

Annual Governance Statement 2020/21

Executive Summary

The LPFA Chair, John Preston, and Chief Executive Officer (CEO), Robert Branagh, both value and consider the importance of effective management supported by good processes and compliance to ensure that the LPFA can deliver on their commitments to members and employers.

On an annual basis, the LPFA is required to prepare an annual governance statement (AGS) that outlines how the governance and internal control arrangements have performed. In 2020, the LPFA completed recruitment of a management team to work with outsourced providers to further strengthen their services and review best practice governance provisions to ensure that they can meet the future priorities of the Fund.

Throughout the Coronavirus pandemic (Covid-19), with the assistance of outsourced service providers, the LPFA has been able to function effectively with the implementation of flexible remote home working practices. The LPFA Constitutional Document (Constitution) permits electronic participation and decision making by the Board and its Committees. All formal decision-making forums continued to meet virtually via telephone and video conferencing during Covid-19, with initial minor adaptations to ensure focused decision making and oversight.

Scope of Responsibility

Since April 2016, most of LPFA's core functions are outsourced, to the Local Pensions Partnership Ltd (LPP Group) and their 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 the LPFA and Lancashire County Council (LCC). As a shareholder and a client, the LPFA has an important role (along with LCC) in ensuring that the LPP Group remains accountable and provides the necessary assurance to the LPFA in its capacity as an Administering Authority (Authority), that services are being delivered in accordance with the SLA. LPFA maintain a proactive approach to engagement with stakeholders and providers to ensure that the Fund continues to receive economies of scale. Targeted time and resource 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). LPFA is accountable for the strategic aspect of pension fund investment and administration management; however, the implementation of the Board's strategy are often carried out by LPP Group, with oversight by LPFA Officers. In addition, LPFA is responsible for ensuring that its functions are exercised within an effective risk management framework and that strong governance controls are in place.

Impact of Coronavirus (Covid-19)

The Covid-19 pandemic has affected the operation of regular business for the duration of 2020/21, as well as continuing to impact the way most of us live our lives. Business continuity protocols at the start of 2020/21, were replaced by flexible home working practices with staff working effectively from home, as the LPFA shifted to a more normalised 'business as usual' remote operating arrangements from the Summer 2020. The LPFA were actively monitoring the impact of market volatility on the Fund investment performance, through more frequent reporting and engagement with the Board.

The LPFA Constitution allowed for the Board and Committees to meet virtually, without the need for emergency regulations issued by the Government. However, the June and July 2020 Public meetings were cancelled, to allow the Board to focus on key matters and reduce the burden on Officers. The LPFA Board made an informed decision in April 2020 to suspend the LPFA Seal of Authority required to execute documents by Deed.

Electronic registers, the use of e-signatures and email authorisations, to defined standards, were permitted and all documents authorised are reported to the Board.

LPFA's Governance Framework

The LPFA operate in accordance with a Local Code of Corporate Governance (Code) that has been prepared in accordance with *CIPFA/Solace Delivering Good Governance in Local Government: Framework (2016)*. LPFA is responsible for ensuring that its business is conducted in accordance with the regulation and compliance standards. A commitment to 'value for money' ensures that public money is safeguarded and properly accounted for. The recruitment of a new management team has allowed the fund to consider how resources are used economically, efficiently and effectively to deliver against the LPFA Strategic Policy Statement priorities. The Board is informed of regulatory developments prior to decisions being made and following the appointment of a Chief Legal and Compliance Officer in the middle of the 2019/20, horizon scanning on regulatory matters is a standing item reported to the Board.

The Code, the AGS and the Governance Compliance statement (published within the LPFA Pension Fund Annual Report and on the Corporate website), along with the constitution form the governance framework. All were reviewed, updated, and approved by the Board during the year.

LPFA's governance framework outlines the systems, processes, culture and values, by which it is directed and controlled, and the activities for which it is accountable. It enables the Authority to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services. At its core, the LPFA governance framework seeks to ensure high-level performance and stewardship through the efficient administration of pensions payments and that there are sufficient funds available to continue to meet such payment obligations over the long term.

The Code sets out the governance systems, processes and controls used by LPFA in the delivery of its functions and encompasses the following:

- LPFA's vision, aims, behaviours and decision-making process, including training and induction program.
- Approach to Environmental, Social, Governance arrangements, including responsible investment and climate change.
- LPFA's decision making, reporting and oversight of the LPP Group through compliance with agreed SLA's.
- Committee structures, performance monitoring and how the use of resources are monitored.
- How fraud, risk management, whistleblowing procedures and conflicts of interest policies are managed, including the division of responsibilities between LPFA and LPP Group.
- Officer-specific functions, including the roles of both the Section 151 Officer and the Monitoring Officer.
- Arrangements to ensure the effective financial monitoring from the LPP Group and use of future resources.

The Code was reviewed and updated in early 2020/21 to reflect the strategic priorities for the year. The changes to the Code was approved by the Board for publication on the LPFA's website.

LPFA's Constitution defines the scheme of delegations and roles of Principal Officers, which provides greater clarity in effective working relationships across the Authority. The Board, at its first meeting of the financial year, reviewed the Committee membership, confirmed the Chair of its Standing Committee and has the Constitution under regular review to ensure it remains 'fit and proper' in fulfilling its governance arrangements. The Constitution defines the operation of standing committees and contains the terms of reference (ToR) for both the Local Pension Board (LPB) and Audit and Risk Committee (ARC). LPB and ARC ToRs were reviewed to ensure they reflected best practice, as well as met the revised operational needs of the LPFA. All formal meetings are documented, and Board decisions are also recorded on a decisions log.

The Board reconfirmed their commitment to their vision as 'stewards of the future' and considers how members funds are invested as having an impact on '*the future of our economy, our environment, our society and therefore our Members future*'. Due to planned departures from the Board and the prioritisation of business-critical matters during Covid-19, it was not possible to proceed with the planned internal effectiveness review. However, now that the LPFA Board is up to strength with four new members, it is anticipated that an internal evaluation will take place later in 2021. The Board operates as defined by the matters reserved in LPFA's constitution and in 2020/21 held two strategic 'Away Day' events in April 2020, which took place virtually, and in September 2020 which was held offsite obeying the government's guidelines.

Annual Internal Audit Report and Opinion

The LPFA appointed a new internal auditor, PricewaterhouseCoopers (PwC), at the start of 2020/21 for a three-year period. A report outlining the internal audit work carried out during 2020/21, including an independent opinion on the Fund's governance, risk management and control framework, was presented to the first ARC meeting in 2021/22. The Annual Internal Audit Report and Opinion (Year to 31 March 2021) was considered as part of annual internal audit assurance and to satisfy Public Sector Internal Audit Standards.

PwC were satisfied that sufficient internal audit work had been undertaken to allow an opinion of 'generally satisfactory with some improvements required'. There were some areas of weakness or non-compliance which are being addressed by the new management team, as the LPFA seek to build on internal capacity. Despite virtual working arrangements, a total of six internal audits were undertaken. Based on the work completed; PwC issued two high risk, three medium risk and one low risk rated internal audit reports.

The Financial Management Code (FM Code)

During 2020/21, the ARC received regular updates on planned developments to the LPFA finance function currently provided by LPPI. With Covid-19 and the undertaking of an extended external audit period, the consideration of implementation of the FM Code was postponed. The LPFA appreciate the importance of financial resilience through embedding enhanced standards of financial management. The recently appointed LPFA Finance Director has had prior implementation FM Code experience and consideration of an assessment of the compliance with the FM Code principles will be a priority.

The ARC receives quarterly financial management reports and in 2020/21 saw a positive variance due to below budget lump sums, increased employer contributions and above budget transfers in. A number of services including: Employer Risk (now known as Employer Management services); Facilities management; and marketing and communications transferred from LPP Group to LPFA, resulting in overall savings.

LPFA's Risk Management Framework

Risk management is the process of identifying, assessing, quantifying, monitoring, controlling and reporting the risks to which the LPFA Fund is exposed and determining how best to mitigate such risks and/or handle such exposure. The purpose of risk management is to ensure that LPFA is aware of and understands the risks involved in carrying out its activities and takes positive action to reduce and/or mitigate them where appropriate and possible.

The LPFA management team have a risk led approach to decision making, against a defined risk appetite, and reviews the risk register on at least a monthly basis to identify risks, as well as assign risk owners responsible to manage the issue. Governance is considered a risk associated with policies, principles, processes and resources used to govern the LPFA.

The LPFA is supported in its risk oversight by the ARC. ARC is responsible for discussing and making recommendations to the Board on risk related matters. Since 2020, a significant amount of focus and effort has gone into the development of risk management at LPFA, including engagement with Board members, to ensure the risk register more accurately reflects the risks of the Fund. An internal audit on risk management

in the middle of 2020/21, reflected the development of risk management to date, the good foundation in place and identified opportunities for further enhanced best practice. As a result, revised risk management principles and reporting were agreed by the Board in December 2020 which assist with streamlining the quality of risk information and clarify roles/responsibilities with the LPP Group in risk management.

Highlights of the latest Risk Management Principles are designed to:

- *Define risk appetite, identify risks, assign risk owners and classify risks.*
- *Assess risks against prescribed scenarios, using the likelihood and impact framework. Following the identification and authorising of risk control options, the implemented controls are monitored by the risk owner and reported to the Board, ARC and LPB.*
- *The Board has overall responsibility for the risk management process and risk appetite. The risk register is to inform Board decision making, while ARC has the task of monitoring the risk management process and effectiveness of risk controls including authorising those requested by the CEO. The LPB assists with an annual review of the risk register as it related to fund risks and liaises with the CEO on the effectiveness of risk controls.*

The LPFA management team is clear on the roles and responsibilities of the CEO, the Funding and Risk Director, as well as their role as individual risk or control owners. Following the completion of the Investment Strategy Review in 2021, the risk appetite statement will be reviewed again.

The annual activities of the ARC in 2020/21 have been published on the LPFA corporate website and a summary included within the Pension Fund Annual Report. The LPFA have already undertaken a gap analysis on the impact of the implementation of the LGPS Scheme Advisory Board and Hymans Robertson Good Governance project. Refinements and further enhancements are anticipated to the LPFA governance framework when there is clarity on statutory and best practice guidance on new governance requirements for funds to effectively implement the proposals.

Annual Governance Statement Action Plan

LPFA has undergone significant changes over the past year, notably the development of a new management team and the return of several corporate functions from LPP Group which will require a focus on internal processes and procedures fit for a small organisation rather than one or two Officer organisation.

Actions planned for 2021/22:

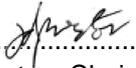
The following actions in relation to governance and monitoring actions have been carried over or are planned for 2021/22. The recent expansion of the LPFA management team will assist the LPFA CEO with the actions:

Issue	Action	Lead Officer	Expected timeframe
Employee 'ways of working' standardised	Business Support function to document and establish general core standards of conduct/behaviour for all LPFA employees including pay and reward, working arrangements, annual leave, sickness, travel, diversity and disciplinary matters	Business Manager / CEO	31 March 2022
Committee structure effectiveness review	To carry out an internal evaluation. The outcome will be reported to the LPFA Board. To consider whether to formalise the LPFA Investment Panel from a discussion forum to formal delegated authority from the Board.	Chief Legal and Compliance Officer/ Chair	Winter 2021/22 Postponed to allow the newly onboarded LPFA board members to be onboarded
Review Constitutional Scheme of Delegations (SoD)	<ul style="list-style-type: none"> The current SoD was designed for the LPFA when only the CEO and Executive Assistant were in post. With the management team now in place, there is an opportunity to review existing delegations in place. 	Chief Legal and Compliance Officer/ CEO	31 March 2022
Implement the recommendations LGPS Scheme Advisory Board and Hymans Robertson Good Governance project	<ul style="list-style-type: none"> Review and refresh for the Board/LPB. For new employees, implement the LPFA operation of CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills Framework. Develop a separate training policy and overall strategy to formalise the best practice that already takes place. Review the Local Code of Corporate Governance and Governance Compliance code. Develop key roles and responsibilities matrix. Review and refresh the Pensions administration strategy. 	Chief Legal and Compliance Officer/ CEO	31 March 2022

We propose to further enhance our governance arrangements by taking steps to address the above matters over the coming year. We believe that these steps are appropriate in the new working environment we are in 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, Chief Executive Officer

Dated: 21 July 2021

Signed 
John Preston, Chair

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