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## **Pensions Committee**

Tuesday, 18 December 2018  
**10.00 am**  
Oak Room, County Buildings, Stafford

John Tradewell  
Director of Strategy, Governance and Change  
10 December 2018

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## **A G E N D A**

### **PART ONE**

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 27 September 2018** (Pages 1 - 4)
4. **Minutes of the meeting of the Pensions Panel held on 4 September 2018** (Pages 5 - 6)
5. **LGPS Asset Pooling Arrangements - Audit Assurance Framework** (Pages 7 - 28)  
Report of the Director of Finance and Resources

### **PART TWO**

6. **Exclusion of the Public**

The Chairman to move:

‘That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below’

## PART TWO

7. **Exempt minutes of the meeting held on 27 September 2018** (Pages 29 - 32)  
(Exemption paragraph 3)
8. **Exempt minutes of the meeting of the Pensions Panel held on 4 September 2018** (Pages 33 - 40)  
(Exemption paragraph 3)
9. **Breaches and Disclosure of Information - Annual Benefit Statements (ABS)** (Pages 41 - 44)  
(Exemption paragraph 3)
- Report of the Director of Finance and Resources
10. **LGPS Pensions Administration - Additional Resource** (Pages 45 - 58)  
(Exemption paragraph 3)
- Report of the Director of Finance and Resources
11. **LGPS Central Limited Update** (Pages 59 - 90)  
(Exemption paragraph 3)

LGPS Central Autumn Progress Report to MHCLG attached for information

Presentation by Joanne Segars and John Burns from LGPS Central Limited

### Membership

Ben Adams	Peter Noskiw (Co-Optee)
Philip Atkins, OBE	Bob Spencer
Nigel Caine (Co-Optee)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Ann Edgeller (Vice-Chairman)	Martyn Tittley
Colin Greatorex (Chairman)	Kevin Upton (Co-Optee)
Phil, Jones	Michael Vaughan

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## Minutes of the Meeting of the Pensions Committee held on 27 September 2018

Attendance	
Ben Adams	Bob Spencer
Derek Davis, OBE	Mike Sutherland
Ann Edgeller (Vice-Chairman)	Stephen Sweeney
Colin Greatorex (Chairman)	

**Also in attendance:** Corrina Bradley, Ian Jenkinson and Tim Legge (Pensions Board Members).

**Apologies:** Philip Atkins, OBE, Phil, Jones (Co-optee), Peter Noskiw (Co-optee) and Martyn Tittley.

### PART ONE

#### 1. Declarations of Interest

There were no declarations of interest on this occasion.

#### 2. Minutes of the meeting held on 15 June 2018

The Director of Finance and Resources referred to minute number 5, "Staffordshire Pension Fund Investment Performance 2017/18" and indicated that in response to the question raised by Mr Adams as to whether comparisons were made across regional market returns (i.e. North America, Europe etc), following the meeting, the relevant information was circulated to all Members of the Committee and no further questions had been raised.

**RESOLVED** – That the minutes of the meeting of the Pensions Committee held on 15 June 2018 be confirmed and signed by the Chairman.

#### 3. Minutes of the Pensions Panel meeting held on 5 June 2018

**RESOLVED** – That the minutes of the meeting of the Pensions Panel held on 5 June 2018 be noted.

#### 4. Appointment of Union and Small Employer Representatives for the Pensions Committee

The Director of Finance and Resources reminded Members of the need to recruit two co-optee members on the Committee (Union representative and Small Employer representative) following the resignation of Sue Insull and Geoff Locke. The Director indicated that letters inviting nominations had been sent to the trade unions and all Employers within the Fund but no responses had been received.

The Chairman indicated that, if members wished, he would contact the Staffordshire Parish Councils' Association to enquire as to whether they would wish to nominate

somebody to serve as the Small Employer Representative on the Committee. The Director also added that arrangements could be made to send a follow-up letter to the Trade Unions.

**RESOLVED** – (a) That the Chairman be requested to contact the Staffordshire Parish Councils' Association to enquire as to whether they would wish to nominate somebody to serve as the Small Employer Representative on the Committee.

(b) That the Director of Finance and Resources be requested to send a follow-up letter to the Trade Unions seeking a nomination for the vacant position of Union Representative on the Committee.

## **5. Pension Fund Annual Report and Accounts 2017/18**

The Committee were informed that, under regulations, the Pension Fund had to publish an annual report which included the accounts. The external auditors were also obliged to issue a statement on the accounts.

The Director of Finance and Resources submitted the draft Annual Report and Accounts 2017/18 for the Staffordshire Pension Fund.

The Pension Fund accounts were also included within the County Council's Statement of Accounts and were reported to the County Council's Audit and Standards Committee on 30 July 2018.

The Director summarised the Fund's accounts and made particular reference to the inclusion in the document of the independent auditor's report which stated that the accounts were consistent with those included within Staffordshire County Council's Statement of Accounts for the year ended 31 March 2018. The audit report also stated that the accounts were properly prepared in accordance with accounting standards.

The Director added that, with regard to the accounts, the auditor had undertaken an assessment of the "control environment" and had indicated that as part of the audit they were required to test the accuracy and completeness of contributions received but had found that the Fund was "unable to provide evidence from Staffordshire County Council at the time of testing as they had not received the return from Liberata – the new payroll provider." The Director indicated that the Committee had previously been made aware of this issue and the steps being taken to rectify the matter.

**RESOLVED** – (a) That the Staffordshire Pension Fund Annual Report and Accounts 2017/18 (Appendix 2 to the report) be approved and that the external auditor's statement on page 79 be noted.

(b) That the separate report from the Fund's external auditors, Ernst Young, entitled: Staffordshire Pension Fund Audit Results Report Year ended 31 March 2018 (Appendix 3 to the report), be noted.

## **6. Review of Governance Policy Statement and Communications Policy**

The Committee were informed that Regulations required, and best practice dictated, that a Pension Fund should have a range of written policies and procedures in place. Having such, not only proved regulatory compliance, but more importantly demonstrated good governance and provided a range of information to stakeholders.

Whilst the Staffordshire Pension Fund was compliant in having the full range of policies in place, following an initial audit by officers, it appeared that many of them were out of date and in need of review. An ongoing work program had therefore been put in place to ensure that over the next 12-18 months, the Fund's policies were reviewed and updated. These would be brought to the Pensions Committee for approval in the first instance, prior to any wider consultation, if such was required.

The Committee considered the proposed revised Governance Policy Statement which was last updated in December 2014 to reflect the introduction of the Local Pensions Board in 2015. The proposed revised version had been reformatted slightly and had also been updated to reflect the governance arrangements for LGPS Central Limited. The Director added that as the statement reflected the actual Governance arrangements in place, no wider consultation was considered necessary. The Chairman also indicated that the Policy Statement provided a clear overview of the Fund's governance arrangements.

The Committee also considered the proposed revised Communications Policy Statement which was last reviewed in 2017, the latest revised version had been reformatted slightly and updated to reflect several minor procedural changes. As there had been no significant changes to the Policy, wider consultation was considered unnecessary.

**RESOLVED** – (a) That the revised and updated Governance Policy Statement (Appendix 2 to the report) be approved.

(b) That the revised and updated Communications Policy Statement (Appendix 3 to the report) be approved.

## **7. LGPS Central Limited Annual Report 2018**

The Committee considered the LGPS Central Limited Annual Report 2018. The Director of Finance and Resources indicated that the Chairman of the Committee had attended the LGPS Central Limited AGM during which the auditor's report for the year ended 31st March 2018 was considered.

**RESOLVED** – That the LGPS Central Limited Annual Report 2018 be received.

## **8. Exclusion of the Public**

**RESOLVED** - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated below.

## **PART TWO**

**9. Exempt minutes of the meeting held on 15 June 2018**  
(Exemption paragraph 3)

**10. Exempt minutes of the Pensions Panel meeting held on 5 June 2018**  
(Exemption paragraph 3)

**11. LGPS Regulations - Admission of New Employers to the Fund**  
(Exemption paragraph 3)

**12. LGPS Central Update**  
(Exemption paragraph 3)

**13. Member Training in preparation for the 2019 Actuarial Valuation**  
(Exemption paragraph 3)

**Chairman**



**Minutes of the Pensions Panel Meeting held on 4 September 2018**

**Attendance**

Philip Atkins, OBE (Chair)	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Colin Greatorex	

**Also in attendance:** Ian Jenkinson (Observer), Paul Potter (Hymans Robertson) and David Thomas (Independent Adviser).

**Apologies:** Carolan Dobson and Graeme Johnston

**PART ONE**

**14. Declarations of Interest**

There were no declarations of Interest on this occasion.

**15. Minutes of meeting held on 5 June 2018**

**RESOLVED** – That the minutes of the Meeting of the Pensions Panel held on 5 June 2018 be confirmed and signed by the Chairman.

**16. Pension Fund Performance and Portfolio of Investments as at 30 June 2018**

The Director of Finance and Resources submitted a summary of the performance of the Pension Fund, together with a portfolio of the Fund's investments, as at 30 June 2018.

The Panel were informed that the Fund had a market value of £5.0 billion as at 30 June 2018; the highest reported to date. Over the quarter the Fund returned 4.9%, slightly underperforming its strategic benchmark return by -0.2%. The best performing asset classes over the quarter relative to their benchmarks were active global equities and property. UK equities and a higher allocation to low returning corporate bonds were detractors from performance over the quarter.

The Panel were also informed that although the Fund had underperformed its strategic benchmark return over the 1 year period and was level with the benchmark return over the 3 year period, it had still achieved positive absolute returns and continued to outperform its strategic benchmark return in the 5 and 10 year periods. Annualised returns over both 3 and 5 years were in excess of 10% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

**RESOLVED** – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 30 June 2018 be noted.

**17. Dates of Future Meetings**

- 4 December 2018

- 5 March 2019

All meetings are scheduled to start at 9.30am at County Buildings, Stafford.

## **18. Exclusion of the Public**

**RESOLVED** - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

## **PART TWO**

The Panel then proceeded to consider reports on the following issues:

### **19. Exempt Minutes of the Meeting held on 5 June 2018**

(Exemption paragraph 3)

### **20. Pension Fund Performance and Manager Monitoring for the quarter ended 30 June 2018**

(Exemption paragraph 3)

### **21. Pooling of LGPS Investments**

(Exemption paragraph 3)

### **22. Strategic Benchmark Review and Monitoring**

(Exemption paragraph 3)

a) Economic and Market Update

b) Review of Position as at 30 June 2018

### **23. Responsible Investment (RI) Report Quarter 2 2018**

(Exemption paragraph 3)

### **24. Factor Based Investing**

(Exemption paragraph 3)

### **25. Managers' Presentations - Hayfin Capital Management LLP (Private Debt Manager)**

(Exemption paragraph 3)

**Chairman**

**PENSIONS COMMITTEE – 18 DECEMBER 2018**

**Report of the Director of Finance and Resources**

**Local Government Pension Scheme (LGPS) Asset Pooling Arrangements –  
Development of an Audit Assurance Framework**

**Recommendation of the Chair**

1. That the Pensions Committee note the development of an Assurance Framework by Staffordshire County Council's Internal Audit service for the LGPS asset pooling arrangements and the LGPS Central pool.

**Background Information**

2. During 2014, the government explored a number of options for improving the efficiency and sustainability of the LGPS and undertook extensive consultation on the potential to deliver savings through greater investment management collaboration. Following this exercise, in the summer of 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for asset pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1 April 2018.
3. Informal links with several Midlands based LGPS Funds became the starting point for wider discussions in the context of the formal requirement for pooling. This resulted in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion. The Minister, Marcus Jones MP provided written confirmation, in November 2016, that LGPS Central had been formally accepted as a Local Authority Pension Fund Pool.
4. On 23 March 2017, following recommendations made by the Audit and Standards Committee and the Pensions Committee, the Council approved the Director of Strategy, Governance and Change and the Director of Finance and Resources to enter into the Shareholders Agreement and the Inter-Authority Agreement to establish a joint asset pool (LGPS Central), and investment management company (LGPS Central Ltd) and Joint Committee. The governance structure and arrangements for the LGPS Central pool have now been established.
5. Additionally, Staffordshire County Council are leading on a co-ordinated and collaborative Internal Audit response to the new arrangements operating within the pool which has involved consultation with all Partner Fund's Internal Audit functions, External Audit Partners, the Practitioners Advisory Forum and LGPS Central Ltd.

6. A collaborative approach has been favoured in developing assurance over the new pooling arrangements operating within LGPS Central to:
  - ensure a consistent approach to all Partner Funds when providing assurance to their own organisation in relation to LGPS Asset Pooling;
  - prevent duplication, so that LGPS Central and LGPS Central Ltd are not having to deal with audit queries from all Partner Funds Internal and External Auditors;
  - effectively share information between Internal Audit Partners and also between Internal Audit Partners and LGPS Central and LGPS Central Ltd; and
  - identify risks and mitigating controls at an earlier stage.
7. As part of this collaborative approach, Staffordshire County Council's Internal Audit Service has led on the development of an Assurance Framework applying the three lines of defence model, focusing on the management controls, oversight governance arrangements and independent assurance required to provide assurance to Partner Funds that potential risks regarding pooling have been considered and are mitigated. The Assurance Framework is currently in draft form and looks at the control environment for the LGPS Central Pool only and is attached as **Appendix 2** to this report.
8. Assurance over the control framework operating within LGPS Central Ltd is currently being discussed with the Partner Fund's Internal Audit functions and the Practitioners Advisory Forum for the company's first year of operation and for 2019/20 and beyond.
9. The key elements of the governance structure, the role of the LGPS Central pool along with the draft Assurance Framework will be supported by a PowerPoint presentation to the Committee attached as **Appendix 3** to this report.

**Andrew Burns**  
**Director of Finance and Resources**

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Contact: Deborah Harris, Interim Chief Internal Auditor  
Telephone No.: 01785 276406

Background Documents:

Terms of Reference for the Joint Committee, Shareholders Forum and Practitioners Advisory Forum  
LGPS Central Regulatory Business Plan and Risk register  
LGPS Central Spring Progress Report  
LGPS Central Ltd Internal Audit Plan and Business Plan  
SCC Investment Strategy Statement  
Shareholders' Agreement and Inter-Authority Agreement  
Financial Conduct's Authority (FCA) Handbook  
3 Lines of Defence Model

### **Equalities Implications**

There are no direct equalities implications arising from this report

### **Legal Implications**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 allows pension fund administering authorities to establish a joint pension fund investment pool. As part of the pool governance arrangements, a Joint Committee has been set up in accordance with provisions of the Local Government Act 1972, which will be the forum for considering common investor issues, and for collective monitoring of the performance of the pool.

The new investment management company, LGPS Central Ltd is registered with the Financial Conduct Authority (FCA) and regulated under the Financial Services and Markets Act 2000, to ensure appropriate safeguards over the management of client monies.

### **Resource and Value for Money Implications**

There are no specific Resource or Value for Money implications presented by this report.

### **Risk Implications**

The key risk implications are covered in the draft Assurance Framework document attached to this report.

### **Climate Change Implications**

There are no direct climate change implications arising from this report.

### **Health Impact Assessment Screening**

There are no specific Health Impact Assessment implications presented by this report.



Objective	Risk Ref	Risk	1 <sup>st</sup> line of defence				2 <sup>nd</sup> line of defence			3 <sup>rd</sup> line of defence			Assurance Provided to	Collective/Individual
			Management Controls				Management Oversight			Independent Assurance				
			Control Ref	Control Title	Control Owner	Control Objective	Oversight Provided By	Frequency of Activity	Evidence Required	Assurance provided by:	Frequency	Scope		
<b>(1) Governance Risk</b>														
Pooled governance arrangements are established, clearly documented and communicated to all Members and Officers (including Scheme of Delegations)	1	Governance arrangements for the Pool are not established, unclear and not known by all partners.	C.1	Governance Arrangements	Practitioners Advisory Forum (PAF) (which includes S.151, Senior Officers)	There is a clear governance structure which sets out roles and responsibilities of the following partner groups;  - Joint Committee - Practitioners Advisory Forum - Shareholders Forum  This governance structure has been approved and is understood and communicated to all relevant staff.	Pensions Committee (Partner Funds)/Audit and Standards Committee	Annual	Regular review/update of; - Terms of Reference - Schemes of Delegation - Articles of Association/Shareholders Agreement/Inter Company Agreement - Constitution (of Partner Funds)  Minutes/Agendas of relevant governance groups. (Pension Committee, PAF, Joint Committee and Shareholders Forum)	Internal Audit (Individual Partners)	Annual	Work completed to confirm;  - Appropriate governance arrangements are in place. - Governance groups are attended by the appropriate Members or Officers. - Governance inline with key documentation e.g. Terms of Reference, Scheme of Delegation. - Decision making is appropriate and evidenced - Members and Officers aware of governance arrangements.  N.B; External Audit review of AAF/0106 report	Pension Committee Audit and Standards Committee	Individual Partner Fund Internal Audit Functions
Policies and Procedures and have been communicated to relevant Members and Officers.	2	Appropriate policies and procedures are not in place to support governance arrangements.	C.2	Policies and Procedures	Practitioners Advisory Forum (PAF) (which includes S.151, Senior Officers) as representatives of Partner Funds	Policies and procedures are in place within administering authorities to support governance arrangements. This includes;  - Codes of Conduct - Register of Interest - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and Corruption	Individual administering authorities committee structure	Within administering authorities timetables.	Regular review/update of following policies within administering authorities;  - Codes of Conduct - Register of Interest/declaration of interests - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and Corruption	Internal Audit (Individual Partners)	As per audit plan cycle	Work completed to confirm;  - Policies and procedures are in place and regularly reviewed. - Evidence of compliance with policies and procedures e.g. Declarations of Interest	Pension Committee Audit and Standards Committee	Individual Partner Fund Internal Audit Functions
Training regarding governance arrangements have been received.	3	Appropriate training has not been provided to Members or Officers with regard to the governance arrangements of the Joint Committee, and Shareholders Forum.	C.3	Training	Practitioners Advisory Forum (PAF) (which includes S.151, Senior Officers)  LGPS Central Ltd in relation to training required regarding Company and FCA matters.	Officers and Members involved in the governance of the Pensions Pool receive the appropriate training, knowledge and skills to effectively understand their role and perform their responsibilities.	Pensions Committee (Partner Funds)	Annual	Training and Development Policy and Needs Analysis.	Internal Audit (Individual Partners)	Annual	Work completed to confirm;  - Training Programme in place and reviewed regularly - Training logs maintained.	Pension Committee Audit and Standards Committee	Individual Partner Fund Internal Audit Functions
The governance structure in place is effective and suitable for the needs of the Partner Funds.	4	Governance structure is not effective	C.4	Effective Governance	Practitioners Advisory Forum (PAF) (which includes S.151, Senior Officers)	The governance structure in place is effective and includes the following features:  - Interests of partners are represented adequately. - Clear business plan (Company) and set of linked objectives (company, pool and partner fund) which are regularly monitored. - Effective communication/reporting between the Company, the Pool and Partner Funds - Effective decision making processes. - Adequate oversight and control of Company Operations. - Appropriate legal arrangements in place.	Pensions Committee (Partner Funds)	Annual	Effective oversight evidenced through:-  - Company Board oversee company strategy and effectiveness of ExCo. - Shareholder Forum reviews relevant shareholder matters e.g. budget. - Joint Committee oversees effectiveness of Pool e.g. delivery of pool objectives. Including process in place for escalation of requests for information. - PAF regularly review progress against key objectives and has resources to address any governance/legal issues. - Reporting requirements are linked to performance targets and benchmarks. - Process in place for escalation of requests for information.	Internal Audit (Individual Partners)	Annual	Work completed to confirm;  - Strategies and business plan are in place - Coherent link between objectives of the Company, Pool and Partner Funds. - Appropriateness of Monitoring Arrangements e.g. KPIs/Dashboards, meeting minutes, papers). - Communication between all parties is appropriate. - Reporting requirements are in place and requirements are adhered to. - Transparent and open reporting between all governance groups. - Timely reporting arrangements	Pension Committee Audit and Standards Committee	Individual Partner Fund Internal Audit Functions
<b>(2) Company Risk</b>														
The Company has systems and controls in place to provide suitable assurance (expand) to Partner Funds.	5	Partner Funds can not place reliance on the Company's systems and controls.	C.5	Company Assurance	LGPS Central Ltd (EXCO)	The company has effective systems and controls in place and ensures assurance documentation is available to LGPS Central. Including the following;  AAF/0106 or gap analysis (expand) Internal Control Reporting Internal/External Audit Reports Compliance Monitoring Depositary SOC Report (Nortern Trust operator and depositary - check on the company) Evidence of Compliance with FCA Standards and Breach Meeting - Reporting Requirements Access to Policies and Procedures e.g. Cyber security, Financial Regulations,	Shareholders Forum (supported by PAF) and Partner Pension Committees	Annual	Shareholders Forum (supported by PAF) ensures company provides assurance that systems and controls are operating effectively.  Evidence that the Shareholders Forum (supported by PAF) have been given assurance over the following areas: Cybersecurity Performance Monitoring Framework Breach Report Up to date and test BCM plans Regulatory Capital Position Recruitment Processes (including salaries) and Succession Planning Controls to mitigate fraud risk  Full internal audit reports to PAF and Shareholders Forum	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm administering authorities has received assurance that Company systems and controls are sufficient.  Gain assurance from ARCC Report GAP Analysis and AAF 01/06 (after year 1) Recommendation Tracking Audit Plan and Internal Audits opinions and recommendations	Pension Committee Audit and Standards Committee	Collective Partner Funds Internal Audit Function - Provision/ Review of LGPS Central Ltd Control/Compliance Reports.  Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee
<b>(3) Financial/Operational Risk</b>														
Budget for LGPS Central Ltd is set and approved annually and assurance is provided that financial management systems are robust.	6	An approved annual budget is not in place or has been exceeded therefore requiring partners to add additional contributions.	C.6	Annual Budget	LGPS Central (EXCO)	LGPS Central Ltd set an Annual Budget includes the following criteria:-  I. Cash flow forecast and estimated working capital. II. a projected profit and loss account. III. an operating budget (including estimated capital expenditure requirements and balance sheet forecast); IV. a summary of business objectives; and V. Variance analysis for previous financial year (Strategic Plan vs Actual Collective Vehicles)  Throughout the financial year LGPS Central Ltd produce regular financial reporting.	Shareholders Forum (supported by PAF) and Partner Pension Committees	Annual	PAF review and Shareholders Forum agree information included in the annual budget. Shareholders Forum approve Annual Budget for LGPS Central Ltd.  Shareholders Forum review financial information supported by due diligence carried out by PAF regarding how LGPS Central Ltd is performing. This information will include;  • Quarterly management accounts and reports on operational effectiveness including any slippage in investments being made to LGPS products and the impact this would have on the Business Plan and subsequent the payback / breakeven points for each of the Partners.  • Unaudited annual accounts; • Audited annual accounts; a medium term Strategic Plan; and • A report on the company's progress against objectives/milestones set out in the Strategic Plan. • Annual audit report Pension Committee have oversight of Budgets and Financial Reporting.	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm Annual budget was approved by Shareholders Forum and financial monitoring arrangements are in place and variances reported promptly.  Evidenced through monitoring arrangements e.g. Minutes of Shareholder Forum, Financial Reporting.	Pension Committee Audit and Standards Committee	Collective Partner Funds Internal Audit Function - Provision/ Review of LGPS Central Ltd Financial Monitoring Reports.  Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee

Assumptions regarding costs and savings are robust and supported by appropriate modelling which is regularly reviewed.	7	Assumptions regarding costs and savings are not supported by appropriate modelling and are not adjusted to account for change.	C.7	Cost Savings	PAF Finance Working Group	The cost savings model details how 40 billion assets will be invested. Assumptions in the model have been agreed with all Partners and LGPS and includes flexible and scenario analysis (65 different sub funds). Business Plan relates to the company approved by shareholders.	Joint Committee and Partner Pension Committees	As Required	Cost savings model is reported regularly to the Joint Committee and Partner Pension Committees	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Evidence that cost savings model has been completed and is regularly updated and reviewed by Joint Committee and Partner Pension Committees	Pension Committee Audit and Standards Committee	Collective Partner Funds Internal Audit Function - Adherence to Delivery Plan Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee
<b>(4) Investment Risk</b>														
The transition process is monitored and progress is regularly reported.	8	Risks associated with the transition process e.g. lack of suitable products are not monitored or reported.	C.8	Product Delivery Timescales	PAF Investment Working Group LGPS Central Ltd	A co-ordinated LGPS Central product delivery plan is in place and progress against this is regularly monitored.	Joint Committee and Partner Pension Committees	As required	Regular monitoring against the LGPS Central's product delivery plan is received and reviewed by the Joint Committee and Pension Committee.	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm transition plan is in place, transitions are being completed in line with the plan and the progress of the plan is regularly reported.	Pension Committee Audit and Standards Committee	Collective Partner Funds Internal Audit Function - Adherence to Delivery Plan Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee
Transition services procured are appropriate for the needs of the LGPS Central Pool and estimated transition costs are identified and monitored	9	Transition services procured are inappropriate for the needs of LGPS Central and costs are not identified or monitored.	C.9	Transition costs	Product Delivery Liaison Group	For each transition a detailed and costed transition plan is in place and regularly reviewed. Consultant/ Transition managers are appointed using a National Framework or appropriate procurement route.	Joint Committee and Partner Pension Committees	As required	Joint Committee/Pension Committee receive reports in relation to individual transitions.	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm that transition managers have been appropriately selected and costed transition plans are in place and reported retrospectively to relevant committees N.B - External Audit undertake verification testing of transitions completed.	Pension Committee Audit and Standards Committee External Audit (Individual Partner Funds)	Collective Partner Funds Internal Audit Function - Collaborative Procurement of Transition Manager Individual Partner Fund Internal Audit Functions - Detailed costings of individual transitions and reporting transition completions to Pension Committee
LGPS Central Ltd delivers against shared objective to act as a responsible, long term investor	10	Investments do not adhere to responsible investment principles	C.10	Responsible Investment	LGPS Central (EXCO)	Responsible investment framework and policies are in place and integrated into performance reporting	Joint Committee (supported by the PAF) and Partner Pension Committees	Minimum six monthly	Joint Committee/Pension Committee regularly review progress against key objectives including Responsible Investment. Evidenced through; Responsible Investment Policy RI Reporting	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to review monitoring arrangements and confirm that Joint Committee/Pension Committee regularly review progress against shared objectives.	Pension Committee Audit and Standards Committee Local Pension Board	Collective Partner Funds Internal Audit Function - RI Reporting to Joint Committee Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.
LGPS Central Ltd delivers against shared objectives to provide sufficient investment choice for participating Partner Funds.	11	LGPS Central Ltd does not deliver sufficient investment choice resulting in shared objectives not being met and inability of LGPS Central Ltd to deliver Partner Fund Investment Strategy.	C.11	Investment Products	LGPS Central (EXCO)	LGPS Central Ltd have a strategy in place to ensure investment pooling delivers products / services in line with strategic asset allocation requirements and meets the needs of partner fund investment strategies.	Joint Committee (supported by the PAF) and Partner Pension Committees	Quarterly	Joint Committee/Pension Committee regularly review progress against partner fund strategic asset allocation. Product Approval Process	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm:- - That Joint Committee regularly review progress against shared objectives. - Choice of investments available are sufficient and in line with the Partner Fund's investment strategy N.B. External Audit complete work to confirm how strategy is being delivered	Pension Committee Audit and Standards Committee Fund Actuaries External Audit Local Pension Board	Collective Partner Funds Internal Audit Function - Achievement of strategy and reporting to LGPS Central. Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.
LGPS Central Ltd has improved the performance of investment returns.	12	Failure to deliver improved performance and poor performance is not challenged leading to lower investment returns	C.12	Performance (Investment Returns)	LGPS Central Ltd (EXCO)	Investment performance targets are in place and the performance of investment returns (internal and external) is regularly monitored and reported.	Joint Committee (supported by the PAF) and Partner Pension Committees	Quarterly	The Joint Committee /Pension Committee regularly review investment performance against performance targets and poor investment performance is challenged. Manager Reports Independent Investments Performance Reports	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm that investment performance is in line with targets and that the Joint Committee /Pension Committee receive regular reporting regarding investments. N.B Work completed by External Audit to value investments	Pension Committee Audit and Standards Committee Fund Actuaries External Audit Local Pension Board	Collective Partner Funds Internal Audit Function - Investment Performance Reporting for Pooled Assets Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.
Investment pooling delivers cost saving through a reduction in manager fees.	13	Pooled investments fail to deliver reduction in manager fees leading to lower net returns	C.13	Reduction in Manager Costs	LGPS Central Ltd (EXCO)	Procurement processes in place ensure value for money and the costs of investment management is regularly monitored and reported, including the completion of benchmarking.	Joint Committee (supported by the PAF) and Partner Pension Committees	Quarterly	The Joint Committee /Pensions Committee regularly receive and review manager cost reporting, including benchmarking, to ensure manager costs are inline with cost savings model and previously agreed assumptions. Mechanisms are in place to challenge manager costs.	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to review the costs in comparison with the cost saving model to confirm that manager costs are reasonable and that the Joint Committee/Pensions Committee have received regular reporting in relation to manager costs including benchmarking.	Pension Committee Audit and Standards Committee Local Pension Board	Collective Partner Funds Internal Audit Function - Investment Cost Reporting. Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.
Assets invested in the pool are as expected.	14	Assets invested by the pool are lower than expected leading to increased oversight and governance costs for Partner Funds and resulting in increased management fees and extension of the payback period.	C.14	Investment of Assets	Individual Partner Funds (Pension Committees)	A shared plan is in place and partner funds invest assets as per an agreed plan and in line with strategic asset allocation. The Shareholders Agreement details Shareholders Obligations in relation to pension pooling including exit route. The Inter Authority Agreement details that partners wishing to withdraw from pooling must provide 12 months notice (see Clause 11 and 12)	Joint Committee (supported by the PAF) LGPS Central Ltd	Six Monthly	The Joint Committee monitor the investment of assets against an LGPS Regulatory Business Plan/Product Delivery Plan. <b>Regular reporting against breakeven position.</b>	Internal Audit (Individual Partners and Collective Partner Funds)	Annual	Work completed to confirm that assets have been invested as per agreed plans and that changes to plans are documented.	Pension Committee Audit and Standards Committee Local Pension Board	Collective Partner Funds Internal Audit Function - Assurance that actual investments are in line product delivery plan. Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.
Company strategy adapts to changes in Market Conditions.	15	Market volatility leads to either:- - A drop in assets invested which impacts on the level of income; or - A significant rise in assets invest resulting in over recovery of costs and leading to tax implications.	C.15	Market Volatility	LGPS Central (EXCO)	Cost Sharing Agreement is in place and cost charging mechanisms are regularly reviewed with consideration given to market conditions. Tiered Management Fees (Ad-valourum) fees are adjusted (go up and down) depending on assets under management.	Joint Committee (supported by the PAF)	As required	Cost charging mechanisms is reviewed by Joint Committee/PAF if relevant criteria met. Cost Sharing Agreement	Internal Audit (Individual Partners)	Annual	Work completed by Internal Audit to confirm that Joint Committee regularly review cost charging mechanisms	Pension Committee Audit and Standards Committee Local Pension Board	Collective Partner Funds Internal Audit Function - Assurance that cost charging mechanism is monitored. Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and Local Pensions Board.



The LGPS Central Pool meets the four key criteria stipulated by Central Government.	16	The LGPS Central Pool can not demonstrate that it is meet the four key government criteria resulting in possible intervention from central government or requirement to join another pooling arrangement. Thus increasing costs and potentially reducing savings for Partners.	C.16	Pooling Criteria	Practitioner Advisory Forum (LGPS Central) LGPS Central Ltd	The PAF monitor and report progress against four key government criteria. Completion of MHCLG Returns	Pension Committee (Partner Funds)	Six Monthly	Individual Pension Committee's regularly receive and review reports in regard to progress against key government criteria.	Internal Audit (Individual Partners)	Annual	Work completed to confirm that Pension Committee's receive and review reports regarding progress of key government criteria.	Pension Committee Audit and Standards Committee	Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and <b>Local Pensions Board</b> .
LGPS Central is aware of developments in government policies/reform of the Local Government Pension Schemes	17	The Pool fails to respond to changes in government policy/LGPS reforms	C.17	Changes to Government Policy	Practitioners Advisory Forum (PAF)	PAF ensure effective communication with all partner funds, key government departments and associated groups e.g. LGA, cross pool working group in order to maintain abreast of developments regarding Local Government Pooling.	Joint Committee Shareholders Forum and Partner Pension Committees	As required	Ensure any changes or developments to Local Government Pooling are communicated to relevant partners. Minutes/Papers produced by PAF	Internal Audit (Individual Partners)	Annual	Work completed to confirm that there is monitoring of central government guidelines in relation to pooling and that changes are communicated to relevant partners.	Pension Committee Audit and Standards Committee	Collective Partner Funds Internal Audit Function - Reporting of Policy Changes. Individual Partner Fund Internal Audit Functions - Reporting to Pensions Committee and <b>Local Pensions Board</b> .



# LGPS Asset Pooling Assurance Framework

Presentation to Pensions  
Committee  
18 December 2018

Appendix 3



# Government Criteria

1

Benefits of scale (at least £25bn in assets)

2

Strong governance and decision making

3

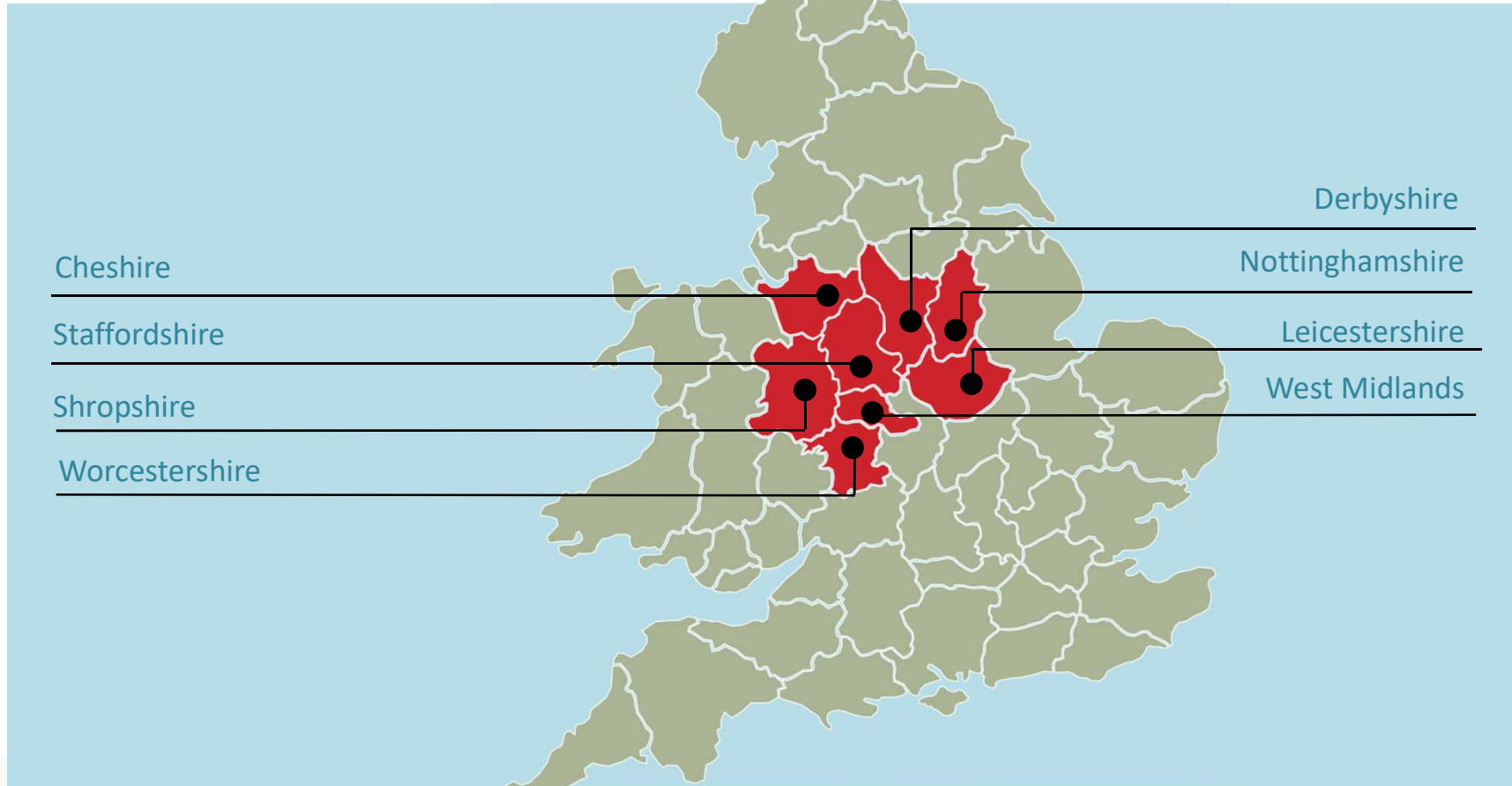
Reduced costs and excellent value for money

4

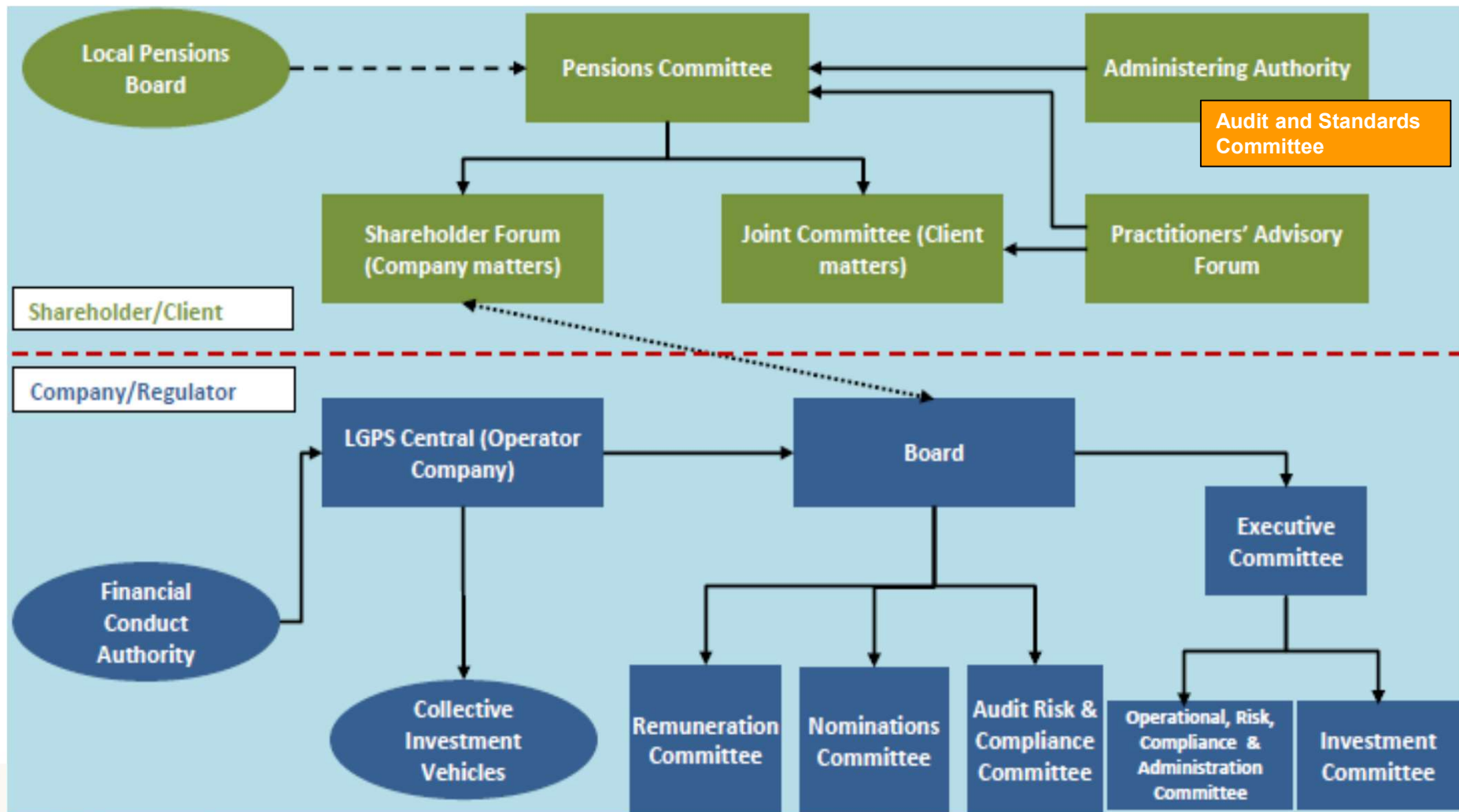
An improved capacity and capability to invest in infrastructure



# LGPS Central



# Governance of LGPS Central and LGPS Central Ltd



# Company Governance (LGPS Central Ltd)

- Governance framework ensures strict adherence to both its FCA (Financial Conduct Authority) regulatory obligations and with the Companies' Acts.
- **Company Board** supported by 5 sub committees:-
  - (1) Audit, Risk and Compliance Committee - Core purpose is to:-**
    - ensure the integrity financial statements and the financial reporting process.
    - oversight of compliance with legal and regulatory requirements, as well as performance of the internal audit function.
    - checking the effectiveness of the Company's systems of internal controls and policies and procedures for risk assessment and risk management.
  - (2) Nominations Committee**
  - (3) Remuneration Committee**
  - (4) Executive Committee (ExCo)**
  - (5) Investment Committee (IC).**



# Collaborative Approach

- Staffordshire County Council are coordinating a collaborative Internal Audit response.
- Involvement of the following stakeholders;
  - Internal Audit functions from all LGPS Partner Funds
  - External Audit
  - PAF Officers (Practitioners Advisory Forum)
  - LGPS Central Ltd.
  - Representatives from other Authorities involved in different Pooling Models via M.C.C.I.AG (Midlands County Chief Internal Auditors Group) and LACAN (Local Authority Chief Auditors Network)
- Why work collaboratively?
  - Consistency
  - Prevent duplication
  - Effective information sharing
  - Earlier identification of risk





# Collaborative Approach Cont.

**Q.4 2017/18**

Research time  
Meetings with  
Stakeholders

Three lines of  
Defence

**July 2018**

Meeting held  
between LGPS  
Central Ltd and  
Internal Audit  
Partners to discuss  
assurance provided  
to LGPS Central and  
individual Partner  
Funds

**August 2018**

LGPS Central Ltd  
propose the following  
assurance documents  
to be made available:-

Policies and  
Procedures.

ARCC Annual Report.

Internal Control  
Review-

AAF 01/06 available in  
late 2019

**September/October  
2018**

SCC complete a first  
draft of Assurance  
Framework for LGPS  
Central .

Shared with;

Internal Audit Partners  
(LGPS Central)

PAF

LGPS Central Ltd

M.C.C.I.A.G and LACAN

**November 2018**

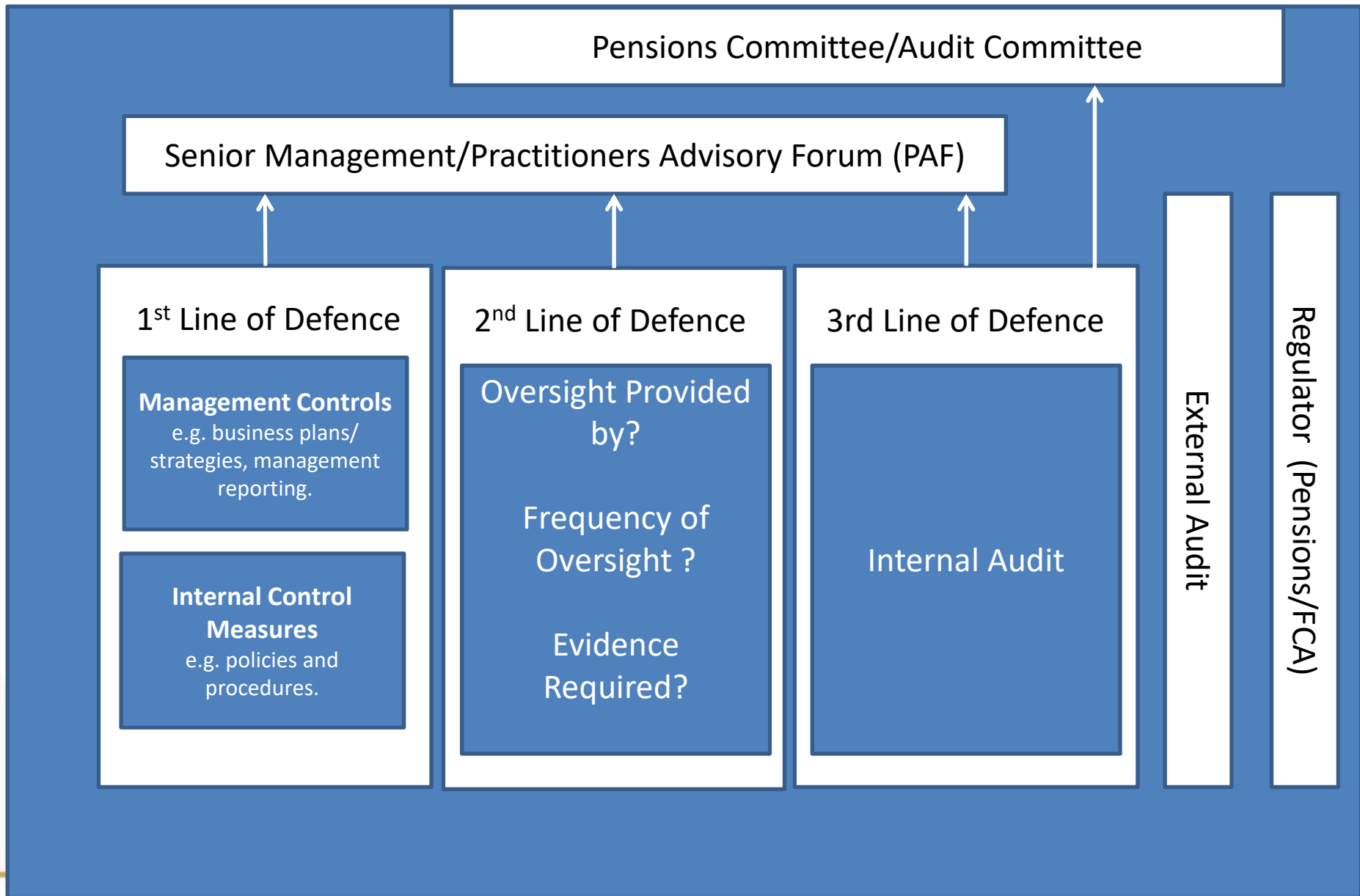
Meeting IA  
partners to review  
draft framework.

Cross reference  
company risks to  
pool risks

Seek Further  
clarification from  
LGPS Central  
Limited regarding  
evidence to be  
provided in  
respect of  
company controls



# Assurance Framework - Three Lines of Defence Model



# Pension Pooling Risks

## Investment

Transition Services are inappropriate or costs are too high/not monitored

LGPS Central Ltd does not deliver sufficient investment choice/performance

Pooled investments fail to deliver reduction in manager costs

Assets invested are lower than expected

Investment Strategy does not respond to Market Volatility

Investments do not adhere to responsible investment principles

Governance is not effective

## Governance

Absence of Policy and Procedures/ Training

Governance arrangements are not established

## Company/ Financial & Operational

Budgets are not monitored or are overspent

No assurance of Company's systems and controls

## Wider Pooling

Changes to Government Policy

Failure to meet required Government criteria



# LGPS Central Assurance Framework

LGPS Central - DRAFT ASSURANCE MAP NOVEMBER 2018											APPENDIX		
Objective	Risk Ref	Risk	1 <sup>st</sup> Line of Defence				2 <sup>nd</sup> Line of Defence			3 <sup>rd</sup> Line of Defence			
			Management Controls				Management Oversight			Independent Assurance			
			Control Ref	Control Title	Control Owner	Control Objective	Oversight Provided By	Frequency of Activity	Evidence Required	Assurance provided by:	Frequency	Scope	
<b>(1) Governance Risk</b>													
Paal-4 governance arrangements are established, clearly documented and communicated to all Members and Officers (including Scheme of Delegation)	1	Governance arrangements for the Paal are not established, unclear and not known by all partners.	C.1	Governance Arrangements	Practitioner Advisory Forum (PAF) (which includes S, IS1, Senior Officers)	There is a clear governance structure which sets out roles and responsibilities of the following partner groups; <ul style="list-style-type: none"> <li>- Joint Committee</li> <li>- Practitioner Advisory Forum</li> <li>- Shareholders Forum</li> </ul> This governance structure has been approved and is understood and communicated to all relevant staff.	Pensioners Committee (Partner Funds)/Audit and Standards Committee	Annual	Regular review/update of: <ul style="list-style-type: none"> <li>- Terms of Reference</li> <li>- Scheme of Delegation</li> <li>- Articles of Association/Shareholder Agreement/Inter Company Agreement</li> <li>- Constitution (of Partner Funds)</li> </ul> Minutes/Agenda of relevant governance groups. (Pensioners Committee, PAF, Joint Committee and Shareholders Forum)	Internal Audit (Individual Partner)	Annual	Work completed to confirm; <ul style="list-style-type: none"> <li>- Appropriate governance arrangements</li> <li>- Governance groups are attended by Members or Officers.</li> <li>- Governance in line with key documents of Reference, Scheme of Delegation</li> <li>- Decision making is appropriate</li> <li>- Members and Officers aware of arrangements.</li> </ul> N.B: External Audit review of C	
Policies and Procedures have been communicated to relevant Members and Officers.	2	Appropriate policies and procedures are not in place to support governance arrangements.	C.2	Policies and Procedures	Practitioner Advisory Forum (PAF) (which includes S, IS1, Senior Officers) or representative of Partner Funds	Policies and procedures are in place within administering authorities to support governance arrangements. This includes; <ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Register of Interest</li> <li>- Gifts and Hospitality</li> <li>- Whistleblowing</li> <li>- Anti-Fraud, Bribery and Corruption</li> </ul>	Individual administering authorities committee structures	Within administering authorities timetable.	Regular review/update of following policies within administering authorities; <ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Register of Interest/declaration of interests</li> <li>- Gifts and Hospitality</li> <li>- Whistleblowing</li> <li>- Anti-Fraud, Bribery and Corruption</li> </ul>	Internal Audit (Individual Partner)	As per audit plan cycle	Work completed to confirm; <ul style="list-style-type: none"> <li>- Policies and procedures are in reviewed.</li> <li>- Evidence of compliance with e.g. Declaration of Interest</li> </ul>	
Training regarding governance arrangements have been received.	3	Appropriate training has not been provided to Members or Officers with regard to the governance arrangements of the Joint Committee, and Shareholders Forum.	C.3	Training	Practitioner Advisory Forum (PAF) (which includes S, IS1, Senior Officers)  LGPS Central Ltd in relation to training required regarding Company and FCA matters.	Officers and Members involved in the governance of the Pensioners Paal receive the appropriate training, knowledge and skills to effectively understand their role and perform their responsibilities.	Pensioners Committee (Partner Funds)	Annual	Training and Development Policy and Needs Analysis.	Internal Audit (Individual Partner)	Annual	Work completed to confirm; <ul style="list-style-type: none"> <li>- Training Programme in place</li> <li>- Training logs maintained.</li> </ul>	
The governance structure in place is effective and suitable for the needs of the Partner Funds.	4	Governance structure is not effective	C.4	Effective Governance	Practitioner Advisory Forum (PAF) (which includes S, IS1, Senior Officers)	The governance structure in place is effective and includes the following features: <ul style="list-style-type: none"> <li>- Interests of partners are represented adequately.</li> <li>- All relevant issues (Company and FCA related) are taken into consideration</li> </ul>	Pensioners Committee (Partner Funds)	Annual	Effective oversight evidenced through: <ul style="list-style-type: none"> <li>- Company Board oversees company strategy and effectiveness of ExCo.</li> <li>- Shareholders Forum reviews and approves</li> </ul>	Internal Audit (Individual Partner)	Annual	Work completed to confirm; <ul style="list-style-type: none"> <li>- Strategic and business plan</li> <li>- Cohesive link between objectives and Business Plan</li> </ul>	

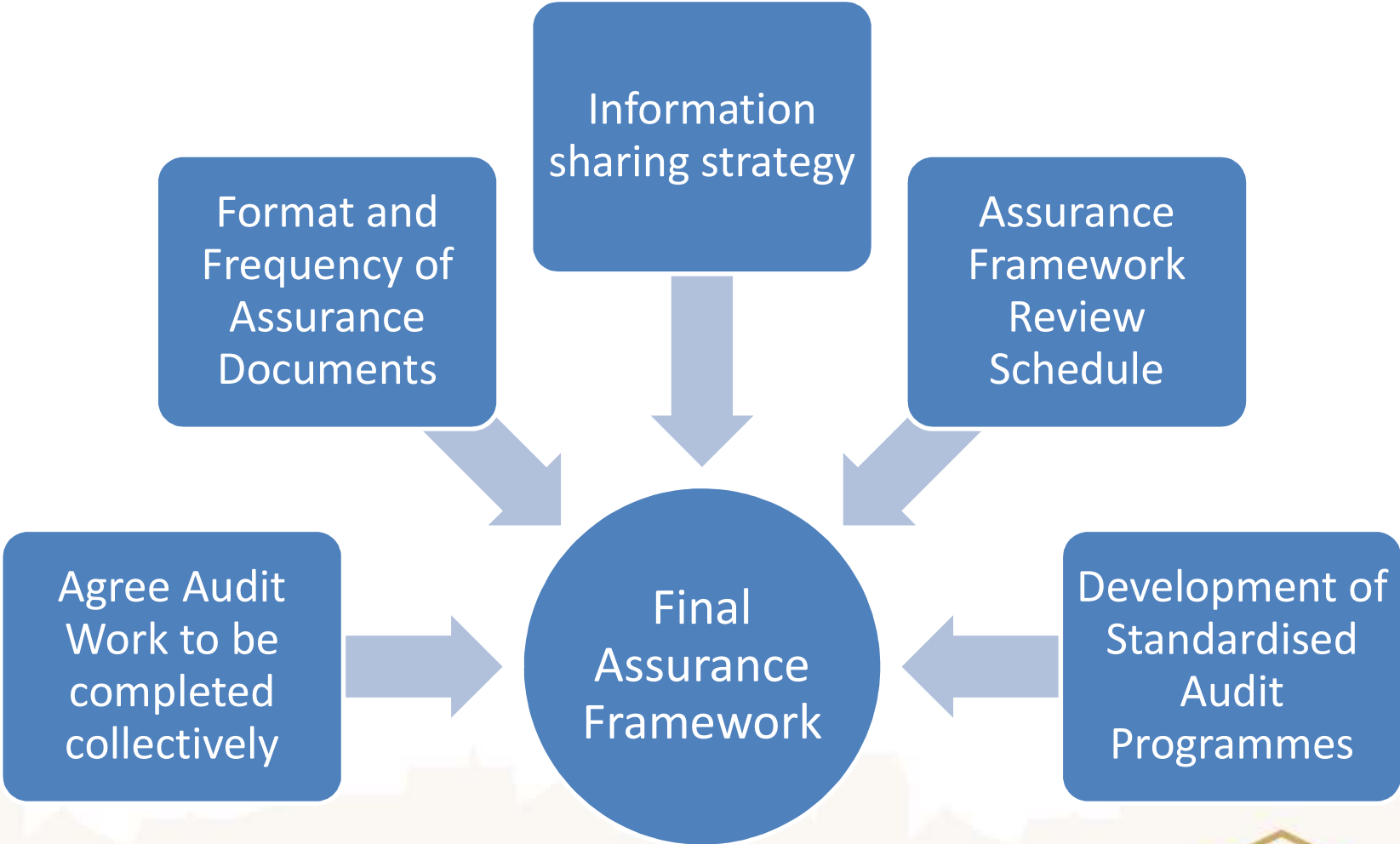


# Third Line of Defence Draft Proposal

Internal Audit (Individual Partner Funds)	Internal Audit (Collective)	External Audit (Individual Partner Funds)
Communication between LGPS Central, LGPS Central Ltd and Partner Fund Authorities.	LGPS Central Governance Monitoring Arrangements e.g. Financial Monitoring	Governance LGPS Central, and Partner Fund Authorities.
Financial Assumptions – Cost Models (within Individual Authorities)	LGPS Central Ltd Assurance Documents e.g. AAF 01/06, Policies and Procedures, ARCC	Delivery of Investment Strategy (Partner Fund Authorities) and LGPS Central Shared Objectives.
Transitions	Reporting  Investment Performance and Financial Monitoring	Transitions  Value of Investments  Investment Performance



# Next Steps.....



# Role of Audit and Standards and Pensions Committees

- Approval of Pension Fund Audit Plan
- Plan has previously included:-
  - Pensions Administration
  - Pension Fund Governance
  - Investments (Contract Monitoring)
- Plan is now also likely to include:-
  - LGPS Central Governance
  - Effectiveness of controls with LGPS Central Ltd







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of the Local Government Act 1972

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