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London Pensions Fund Authority

Annual Governance Statement 2025-26

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Executive Summary

The London Pensions Fund Authority (LPFA) has a unique status in the UK, with specific legal rights and responsibilities defined by the Local Government Act 1998. As a Local Government Pension Scheme (LGPS) Administering Authority without a connected council, we operate in accordance with our own legal Constitution.

Our Local Code of Corporate Governance has been developed in line with the CIPFA and Solace framework, Delivering Good Governance in Local Government (2016), which sets the principles and standards for the proper conduct of business. We are accountable for ensuring that our activities comply with the law and that public money is managed with integrity. In fulfilling this duty, we maintain arrangements designed to secure sound governance, effective risk management and robust internal control.

Under the Accounts and Audit Regulations 2015, we must review the effectiveness of our system of internal controls annually and include an Annual Governance Statement (AGS) within the Statement of Accounts. The AGS enables us to carry out a thorough self-assessment of the governance framework and to provide assurance to stakeholders that these arrangements remain fit for purpose.

During 2025–26 the LPFA continued to strengthen its governance and control environment while managing significant organisational and strategic change. This included the completion of an organisational restructure in March 2026 designed to strengthen accountability, improve resilience and ensure the LPFA remains appropriately resourced to meet evolving regulatory, governance and oversight requirements.

Alongside internal organisational change, the LPFA also undertook substantial governance and transition work in preparation for the implementation of the Government's Fit for the Future reforms and the expansion of LPPI pooling arrangements through the establishment of LPPI Holdings Ltd (LPPIH) and the onboarding of additional partner funds.

The review undertaken for 2025–26 concluded that the LPFA's governance arrangements continue to operate effectively overall and that further progress has been made in strengthening the control environment. This is reflected in the annual opinion issued by the LPFA's internal auditors, PwC, who concluded that LPFA's framework of governance, risk management and control provides Reasonable Assurance for the year ended 31 March 2026 which with no critical or high risk findings identified,, representing a significant improvement from the Limited Assurance opinion received in 2024–25.

Nonetheless, work is continuing to further strengthen our arrangements, particularly in relation to risk framework maturity, assurance mapping, documentation of key controls and aspects of third-party oversight. Management has agreed appropriate action plans for all recommendations raised and progress continues to be monitored through the Audit and Risk Committee (ARC).

Evaluation against the Local Code of Corporate Governance

The CIPFA and Solace framework, Delivering Good Governance in Local Government. defines the standards that guide public sector governance in the United Kingdom. Its purpose is to help authorities allocate resources in line with agreed policies and priorities, to promote clear and inclusive decision making and to secure accountability for the way those resources are used to deliver outcomes for residents and other stakeholders.

During 2025–26 we assessed our arrangements against the seven core principles of the framework. The review confirmed that the majority of the governance framework continues to operate effectively and supports the effective administration of the LPFA Pension Fund (the Fund).

Management recognises that governance is an evolving and continuous process and further enhancement activity remains underway, particularly in relation to assurance mapping, risk appetite articulation, third-party assurance arrangements and the continued embedding of revised governance structures and controls.

Figure 1 – Delivering Good Governance Core Principles

The Seven Principles of Good Governance:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

We expect exemplary conduct from every member of the LPFA Board (Board) and member of staff. Policy-making and decision-taking happen within a well-established control framework that is set out in the LPFA Constitution. The Constitution brings together our statutory powers and duties, internal governance arrangements, Standing Orders, matters reserved to the Board, Committee terms of reference, Codes of Conduct for both Board members and staff, the Scheme of Delegations, the Contract Standing Orders and other codes and policies.

All other key policies, including those relating to people management and information governance, are readily accessible to staff and are highlighted during onboarding.

Executive management control is exercised through the Principal Officers and, in particular, the Chief Executive, supported by the Section 151 Officer and the Monitoring Officer, who define processes, embed the Codes of Conduct and set behavioural expectations across the organisation.

During 2025–26, the LPFA continued to develop its governance and compliance arrangements, including the completion of an organisational restructure designed to provide clearer accountability, enhance oversight capacity and support the delivery of evolving regulatory responsibilities.

Work has also continued to strengthen governance reporting, clarify ownership of responsibilities and further embed the use of the Protecht risk and compliance system.

Internal audit work completed during the year identified opportunities to further strengthen documentation, assurance mapping and third-party oversight arrangements, and these actions are being progressed through agreed management plans monitored by the Audit and Risk Committee (ARC).

2. Ensuring openness and comprehensive stakeholder engagement

Transparency remains one of our defining commitments. We publish regular, accessible information on investment strategy, performance and decision making through our website, Annual Report and regular newsletters, giving members and other stakeholders a clear view of how their pension contributions are managed.

Together with our administration partner, Local Pensions Partnership Administration (LPPA), we deliver an active programme of forums, webinars and training sessions that cover practical guidance, regulatory updates and thought-leadership topics.

Stakeholder dialogue is also supported through regular surveys, targeted consultations on policy changes, social media updates and a dedicated member enquiry service. Insights gathered through these channels are reported to the Board and feed into our annual business-planning cycle.

The LPFA also engaged extensively during the year with partner funds, advisers, shareholders and other stakeholders in preparation for the implementation of the Government's Fit for the Future reforms and the onboarding of new LPPI partner funds.

3. Defining outcomes in terms of sustainable economic, social and environmental benefits

Our overriding purpose is to pay every pension benefit that falls due on time and in full, yet we recognise that the way we invest today also shapes tomorrow's economy, environment and society. The Board therefore integrates Responsible Investment considerations into each stage of the investment process so that the Fund can meet its liabilities while helping to address wider environmental, social and governance (ESG) challenges.

Climate change remains a significant long-term financial risk to the portfolio. The Fund continues to pursue its net-zero objectives and responsible investment priorities through stewardship, engagement and thematic investment activity.

LPPI delivers the day-to-day responsible investment programme, monitoring managers, exercising shareholder rights and reporting to the LPFA Investment Committee (IC) and Board.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes

The governance framework comprises the systems, processes, cultures and values by which we direct and control the activities of the LPFA. Our Board has overall responsibility for ensuring that there is an effective corporate governance framework that includes providing robust oversight and compliance with all relevant legal and regulatory matters.

The Board operates through a defined governance structure supported by the ARC, IC and Local Pension Board (LPB).

During 2025–26 the LPFA undertook significant work in preparation for the implementation of the Government's Fit for the Future reforms and the expansion of the LPPI pooling model.

This included governance, legal and operational work associated with LPPI's onboarding of new partner funds (from 1 April 2026) and the establishment of LPPIH as the future shareholder and governance structure for the investment pooling arrangements. The programme required extensive collaboration between shareholder funds, advisers, officers and partner organisations to develop revised governance frameworks, shareholder arrangements, oversight structures and decision-making processes.

The LPFA played an active role in supporting the transition programme, including engagement through officer working groups, governance reviews, shareholder discussions and the development of revised constitutional and oversight arrangements designed to support the future operating model.

The work undertaken during the year has strengthened the LPFA's understanding of, and readiness for, its future shareholder responsibilities, while also ensuring governance arrangements continue to evolve in line with the changing LGPS pooling landscape and Government expectations.

5. Developing the entity's capacity, including the capability of its leadership and the individuals within

We aim to ensure that every individual within the LPFA has the skills, knowledge and support needed to deliver our objectives. All staff participate in an annual appraisal and objective-setting cycle that aligns personal goals with corporate priorities and identifies individual development requirements. Support is available for staff who wish to undertake professional training where it provides a benefit to the organisation and supports the individual's development needs.

Board capability is strengthened through a structured induction process for new members and an annual training plan overseen by the Head of Governance and the Chair of the Board. The plan combines technical updates, thematic workshops and one-to-one briefings and is reviewed after each Board effectiveness evaluation to ensure it remains responsive to emerging risks and regulatory change.

During 2025–26 the LPFA completed a review of its operating model to ensure that responsibilities added in recent years, particularly in compliance, cyber resilience, governance and third-party oversight, were supported by appropriate capacity and expertise. The revised organisational structure was implemented in March 2026 and introduced clearer lines of accountability, strengthened governance oversight and enhanced resilience across key functions.

The 2025–26 Board effectiveness review identified a number of strengths in the capability and operating effectiveness of the Board. Overall, the Board was considered to function effectively, with well-managed meetings, a collaborative and respectful culture, and strong engagement from Board Members. There has been a shift since the previous review towards more balanced contributions across Board Members, improved strategic focus, and a more open environment in which differing views are welcomed and constructively explored. Board members reported feeling confident to contribute, supported by effective leadership and a decision-making process that is transparent and evidence-based.

The review also identified a number of areas for continued development, particularly in relation to strengthening the consistency of shared leadership across the Board, enhancing the clarity and prioritisation of Board papers, and ensuring sufficient space for strategic discussion. Opportunities were also identified to further structure Board development, including clearer articulation of training needs, improved tracking of individual and collective capability, and strengthening relationships across the Board and with key partners. These findings are being used to inform the ongoing development of the Board training plan and wider governance arrangements, ensuring that Board capability continues to evolve in line with the LPFA's responsibilities and strategic priorities.

The LPFA will continue to embed these revised arrangements during 2026–27 alongside ongoing development of the risk management framework, assurance mapping and governance reporting processes.

6. Managing risk and performance through robust internal control and strong public financial management

Risk management is how we identify, assess and manage the risks our Fund faces. It is an important process that helps us understand these risks and, where possible, take action to reduce them.

Our Risk Appetite Statement and Management Principles outline our approach to managing risks to achieve our objectives. The framework is supported by internal risk management processes that track and monitor key strategic, operational and financial risks.

The LPFA continued to strengthen its oversight arrangements in relation to key third-party providers during the year, particularly LPPA and LPPI. This included enhanced focus on governance reporting, assurance activity, risk oversight, service monitoring and the formalisation of data protection and third-party governance arrangements.

Management continued to progress actions arising from internal audit activity relating to compliance, third-party oversight and governance documentation. This work forms part of the LPFA's broader objective of strengthening assurance across its outsourced and partnership arrangements while maintaining effective oversight of critical services.

7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The size of our Board and how we appoint members are set out in statute. All Board members have voting rights and decisions are taken by majority vote. Our Constitution lists those areas reserved for decision by the Board as well as our Standing Orders.

Meetings of our committees and Board have public sessions and Board papers, agendas and decisions are published on our website.

Every member of our Boards and Committees must complete annual conflicts of interest declarations and declare any new conflicts at every meeting. This information is recorded on our Register of Board Members' Interests and reported periodically to the ARC.

LPFA as Shareholder

During 2025–26, Local Pensions Partnership (LPP), co-owned by LPFA and Lancashire County Council (LCC), continued to operate through its investment and administration businesses, LPPI and LPPA. The LPFA maintained oversight arrangements as both shareholder and client to support effective governance, service delivery and accountability across the partnership structure.

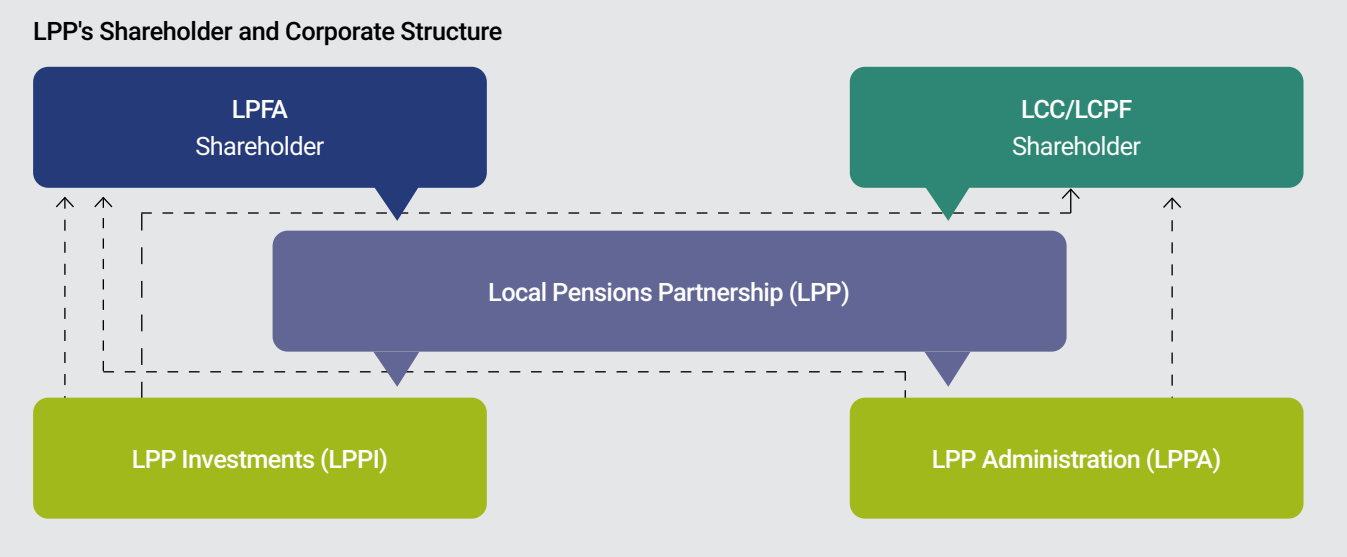
As mentioned earlier, LPPI now sits under LPPIH and the Administering Authorities of their existing three clients and six new clients are now joint equal shareholders of LPPIH. Each shareholder nominates a representative to the LPPIH Board, alongside an independent Chair.

Separately, LPPA continues to operate under the existing LPP structure in which LPFA and Lancashire County Council (LCC) remain as joint equal shareholders.

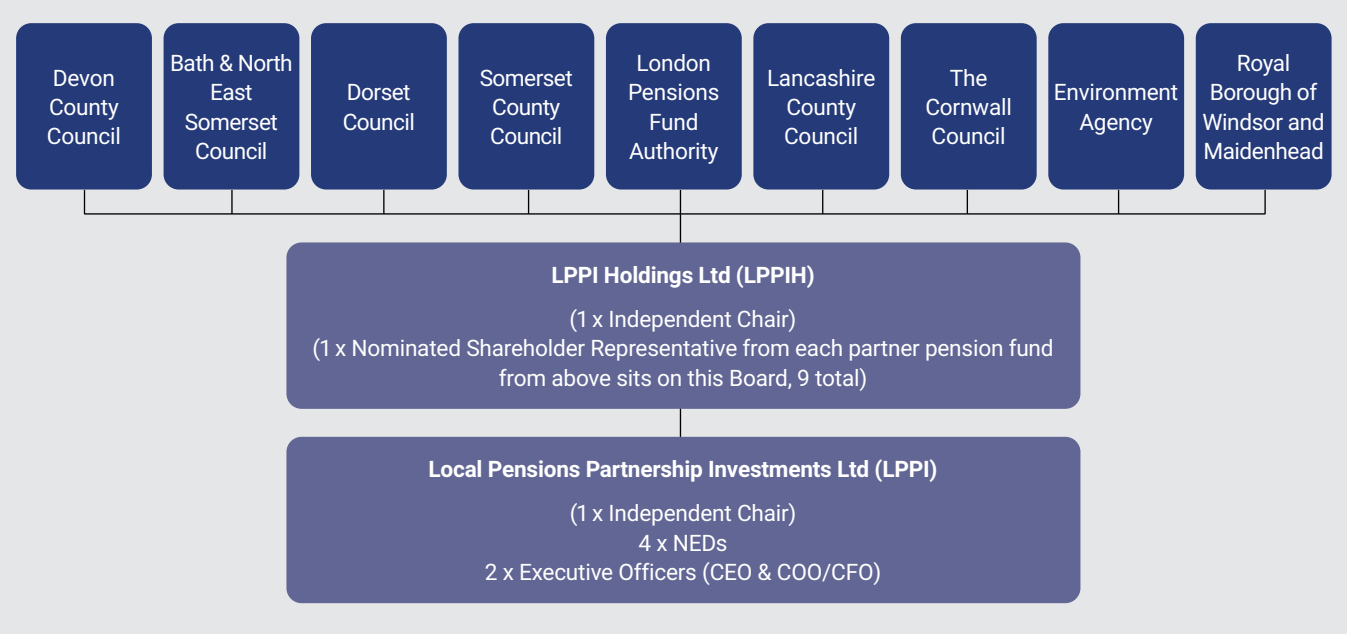
LPPA's performance continues to be monitored through formal service reporting, oversight meetings, governance engagement and service-level agreements. This includes regular review of performance metrics, operational developments, complaints, regulatory compliance and improvement activity.

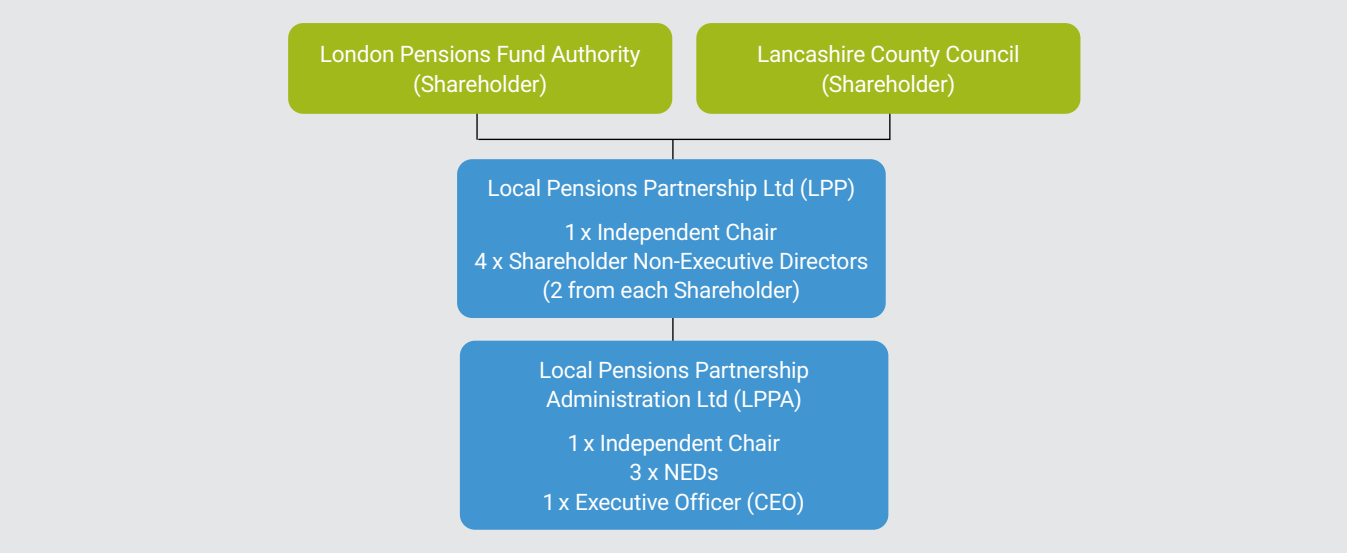
As both shareholder and client, the LPFA remains focused on ensuring that governance, accountability and service quality continue to evolve in line with regulatory expectations, organisational change and the needs of members and employers.

LPFA as Shareholder during 2025-26



New Structure as of 1 April 2026





External Audit

The Statement of Accounts is prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The accounts are audited in accordance with the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Ernst and Young LLP (EY) acted as the LPFA's external auditor for the year ended 31 March 2025. On 30 September 2025, EY issued an unqualified opinion on the financial statements for both the Pension Fund and Operational Accounts, confirming that the statements give a true and fair view of the financial position of the LPFA' and its expenditure and income for the year. EY also confirmed that the going concern basis of accounting was appropriate, and the financial information published alongside the financial statements was consistent with the audited accounts. The audit certificate was issued on 30 September 2025.

As part of their Value for Money commentary, EY identified one weakness in the LPFA's arrangements relating to the framework of governance, risk management and control, as reported in the internal audit opinion. The weakness related to a number of areas, including cyber risk and IT disaster recovery; the absence of a Service Level Agreement (SLA) for the LPFA's IT service; gaps in compliance and operational resilience; unclear internal responsibilities regarding third-party oversight; and delays in the implementation of prior year audit actions. The Senior Leadership Team are addressing all of these issues.

No significant weaknesses were identified in relation to financial sustainability or arrangements for improving economy, efficiency and effectiveness.

EY made one recommendation: that the LPFA should continue to implement the recommendations arising from internal audit and monitor progress in line with the agreed action plan. The Senior Leadership Team accepted this recommendation.

In response, LPFA developed a cyber risk action plan, including commitments to establish a formal SLA with LPPI defining cybersecurity responsibilities and service expectations; establish an IT Security Working Group; and hold monthly review meetings to ensure the IT service is operating to agreed SLA targets. LPFA continues to implement the internal audit action plan, with progress reported through the Audit and Risk Committee.

Internal Audit Opinion Provided by PwC

The LPFA commissions an internal audit programme each year in line with the Public Sector Internal Audit Standards and CIPFA guidance. Independent scrutiny of governance, risk management and internal control provides the Board and Fund members with confidence that risks are managed effectively and helps management identify and prioritise improvements.

PwC, acting as LPFA's internal auditors, issued a Reasonable Assurance opinion for the year ended 31 March 2026, representing an improvement from the Limited Assurance opinion received in 2024–25.

During the year PwC completed three internal audit reviews covering Financial Controls, GDPR and Investment Manager Oversight. Two reviews were assessed as "Satisfactory with Exceptions" and one review received a "Satisfactory" opinion. No critical or high-risk findings were identified across the programme.

The audits identified opportunities to further strengthen aspects of financial control documentation, segregation of duties, reconciliation processes, third-party assurance arrangements, UK General Data Protection Regulation documentation and assurance mapping. The Senior Leadership Team accepted all recommendations raised and agreed action plans are in place.

PwC also reported an overall reduction in the number and severity of findings compared with previous years, reflecting continued progress in strengthening the LPFA's governance and control environment.

Some actions from prior years remain in progress where delivery is dependent on wider projects, third parties or organisational changes. These actions continue to be monitored through management oversight arrangements and the ARC to ensure timely completion and continued improvement across the control framework.

Signed:

Jo Donnelly, Chief Executive Officer

Signed:

John Preston, Chair of the LPFA Board