.org.uk>.



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 by the actuary was at 31 March 2007 which determines contribution rates effective from 1 April 2008 to 31 March 2011. The full actuarial valuation is available on the Fund's website at <http://www.lancs-pensions.org.uk>. 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 projected 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, which is available from the Fund and its website. 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 22 years. The Statement specifies any transitional arrangements (phasing) for the implementation of revised employer contribution requirements.

The previous valuation (effective from 1 April 2005) revealed a funding level of 80% and an average employer's contribution rate of 15%. Largely as a result of good stock market performance over the prior three years resulting in a 50% increase in the value of investments from £2.4 bn to £3.6 bn, the results of the 2007 valuation revealed a funding position of more than 90% on a like for like basis. However, a number of changes to previous actuarial assumptions had impacted on the results of the 2007 valuation. Increasing longevity and the link between liabilities and reduced bond yields, together with the effect of the improved benefits included in the new look Local Government Pension Scheme 2008 have been key changes affecting this current valuation. After taking these changes into account the funding level is 84% and the average employer contribution rate is 17.8%.

An extract from the certified Actuarial Valuation produced by Mercer as at 31 March 2007, detailing the breakdown of the 84% funding level is as follows:

Funding results – funding target

3.1 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.

Value of liabilities (£m)	31 March 2007	31 March 2004
- members in service	2,082	1,421
- deferred pensioners	476	269
- pensioners	1,841	1,387
Total liabilities funding target	4,399	3,077
Market value of assets (excluding AVCs)	3,689	2,449
Deficit	710	628
Funding level	84%	80%

3.2 The shortfall against the funding target at the valuation date was £710 million. This represents a funding level of 84% relative to the funding target.

The recommended employer contributions for the period 1 April 2008 to 31 March 2011 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 (future investment returns, RPI, rate at which pensions and earnings increase) and demographic assumptions (rates of mortality, retirement, withdrawals, proportion married etc) 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 77

Name of Fund

Lancashire County Pension Fund

Regulation 77(3)

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 2008 should be at the rate of 13.3 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2008, 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.

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of the Rates and Adjustments 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.

Regulation 77(7)

I have also shown on the attached Schedule for each employer the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2008 taken into account when setting the employer's contribution rate. I have assumed numbers of early retirements and average additional liabilities in respect of those early retirements will be such that, over the period of the certificate, the total additional liabilities in respect of each employer will be as set out the Schedule. Allowance for ill health retirements has been included in each employer's contribution rate. The additional liabilities anticipated have been assessed using the method and assumptions set out in this report.

Signature

Name

Date of signing



C R Hull

31 March 2008



LANCASHIRE

Schedule to the Rates and Adjustments Certificate dated 31 March 2008

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
Accrington & Rossendale College	0.8	14.1	2.1	15.4	3.5	16.8	£216,000
Alzheimers Society	10.5	23.8	10.5	23.8	10.5	23.8	
Arnold Schools Ltd	(1.0)	12.3	1.0	14.3	3.0	16.3	
Barnoldswick Town Council	1.6	14.9	1.6	14.9	1.6	14.9	
Beaufort Avenue Day Care Centre	4.7	18.0	7.1	20.4	9.5	22.8	
Blackburn College	2.6	15.9	2.6	15.9	2.6	15.9	
Blackburn St Mary's College	(2.1)	11.2	(0.8)	12.5	0.5	13.8	
Blackburn with Darwen Borough Council	1.8	15.1	1.8	15.1	1.8	15.1	
Blackpool & Fylde MIND Association	2.5	15.8	2.5	15.8	2.5	15.8	
Blackpool & The Fylde College	1.6	14.9	2.8	16.1	3.9	17.2	
Blackpool Airport Ltd (from July 2004)	8.5	21.8	12.0	25.3	15.5	28.8	
Blackpool Borough Council	2.6	15.9	2.6	15.9	2.6	15.9	
Blackpool Coastal Housing	(1.0)	12.3	(1.0)	12.3	(1.0)	12.3	
Blackpool Sixth Form College	0.1	13.4	0.1	13.4	0.1	13.4	
Blackpool Transport Services Ltd	(13.3)	0.0	(13.3)	0.0	(13.3)	0.0	
Blackpool Zoo (Grant Leisure Ltd)	3.1	16.4	3.1	16.4	3.1	16.4	£677,100

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
Blackpool, Fylde & Wyre Society for Blind	25.0	38.3	25.0	38.3	25.0	38.3	
Burnley Borough Council	6.7	20.0	6.7	20.0	6.7	20.0	
Burnley College	0.1	13.4	0.5	13.8	0.9	14.2	
Calico Housing Ltd	4.0	17.3	5.0	18.3	6.0	19.3	
CAPITA	5.3	18.6	7.4	20.7	9.5	22.8	
Carden Croft Ltd	3.5	16.8	3.5	16.8	3.5	16.8	
Cardinal Newman College	0.8	14.1	2.2	15.5	3.4	16.7	
Catholic Caring Services	1.2	14.5	3.6	16.9	4.0	17.3	
Catterall Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	
Chorley Borough Council	3.5	16.8	4.5	17.8	5.5	18.8	
Chorley Community Housing	1.9	15.2	1.9	15.2	1.9	15.2	
Church Road Methodist Day Centre	2.7	16.0	4.2	17.5	5.6	18.9	
Commission for Education & Formation	8.5	21.8	9.7	23.0	10.9	24.2	
Community Alliance							
(Burnley & Padiham) Ltd	(0.8)	12.5	1.2	14.5	3.2	16.5	
Community Council of Lancashire	1.2	14.5	1.2	14.5	1.2	14.5	
Community Gateway Association Ltd	(1.6)	11.7	(0.7)	12.6	0.2	13.5	
Contour Housing Association	4.2	17.5	4.2	17.5	4.2	17.5	

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
CX Ltd	(2.4)	10.9	(2.4)	10.9	(2.4)	10.9	
Danfo (UK) Ltd	2.8	16.1	2.9	16.2	3.0	16.3	
Edge Hill University College	0.2	13.5	0.2	13.5	0.2	13.5	
Elm House Management Committee	0.8	14.1	0.8	14.1	0.8	14.1	
Enterprise Managed Services Ltd	(4.2)	9.1	(2.6)	10.7	(1.0)	12.3	
Eric Wright Commercial Ltd	4.0	17.3	4.0	17.3	4.0	17.3	
Fylde Borough Council	2.9	16.2	3.9	17.2	4.9	18.2	
Fylde Coast YMCA	3.0	16.3	3.0	16.3	3.0	16.3	
Fylde Community Link	3.4	16.7	3.4	16.7	3.4	16.7	
Galloways Society for the Blind	27.3	40.6	27.3	40.6	27.3	40.6	
Glenburn Sports Centre							
(Bullough Contract Services)	3.4	16.7	3.4	16.7	3.4	16.7	
Housing Pendle Ltd	0.3	13.6	0.3	13.6	0.3	13.6	
Hyndburn Borough Council	7.7	21.0	10.5	23.8	11.5	24.8	
Hyndburn Homes Ltd	0.2	13.5	0.2	13.5	0.2	13.5	
Hyndburn Homewise	(0.7)	12.6	1.1	14.4	2.9	16.2	
Kirkham Grammar School	0.7	14.0	1.7	15.0	2.7	16.0	
Kirkland Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
Lancashire & Blackpool Tourist Board	(3.2)	10.1	(0.2)	13.1	(0.2)	13.1	£2,075,400
Lancashire County Branch Unison	4.3	17.6	4.3	17.6	4.3	17.6	
Lancashire County Council	3.1	16.4	3.8	17.1	4.5	17.8	
Lancashire Economic Partnership	(1.2)	12.1	(1.2)	12.1	(1.2)	12.1	
Lancashire Fire & Rescue Service	3.4	16.7	3.8	17.1	4.2	17.5	£223,600
Lancashire Police Authority	0.1	13.4	0.5	13.8	1.0	14.3	£418,500
Lancashire Probation Committee	4.3	17.6	4.3	17.6	4.3	17.6	
Lancashire Valuation Tribunal	31.9	45.2	31.9	45.2	31.9	45.2	
Lancaster & Morecambe College	0.6	13.9	1.8	15.1	3.0	16.3	
Lancaster City Council	3.8	17.1	4.8	18.1	5.8	19.1	
Lancaster University	(0.6)	12.7	0.1	13.4	0.8	14.1	
Leisure in Hyndburn	1.2	14.5	1.2	14.5	1.2	14.5	
Liberata	2.4	15.7	2.4	15.7	2.4	15.7	
Lytham Schools Foundation	0.5	13.8	0.5	13.8	0.5	13.8	
Mellor's Catering	3.2	16.5	4.2	17.5	5.1	18.4	
Myerscough College	(2.3)	11.0	(1.2)	12.1	(0.2)	13.1	
Nelson & Colne College	(0.2)	13.1	0.4	13.7	1.0	14.3	
New Directions	8.6	21.9	16.6	29.9	24.5	37.8	

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
New Fylde Housing	12.4	25.7	18.4	31.7	24.2	37.5	
North Western & North Wales							
Sea Fisheries Committee	8.7	22.0	9.6	22.9	9.6	22.9	
Ormerod Home Trust Ltd	8.9	22.2	8.9	22.2	8.9	22.2	
Our Lady Queen of Peace (Bullough Contract Services)	1.7	15.0	1.7	15.0	1.7	15.0	
Pendle Borough Council	7.3	20.6	8.3	21.6	9.3	22.6	
Pendle Leisure Trust Ltd	0.0	13.3	1.1	14.4	2.1	15.4	
Penwortham Town Council	(1.7)	11.6	(0.4)	12.9	0.9	14.2	
Pilling Parish Council	4.5	17.8	4.5	17.8	4.5	17.8	
Preston Care and Repair	0.9	14.2	0.9	14.2	0.9	14.2	
Preston City Council	2.8	16.1	3.6	16.9	4.3	17.6	
Preston College	(0.8)	12.5	0.4	13.7	1.6	14.9	
Preston Council for Voluntary Services	(1.7)	11.6	(1.7)	11.6	(1.7)	11.6	
Progress Housing Group Ltd	3.9	17.2	4.9	18.2	5.9	19.2	
Progress Recruitments	(2.3)	11.0	(0.3)	13.0	1.5	14.8	
Queen Elizabeth Grammar School	3.1	16.4	4.8	18.1	6.4	19.7	£137,000
Ribble Valley Borough Council	2.3	15.6	2.3	15.6	2.3	15.6	
							£198,000

	2008/09		2009/10		2010/11		Non-ill health early retirement allowance included for the 3 years 2008/11 Amount £
	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	Individual Adjustment (%)	Total Contribution Rate (%)	
Rossendale Borough Council	4.8	18.1	4.8	18.1	4.8	18.1	
Rossendale Leisure Trust	(1.5)	11.8	(1.5)	11.8	(1.5)	11.8	
Rossendale Transport Ltd	1.3	14.6	1.3	14.6	1.3	14.6	
Runshaw College	(0.6)	12.7	0.5	13.8	1.5	14.8	
South Ribble Borough Council	3.2	16.5	4.1	17.4	5.0	18.3	
South Ribble Community Leisure Ltd	4.3	17.6	4.3	17.6	4.3	17.6	
Sungard Vivista Ltd	3.7	17.0	3.7	17.0	3.7	17.0	
Surestart Hyndburn	(5.6)	7.7	(4.7)	8.6	(3.8)	9.5	
Twin Valley Homes Ltd	3.7	17.0	3.7	17.0	3.7	17.0	
University of Central Lancashire	(0.7)	12.6	(0.7)	12.6	(0.7)	12.6	
University of Cumbria (formerly St Martins College)	(1.3)	12.0	(1.0)	12.3	(0.8)	12.5	
West Lancashire Community Leisure Ltd	(2.9)	10.4	(2.9)	10.4	(2.9)	10.4	
West Lancashire District Council	4.7	18.0	4.7	18.0	4.7	18.0	
Whitworth Town Council	3.6	16.9	3.6	16.9	3.6	16.9	
Wyre Borough Council	7.4	20.7	7.4	20.7	7.4	20.7	
Wyre Housing Association	28.7	42.0	34.7	48.0	40.5	53.8	

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged
	%
Blackpool Council for Voluntary Services	See notes
Blackpool & Fylde Society for the Deaf	100
Burnley & Pendle Development Association	100
Burnley District Citizens Advice Service	See notes
Burton Manor Residential College	100
Ex Department of Transport	100
Ex National Health Service	100

Former Employers	Proportion of Pension Increases to be Recharged
	%
Ex National Water Council	100
Fylde Coast Developments Association	100
Lancashire On-Line Learning	See notes
Lancashire West Partnership	See notes
Lancashire South East Probation Committee	100
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.

Any further contributions required in respect of termination assessments for the admission agreements with Blackpool CVS, Burnley CAB, Lancashire West Partnership and Lancashire On-Line Learning will be notified separately.



Contacts

<http://www.lancs-pensions.org.uk>

Benefits and other Administrative Issues

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