

## Lancashire County Pension Fund – Annual Governance Statement 2014/15

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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 2015 the Lancashire County Pension Fund provides a means of pension saving and retirement security for 153,203 members across 218 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 which is consistent with the principles of the CIPFA/SOLACE Framework "*Delivering Good Governance in Local Government*". The code is available from the County Council's website at the following link

[http://www3.lancashire.gov.uk/corporate/atoz/a\\_to\\_z/service.asp?u\\_id=1821&tab=1](http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=1821&tab=1)

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

### *The Purpose of the Governance Framework*

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

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

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

### *The Fund's Governance Framework*

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

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

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

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

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

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

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

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

The 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. These arrangements will be reviewed in the light of the new statutory and regulatory framework that will be put in place by April 2015.

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

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

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

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

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

*Fulfilling the core functions of an Audit Committee*

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

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

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

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

The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided both by the Fund's custodian and an Investment Compliance Team which is managerially 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.
- 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. During 2014/15 the County Treasurer, as the County Council's Chief Finance Officer, was separately appointed by the Full Council as Treasurer to the Lancashire County Pension Fund and consequently the Chief Officer responsible for fulfilling the County Council's duties as administering authority. Following a restructure of the County Council's management from 1<sup>st</sup> April 2015 the functions of Chief Finance Officer have passed to the Director of Financial Resources while the responsibility for fulfilling the County Council's functions as administering authority have passed to the Director of the Lancashire County Pension Fund.

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 2014/15 were:

- To work with the Pension Fund Committee to define more clearly the overall objectives and strategic planning framework for the Fund;
- To review and refresh, as necessary, those elements of the Fund's policy framework that have not yet been subject to review as part of the process of introducing LGPS 2014.
- To review the Fund's governance arrangements in the light of the Government's proposals for reform as part of LGPS 2014, including preparation for the new role for the Pensions' Regulator.
- To work with members of the Pension Fund Committee and officers involved in the running of the Fund to ensure that they are able to comply with the requirements set out in the CIPFA Knowledge and Skills Framework.
- To develop and begin the implementation of a more "liability aware" strategy for the management of the Fund's investments, in particular reflecting the individual circumstances of employing organisations;
- To embed the processes associated with the Fund's risk register in the management of the Fund.
- To review the transparency and scale of charges made by the County Council for services provided to the Fund.
- To produce a formal Compliance Manual for the Fund consolidating currently disparate guidance notes and memoranda.
- To formalise the arrangements for the management of the Fund's internal cash holdings by County Council staff into a clear investment mandate.

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

During the Year changes were made to the Fund's overall governance arrangements to accommodate the creation of the new statutory Local Pension Board as an oversight body. This resulted in the discontinuation of the Pension Fund Administration Sub Committee, which oversaw a range of administration related matters.

The Investment Panel ensures that appropriate due diligence is undertaken on new investments and ensures that they comply with the LGPS Investment Regulations. The Panel is chaired by the Treasurer and includes the Fund's two Independent

Investment Advisers. The Panel continues to operate under delegated authority from the Pension Fund Committee.

Lancashire County Council's Democratic Services Team is responsible for supporting the Committee and its chair in managing Committee, Sub Committee and Investment Panel meetings. The County Secretary and Solicitor (from 1<sup>st</sup> April 2015 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 Chief Internal Auditor (from 1<sup>st</sup> April 2015 the Head of Service – Internal Audit) was during the year managerially accountable to the County Treasurer, and from 1<sup>st</sup> April 2015 will be managerially accountable to the Director of Legal and Democratic Services. The Chief Internal Auditor provides both a separate annual audit plan and annual report to the Pension Fund Committee, which are subject to approval by the Committee. The work of Internal Audit is carried out:

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

The Chief Auditor's Annual Report for 2014/15 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 2015/16***

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

- A decision on whether to proceed with the development of a formalised collaborative arrangement with the London Pension 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.

Signed

County Councillor Kevin Ellard  
Chair of the Pension Fund Committee

George Graham  
Director  
Lancashire County Pension Fund

Date: