Lancashire Local Pension Board – Annual Report 2016/17

A year ago, I wrote my first report as the Independent Chair of the Lancashire County Pension Fund's Local Pension Board (LPB). I commented then that we had successfully established the Board in accordance with the regulations, but were still finding our feet within the overall governance structure. This was particularly so given the changes taking place as a result of the formation of the London Pensions Partnership Ltd (LPP) pool to manage the investments, liabilities and administration of the Fund. I ended my report by stressing the need for the LPB to add value to the Fund's governance and activities. Although still early days, I said then that I believed it was already fulfilling two important functions: offering challenge to the executive; and providing valuable Members' and Employers' perspectives to the Executive which they might otherwise struggle to obtain.

Twelve months on, as a Board we have a much clearer view of our role and where and how we can add value, and I shall devote some of this report to setting that out in more detail. First, however, I should report on the mechanics. The Board has nine members, four Employer representatives who were chosen to be representative of the Fund's Employers, four Member representatives elected in a public election, and myself as the Independent Chair. All members served throughout the year. My term comes to an end in March 2019, while members may serve for a maximum of two terms of four years. We have met four times during the year, and held one Working Group (comprising 3 Board members) to consider revised Terms of Reference.

The following table shows members attendance at Board meetings

Name	**Representing**	**5th July 2016**	**18th Oct 2016**	**17th Jan 2017**	**11th Apr 2017**
W Bourne	Chair	✓	✓	✓	✓
S Browne	Employer - LCC	✓	✓	apologies	✓
C Gibson	Employer - Others	✓	✓	✓	apologies
K Haigh	Active members	✓	✓	✓	✓
J Hall	Deferred members	apologies	✓	✓	✓
R Harvey	Pensioner members	✓	✓	✓	✓
County Councillor T Martin	Employer – LCC	✓	apologies	apologies	apologies
Y Moult	Active members	✓	✓	✓	✓
S Thompson	Employer – Unitary, City, Borough, Police & Fire	✓	apologies	✓	✓

Information about the Board, including minutes and public papers are available on the Pension Fund website.

The Board has a small internal budget, which is used primarily to defray the cost of Members' attendance at training events or conferences. During the year, £14,000 was spent.

The year has included a triennial actuarial valuation, a new set of investment regulations, as well as the FCA authorisation of LPP and the transfer of assets to it, so there has been no shortage of important subjects. In all of these, the Pension Fund Committee has primary responsibility for executive and strategic decisions, and the LPB's remit is one of scrutiny. We are there as a second pair of eyes on behalf of the Fund's stakeholders, especially the Employers who make contributions and the Members who both contribute and receive pensions, to ensure that good governance is in place. In practice this means that the legal and regulatory requirements are complied with, that due process is followed, that risks are considered beforehand, monitored, and where possible mitigated, and that all is done in an efficient manner. However, it is important to underline the fact that executive power resides with the Committee, and we can only make recommendations or note our concerns.

For our scrutiny role, we rely considerably on third party verification reports from various parties, whether it be from Officers, from internal service providers such as auditors, or from independent parties. These are presented at meetings, and we will normally discuss the background and if we are not comfortable, we will ask to see the original documents. For example during the year we noted our concerns to the Pension Fund Committee that although LPP had commenced operations, the formal governance structure for monitoring its activities had yet to be put in place. Since then, a formal review has been conducted by PWC, and recommendations put in place.

The second major focus of the LPB's activities is assisting the Pension Fund Committee in the efficient running of the Fund. Here the perspectives which Employer and Member representatives on the Board bring to bear are of undoubted value. Looking at ways to improve communication between the Fund and its stakeholders is a perpetual task, but one example is the tracing of Members whose addresses are missing. This was reviewed by the LPB in 2015, a policy of conducting a tracing exercise on a regular basis put in place by Officers, and as result over 3,000 deferred Members are now back in contact with the Fund, and will be able to receive the pensions they are entitled to.

Efficiency is also about keeping an eye on costs. The great majority of costs are now incurred by LPP, because investment and administration activities have been transferred to them. It is important that the Fund obtains good value for the money spent here, and we have made the Pension Fund Committee aware of the importance we place on monitoring the value achieved over a long period in order to demonstrate the benefits delivered to the Fund from the establishment of the pool.

As part of the process of pooling with LPP, there is scope to reduce costs by reviewing and consolidating the arrangements by which the Fund and the LPFA conduct administration. The LPB is supportive of this quite ambitious plan, but is aware that change brings risks with it. We accordingly recommended the Pension Fund Committee conduct an audit to confirm that the risks which transformation inevitably brings have been properly assessed and where possible mitigated. At the time of writing this is still work in process, but we believe our comments have been given due consideration to the benefit of stakeholders.

New investment regulations came into law during the year under consideration as part of the process of pooling. Among other things, they make it clear that the LPB is one of the bodies which need to be consulted in certain circumstances, underlining its status within the formal governance structure as the only body with stakeholder representation. We reviewed the proposed Investment Strategy Statement, required under the new regulations, outside our meeting cycle for time constraint reasons, and made known to the Pension Fund Committee a number of concerns. It is our understanding the Statement will be reviewed again later this year.

Governance is one of the keys to a well-run Fund, and it became apparent to the LPB during the year that in the course of the formation of LPP, the Fund itself had been left with too little resource in this area. We viewed this as particularly concerning at a time when the governance structures were becoming increasingly complex as a result of the pooling process. We therefore made a formal recommendation to the CEO of Lancashire County Council that the Head of the Fund be provided with more support. At the time of writing, I understand that a new hire has been made to achieve this.

The LPB also sees all breaches of law or regulations, and considers among other things whether there is a requirement to report a breach to the Pensions Regulator. During the year, no breach was sufficiently serious or systemic that this was necessary, but we will continue to keep a beady eye on the performance of LPP. After a full year of operation, we conducted an appraisal of the LPB, in accordance with our terms of reference. This exercise resulted in a number of recommendations, and considerably greater clarity how we should operate. Our remit is clearly one of scrutiny, and it is the Pension Fund Committee's role to manage the relationship with LPP. We will use our Member and Employer perspectives to assist the Fund in seeking better ways to do things. Where the LPB sees a proposed formal document or decision before it is ratified by the Committee, we will make known our concerns by means of a formal note. Where, as inevitably happens on occasion, we only see a decision after it has been taken, we will make a formal recommendation to the relevant body, usually the Committee.

As a result of the appraisal we also recommended some changes to our Terms of Reference, to bring them in line both with the public requirements for the LPB and

the way we have defined our remit. The new Terms of Reference can be found on the Pension Fund website.

Training is also required under the Pensions Act 2013, and is covered by the Fund's Training Policy, which was refreshed during the year alongside that for the Pension Fund Committee. Members are invited to and have attended Training Workshops in Lancashire, and are encouraged to attend useful seminars and conferences which will help them to increase their knowledge levels.

The table below shows the number of training events each Board member attended during the year.

Name	Internal event attended	External events attended
W Bourne	Nil	1
S Browne	3	Nil
C Gibson	1	Nil
K Haigh	7	3
J Hall	3	Nil
R Harvey	7	3
County Councillor T Martin	3	Nil
Y Moult	3	1
S Thompson	2	1

In the next year, the LPB's focus is likely to be on continuing to scrutinise the governance arrangements around LPP as they settle down. We are likely to spend more time on the administration side, as that is where the biggest changes will be happening. We are also proposing to continue to look at engagement with employers and members. Lancashire County Pension Fund has one of the most effective engagement policies anywhere in the country, but that is not a reason for looking for further improvements. The LPB is the best placed body to promote that because it is representative. In both these areas, we will look to share best practice with the equivalent body on our LPP partner, the London Pension Fund Authority's Pension Board.

I will finally highlight the support we get from, first, the Pension Fund Committee and the Chair in particular, and secondly the Officers. The LPB's ultimate objective is the same as that of the Committee, but we also have a clear duty to challenge it on occasion. This can only function effectively if the relationship is a good one, so that when we note concerns or make comments, they are taken constructively. Even when we have made the Committee's lives less than comfortable, the Chair has always been fully supportive of our interventions and comments. Without the assistance of the Officers running the fund, the LPB would simply not function.
I have no doubt that in this year the LPB has by acting as a scrutinising body been able to add value during this year now that it has bedded down. We look forward to

the next year with confidence, expecting to be able to make our contribution to making a well-run fund even better.

William Bourne
Independent Chair of the Lancashire Local Pension Board.