



# NYCC Pension Fund Investments 2020-21

## North Yorkshire County Council

### Internal Audit Report

Business Unit: Strategic Resources  
Responsible Officer: Corporate Director of Strategic Resources  
Service Manager: Head of Investments  
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	P1	P2	P3
Actions	0	0	2
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 Schemes (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 change in arrangements is that the Pool will become responsible for manager selection and monitoring. This will also continue to be a responsibility of the North Yorkshire Pension Fund (NYPF) Committee until all of the assets are transitioned. The responsibilities for determining the investment strategy and asset allocation strategy will remain with the Committee. Pooling investments offers 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 NYPF has joined Border to Coast Pensions Partnership (BCPP) along with 11 other funds. The NYPF has included two key risks on their most recent risk register in relation to pooling. These are: a failure to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy and a failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns and re-tendering exercise.

In March 2020 the Covid-19 pandemic had a significant impact on global stock markets and trading conditions. Despite the unprecedented circumstances, NYPF continued working successfully toward its strategy of transferring investments to the Pool, with the support of the Fund's advisors. NYCC 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. This includes ensuring that:

- There is an approved transition plan that is sufficiently detailed with timescales for the transfer of funds into the BCPP and a plan in place to manage the risks of transition;
- The transition plan is monitored and funds are transferred in accordance with that plan;

- Transfers by the NYPF 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

Contracts for investment, fund management and fund transitions are in place and specify service levels requirements. There are two contracts in place relating to the Border and Coast Pension Pool (BCPP): a Shareholder Agreement for the BCPP, and an Inter Authority Agreement (IAA). The shareholder agreement outlines the responsibilities and relationships between the members of the BCPP. The Inter Authority Agreement is an agreement between Pool members to exercise oversight and governance, including through a Joint Committee, on the investment performance of collective investment vehicles in the BCPP.

In the first year of transitions to the Pool, NYCC acting on behalf of NYPF, was involved in the appointment of Legal and General Investment Management as the transition manager. The contract clearly specified the services required from the transition manager. An additional schedule was drawn up specifically for the transition of UK Equities from the legacy manager to the Pool. Thereafter, the appointment of each transition manager was done by the Pool through a competitive tendering process.

There is a Risk Register entry outlining the risks to the fund of not transitioning investments to the Pool. The risk register is reviewed and updated regularly and directly supports the Investment Strategy Statement (ISS) and the intention to transition assets to the Pool.

The approach to transitions is outlined in the published Investment Strategy Statement with the aim of ultimately transitioning 100% of the Fund's assets into the pool, with the exception of legacy illiquid investments. Transition timing is dependent on the type of asset and asset class for investments, including whether there is a suitable sub-fund to invest in. The ISS is reviewed annually as well as every three years in line with the triennial pension fund valuations. The BCPP issues a Governance calendar to members detailing the timings for fund launches and associated transition activities. The calendars are updated and distributed to members periodically.

Investments earmarked for transitioning to the Pool are made with the approval of the Pension Fund Committee. Treasurer's reports in relation to investments are presented to Pension Fund Committee meetings for consideration and approval. Investment approvals are recorded and the meeting minutes are published on the Pension Administrator's website (NYCC).

Transitions are managed by appointed transition managers who produce and follow a detailed transition plan (run-book). Transition managers follow standard industry practices and provide daily updates on the status of the transfer to the Pension Fund. Whilst the movement of funds follows standard industry investment management processes, NYCC does not have any of its own internal process notes in respect of the transition process.

Authorised dealing instructions are issued to subscribe to investments and contract notes are provided to confirm the transition and purchase of investments. Officers confirmed that differences between the values of the dealing instructions and contract subscription notes was due to stock market price fluctuations during the trading period. The Pension Fund does not have a materiality threshold for

the costs of transitions. However, transition managers work to standard industry practices and aim to be within one standard deviation risk range for the overall cost of transitions. Whilst authorised dealing instructions and contract subscription notes were available for the audit, no authorised CHAPS forms were available to evidence the cash transfers. This was due to paper copies being stored on NYCC premises which have not been accessible due the Covid-19 pandemic.

Post trade reports and post transfer contract subscription notes are provided to ensure transfers have been completed in accordance with requirements. For the investments transitioned, all had post trade reports concluding that funds had transitioned successfully and within expected timeframes. The transition manager for the Global Equity Alpha transition highlighted increased shortfall costs due to stock market responses to Brexit-related news. However, the overall shortfall was 0.81% which was deemed within the benchmark standard deviation risk range based on actual trading. Where assets were left unsold at the end of trading activity for the UK Equities fund, the transition manager outlined their approach to manage the sale of the residual assets to complete the transition. All funds transitioned to the BCPP had evidence of contract subscription notes to verify the transition of the investments to the Pool. The Pool provides monthly valuation reports for investments transitioned.

Post transition reviews are carried out by the Pool and are conducted by an independent company appointed by the BCPP. These provide assurance to the Pool that transitions have been completed correctly and identify any lessons learned for future transitions. Both funds transferred to the BCPP by the Pool's transition manager were reviewed by the third party and found to have been completed correctly. Lessons learned were identified and, in the case of the Sterling Index Linked Bonds, changes were applied by the transition manager to improve processes for the next transition. This included overall project management and earlier engagement with the BCPP's administrator. Similar lessons were highlighted in the Global Equity Alpha post transition review along with the recommendation to review hedging strategies employed in the transition.

Asset re-balancing is undertaken if investment returns fall outside the limits set within the Investment Strategy. Re-balancing is delegated to the Corporate Director, Strategic Resources, is not classed as a change in investments, and can be done without Pension Fund Committee Approval. The third party Fund performance reports help inform if re-balancing is needed and these, along with the Treasurer's reports, form part of the standing agenda items at Pension Fund Committee meetings. This means that, in practice, there is oversight of asset rebalancing when it occurs. The benchmark allocation of assets was amended in May 2019 as part of the Equity Protection Strategy and re-balancing took place to align to the new benchmarks.

Of the rebalancing transactions tested all had contract notes or authorised instructions for the assets to be moved. One sample required an authorised CHAPS form but this was not available for the audit due to reasons mentioned earlier. Currently, the internal scheme of delegation is not based on monetary values. Work is ongoing to put in place a framework to allow the Head of Investments to delegate authority down further to other officers using monetary thresholds.

## **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 Authorised signatory lists

### Issue/Control Weakness

Authorised signatory lists are incomplete.

### Risk

Transfer of funds and investments are not correctly authorised.

### Findings

The documentation forming part of the formal agreement for the transfer of assets from the legacy manager to the BCPP, was signed by two authorised NYCC officers acting on behalf of NYPF. However, their sample signatures were not against their names on the signatory list covering the transfer period (28 January 2019 to 14 September 2020). Only 2 of the required 6 sample signatures were on the form against the corresponding signatory names. The subsequent signatory list (15 September 2020) was fully complete and had all required sample signatures, including those officers who had signed the agreement. Neither signatory list detailed monetary values. At present, internal sign off is not based on monetary values, but work is underway to review this.

### Agreed Action 1.1

Segregation of duties in relation to the implementation of Committee decisions will be documented. A review of whether financial limits are appropriate will be undertaken.

**Priority**

3

**Responsible Officer**

Senior Accountant,  
Pensions

**Timescale**

31 December 2021

## 2 Transition process notes

### Issue/Control Weakness

A lack of internal process notes for investment transitions may lead to erroneous actions and unauthorised investment movements.

### Risk

Transitions are not managed appropriately by the pension fund officers.

### Findings

The movement of funds follows standard industry investment management processes led by the appointed transition managers. However, NYCC does not have any of its own internal process notes as guidance for officers involved in the transitions. It may be beneficial to document internal processes for the role of pension fund officers in investment transitions.

### Agreed Action 2.1

Internal processes for the role of pension fund officers involved in investment transitions will be documented.

**Priority**

3

**Responsible Officer**

Senior Accountant,  
Pensions

**Timescale**

31 December 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.

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