

Pension Pooling Assurance Framework

Presentation to Audit and Standards
Committee
30th October 2018

Appendix B



Why Create Asset Pools ?

(1) Government Directive issued 2013.

- Reduce Investment Fees/Costs
- Make better use of investments

(2) Government deadline to begin Pooling – 1st April 2018



Government Criteria

1

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

2

Strong governance and decision making

3

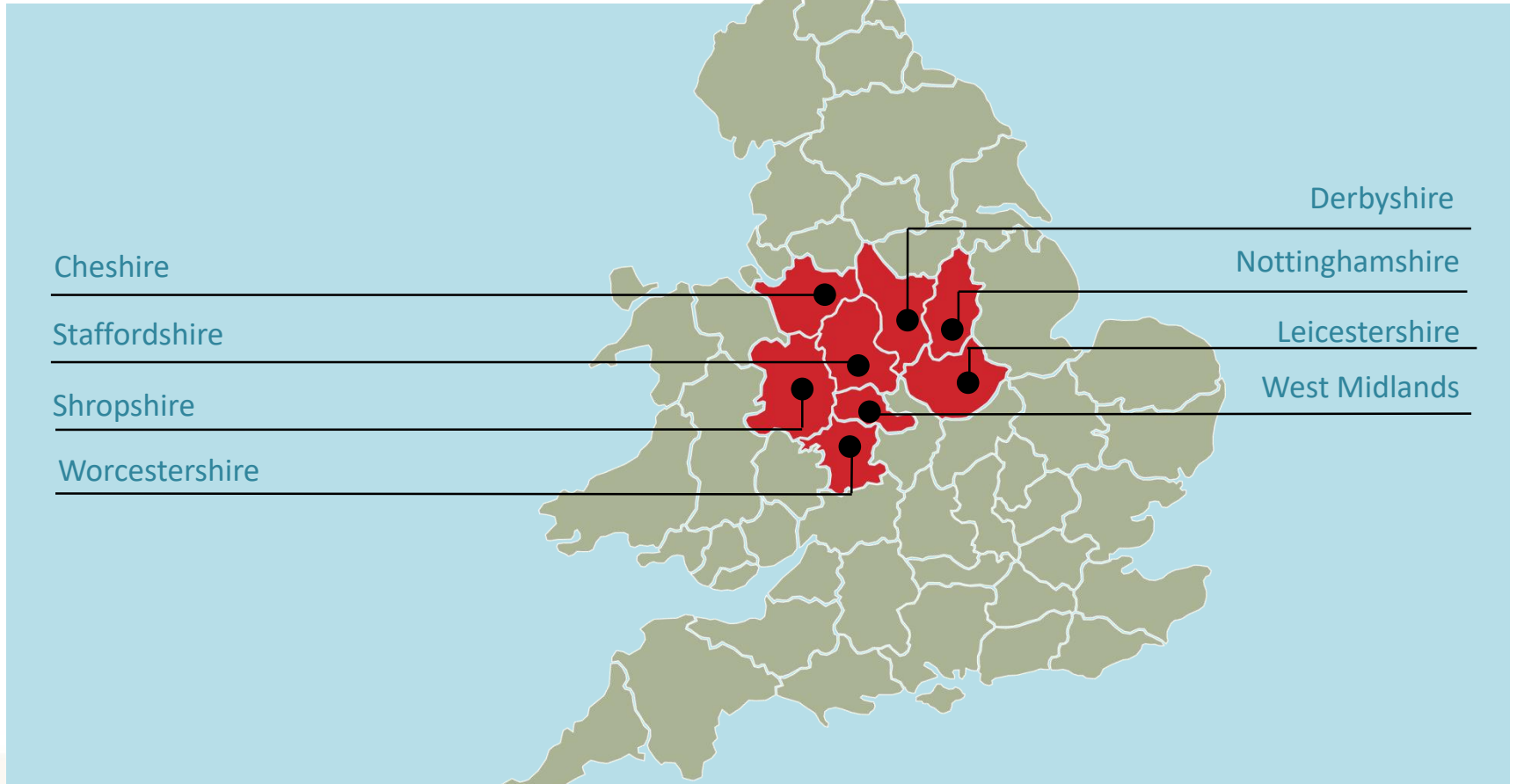
Reduced costs and excellent value for money

4

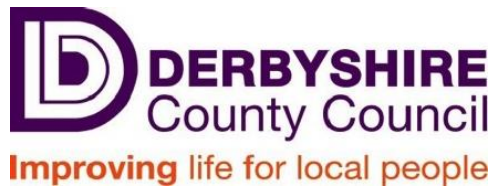
An improved capacity and capability to invest in infrastructure



LGPS Central



LGPS Central Pool



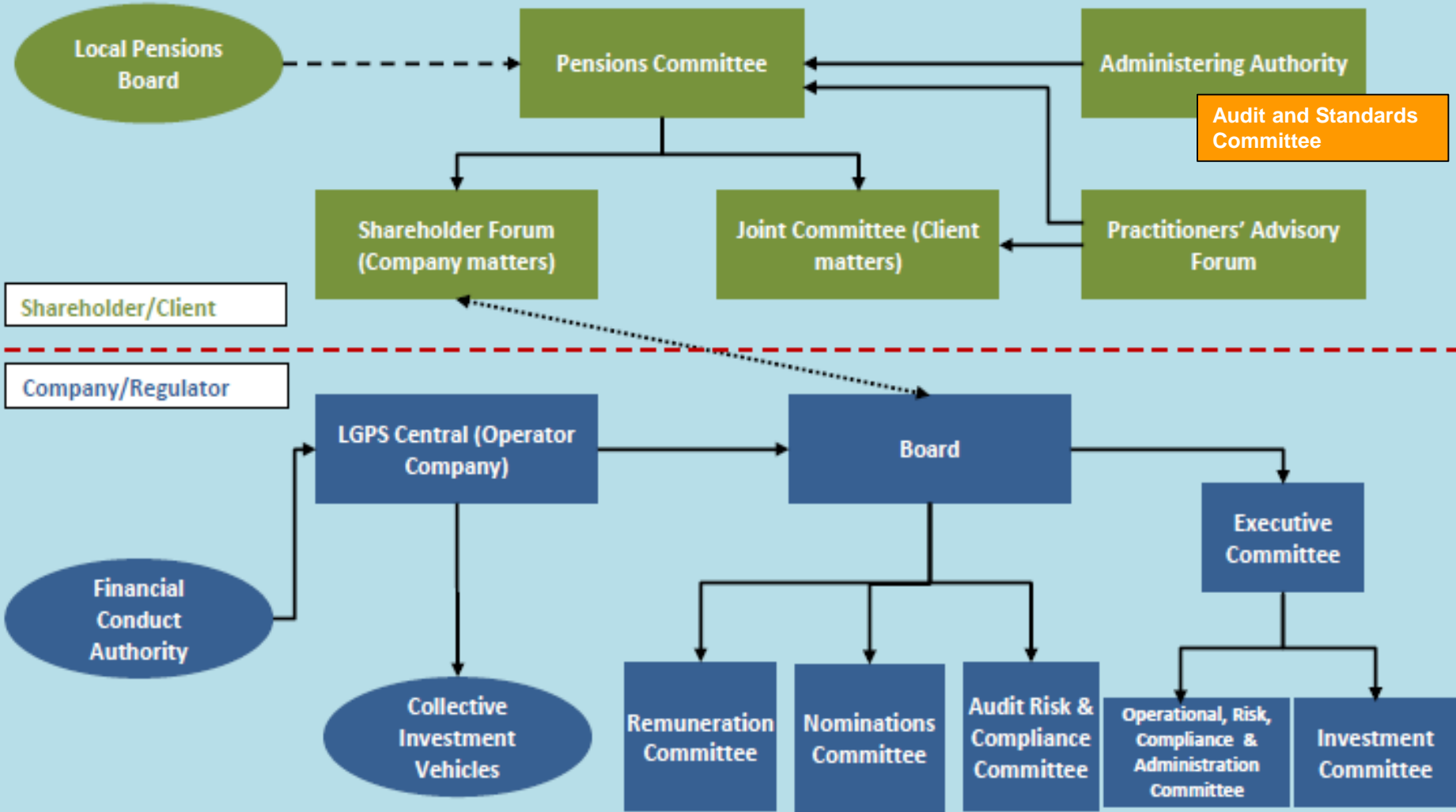
£35bn



Why LGPS Central Ltd?

- LGPS Central Ltd – Asset Management Company
 - Authorised Contractual Scheme (ACS)
 - Four sub – funds launched since April 2018
 - Benefits
 - Robust governance and assurance by setting up an FCA Regulated entity
 - Retention of Ownership/Control/Oversight.
 - However more costly due to overheads and governance cost irrespective of amounts invested.
-

Governance of LGPS Central and LGPS Central Ltd



The Role of the Pool

Fund

- Liabilities remain
- Triennial Valuation
- Funding Strategy
- Contribution Rate Strategy
- Investment Strategy and Strategic Asset Allocation
- Relationship with Pool
- (Shareholder & Investor)
- Pension Fund performance monitoring

Pool

- Structure and range of funds offered
- Manager hiring and firing
- Manager monitoring
- Relationship with Funds
- Manager performance
- Regulatory requirements (FCA)

The Joint Committee

- LGPS Central's role and responsibilities as an **INVESTOR**
- Operation of Joint Committee governed by the **Inter-Authority Agreement**
- Joint Committee will be responsible for;
 - Considering common investor issues,
 - Monitoring the delivery of client service and performance of investments,
 - Ensuring the delivery of LGPS Central objectives.
- One elected member from each Partner Fund.
- Meet Twice Yearly (June and December)
- Decision making responsibilities remain with individual Partner Funds.



Shareholders Forum

- LGPS Central's role and responsibilities as an **SHAREDHOLDER**
- SCC is a legal shareholder
- Limited Liability
- Operation of Shareholder's Forum governed by the **Shareholders Agreement**.
- **Shareholder's Forum will be responsible for;**
 - Providing control and influence over the Company.
 - Oversight of the operation and performance of LGPS Central Ltd and representing the ownership rights and interests of the Shareholding Councils.
 - Decision making with regard Reserved Matters (requiring 75% - 100% approval) this includes for example extending scope of LGPS Central Ltd.
- Each fund has a representative who sits on the Shareholders Forum and has one vote regardless of size.



Shareholder (v) Joint Committee Functions

- Need to distinguish **Shareholder** (v) **Investor** functions
- Shareholder functions relate to ownership of the Operator (i.e. the Company LGPS Central Ltd)
- Subject to company law, Articles of the Company and a Shareholder Agreement
- Investor functions relate to the investment in the collective investment vehicles (e.g. Authorised Contractual Scheme)
- Representation through Joint Committee which operates under public law requirements.

Practitioners Advisory Forum (PAF)

- Supports both the Joint Committee and the Shareholders Forum.
- Working group of Officers appointed by each authority.
- The role of the PAF is to:-
 - Ensure that the objectives of LGPS Central are being delivered
 - Provide a central resource for advice, assistance, guidance and support for the Joint Committee, Shareholders' Forum and for the Councils as a collective group of investors in the Pool
 - Provide technical support during Shareholders Forum and Joint Committee
 - Manage conflicting demands and interests.
 - Speak with “one voice”



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)

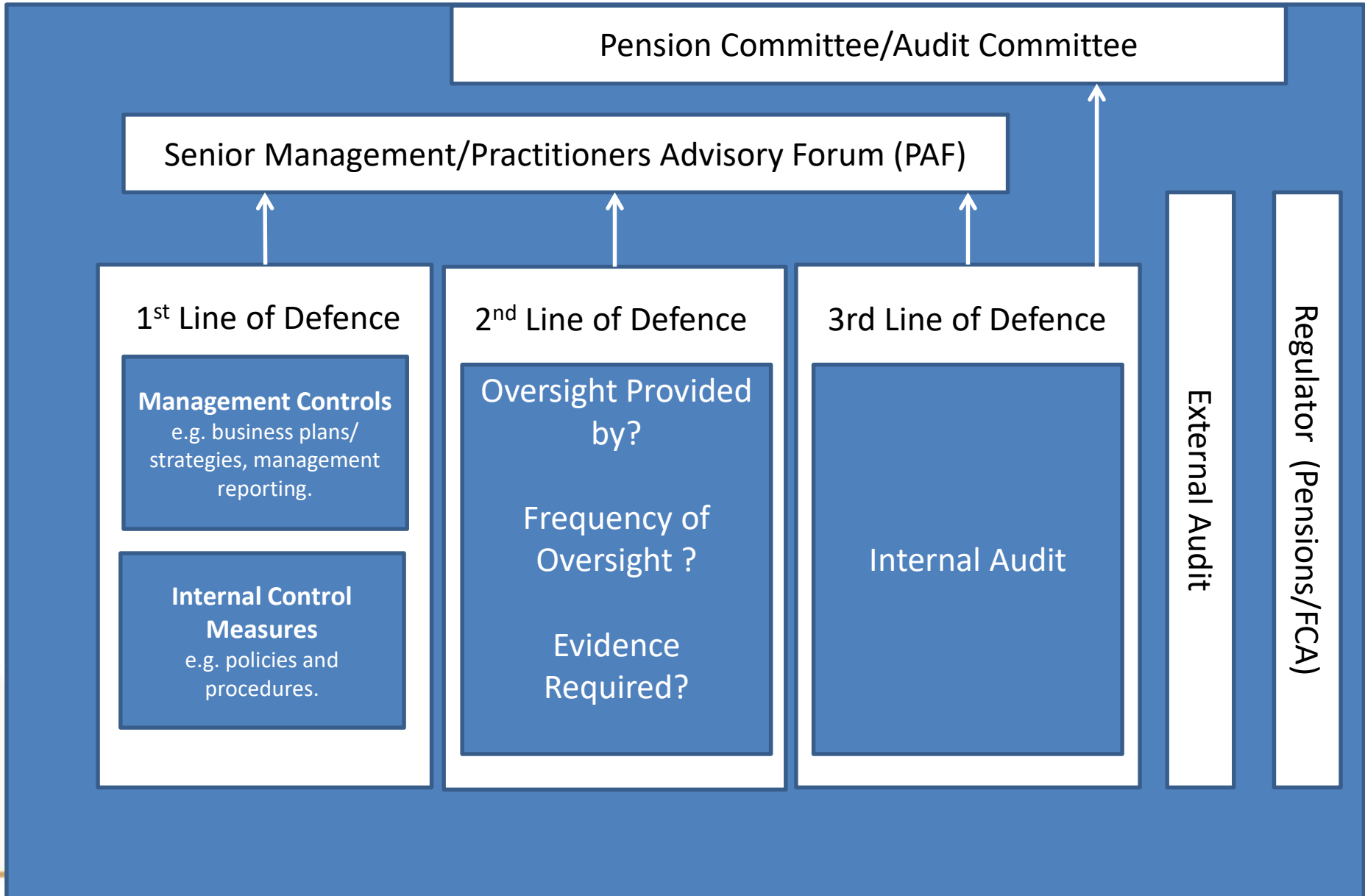
PAF

LGPS Central Ltd

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



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

Wider Pooling

Changes to Government Policy

Governance

Governance is not effective

Absence of Policy and Procedures/ Training

Governance arrangements are not established

Budgets are not monitored or are overspent

Company/ Financial & Operational

No assurance of Company's systems and controls

Failure to meet required Government criteria



LGPS Central Assurance Framework

LGPS Central - ASSURANCE MAP DETAIL August 2018 v.2													
Objective	Ris & Ref	Risk	1 st line of defence				2 nd line of defence			3 rd line of defence			Assura
			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	
(1) Governance Risk													
Pooled governance arrangements are established, clearly documented and communicated to all Members and Officers (including SOD)	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; <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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, etc.)	Internal Audit (Individual Partners)	Annual	Work completed to confirm; <ul style="list-style-type: none"> - 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 	Pension (Audit and Committee)
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; <ul style="list-style-type: none"> - Codes of Conduct - Register of Interest - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and 	Individual administering authorities committee structure	Within administering authorities timetables.	Regular review/update of following policies within administering authorities; <ul style="list-style-type: none"> - Codes of Conduct - Register of Interest/declaration of interests - Gifts and Hospitality - Whistleblowing - Anti-Fraud, Bribery and 	Internal Audit (Individual Partners)	As per audit plan cycle	Work completed to confirm; <ul style="list-style-type: none"> - Policies and procedures are in place and regularly reviewed. - Compliance with policies and procedures. 	Pension (Audit and Committee)
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 Joint Committee, 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; <ul style="list-style-type: none"> - Training Programme in place and reviewed regularly - Training logs maintained. 	Pension (Audit and Committee)
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; <ul style="list-style-type: none"> - Interests of partners are represented adequately. - Clear business plan (Company) and set of linked 	Pensions Committee (Partner Funds)	Annual	Effective oversight evidenced through; <ul style="list-style-type: none"> - Company Board oversee Company Strategy and effectiveness of ExCo. - Shareholder Forum 	Internal Audit (Individual Partners)	Annual	Work completed to confirm; <ul style="list-style-type: none"> - Strategies and business plan are in place - Coherent link between objectives of the Company, Pool and 	Pension (Audit and Committee)

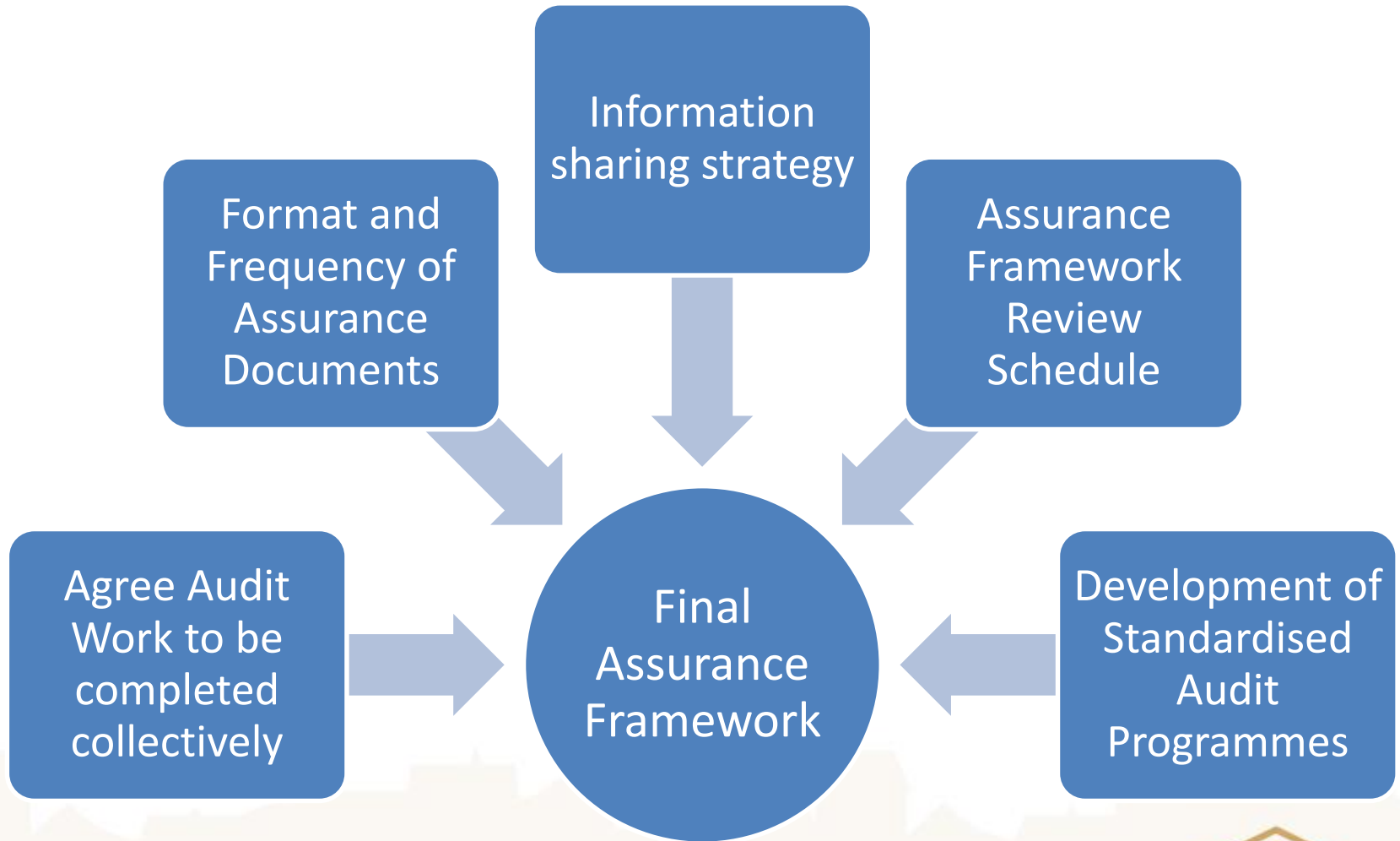


Third Line of Defence Draft Proposal

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 Committee

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

