

LPFA Pay Policies

**Forming part of the Annual Report 2015-16
for year ending 31st March 2016**

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Background

The LPFA is responsible for the investment of the Fund's assets, valued at £4.6 billion as at the end of March 2015. It is also accountable for the administration of pensions for some 200+ organisations, formerly within the Greater London Council and London Residuary Body, and to third party pension administration services for a number of London boroughs, the London Fire Brigade and Hertfordshire County Council. In addition to pension administration, the LPFA provides a range of consultancy services to local authorities and fire services around the UK.

Section 1. LPFA Pay Policy Aim

The LPFA is committed to providing transparency and fairness of pay throughout the organisation, ensuring value for money in terms of both the overall LPFA workforce pay bill and the quality of service provided to its customers. This commitment also ensures our voluntary compliance with the spirit of the Localism Act 2011. As part of LPFA's commitment to transparency, the remuneration of the Executive Committee and details of all staff members who are paid over £50,000 per annum, appear in the Annual Statement of Accounts which is published on the website.

This policy describes LPFA's pay framework and its approach to determining pay. It also sets out the current structure and arrangements in place for dealing with pay for the Chief Executive Officer and other Principal Officers within the Executive Committee.

The current pay policy seeks to:

- Develop and sustain a high performance and customer orientated culture.
- Attract, recruit and retain the skills, experience and talent required to deliver in challenging times of major change within the public sector pensions industry as well as the complex economic climate and the need to ensure that investments and contributions meet with our long term liabilities.
- Recognise the Chief Executive Officer, members of the Executive Committee and employees throughout the organisation, for their personal contribution towards achievement of the LPFA's goals.

From time to time the reward strategy and key principles which underpin this pay policy are reviewed. On the last occasion, in 2012/2013, this review also included a full remuneration benchmarking exercise undertaken for both the Executives and the wider employee population. The data provided invaluable information in relation to market trends, total package positioning and changes in attitudes towards benefits and working patterns.

Section 2. Principal Officers Remuneration

The LPFA Principal Officers are the Chief Executive along with four other members of the Executive Committee. This includes the Chief Finance Officer, the Pensions Director, the Chief Investment Officer and Chief Risk Officer. Together, these individuals are responsible for developing, driving and delivering the Strategic Business Plan against the organisation's agreed vision and priorities.

2.1 Salary Determination

The remuneration paid to the Chief Executive Officer and wider members of the Executive Committee are determined through the agreed pay policy and reflect:

- the size of the role;
- the market rate for comparable jobs in the public, industry, financial and service sectors.
- the personal attributes, skills and contribution the successful candidate is likely to bring to the role.
- the end of year assessment of the individual's performance within the role.

All of the above will be taken into account in order to determine the actual salary for the job holder with any subsequently proposed pay changes for these posts, being approved by the Remuneration and Nomination Committee (and the Board in the case of the Chief Executive and Chief Investment Officer).

2.2. Salary increases

Increases to the remuneration for the Chief Executive Officer and members of the Executive Committee are locally determined and do not depend on national negotiations relating to pay or awards. Instead, they are based on team and individual performance measured against delivery of the strategic business plan and personal objectives. In addition to 'what' is achieved, consideration is given to 'how' it is achieved, through an annual assessment of individual leadership capability demonstrated against the LPFA competency framework which includes the desired values and culture the LPFA strives to achieve. All proposals are considered by the Remuneration and Nomination Committee who, in turn, will make recommendations to the Board where appropriate and especially in respect of the Chief Executive and Chief Investment Officer.

Following the 2012/13 review, the LPFA replaced the previous incremental pay scheme in 2014 with a more modern, Performance Related Pay scheme including a job family pay banding approach. The Job families are regularly benchmarked against the market, i.e. via Towers Watson annual financial services survey data and Hay MSL Service Sector pay data. In order to determine individual pay levels, consideration is given to the size of the role including knowledge required, accountability etc and the LPFA Job Family pay bands taking into account national pay trends, pay awards applied in other organisations such as financial services, public services, Local Authorities etc and both the retail and consumer price index.

2.3 Bonus Payments

A proportion of Executive and Senior Management pay is 'at risk' and in effect has to be re-earned each year. This is a one off variable pay element which relates directly to performance and achievement of previously identified specific personal objectives aligned to the overall organisational goals.

Performance is also defined against leadership and other behaviours displayed and the success in developing capability in the longer term.

In 2013, the Board requested that a Long Term Incentive Scheme be considered and aligned to the delivery of the organisational goals over the longer term. A pilot scheme has been developed and is currently under discussion for implementation.

All variable pay schemes introduced from time to time in support of organisational goals, are determined and agreed in conjunction with the Remuneration and Nomination Committee and approved by the Board as appropriate.

2.4 Pay Benchmarking

Pay benchmarking is carried out each year in order to fully compare the LPFA Job Family Pay Bands using appropriate comparator data. This is primarily data derived from the Hay MSL Industry and Service Sector given the discretion of the organisation, but also against the Towers Watsons Financial Service Sector data given the commercial nature of the third party administration work, asset management activity and our ambitious business plan aspirations. Towers Watson data is becoming increasingly important as we continue to attract and recruit highly capable individuals from the Financial Services Sector thus creating a need to align total remuneration at least to the Lower Quartile levels.

2.5 Additional payments

The Chief Executive and/or members of the Executive Committee may take on additional responsibilities outside the LPFA from time to time including Non-Executive Directorships, or equivalent, subject to the full support of the LPFA Board. All such additional duties and associated remuneration must be declared and approved by the Remuneration and Nomination Committee before a personal offer is accepted. Decisions will be recorded by the Board Secretary, who will ensure there is no potential conflict of interest with the LPFA activity and who will make appropriate recommendations regarding the associated remuneration.

2.6 Pay Multiples

In 2011, a report by Will Hutton recommended that pay multiples should be included in this Pay Policy to enable executive pay to be tracked. The LPFA Job Families and individual Senior Management remuneration above £50,000 per annum are all published on the LPFA website, with the latter also itemised within the Annual Report and Accounts.

Section 3. Managers and Staff Remuneration

The LPFA recognises the importance of providing and maintaining pay at a level which is comparable within the market. In 2014, a performance related pay scheme was introduced for all staff. The scheme is agreed locally and is not directly linked to national negotiations for the determination of pay levels and awards.

3.1 Pay Ranges

Pay ranges within Job Families are determined based on market rates for comparable roles taking into consideration factors such as national pay trends, pay awards applied in other organisations including both local authorities and financial services sector data in addition to information available on the consumer and retail price indexes.

Pay bands relating to job families are reviewed annually and are published on the intranet.

Although pay ranges are in place for the majority of LPFA managers and employees, staff who join the LPFA via a TUPE acquisition may remain on different terms and conditions of employment dependent upon the nature of the transaction.

Decisions on the level of the annual pay award and any subsequent increases to pay ranges are taken by the Board as part of the budget authorisation process and following the Executive Committee's formal information and consultation discussions with the staff Committee. In 2013/14 the annual pay uplift to overall budget was 2.8% and in 2014/15 2.5%.

Individual pay awards are considered at the end of each performance year, which is aligned with the financial year, and taking into account staff performance throughout the year in terms of what has been achieved and how it has been achieved. There is no increase to salary or payment of variable amounts where performance does not meet expected levels.

3.2 Remuneration upon appointment

Individual remuneration is determined based on the appropriate pay range for the role and within the team in which they will be working.

The actual monetary amount applied for each new employee will be determined by taking into consideration overall job size, individual responsibilities and accountabilities, skills and experience required for the role benchmarked against the comparative market data.

3.3 Salary progression

Pay increases for all employees, including managers, is based on individual capability and the competencies displayed and assessed against achievement of objectives agreed at the beginning of the performance year. It is very important to us that Executives, Managers and staff continue to act as role models for the LPFA values and behaviours therefore great importance is placed on the use of competencies as part of the performance management cycle. As with all staff there is no salary award unless the individual is assessed as a minimum of 'Effective Performer' as part of the end of year performance review.

Employees can progress to the top of their pay band through receipt of annual increases with pay progression dependent upon performance, ability, drive and ambition. Salaries cannot increase beyond the top of the pay band applicable to the Job Family and level of role, without a fundamental change to the job role.

3.4 Minimum pay levels

The LPFA recognises the importance of offering and maintaining pay levels which allow people to live and provide for the essentials of life. As such, the lowest payment within the Job Family Pay Range is greater than the UK National Living Wage and in the case of London based staff, is greater than the London Living Wage.

Section 4. Additional Payments and Benefits

The Authority may make a one-off payment in order to recognise specific responsibilities and/or requirements of a job or job holder with the actual amount of any payment being determined by reference to any statutory requirements. Examples of such payments include allowances for additional duties such as Fire Warden, First Aid etc.

Employee's may, from time to time, take on additional responsibilities as part of their personal development and may be awarded a temporary 'Acting Up' allowance to reflect the increase in responsibilities for the role. This will be applied for a defined period and will be subject to both periodic review and withdrawal should the 'Acting Up' period cease or the individual fail to meet the requirements of the higher level position.

Section 5. Acquired Employees Through TUPE arrangements

Employees transferring into the LPFA via a TUPE arrangement will retain individual terms and conditions of employment including locally agreed pay policies. Harmonisation will be dependent upon organisational requirements or some other economic or technological reason.

Section 6. Termination of Employment

Termination of employment on the grounds of redundancy will be determined by business requirements prevailing from time to time and only after all alternative options have been fully explored and a full information and consultation process has taken place.

The LPFA may, where appropriate, make an additional severance payment outside of the statutory minimum allowance to those employees whose employment may cease by way of redundancy, taking into consideration individual terms and conditions, the reason for the redundancy situation arising and both age and length of service.

Section 7. Local Government Pension Scheme (LGPS):

Under the Local Government Pension Scheme (Benefits, membership and Contributions) Regulations 2007, the Authority may grant additional membership or additional pension to a pension scheme member in genuinely exceptional circumstances, subject to the approval of the Remuneration and Nomination Committee.

Should the LPFA decide to re-employ a former employee who is already in receipt of an LGPS pension from the LPFA, the employee's pension payments will be reduced, where applicable, to ensure the employee's total earnings (i.e. pension plus new pay) are no greater than the remuneration received prior to retirement plus inflation.