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London Pensions Fund Authority **Pay Policy Statement**

August 2020



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London Pensions Fund Authority

Pay Policy Statement

1. Background and purpose

The London Pensions Fund Authority (LPFA) manages LGPS pension fund assets, which currently total circa £6bn, on behalf of 350 employers and around 92,000 members. The majority of LPFA's functions have however been outsourced to the Local Pensions Partnership Ltd (LPP Group) under a Service Level Agreement. LPP is a business which is owned by the LPFA jointly with Lancashire County Council and was established to deliver benefits of scale and cost reduction in the management of local government pension schemes. As a shareholder and a client, the LPFA has an important role in ensuring that the LPP Group remains accountable and provides the necessary assurance to the Authority that services are being delivered.

As an LGPS administering authority and a statutory corporation, the statutory and regulatory responsibilities of the Board are active. LPFA is responsible for the strategic aspect of pension fund management, however, the implementation of the Board's strategy and policies are largely outsourced to the LPP Group. This has been the model since 2016, although since the latter part of 2019, LPFA has been building more resource into its own team (the "Executive Team") to deliver two increasing areas of activity. Firstly, work on the detailed reporting and monitoring of the outsourced provider to ensure the efficiencies, savings, improvement in investment returns, efficient administration services and deficit reductions are delivered. Secondly, the existing and increasingly large volume of regulatory, compliance and government legislation and regulation mean there are more things the LPFA has to comply and monitor than ever before.

LPFA remains responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Board are informed of regulatory changes prior to decisions being made, often with the input of the LPP Group as a key partner to LPFA. LPFA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, LPFA is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk. The operational aspects of this have been outsourced to the LPP Group but the LPFA Board remains responsible for monitoring these arrangements and for ensuring they are robust.

LPFA will continue to use its position as an active shareholder of the LPP Group and operate its responsibilities under the shareholder agreement.

The LPFA is committed to providing transparency and fairness of pay ensuring voluntary compliance with the spirit of the Localism Act 2011. As part of LPFA's commitment to transparency, the remuneration of its Chief Executive Officer (CEO) and other senior staff members as appropriate, will 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 CEO and other Senior Staff appointed.

The LPFA Remuneration policy seeks to:

- Maintain a competitive package that will attract, motivate and retain the skills, knowledge, experience, talent and high performing individuals required to deliver in challenging times of major change.
- Align the interests of our employees with those of our LGPS Shareholders, i.e. to be a leader in Pension Services and to deliver sustainable pensions and long-term shareholder and client satisfaction in a competitive market.
- Avoid excessive or inappropriate risk taking.
- Provide transparency and fairness of pay throughout the organisation.
- Ensure value for money in terms of both the overall workforce pay bill and the quality of service provided to its clients.
- Adopt a 'pay for performance' approach, ensuring individual remuneration is set against challenging and stretching goals, aligned to the organisational strategy.
- Align performance related pay for individual pay awards to job family pay bands developed taking into account national pay trends; pay awards applied in other organisations (including financial services), the retail and consumer price indices.
- Develop and sustain a high performance, customer orientated culture.
- Recognise the staff at all levels for their area of specialism and personal contribution towards achievement of the organisations goals.
- Ensure the policy complies with employment legislation.
- Ensure the overall uplift to the annual pay bill is in line with the agreed budget set for the year.

The reward strategy and key principles which underpin this policy are subject to regular review by the outsourced the LPP Group HR provider, which includes annual benchmarking for the CEO and other Senior Staff appointed using both salary and benefits data gathered from respected industry sources.

2. Remuneration principles

The LPFA Principal Officers are the CEO, the Section 151 Officer, and the Monitoring Officer. In addition, the CEO is supported by an Executive Team. Together, these individuals are responsible for developing, driving and delivering the Strategic Policy Statement (SPS) against the organisation's agreed vision and priorities determined by the Board.

2.1 Salary determination

The remuneration paid to the CEO and other Senior Staff appointed are determined through the agreed pay policy.

All other staff will, upon appointment, be placed at the point in the appropriate pay range which reflects their skills, experience and the role they are undertaking.

The following non-exhaustive factors will be taken into account when determining (a) the level of a job role and (b) the basic salary to be awarded to a given job holder at any time, benchmarked against the market and in line with this Policy:

- The size of the role.
- The market rate for comparable jobs in the financial services sector using industry salary survey reward data.
- The personal attributes, skills and contribution the successful candidate is likely to bring to the role.
- For current employees, the mid-year and end of year assessment of:
 - team performance (if applicable); and
 - the individual's performance within their role, both as to "what" they have achieved and "how" they have achieved it, measured against:
 - LPFA's competency framework, which includes the values and culture the LPFA strives to achieve;
 - the personal objectives which they will have been set by and agreed with their line manager; and
 - for Principle Officers, the SPS, and
- Increases to base salary are only made to those reaching the required standards.

All of these factors will be taken into account in order to determine the actual salary for the job holder with any subsequent proposed pay changes for these posts, being approved by the CEO. Overall LPFA remuneration spend will be reviewed as part of the annual budget setting undertaken with, and approved by, the LPFA Board as part of the Medium Term Financial Plan (MTFP).

2.2. Salary review

Changes to the remuneration of the CEO and the Executive team, are locally determined and do not depend on national negotiations relating to pay or awards. Instead, they are based on individual performance measured against delivery of the SPS and agreed 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 behaviour framework which includes the agreed values and culture the LPFA strives to achieve. Whilst the review of the Executive team is undertaken by the CEO, in the case of the CEO, performance is annually assessed by the LPFA Chairman and recommendations presented to the LPFA Board for approval.

The LPFA operates a performance related pay scheme with senior roles benchmarked against the Willis Towers Watson Financial Services Global Grading framework. In order to determine individual pay levels, consideration is given to the size of the role including knowledge, skill and experience required plus the level of accountability measured against 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 Variable Pay

A proportion of the CEO and the Executive teams' remuneration is 'at risk' and, in effect, has to be re-earned each year. This is a one-off variable pay element, amounting to a maximum of 20% of salary, 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. Whilst the review of the Executive team is undertaken by the CEO, in the case of the CEO, performance is annually assessed by the LPFA Chairman and recommendations presented to the LPFA Board for approval.

2.4 Pay benchmarking

Pay benchmarking is carried out each year by the LPP Group outsourced partner in order to fully compare the LPFA senior roles with appropriate comparator data. This is primarily data derived from the Willis Towers Watson Financial Service Sector pay data given the commercial nature of the third-party administration work, asset management activity and the ambitious business plan aspirations. A second benchmark may be used on occasion to test the market alignment such as specific Pension Fund Management Survey data to ensure continuing competitiveness and to aid retention.

2.5 Pay parity

LPFA is committed to paying all staff a fair and equitable salary. As such, the lowest salary paid within LPFA will be greater than the UK National Living Wage and, in the case of London based staff, be greater than the London Living Wage.

3. Discretionary items

Those employees taking on additional duties and/or responsibilities beyond their normal job role, such as those “acting up” beyond their normal role or first aid/ fire warden, will be eligible to receive additional allowances for so long as they do so and are performing at a satisfactory level.

The payment of all such allowances will be subject to review and withdrawal at any time at LPFA’s sole discretion.

Additionally, the CEO may hold a discretionary budget, which can be used, at the CEO’s sole discretion, to reward exceptional behaviours or performance during a given period. The criteria for award, and the amounts available, will be subject to annual review as part of the MTFP process.

In cases of compulsory redundancy, LPFA may, where appropriate, and in its sole discretion, make additional payments which go beyond statutory minimum allowances, subject to such legislation as may be in place from time to time.

4. External roles

The CEO and other Senior Staff are permitted to take on additional responsibilities outside the LPFA, such as by way of professional body committees or Non-Executive Directorships, and whether paid or unpaid, provided that they make a request in writing to the LPFA Chairman in respect of the CEO, and to the CEO for other Senior Staff.

The LPFA Chairman will ensure that there is no actual or potential conflict of interest relating to LPFA or the LPP Group and its shareholders.

5. Local Government Pension Scheme (LGPS)

Under the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the LPFA may, in its sole discretion, presently grant additional membership or additional pension to a pension scheme member in exceptional circumstances, subject to the approval of the LPFA Board.

Should the LPFA decide to employ a former employee who is already in receipt of an LGPS pension from the LPFA or another LGPS provider, the employee’s pension payments may 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.

For more information, please contact:
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