

## **Lancashire County Council**

### **Pension Fund Committee**

**Friday, 10th June, 2016 at 10.00 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston**

### **Agenda**

#### **Part I (Open to Press and Public)**

<b>No.</b>	<b>Item</b>
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|-----------|---|-----------------|
| <b>1.</b> | <b>Apologies</b>  |                 |
| <b>2.</b> | <b>Constitution: Chair, Deputy Chair, Membership and Terms of Reference of the Pension Fund Committee</b>   | (Pages 1 - 10)  |
| <b>3.</b> | <b>Disclosure of Pecuniary and Non-Pecuniary Interests</b><br><br>Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.  |                 |
| <b>4.</b> | <b>Minutes of the Meetings held on 29 January 2016 and 22 March 2016</b><br><br>To be confirmed, and signed by the Chair.   | (Pages 11 - 22) |
| <b>5.</b> | <b>External Audit<br/>- Lancashire County Pension Fund Audit Plan 2015/16</b>   | (Pages 23 - 44) |
| <b>6.</b> | <b>Exclusion of Press and Public</b><br><br>The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item. |                 |

#### **Part II (Not open to Press and Public)**

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|-----------|--|-----------------|
| <b>7.</b> | <b>Local Pension Partnership Limited - Progress report</b> | (Pages 45 - 56) |
|-----------|--|-----------------|

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

**8. Fund Performance Report** (Pages 57 - 62)

(Not for Publication - Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

**9. Investment Panel Report** (Pages 63 - 74)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

**10. Appointment of Interim Independent Advisor** (Pages 75 - 76)

(Not for Publication – Exempt information as defined in Paragraphs 1, 2 and 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

**Part I (Open to Press and Public)**

**11. Lancashire County Pension Fund Revised Governance Policy Statement** (Pages 77 - 106)

**12. Lancashire County Pension Fund - Annual Governance Statement 2015/16** (Pages 107 - 118)

**13. Tracing Missing Members Procedure** (Pages 119 - 122)

**14. Your Pension Service - Annual Administration Report 2015/16** (Pages 123 - 130)

**15. Local Pensions Partnership Limited - Non Executive Director Pay Policy** (Pages 131 - 132)

- 16. Internal Audit Service Annual Report 2015/16 and Plan 2016/17** (Pages 133 - 146)
- 17. Framework for the 2016 Valuation - Employer Responses to Consultation** (Pages 147 - 152)
- 18. Responsible Investment** (Pages 153 - 172)
- 19. Feedback on Attendance at Training and Conferences** (Pages 173 - 176)
- 20. Urgent Business**  
An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.
- 21. Date of Next Meeting**  
The next meeting of the Committee will be held on Thursday 15 September 2016 at 10am at County Hall, Preston.

I Young  
Director of Governance,  
Finance and Public Services

County Hall  
Preston



## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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### **Constitution: Chair, Deputy Chair, Membership and Terms of Reference of the Pension Fund Committee**

(Appendix 'A' refers)

Contact for further information:

Dave Gorman, (01772) 534261, Legal and Democratic Services

[dave.gorman@lancashire.gov.uk](mailto:dave.gorman@lancashire.gov.uk)

#### **Executive Summary**

To note the Constitution of the Pension Fund Committee for 2016/17 and, in particular, the Chair, Deputy Chair, Membership and revised Terms of Reference of the Committee.

#### **Recommendation**

The Committee is asked to note:

- (i) The appointment of County Councillor Kevin Ellard and County Councillor Miles Parkinson as Chair and Deputy Chair, respectively, of the Pension Fund Committee for the 2016/17 municipal year;
- (ii) The membership of the Pension Fund Committee as set out in the report;
- (iii) The revised Terms of Reference of the Pension Fund Committee as set out at Appendix 'A'.

#### **Background and Advice**

The County Council, at its annual meeting on 26 May 2016, approved the appointment of County Councillor Kevin Ellard and County Councillor Miles Parkinson as Chair and Deputy Chair, respectively, of the Pension Fund Committee for the 2016/17 municipal year.

The Full Council also approved that the Pension Fund Committee should be comprised of 14 County Councillors (on the basis of 6 Labour, 6 Conservative, 1 Liberal Democrat and 1 Independent), together with 7 co-opted members.

The following County Councillors have subsequently been nominated to serve on the Pension Fund Committee for 2016/17:

### **County Councillors (14)**

M Barron	M Parkinson
L Beavers	C Pritchard
D Borrow	A Schofield
G Dowding	K Sedgewick
K Ellard	D Westley
J Oakes	D Whipp
M Otter	B Yates

The following voting co-optees have been nominated to serve on the Committee for 2016/17:

### **Voting Co-opted Members (7)**

Lancashire Unitary Authorities:

Councillor Mark Smith (Blackpool Council)  
Councillor R Whittle (Blackburn with Darwen Borough Council)

Lancashire District Councils:

Councillor E Pope (West Lancashire Borough Council)  
Councillor P Rankin (Preston City Council)

Trade Union Representatives:

Mr P Crewe  
Mr J Tattersall

Higher Education/Further Educations Establishments:

Mr A Milloy

Following the establishment of the Local Pensions Partnership Ltd (LPPL) on 1 April 2016, it has been necessary to revise the Committee's Terms of Reference to ensure that they continue to reflect the role of the Committee. A copy of the revised Terms of Reference, which were approved by the Full Council on 24 March 2016 and subsequently amended under the Council's urgent business procedure, are set out at Appendix 'A'.

### **Consultations**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

No significant risks have been identified.

**Local Government (Access to Information) Act 1985  
List of Background Papers**

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		



## **Appendix 'A'**

### **Pension Fund Committee**

#### **Terms of Reference**

##### **Composition and role:**

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councilors 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. Fulfil the role of Scheme Manager, as set out in regulations, of the Lancashire County Pension Fund ("the Fund" or "LCPF");
  - 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. The Committee shall meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
4. 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.

##### **General:**

5. 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.
6. To determine which pension related functions and responsibilities should be exercised under a Scheme of Delegation to the Head of the LCPF, the

Director of Financial Resources (S.151 Officer) and the Director of Governance, Finance and Public Services.

7. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
8. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
9. To establish sub-committees and panels as necessary to undertake any part of the Committee's functions.
10. To receive an annual report from the Lancashire Local Pensions Board on the nature and effect of its activities.

**Policies** (other than Investment, Administration and Funding – see below):

11. To approve the following key policy documents:
  - a. A rolling 3 Year Strategic Plan for the Fund;
  - b. The Statement of Investment Principles
  - c. Governance Policy Statement;
  - d. Governance Compliance Statement;
  - e. Pension Fund Annual Report;
  - f. Communication Policy statement;
  - g. Internal Dispute Resolution Procedure;
  - h. Death Grant Procedure;
  - i. Bulk Transfer Payment Policy;
  - j. Commutation policy (small pensions);
  - k. Transfer policy;
  - l. Abatement policy; and
  - m. Any other discretionary policies as required under LGPS regulations

**Investment:**

12. To determine the strategic asset allocation policy, giving due recognition to the options made available by the Local Pensions Partnership Ltd (LPPL).
13. To monitor the performance of the Fund's investments and ensure that best practice is being adopted and value for money is being delivered.
14. 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.
15. To approve and review on a regular basis an overall Investment Strategy and subsidiary Strategies for such asset classes as the Investment Panel consider appropriate.
16. To have overall responsibility for investment policy.

**Administration:**

17. To approve the Annual Administration Report
18. To approve the Pensions Administration Strategy Statement
19. To monitor the performance of the pensions administration function.

**Funding:**

20. To approve the Funding Strategy Statement which shall 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.
21. To approve Scheme Funding Advice
22. To review ongoing funding updates for potential cash contribution implications

**Procurement:**

23. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external support, including:
  - a. an external corporate governance adviser;
  - b. an external Fund custodian;
  - c. external performance measurement advisers;
  - d. the Fund Actuary; and
  - e. the Fund's AVC Provider.

**Training:**

24. To approve the annual Training Plan for members of the Pension Fund Committee and actively participate in training opportunities.

**Local Pensions Partnership Ltd (LPPL):**

LPPL was formed in partnership between the County Council and the London Pension Funds Authority (LPFA) to carry out certain pension functions such as investment activity and administration on behalf of the two partner authorities. The relationship between the County Council and LPFA is governed by a number of agreements one of which (the Shareholders Agreement dated 6 April 2016) reserves certain key matters for the determination of the County Council and LPFA rather than LPPL (the "Reserved Matters"). References to delegated powers relating to LPPL address the

Reserved Matters. Unless stipulated, any reference to the "Agreement" is a reference to the Shareholders Agreement dated 6 April 2016.

**Incorporation or winding up of subsidiaries:**

25. To approve, with the exception to the formation of vehicles which are necessary for any transactional, operational or tax efficiency reasons in the sole opinion of the Board, any incorporation of any new subsidiary of LPPL or any of its Group Companies or any liquidation or winding up of LLP or any of its Group Companies. Any acquisition of any shares in any company, whether through subscription or transfer, such that the company concerned becomes a Subsidiary of LPPL or any Group Company.

**Merger/acquisition of any business undertaking:**

26. To approve the amalgamation or merger with any company, association, partnership or legal entity or the acquisition of any business undertaking of any other person.

**Financial and Business:**

27. To approve any Strategic Plan for LPPL or make any material changes to any Strategic Plan after its approval.
28. To approve any extension of the activities of LPPL outside the scope of the Business or close down any business operation.
29. To receive the annual accounts of LPPL.
30. To approve the establishment, provision or amendment of any pension scheme.
31. To give or take any loans, borrowing or credit (other than normal trade credit in the ordinary course of business) in excess of £1,000,000 or cause the aggregate indebtedness of LPPL to exceed £5m.

**Shares, shareholder loans and constitutional:**

32. To pay or declare any dividend (other than as expressly provided for in the Shareholder agreement) or other distribution to the Shareholders or redeem or buy any Shares or otherwise reorganise the share capital of LPPL.
33. To admit any person whether by subscription or transfer as a member of LPPL save as provided for in the Shareholder Agreement.
34. To approve any name change of LPPL

**Control, management, directors and employees:**

35. To approve the remuneration policy of LPPL Non-Executive Directors.

36. To approve the appointment or removal of any statutory director of LPPL otherwise than in accordance with the Shareholder Agreement and the Articles of LPPL.
37. To enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, LPPL being managed otherwise than by its directors or controlled otherwise than by its shareholders.
38. To approve the move of the central management and control of LPPL or LPPL's tax residence outside of the UK.

#### **Contract with related parties**

39. To enter into or vary any contracts or arrangements with any of the Shareholders or Directors or any person with whom any Shareholder or Director is connected (whether as director, consultant, shareholder or otherwise) save as anticipated in the various agreements between the County Council, LPFA and LPPL entered into on 6 April 2016.
40. To approve the commencement or the taking of steps to commence any insolvency proceedings under any law relating to insolvency anywhere in the world unless LPPL is at the relevant time unable to pay its debts as they fall due or the value of its assets is less than its liabilities, including its contingent and prospective liabilities and the directors reasonably consider (taking into account their fiduciary duties) that it ought to be wound up or it ought to enter into administration.
41. To enter into any partnership, joint venture or profit sharing arrangement with any person or create any share option scheme.
42. To enter into or make any material variation to any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis.
43. To approve the sale, lease (as lessor), licence (as licensor), transfer or otherwise dispose of any of its material assets.
44. To enter into any contract which cannot be terminated within 48 months and under which the liability for such termination could exceed £1 million.



## **Lancashire County Council**

### **Pension Fund Committee**

**Minutes of the Meeting held on Friday, 29th January, 2016 at 10.30 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston**

#### **Present:**

County Councillor Kevin Ellard (Chair)

#### **County Councillors**

M Barron	M Parkinson
L Beavers	P Rigby
D Borrow	A Schofield
C Crompton	K Sedgewick
G Dowding	D Westley
J Oakes	D Whipp
M Otter	

#### **Co-opted members**

Paul Crewe, (Trade Union Representative)  
Councillor Edward Pope, (Lancashire Leaders' Group Representative)  
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

#### **External Advisors**

Aoifinn Devitt  
Eric Lambert

County Councillors Carl Crompton and Paul Rigby replaced County Councillors Janice Hanson and Barrie Yates respectively at this meeting.

The Chair welcomed Mark Packham, PricewaterhouseCoopers (PwC), to the meeting.

#### **1. Apologies**

Apologies for absence were received from Alistair Milloy, HE/FE Sector Representative; Councillor Peter Rankin, Preston City Council; and Councillor Mark Smith, Blackpool Council.

## **2. Disclosure of Pecuniary and Non-Pecuniary Interests**

County Councillor David Borrow declared a non-pecuniary interest as the County Council's shareholder representative on the Board of the Lancashire and London Pensions Partnership (LLPP).

George Graham, Mike Jensen, Diane Lister, Frances Deakin and Andy Brown declared non-pecuniary interests in view of their likely TUPE transfer to the LLPP.

## **3. Minutes of the Meeting held on 27 November 2015**

**Resolved:** - That the minutes of the meeting held on 27 November 2015 be confirmed as a true and accurate record and be signed by the Chair.

## **4. Exclusion of Press and Public**

**Resolved:** - That the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

## **5. Lancashire and London Pensions Partnership - Progress Report**

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report on the progress made since the last meeting on the development of an Asset and Liability Management Partnership with the London Pensions Fund Authority (LPFA), known as the Lancashire and London Pensions Partnership (LLPP).

Ian Young, Director of Governance, Finance and Public Services, gave an overview of progress made and highlighted that, whilst work was progressing on schedule towards a 1 April implementation date and that officers were cautiously optimistic of meeting the timetable, nevertheless there remained a risk that Full Council approval could not be sought before then if all the necessary agreements and documents had not been finalised. Should that be the case, it may be necessary for Full Council to consider the proposals at its meeting on 26 May.

The Committee's attention was also drawn to the Government's recent announcement on wealth funds and the minimum £25bn required for pooled fund proposals to go forward, and the Committee was invited to consider whether the proposed partnership with LPFA should be 'paused' to allow for discussions to take place with other funds with a view to reaching the £25bn minimum.

Laura Sales, Director of Legal and Democratic Services, updated the Committee specifically on progress on the development of the documentation necessary to give effect to the proposed arrangements. It was reported that the principal document underpinning the proposals was the Shareholder Agreement between the Lancashire County Pension Fund (LCPF) and LPFA. In addition to this, work was progressing well on various governance issues and the Investment Management Agreement was almost complete. Agreement on administrative services was close to conclusion and other areas being brought to a final stage included risk and liability, transfer of assets and the provision of Treasury Management Services to Lancashire County Council by LLPP. Whilst further work remained to be undertaken, a 1 April implementation date remained realistic.

Mark Packham, PricewaterhouseCoopers (PwC), updated the Committee on the work that PwC had undertaken on behalf of the County Council to consider the financial viability of the partnership proposals. It was suggested that discussions with other pension funds in the North West should continue in the light of the Government's announcement on wealth funds and that the strength of the LLPP proposals lay in the clarity and vision and the structures which would be in place and which would be attractive to other funds. Despite the announcement of the £25bn benchmark there remained a strong case for pressing ahead with the proposals as they stood, not least the indication of Government support to date. It was important, however, for the Committee to consider all the options available, including the option of 'pausing' the process.

The Committee discussed the option of continuing with the partnership proposals in their current form towards a 1 April implementation, together with the alternative option of 'pausing' the process to allow for discussion with other funds to explore options for reaching the £25bn minimum. Issues considered included the financial and reputational risks. Given that continuing with the current proposals did not prevent discussions with other funds continuing, the Committee concluded that the partnership proposals should proceed as planned to a 1 April implementation.

**Resolved: - That:**

- (i) The continuing progress with the development of the Lancashire and London Pensions Partnership, as set out in the report, now presented, be noted;
- (ii) The progress on the preparation of the legal documentation, as set out in the report, now presented, be noted;
- (iii) The progress on the ongoing work by the independent financial advisors on the proposed pooling arrangement, as set out in the report, now presented, be noted.

## **6. The Lancashire County Pension Fund's Response to the Government's Requirement for Stage 1 Pooling Submissions**

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report setting out a proposed approach to developing arrangements in response to the Government's agenda for the creation of six pools of investment assets, each of around £25bn. The proposals formed part of the Government's overall agenda for reform of the Local Government Pension Scheme.

George Graham, Director, Lancashire County Pension Fund (LCPF), reported that the work being undertaken to create the LLPP was part of this overall agenda and that the approach set out in the report aimed to protect the investment already made in the creation of the LLPP and grow the number of funds which shared a similar approach to that of the LCPF, and with which the LCPF worked.

It was noted that Funds were required to make a submission by 19 February 2016 setting out how they proposed to address this requirement.

**Resolved:** - That:

- (i) The approach to developing arrangements in response to the Government's pooling agenda, as set out in the report now presented, be approved;
- (ii) The Director, Lancashire County Pension Fund, in consultation with the Chair of the Pension Fund Committee, be authorised to prepare and submit a detailed response to the Government in line with the required timetable.

## **Part I**

**Resolved:** - That the Committee returns to the remaining Part I items on the agenda.

## **7. Consultation on Replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations**

The Committee considered a report setting out details of a consultation on replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations. A copy of the consultation document was set out at Appendix 'A'. It was proposed that the new regulations, the draft of which was set out at Appendix 'B', would come into force on 1 April 2016.

George Graham, Director, LCPF, reported that, overall, the proposals were to be welcomed but that there were two areas of concern as follows:

- The reserve power of intervention by the Secretary of State which is intended to deal with Funds which refuse to pool their assets is drawn too widely and a separate debate should take place if this remains the case;
- Proposals which would restrict the ability to reflect Responsible Investment issues in decisions.

Appendix 'C' set out, for approval, the proposed response by the Fund to the consultation taking account of the two areas of concern set out above.

It was agreed that the response on Page 55 of the agenda pack (4th bullet point) be strengthened prior to submission. It was also requested that a session on derivatives be the subject of one of the future monthly workshops for Committee and Local Pension Board Members.

**Resolved:** - That the draft response to the consultation on the draft Local Government Pension Scheme Investment Regulations, as set out at Appendix 'C' to the report, now presented, be approved, subject to the re-drafting of the appropriate section of Page 55 as set out above.

#### **8. Lancashire County Pension Fund - Future Employer Risk Management Framework and Approach to Covenant Review**

The Committee considered a report setting out details of a covenant review process which had been undertaken in advance of the 2016 Actuarial Valuation. Andy Brown, Policy and Operations Manager, LCPF, reported that the two principal pieces of work were to:

- Specifically assess covenant for the majority of Fund employers;
- Devise and implement an ongoing covenant assessment and risk management framework.

It was proposed to adopt the risk management framework as set out and to concentrate resources on the higher risk areas.

The Committee raised a number of issues around the classification of Universities and Further Education Colleges in Category B (higher risk) despite them being scheduled bodies, together with Academies being classified in Category A (lowest risk). In response, it was agreed that the description for each category would be removed and that Academies were considered to be state funded and part of the public sector and, as such, would be subject to a degree of financial protection.

**Resolved:** - That, subject to the comments made, the proposed risk classification methodology and approach to implementing risk management/security arrangements, as set out in the report, now presented, be approved.

## **9. Lancashire County Pension Fund Training Policy**

The Committee considered a report setting out a proposed new Training Policy for the Fund. The policy provided a framework for ensuring an appropriate balance between individuals assuming personal responsibility for their own learning, and the County Council (as Administering Authority) providing support for the development of the skills and knowledge needed to ensure effective oversight, governance and decision making.

Frances Deakin, Financial Policy Officer, LCPF, reported that the existing policy had expired at the end of 2015 and that there were two main changes that had to be taken account of in the development of a new policy. These were; the establishment of a Local Pension Board during 2015; and the extension of the remit of The Pension Regulator (TPR) to include public sector pension schemes such as the LGPS.

It was to be noted that, in terms of training and development, different expectations rested on members of the Pension Fund Committee, which was very much a collective responsibility, than that on members of the Local Pension Board, which was very much an individual responsibility.

The policy formed part of the Fund's risk management strategy to demonstrate that the Administering Authority was taking its responsibility for training and development seriously.

It was highlighted that Pension Board Members were already using the Virtual Reading Room and had found it a useful tool and it was now proposed to roll this out to Committee Members. It was suggested that Committee Members could take a specific responsibility for two or three of the eight core areas of knowledge referred to in the new policy and it was agreed that this could be looked at as part of the discussions around the future governance arrangements for the Fund.

**Resolved: - That:**

- (i) The report, now presented, be noted;
- (ii) The Lancashire County Pension Fund Training Policy, set out at Appendix 'A' to the report, now presented, be approved;
- (iii) A commitment be made to meeting the requirements of the Training Policy which forms part of the Fund's wider risk management arrangements.

## **10. Lancashire County Pension Fund - Discretionary Policies Update**

The Committee considered a report which provided an update on the Fund's discretionary policies.

The report:

- Summarised consultation feedback in respect of the five 'key' discretionary policy areas and made recommendations accordingly;
- Presented a summary of the remaining refreshed or restated policies (other than death grants);
- Proposed specific changes to the death grants policy.

Andy Brown, Policy and Operations Manager, LCPF, reported that there had been positive feedback in response to the consultation on the top five key discretions. The death grants policy had last been amended in 2014 and whilst it worked well in practice, it was proposed to make specific changes as follows:

- The payment of death grants where the beneficiary would be a young adult or child;
- The payment of grants where a pensioner does not have mental capacity to manage their own financial affairs.

**Resolved: - That:**

- (i) The original proposals in respect of the five key discretions, as set out in the report, now presented, be approved;
- (ii) The proposed policies covering remaining discretions (excluding death grants), as set out in the report, now presented, be approved;
- (iii) The proposed changes to the existing death grants policy, as set out in the report, now presented, be approved;

## **11. Report of Decisions taken under the Urgent Business Procedure**

The Committee considered a report setting out details of decisions taken under the Urgent Business Procedure.

Since the last meeting, the Director, LCPF, following consultation with the Chair and Deputy Chair of the Committee, had supported the election of three candidates to the officer places on Local Authority Pension Fund Forum Executive. Of the three candidates, it was reported that two, Faith Ward and Jane Firth, had been elected.

**Resolved: - That the report, now presented, be noted.**

## **12. Urgent Business**

There was no urgent business to be considered.

The Chair reported that he had extended an invitation to Mr William Bourne, Chair of the Lancashire Local Pension Board, to attend and address a future meeting of the Committee.

**13. Date of Next Meeting**

The Committee noted that the next meeting of the Committee would be a further special meeting and would be held on Tuesday 1 March 2016 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston

## **Lancashire County Council**

### **Pension Fund Committee**

**Minutes of the Meeting held on Tuesday, 22nd March, 2016 at 2.00 pm in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston**

#### **Present:**

County Councillor Kevin Ellard (Chair)

#### **County Councillors**

M Barron	A Schofield
D Borrow	K Sedgewick
J Oakes	D Westley
M Otter	D Whipp
M Parkinson	B Yates

#### **Co-opted members**

Paul Crewe, (Trade Union Representative)  
Councillor Peter Rankin, (Lancashire Leaders' Group Representative)  
Councillor Edward Pope, (Lancashire Leaders' Group Representative)  
Councillor Mark Smith, (Blackpool Council Representative)  
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

#### **1. Apologies**

Apologies were received from County Councillor G Dowding.

#### **2. Disclosure of Pecuniary and Non-Pecuniary Interests**

None.

#### **3. Urgent Business**

None.

#### **4. Date of Next Meeting**

It was noted that the next meeting of the Committee would be held on Friday 10 June 2016 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

## **5. Exclusion of Press and Public**

**Resolved:** - That the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

## **6. The Creation of the Local Pensions Partnership Ltd**

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information)

The Committee considered a report on the final proposals in relation to the creation of a partnership between the Lancashire County Pension Fund and the London Pension Fund Authority.

The Committee's attention was drawn to the following key issues in relation to the establishment of the "Local Pensions Partnership Limited" (LPPL):

- The financial viability of the LPPL including the conclusions of a detailed review undertaken by PricewaterhouseCoopers;
- The loan facility with LPPL;
- Governance issues and key risks including the views of DAC Beachcroft LLP on the legal agreements required to give effect to the partnership arrangement;
- The Financial Conduct Authority's authorisation;
- The remuneration policy for senior staff in LPPL;
- The Council's short and long term treasury management arrangements;
- The ICT agreement;
- The views of the Investment Panel; and
- Revised terms of reference and delegation arrangements for the County Council consequent upon the establishment of LPPL.

Members gave detailed consideration to the report and to the views on the proposed partnership as presented by officers, the Investment Panel and representatives of PricewaterhouseCoopers and DAC Beachcroft LLP. George Graham, LPPL Chief Finance Officer & Managing Director - Administration Business designate, also responded to questions raised by Members.

It was noted that the Full Council would need to approve the LPPL proposal. The Committee agreed that the Full Council should be recommended to support the proposals as set out in the report including the conditions precedent which must be in place prior to the commencement of the joint venture.

**Resolved:**

- (i) That the reports provided at Appendices 'A' 'B' and 'D' on the financial viability and the proposed legal/governance arrangements in relation to LPPL, identifying the risks and opportunities which the proposed joint venture involves be noted.
- (ii) That the verbal updates provided at the meeting by the Investment Panel on the proposals be noted.
- (iii) That the recommendations including the conditions precedent, as set out in the report now presented, be approved.

I Young  
Director of Governance, Finance  
and Public Services

County Hall  
Preston



## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## **External Audit**

### **- Lancashire County Pension Fund Audit Plan 2015/16**

(Appendix A refers)

Contact for further information:

Karen Murray, Grant Thornton UK LLP, 0161 234 6364, Director,

karen.l.murray@uk.gt.com

## **Executive Summary**

The Annual Audit Plan sets out the nature and scope of work that the Authority's external auditor will carry out to discharge its statutory responsibilities, compliant with the Local Audit & Accountability Act 2014 (the Act) and the Code of Audit Practice for Local Government.

This audit plan is specific to the financial year 2015/16 and sets out in broad terms the programme of work required to:

- give a financial opinion on whether the financial statements:
  - give a true and fair view of the financial position of the Pension Fund as at 31 March 2016 and of its expenditure and income for the year then ended; and
  - have been prepared in accordance with proper accounting practice.

The Audit Plan, setting out the process that underpin the audit is at Appendix 'A'.

## **Recommendation**

The Committee is asked to note and comment on the External Audit plan for the audit of the Lancashire County Pension Fund for 2015/16, and the fees therein.

## **Background and Advice**

Attached at Appendix 'A' is the external auditor's Annual Audit Plan for the audit of the Lancashire County Pension Fund. The plan sets out the main risk areas which the audit will focus on, including:

- the two default risks as highlighted in ISA+315 applicable to all audits on the revenue cycle includes fraudulent transactions and management override of controls;

- the risk of incorrect valuations on Level 3 investments, which by their nature require a significant degree of judgement to reach an appropriate valuation at year end; and
- other key risks areas around member data, investments, contributions and benefits payable.

The fee for the audit of the pension fund has been set at £34,169, which is the scale fee set by the Audit Commission. A fee of £1,737 is set to cover the IAS19 assurance work which is subject to separate approval from the Public Sector Audit Appointments Limited. Please note the total audit fee is the same as that charged in 2014/15.

(Note: The scale fee set previously by the Audit Commission for pension fund audits is based on a formula linked to the size of the net assets of the fund and has no specific risk factors linked to it).

Karen Murray, Engagement Lead, will attend the meeting to present the report and answer any questions.

## **Consultations**

The report has been agreed with the Director of Financial Resources.

## **Implications**

This item has the following implications, as indicated:

## **Risk management**

No significant risks have been identified.

## **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		

# The Audit Plan for Lancashire County Pension Fund

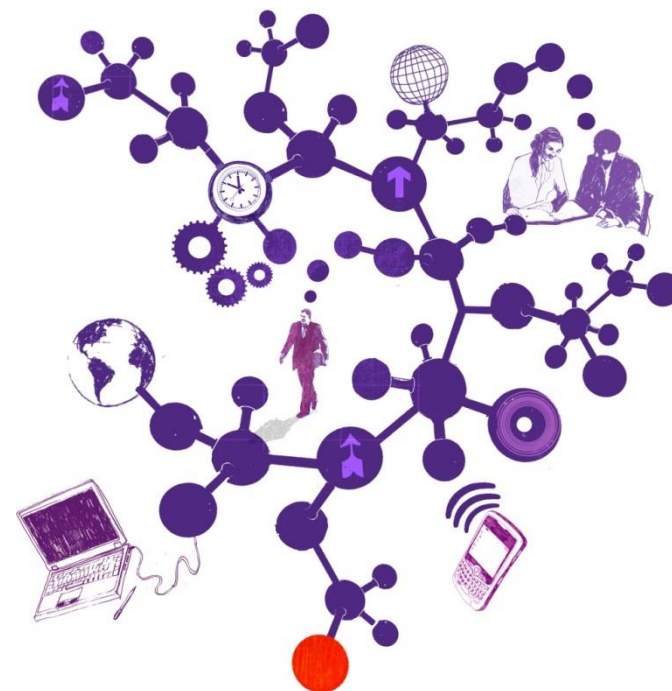
**Year ending 31 March 2016**

May 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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9 May 2016

Dear Members of the Audit and Governance Committee

### **Audit Plan for Lancashire County Pension Fund for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Lancashire County Pension Fund, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Karen Murray  
Engagement Lead

#### **Chartered Accountants**

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# Contents

**Section**

Understanding your business

Developments and other requirements relevant to the audit

Our audit approach

Significant risks identified

Other risks identified

Results of interim audit work

Key dates

Fees and independence

Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

### 2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

### 3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

### 4. Local Government Outsourcing

- As many Councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require fund's to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'.

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

### 3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



## Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

# Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

\* Understanding the environment and the entity

\* Understanding the business

\* Understanding management's focus

\* Evaluating the year's results

Inherent risks

Significant risks

Other risks

Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software

Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Devise audit strategy (planned control reliance?)

Yes

- Test controls
- Substantive analytical review
- Tests of detail

Extract your data

IDEA  
Analyse data using relevant parameters

Report output to teams

No

- Tests of detail
- Substantive analytical review

General audit procedures

Financial statements

Conclude and report

Voyager



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £58.307m (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2.937m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.
Audit fees	Due to public interest in these disclosures and the statutory requirement for them to be made.

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Lancashire County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li></ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Fair value measurements priced using inputs not based on observable market data not correct.</p> <p>Valuation is incorrect (Valuation Net)</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have updated our understanding and discussed the system processes and controls with relevant personnel from the team during the interim audit.</li> <li>• We have performed walkthrough tests of the controls identified in the system.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• Review the qualifications of the fund managers and custodian as experts able to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>• Review the competence, expertise and objectivity of any management experts used.</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment Income	Investment activity not valid / Investment income not accurate. (Valuation – Gross / Accuracy)	<b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>Complete a predictive analytical review for different types of investments</li> <li>For direct property investments rationalise income against a list of properties for expected rental income</li> </ul>
Investment purchases and sales	Investment activity not valid. (Valuation – Gross)	<b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances ,</li> <li>Test a sample of purchases and sales to ensure are appropriate</li> </ul>
Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct	Valuation is incorrect. (Valuation net)	<b>Work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>Test a sample of these investments to independent information from custodian/manager on units and on unit prices where the custodian does not provide independent pricing confirmation</li> <li>For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and walkthrough reviews, sufficient to understand the pension fund's arrangements for gaining assurance over recorded contributions.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and walkthrough reviews sufficient to understand the pension fund's arrangements for gaining assurance over benefit payments.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over, completeness, accuracy and occurrence of benefit payments</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <p>We have carried out procedures and reviews sufficient to understand the pension fund's arrangements for gaining assurance over the accuracy of member data.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>Sample testing of changes to member data made during the year to source documentation</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Transfers in & out
- Management and Administration Expenses
- Cash deposits
- Financial Instruments
- Funding Arrangements Note
- Actuarial Present Value of Promised Retirement Benefits Note

## Other audit responsibilities

We will read the Narrative Statement and the Annual Report, check that they are consistent with the statements on which we give an opinion, and that disclosures are in line with the requirements of the CIPFA Code of Practice.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

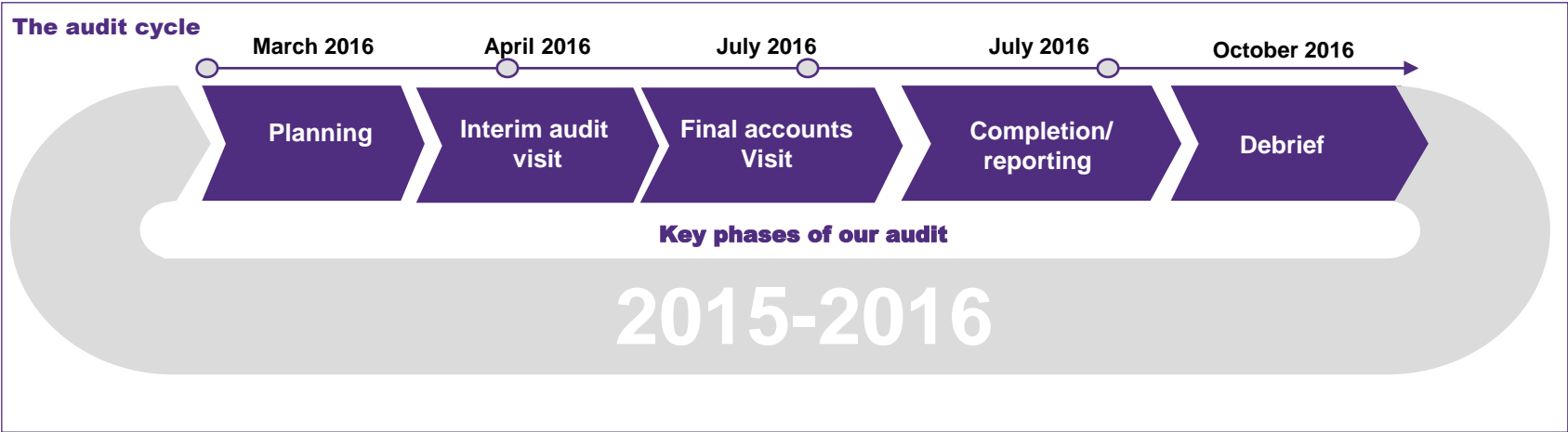
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements in relation to the operation of the Fund. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Funds key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund.</p> <p>We have not identified any significant weaknesses impacting on our planned audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the fund's financial statements.</p>

# Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>	<p>Our review of journal policies and procedures has not identified any issues.</p> <p>We will carry out additional work including testing on journals transactions for the full year, by extracting 'unusual' entries for further review.</p>

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# Key dates



Date	Activity
March 2016	Planning
April 2016	Interim site visit
May 2016	Presentation of audit plan to Audit and Governance Committee
June - July 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with finance team
September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	34,169
Proposed fee variation – IAS 19 Assurances	1,737
<b>Total audit fees (excluding VAT)</b>	<b>35,906</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Service	Fees £
Facilitation of self –assessment of governance arrangements	<b>4,500</b>

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

## Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the Assistant Manager of our team has a family member who works within the Fund's benefits administration team. To avoid any potential conflicts, this member of our team does not undertake and work on the benefits payable elements of the accounts and is not responsible for the planning or supervision of such work.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Agenda Item 7

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Document is Restricted



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Document is Restricted



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Document is Restricted



# Agenda Item 8

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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# Agenda Item 9

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(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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# Agenda Item 10

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## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## **Lancashire County Pension Fund - Revised Governance Policy Statement** (Appendix 'A' refers)

Contact for further information:

Abigail Leech, (01772) 530808, Interim Head of Fund

[abigail.leech@lancashire.gov.uk](mailto:abigail.leech@lancashire.gov.uk)

### **Executive Summary**

Funds within the Local Government Pension Scheme are required to produce, and keep updated, a Governance Policy Statement which, essentially, is a form of constitutional document setting out the responsibilities and delegated authorities of those parties involved in the running of the Fund.

The recent changes to the governance of the Fund and the establishment of the Local Pensions Partnership Ltd (LPPL), has necessitated changes to the terms of reference of the Committee; the Investment Panel and the various delegations to County Council officers. In light of these, it is appropriate to update the Policy Statement and the document at Appendix 'A' sets out a revised Policy Statement for the Committee's consideration and approval.

### **Recommendation**

The Committee is recommended to approve the updated Governance Policy Statement set out at Appendix 'A'.

## **Background and Advice**

The statutory framework within which the Fund operates requires the production of a Governance Policy Statement setting out the overall responsibilities and arrangements for decision making within the Fund. This policy statement needs to be regularly reviewed and updated when changes occur.

The revised statement at Appendix 'A' has been updated to reflect the changes to the terms of reference of the Pension Fund Committee; the Investment Panel and the functions to be exercised by the County Council's officers under the Scheme of Delegation. These changes were approved by Full Council on 24 March 2016 as part of the establishment of the LPPL.

The remainder of the Statement is largely unchanged from the previous version approved in March 2015 which reflected changes to the County Council's organisational structure and the establishment of a Local Pension Board.

The Governance Policy Statement will be reviewed again within the next 12 months once LPPL is fully operational to ensure that these governance arrangements are fit for purpose in the light of the new arrangements. Since approval by Full Council on 24 March 2016, the documents have been amended under the Urgent Business Procedure to ensure that the County Council's role as an employer and as an administering authority are kept separate.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

A clear and transparent set of constitutional arrangements is part of an effective risk management approach.

### **Legal**

The regular review of this Policy Statement, and updating it to reflect changes in the wider organisation, ensures compliance with the relevant regulations.

### **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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Reason for inclusion in Part II, if appropriate		
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N/A

# Lancashire County Pension Fund

**Governance Policy Statement –  
Updated May 2016**

Lancashire County Council as  
administering authority of  
Lancashire County Pension Fund

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# Lancashire County Pension Fund

## Governance Policy Statement (Updated as at May 2016)

### Introduction

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 55 of the LGPS Regulations 2013.
2. This statement has been prepared by the administering authority in consultation with appropriate interested persons.

### Purpose of the 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 the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
  - (b) if the authority does so—
    - (i) the terms, structure and operational procedures of the delegation,
    - (ii) the frequency of any committee or sub-committee meetings,
    - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
  - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
  - (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4)
4. Certain functions set out in the statement are not specific to the Pension Fund but are the wider responsibility of the County Council as an employing authority and are included within the statement for completeness.

## **Governance of the Lancashire County Pension Fund**

5. 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 Head of Fund is designated as the officer responsible for the management of the Pension Fund.

## **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. Fulfil the role of Scheme Manager, as set out in regulations, of the Lancashire County Pension Fund ("the Fund" or "LCPF");
  - 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. The Committee shall meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
4. 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.

### **General:**

5. 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.
6. To determine which pension related functions and responsibilities should be exercised under a Scheme of Delegation to the Head of the LCPF, the Director of Financial Resources (S.151 Officer) and the Director of Governance, Finance and Public Services.

7. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
8. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
9. To establish sub-committees and panels as necessary to undertake any part of the Committee's functions.
10. To receive an annual report from the Lancashire Local Pensions Board on the nature and effect of its activities.

**Policies** (other than Investment, Administration and Funding – see below):

11. To approve the following key policy documents:
  - a. A rolling 3 Year Strategic Plan for the Fund;
  - b. The Statement of Investment Principles
  - c. Governance Policy Statement;
  - d. Governance Compliance Statement;
  - e. Pension Fund Annual Report;
  - f. Communication Policy statement;
  - g. Internal Dispute Resolution Procedure;
  - h. Death Grant Procedure;
  - i. Bulk Transfer Payment Policy;
  - j. Commutation policy (small pensions);
  - k. Transfer policy;
  - l. Abatement policy; and
  - m. Any other discretionary policies as required under LGPS regulations

**Investment:**

12. To determine the strategic asset allocation policy, giving due recognition to the options made available by the Local Pensions Partnership Ltd (LPPL).
13. To monitor the performance of the Fund's investments and ensure that best practice is being adopted and value for money is being delivered
14. 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.
15. To approve and review on a regular basis an overall Investment Strategy and subsidiary Strategies for such asset classes as the Investment Panel consider appropriate.
16. To have overall responsibility for investment policy.

**Administration:**

17. To approve the Annual Administration Report
18. To approve the Pensions Administration Strategy Statement

19. To monitor the performance of the pensions administration function.

**Funding:**

20. To approve the Funding Strategy Statement which shall include the Fund's policy in respect of:

the Funding Target;  
the collection of employee contributions;  
the collection of employer contributions;  
the collection of additional employer contributions; and  
Admissions and Terminations.

21. To approve Scheme Funding Advice.
22. To review ongoing funding updates for potential cash contribution implications.

**Procurement:**

23. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external support, including:
- a. an external corporate governance adviser;
  - b. an external Fund custodian;
  - c. external performance measurement advisers;
  - d. the Fund Actuary; and
  - e. the Fund's AVC Provider.

**Training:**

24. To approve the annual Training Plan for members of the Pension Fund Committee and actively participate in training opportunities.

**Local Pensions Partnership Ltd (LPPL):**

LPPL was formed in partnership between the County Council and the London Pensions Fund Authority (LPFA) to carry out certain pension functions such as investment activity and administration on behalf of the two partner authorities. The relationship between the County Council and LPFA is governed by a number of agreements one of which (the Shareholders Agreement dated 6 April 2016) reserves certain key matters for the determination of the County Council and LPFA rather than LPPL (the "Reserved Matters"). References to delegated powers relating to LPPL address the Reserved Matters. Unless stipulated, any reference to the "Agreement" is a reference to the Shareholders Agreement dated 6 April 2016.

**Incorporation or winding up of subsidiaries:**

25. To approve, with the exception to the formation of vehicles which are necessary for any transactional, operational or tax efficiency reasons in the sole opinion of the Board, any incorporation of any new subsidiary of LPPL or any of its Group Companies or any liquidation or winding up of LLP or any of its Group Companies. Any acquisition of any shares in any company, whether through subscription or transfer, such that the company concerned becomes a Subsidiary of LPPL or any Group Company.

**Merger/acquisition of any business undertaking:**

26. To approve the amalgamation or merger with any company, association, partnership or legal entity or the acquisition of any business undertaking of any other person.

**Financial and Business:**

27. To approve any Strategic Plan for LPPL or make any material changes to any Strategic Plan after its approval.
28. To approve any extension of the activities of LPPL outside the scope of the Business or close down any business operation.
29. To receive the annual accounts of LPPL.
30. To approve the establishment, provision or amendment of any pension scheme.
31. To give or take any loans, borrowing or credit (other than normal trade credit in the ordinary course of business) in excess of £1,000,000 or cause the aggregate indebtedness of LPPL to exceed £5m.

**Shares, shareholder loans and constitutional:**

32. To pay or declare any dividend (other than as expressly provided for in the Shareholder agreement) or other distribution to the Shareholders or redeem or buy any Shares or otherwise reorganise the share capital of LPPL.
33. To admit any person whether by subscription or transfer as a member of LPPL save as provided for in the Shareholder Agreement.
34. To approve any name change of LPPL.

**Control, management, directors and employees:**

35. To approve the remuneration policy of LPPL Non-Executive Directors.

36. To approve the appointment or removal of any statutory director of LPPL otherwise than in accordance with the Shareholder Agreement and the Articles of LPPL.
37. To enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, LPPL being managed otherwise than by its directors or controlled otherwise than by its shareholders.
38. To approve the move of the central management and control of LPPL or LPPL's tax residence outside of the UK.

### **Contract with related parties**

39. To enter into or vary any contracts or arrangements with any of the Shareholders or Directors or any person with whom any Shareholder or Director is connected (whether as director, consultant, shareholder or otherwise) save as anticipated in the various agreements between the County Council, LPFA and LPPL entered into on the 6 April 2016.
40. To approve the commencement or the taking of steps to commence any insolvency proceedings under any law relating to insolvency anywhere in the world unless LPPL is at the relevant time unable to pay its debts as they fall due or the value of its assets is less than its liabilities, including its contingent and prospective liabilities and the directors reasonably consider (taking into account their fiduciary duties) that it ought to be wound up or it ought to enter into administration.
41. To enter into any partnership, joint venture or profit sharing arrangement with any person or create any share option scheme.
42. To enter into or make any material variation to any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis.
43. To approve the sale, lease (as lessor), licence (as licensor), transfer or otherwise dispose of any of its material assets.
44. To enter into any contract which cannot be terminated within 48 months and under which the liability for such termination could exceed £1 million.

### **Investment Panel**

The Investment Panel ("the Panel") provides expert professional advice to the Pension Fund Committee in relation to investment strategy. The Panel would support the Head of Fund with the specialist advice required by the Pension Fund Committee.

**The Panel will:**

- review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
- advise on strategic and/or tactical asset allocations proposed by LPPL
- Restrict and control the range of asset allocations used by LPPL as set out in the Statement of Investment Principles
- consider appropriate risk management strategies to include the matching of pension liabilities with suitable investments, possibly involving derivatives, and where necessary make recommendations to the Pension Fund Committee;
- consider foreign exchange hedging strategies relating to the equity and/or other asset allocations and where necessary make recommendations to the Pension Fund committee;
- monitor and review the investment activity; and
- Review and report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.

The Panel does not exercise any delegated powers but instead will provide advice to the Head of 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.

The membership of the panel comprises:

- (a) Head of Fund (as Chair)
- (b) Not less than two independent advisers appointed in accordance with arrangements determined by the Pension Fund committee.

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

They may secure specialist advice within allocated budgets.

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

One member of the Panel will attend LPPL investor's forum on a 6 monthly basis.

**Matters reserved to Full Council**

(The functions at 1 – 5 below are the responsibility of the County Council as an employing authority. They are not specific to the Pension Fund and have been included in this statement for completeness)

1. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.
2. To approve applications for early payment of preserved pension benefits on compassionate grounds.
3. To approve payments under the County of Lancashire Act 1984.
4. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.
5. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, as a result of anything they were required to do in carrying out their work and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.

#### **Local Pensions Partnership Ltd (LPPL):**

#### **Changes to the Articles or any Share rights impacting on any pre-approval matter(s)**

6. Approval to alter any of the provisions of the LPPL Articles (including the articles of the LPPL subsidiary companies) or alter any of the rights attaching to the Shares (including where any such alterations directly or indirectly impacts on a Reserved Matter) unless such amendment is of a purely administrative nature.

#### **Dilution on Shareholding/Issue of Shares and Share Options**

7. Approval to reduce or cancel any share capital of LPPL, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of LPPL or any security of LPPL convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of LPPL or alter the classification of any part of the share capital of LPPL save as the power to do so without prior Shareholder approval is specifically provided for in the Agreement .

#### **Creation of any Holdco of LPPL**

8. To approve the formation of any holding company of LPPL.

#### **Change of Company status**

9. To approve a change of status of LPPL from a limited company to a public limited company or from a company limited by shares to any other form of legal entity.

## **Matters reserved to the Employment Committee**

### **Local Pensions Partnership Ltd (LPPL):**

#### **Approval of LPPL's Remuneration Policy**

1. To approve the remuneration policy of the LPPL directors and staff, other than for LPPL Non-Executive Directors.

#### **Changes to Directors' Remuneration Policy**

2. To approve the payment of any fees, remuneration or other sums to or in respect of the services of any director or vary any such fees or remuneration other than in accordance with an agreed remuneration policy approved by both LCC and LPFA. For the avoidance of doubt this will not apply to the payment or reimbursement of reasonable expenses properly incurred by any statutory director in the course of carrying out his duties in relation to LPPL nor to any payment under any indemnity by LPPL to which the statutory director is entitled under the Articles or under any relevant law.

#### **Proposed redundancies of any Group employees**

3. To approve any proposed programme of redundancies within LPPL or rationalisation of a group of employees.

#### **Proposed re-location of any LPPL employees**

4. To approve any proposed programme of relocation of a group of employees outside Lancashire who were previously employees of LCC.

#### **Chief Executive**

5. To approve the appointment or removal of the Chief Executive of LPPL or any subsidiary company.

## **Pension Fund - Scheme of Delegation to Officers**

The following functions have been delegated to the Head of the Lancashire County Pension Fund (LCPF), the Director of Governance, Finance and Public Services, and the Director of Financial Resources (as the Council's S.151 officer) as indicated below:

The Head of the LCPF, the Director of Governance, Finance and Public Services, and the Director of Financial Resources may allocate or re-allocate responsibility for exercising powers (delegated to them by Full Council or the Pension Fund Committee) to other officers on their behalf in the interests of effective corporate management as he/she thinks fit.

Records of all such authorisations must be retained and a copy sent to Democratic Services for retention. The 'other' officer(s) to whom a power has been re-allocated cannot further delegate that power to another officer.

Any decisions taken under the Scheme of Delegation must be recorded on the electronic decision recording system.

## **Matters reserved to the Director of Governance, Finance and Public Services**

### **Agreements**

1. To enter into or vary any agreement to do any of the things reserved to the Pension Fund Committee and to officers under the Scheme of Delegation arrangements.

### **Administration**

(The functions at 2 – 6 below are the responsibility of the County Council as an employing authority. They are not specific to the Pension Fund and have been included in this statement for completeness)

In consultation with the Director of Financial Resources:

2. To authorise the payment of any statutory pensions, gratuities, grants, etc. under the provisions of the Superannuation and Pensions Acts and Regulations and any Local Acts.
3. To approve applications for early payment of preserved pension benefits on compassionate grounds.
4. To approve payments under the County of Lancashire Act 1984.
5. To determine the actual injury allowance payable on each individual qualifying case of injury or disease, both retrospective and for the future.

6. To review annually the actual amounts of injury allowances payable under the Local Government Superannuation Regulations, as amended, to employees who have sustained injuries or contracted diseases, as a result of anything they were required to do in carrying out their work and to make any changes appropriate to reflect changes in the relevant financial circumstances of the payee.

#### **Local Pensions Partnership Ltd (LPPL):**

##### **Guarantees and Indemnities**

7. To give any guarantee, suretyship or indemnity outside the ordinary course of business to secure the liabilities of any person or assume the obligations of any person.

##### **Disputes and proceedings**

8. To commence, settle or defend any claim, proceedings or other litigation brought by or against LPPL, except in relation to debt collection [not exceeding £2m,] in the ordinary course of the Business.

#### **Matters reserved to S.151 Officer**

As the officer designated under s.151 of the Local Government Act 1972 to be responsible for the proper administration of the financial affairs of the County Council, for this purpose including the Lancashire County Pension Fund.

##### **Accounts and Records**

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

#### **Local Pensions Partnership Ltd (LPPL):**

##### **Shares, shareholder loans and constitutional:**

2. Save as provided for in the Shareholders Agreement, to approve an increase in the amount of any Shareholder Loans or the variation of the terms of any Shareholder Loans.

3. To approve the repurchase, repayment, redemption or cancellation of any Shareholder Loan other than in accordance with the terms of any Loan Agreement, Loan Notes or the terms of the Shareholders Agreement.
4. To enter into any agreement with a Shareholder for the provision of additional funds or financial support from that Shareholder which differ from the terms on which the other Shareholder is providing equivalent finance or support.

## **Matters reserved to the Head of the Lancashire County Pension Fund**

As the officer responsible for the management of the Lancashire County Pension Fund:

1. To set the appropriate funding target for the Fund.
2. To place any monies not allocated to investments on short term deposit in accordance with arrangements approved by the Pension Fund Committee.
3. In consultation with the Investment Panel, to monitor and review the performance of investments made by LPPL and to report to each meeting of the Pension Fund Committee on the exercise of this delegation.
4. To arrange and authorise the provision of appropriate and necessary 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.
5. 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.
6. To prepare and submit the following to Pension Fund Committee:
  - a. A rolling 3 Year Strategic Plan for the Fund;
  - b. Statement of Investment Principles (to include policy on the management of cash balances) ,
  - c. Governance Policy Statement
  - d. Governance Compliance Statement.
  - e. Pension Fund Annual Report, including the Annual Administration Report.
  - f. The Funding Strategy Statement to include the Fund's policy in respect of:
  - g. the Funding Target;
  - h. the collection of employee contributions;
  - i. the collection of employer contributions;
  - j. the collection of additional employer contributions; and
  - k. Admissions and Terminations.
  - l. Pensions Administration strategy statement;
  - m. Communication Policy statement;
  - n. Internal Dispute Resolution Procedure;
  - o. Death Grant Procedure;
  - p. Bulk Transfer Payment Policy;

- q. Commutation policy (small pensions);
  - r. Transfer policy; and
  - s. Abatement policy
- 7. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme,
  - 8. To approve the payment of death grants in accordance with the agreed Death Grant Procedures.
  - 9. To appoint any required external support (subject to the role of the Pension Fund Committee and the Investment Panel), their terms of office and remit.
  - 10. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.
  - 11. To provide support to the Local Pension Board to enable it to fulfil its role and responsibilities as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013.

**Local Pensions Partnership Ltd (LPPL):**

To approve the following:

- 12. The appointment or removal of the auditors of LPPL.
- 13. The alteration of LPPL's accounting reference date.
- 14. Any significant change to any of LPPL's accounting or reporting practices.
- 15. The creation of any Encumbrance over the whole or part of the undertaking or assets of LPPL.
- 16. Any item or series of items of capital expenditure including finance leases but excluding operating leases of more than £5,000,000.
- 17. The entering into or variation of any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 10 years or involving aggregate premium and annual rental payments in excess of £5m.
- 18. The factor or discount any book debts of LPPL.
- 19. The making of any agreement or reach any settlement with any revenue authorities or any other taxing authority, or make any claim, disclaimer, election or consent of a material nature for tax purposes in relation to LPPL, its business, assets or undertaking.
- 20. Any change to the bankers of LPPL.

21. Any change to the registered office of LPPL.

## Compliance with Good Practice in Engagement and 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, together with monthly workshops. The sessions cover all aspects of funding, investments, Scheme management and administration and are facilitated by an appropriate Officer, Investment Manager or Fund Actuary. In addition members are encouraged to attend appropriate external courses and conferences and report back to the Committee their learning from these events.

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.

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;

### With Employing Authorities

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 provides 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'.

## **Pension Board of the Lancashire County Pension Fund**

### **Terms of Reference and Delegated Authorities**

#### **1. Role of the Local Pension Board**

The role of the Lancashire Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- (a) To assist Lancashire County Council as Administering Authority in its role as Scheme Manager; –
  - (i) to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
  - (ii) to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - (iii) in such other matters as the LGPS regulations may specify
- (b) To secure the effective and efficient governance and administration of the LGPS for the Lancashire County Pension Fund
- (c) To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board will also help ensure that the Lancashire County Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in any year.

## 1. Membership and Appointment Process

The Pension Board shall consist of 9 members and be constituted as follows:

- (a) 4 employer representatives, of whom;
  - (i) 2 shall be nominated by Lancashire County Council, where these are councillors or officers they shall meet the requirements of the relevant regulations in relation to avoidance of conflict with the County Council's role as Administering Authority;
  - (ii) 1 shall be nominated by the Unitary, City, and Borough Councils and the Police and Fire bodies which are employers within the Lancashire County Pension Fund;
  - (iii) 1 shall be nominated by all other employers within the Fund.
- (b) 4 scheme member representatives of whom;
  - (i) 2 shall represent and be drawn from active members of the Lancashire County Pension Fund;
  - (i) 1 shall represent and be drawn from pensioner members of the Lancashire County Pension Fund;
  - (ii) 1 shall represent and be drawn from deferred members of the Lancashire County Pension Fund.
- (c) 1 independent member selected by the Scheme Manager, who shall not be a member of the Lancashire County Pension Fund and who shall be appointed as Chair of the Board. Such appointment will only be made following an openly advertised competition for the role.

Members in all categories will only be appointed to the Board by the Scheme Manager if they meet the skill and knowledge requirements set out in the relevant regulations and guidance, and as set out in section 7, below.

Members of the Board in categories a) iii., and b) i., ii., and iii., shall only be appointed after all employers or members of the Fund in those categories have been invited to put forward nominations. Where there is more than one nomination in any category then any nominee who meets the relevant knowledge and skills requirement will be included on a ballot of all members or employers in the relevant category. The winner in such a ballot will be the candidate with the greatest number of votes under the "first past the post" method.

Members of the Board will serve for a term of four years. Other than as a result of retirement at the expiry of this period the term of office will come to an end:

- (a) For employer representatives who are councillors if they cease to hold office as a councillor;

- (b) For employer representatives who are not councillors when they cease to be employed by the employing body where they were employed on appointment;
- (c) For scheme member representatives if they cease to be a member of the relevant member group.

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least 3 meetings each year. Given the nature of the Board as a supervisory body and the need for appropriate knowledge and skills and the clear avoidance of conflicts of interest substitute members are not permitted.

In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all of the other members. The removal of the independent member requires the consent of the Scheme Manager.

## 2. Quorum

The Board shall not be quorate unless the Chair and at least 2 employer representatives and 2 scheme member representatives are present.

## 3. Conflicts of Interest

The policy for identifying conflicts of interest is set out in a separate policy document.

## 4. Board Review Process

The Board will undertake each year a formal review process to assess how well it and its members are performing with a view to seeking continuous improvement in the Board's performance.

## 5. Advisers to the Board

The Board may be supported in its role and responsibilities through the appointment of advisers, in addition to the Scheme Manager's officers and the Fund's various advisers and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers to the Board and on such terms as it shall see fit to help better perform its duties.

- 6. The Board shall ensure that the performances of the advisers so appointed are reviewed on a regular basis.

## 7. Knowledge and Skills

A member of the Pension Board must be conversant with –

- (a) The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- (b) Any document recording policy about the administration of the LGPS which is for the time being adopted by the Lancashire County Pension Fund.

A member of the Pension Board must have knowledge and understanding of –

- (a) The law relating to pensions, and
- (b) Any other matters which are prescribed in regulations.

It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

In line with this requirement Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to maintain a written record of relevant training and development.

Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

Pension Board members will comply with the Scheme Manager's training policy.

## 8. Board Meetings – Notice Minutes and Reporting

The Scheme Manager shall give notice to all Pension Board members of every meeting of the Pension Board, and shall ensure that all papers are published on the Lancashire County Pension Fund Website at least 5 working days prior to each meeting. These may at the discretion of the Scheme Manager be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

The Scheme Manager shall ensure that a formal record of Pension Board proceedings is maintained. Subsequent to each meeting the Chair will be asked to approve the minutes for publication as a draft and circulation to all members of the Board.

The Pension Board shall on an annual basis produce a report on both the nature and effect of its activities for consideration by the Administering Authority. The contents of this annual report will be subject to consideration and agreement at a meeting of the Board, but should include, inter alia:

- (a) Details of the attendance of members of the Board at meetings,

- (b) Details of the training and development activities provided for members of the board and attendance at such activities;
- (c) Details of any recommendations made by the Board to the Scheme Manager and the Scheme Manager's response to those recommendations;
- (d) Details of the costs incurred in the operation of the Board

The Board in considering items of business at its ordinary meetings shall in relation to each item consider whether it wishes to make a recommendation to the Scheme Manager, to which the Scheme Manager shall respond at the subsequent meeting.

#### 9. Remit of the Board

The Pension Board must assist the Scheme Manager with such other matters as the scheme regulations may specify. It is for scheme regulations and the Scheme

Manager to determine precisely what the Pension Board's role entails. This role involves but is not limited to oversight and comment on:

- (a) Performance standards;
- (b) Customer service standards;
- (c) Data quality and record keeping;
- (d) Relative and absolute costs of running the fund;
- (e) Learning from appeals and complaints;
- (f) The application of specific policies within the fund, and
- (g) The steps required to address any deficit within the fund.

#### 10. Standards of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore the "seven principles of public life" will be applied to all Pension Board members and embodied in their code of conduct.

These principles are –

- (a) Selflessness
- (b) Integrity
- (c) Objectivity

- (d) Accountability
- (e) Openness
- (f) Honesty
- (g) Leadership

#### 11. Decision making

Each member of the Pension Board will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus. The Chair of the Pension Board will not have a final deciding vote.

#### 12. Publication of Pension Board information

Scheme members and other interested parties will want to know that the Lancashire County Pension Fund is being efficiently and effectively managed. They will also want to be confident that the Pension Board is properly constituted, trained and competent in order to comply with scheme regulations, the governance and administration of the scheme and requirements of the Pension Regulator.

Up to date information will be posted on the Lancashire County Pension Fund website showing

- (a) The names, contact details and other relevant information about the Pension Board members
- (b) How the scheme members are represented on the Pension Board
- (c) The responsibilities of the Pension Board as a whole
- (d) The full terms of reference and policies of the Pension Board and how they operate
- (e) Details of the Pension Board appointment process
- (f) Any specific roles and responsibilities of individual Pension Board members.

The Scheme Manager will also consider requests for additional information to be published or made available to individual scheme members to encourage scheme member engagement and promote a culture of openness and transparency.

#### 13. Accountability

The Pension Board will be collectively and individually accountable to the Scheme Manager.

#### 14. Expense Reimbursement and Remuneration

All members of the Board shall, on the production of relevant receipts be reimbursed for travel and subsistence expenses they have actually and necessarily incurred in the conduct of their duties as a member of the Board, including attendance at relevant training and development activities.

Members of the Board shall be reimbursed a mileage allowance for use of their own car at the rate proscribed by the Inland Revenue from time to time as adopted by Lancashire County Council.

Where members of the Board are in employment their employer will be able to reclaim from the Lancashire County Pension Fund a sum equivalent to salary, employers' national insurance contributions and employers' pension contributions, in respect of time spent by the individual in fulfilling their duties as a member of the Board, including attendance at relevant training and development activities.

The Chair of the Board shall receive a fixed annual allowance set initially (2015) at £10,000 pa (in addition to travel and subsistence expenses) to be inflated in April each year by the retail price index for the previous September.

##### (a) Reporting Breaches

Any breach brought to the attention of the Pension Board, whether potential or actual, shall be dealt with in accordance with the procedure set out in a separate policy document.

##### (b) Definitions

The undernoted terms shall have the following meaning when used in this document:

"Pension Board" or "Board"	Means the local Pension Board for the Lancashire County Council as administering authority for the Lancashire County Pension Fund as required under the Public Service Pensions Act 2013
"Scheme Manager"	Means the Pension Fund Committee as administering authority of the Lancashire County Pension Fund.
"Chair"	The individual responsible for chairing meetings of the Board and guiding its debates.
"LGPS"	The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local

Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

“Scheme”

Means the Local Government Pension Scheme as defined under “LGPS”

## **Review**

This document is reviewed following any material changes to the administering authority’s governance policy and was last reviewed in May 2016.

**Appendix 'A' - Lancashire County Pension Fund Governance Compliance Statement:**

Principle		Compliance
A. Structure	<p>(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</p> <p>(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)</p> <p>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>(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.</p>	<p>√</p> <p>Partial (see Note 1)</p> <p>√</p> <p>√</p>
B. Representation	<p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. (1)</p> <p>These include:</p> <p>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</p> <p>(ii) scheme members (including deferred and pensioner scheme members)</p> <p>(iii) independent professional observers (2)</p> <p>(iv) expert advisers (on an ad hoc basis)</p>	<p>Partial (see Notes 1 and 2)</p>
C. Selection and Role of Lay Members	<p>(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.)</p>	<p>√</p>
D. Voting	<p>(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.</p>	<p>√</p>

Principle		Compliance
E. Training/Facility time/expenses	<p>(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.</p> <p>(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.</p>	<p>√</p> <p>√</p>
F. Meetings - Frequency	<p>(a) that an administering authority's main committee or committees meet at least quarterly.</p> <p>(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.</p> <p>(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.</p>	<p>√</p> <p>√</p> <p>√</p>
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 - Reasons for partial compliance

1) Unitary Councils, District Councils and Further and Higher Education employers, are represented. Other admitted bodies only represent **9%** 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. In addition the interests of all scheme members and employers are specifically represented in the composition of the Local Pension Board.

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.

## **Pension Fund Committee**

Meeting to be held on Friday, 10 June 2016

Electoral Division affected: None;
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## **Lancashire County Pension Fund - Annual Governance Statement 2015/16** (Appendix 'A' refers)

Contact for further information:

Abigail Leech , Interim Head of Fund, Lancashire County Pension Fund

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### **Executive Summary**

This report presents for approval the Annual Governance Statement (AGS) for Lancashire County Pension Fund. This AGS has been produced to ensure that members of the Committee in their role as "those charged with governance" in relation to the Fund are able to review and consider the adequacy of the Fund's governance arrangements in order to provide assurance as part of the process of preparing the Fund's report and accounts.

This separate AGS in relation to the Fund is required as the overall statement prepared by the County Council cannot cover the activities of the Fund in sufficient detail to provide the necessary assurance.

The AGS is a review of the governance arrangements for 2015/2016 and is produced to be incorporated into the statement of accounts.

### **Recommendation**

The Committee is recommended to approve the Annual Governance Statement for the Lancashire County Pension Fund set out at Appendix 'A' for signature by the Chair and the Head of the Fund.

### **Background and Advice**

The first separate AGS for the Fund was produced in 2013/14 in response to a report from the external auditors, Grant Thornton, on the Fund's governance arrangements. The report highlighted the importance of the annual review of the Fund's governance arrangements and control framework in order that "those charged with governance", in this case elected members, can be satisfied with the adequacy of the control environment in place. The statement attached in Appendix 'A' fulfils this function.

The AGS is a review of the governance arrangements for 2015/2016 and is produced to be incorporated into the statement of accounts.

The process for complying the statement has been undertaken by the Head of Fund who has responsibility for ensuring the delivery of the County Council's functions as administering authority for the Fund. In order to compile the statement she has relied on assurance statements provided by each senior manager who had responsibility for an element of an operation of the Fund in 2015/16. These statements assess and examine performance against the various elements of the control framework as applied specifically to the running of the Fund. In addition the statement reflects the conclusions drawn by the Chief Internal Auditor from her work in relation to the Fund during the year, which are reported elsewhere on the agenda for this meeting of the committee.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

A sound Annual Governance Statement which reflects the reality of the operation of the Fund represents a key assurance for members that the control framework is operating appropriately to manage risk.

### **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Tel
"Coming of Age: Development of the Local Government Pension Scheme" Grant Thornton Reason for inclusion in Part II, if appropriate	Nov 2013	Abigail Leech (01772) 530808

## **Lancashire County Pension Fund – Annual Governance Statement 2015/16**

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### *Introduction*

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

At 31<sup>st</sup> March 2016 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 162,466 members across 261 organisations with active members and a range of other organisations with only deferred or pensioner members. The Fund is one of the largest funds within the LGPS.

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

### *The Pension Fund's Responsibilities*

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

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

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

[http://www.yourpensionservice.org.uk/local\\_government/index.asp?siteid=5921&pageid=33736&e=e](http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e)

In addition the operation of the Fund is subject to Lancashire County Council's Code of Corporate Governance. In 2015 the Council adopted a new code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and set out a number of actions against that Code for 2015/16. It was also agreed that the Code would, going forward, be reviewed on an annual basis.

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

### *The Purpose of the Governance Framework*

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

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

This statement reports on the annual review of the governance framework by officers which confirms that the framework has been in place within the Pension Fund for the year ended 31 March 2016.

### *The Fund's Governance Framework*

The key elements of the systems and processes that comprise the Fund's governance framework are:

*The identification and communication of the Fund's purpose objectives and intended outcomes to Fund members and employers.*

The Fund has an established planning process focussed around the triennial actuarial review and the various teams providing services to the Fund produce

annual service plans within the County Council's overall business planning framework.

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

Senior Managers review new and proposed legislation and the results of activities such as the triennial valuation on an ongoing basis and propose any necessary changes either to objectives and outcomes or the governance arrangements to the Pension Fund Committee.

The Pension Fund Committee meets regularly and considers the various plans and strategies developed in order to meet the strategic objectives of the Fund and to monitor progress on the delivery of the strategic objectives.

All reports considered by the Pension Fund Committee identify how the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.

*Measurement of the quality of services provided to Fund members and employers, ensuring they are delivered in line with the Fund's objectives and ensuring that they represent the best use of resources and value for money.*

The Pension Fund Committee has approved a strategic plan for the Fund setting out specific objectives in relation to the 4 dimensions of the running of a pension fund. These are reflected in the tasks included in the various team service plans for the year progress against which is measured through the County Council's overall performance management framework, which includes processes for monitoring and managing both individual and team performance.

Reports on the performance of the Investment Strategy (and consequently the results achieved by the Investment Management Team) are reported to each meeting of the Pension Fund Committee. This reporting focuses not just on the performance of investments but on the scale of the Fund's liabilities. Asset allocation strategies are as efficient as possible in providing the best returns (net of fees) for the appropriate amount of risk and an appropriate level of fees.

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

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

*Definition and documentation of the roles and responsibilities of those involved in the management of the Fund with clear delegation arrangements and protocols for communication.*

Clear job descriptions exist for all staff involved in the management of the Fund and the delivery of services to Fund members and employers, and together with appropriate guidance documents and constitutional documents such as the Governance Policy Statement provide the basis on which the management of the Fund is undertaken within a defined framework of procedural governance. Matters reserved for the Pension Fund Committee and Senior officers are defined in the Governance Policy Statement and more widely (for example in relation to staffing matters) in the County Council's Constitution.

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

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

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

The interaction between the Pension Fund Committee and the Investment Panel, including levels of delegation, has been reviewed and revised to better meet the needs of the Fund in terms of effective delivery of the Investment Strategy, and this is reflected in specific reporting arrangements in relation to investment activity.

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

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

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

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

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

#### *Fulfilling the core functions of an Audit Committee*

In relation to the Fund this role is performed by Lancashire County Council's Audit and Governance Committee, which conducts an annual review of its effectiveness in undertaking this role.

#### *The ensuring of compliance with relevant laws and regulations, internal policies and procedure and that expenditure is lawful*

The key area of compliance from an operational point of view is with the various Local Government Pension Scheme Regulations covering both the structure and benefits payable by the Fund and the investment of funds.

Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS.

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially independently from the Investment Management Team.

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

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

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

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

The Fund participates in the National Fraud Initiative, previously managed by the Audit Commission and actively investigates all data matches found as a result of this

process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.

*Whistle blowing and receiving and investigating complaints from the public*

The Fund is covered by the County Council's whistle blowing policy, the effectiveness of which is reported to the Audit and Governance Committee annually.

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

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

Elected members undertake training needs analysis linked to the CIPFA Knowledge and Skills Framework. This has resulted in the provision of access to a range of specific reading material and the provision of a programme of learning opportunities targeted at specific areas of identified need. In addition prior to major decisions coming before the Pension Fund Committee topic based training relating to the decision at hand is provided. The delivery of this programme is the responsibility of the Head of Investment Compliance.

All staff are subject to an annual appraisal process which identifies specific training requirements and any knowledge gaps relevant to their role. Staff who are members of professional bodies also have ethical obligations to undertake Continuing Professional Development relevant to their role.

*Establishment of clear channels of communication with all stakeholders ensuring accountability and encouraging open consultation.*

The Fund maintains a Communications Policy Statement as part of its policy framework which sets out the way in which the Fund will engage with specific audiences and on what issues. The key channels of communication are:

- Newsletters for active, deferred and pensioner members;
- Campaign materials focussed around scheme changes;
- Workshops, conferences and guidance materials provided to employers
- The Fund's website, which contains an increasing transactional capability.
- An annual "brief" for Finance Directors of employer organisations providing information on the performance of the Fund and an update on specific issues of interest, such as the triennial valuation.
- An annual members meeting focussed on the performance of the fund.

- The publication of committee papers, minutes and various annual reports and policy documents on the internet.

*The Incorporation of good governance arrangements in respect of partnerships and other group working and reflecting these in the Fund's overall governance arrangements.*

The Fund is bound by Lancashire County Council's partnership protocol, which highlights the need for such arrangements to reflect good practice in terms of governance. The Fund itself has a limited number of "partnerships", which are largely in the form of jointly procured contracts for the provision of services for which suitable governance arrangements are in place. However, for all arrangements where there is a relationship between the Fund and another organisation the Fund seeks to spell out clearly the expectations and requirements on each party, whether in contractual form where appropriate or through a form of "service level agreement" where a contract is not appropriate.

The Fund seeks to comply with the principles set out in CIPFA's Statement "The Role of the Chief Finance Officer in Local Government", and the arrangements within Lancashire County Council comply with the principles of this statement. The Fund, however, is not a local authority in its own right and therefore the applicability of some elements of the statement within the context of the Fund is limited. Following a restructure of the County Council's management the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund. This functions were transferred to the interim Head of Fund on 24 March 2016. This was as a result of establishing the Local Pensions Partnership and the Director of the Fund transferring into this new arrangement.

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

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

### ***Review of Effectiveness***

The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers responsible for the delivery of the Fund's various activities, who have a

responsibility for the maintenance and development of the governance environment, the Chief Internal Auditor's annual report, and also reports of the external auditor and other review agencies such as the Pensions' Regulator and Pensions' Ombudsman.

The key planned activities of the Fund during 2015/16 were:

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pensions Fund Authority that could require fundamental changes to the Fund's Governance arrangements.
- A review of the Fund's governance arrangements in the light of both the proposed formal collaboration and the creation of the new Local Pension Board.
- The further review of the Fund's policies and discretions in the light of LGPS 2014.
- The development of new routes for engagement with both fund employers and fund members across a wider range of issues.
- The formalisation of employer risk assessment activity within the Fund's overall governance arrangements.

The Committee has overseen each of these processes and has continued the Governance arrangements of its predecessor which delegate executive authority to officers in appropriate circumstances with effective accountability and scrutiny arrangements. This process has embedded the arrangements agreed by the previous Pension Fund Committee which are set out in the Governance Policy Statement. In particular the Committee has reviewed and approved the arrangements for the pooling of assets and sharing of services with the London Pensions Fund Authority.

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

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

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

- In accordance with the standards set out in relevant professional guidance promulgated by CIPFA and the Institute of Internal Auditors and the requirements of International Public Sector Auditing Standards.
- Informed by an analysis of the risks to which the Fund is exposed. The Internal audit plan is developed with and agreed by the Chief Internal Auditor and the various senior managers responsible for aspects of the Fund's operations.
- During the year the Head of Internal Audit's reports include Internal Audit's opinion on the adequacy and effectiveness of the Fund's system of control.

The Head of Internal Audit's Annual Report for 2015/16 indicates that she is able to provide substantial assurance over the controls operated by the Fund.

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

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

### ***Actions Planned for 2016/17***

The following specific actions are proposed for completion during 2016/17.

- Working with the Fund's Actuary and engaging with the employer's throughout the valuation process to ensure that risks to the longer term sustainability of the fund and costs to employers are dealt with in a balanced and transparent manner.
- Finalise a review of the investment strategy, and in particular the Strategic Asset Allocation for the fund based on the actuarial valuation.
- A further review of the Fund's governance arrangements as the relationship with Local Pensions Partnership (LPP) becomes more established.
- A review of the effectiveness of the Local Pensions Board.

- Preparing for the injection of new committee members following the 2017 elections by designing an induction and training program.

Signed

County Councillor Kevin Ellard

Abigail Leech

Chair of the Pension Fund Committee

Head of Fund

Lancashire County Pension Fund

Date:

## Pension Fund Committee

Meeting to be held on 10 June 2016

Electoral Division affected: All
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### Tracing Missing Members Procedure

Contact for further information:

Diane Lister (01772) 534827, Your Pension Service

[diane.lister@localpensionspartnership.org.uk](mailto:diane.lister@localpensionspartnership.org.uk)

#### Executive Summary

Your Pension Service has procedures in place to trace members of the Fund where their last recorded address is known to be inaccurate.

Following a self-assessment exercise to assess compliance against The Pensions Regulator's new Code of Practice for public sector pension schemes, the Funds data was assessed to be more than 96% compliant against a target of 95%.

However, for a significant number (5,205) of deferred members, i.e. members not currently working for scheme employers, and with whom ongoing contact is notoriously difficult, address details are known to be inaccurate.

The new Code of Practice became effective from 1 April 2015 and, following the self-assessment, it would seem appropriate now to consider the specific guidance relating to data quality which is set out at section 208 of the Code, that: -

*"Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date."*

In addition, the Lancashire Local Pension Board has recommended that the Pension Fund Committee approves a tracing exercise, to locate missing deferred scheme members, every three years in line with the valuation process.

#### Recommendation

The Pension Fund Committee is recommended to approve:

- (i) That a missing member tracing exercise be undertaken every three years in line with the actuarial valuation process;
- (ii) That such an exercise be carried out by the most cost effective means possible;
- (iii) That the Fund's Communication Policy Statement is amended to reflect this additional communications exercise;
- (iv) That the Interim Head of Fund be authorised to amend the Communications Policy Statement as set out in (iii) above.

## Background and Advice

The Government has extended the role of The Pensions Regulator (TPR) to provide independent oversight of public service pension schemes. As part of its new role, TPR is required to issue a code of practice covering specific matters relating to public service pension schemes. Consequently, 'Code of Practice No. 14: Governance and administration of public service pension schemes' has been issued and has effect from 1 April 2015.

Code 14 provides practical guidance in relation to the exercise of functions under relevant pension legislation and sets out the standards of conduct and practice expected from those who exercise those functions.

A self-assessment has been undertaken by Your Pension Service to assess how the Fund measures in terms of compliance with the code. The self-assessment indicates that the Fund largely complies with Code 14 although it is important to note that the Fund was already compliant with the relevant legislation prior to the introduction of the Code.

However, the self-assessment has highlighted that further work could be undertaken in respect of data quality.

TPR has specified that a scheme's 'common data' be at least 95% accurate. The Fund is just ahead of this target at 96.3%. However, for a significant number (5,205) of deferred members, i.e. members not currently working for scheme employers, and with whom ongoing contact is notoriously difficult, address details are known to be inaccurate.

Regular attempts are made to contact these members, many of whom are years away from claiming their pensions. Added to this, attempts at contacting and updating records are resource-intensive and relatively costly (The Department for Work and Pensions (DWP) charges £4.26 per chase). In considering this matter, the Fund should consider both the relative importance of such data and how much resource it can put into obtaining up to date data which is most likely to change again before retirement. Nonetheless, the numbers involved are significant and consideration should be given to undertaking an exercise to improve address data in respect of deferred scheme members.

Code 14 became effective from 1 April 2015 and, following the self-assessment, it would seem appropriate now to consider the specific guidance relating to data quality which is set out at section 208 of the Code, i.e. that: -

*"Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date."*

At its meeting on 11 April 2016, the Lancashire Local Pension Board (LPB) considered a report setting out details of Your Pension Service's current Member Tracing Procedure and agreed to recommend to the Pension Fund Committee that a

tracing exercise, to locate missing deferred scheme members, be undertaken every three years in line with the valuation process.

The LPB's recommendation should be considered in the context of the forthcoming actuarial valuation of the Fund. This because the assessment of the Funds liabilities and ultimately the determination of the funding ratio is dependent on good, clean, quality, up to date data. It should be noted that postcodes are sometimes used in an exercise to calculate fund specific mortality expectations, should the need arise.

The Committee is recommended to commission a missing member tracing exercise to be undertaken every three years in line with the actuarial valuation process and that such an exercise be carried out by the most cost effective means possible.

The Committee should also note that, for completeness, the Fund's formal Communication Policy Statement should be amended to reflect this additional communications exercise.

### **Consultations:**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

#### **Legal**

There is the risk of non-compliance with TPR data quality requirements if no action is taken. It is likely that inaction will further exacerbate the problem of missing members and more members leave the Scheme and become deferred members.

#### **Financial**

A cost comparison exercise should be carried out initially in order to determine the most economical means of undertaking such an exercise.

A preliminary estimate indicates that an exercise over a period of 6 months will cost approximately £46,000. This estimate uses the known cost of the DWP Tracing Service and an estimate of the resource required over 6 months to carry out the exercise and deal with responses.

Based on current numbers of missing members the cost is likely to be: -

$£4.26 \times 5,205 = £22,173.30$

$2 \times \text{Grade 5 @ } £19,742 \text{ pa} + \text{on costs of } 20\% = £23,690.40$

Total cost of an initial exercise £45,864.00

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Directorate/Ext
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: All
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## **Your Pension Service - Annual Administration Report 2015/16**

(Appendix 'A' refers)

Contact for further information:

Diane Lister (01772) 534827, Your Pension Service

[diane.lister@localpensionspartnership.org.uk](mailto:diane.lister@localpensionspartnership.org.uk)

### **Executive Summary**

This annual report is produced in accordance with a Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service against the standards set out in the SLA during 2015/16.

### **Recommendation**

The Committee is asked to note the 2015/16 Administration Report as presented at Appendix 'A'.

### **Background and Advice**

The Pension Fund Committee is required to receive regular reports from the Interim Head of Fund on the administration of the Fund to ensure 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) contains specific service level standards and corresponding targets. A report is attached at Appendix 'A' to inform the Committee of performance against the standards and targets set over the year to 31 March 2016.

Over the year, Your Pension Service met all SLA standards and targets with an overall performance of 99%. This is a significant achievement given the scale of recent regulatory change and the introduction of new compliance requirements for public sector pension schemes from The Pensions Regulator. This includes the requirement to adhere to shorter timescales for the production of annual benefit statements.

**Consultations:**

N/A

**Implications:**

This item has the following implications, as indicated:

**Risk management**

No significant risks have been identified.

**Local Government (Access to Information) Act 1985  
List of Background Papers**

Paper	Date	Contact/Directorate/Ext
N/A		

your  
pension  
service

# LANCASHIRE COUNTY PENSION FUND

## Annual Administration Report 2016



Administered by

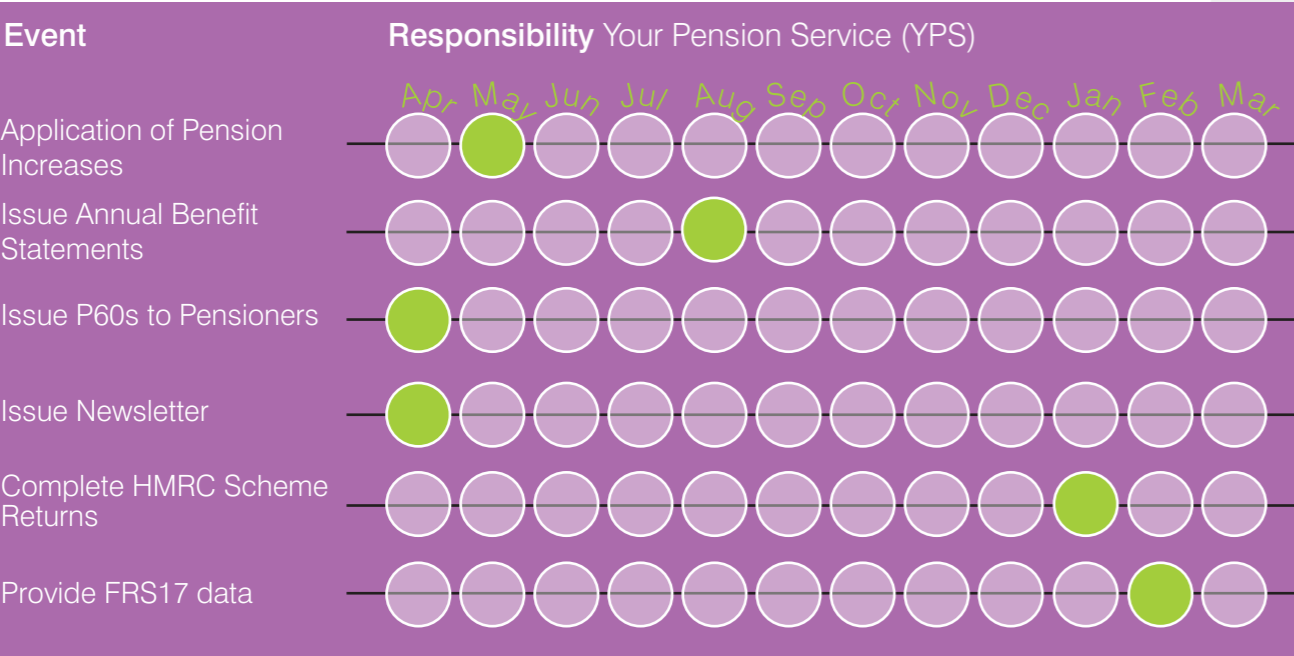




# 1. INTRODUCTION

**Purpose**  
This administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services to Lancashire County Pension Fund. The report describes the performance of Your Pension Service (YPS) against the standards set out in the SLA during the period 1 April 2015 to 31 March 2016.

## Annual Plan – 2015/16



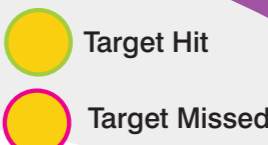
# 2. Performance

**EPIC Update**  
Since 1 April 2014 employers have been submitting monthly files to Your Pension Service, which replace many of the forms that they used to complete, and enable YPS to accurately post and reconcile contributions and pensionable pay to individual member records.

YPS use an internally designed system called “EPIC” to do this. EPIC has helped YPS to ensure that active member data is accurate and up to date, and that every member receives their correct pension pot entitlement. The use of EPIC has led to the successful production of online annual benefit statements within the new statutory deadline.

It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund. Work is ongoing to ensure the continued submission of monthly data files from employing organisations in readiness for the 2016 Actuarial Valuation.

# Performance Standards



\* Over the period 70,860 tax code changes have been updated

### Fund membership

Lancashire County Pension Fund	31/03/16	31/03/15
Number of active scheme members		
County council	27,106	27,405
Other employers	29,223	26,774
<b>Total</b>	<b>56,329</b>	<b>54,179</b>
Number of pensioners		
County council	22,414	21,765
Other employers	22,093	21,446
<b>Total</b>	<b>44,507</b>	<b>43,211</b>
Number of deferred pensioners		
County council	33,253	29,148
Other employers	28,377	26,665
<b>Total</b>	<b>61,630</b>	<b>55,813</b>
<b>Total membership</b>	<b>162,466</b>	<b>153,203</b>

## 3. Customer Service

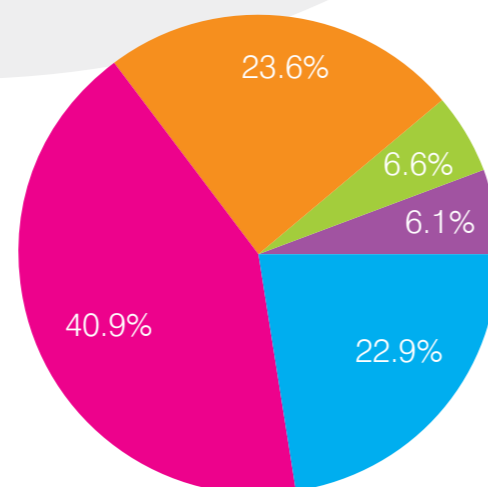
During July 2015 Your Pension Service was re-accredited with the Governments Customer Service Excellence Award. This award focuses on developing customer insight, understanding scheme members' experience and delivering a first class service. The Service has held this award since 2008. This section reports the ongoing work being undertaken to develop further customer insight, to better understand the customers experience and to consider improvements in service provision.

### My Pension Online Survey

Members who are signed up to the online service were surveyed and below are the most recent results. The results are used to consider improvements to the user experience.

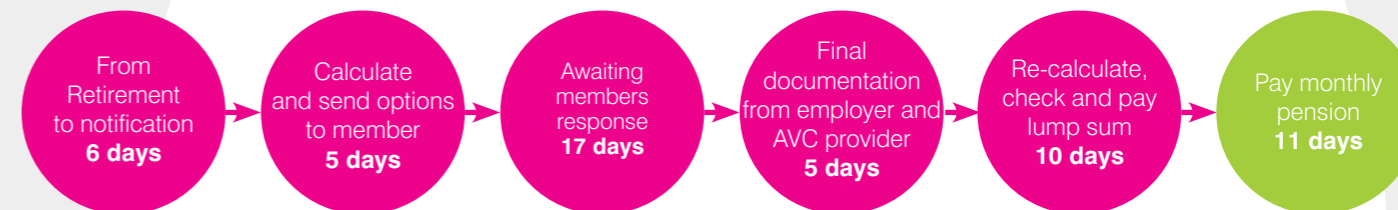
**If you are registered for the "My Pensions Online" system how useful do you find this?**

- 914 Extremely useful
- 1636 Very useful
- 944 Moderately useful
- 262 Not so useful
- 244 Not at all useful



### Retirement Experience

The average time spent to complete each part of the retirement process has been analysed. A guide to the retirement process has been produced to aid the members understanding. (See annex A)



(average 54 days) Work is underway to streamline the retirement process.

### Compliments/Complaints

During the period the service received 17 compliments that related to the excellent online services and the helpful service provided by the staff within Your Pension Service.

There were 10 complaints received with the majority of them relating to the late payment of pension.

Complaints in this context are complaints received by the Chief Executives/Leaders Office as well as complaints received directly to YPS.

### Telephone helpdesk

A dedicated helpdesk, AskPensions provides the first point of contact for members and employers. The helpdesk has a target to answer 90% of calls offered. Between 1 April 2015 and 31 March 2016, 60,444 calls were offered and 96% of them were answered. The average wait time was 40 seconds.

99.5% of the 28,800 emails received were answered, with 157 emails outstanding as at 31 March 2016.

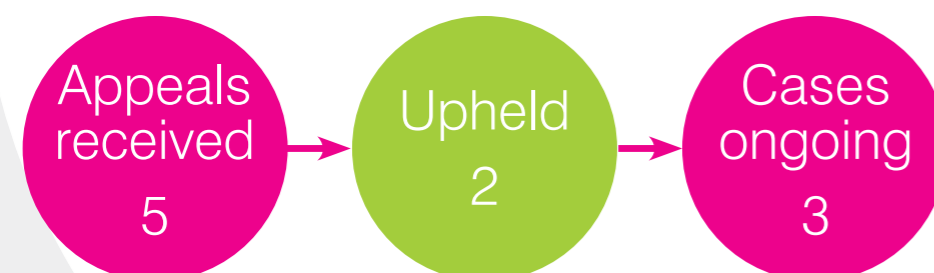
## 4. Appeals

Members who disagree with decisions taken by their employer or administering authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS rules. The IDRP is a formal appeal procedure which contains two stages. The first stage allows the person to ask the body who originally made the decision to review it, i.e. either the employer or the administering

authority. The second stage allows the person, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the administering authority to review the disagreement.

Current appeals relate to ill health, and are currently being dealt with under stage 1 of the appeals process.

Period 01/04/2015 - 31/03/2016



## 5. Admissions

The Local Government Pension Scheme is open to 2 main types of employers, "Scheduled Bodies and Admissions Bodies". Scheduled Bodies are listed within the LGPS regulations and if they meet criteria are eligible to participate. During the period 38 employers applied to join the scheme (2 parish councils, 15 academies and 21 contractors).

Admissions Bodies participate through a written contractual agreement and the majority of cases are established when outsourcing a service or function, where the new contractor wishes to provide continued LGPS membership.

Admissions to fund – 01/04/2015 – 31/03/2016



## 6. Communications

### The Team

Communications are delivered by the Partnerships Team. The team consists of a Manager and three Client Liaison Officers. They are the link between Your Pension Service scheme members and employers. The Team have been very busy lately hosting a wide range of events and services for both employers and scheme members alike.

### Employers

The second edition of the employer e-zine was issued to all employers, this included articles on the 2016 Valuation, fund discretions, the redundancy cost cap and upcoming events. The Partnerships Team completed the Annual Visits to over 30 employers, these are provided automatically to all employers who have at least 100 active members and are a very popular method of communication. The visits provide the opportunity to build and maintain excellent working relationships with scheme employers.

### Employees/Scheme Members

During the period member communications have been around the annual benefit statements and the Scheme Talk newsletter. The communications included details on booking an appointment at one of the many pension surgeries held throughout the County.

As well as the routine presentations that are carried out which include attending pre-retirement courses and ad-hoc 'Scheme Basics' presentations, particularly at schools across the County, who find it difficult to get time away from work to attend main events, The Partnerships Team have continued to deliver roadshow presentations for active Members across the county, highlighting the flexibility of the LGPS. A series of presentations were delivered to coincide with the new rules

surrounding contracting out and proved very popular with members.

With many organisations going through restructures, The Partnerships Team have produced the tailored presentations at the request of scheme employers to support staff and provide information on how pension benefits may be effected.

The first annual Fund Members Meeting was held at the Guildhall in Preston on 11 November with over 250 members in attendance and proved a great success. The agenda included delivery of the Fund Annual Report, investments, the Local Pension Board and the Local Pensions Partnership.

The annual practitioner conference for fund employers was held at Woodlands on 12 October with over 100 delegates in attendance.

The day included a presentation from Pensionwise and an update on the new regulations.

### Coming up

As this year is the triannual valuation the fund is planning a series of engagement sessions to communicate with the employers. The annual Directors Brief is also planned to be held at County Hall in December. This meeting is the annual update to Chief Executives and Chief Finance Officers from the Director of Administration and the Head of the Pension Fund. There will also be presentations on investments, administration and an update from the Fund Actuary.

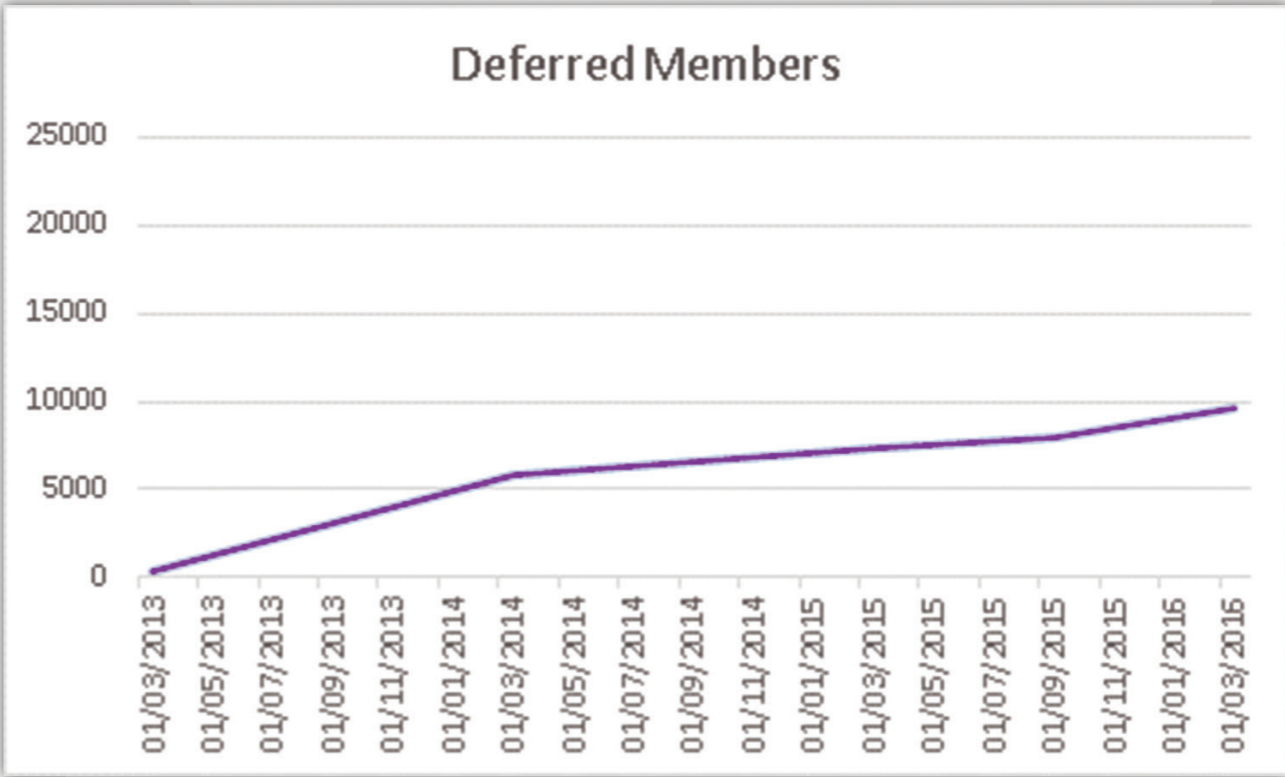
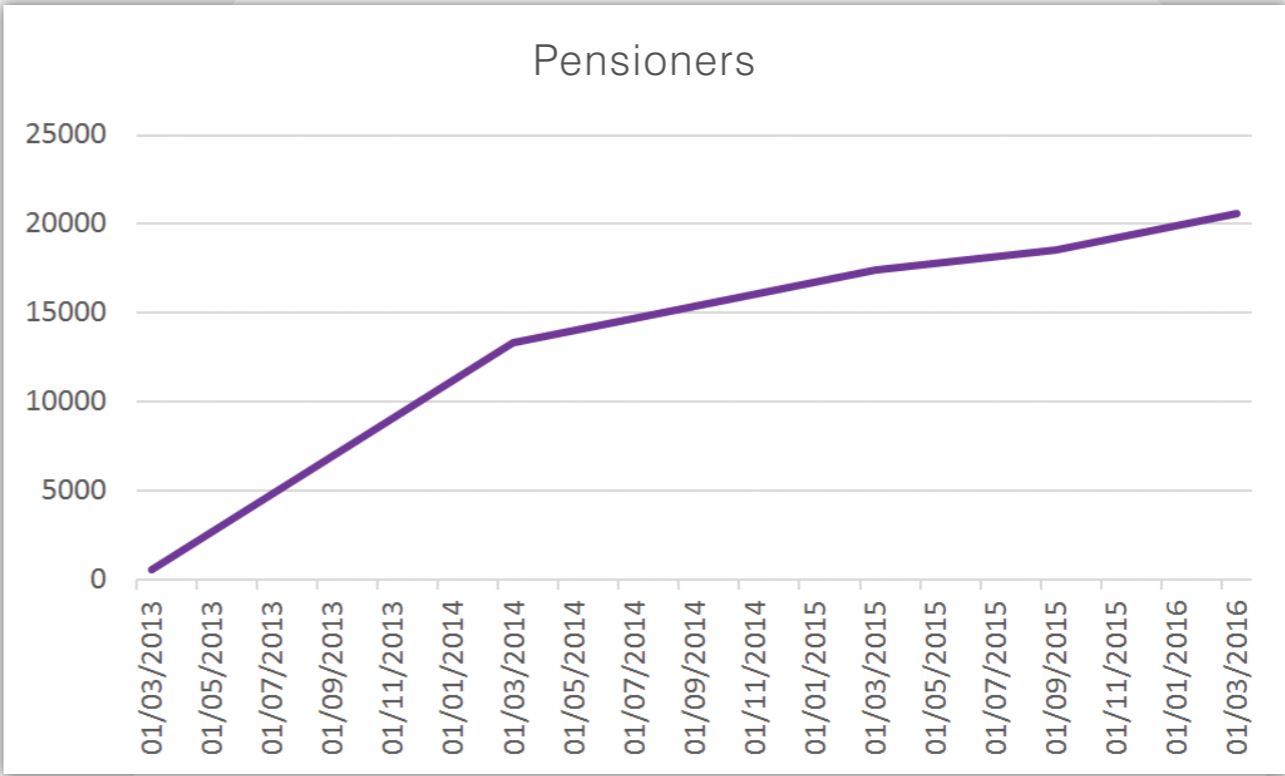
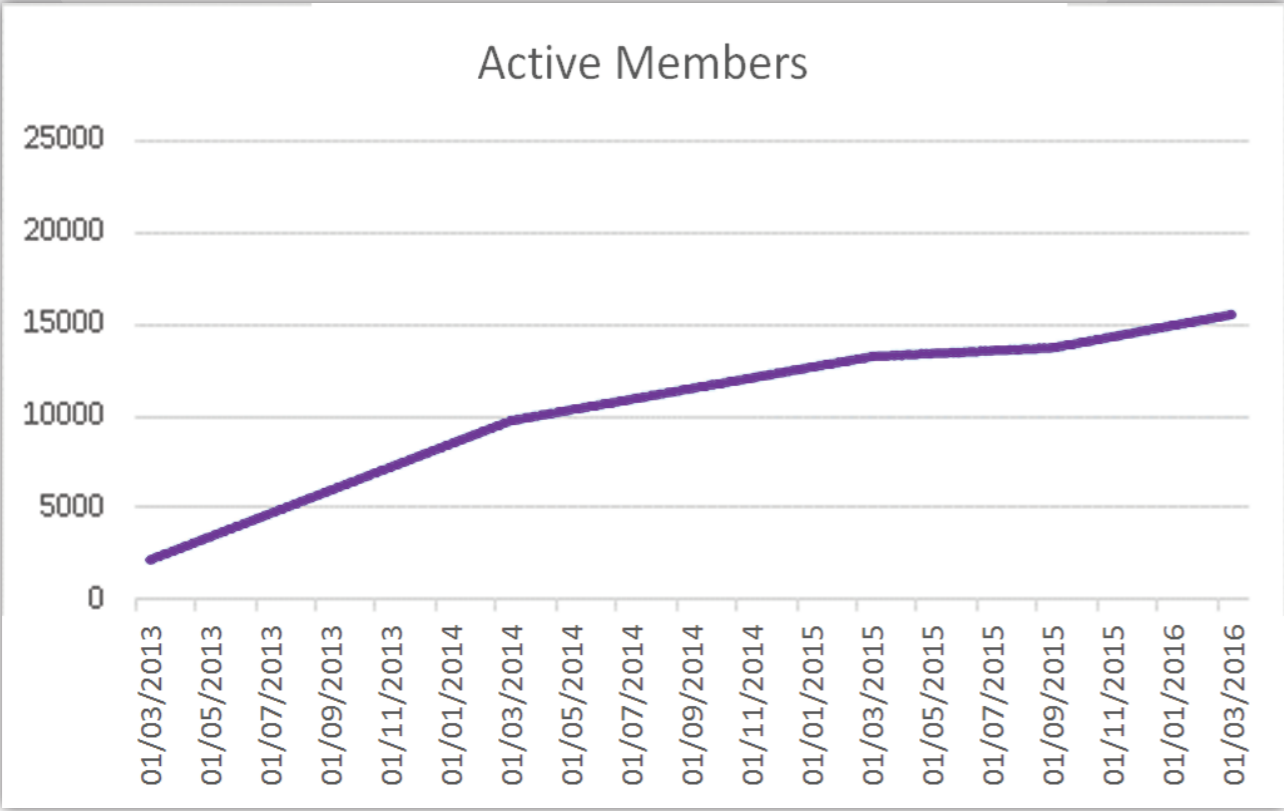


# My Pension Online (MPO)

My Pension Online is an online facility that was developed in 2012 and launched comprehensively throughout 2013. Through 'My Pension Online' members can view their details and also securely update any changes in contact details. As well as this members can run various pension estimates assisting with planning for retirement. Members can also view their annual benefit statement via My Pension Online. Other benefits of the system include: allowing members to view their nominated beneficiaries; access to a host of forms and guides and also means that Your Pension Service can communicate with registered members via email. Currently over 45,000 members are registered online.

At every opportunity The Partnerships Team promote 'My Pension Online' always encouraging members to get signed up online, also including the benefits of 'My Pension Online' in all presentations. Throughout the period the team continued to deliver "drop in sessions" where members can sign up and be shown how to navigate the service and these have been held throughout the county.

Below is a summary of how membership of 'My Pension Online' has grown since 01/03/2013.



## 7. Legislative changes

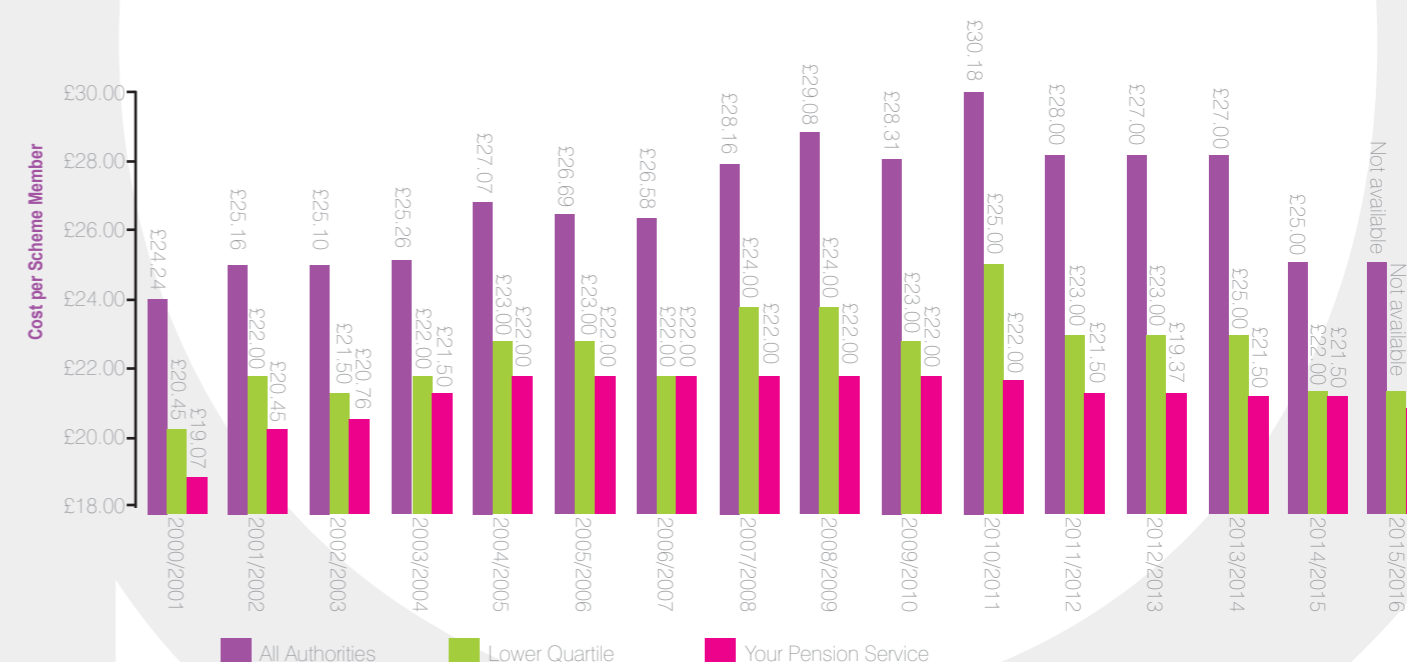
The 2015/16 year has been another year of significant change in the world of pensions law. The following are some of the changes that had an impact on the Scheme that came into force during the year:

- At the 2014 Budget, the Chancellor announced huge changes allowing people with defined contribution pension savings greater freedom and choice as to how and when they may access those savings. The changes, in the main, took effect from April 2015. The LGPS gives 'defined benefit' savings rather than 'defined contribution' savings' so the changes did not directly impact on our members. However, the changes had a number of indirect impacts. To give one example, generally speaking, a member must now receive financial advice before they can transfer out their LGPS benefits to a defined contribution scheme.
- The Hutton Report in March 2011 made a number of recommendations as to how public sector pension schemes should be reformed to which government agreed. In response, the new LGPS CARE scheme was introduced in April 2014. Further changes were introduced in April 2015, as part of which a local pension board for each fund was set up and the Pensions Regulator began its new role of overseeing public sector schemes.
- During the first few months of operating the new CARE scheme rules, LGPS funds had found that various parts were not working well in practise or needed further clarification. To address these issues, Government made The Local Government Pension Scheme (Amendment) Regulations 2015. The changes came into force on 11 April 2015, but in the main had effect back to April 2014.
- Government announced further changes to pension tax relief. In particular, they have reduced the Lifetime Allowance from £1.25 million to £1 million and the Annual Allowance for high earners. Though these changes came into force in April 2016, there were some transitional changes to the Annual Allowance rules impacting on the 2015/16 year.

## 8. Charges

Your Pension Service makes a charge to the Pension Fund on a per member basis which falls within to the lower quartile as reported in national benchmarking returns. For 2015/16

this charge was set at £21.08 per member as against a benchmark of £22.



## Pension Fund Committee

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## Local Pensions Partnership Limited - Non Executive Director Pay Policy

Contact for further information:

Abigail Leech, (01772) 530808, Interim Head of Fund

abigail.leech@lancashire.gov.uk

### Executive Summary

At its meeting on 1 June 2015 the Pensions Partnership project advisory working party discussed and agreed the principles relating to the pay policy for the Chair and Non-Executive Directors (NEDs) of the joint venture company.

The pay scales proposed have been benchmarked with market comparisons. The principle adopted for the NED shareholder representatives is they would receive the excess of the independent NED fee (currently £30,000 pa) over the fee received from the Shareholder's sovereign body.

Applying this principle to the County Council, as the allowances received by the Council's NED are above the £30,000 threshold, he will not therefore receive any additional remuneration as the Council's NED.

### Recommendation

The Committee is recommended to approve the Local Pensions Partnership Ltd (LPPL) pay policy as set out in the report and the proposed principle in relation to payments to Shareholder NEDs.

### Background and Advice

At its meeting on 1 June 2015, the Pensions Partnership project advisory working party discussed and agreed the principles relating to the pay policy for the Chair and NEDs of the proposed new company. Following benchmarking, the remuneration proposed is as follows:

Role	Remuneration
Chairman	£70,000 p.a.
Non-Executive Director	£30,000 p.a.
NED Plus Chair of Remuneration Committee	£35,000 p.a.
NED Plus Chair of Administration Company	£35,000 p.a.

NED Plus Chair of Risk Committee	£35,000 p.a.
Chair of LPPI	£25,000 p.a.

### **Shareholder NED Pay**

The principle proposed in relation to remuneration for the Shareholder Representative NEDs is that they receive the excess of the independent NED fee (£30,000 pa) over the fee received from the Shareholder's sovereign body.

Applying this principle to the County Council, as the allowances received by the Council's NED, the Deputy Leader, are above the £30,000 threshold, he will not therefore receive any additional remuneration as the Council's NED.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Financial

The financial costs of these posts have been included in the business model present to the Committee and reviewed by PwC.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

N/A

Reason for inclusion in Part II, if appropriate

N/A

## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## **Internal Audit Service Annual Report 2015/16 and Plan 2016/17**

(Appendix 'A' refers.)

Contact for further information:

Ruth Lowry, (01772) 534898, Head of Service, Internal Audit

### **Executive Summary**

For the year 2015/16, the Pension Fund Committee can take substantial assurance that the Lancashire Pension Fund operates a generally sound system of risk management, governance and internal control.

The annual report for 2015/16, incorporating an outline of the work planned for 2016/17, is included at Appendix 'A' to this report.

### **Recommendation**

The Committee is asked to consider the Internal Audit Service annual report for 2015/16 and approve the outline annual work plan for 2016/17.

### **Background and Advice**

The Internal Audit Service complies with the professional standards of the Chartered Institute of Public Finance and Accountancy, which established Public Sector Internal Audit Standards with effect from 1 April 2013. These are drawn from the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising a definition of internal auditing, a Code of Ethics, and International Standards.

The Public Sector Internal Audit Standards and supporting Local Government Application Note require a chief internal auditor to deliver an annual opinion and report that can be used to inform the Pension Fund's annual governance statement. The opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

### **Internal audit assurance**

Internal audit assurance is stated in the following terms:

**Full assurance:** there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited assurance:** weaknesses in the design and/or inconsistent application of controls put the achievement of the service objectives at risk.

**No assurance:** weaknesses in control and/or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

### **Consultations**

N/A

### **Implications**

N/A

### **Risk management**

This report to the Pension Fund Committee supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

### **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

## **Appendix 'A'**

### **Lancashire Pension Fund**

**Annual report of the head of internal audit for the year ended 31 March 2016 and the audit plan for 2016/17**



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## **1. Introduction**

- 1.1. This report summarises the work that the Internal Audit Service undertook during 2015/16 and the key themes arising from it. It provides my opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control. It also provides an outline of the internal audit work planned for 2016/17. It is made under the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), with which the Internal Audit Service conforms.

### **The role of internal audit**

- 1.2. The Internal Audit Service is an assurance function designed to provide an independent and objective opinion on the adequacy and effectiveness of the control environment. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the control environment and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2015/16.
- 1.3. The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report is set out in Annex A to this report. The levels of assurance the Internal Audit Service provides are set out in Annex B.

### **Acknowledgements**

- 1.4. I am grateful for the assistance that has been provided to the Internal Audit Service in the course of our work during the year.

Ruth Lowry  
Head of Internal Audit  
Lancashire County Council

## **2. Overall opinion on governance, risk management and internal control**

### **Overall opinion**

- 2.1. On the basis of our programme of work for the year, I can provide substantial assurance over the internal control environment, governance and risk management arrangements of the Lancashire Pension Fund for 2015/16. In my opinion that there is a generally sound system of internal control, adequately designed to meet the objectives of the Pension Fund and controls were generally applied consistently.

### **Summary of assurance provided by the Internal Audit Service**

- 2.2. We have fulfilled the work plan outlined in the report to the Pension Fund Committee in June 2015, which addressed the administration of the Fund for its members, the Fund's general ledger accounting arrangements, controls monitoring the Fund's listed equities and performance monitoring. We have provided full or substantial assurance over each of these areas.
- 2.3. Definitions of the assurance levels used are included in Annex 2.

### **Wider sources of assurance available to the Pension Fund**

- 2.4. Assurance has also been provided to the Pension Fund by Grant Thornton as the Fund's external auditor. Grant Thornton issued its annual audit letter relating to 2014/15 in September 2015, and gave an unqualified opinion on the Fund's annual financial statements.

### **Implications for the Annual Governance Statement**

- 2.5. On the basis of our work during 2015/16, we are aware of no issues that should be disclosed in the Fund's Annual Governance Statement.

## **3. Findings of internal audit work undertaken during the year**

### **Administration of the Pension Fund in relation to its membership**

- 3.1. We have provided substantial assurance that the Pension Fund is properly administered and well controlled. We assessed the controls in place to manage a range of relevant risks and to ensure that:
- The Altair system is correctly configured;
  - Eligible employees have been automatically enrolled into the pension scheme in accordance with the regulations;
  - Only eligible employees are admitted to the pension scheme;
  - Employees who opt-out and retirees are removed correctly from the pension scheme;
  - Transfers in are processed correctly, the funds are received and employees correctly accrue service credit;
  - Transfers out are processed correctly;

- Retirement payments are calculated and paid correctly;
  - Death grants and lump sums are calculated and paid correctly; and,
  - Contributions are properly monitored.
- 3.2. We have no significant findings to report, although we found that the Epic system is not being fully utilised as files are not being submitted regularly by all employers. We also found that Your Pensions Service were correcting errors on the LCC payroll files, which should not be the case. Your Pension Service should maintain their independence, and the errors should be returned to LCC for correction.

### **Pension Fund General Ledger**

- 3.3. We have provided substantial assurance over the operation of the accounting system supporting the Pension Fund, covering the following areas of control:
- New user requests and the creation, amendment and disabling of codes on the general ledger are appropriately authorised;
  - The system automatically prevents or corrects and reports debit/ credit imbalances, errors and invalid postings;
  - Feeder files are posted and reconciled to the general ledger on a timely basis;
  - Journal entries are properly processed and can be traced to the originators and reasons for posting; and,
  - Holding or suspense accounts are regularly reviewed and cleared.
- 3.4. We did not identify any major areas of concern, although we identified officers who had access to the general ledger who no longer required this access after moving on to other roles. Additionally a number of unreconciled items on the quarterly reconciliation of the added year recharges control account had not been followed up. Actions have been agreed to address each of these matters.
- 3.5. Work has also been undertaken to ascertain the progress made in implementing the two agreed actions arising from the 2014/15 review of this area. One action, relating to the reconciliation of the BACS control account has been appropriately implemented. The second action, relating to a review of the transactions coded to the Pension Fund payment codes has not been implemented; whilst we have been informed that the transactions are reviewed, no evidence of the review process is maintained.

### **Listed equities**

- 3.6. We have provided full assurance that the controls operating over listed equities are adequately designed and were operating effectively. Our review included examination of the following areas of control:
- A signed agreement is in place with each fund manager detailing management charges payable;

- Performance of the investments are regularly monitored through the Investment Panel and the Pension Fund Committee;
- The information used to monitor performance is reliable; and
- Management fees paid to each of the fund managers is in accordance with the agreements and invoices are checked and authorised appropriately before being paid.

### **Performance monitoring**

- 3.7 Following audit work begun in 2014/15, we have provided substantial assurance over the controls in place to manage receipt, analysis and monitoring of the performance information received from fund managers.
- 3.8 This audit focussed on the monitoring arrangements specifically for investments which fall within the credit strategy and infrastructure classes only. We examined controls over the key risk that investments which do not achieve the minimum return or do not remain appropriate are not identified, and remedial action is not undertaken because:
- Investment performance information is not available;
  - Investment performance is not monitored and benchmarked;
  - Information and intelligence on changes in relation to the investment manager, including management team composition, acquisitions and mergers, and conflicts of interest are not obtained and reviewed; or,
  - Prompt action is not taken on any issues identified from the monitoring activity.
- 3.9 Financial and performance information in relation to the investments held by the Pension Fund is received on a monthly basis and is recorded and reported by the Investment Management team. These asset valuations are not independently audited, with the only independently verified information currently received being the annual audited accounts which are not used for monitoring purposes. Accordingly, it has been agreed that fund managers will additionally be asked to submit SAS70 reports (relating to the audit of controls within a service organisation), which will provide assurance over the operational controls within their systems.
- 3.10 Whilst analysts review and report to investment managers on the information received on a quarterly basis, controls could also be strengthened if this analysis was documented and the review process evidenced.
- 3.11 In addition to the monitoring undertaken by the analysts and investment managers, performance and asset allocations are reviewed by the Investment Panel. Although the value of the investments held as at February 2015 exceeded the benchmark asset allocation by a small amount, the position is being appropriately monitored.
- 3.12 Subsequent to the due diligence process completed prior to the initial investment decision being taken, there is limited evidence provided to the

Pension Fund Investment Management team to confirm that key qualitative factors within the Fund Management organisation are still appropriate. It has therefore been agreed that fund managers will be asked to complete an annual questionnaire to provide formal assurance that key people are still in place and that the value and types of funds being managed are consistent with expectations.

### **National Fraud Initiative**

- 3.13 The matches from the 2014/15 exercise, shared with Your Pensions Service and investigated to date are shown in the table below:

	<b>Number of data matching reports</b>	<b>Number of matches recommended for investigation</b>	<b>Number of records processed and cleared</b>
Comparison of pension records to deceased person records	810	221	773
Comparison of pension and payroll records between and within organisations	957	244	945
	<b>1767</b>	<b>465</b>	<b>1718</b>

- 3.14 As at 9 May 2016, no financial errors had been identified from the 1718 records that had been opened and cleared. Nine records were still in the process of being investigated.
- 3.15 Only records from the latest data release of December 2015 have not yet been opened.

## **4. Internal audit plan 2016/17**

- 4.1. The internal audit plan for 2016/17 will again focus on the administration of the Fund for its members, the core accounting system supporting it, and oversight of the investments supporting the Fund, as well as following up the actions taken in response to our work in 2015/16.
- 4.2. We will additionally consider the adequacy and effectiveness of the council's governance framework to achieve corporate oversight of the Pension Fund.

## **5. Internal audit quality assurance and improvement**

- 5.1. The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit

activity and periodically assesses the Internal Audit Service's compliance with the PSIAS. This includes both internal and external assessments and from May 2016 has been set out in a formal Quality Assurance and Improvement Programme.

- 5.2. The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS will be reported annually to the county council's Management Team and Audit and Accounts Committee.
- 5.3. There are no areas of non-conformance with PSIAS to report.

## Scope, responsibilities and assurance

## Annex A

### Approach

- A.1 In accordance with the Public Sector internal Audit Standards (PSIAS), the scope of internal audit encompasses all of the Pension Fund's governance, risk management and control processes including where they are provided by other organisations on its behalf.

### Responsibilities of management and internal auditors

- A.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls.
- A.3 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- A.4 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- A.5 Internal auditors cannot be held responsible for internal control failures, however, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- A.6 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- A.7 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service

to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

- A.8 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- A.9 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

### **Basis of our assessment**

- A.10 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

### **Limitations to the scope of our work**

- A.11 There have been no limitations to the scope of our audit work.

### **Limitations on the assurance that internal audit can provide**

- A.12 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- A.13 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

### **Access to this report and responsibility to third parties**

- A.14 This report has been prepared solely for Lancashire Pension Fund. It forms part of a continuing dialogue between the Internal Audit Service, the senior management of the Fund, and the Pension Fund Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.

- A.15 This report may be made available to other parties, such as the external auditors. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

## Audit assurance levels

## Annex B

The assurance we can provide over any area of control falls into one of four categories as follows:

**Full assurance:** there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited assurance:** weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.

**No assurance:** weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

## Classification of agreed actions

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

**Extreme residual risk:** Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the service's reputation.

**High residual risk:** Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation.

**Medium residual risk:** Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.

**Low residual risk:** Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern.

## Pension Fund Committee

Meeting to be held on 10 June 2016

Electoral Division affected: None
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### Framework for the 2016 Valuation - Employer Responses to Consultation

Contacts for further information:

Abigail Leech, (01772) 530808, Interim Head of Fund, Lancashire County Pension Fund, [abigail.leech@lancashire.gov.uk](mailto:abigail.leech@lancashire.gov.uk)

George Graham, (01772) 538102, Local Pensions Partnership, [george.graham@localpensionspartnership.org.uk](mailto:george.graham@localpensionspartnership.org.uk)

#### Executive Summary

At its meeting on 30 September 2015 the Committee agreed to consult fund employers on a number of key issues associated with the 2016 valuation of the fund in order to ensure employer views are taken into account in setting the framework for the valuation. This reports provides the Committee with an update on the responses to the consultation exercise and the overall plan for the valuation process.

#### Recommendation

The Committee is recommended to:

- (i) Note the results of consultation with employers on the valuation framework;
- (ii) Note the process proposed for managing the valuation process and engaging with employers throughout the process;
- (iii) Agree to offer existing, and any future, Multi-Academy Trusts with more than one school within the Fund a common contribution rate;
- (iv) Agree to continue the Fund's current policy in relation to not allowing reductions in contribution rates for employers who continue to have a deficit within the Fund.

### Background and Advice

#### Introduction

At its meeting on 30 September 2015 the Committee agreed to consult fund employers on a number of key issues associated with the 2016 valuation of the Fund in order to ensure that employer views were taken into account in the setting of the framework for the valuation. This report provides the Committee with an update on the responses to the consultation exercise and the overall plan for the valuation process.

## **Employer Consultation on Key Issues**

While there were only a very small number of responses to the formal consultation exercise (4 of 200+ employers with active members) employers were also engaged at a number of regular and ad hoc events such as the annual Director's Brief and the opportunity was taken to attend the regular meeting of local authority Chief Finance Officers and a regular meeting of Academy School finance officers.

From this process of engagement the following represents a consensus employer view:

1. There is support for the proposed change to the valuation methodology which is seen as much more intelligible.
2. There is support for the objective of maintaining the current contribution plan, but many employers would like to see reductions in contribution rates.
3. Local authorities, in particular would like to see the deficit recovery period extended in order to reduce contributions.
4. There is interest in the development of a form of "ill health retirement" insurance for smaller employers.
5. There was no opposition to the use of single contribution rates for Multi-Academy Trusts and support for the position previously taken by the Fund which ensures that there is no cross-subsidy between individual academies.
6. Local authority employers were interested in exploring means of reducing contributions through the use of asset backed vehicles.

Issues relating to the valuation methodology and contribution rates are dealt with below, but dealing with the other points raised.

1. "Insurance" for ill health retirement will be explored as a key task within the refreshed Strategic Plan for the Fund.
2. Existing, and any future, Multi-Academy Trusts with more than one school within the Fund will be offered the option of a common contribution rate.
3. The Fund will be prepared, as has always previously been the case, to discuss with any employer options for providing additional security which might be able to be considered in the setting of contributions.

## **Preparatory Modelling**

The Fund's actuary has undertaken some preparatory modelling using the new valuation methodology to allow Fund Officers to understand whether the objective of maintaining the current contribution plan is feasible. It should be emphasised that this is not a full valuation, but previous exercises of this sort have given a clear indication of possible outcomes at the level of the whole fund.

In addition to looking at the whole Fund this work looked specifically at a small number of employers chosen to represent different characteristics (e.g. younger workforce, older workforce) in order to identify whether there might be issues for some specific types of employer.

The conclusion from this work is that the Fund could achieve its stated objective of maintaining the current contribution plan, including reducing the deficit recovery period, without needing to increase assumed real investment returns to a degree that is unreasonable given the overall long term performance of the Fund.

At the level of individual employers it is possible that some employers would see a reduction in overall contributions because of the switch of emphasis as between future service and deficit contributions implied by the new methodology. In previous valuations where employers with deficits would have seen a reduction in contribution rate the Fund has imposed a so-called "underpin", which means that no reduction is taken and in effect that employer is looking to recover their deficit over a shorter period than the Fund as a whole. This provides an additional level of prudence within the valuation and rightly maintains focus on eliminating the deficit. Given this, while acknowledging employers' desire to reduce contribution rates Fund Officers' advice would be that the Committee agree to maintain this underpin.

It is likely that, due to changes in workforce profile, some employers could see increases in contributions being required. In previous valuations employers with tax raising powers have been allowed (with the agreement of the Fund and the actuary) to assume a higher rate of investment return to address the issue of possible increases in contribution rates, although no specific steps were taken to adjust the investment strategy to achieve this.

It is clear that some form of safety valve such as this will be required to be used at the discretion of Fund Officers in agreement with the actuary. However, it is proposed that the mechanism used be different and will be reflected in specific changes in the investment strategy which rather than chasing higher absolute returns reduce the level of downside risk within the equity allocation which is the most volatile part of the portfolio. Specific proposals for this, together with member training and implementation details will be brought forward by the Head of Fund in due course.

The other issue of specific concern to employers, particularly local authorities, has been the deficit recovery period. As indicated in the September report the strong advice of both the actuary and the Fund's officers is that the recovery period should be brought down to 16 years in line with the previously agreed plan. In addition the Government Actuary who now has a form of oversight role for all LGPS valuations has made clear the expectation that deficit recovery periods will reduce.

While in previous valuations this might have been an option to mitigate the impact of contribution increases, given that the aim is to maintain the current contribution plan and that indications are that this can be achieved without this form of manipulation, officer advice remains that the aim should be for the deficit recovery period to be reduced to 16 years.

## **The Valuation Process**

The broad timetable for the valuation process from here is set out below:

- Mid-June – Fund Officers and Actuary meet to consider any issues emerging

from early data analysis.

- End July – Standardised valuation data submitted by Actuary to Government Actuary's Department.
- Early September – Preliminary results available.
- Mid-September – Group meetings with employers (Local Authorities, F&HE, Academies, Other) to present preliminary results and identify issues
- October – Final results issued
- November – 1:1 sessions offered to each employer to meet with the actuary and the Fund. The aim is to agree the contribution rate to be certified by the actuary and deal with issues such as additional security.
- December – Director's Brief conclusion of the engagement process.

Updates will be provided to the Committee at future meetings.

The actuary's final report which will include the certified Rates and Adjustments Certificate will be presented to the Committee in the first quarter of 2017 together with the updated Funding Strategy Statement and the new Investment Strategy Statement.

### **Consultations**

This report is concerned with the responses to a consultation exercise, which the Fund is required to undertake alongside the valuation process in order to develop the new Funding Strategy Statement that has to be produced alongside the valuation.

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Effective risk management is central to the valuation process both in terms of the level of investment risk the Fund is prepared to take in order to deliver the returns necessary to eliminate the deficit and the risk presented by the affordability of contributions to individual employers.

### **Financial**

Provision has been made within the Fund's budget for the higher level of actuarial fees that will be incurred as a result of undertaking the additional work required for a full valuation.

### **Legal**

The Fund is required by the relevant LGPS Regulations and Pensions law to undertake regular valuations in order to set contribution rates aimed at achieving the elimination of the deficit. The final determination of the rates is a matter for the actuary who issues these in the rates and adjustments certificate that forms part of his final report.

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## **Responsible Investment**

(Appendix 'A' refers)

Contact for further information:

Abigail Leech, (01772) 530808, Interim Head of Fund,

abigail.leech@lancashire.gov.uk

### **Executive Summary**

The report at Appendix 'A' provides the Pension Fund Committee with an update on Responsible Investment matters.

Responsible Investment (RI) encompasses a range of activities connected with Lancashire County Pension Fund (LCPF) fulfilling its fiduciary duty to act in the best long term interests of fund beneficiaries.

### **Recommendation**

The Committee is asked to note the report.

### **Background and Advice**

The Pension Fund Committee receives a report on RI-related matters routinely each quarter.

As the first RI report presented since the launch of the Local Pensions Partnership (LPP), this quarter's report has a slightly different look and approach. This reflects the new service delivery context wherein RI matters are part of the investment management services being received by LCPF from LPP - its external provider of pension services.

The report at Appendix 'A' has been prepared by the Responsible Investment Officer at LPP Investments Ltd and provides information on how the Fund is fulfilling its commitment to long term responsible asset ownership in line with the approach set out within its Statement of Investment Principles.

### **Consultations**

N/A

## **Implications:**

This item has the following implications, as indicated:

### **Risk management**

It is a key component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best interests of fund members and beneficiaries.

Responsible investment practices underpin effective fulfilment of the Administering Authority's fiduciary responsibilities.

The promotion of good corporate governance within the companies the Fund is invested in reduces the risk of unexpected losses arising as a result of poor oversight and lack of independence.

Involvement in a non-US type of "class action" may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

Should the claimants in the litigation against RBS fail, then it is possible that LCPF faces having to make a contribution towards RBS costs notwithstanding the insurance which is in place. The amount of any shortfall following an insurance settlement and the LCPF contribution thereto is impossible to quantify at this stage.

Furthermore, if the case is successful the LCPF will be required to pay the amounts owing for Legal Services under the Conditional Fee Agreement (insofar as not recovered from RBS) and to pay a proportion of any sum recovered to the funder from the proceeds of the litigation.

### **Local Government (Access to Information) Act 1985 List of Background Papers**

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

## Appendix 'A'

### Lancashire County Pension Fund

#### Responsible Investment Report

<b>Title of Paper</b>	Quarterly Report on Responsible Investment
<b>Lead Officer:</b>	Frances Deakin Responsible Investment Officer Local Pensions Partnership Investments Ltd <a href="mailto:frances.deakin@localpensionspartnership.org.uk">frances.deakin@localpensionspartnership.org.uk</a>
<b>Appendices</b>	<b>Appendix 1: Q1 2016 Litigation Monitoring Report CR&amp;B</b> <b>Appendix 2: ESG Made Simple Guide - PLSA</b>

#### Executive Summary

This report provides members of the Pension Fund Committee of Lancashire County Pension Fund (LCPF) with a quarterly update on Responsible Investment (RI) matters.

This is the first RI report presented since the launch of the Local Pensions Partnership (LPP) and slight alterations in style and appearance reflect the change of context associated with LCPF receiving investment management services as a client of LPP.

#### Introduction

The matters covered within this report reflect the commitment and approach to RI set out within LCPF's Statement of Investment Principles (SIP). The SIP confirms that the objective of RI activity is to decrease investor risk, improve risk-adjusted returns and help the Fund adhere to the UK Stewardship Code through;

- incorporating material extra-financial factors (Environmental, Social and Governance considerations) within investment decisions;
- utilising ownership rights to protect and enhance shareholder value over the long term, primarily through voting and engagement.

The practical implementation of the Fund's commitment to RI involves four areas of activity which are each covered in turn within the report.

1. Voting Globally
2. Engagement through Partnerships
3. Shareholder Litigation
4. Active Investing

## 1. Voting Globally

LCPF owns shares in listed companies across the globe. To ensure consistent and effective use of the voting rights attached to these assets LCPF employs Pensions and Investment Research Consultants Ltd (PIRC) as an external provider of proxy voting and governance services. PIRC analyse and apply voting guidelines to the resolutions at shareholder meetings the Fund is entitled to attend and manage the process of vote execution.

PIRC provide quarterly reports providing a retrospective summary of votes cast and the outcome of voting (where known). A copy of the most recent report covering the period from 1<sup>st</sup> January to 31<sup>st</sup> March 2016 has been placed within the Members Retiring Room for reference. In summary, during the first quarter of 2016 (1<sup>st</sup> Jan to 31 March 2016) the Fund voted at 36 shareholder meetings (19 AGM, 7 EGM) and on 474 separate resolutions. The tables below summarise the geographical spread and the direction of voting in Q1:

Location	Meetings Voted		Vote Categories	No. of Resolutions	%
UK & BRITISH OVERSEAS	2	6%	For	268	57%
EUROPE & GLOBAL EU	7	19%	Abstain	38	8%
USA & CANADA	17	47%	Oppose	104	22%
ASIA	5	14%	Non-Voting (No ballot)	18	4%
JAPAN	1	3%	Withhold	46	10%
AUSTRALIA & NEW ZEALAND	2	6%	TOTAL	474	100%
REST OF THE WORLD	2	6%			
TOTAL	36	100%			

More than half of all resolutions (57%) were supported by the Fund.

Voting against or withholding support for resolutions primarily focussed on

- questions of executive remuneration
- the re-appointment of auditors due to relationships of long standing
- a perceived lack of independence in nominated Non-Executive Directors (NEDs) most often due to their length of tenure.

The Fund also opposed the nomination of NEDs where individuals were known to be simultaneously fulfilling multiple other directorships and were unlikely to be able to give matters sufficient undiluted time and attention.

At the WH Smith Plc AGM the Fund opposed the Remuneration Report due to significant concerns over the excessiveness of CEO remuneration. Whilst the level of fixed pay did not raise major concerns, variable pay for the year under review amounted to 690% of salary which is considered highly excessive. Changes in CEO pay over the last five years do not align with the Company's financial performance over the same period and the ratio of CEO pay compared to the average employee pay is highly excessive at 106:1. The Fund also opposed the Remuneration Policy reflecting that maximum potential awards under all incentive schemes are considered highly excessive, there are no schemes available to enable employees to benefit from business success unless they

purchase shares and the Long-Term Incentive Plan (LTIP) contains no non-financial performance conditions.

The Pensions and Lifetime Savings Association currently has an initiative focussed on executive remuneration. Research underway will result in guidance designed to assist and encourage asset owners to use their voting rights to influence companies to adopt Long Term Incentive Plans which better align with the interests of shareholders by producing financial incentives for strong performance measured against financial and non-financial indicators of both company and individual performance, assessed over a sufficient time period. LPP I will review the guidance once produced with a view to incorporating best practice into its voting approach.

## 2. Engagement through Partnerships

The Fund's engagement activities principally operate through direct relationships between Fund Managers/Investment Managers and investee companies with ongoing efforts focused on supporting companies to be well run, resilient and incorporating high standards of corporate governance.

Wider engagement efforts feature membership of partnerships and collaborations which offer greater reach and wider impact than acting alone. The Fund's principal collaboration within the RI work stream is its membership of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds as asset owners. 70 of the 89 LGPS funds are now members.

LAPFF is LCPF's primary engagement partner and LCPF's interests are routinely represented by the Responsible Investment Officer (LPP I Ltd) who attends quarterly LAPFF Business Meetings, seeks to influence the development of the LAPFF work plan and identifies opportunities for direct participation in key initiatives.

A copy of LAPFF's Q1 2016 engagement report has been placed within the Members Retiring Room for reference and recaps on activities in the period from 1 January to 31 March 2016. Highlights in this first quarter include:

- Strategic Resilience Resolutions co-filed by LAPFF funds  
Building on the success of last year's results at the Shell and BP AGMs, three strategic resilience resolutions have been co-filed for the 2016 AGMs of Glencore, Anglo American, and Rio Tinto. Extra efforts were required by LAPFF and its coalition partners to rally Anglo American shareholders and push the resolution over the co-filing threshold.
- Trends Emerging from Tax Engagement  
LAPFF has received further responses and held meetings with three more companies as part of its ongoing Corporate Tax Transparency Initiative. Engagements reveal a continued reluctance to increase the disclosure of tax practices, even by companies already doing relatively well in this area.

LAPFF's most recent quarterly Business Meeting took place on 19<sup>th</sup> April 2016 and headlines from the meeting included the following matters:

- The LGPS Scheme Advisory Board (SAB) has met under the chairmanship of Cllr Roger Philips. John Richards of UNISON has been appointed Vice Chair. The LAPFF Executive

consider these to be good appointments which will provide the scheme with strong leadership.

- The Executive has received a report on the LAPFF membership structure including early proposals for accommodating the change in landscape arising from pooling. The working party on the LAPFF constitution will continue to take this issue forward.
- Member suggestions which have been added to the LAPFF work plan in 2016 include
  1. a guide to co-filing shareholder resolutions
  2. the collation of information on pooling arrangements under development
  3. engagement on cyber security
  4. engagement on COP21 (climate change)
- Scoping papers will be produced on two larger projects proposed by members. One is a request that LAPFF provides focus/coordination for a collaboration on the disclosure of RI activities undertaken by Fund Managers on behalf of their clients. This request was submitted on behalf of LCPF and LPFA by the LPP I RI Officer and reflects that LGPS schemes share managers and have a common need to hold them effectively to account for their RI efforts.
- Paul Spedding from Climate Tracker Initiative presented a paper commissioned by LAPFF on engagement with the Oil Coal and Gas sector. Very useful insights were given into the risks faced by the sector and the questions investors should be asking in relation to the sensitivity of business planning models and company valuations to oil prices and levels of demand.

### 3. Shareholder Litigation

LCPF is committed to maintaining an up to date understanding of any shareholder litigation it potentially has an interest in. Litigation offers a route for recovering financial losses where asset values have been diminished as a result of financial misconduct and also fulfils the commitment made by signatories to the PRI to engage with investee companies to improve standards of corporate governance.

The Fund receives securities litigation monitoring services at no cost from two US law firms - Barrack, Rodos and Bacine (BR&B) and Robbins Geller Rudman and Dowd (RGRD) who ensure prospective actions are known about, the fund's interest (level of loss) is quantified and information is available as a basis for making decisions on an appropriate course of action given the risks, costs, benefits and deadlines involved in each case. These arrangements continue on the Fund's behalf, managed by LPP I.

The document at Appendix 1 provides a brief summary from BR&B of litigation monitoring during Q1 2016. Reference is made to LCPF having received a distribution from a settlement fund. This relates to an action against Bain Capital Partners LLC/Aramark Corp. as part of a large antitrust class action that contended private equity firms had suppressed competition in certain leveraged buyouts ("LBOs") from 2003-2007 which resulted in shareholders being paid a reduced amount per share for their stock holdings. The recovery received by LCPF in January 2016 was \$146.83. Appendix 1 also makes reference to a claim filed by the Fund's custodian which relates to a case against ITT Educational Services Inc. involving alleged material misrepresentations and omissions concerning the company's liabilities and its failure to disclose that financial statements contained errors reflecting a lack of adequate internal controls over financial reporting. The committee will be informed about any recovery from this action in due course.

The pooling of assets will ultimately mean a change in ownership arrangements for the listed equities managed on behalf of LCPF and LPFA by LPP Investments Ltd. The Fund's

beneficial ownership rights will continue to be well protected once the new arrangements are introduced and LPP I will carefully monitor litigation to ensure the Fund is aware of cases where it has sustained losses and appraised about opt-in, opt-out or independent legal action where this might offer a premium recovery compared with the default approach of participating in class actions.

#### *Royal Bank of Scotland*

As previously reported, the Fund is part of a large group of institutional investors in a group action against Royal Bank of Scotland Group Plc (RBS) under which it is argued that investors suffered losses in connection with a Rights Issue in 2008. The law firm representing our investor group (SL Group Claimants) provides a monthly update on pre-trial progress with the case. However, a requirement for confidentiality around details of the ongoing legal process mean only limited aspects can be reported publicly. Progress is being monitored and LCPF interests (as a claimant) are being reviewed by the County Council's Director of Legal and Democratic Services on an ongoing basis.

Since the last quarterly report to the Pension Fund Committee there have been no further Case Management Conferences (CMC) though a 10<sup>th</sup> CMC is scheduled for 13-15 June 2016.

The SL Group's potential liability for adverse costs remains unchanged, there is no material change to Stewarts Law's and Leading Counsel's estimate of the prospects of success in the litigation and there are currently no new matters or issues Stewarts Law are aware of that might have a material impact on the prospects of success/recovery.

The estimated length of trial remains unchanged at 25 weeks (6 months) beginning in March 2017. However, this period will be interrupted by a two month break for Court vacation during August and September 2017.

#### 4. Active Investing

LCPF's commitment to active investing involves considering the wider characteristics of investment opportunities by identifying positive social characteristics and potentially negative impacts and allowing these to be taken into account as part of decision-making. The commitment is fulfilled in practice by incorporating the consideration of relevant Environmental, Social and Governance (ESG) factors into investment due diligence.

The Pensions and Lifetime Savings Association has recently added to its "Made Simple" guides with the publication of a volume focussed upon ESG. A copy of the guide is provided at Appendix 2 and it offers Committee members helpful insight and an up to date summary of the benefits and challenges associated with ESG as a complementary way of viewing investment risk. The guide may help to enrich the Committee's further thinking about RI and fiduciary duty including the way in which this translates into actions undertaken by LPP as its provider of investment services.

Within the last 12 months LCPF has invested additional time and resources to increase its focus on RI matters. This has coincided with growing emphasis on ESG within the media and explicit reference by the DCLG within its consultation on asset pooling and the revision of LGPS investment regulations. The DCLG is yet to publish its response to the consultation (which prompted a strong reaction to a proposed embargo on politically driven screening and received more than 23,000 submissions). Nevertheless, the



Local Pensions Partnership

agreement to prioritise an RI sub group to the LGPS Cross Pool Collaboration Group has demonstrated a recognition of the importance of RI/ESG as part of future arrangements for pooled investment stewardship. Each developing pool has nominated a representative to attend the RI sub-group.

The new group will act as practical forum for sharing ideas and best practice and tackling the issues which arise from pooling including the harmonisation of existing policies and approaches and ensuring each fund's interests as an asset owner are represented. The group will also aim to align and place the collective strength of the LGPS behind initiatives which support the long term interests of Local Authority pension funds as asset owners on behalf of fund beneficiaries, reflecting that pooling is set to increase the scale of joint investments and with it the potential influence of the LGPS an institutional asset owner.

The RI sub-group is chaired by the Chief Pensions Officer of the Environment Agency Pension Fund and has already held its first meeting. The interests of LCPF, LPFA and other clients of LPP will be represented by the RI Officer who will participate in the development of a work plan focussed on priorities and support the success of collaborations and wider cross pool initiatives which develop from this.

# BARRACK BULLETIN

THE INSTITUTIONAL INVESTOR'S GUIDE TO SECURITIES CLASS ACTION LITIGATION

## First Quarter 2016 Securities Litigation Review Prepared for Lancashire County Council

Barrack, Rodos & Bacine, as securities monitoring counsel for Lancashire County Council ("Lancashire"), provides the following securities litigation review for the first quarter of 2016 as reflected in Barrack's Evaluation And Monitoring System, or BEAMS®:

### ***U.S. Securities Class Action Filings***

From January 1, 2016 through March 31, 2016, 73 securities class actions were filed by investors:

- 67 cases were filed in federal court and six cases were filed in state court.<sup>1</sup>
- Two of the 73 cases were voluntarily dismissed by the end of the quarter. Securities cases are typically dismissed voluntarily when the investor leading the case, after conducting an investigation into the allegations, determines that there will likely be insufficient evidence to support for the allegations of wrongdoing.
- BR&B analyzed every securities class action filed and concluded that 18 cases contained allegations that appeared to be of sufficient merit that we would recommend that our institutional investor clients with a substantial financial interest in the case consider an active role in the case.
- Lancashire did not suffer losses on class period investments in the securities that were the subject of securities class action cases filed in the first quarter.

### ***Settled Cases – Claim Filings***

- There were 28 settled securities class actions with claim filing deadlines in the first quarter of 2016.

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<sup>1</sup> The state court cases are listed at the end of the U.S. Securities Class Actions Report (All U.S. Cases) without a lead motion due date. Securities class actions alleging violations of federal law in connection with public offerings of securities may be filed in state court, outside the scope of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). Because the PSLRA's lead plaintiff procedures do not apply, the Lead Motion Due Date has been left blank.

- Every month we notified Northern Trust, Lancashire's custodian, of upcoming claim filing deadlines and our analysis of the fund's financial interest in each settlement based on the terms of the settlement.
- According to the custodial data available to us, Northern Trust filed a claim on the Fund's behalf in one settled case.

### ***Settled Cases – Recoveries***

- Lancashire received a distribution from one settlement fund during the first quarter of 2016.

### ***Global Group Actions***

- We identified 13 group actions that were contemplated or brought outside of the United States with participation deadline dates in the first quarter of 2016.
- Lancashire did not have a substantial financial interest in any of the global group actions that had participation deadlines in the first quarter of 2016.<sup>2</sup>

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<sup>2</sup> Should Lancashire appear to have a substantial financial stake in a non-U.S. case, we will provide an analysis that includes a discussion of the feasibility of asserting claims in a non-U.S. jurisdiction. Because we are not licensed to practice law outside the U.S., we cannot and do not provide legal advice or recommendations regarding laws outside the United States. Our working relationships with legal professionals outside the United States, however, enable us to rely on the advice that they offer in connection with the law governing such foreign securities actions.



## Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of member funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of public sector pension funds in the UK with combined assets of over £175 billion.

# QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2016

**This quarter, LAPFF membership reached 70, welcoming Sutton as its newest member**

LAPFF Chairman, Cllr Kieran Quinn, cited for work on promoting the legal standard of true and fair view for accounting standards

Strategic resilience resolutions co-filed to Rio Tinto, Anglo American and Glencore supported by all three company Boards

Corporate Tax  
Transparency  
Initiative  
engagement  
meetings yield  
fruitful  
information

## LAPFF welcomes new members to the Executive Committee

## LAPFF remembers former LAPFF chair and Lord Mayor of Bradford, Cllr Bob Sowman

# Achievements

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## LAPFF Chairman, Kieran Quinn, listed as number 17 on Accountancy Age's Financial Power List for 2016

Cllr Quinn has been included on this list for his work on promoting the legal standard of true and fair view for accounting standards. This ranking demonstrates LAPFF's growing traction in promoting the legal standard of a true and fair view of accounts in the UK's accounting industry. The Forum's initiative is also growing in prominence at the European level, with LAPFF's latest communication to Lord Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union, calling for a clarification of the European Financial Reporting Advisory Group (EFRAG)'s position on IFRS 9.



## Trends begin to emerge from tax engagements

LAPFF received three more responses and met with three companies in relation to the Forum's Corporate Tax Transparency Initiative (CTTI). These engagements reveal a continued reluctance to increase disclosure of tax practices, even by companies already doing relatively well in this area. Despite this concern, a number of companies are planning to increase disclosure although investors are not yet requesting tax information to the extent they could.



## Strategic Resilience Resolutions co-filed by LAPFF funds supported by Boards

The boards of the three integrated mining companies, Anglo American, Rio Tinto and Glencore have confirmed they are advising investors to vote in favour of strategic resilience resolutions being put to their 2016 AGMs. The resolutions request reporting on company actions in the face of the carbon transition, including how the companies will manage their assets to be resilient to future energy scenarios. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with eighteen funds co-filing across the three companies.

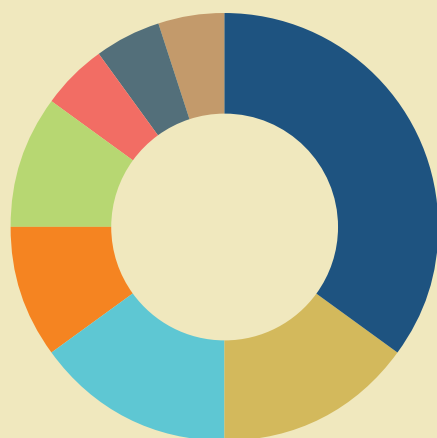


## Nestlé agrees to LAPFF request to review human rights reporting in light of Modern Slavery Act requirements

At **Nestlé's** recent investor roundtable, New LAPFF Executive member, Cllr Mukesh Malhotra, asked Nestlé Chairman, Peter Brabeck-Letmathe, to consider reporting in alignment with the new UK Modern Slavery Act requirements. Mr Brabeck-Letmathe agreed to look into doing so. This commitment is particularly important as the Company faces litigation before the U.S. Supreme Court relating to child labour in its supply chain.

# Company Engagement

## ENGAGEMENT TOPICS



Tax	7
Social risk	3
Environmental risk	3
Climate change	2
Board composition	2
Governance	1
Remuneration	1
Employment standards	1

## HOLDINGS-BASED ENGAGEMENT

Although climate change strategic resilience resolution efforts have shifted in part to Glencore, Anglo American and Rio Tinto, engagement continued with **BP** to assess how the company is responding to the resolution requests from last year. A meeting with a number of BP's senior management including Head of Long-Term Planning and Head Economist took place at the end of February with colleagues from the Aiming for A coalition. Cllr Richard Greening attended on behalf of LAPFF. While BP was supportive of the resolution ahead of last year's AGM, there are concerns that its commitment to implementing the requests in the resolution are stalling. Therefore, BP's disclosure of its 'faster transition' was a welcome response to one of the resolution's components.

Engagement with another integrated miner, **BHP Billiton**, had previously been around the resolution asks on strategic resilience and the carbon transition. However, with the company issuing its 'Climate Change Portfolio Analysis' in 2015, investor focus shifted to the mining dam collapse at the Company's Samarco project in Brazil, which left at least twelve people dead, eleven missing, and untold damage to property, causing significant reputational damage for BHP. The dam is operated by Samarco as a joint venture between BHP and Vale.

Jane Firth from the LAPFF Executive spoke with BHP representatives about the Company's community engagement efforts, particularly at the Cerrejon mine in Colombia, and its responses to the Samarco disaster, in Brazil. This conversation followed Ms Firth's attendance at the BHP Billiton AGM last year, where she welcomed the Company's Portfolio Analysis report and asked about the Company's membership of industry groups with

approaches to climate change at variance with Company statements. While BHP has taken a number of steps to engage effectively with communities in relation to project development, it is worrying that the Company identified a Samarco-type disaster as a risk in its annual report the year prior to the mine dam collapsing. This course of events suggests that while BHP has an effective risk identification program, it is not equally effective in taking measures to prevent these risks from materialising.

## PROMOTING GOOD GOVERNANCE



LAPFF met with **Kier Group** to discuss the Company's remuneration practices. This meeting follows on from an initial meeting in 2014 regarding Kier's past involvement with blacklisting and Chairman Phil White's well-received presentation at the 2015 LAPFF Annual Conference. The latest meeting took place with Amanda Mellor, the chair of Kier's remuneration committee. The meeting achieved its aims of gaining an understanding of the Company's approach to its specific remuneration challenges; providing support for challenges to the status

quo in executive pay, and pressing where LAPFF considers Kier could move further in the direction of the Forum's beliefs on executive pay. The Company's approach to non-monetary incentives was explored in line with the Forum's views on People and Investment Value.

Responsible tax payment has rapidly become a significant governance issue for investors over the last couple of years. LAPFF has been engaging with the FTSE 100 companies on tax through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire. During the quarter, LAPFF received questionnaire responses from **Dixons Carphone**, **Admiral Group** and **SSE** and met with **ITV**, **Tesco** and **Direct Line Group** to discuss what needs to happen for companies to report more fully on their tax practices. LAPFF has employed eminent tax expert, Richard Murphy, to consult on this engagement, and the outcomes of these discussions are starting to feed into ideas for overcoming a disclosure barrier on tax.

LAPFF also wrote to **Google** following revelations that the Company had failed to pay adequate tax in the UK but as yet has had no response. Google UK had argued it was exempt from paying tax on share options. The Company's effective tax rate is allegedly between 2% and 3% as compared with the standard 20% rate for corporation tax.

## PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS



After attending last year's **Nestlé** investor roundtable, LAPFF was again invited to this event hosted in Central London. New LAPFF Executive Member, Cllr Mukesh Malhotra, succeeded at his first LAPFF engagement meeting in getting the Nestlé Chairman, Peter Brabeck-Letmathe, to agree to review the Company's reporting on labour rights in the supply chain so that the Company is compliant with the reporting requirements in the new Modern Slavery Act.

LAPFF attended another investor roundtable, this time held by unions, to learn about a shareholder resolution filed with **Pearson**, an education company. Teachers and parents in

the US and the UK have expressed concern that Pearson is driving a system of educational testing that is unduly stressful for teachers, parents and students and does not achieve appropriate educational outcomes. These testing concerns have been coupled with poor financial performance over the last few years, prompting union pension funds to request that the Company re-visit its business strategy to ensure that its products and services are meeting both basic human rights and shareholder needs.

LAPFF is also finalized its policies on human capital which should help to guide engagements relating to people and investment value. A human capital policies paper was presented to both the LAPFF Executive and LAPFF Membership for approval and covers topics such as zero hour contracts and supply chain transparency. The paper draws on both legal developments and recent research clarifying the link between human capital and investment value.

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Building on success after last year's results at the Shell and BP AGMs, three strategic resilience resolutions have been co-filed for the 2016 AGMs of **Glencore**, **Anglo American**, and **Rio Tinto**. This result was no small feat, with extra efforts by LAPFF and its coalition partners needed to rally Anglo American shareholders and push the resolution with this Company over the co-filing threshold. The Anglo resolution was the first in the UK to be supported by 5% of voting shares. The Rio Tinto resolution is another first in that all 100 co-filers have the Company as part of their main investment portfolio. As was the case last year, there has been not only shareholder support for the resolutions, but company support as well with all three boards backing the resolutions. Once again, a process of voting declarations in advance of the resolutions, acts as a spur to indicate active shareholder support rather than the default position of supporting management automatically. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with a total of 18 LAPFF funds co-filing across the three companies. With the range of other investors, the total assets under management backing these resolutions amounts to £8 trillion.

Since filing shareholder resolutions are prohibitively complex in France, LAPFF joined other investors in writing to **Total**, asking the Company for a commitment to disclose according to the five elements of the strategic resilience resolution. This disclosure covers asset portfolio resilience according to the International Energy Agency Scenarios, which include the 450 ppm/two degree scenario. In March, minutes of the Total board meeting were released indicating that the directors had agreed to publish this information in a document at the May AGM. This disclosure

will also address other elements requested such as R&D in low-carbon energies as well as Total's engagement with public policies addressing climate change.



Other engagement avenues to address the required low carbon transition have included tackling company involvement in lobbying activities. LAPFF has written to a

number of companies – **Johnson Matthey, EDF, and Proctor and Gamble** – requesting information regarding their membership in industry organisations that have denied or failed to promote action on climate change. This engagement was undertaken with other investors concerned that industry bodies are often laggards in their climate change policies and strategies. Overall, the companies approached have been forthcoming with their views on balancing their climate change work with partners who are not engaging as well in this area as the companies would like. In relation to industry organisations, the challenge is fostering responsible climate change approaches while maintaining membership in groups with varied work and purposes. P&G responded to the LAPFF letter in January along these lines.

LAPFF has also joined other investment institutions in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.

## MEDIA COVERAGE

### Climate Change

FT: [Anglo American pressed on climate change disclosure](#) [subscription only]

Chief Investment Officer: [\\$8T Investor Coalition Turns Up Heat on Miners](#)

Edie.net: [Investors Demand Climate Transparency from Mining Firms](#)

Blue & Green Tomorrow: [Unprecedented Investor Call for Climate Risk Transparency from Mining Giants](#)

Professional Pensions: [UK schemes join global battle against mining giants over climate change](#) [subscription only]

### Governance

FT: [Murdoch's return to helm of Sky set to raise governance questions](#) [subscription only]

### Human rights

Electronic Intifada: [Has the UK Really Banned Boycotts?](#)



### Reliable accounts

Financial Director: [All's true and fair in accounting standards battle](#)

Accountancy Age: [The Financial Power List 2016](#)

Investment and Pensions Europe: [MEPs reignite war of words over prudent accounting standards](#)

Lider Press (Hungary): [a piece including a reference to LAPFF's work on true and fair view and the Bompas Opinion](#)

### Tax

The Times: [Pension funds step up the pressure in tax row](#) [subscription only]

## NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

**Devon, Somerset, Wiltshire and Falkirk committees:** Presentations to LAPFF member funds on shareholder engagement, LAPFF activities and positive outcomes.

**SPS** – Keith Bray, LAPFF’s Forum Officer, attended an event hosted by SPS titled “Reviewing Investments & Funding at a Time of Change” to represent LAPFF

**Goldman Sachs/Local Government Chronicle (LGC)** – On behalf of LAPFF, Mr Bray also chaired a LGC roundtable hosted by Goldman Sachs. This discussion focussed on ESG issues and included LGPS participants, as well as representatives from GM.

**CDP** – post-COP 21 update and ‘deep-dive’ on miners meeting

**ClientEarth/Preventable Surprises roundtable** – LAPFF representatives attended a meeting hosted by CCLA on Investor Strategy Post COP21

**Carbon Tracker** – International Investor meeting on strategies for 2016 and beyond

**Extractives Industry Transparency Initiative (EITI)** – call, the focus of which was to recruit a new investor representative to sit on the EITI Board. Recruitment of an investor representative has proved very difficult but is important as the EITI framework finds its way into legislation such as the Dodd-Frank Act provisions on conflict minerals. However, there are concerns about the efficacy of the EITI as well, which might account for the lack of investor interest.

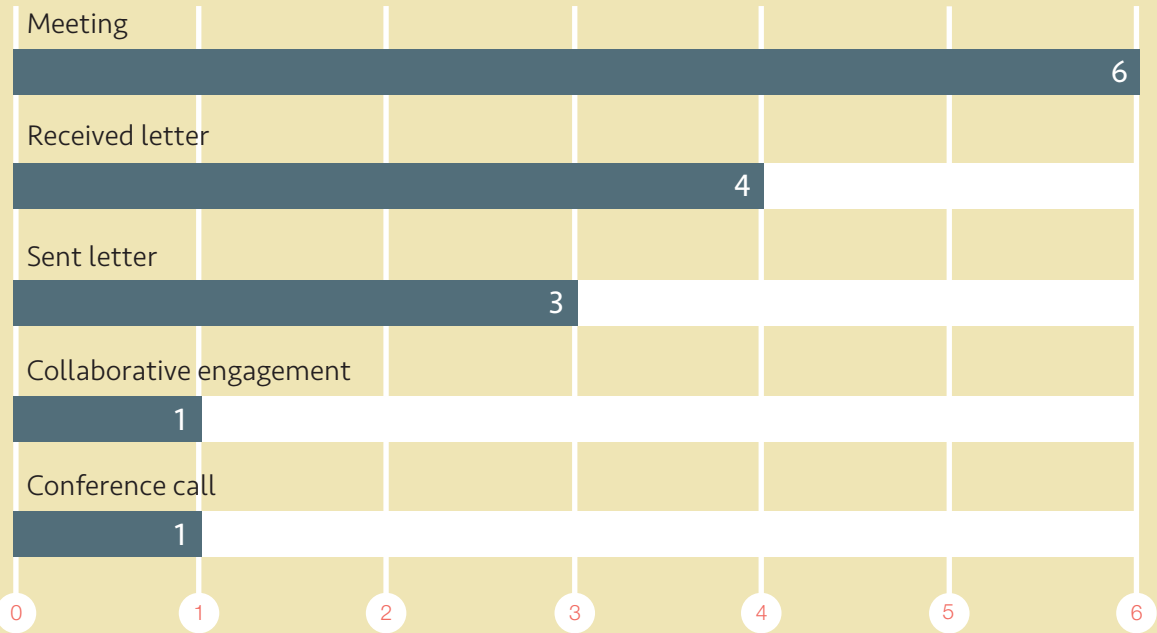
**University College London** – on a related topic, an international law professor critiqued the Dodd-Frank conflict mineral provisions, stating that they are ill-conceived at law and in practice. Her assessment is that the pending EU conflict minerals regulations are vastly better than their US counterparts.

**Rockefeller** – human capital webinar exploring the link between human capital and shareholder value.

### Q1 2016 ENGAGEMENT DATA

	Company	Topics	Activity/Outcome	Domicile
1	Dixons Carphone	Tax	No Improvement	United Kingdom
2	Admiral Group	Tax	Small Improvement	United Kingdom
3	SSE	Tax	Dialogue	United Kingdom
4	BHP Billiton	Social Risk/Environment	Satisfactory Response	UK/Australia
5	P&G	Climate Change	Dialogue	United States
6	ITV	Tax	Dialogue	United Kingdom
7	Kier Group	Remuneration	Moderate Improvement	United Kingdom
8	Tesco	Tax	Dialogue	United Kingdom
9	Google	Tax	Dialogue	United States
10	Weir Group	Board Composition	Dialogue	United Kingdom
11	Direct Line	Tax	Moderate Improvement	United Kingdom
12	Nestlé	Employment Standards/ Board Composition	Moderate Improvement	Switzerland
13	BP	Climate Change	Moderate Improvement	United Kingdom

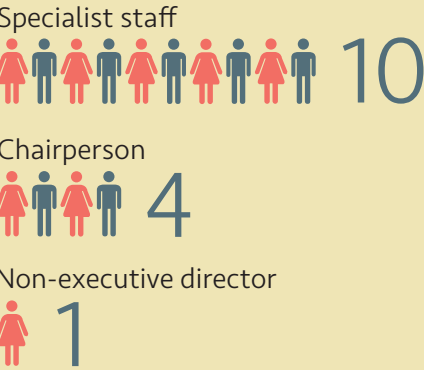
COMPANY ENGAGEMENT ACTIVITIES



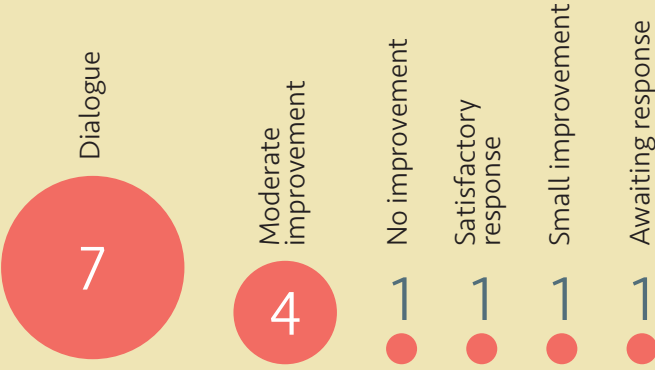
COMPANY DOMICILES



POSITION ENGAGED



OUTCOMES



## NEW LAPFF EXECUTIVE MEMBERS

LAPFF would like to welcome new Executive Committee members, Cllr Mukesh Malhotra, London Borough of Hounslow Pension Fund, Cllr Doug McMurdo, Bedfordshire Pension Fund, and officer Faith Ward, Environment Agency Pension Fund.



*Cllr Mukesh  
Malhotra*



*Cllr Doug  
McMurdo*



*Faith Ward*

## REMEMBERING CLLR BOB SOWMAN

### **A tribute by LAPFF Vice Chair, Ian Greenwood**



Many long term members will have been saddened by the news of the death of Cllr Bob Sowman. Bob was a Bradford Councillor for 30 years and held a number of senior managerial posts in the engineering industry. He was the Chair of West Yorkshire Pension Fund for many years and Chair of LAPFF from 1999 till 2004. He was my friend for nearly 40 years. Bob was a larger than life character who cared passionately about equality and believed that everybody should have a decent pension. He was an early advocate of responsible ownership and engagement and under his chairmanship LAPFF made great strides. His leadership and vision made a great contribution to LAPFF becoming the organisation it is today. He was a wonderful man who will be missed by many.

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Rhondda Cynon Taf
- Somerset County Council
- Sheffield City Region Combined Authority
- Shropshire Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council



## **Pension Fund Committee**

Meeting to be held on 10 June 2016

Electoral Division affected: None
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## **Feedback from Committee Members on External Pension Fund Training Events and Conferences**

Contact for further information:

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### **Executive Summary**

This reports provides Members of the Committee with the opportunity to provide feedback on external Pension Fund training events and conferences attended by Members since the last meeting of the Committee.

### **Recommendation**

The Committee is asked to note the report and the feedback presented.

### **Background and Advice**

The Pension Fund Committee at its meeting on 29 January 2016 approved a refreshed training plan for members of the Committee. As was the case with the previous plan, the purpose of the refreshed plan is to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- Local Government Pension Scheme (LGPS) Governance Compliance Statement.

The training plan requires Committee Members to provide verbal feedback at the subsequent Committee meeting to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

The following external training events/conferences have been attended by Committee Members since the last meeting of the Committee:

- **LAPFF Annual Conference, 2 - 4 December 2015, Bournemouth**  
The event was attended by County Councillors Gina Dowding and Kevin Ellard;
- **CIPFA Local Government Pension Scheme Pensions Summit, 27 January 2016, London**  
The event was attended by County Councillor Kevin Ellard
- **Annual LAPF Strategic Investment Forum, 3 - 4 February 2016, London**  
The event was attended by County Councillor Kevin Ellard
- **SPS Conference - Local Authorities Investment Strategies and Current Issues, 17 March 2016, London**  
The event was attended by County Councillor Kevin Ellard
- **PLSA Local Authority Conference, 16 - 18 May 2016, Gloucestershire**  
This event was attended by County Councillor Kevin Ellard

Feedback on these external training events/conferences will be provided at the meeting by those Committee Members who attended.

## **Consultations**

N/A

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

Without the required knowledge and skills, those charged with governance and decision-making within the Pension Fund may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

## **Financial**

The cost of attendance, together with travel and subsistence costs were met by the Pension Fund.

## **Local Government (Access to Information) Act 1985** **List of Background Papers**

Paper	Date	Contact/Tel
Attendance at Conferences approved under the Scheme of Delegation to Heads of Service	2015/16	Frances Deakin, (01772) 533112/Abbi Leech, (01772) 530808

Reason for inclusion in Part II, if appropriate

N/A

