

**LANCASHIRE COUNTY PENSION FUND  
GOVERNANCE POLICY STATEMENT**

(Updated as at July 2011)

**INTRODUCION**

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

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

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

**PURPOSE of Governance Policy Statement**

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

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

*(b) if it does so –*

*the frequency of any committee or sub-committee meetings;*

*the terms, structure and operational procedures of the delegation;*

*whether such a committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and if so, whether those representatives have voting rights.*

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

## **GOVERNANCE of Lancashire County Pension Fund**

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

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

#### Composition and role

1. The Pension Fund Committee ("the Committee") comprises fourteen County Councillors and seven voting co-optees representing the following organisations:
  - a. One co-optee representing the Further and Higher Education sector in Lancashire;
  - b. One co-optee from Blackburn with Darwen Council;
  - c. One co-optee from Blackpool Council;
  - d. Two co-optees representing Trade Unions; and
  - e. Two co-optees representing the Lancashire borough and city councils.
2. The role of the Committee is to:
  - a. exercise responsibility for the administration of the Lancashire County Pension Fund ("the Fund");
  - b. establish policies in relation to investment management, which shall include meeting with the Investment Panel to consider future investment policy for the Fund;
  - c. monitor and review investment activity and the performance of the Fund; and
  - d. present an annual report to the Full Council on the state of the Fund and on the investment activities during the preceding year.
3. Meetings of the Committee shall be open to the public, but the public may be excluded where information of an exempt or confidential nature is being discussed – see Access to Information Procedure Rules set out at Appendix 'H' to the County Council's Constitution.

#### Terms of Reference

1. To exercise Lancashire County Council's responsibility for the management of the Fund, including the administration of benefits and strategic management of Fund assets and liabilities.
2. To have overall responsibility for investment policy and monitor overall performance.

3. To submit an annual report to the Full Council on the performance and state of the Fund and on the investment activities during the year.
4. To appoint a minimum of two suitable persons to an Investment Panel through a sub committee convened for that purpose.
5. To meet at least quarterly, or otherwise as necessary, with the Investment Panel in attendance.
6. To review governance arrangements and the efficient and effective use of external advisors to ensure good decision-making.
7. To approve the policies and procedures for any internally managed Fund investments.
8. To establish a Pension Fund Administration Sub-Committee and agree its composition, role and terms of reference.
9. To receive regular reports from the Treasurer to the Fund on the administration of the Fund to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
10. To approve the procurement process, tender award criteria and evaluation methodology in advance of any tender being invited for the appointment of external advisers and other external assistance in relation to the management of the Fund, to include:
  - a. external Investment Managers to discharge functions to be determined by the Committee relating to the management of the Fund's investments;
  - b. external property agents and advisors;
  - c. an external corporate governance adviser;
  - d. an external Fund custodian;
  - e. external performance measurement advisers;
  - f. the Fund Actuary; and
  - g. the Fund's AVC Provider
11. To approve an Annual Business Plan, Statement of Investment Principles, Governance Policy Statement, Treasury Management Strategy and Policy and Governance Compliance Statement.
12. To approve the Pension Fund Annual Report.
13. To approve a Funding Strategy statement to include the Fund's policy in respect of:
  - a. the Funding Target;
  - b. the collection of employee contributions;
  - c. the collection of employer contributions;

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

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

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

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

### Composition and role

1. The role of the Pension Fund Administration Sub-Committee ("the Sub-Committee") is to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers, that the Fund is being run on an efficient and effective basis.
2. The Sub-Committee shall meet at least twice a year or otherwise as necessary.
3. The membership of the Sub-Committee shall be determined by the Pension Fund Committee ("the Committee"). The current membership is five County Councillors, one Trade Union representative and one representative from either the Lancashire borough and city councils or the Lancashire Unitary Authorities. All members have voting rights.

### Terms of Reference

1. To ensure that the Committee's functions as Administering Authority are discharged and approve an Annual Administration Report.
2. To agree the terms of a Service Level Agreement in relation to the provision of administration services and support.
3. To submit reports and make recommendations to the Committee relating to the administration of the Lancashire County Pension Fund.
4. To respond to any Government consultations relating to the administration and benefits of the Local Government Pension Scheme.
5. To approve the following:
  - a. Pensions Administration strategy statement;
  - b. Communication Policy statement;
  - c. Internal Dispute Resolution procedure;
  - d. Death Grant procedure;
  - e. Bulk Transfer Payment policy;
  - f. Commutation policy (small pensions);
  - g. Transfer policy; and
  - h. Abatement policy.

## **INVESTMENT PANEL**

### Composition and role

1. The Investment Panel ("the Panel") will provide expert professional advice to the Pension Fund Committee in relation to investment activities, including the following categories of investment:
  - a. fixed interest securities managed by Investment Managers;
  - b. UK equities managed by the Investment Managers;
  - c. overseas equities and bonds managed by Investment Managers;
  - d. local investment in the acquisition and development of property in accordance with the investment strategy approved by the Pension Fund Committee;
  - e. UK and overseas unquoted investments via venture capital funds and other local arrangements;
  - f. acquisition of land and premises and the development of such land and improvements, refurbishment and modernisation of such premises;
  - g. indirect pooled property investments;
  - h. designated index linked funds;
  - i. investments managed internally and not by Investment Managers; and
  - j. any other monies to be invested other than in the above categories; provided that in all cases the investment activity is consistent with the investment strategy approved by the Pension Fund Committee.
2. The Panel will:
  - a. review the Fund's long term investment strategy and where necessary make recommendations to the Pension Fund Committee;
  - b. monitor the performance of the Fund's Investment Managers; and
  - c. report on the performance of the Fund and where necessary make recommendations to the Pension Fund Committee.
3. The Panel does not exercise any delegated powers but instead will provide advice to the Treasurer to the Fund who will either exercise his/her delegated powers or make recommendations to the Pension Fund Committee taking into account the advice and views from the Panel.
4. The membership of the Panel comprises:
  - a. The Treasurer to the Fund (as Chair);
  - b. Not less than two independent advisers appointed in accordance with arrangements determined by the Pension Fund Committee;
  - c. The officer of the County Council fulfilling the role of Chief Investment Officer for the Fund; and
  - d. An officer of the County Council identified by the Treasurer to the Fund to oversee investment activities.
5. The Panel will meet at least quarterly, or otherwise as necessary.

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

### Terms of Reference

1. To provide advice to the Treasurer of the Fund regarding:
  - a. Recommendations to the Pension Fund Committee in relation to the Investment Strategy for the Fund;
  - b. The performance management of Investment Managers;
  - c. The broad composition of the Fund's investment portfolio, management style and types of investment;
  - d. The proposed procurement process, tender award criteria and evaluation methodology for external advisers and other external assistance including investment managers, property agents and advisors, corporate governance adviser, Fund Custodian, performance measurement advisers, the Fund Actuary and the Fund's AVC Provider (" external support") to enable the Treasurer to the Fund to seek the approval of the Pension Fund Committee to commence the procurement of any required external support;
  - e. The selection and appointment of any required external support (subject to the role of the Pension Fund Committee), their terms of office and remit;
  - f. The allocation of ranges and thresholds within which the Investment Managers should operate;
  - g. Review of the Statement of Investment Principles and compliance with investment arrangements;
  - h. Recommendations on the detailed management of the investment portfolios to respond to requests from investment managers to vary certain aspects of their mandates;
  - i. The performance management of an internally managed investments; and
  - j. The securing of specialist advice within allocated budgets.

### **DELEGATION**

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

#### **County Treasurer**

#### **Pensions Fund**

As Treasurer of the Lancashire County Pension Fund:

1. Subject to the prior agreement of the two independent advisers on the Investment Panel to allocate monies for investment in the following categories of investment:
  - a. categories fixed interest securities managed by Investment Managers;
  - b. UK equities managed by Investment Managers;
  - c. overseas equities and bonds managed by Investment Managers;

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

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

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

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

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

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

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

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



- e. the appointment and supervision of managing agents and professional advisors necessary for the effective management of the Fund's property portfolio, within budget provision;
  - f. the collection of all rents, the setting of management and collection of service charges, insurance premiums and any other monies arising out of the Fund's property portfolio, together with the approval of any in-house systems established to achieve this; and
  - g. The placing of insurance cover for the Fund's property portfolio to such value and for such risks as shall be considered appropriate.
7. To execute documentation relating to the implementation of a new investment mandate or existing investment mandates, including the renewal of property leases.
8. To maintain all necessary accounts and records in relation to the Fund save as otherwise discharged in accordance with arrangements determined by the Pension Fund Administration Sub-Committee.
9. To arrange and authorise the provision of appropriate training for members of the Pension Fund Committee including the attendance at conferences and other similar pension fund related events by members of the Pension Fund Committee.
10. To accept for admission into the Lancashire County Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
11. To prepare and submit the following to Pension Fund Administration Sub-Committee:
  - a. Pension Administration Strategy statement;
  - b. Commutation policy (small pensions);
  - c. Internal Dispute Resolution procedure;
  - d. Death Grant procedure;
  - e. Bulk Transfer Payment policy;
  - f. Transfer policy;
  - g. Abatement policy; and
  - h. Communication policy statement;

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

12. To prepare and submit the following to the Pension Fund Committee:
  - a. Pension Fund Annual Report;
  - b. Annual Business Plan;
  - c. Statement of Investment Principles;
  - d. Funding Strategy statement including the Fund's policy in respect of:

- (i) the Funding Target;
  - (ii) the collection of employee contributions;
  - (iii) the collection of employer contributions;
  - (iv) the collection of additional employer contributions;
  - (v) Admissions and Terminations;
- e. Governance Policy Statement;
  - f. Governance Compliance Statement; and
  - g. Treasury Management Strategy and Policy and to arrange for the implementation and review as necessary of the abovementioned statements, strategies, policies and procedures.
13. To carry out the administrative functions of the administering authority relating to the Local Government Pension Scheme, under the terms of a Service Level Agreement.
14. The payment of death grants in accordance with the agreed Death Grant Procedures.
15. To deal with stage 2 appeals under the Internal Dispute Resolution Procedure.
16. To arrange and authorise appropriate and necessary training for members of the Committee.
17. To appoint any required external support (subject to the role of the Pension Fund Committee and the Independent Investment Panel), their terms of office and remit

## **CURRENT REPRESENTATION**

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

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

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

On this basis, it is open to pension committees to include representatives from district councils, scheme members and other lay representatives, with or without

voting rights, provided that they are eligible to be committee members (eligibility rules are set out in section 15 of the Local Government and Housing Act 1989). Membership of the Lancashire Pension Fund Committee is set out on page 2 of this statement

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

## **INCLUSION**

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

### 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 provide an employer training service to ensure that Fund employers, particularly payroll and HR staff are aware and conversant with their obligations as employing authorities and have a sound understanding of LGPS regulation and administration.

## With Employees

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

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

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

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

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

## **REVIEW**

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

## Lancashire County Pension Fund Governance Compliance Statement:

Principle		Compliance
A. Structure	<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<sup>(1)</sup></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>x</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. <sup>(1)</sup></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 <sup>(2)</sup></p> <p>(iv) expert advisers (on an ad hoc basis)</p>	<p>x</p> <p>x</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.</p> <p>(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	(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	✓
E. Training / Facility Time / Expenses	(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. (b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	✓ ✓
F. Meetings - Frequency	(a) that an administering authority's main committee or committees meet at least quarterly. (b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. (c) that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	✓ ✓ ✓
G. Access	(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	✓
H. Scope	a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✓
I. Publicity	(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	✓

## Notes

(1) The reasons for partial compliance in respect of Structure are as follows. District Councils, Scheduled Bodies and Scheme are represented. Admitted bodies only represent 7% of contributors to the fund and are therefore not represented. However, all employers receive a full annual report and are alerted to important events. Although employee representatives, i.e. Trade Unions, do not formally represent deferred and pensioner scheme members, it is accepted that representation is available to deferred and pensioners members via this route where necessary and/or appropriate.

(2) Guidance envisaged that an independent professional observer could be invited to participate in governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. This role is essentially that currently performed by officers and it is not apparent what added value such an appointment would bring. This is the reason for partial compliance in respect of Representation.