

London Pensions Fund Authority

Governance Report 2006-07





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Introduction

The corporate governance framework is modelled on guidance issued by the Chartered Institute of Public Finance and Accountancy for Non-Departmental Public Bodies.

During the year reporting lines between Board members, panels and staff have been strengthened. Fund member panel meetings are now timed to follow the public Board meetings and are attended by Board members. Staff are encouraged to attend Board meetings and receive available reports and feedback at staff forums.

The one outstanding recommendation, 'publish commentary on Board decisions' is to be implemented during 2007-08. These summaries will appear on the corporate website and in newsletters.

In March 2007 the Board sanctioned a review of several components of the governance framework. These include the standing orders, committee terms of reference, delegated powers to officers, codes of practice and codes of conduct. The review is currently in process and more information will be provided in next year's report.

Statutory constitution

In 1989 the LPFA was established as a Public Body by The Local Government Reorganisation (Pensions etc.) Order 1989' [SI 1815]. This is the primary instrument for the LPFA's powers and duties which, in the context of Fund administration, are very similar to those of local government authorities.

The Board

has a fiduciary duty to:

- the members of the Fund to ensure monies are collected, that benefits are calculated correctly and paid promptly, and that any surplus monies are properly and prudently invested;
- employing authorities in the Fund for maintaining the agreed funding strategy; and
- to the council tax payers of London in respect of expenditure falling to be met from the levy.

and is accountable to:

- the Mayor and the Greater London Authority (GLA) for the proper management of the Authority's affairs;
- the employing authorities in the Fund and scheme members for the proper administration of the Scheme; and
- to agency clients for the operation of their administration contracts.

Appointments are the responsibility of the Mayor in consultation with London Councils. It is by open advertisement and subject to independent scrutiny.



Executive Management

The Executive is responsible for implementing the Board's decisions and for the day-to-day management of the Authority's affairs.

Peter Scales retired at the end of 2006 and was formally succeeded as Chief Executive on 9 October 2006 by Mike Taylor. This change has allowed re-focusing of the organisation onto the twin pillars, of pensions administration and investment.

Chief Executive

Mike Taylor leads the strategic, long term development of the LPFA.

Investment Director

Vanessa James is responsible for investment policy and strategy, the investment management arrangements, monitoring the performance of the Fund and investment managers against targets.

Pensions Administration

Is managed by two Assistant Directors, Annemarie Allen and Mike Allen, who report directly to the Chief Executive. Pension administration and agency services, include central processing, pensions and staff payroll and technical training.

Corporate Resources Director

Amanda Walker, is responsible for the provision of indirect services including human resources, E-business, governance, communications, and finance.



Board and Committee responsibilities

Board

- the governance of the LPFA
- the submission of a Strategy Statement and
- a Budget Statement to the Mayor each year
- the issue and raising of a levy each year
- directing and monitoring the Executive

The Board met five times during the year and meetings were held in public. The Board considered reports on the Strategy and Budget Statements, governance (including the fund member panel and fund member forum), marketing and communications, legal services, inter-valuation monitoring, valuation assumptions, equalities and the organisational review.

The terms of reference of each of the Standing Committees were reviewed by the Board in June 2006 in the light of the new organisational structure and following receipt of formal recommendations from each Committee.

The Board held an away-day in September 2006 where they set the scene for the three year Strategic Plan 2007 to 2010, agreed a mission statement and five strategic objectives.

Much of the substantive work of the Board is conducted through the four standing committees:

Investment Committee

- the determination of investment strategy
- the monitoring of the investment management arrangements
- monitoring compliance of investment processes

The committee met six times during the year and considered reports covering the terms of reference of the Committee, investment strategy ~ transition, review and monitoring, compliance reports (covering treasury management, corporate governance, securities lending, transaction cost disclosure, custody), responsible investing, alternative assets, cash management and portfolio rebalancing, risk measurement and property.

Audit Committee

- annual statement of accounts
- the monitoring of financial performance
- internal control systems and ethical standards
- internal and external audit

The Committee met three times during the year and considered reports covering the terms of reference of the Committee, the statement of accounts, external and internal audit reports, risk management, financial monitoring, treasury management compliance and residual liabilities. The Chairman of the Committee formally reviewed registers of interests and hospitality at each meeting.



Performance and Administration Committee

- the preparation and monitoring of the performance plan
- the development of new business initiatives
- Local Government Pension Scheme
- fund valuation

The Committee met four times during the year, and considered reports covering the terms of reference of the Committee, business operations monitoring, new business initiatives, performance monitoring, the Local Government Pension Scheme, Fund valuation and inter-valuation monitoring, staffing, equalities and diversity and Health and Safety.

Remuneration Committee

- reviewing executive performance and pay
- ensuring that the operation of the performance appraisal process accords with best practice

There were two meetings of the Committee during 2006-07 and members considered the pay and performance of senior management and noted that the terms of reference would need to be addressed as part of the wider governance review taking place in 2007-08.

Advisers to the Board

The Board has two independent external investment advisers who attend meetings of the Investment Committee and report annually on investment actions. The fund actuary is a senior partner with Hymans Robertson and attends meetings of the Investment Committee to advise on funding and liabilities as they impact on investment strategy.



Reporting and controls

External Review

The District Auditor is appointed by the Audit Commission. They ensure that public funds are properly safeguarded and accounted for, and provide value for money in accordance with statutory requirements.

An Annual Governance Report provides an opinion on the financial statements and a Value For Money conclusion.

Internal Review

PricewaterhouseCoopers provide internal audit arrangements, both as a tool of management and with direct reporting to Audit Committee.

Audit recommendations are reported to each Audit Committee meeting and progress against each recommendation closely monitored.

Strategic Performance Plan

The strategy statement to the Mayor sets out LPFA's objectives and plans over the three year period from April 2007 to March 2010.

The plan is spearheaded by a mission statement and five strategic objectives. The strategic performance plan is available on the corporate website.

Annual Report and Accounts

The Annual Report and Accounts for 2006-07 were approved by Board in June 2007 and consists of a set of five reports; Annual Fund Member, Performance, Investment, Governance and Financial. These are issued to all Administering Authorities, Fund Employers and other corporate contacts and are placed in London's Libraries. The Annual Report is issued to all Fund members via their home address and is available also on the corporate website.

System of Internal Control

The Accounts and Audit Regulations 2003 set out the formal requirement to publish a Statement on Internal Control with the financial statements. The Authority is required to review, at least once a year, the effectiveness of its system of internal control.



Risk Management

The corporate risk register and the Authority's risk appetite statement are regularly reviewed.

The Authority manages risks through a variety of control measures and officers and the Audit Committee work together to mitigate the effect of adverse events.

Fraud and irregularity

There were no incidences reported during the year. Fraud awareness training was delivered to all managers last year and all staff have been reminded of the counter fraud requirements through a staff survey.

Representation

The Fund Member Panel met three times in 2006-07 and reviewed and agreed their remit: to act as a sounding board for feedback and ideas, a Focus Group and a representative body for the LPFA Fund membership

One employer forum was held during the year to discuss the proposed new look Local Government Pension Scheme. The event was attended by representatives of over 70 employers. Two special meetings were held for the University and Higher Education sector.

The Fund member forum in September 2006 received formal presentations from the Chairman and Chief Executive. External speakers at the event were Ellen Gracey (GR Communications) and Alan Pickering (partner at Watson Wyatt and member of the Board of the Pensions Regulator).



Public Policy statements

Statement of Investment Principles (SIP)

The SIP was last amended in February 2006 to reflect the change in investment strategy and the new management arrangements. The revised SIP is available on the corporate website. During 2007-08 it will be revised to explain the new responsible investing objective.

Funding Strategy Statement (FSS)

The FSS is a summary of the Fund's approach to funding liabilities. It is available on the LPFA website. During 2007-08 it will be amended following the 2007 Fund valuation.

Governance Policy Statement

The Governance Policy Statement was revised and re-published in October 2006 and sets out how the administration of the Fund is governed.

Draft regulations propose that each administering authority explain compliance with best practice guidance on delegation. Compliance statements are intended to ensure transparency, accountability and stakeholder involvement. Reference to representation by trade union members and / or Fund members and employers on investment panels and pension related Committees are likely.

With a unique constitution among administering authorities representation via observers, public meetings and through consultation with Fund Member and employer representatives is favoured over giving voting rights to lay members. When the regulations are promulgated Fund employers and members will be provided with details of the new provisions.

Communications Policy Statement

This describes information and publicity relating to the Scheme, and the frequency, format and method of distribution, to members, representatives, employers and potential members of the scheme.

Corporate Equality Plan (CEP)

The CEP is currently being restructured and will be published as a framework during 2007-08 to coincide with an annual progress report which will focus on achievements and future plans.

Environmental Plan

Key performance indicators have been set covering paper, printing costs, waste disposal and recycling.

The approved supplier policy was maintained during the year and confirms business will be transacted only with suppliers and contractors who have competitive environmental (and Health & Safety and Equality) policies compatible with LPFA's.



Exercise of Discretions under LGPS

The current policy on discretions now reflects equalities legislation.

Health & Safety

Officers monitor performance with regard to Health and Safety and report annually to the Board. The report, available on the corporate website, covers accidents, general fire safety, electrical equipment, display screen equipment, housekeeping and premises, training, and emergency procedures.

Freedom of Information Scheme

Six requests for information were received during the year. These were in respect of investment matters, funding strategy, valuation and one relating to an employment tribunal. The Chairman reviews all requests and is formally made aware of cases of non-disclosure.

Internal Disputes Resolution Procedure

During the year six cases were dealt with under the LPFA's statutory Internal Disputes Resolution Procedure and no cases were referred to the Pensions Ombudsman.

Complaints Handling

Formal complaint procedures are published in all Scheme literature and other publications. During the year a total of twenty seven complaints were dealt with under the procedure covering quality of service, staff and lack of response.

Standards of behaviour

Codes of best practice exist for Board members and will be refined in line with the governance framework during 2007-08.

Irregular conduct in the workplace

No cases were reported during the year.

Staff code of conduct

The code of conduct is being reviewed in the light of equality and diversity requirements and best practice and as part of the governance review in 2007-08.

Disciplinary and grievance procedures

During the year two disciplinary case and one grievance were reported to the Board.



Annex One

Board Members and advisers

Neil Newton, was appointed to the position of Chairman of the London Pensions Fund Authority, with effect from 1 July 2001. He retired as the Managing Director of the London Borough of Hammersmith and Fulham in March 1999, after a mainly public sector career in finance, but with a four year sabbatical working for a large money broking firm as Director of Project Finance.

He has non executive directorships with Greater London Enterprises and Investor in the Community, and chairs the Investors Advisory committee on the Capital Fund. Neil works as an independent consultant, mainly with central and local government and the British Council.

Niaz Alam, is Deputy Director of the Ethical Trading Initiative. A solicitor by background, he has worked on corporate responsibility and ethical investment issues since 1992. He was formerly Head of Social Issues at EIRIS where he worked for eleven years. An active trustee, Niaz is elected vice-chair of the development charity War on Want and a member of the BBC Appeals Advisory Committee.

Michael Cassidy, has practised law in the City for 36 years principally representing the UK's largest pension fund organisation on their investments. In parallel, he has pursued a local government career at the Corporation of London, first as Planning Chairman, then Leader of the Council. He has Chaired the Barbican Arts Centre and, more recently, the Museum of London. He is President of the London Chamber of Commerce and was awarded the CBE for services to the City in 2004.

In recent years, opportunities have arisen in the area of overseas companies listed on AIM, the most prominent one being Trinity Capital which invests in Indian property and infrastructure projects. He has served for 10 years on the board of British Land and for six years at UBS Ltd. More recently he has moved into the healthcare sector as Chairman of Homerton Hospital.

John Cox, is a Councillor at the Royal Borough of Kensington & Chelsea and Chairs both the Investment Committee and the OSC for Family and Children's Services and is Vice Chairman of the Planning Services and Major Planning Development Committees and the Computer and Communications Advisory Group as well as sitting on the Audit Committee. In addition, he is a Non-Executive Director of the West London Mental Health NHS Trust.

Michael Deakin, is currently a Non Executive Director of the Pension Protection Fund. He is a Director and founder of Michael Deakin Consultancy Ltd since October 2003 and is also Chairman of Manifest Information Services Ltd. Prior to this, Michael was Chief Investment Officer and an Executive Director of Insight Investment, the asset management business of Halifax Bank of Scotland, where he controlled over £65 billion of assets and managed and built a team of 150 investment professionals covering equity, fixed income and property fund management. He is also a trustee of the HBOS Final Salary Pension Scheme. Michael was educated at Bristol University and is an actuary.

Icki Iqbal, recently retired as a Director after 8 years at Deloitte & Touche, formerly Bacon & Woodrow actuaries. Prior to this he was Assistant MD of Royal Life Holdings and Group Marketing Actuary of Sun Life. He is an actuary with extensive experience in all aspects of retail financial services businesses and an author of several published reports on actuarial and marketing themes.



Bill Roots, was Chief Executive and Director of Finance of Westminster City Council 1994-2000. He was previously Director of Finance and Deputy Managing Director from 1990 to 1994. Prior to that he was Director of Finance of the LB of Bexley for eight years and prior to that he worked for Southwark and the GLC. Bill is a CIPFA member, a former examiner and has sat on numerous national working parties representing the local authority associations. He was Chairman of the London Financial Advisory Committee for ten years until 2000, a former President of the Society of London Treasurers and was President of the Association of Local Authority Treasurers Societies in 1999-2000. He is now an independent consultant operating in central government, local government and the wider public sector. He was a member of the Gershon Efficiency Review team and has undertaken a number of roles for the Office of the Deputy Prime Minister in recent times. He was also the Chairman of a small company providing revenue and benefit services.

Jenny Rosser MBE, was Interim Director General for the National Association of Pension Funds from 1 January 2002 to 30 June 2002, Managing Director of the British Airways Pension Schemes and Secretary to the Trustees of those Schemes until June 2001. She is Chairman of the Board of Trustees of the Royal College of Nursing Pension Scheme and was a member of the Board of the National Health Service Pension Agency until March 2002. Jenny was awarded an MBE in the New Years Honours List in 2001 for services to Pensions.

Michael Ward, LPFA's deputy Chairman, is Chief Executive of the Kent Thameside Delivery Board, working to deliver the regeneration of a key area in the Thames Gateway. He was previously Chief Executive of the London Development Agency. He was a member of the Greater London Council, and was Deputy Leader of the Council in 1985-86. He served as a member of the GLC Superannuation Fund panel, and worked on ethical investment issues.

Investment Advisers

Peter Moon

Has been Chief Investment Officer at the Universities Superannuation Scheme (Fund Value £27.5 billion) since 1992. He was a member of the NAPF Investment Committee (1990-1995) and Chairman of the NAPF Stock Exchange Sub-Committee (1991-1995). He is also investment adviser to Middlesborough Council, he is director to MBNA Europe and The Scottish American Investment Company.

David Rough

Was Head of Investment with Legal and General group plc, 1991 to 2001, and with Royal Insurance 1984 to 1988. He is currently on the boards of Xstrata, Emap & Land Securities.

Ronnie Bowie, advising Actuary

Is Hymans Robertson's Senior Partner and a Vice President of the Faculty of Actuaries. He joined the firm in 1980 and qualified as an actuary the same year. Ronnie is Scheme Actuary to 10 pension schemes (some private sector and some public sector). The largest of these has assets over £8bn. He is also Investment Adviser to a small number of large schemes.



Annex Two

Board Member Appointments

Board member	Appointment Period	Skills	Committee Membership
Neil Newton Chairman	1 st July 2001 to 31 st Aug 2008	Accountant Public administration	Investment Remuneration
Michael Ward Deputy Chairman	1 st Aug 2004 to 31 st Aug 2008	Management Economic development	Performance & Administration Investment
Niaz Alam	1 st July 2001 to 31 st Dec 2008	Responsible investment Human rights	Investment Remuneration
Michael Deakin	1 st Jan 2006 to 31 st Dec 2008	Actuary Investment management	Investment
Icki Iqbal	1 st Jan 2006 to 31 st Dec 2008	Actuary Financial management	Audit Performance & Administration
Bill Roots	1 st July 2001 to 31 st Dec 2008	Accountant Public administration	Audit Performance & Administration
Jenny Rosser MBE	1 st July 2001 to 31 st Dec 2008	Pensions administration Investment	Investment Remuneration



Left the Board during 2006-07

Board member	Appointment Period	Skills
Councillor Pamela Batty	1 st July 1998 to 31 st July 2006	Public administration
Councillor Danny Connellan	1 st Aug 2004 to 31 st July 2006	Public administration
Andrew Cornwell	1 st July 2001 to 31 st July 2006	Financial journalist Environment Equalities
Councillor Serge Lourie	30 th Oct 1989 to 31 st July 2006	Accountant Public administration

Joined the Board during 2006-07

Board member	Appointment Period	Skills	Committee Membership
Councillor John Cox	1 st March 2007 to 30 th Sept 2010	Public administration	Audit Performance & Administration
Michael Cassidy	1 st March 2007 to 30 th Sept 2010	Lawyer Public administration	Investment



Annex Three

Governance Statement

The appointment process is operated by the Greater London Authority, and is by open advertisement and subject to independent scrutiny. The terms and conditions of appointment are set out in a formal letter which includes the length of appointment, remuneration, and details of the role and responsibilities of members.

The LPFA Board operates under a framework of corporate governance and undertakes its responsibilities with reference to Standing Orders, which are similar to those found in all local authorities and prescribe all activities relating to the conduct of Board business. These Standing Orders represent the fundamental underpin of corporate governance and may only be amended by formal approval of the Board.

While all responsibilities are retained at Board level, business is also conducted through the operation of two principal standing committees ~ Investment and Performance and Administration. The governance arrangements of the LPFA are monitored and reviewed by the Audit Committee as part of the arrangements for internal control.

The Committees are advisory bodies with no executive powers, but are authorised to investigate any activity within their terms of reference. There are formal terms of reference and key responsibilities defined for these Committees, and these are shown in the Governance Report which forms part of the Authority's Annual Report and Accounts. These documents can be accessed from the LPFA web site www.lpfa.org.uk

All meetings of the Board are open to the public. Currently the Board meets five times a year, the Investment Committee every six weeks, and the Performance and Administration Committee quarterly.

The principal officers of the LPFA have certain statutory and formal responsibilities. Executive powers are delegated to the principal officers under a statement of authorised action which sets the parameters within which the officers can implement Board decisions and operate the day-to-day business of LPFA.

While there are no employer or fund members on the Board, representation is facilitated through the use of the Fund member panel, the employer panel and the HE Sector Consultation Group covering universities and colleges.

The panels meet at least twice a year and a London based Trades Union representative is invited to attend meetings of the Fund member panel. Also, a representative of that panel is invited to attend Board meetings as an observer. The activities of the panels and the consultation group are reported to the Board.

This policy statement will be reviewed annually, and revised and re-published following any material change in the above arrangements.

Approved by Board
Revised

2 February 2006
5 October 2006



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