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London Pensions Fund Authority

An aerial photograph of the London skyline at dusk. The sky is a deep, cloudy blue. In the foreground, the modern, curved glass buildings of the London Pensions Fund Authority are illuminated from within, showing a warm yellow glow. To the right, the iconic, pointed glass skyscraper, The Shard, stands prominently against the twilight sky. Other city buildings and the River Thames are visible in the background.

Annual Governance Statement 2022-23

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Executive summary

John Preston our Chair, and our Chief Executive Officer (CEO), Robert Branagh, value and consider the importance of effective management supported by good processes and compliance as essential in ensuring that we deliver on our commitments to members and employers.

Each year, we are required to prepare an annual governance statement (AGS) outlining how our governance and internal control arrangements have performed. Our Officers work closely with outsourced consultants and partners to deliver robust oversight of the services provided to us and to ensure that our Fund's future priorities are met.

Scope of responsibility

Since April 2016, many of our core functions have been outsourced to the Local Pensions Partnership Ltd (LPP Group) and its subsidiary businesses Local Pensions Partnership Investments Ltd (LPPI) and Local Pensions Partnership Administration Ltd (LPPA) under a Service Level Agreement (SLA).

LPP Group is owned jointly by ourselves and Lancashire County Council (LCC). As a joint shareholder and client of LPP, we and LCC have an important role to play in ensuring that LPP Group is accountable for delivering the agreed services. We, as an Administering Authority, are also responsible for verifying LPP's services are delivered to the required standards.

We maintain a proactive approach to engagement with our stakeholders and providers to make sure that our Fund benefits from economies of scale and that we are meeting the needs of our members and employers. Targeted time and resources continue to be allocated to shareholder oversight of the outsourced functions to LPP Group.

As a Local Government Pension Scheme (LGPS) Authority and a statutory corporation, the statutory and regulatory responsibilities rest with the LPFA Board (Board). We are accountable for the strategic aspect of pension fund investment and administration management, but the implementation of our Board's strategy is often undertaken by LPP Group. LPFA Officers provide oversight of LPPA and LPPI activities and are responsible for ensuring that we operate within an effective risk management framework supported by strong governance controls.

LPFA's Governance Framework

We follow the Local Code of Corporate Governance (Code), which has been prepared in accordance with CIPFA/Solace *Delivering Good Governance in Local Government: Framework (2016)*. We are responsible for making sure that the way we operate meets relevant regulation and compliance standards. We are committed to 'value for money' to make sure that public money is safeguarded and properly accounted for. A breakdown of our costs and fees is detailed in our Annual Reports, available on our website.

The Code, the AGS, our Constitution and the Governance Compliance statement form our governance framework. These documents are published on our website or in our Annual Report. All are regularly reviewed by Officers, committees of the Board, LPB as appropriate and changes or new governance documentation are presented to the Board for approval.

How our governance works

Our governance framework outlines the systems, processes, culture, and values that direct and control our operations and the duties that we carry out. The framework helps us to monitor our progress against our objectives and to assess if those objectives are delivering appropriate, cost-effective services. Our governance framework aims to deliver high-level performance and stewardship by both efficiently administering pensions payments and making sure that there are sufficient funds available to continue to meet our long-term payment obligations.

The Code sets out the governance systems, processes, and controls that we use. It includes the following:

- Our vision, aims, behaviours and decision-making process. This includes our Boards and Local Pension Board's (LPB) training and induction programmes.
- The approach that we take to Environmental, Social, Governance arrangements, including responsible investment and climate change.
- Our decision-making process and the reporting and oversight of the LPP Group through compliance with agreed SLAs.
- The structure of our Committees, performance monitoring and how we monitor the use of our resources.
- How we manage and review fraud, conflicts and risk, our whistleblowing procedures, and the division of responsibilities between ourselves and LPP Group.
- The role of Officer-specific functions, including the roles of Head of Paid Service, Section 151 Officer and the Monitoring Officer.

The Code was reviewed and updated in 2022 and, following Board approval, is published on [LPFA's website](#).

The effectiveness of the governance framework and our internal controls are reviewed annually. Our risk management principles and associated documents are a large part of the framework, and are designed to manage risk to an acceptable level. The internal control system cannot, of course, eliminate all risk of failure to achieve policies and objectives but it can provide a reasonable – but not absolute - assurance of effectiveness.

Our Constitution includes a Scheme of Delegations to Officers. This sets out the executive powers and formal responsibilities that have been delegated to each of our Principal Officers. A review of the Scheme of Delegations to Officers was undertaken in March 2023.

In July 2023, our Board confirmed the membership and status of its standing committees. The Constitution defines the operation of the three standing committees and contains the terms of reference (ToR) for the Local Pension Board (LPB), Audit and Risk Committee (ARC) and Investment Committee (IC) and are reviewed annually. All formal meetings are documented, and Board decisions are also recorded on a decisions log. More information from [Board reports and minutes have been added onto our website](#).

The Board operates in accordance with the Matters Reserved for Decision by the Board as outlined in the Constitution. During 2022-23, the Board held a strategic offsite 'Away Day' event in September 2022.

Following the principles of good governance

We follow the seven core principles of good governance as set out by CIPFA and Solace and ensure compliance as an LGPS Fund and a shareholder of LPP. Throughout our annual report located on our website, we provide examples of how we meet these principles, particularly within the Governance and Responsible Investment sections.

The seven principles are listed below.

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social and environmental benefits
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the entity's capacity, including the capability of its leadership and the individuals within
6. Managing risk and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

Annual Internal Audit Report and Opinion

Having been appointed in 2020-21 for a three-year period, in 2022-23 PricewaterhouseCoopers (PwC) again acted as our internal auditors. The Annual Internal Audit Report and Opinion (Year to 31 March 2023) was considered as part of our annual internal audit assurance and to make sure we satisfy the Public Sector Internal Audit Standards.

Over the year, PwC carried out three internal audit reviews, being Key Financial Controls, Contribution Monitoring and Succession Planning, resulting in an overall internal audit opinion that has improved from last year to “reasonable assurance/ moderate assurance” (previously “major improvement required”). Areas to address further include updating the Pension Administration Strategy, a Contribution Breach Policy and refinement to the Delegation of Authority policy. All these areas are being addressed and enhanced, with the new Pensions Administration Strategy being out for consultation with employers as at the time of drafting this AGS.

There was also a positive reference in the report regarding the good practice in relation to the preparation of the year end accounts.

Our Risk Management Framework

Risk management is the process of identifying, assessing, quantifying, monitoring, controlling and reporting the risks to which our Fund is exposed. It also involves determining how to mitigate these risks and/or handle such exposure. Risk management ensures that we are aware of, and understand, the risks that we face when carrying out our activities. It also helps us, if appropriate and possible, take positive action to reduce and/or mitigate these risks.

ARC supports us in providing oversight of these risks. ARC is responsible for considering risk related matters and makes recommendations to the Board. The annual activities of the ARC in 2022/32 are published on the LPFA corporate website and a summary is included within the Pension Fund Annual Report.

During a full review in 2022-23, the risk function and the compliance function were combined under one business directorate. Officers undertook a successful review of our risk management in line with our Risk Appetite Statement (RAS). The RAS sets out our attitude to taking managed risks to help us achieve our objectives. The statement sets out the principal areas of risk that we face and sets parameters by which our officers manage those risks across the organisation. The RAS is underpinned by an internal funding risk management framework. This measures and monitors the critical risk that we fail to meet our primary objective of ensuring that our Fund will meet our liabilities and obligations as they fall due both immediately and long-term.

Officers have clearly defined responsibilities for organisational risk management. Guided by our risk appetite, we take a risk-led approach to decision making. We maintain a comprehensive Risk Register, underpinned by agreed risk management principles. This helps us monitor and manage all major risks facing our Fund. Our Risk Register is reviewed monthly to identify any new risks, and confirm that correct controls are in place to manage new, and existing, risks. Our internal auditors (PwC) also provide assurance around the risks within the Risk Register and the robustness of risk controls that we have in place to manage them.

Annual Governance Statement Action Plan

Over the past year, we have reviewed our workforce and, to ensure that we are a well-run and efficient Fund, have strengthened our governance and compliance function. We have appointed a Head of Compliance, Risk and Pensions, a Pensions Technical Manager, and a Governance, Risk and Compliance Officer.

Actions planned for 2023/24

The following table sets out identified actions in relation to governance and monitoring actions have been carried over or are planned for 2023-24.

Issue	Action	Lead Officer	Expected timeframe
Review Constitutional Document	There have been a number of ad hoc changes to various elements of the Constitutional Document (e.g. committee terms of reference) over the past 12 months. As such, the Constitutional Document should be reviewed in full to ensure consistency.	Head of Compliance, Risk and Pensions	31 March 2024
Consolidation of the Pensions Regulator Code of Practices	Review any governance implications arising from the new consolidated code, once published.	Head of Compliance, Risk and Pensions	31 March 2024
Actions following Internal Audit Opinion for 2022-23 and additional audits during 2023-24	The identified Internal Audit actions from the 2022-23 audits to be addressed during the year and four new areas will be audited during the year, being Investment Strategy, Liquidity Management, Third Party Risk and the Administration of Benefit Calculations.	Finance Director	31 March 2024

We will further improve our governance arrangements by actioning the areas in the table above over the coming year. We believe that these steps are appropriate and will address the need for refinements that may be identified in our review of the effectiveness of these arrangements. We will monitor their implementation and operation as part of our next annual review.

Signed **Robert Branagh**



Robert Branagh, Chief Executive Officer Dated: 17 October 2023

Signed **John Preston**



John Preston, Chair Dated: 17 October 2023