



Teesside Pension Fund - Pension Fund Investments
Middlesbrough Council
Internal Audit Report 2020/21

Business Unit: Finance
 Responsible Officer: Director of Finance
 Service Manager: Head of Pensions, Governance and Investments
 Date Issued: 28 July 2021
 Status: Final
 Reference: 71900/001

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	Substantial Assurance		



Summary and Overall Conclusions

Introduction

In the 2015 July Budget, the Chancellor announced the Government's intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. The Chancellor announced that the pools should take the form of up to six British Wealth Funds instead of 89 Local Government Pension Scheme (LGPS), each with assets of at least £25bn. The objective of the pools was to ensure they met four key criteria; asset pools that achieve the benefits of scale, strong governance and decision making, reduced costs and excellent value for money and an improved capacity to invest in infrastructure.

Prior to this each of the 89 funds operated independently of each other with each managing their own investments and employing their own investment advisor. The responsibilities for determining the investment strategy and asset allocation strategy remain with the Pension Fund Committee. Pooling investments does offer an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the funds as a single client.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 included the requirement for all LGPS Funds to pool their assets. Teesside Pension Fund (TPF) is one of twelve Funds who are shareholder partners in Border to Coast Pension Partnership Limited (BCPP). The TPF has a number of risks on their risk register in relation to pooling and investments. These include inadequate Border to Coast oversight, an asset pooling transition risk, inadequate pooling data, Border to Coast failure, inadequate pooling investments expertise, inappropriate investment strategy, and others relating to transparency, cost and underperformance.

In March 2020 the Covid-19 pandemic had a significant impact on global stock markets and trading conditions. Despite the unprecedented circumstances, TPF continued working toward its strategy of transferring investments to the Pool in conjunction with fund advisors. Middlesbrough Council officers worked from home and processes were adapted to continue to maintain service delivery and investment management.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that there are appropriate procedures and controls in place surrounding the transferring of funds to the Border to Coast Pensions Partnership (BCPP). This included that

- There was an approved transition plan that is sufficiently detailed with timescales for the transfer of funds into the BCPP and plan in place to manage the risk of transition;
- The transition plan was monitored and funds are transferred in accordance with that plan;
- Transfers by the TPF into the BCPP have been undertaken in accordance with procedures;
- Post transfer reviews are undertaken to identify lessons learnt and support future transfers.

Key Findings

We were provided with evidence to confirm that the process of the TPF joining the BCPP was discussed with Council members and steps taken to ensure that the required governance arrangements were in place. We were able to confirm that the decision for the Council to act as the Administering Authority for the TPF in the BCPP Pooling Arrangement was approved at a meeting of the Council in February 2017 and implemented.

The TPF transferred £1.2bn of UK equity to BCPP in 2018; this was the only transition made to the BCPP, although the transfer of overseas equity is planned for 2021.

We saw that that the TPF has an approved Investment Strategy Statement (ISS) in place in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016. We found that Legal and General Investment Management was used to implement the transition as the transition manager for the transfer of the UK equity. The transition was supported by a transition plan which detailed timescales for the transfer, and the process was supported by Inalytics, as transition advisor assisting BCPP in reviewing the transition strategy and monitoring implementation. Our testing confirmed that the transfer to BCPP was completed with adherence to the TPF Investment strategy, with an appropriately authorised transaction, and we saw evidence of consultation with the TPF Committee had taken place.

We reviewed the TPF risk register and found it has been developed to include investment risks relating to the transition to BCPP. Whilst we were able to demonstrate that the risks are regularly presented to the TPF committee we were unable to demonstrate that the risks had been reviewed.

We found the transfer had been undertaken in accordance with required procedures; although the governance policies from 2017 which aim to support the investment strategy were found to be in need of review. The review of the policies is currently on hold in order to incorporate statutory guidance to be issued following a report produced for the Local Government and Pension Scheme Advisory Boards titled the 'Good Governance Report'. The good governance project was found to have reported delays as a result of COVID. A review of the report identified proposals to produce statutory guidance with a view of establishing new governance requirements that will affect the policies pending review, such as the Pension Funds Governance Policy, Conflicts of Interest Policy, Training Policy and the Risk Management Policy. However, a separate 'Pension Fund Administration' audit has also been undertaken by Veritau, which includes a finding regarding the need for a review of pension fund governance policies.

Our review of the post transfer reports following the transition found that both Legal and General and Inalytics provided detailed analysis of the transition, and both reported the transition to be a success as this was a large and complex transition undertaken within the expected cost range and within the expected time horizon.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Risk reviews

Issue/Control Weakness

The Council was unable to demonstrate that the TPF risk register had been reviewed on a regular basis.

Risk

The Council are unable to evidence that risks are being regularly reviewed in line with the TPF's Risk Management Policy.

Findings

The TPF Risk Management Policy states that risk monitoring is the final part of the risk management cycle and will be the responsibility of the TPF Committee. We reviewed the Council's risk management system (Pentana) and found the TPF risk register had been developed to capture risks associated with the transition of funds to BCPP. The TPF Risk Management Policy states the 'risk register is the primary control document for the subsequent analysis, control and monitoring of those risks'.

The TPF risk register is held on Pentana, and details a number of relevant risks relating to pooling and investments. We noted risks relating specifically BCPP, with risks such as 'inadequate BCPP oversight, an asset pooling transition risk, inadequate pooling data, BCPP failure, insufficient range of pooling asset classes, inadequate pooling investments expertise, pooling systemic risks, inappropriate investment strategy, inadequate pooling transparency, higher than expected costs of investment pooling, and pooling investment underperformance'.

However, whilst the TPF risk register was found to be regularly presented at the Committee meetings in line with the TPF's Risk Management Policy; we were unable to demonstrate that the risks had been subject to regular review as the point of review had not been recorded on Pentana to demonstrate a review taking place.

Agreed Action 1.1

Going forward, every time the TPF risk register is presented to the Committee, Pentana will be updated to reflect the fact that a review of the risk register has taken place.

Priority

3

Responsible Officer

Head of Pensions Governance and Investments

Timescale

30 September 2021

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion Assessment of internal control

Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.