

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.

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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.