

# Auditor's Annual Report on the London Pensions Fund Authority

2020-21

26 April 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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## Appendices

- A – The responsibilities of the Authority
- B – An explanatory note on recommendations

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive summary

## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but one improvement recommendation made.



## Financial sustainability

Overall the Authority is financially sound when considering the nature of your Operations. There are robust procedures in place around the setting of the annual budget and this feeds into a regular refresh of the Medium Term Financial Plan as well. Our findings are set out in further detail on pages 5 to 7.



## Governance

Overall the LPFA Board and its Committee does have strong and well established Governance arrangements in place, particularly in respect of its oversight of the Pension Fund. The Committee Structure within the Authority works well and is supported by strong engagement by Board Members and Officers. One area of improvement has been identified relating to the management of the SLA between the LPFA and the Local Pensions Partnership (LPP), which has resulted in one improvement recommendation being raised. Our findings are set out in further detail on pages 8 to 12.



## Improving economy, efficiency and effectiveness

The LPFA's performance monitoring arrangements are also reasonably strong and well established given the nature of the organisation. There is a good level of information provided at Committees to enable effective management and challenge from the Board. The LPFA's relationship with LPP is continuing to develop and evolve and the management of this has improved in recent years, albeit with the potential for further improvements as shown by the recommendation raised within the Governance section of the Report. Our findings are set out in further detail on pages 13 to 17.

# Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Authority's responsibilities are set out in Appendix A.

Authorities report on their arrangements, and the effectiveness of these arrangements as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 17. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Authority:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 2020-21 Financial Performance

The LPFA delivered a strong performance in 2020-21, covering all three strands of its operations, which are the Pension Fund, the Residual Liability Accounts which cover off historic Asbestosis Provisions and Pension Benefits from demised pan-London bodies, and the Operating Accounts, which effectively is the management arm of the LPFA which runs the other two sets of Accounts. The Pension Fund saw a net inflow to the Fund of **£1,028.724 million**, which was **£694.800 million** higher than planned. This was largely down to significant growth in the value of the Fund's Investments, which whilst an element of this related to the Investments rebounding from the impact of the Covid-19 Pandemic, there was also growth over and above this which reflected strong performance from the Fund's Investments during this period. At 31 March 2021 the value of the Fund was **£6,911.767 million**, up from **£5,883.043 million**, which was the position as at 31 March 2020.

Within this, the Fund saw a net outflow from dealings with members of **£98.918 million**, which was **£35.882 million** lower than planned. The main reason for this variance was a lower level of benefit payments than anticipated, but the LPFA is continuing to monitor and review the levels of Contributions and Benefits that are falling due to ensure that adequate cash management arrangements are in place to ensure payments continue to be made as they fall due.

In respect of Management Expenses, these totalled **£99.818 million**, which was **£45.142 million** above plan. This variance was almost entirely related to the considerable increase in the market value of the Fund's Investments, as Management Fees are often linked to the value of the Investments and thus will increase as the value of the underlying Funds increase.

In respect of the Residual Liability Accounts, the level of spend on both Pension Benefits and Asbestosis Claims fell considerably below the levy received for both the Greater and Inner London Levy's. The Greater London Levy saw a net inflow of **£5.786 million** against the planned position of **£1.521 million**, and the Inner London Levy achieved a net inflow of **£4.011 million** compared to the planned position of **£2.315 million**. In both instances, these increases in funds will be used to reduce the future levy, which is charged to all London Boroughs and the City of London and used to meet future liabilities as they fall due. The main rationale for these variances is that it is very difficult to predict with a huge amount of certainty the level of spend on items such as Asbestosis Claims. We know the LPFA is continuing to review its forecasting in this area to try and provide accurate estimates but ultimately any additional funds can be utilised to offset the unfunded Pensions Costs as they fall due in later years.

Finally, the Operating Accounts delivered a net surplus against budget of **£28,000**, which indicated strong forecasting and budget management in this area. There were some over and underspends within this performance, with savings being realised by bringing services back in-house, which offset the increase in IAS19 Pensions Costs which arose during the course of the year.

# Financial sustainability



## We considered how the Authority:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Financial Planning

The LPFA's financial planning arrangements are well established, with the final budget proposals for the year required to be commented on by the Mayor of London, with any comments raised required to be considered by the LPFA Board when approving. The annual budget for the year is prepared as part of an annual refresh of the Medium Term Financial Plan (MTFP), which covers a rolling four-year financial horizon, with the latest version covering the period from 2021 to 2024. We have seen that the MTFP is clearly linked to the LPFA's broader Corporate Objectives, which as expected are focused on its core operation, which is the delivery of the Local Government Pension Scheme to all of its members across a range of different Admitted and Scheduled Bodies.

In terms of the financial plans for 2021-22, the Pension Fund is forecast to deliver a net addition to the Fund of **£341.5 million**, which includes a net outflow from dealing with members of **£137.8 million**, which is a trend that is scheduled to continue given the age of Pension Fund members is scheduled to rise.

For the Residual Liability Accounts, again both Levy's are scheduled to deliver a net inflow, with the Greater London Levy delivering a net inflow of £2.767 million and the Inner London Levy delivering a net inflow of £2.985 million. As part of our ongoing discussions with the LPFA, we are aware that the plans are in place to revise and revisit the Levy calculations for 2023-24 onwards, as the direction of travel in recent years has been that the level of spend has been lower than the Levy and thus there has been quite a large build up of Reserve Balances in the Residual Liability Accounts. The existing Reserve Balances will be used to pay down the Pensions Benefits as they fall due and thus will not be refunded to any of the London Boroughs, but it is likely that the Levy balances will reduce moving forward which will provide a revenue benefits to the involved entities.

Finally, the Operating Accounts is scheduled to deliver a breakeven position at the end of 2021-22, which has historically been the aim for the Operational Accounts given its role. The main area of note for the Operating Accounts is that the LPFA is looking to reduce the Reserve Balances which have built up in this set of Accounts over recent years. These Reserve Balances will be utilised to offset any potential one-off charges which may fall due on the Operating Accounts.

## Managing risks to Financial Resilience

During the course of the financial year, quarterly updates are provided by management to the Audit and Risk Committee to allow them to scrutinise performance against budget, and consider any in-year financial pressures which may be arising. From review of these updates, they are provided in a consistent format with the annual budget, allowing members to easily see where items are deviating from plan, and narrative explanations are provided where appropriate.

# Financial sustainability



## We considered how the Authority:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Due to the nature of the LPFA and its operations, there are considerably less risks attached to the financial plans when compared to other bodies in Local Government, yet these updates still provide a clear and concise picture of in-year financial performance along with details of what actions are being taken to resolve any identified issues. These updates also cover all three strands of the LPFA's operations, with commentary on the Operating and Residual Liability Account performance also being included.

The financial risks which the LPFA is exposed to are included on the Corporate Risk Register, which is also shared regularly with the Audit and Risk Committee for review and comment. All risks included on the Register are clearly mapped and articulated, and include details of what controls are currently in place to manage these risks along with what further work is needed to ensure the risk remains at an appropriate level. From a review of the Risk Register we are clear that the financial risks we would expect to see included have been added, and are being managed and monitored as required.

## Conclusion

**The Authority's arrangements to deliver financial sustainability appear to be appropriate and we found no evidence or indication of potential significant weakness and therefore no further risk-based work has been performed on this criteria for assessing the arrangements for securing value for money.**

# Governance



## We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Effective governance

Governance is the system by which an organisation is controlled and operates, and the mechanisms by which it and its staff are held to account. It is the system that operates from the top, the Board, down to all members of staff. Ethics, risk management, compliance with policies, expected best practice, health and safety and administration are all elements of governance. Effective governance requires both clear and unambiguous structures and processes and the effective working by people within the designed framework. Effective governance also requires a culture that promotes openness, transparency, a willingness to learn and no fear of speaking the truth.

## Consideration of informed decision making and ensuring effective challenge and transparency in decision making

The LPFA has been operating for a considerable number of years, and as a result there are mature arrangements in place to ensure there is an effective governance framework to help drive effective decision making within the organisation. What has worked well for the LPFA in recent years is that a number of members of the Board have brought with them considerable experience in areas such as Pensions and Investments from the commercial sector or from other Local Government Pension Scheme (LGPS) Funds, which has strengthened the ability of the Board to understand the environment in which the LPFA is operating and the challenges that it is facing as an organisation.

In terms of the relevant elements of the LPFA's governance arrangements, the tone is very much set from the top by the Board, who have a strong representation from a range of different specialisms as mentioned above and have a good level of experience across the locality. Despite the challenges of the pandemic, attendance at Board Meetings during the year has remained strong. This has helped to ensure robust and timely decision making, particularly important given the ever-changing arrangements due to the pandemic and the short lead-in time for decision making which has been necessary on occasions during this period.

As we would expect for an Authority of this size, there are several committees which support the Board with decision making. During the course of the year we have attended Audit and Risk Committee meetings and it is clear that the committee has critically challenged the Authority's governance arrangements, and the arrangements have evolved and developed during the course of the financial year. The Committee used its knowledge of good practice brought from the backgrounds of its Members to help shape the LPFA's arrangements during the course of the year and help the organisation to continue to evolve.

Alongside the Audit and Risk Committee sits the Investment Committee, which is responsible for monitoring all aspects of the LPFA's Investment and Funding Operations. This includes periodically reviewing all aspects of the LPFA's investment arrangements and recommending changes to the Investment Strategy and reviewing proposals from the



# Governance



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- monitors and ensures appropriate standards.

Local Pensions Partnership Investments (LPPI), which is the investment arm of the Local Pensions Partnership. The Investment Committee is also given delegated authority by the Board to exercise certain investment decisions on behalf of the Board as well. Again our observation from reviewing the details of these meetings is that a good level of challenge was provided by Members to Management and there was a clear focus on important issues aside from the routine transactions. Examples of items which were discussed during the course of the year including the removal of the Fund's LDI programme, the launch of a Group Investment Syndicate as an alternative investment fund and the Fund's continued progress in respect of Responsible Investment, given the focus on climate change and the climate emergency that was declared in 2021.

The other element of the LPFA's Governance Structure is the Local Pensions Board (LPB), which was set up in 2015 following changes to the LGPS Governance Arrangements that were made in 2014 which looked to give members and employees an opportunity to get involved in the running of their Pension Funds. The LPB is chaired by an Independent Chair who is extremely experienced in supporting LGPS Funds and is a thought leader within the wider financial industry. The Chair is supported by four member representatives and four employer representatives, all of which have a range of skills they are able to bring to the LPB to support its wider objectives to assist the Board and help ensure the organisation continues to comply with the relevant legislation and regulations. Again the meetings of the LPB cover a wide range of different topics and areas and show a good recognition of the range of items which need to be considered when overseeing the management of a Pension Fund.

## Risk Management

The overall responsibility for the Authority's Risk Management arrangements rests with the Board. The Board has responsibility directly, or through its sub-committees, for ensuring that strategic risks are identified, assessed, and included within the Corporate Risk Register, and for receiving assurance that risks associated with the Authority's objectives are being managed. The Authority has a clear risk management process in place to support the identification and management of risks, which includes the delegation of the oversight of these risks to the Audit and Risk Committee.

The Corporate Risk Register (CRR) is the document through which the Board is apprised of the principal risks to the LPFA meeting its key objectives, and the controls in place to manage those risks. The CRR has been shared with the Audit and Risk Committee on several occasions during the course of the year. The CRR provides more granularity on the specific risks facing the Authority, and how these are planned to be mitigated by the processes and controls which are in place. Following discussions at the Audit and Risk Committee the CRR is then shared upwards with the Board via the formal updates from the Committee so Board Members are kept abreast of the key risks facing the organisation and what progress has been made since the last meeting in managing the risk levels for the organisation's key risks.

# Governance



## We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

When considering the detail of the CRR, it is clear that it has an appropriate structure and format, with all risks clearly explained, including the potential impact of risks. All risks are RAG-rated and scored, and a risk matrix is presented at the start of the update report to provide a snapshot of where the key risks sit at a given point in time. Risks are assigned to a risk owner, have target dates for review and a listing of the controls which are in place to manage and mitigate the risks to an acceptable level. The status of each of these controls is also RAG-rated to provide clarity on the robustness of the controls which support the risk assessment. All of this is clearly laid out in the detailed CRR Report which is shared with the Audit and Risk Committee. We have observed robust and appropriate challenge by the Audit and Risk Committee.

The LPFA's Risk Management processes were reviewed by Internal Audit during the course of 2020-21, and they issued a 'medium risk' opinion, raising 2 medium risk recommendations and 5 low risk recommendations. From review of the IA Report, the medium risk rating was reflective of the development of the risk management processes to the date of the review, with a focus on getting the 'foundations' in a good place, but recognising that these changes still need to be embedded within the Fund over a longer time period. LPFA Management recognised that there is more to do to further develop and embed the Risk Management framework, which they will factor into the planned reviews of key elements of the overall Fund operations, including investment and administration strategy reviews. Progress is already being made in some areas, including the use of risk reporting tools and also strengthening the oversight of key risk related activities at LPP.

The key areas that were highlighted by IA in terms of where improvements needed to be prioritised were:

- Risk process and methodology enhancements to the CRR, including refining existing risk descriptions, condensing the number of controls documented and providing further narrative on the risk assessment criteria.
- Clarifying the roles and responsibilities of LPP in risk management and alignment to the SLA. At the date of the review there was a misalignment of the expectations between the LPFA and LPP on their role in ongoing risk management support. In addition, this does not align to the requirements set out in the SLA, which means it is challenging for the LPFA to exercise its oversight responsibility. As LPP plays a key role in managing the activities that mitigate LPFA's risks, there is an opportunity to review the existing expectations particularly as the risk framework develops at the LPFA, to ensure the service is aligned to the needs of the LPFA and the SLA accurately reflects this.

We know from our attendance at Audit and Risk Committees since the date of the IA Report that the LPFA has taken these findings on board and has made changes to these processes to improve the Risk Management processes. For example we know the CRR has been enhanced and is continually reviewed to ensure it provides a clear snapshot of the LPFA's risks at a given point in time. We also know that work has been done to strengthen arrangements around the SLA in place between LPFA and LPP so it is more clearly aligned to the services being provided. **(Recommendation 1)**

# Governance



## We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Budget Setting and Budgetary Control

There are appropriate arrangements in place for the annual budget setting process. As mentioned within the Financial Sustainability section of the Report, the final budget proposals for the year are required to be commented on by the Mayor of London. The annual budget for the year is prepared as part of an annual refresh of the Medium Term Financial Plan (MTFP), which covers a rolling four-year financial horizon, with the latest version covering the period from 2021 to 2024. We have seen that the MTFP is clearly linked to the LPFA's broader Corporate Objectives, which as expected are focused on its core operation, which is the delivery of the Local Government Pension Schemes to all of its members across a range of different Admitted and Scheduled Bodies.

During the course of the financial year, quarterly updates are provided by management to the Audit and Risk Committee to allow them to scrutinise performance against budget, and consider any in-year financial pressures which may be arising. From review of these updates, they are provided in a consistent format with the annual budget, allowing members to easily see where items are deviating from plan, and narrative explanations are provided where appropriate.

## How the Authority monitors and ensures appropriate standards

There are appropriate arrangements in place to monitor compliance with legislation and regulatory standards. On a regular basis an Investment and Risk Funding Update is shared with the Audit and Risk Committee, which provides an update on how the LPFA is performing against the statutory targets which are in place for an LGPS Fund, such as the Funding Level for the overall Fund. Alongside this, there is a standing item on the Agenda of each Audit and Risk Committee specifically relating to Compliance and Governance Matters, which is led by the Chief Legal and Compliance Officer, who is also the LPFA's Monitoring Officer. This provides a regular forum for updates on any matters which have arisen since the previous Committee and help ensure the Committee fulfil its role in this area.

Policies and Procedures are in place. Arrangements for making declarations of interest are in place at the beginning of all board or committee meetings. Members of the board and other staff classified as 'decision-makers' are required to complete an annual declaration and this is collected by the Company Secretary and recorded on the LPFA website within its Register of Interests.

## Conclusion

**The Authority's arrangements to provide adequate governance appear to be appropriate and we found no evidence or indication of potential significant weakness and therefore no further risk-based work has been performed on this criteria for assessing the arrangements for securing value for money.**

# Improvement recommendations



## Governance

### Recommendation 1

#### Recommendation

The LPFA should continue to review and monitor the Service Level Agreement in place between itself and the Local Pensions Partnership (LPP) to ensure it allows the LPFA to fully manage the services being provided by LPP.

#### Why/Impact

This will help ensure that the LPFA is receiving the full suite of services that it expects to receive from LPP and that they are being delivered to the required standard and within the specified and agreed timelines. Strong management of this SLA is fundamental to ensuring the success of the relationship between the two bodies and to ensure the proposed benefits are realised.

#### Auditor Judgement

Whilst we know that considerable progress has been made in terms of managing the SLA since the inception of LPP, it is clear that there are still potential areas where this can be strengthened further to help ensure the LPFA is able to provide robust management of the arrangement where needed. In particular it is important that where the LPFA has chosen to bring elements back in house, these are adequately reflected in both the SLA and the related Management Charge for these services.

#### Management Comment

The Service Level Agreement is monitored closely and quarterly reports are submitted by LPPA which are reviewed and discussed by the Senior Leadership Team and reported to the LPFA Board and Local Pension Board. Since the migration over to the new pensions administration system there has been greater scrutiny with initially daily/weekly reporting and then a period of monthly reporting. The SLA has been updated to reflect when corporate services have been taken back in-house by the LPFA through the change control process as set out in the SLA. As at 1<sup>st</sup> April 2022, the only corporate services provided by LPPI are IT Services.

The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



## We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Using financial and performance information to assess performance

The LPFA used a wide range of financial and performance information to help assess performance at a range of different levels. At each Board Meeting, clear updates are provided from both the Audit and Risk (ARC); and Investment Committees (IC) held since the last Board Meeting, setting out the main items of discussion from both a financial and broader performance perspective. As mentioned in the previous section of the Report, a quarterly finance update is provided to each ARC meeting setting out performance against budget for all three sets of Accounts managed by the Authority and provides detail of all of the key trends which have occurred since the previous quarter. Again as mentioned earlier in the Report the level of detail that is provided to ARC is sufficient to enable them to review and monitor performance along with being able to hold the relevant members of Management to account where required.

As mentioned earlier in the Report, the Investment Committee is responsible for monitoring all aspects of the LPFA's Investment and Funding Operations. This includes periodically reviewing all aspects of the LPFA's investment arrangements and recommending changes to the Investment Strategy and reviewing proposals from the Local Pensions Partnership Investments (LPPI), which is the investment arm of the Local Pensions Partnership. The Investment Committee is also given delegated authority by the Board to exercise certain investment decisions on behalf of the Board as well. From our review of the minutes of the Investment Committee, it is clear that there is a strong level of information provided to support the items being considered, which have included a detailed Investment Risk Report, covering all of the investments held by the Authority at a given point in time. A wide range of performance and benchmarking information was provided, which included information provided from the Pensions & Investment Research Consultants Ltd (PIRC), CIPFA and the Cost Transparency Initiative (CTI), all of which are utilised to critically challenge the performance of both the LPFA and the LPP.

In addition to the above, a regular Investment Performance Report is also provided from LPPI, setting out how the broader investments held by the LPFA are performing alongside the wider funds held by LPP. This serves two purposes, both in terms of allowing the LPFA Members to assess how the LPFA's specific investments are performing, but also in terms of the LPFA's role as one of the two shareholders of LPP it allows them to assess the wider operational performance of the LPP. It is clear from our review of the minutes that the Committee is continuing to review and challenge the way these performance matters are reported to the Committee, ensuring this is done with clarity to support Members' challenge of these areas moving forward, and is a positive approach that we would expect all Committees to do moving forward.

Finally, the Local Pension Board (LPB) has a key role to play in assisting the LPFA Board in respect of its dealing with members, via the receipt of a regular Client Performance and Member Engagement Report from LPP Administration (LPPA). This sets out a range of performance measures, which includes a number of those reported within the Pension Fund Annual Report at the end of each financial year. LPPA Management attend each LPB meeting

# Improving economy, efficiency and effectiveness



## We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

to discuss the Report and any issues and concerns identified, alongside LPFA management. Again where potential improvements are identified in terms of how both the reporting can be improved along with the wider processes then these are taken forward and considered for the next LPB. There is also a regular Corporate Communications Update provided at each meeting, which discusses how members are engaging with things like the Fund's Website and the other forums that are in place to provide feedback to the Fund. Again it is clear that where feedback is provided then timely updates are made to areas such as the LPFA's Website so members can easily locate the information that is pertinent to them. An example of this over the past twelve months has been the enhancement of the information relating to the LPFA's response to Climate Change, which is now more prominent on the Fund's Website than it was previously.

## Evaluating the services it provides to assess performance and identify areas for improvement

As mentioned above, a considerable element of the monitoring of the services provided by the Pension Fund to its members is considered by the Local Pension Board (LPB), which as mentioned earlier in the Report is in place to assist the Board and help ensure the organisation continues to comply with the relevant legislation and regulations. As mentioned on the previous page, regular updates are provided in respect of member engagement, considering items such as response times when answering calls, how quickly items are processed, along with feedback from the member forums that are held during the course of the year. It is clear from our review of the minutes of these meetings that all of the feedback from these forums is taken seriously and changes are proposed and implemented where this will provide a better experience for the members of the Fund.

Another area which is fed back to the LPB is the performance against the Service Level Agreement in place between the LPFA and LPP, which is designed to manage the performance of LPP in terms of the services which it is providing to the LPFA. Where items of non-compliance are identified, these are reported back to the LPB along with a clear update on what actions are being taken to prevent a reoccurrence of these issues moving forward. For example during 2021 it was noted that the Annual Disaster Recovery Test had not taken place due to the LPPI IT Migration, and a small number of Freedom of Information (FOI) Requests had fallen outside the required timeframes. In respect of the FOIs, a decision was taken that these would be dealt with by the LPFA themselves moving forward to give them greater ownership of the process in the future. Other items which were discussed included details of any data breaches, complaints, and any Internal Dispute Resolution Process (IDRP) Cases which had been received. Thus it is clear that the LPB are clearly considering all aspects of the services and is providing robust challenge to ensure any issues are clearly explained and understood. However there does remain a need for all compliance and regulatory elements covered by the SLA to be completed in a timely manner to ensure these do not generate a bigger issue for the organisation (**Recommendation 2**).

# Improving economy, efficiency and effectiveness



## We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Ensuring it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

As mentioned earlier, the main partnership which the LPFA is involved with is the Local Pensions Partnership (LPP), which is a joint venture launched in 2016 as a collaboration between the Lancashire County Council (LCC) and the LPFA ahead of the Government plan to create pools from the then 89 Local Government Pension Funds, LCC and LPFA took the decision to pool their assets to reduce cost and improve performance. As a result both LCC and the LPFA are joint 50% shareholders in LPP. LPP is now one of eight national Local Government pools. LPP now provide pensions administration services for more than 609,000 LGPS, Police and Firefighters' pension scheme members across over 1,900 employers through LPP Administration (LPPA). On the investment side, LPP Investments (LPPi) manage around £23.1 billion of pensions assets for investors across eight investment pooling vehicles, including two Authorised Contractual Scheme. Each of the LPP funds has an emphasis on long-term viability and returns.

At the inception of the Partnership, a Service Level Agreement (SLA) was put in place to manage the relationship between LPP and its shareholders, which was meant to specify the level of services to be provided by LPP as part of the arrangements. During the first couple of years, it became clear that a lack of clarity and robustness in the setting of the SLA meant it was very difficult for either of the shareholders to effectively hold LPP to account, as for example the targets which has been set were not specific or focused and thus it was very difficult for either shareholder to be definitive in the level of performance that they were receiving. Our Value for Money Work at the time also highlighted the need for this agreement to be considerably strengthened to ensure it provided appropriate levers to enable performance to be managed.

Since then, significant progress has been made in terms of strengthening the arrangements in place so that the LPFA is now able to provide a greater level of challenge and monitoring of LPPs performance, as which is reported at various forums as mentioned on previous pages of the Report. Albeit, as mentioned within the Governance section of the Report, there are still potential areas for improvement, particularly where the level of services which are being delivered by each party are subject to change due to services being brought back in-house by the LPFA for example. A recommendation in respect of this has been raised within the Governance Section of the Report which also covers this area as well.

## Covid-19

Due to the nature of the LPFA and its operations, the impact of Covid-19 on how it functioned was extremely limited, particularly when compared to most other organisations in the Local Government sector. Whilst there were some initial challenges with the technology required to enable staff to work effectively from home, once this has been put in place then operations were able to continue largely unhindered. All of the key Committees and Management Meetings were

# Improving economy, efficiency and effectiveness



## We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

moved online via Zoom or Microsoft Teams and from our attendance at the virtual Audit and Risk Committees, there was no impact on the level of challenge or scrutiny applied during this period. Whilst clearly there were impacts on the value of the Pension Fund's Investments during the Pandemic, as impacted all Local Government Pension Funds, all of these losses were recovered in the following 12 months including additional growth over and above this as things returned to a degree of normality.

## Conclusion

**The Authority's arrangements to improve the economy, efficiency and effectiveness of its use of resources appear to be appropriate and we found no evidence or indication of potential significant weakness and therefore no further risk-based work has been performed on this criteria for assessing the arrangements for securing value for money.**



# Improvement recommendations



## Improving economy, efficiency and effectiveness

### Recommendation 2

#### Recommendation

The LPFA should continue to ensure that all compliance and regulatory elements covered by the Service Level Agreement between the LPFA and LPP are performed on a timely basis.

#### Why/Impact

This will help ensure that the LPFA remains compliant with all of the relevant laws and regulations which cover the organisation and its operations, in particular those elements which are covered via the SLA between the LPFA and LPP. There is a risk that if particular elements of the SLA are not delivered on time then this may have a impact on the LPFA's compliance profile and reputation.

#### Auditor Judgement

Whilst we understand that there are often valid reasons for items not being delivered on time (such as the migration to a new IT System), it does risk leaving the LPFA exposed to potential action if compliance targets are not achieved. Ensuring there is a robust approach to reviewing and monitoring these targets will hopefully ensure that any potential issues are identified in advance of them occurring and mitigating actions can be taken to ensure any compliance breaches are adequately explained.

#### Management Comment

LPFA receives monthly and quarterly risk and compliance reports from LPPA in relation to meeting all regulatory requirements. These are reviewed by the LPFA Chief Legal and Compliance Officer (CLCO) and the Compliance and Regulation Manager. Further information and assurance is requested where potential issues may have been flagged. Monthly meetings take place between the LPPA Risk and Compliance Manager and the CLCO. LPPA monitoring reports are received as detailed in the side letter to the Advisory Management Agreement and regular client meetings take place between the LPP Head of Client Management and the LPFA Funding and Risk Director. LPFA has recently received LPPA's first AAF Type 1 Service Auditor's Assurance Report on internal controls. Although LPPA is an FCA regulated firm, LPFA is looking to gain greater assurance on regulatory compliance as recommended by an LPFA Internal Audit Report.

The range of recommendations that external auditors can make is explained in Appendix B.

# Opinion on the financial statements



## Audit opinion on the financial statements

We gave an unqualified opinion on the Pension Fund Financial Statements on 30 September 2021. We issued separate unqualified opinions on the Operational and Residual Liability Accounts on 30 November 2021.

## Other opinion/key findings

We had no significant unamended findings in relation to other information produced by the Authority including the Annual Report, the Narrative Report and the Annual Governance Statement.

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Authority's Audit and Risk Committee on 24 September 2021. An update was issued to the Committee on 11 November 2021 to reflect the further work performed on the Operational and Residual Liability Accounts between September and November 2021.

## Preparation of the accounts

The Authority provided draft accounts in line with the national deadline and provided a good set of working papers to support them.

## Issues arising from the accounts:

The key issues were:

- As in previous years, the valuations of some of the LPPi Funds moved during the course of the audit, generating an increase in the Net Assets of the Pension Fund of **£82.3 million**.
- On the Operational Accounts, it was identified that the LPFA was entitled to a 50% Share of the movement in Deferred Tax held by LPP, which had a value of **£673k**.
- Finally, on the Residual Liability Accounts, there was a further reduction in the value of the Asbestosis Provision, which was reduced by **£5.2 million**.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

As mentioned above no issues were identified in respect of any of these areas for all three sets of Accounts for 2020-21.



# Appendices

# Appendix A - Responsibilities of the Authority



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Authority's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

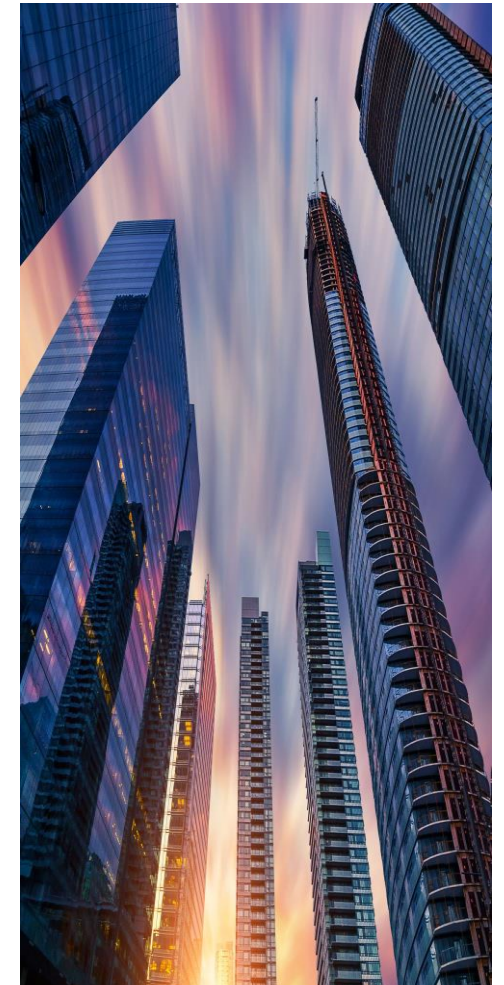
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their Annual Governance Statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Authority's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
<b>Statutory</b>	Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Authority to discuss and respond publicly to the report.	No	n/a
<b>Key</b>	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.	No	n/a
<b>Improvement</b>	These recommendations, if implemented should improve the arrangements in place at the Authority, but are not a result of identifying significant weaknesses in the Authority's arrangements.	Yes	12 and 17



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