



## LOCAL PENSION COMMITTEE – 5<sup>th</sup> JULY 2019

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### LGPS CENTRAL UPDATE – COMPANY MATTERS

##### Purpose of Report

1. The purpose of this report is to present to the Committee, an update on company matters relating to LGPS Central.

##### Background

2. LGPS Central is a private limited company that is authorised and regulated by the Financial Conduct Authority (FCA). Central is jointly owned by the eight administering authorities who formed the pool, with equal voting rights.
3. The Leicestershire Pension Fund (Fund) is a stakeholder from two different perspectives. These are as a co-owner of the company and as a recipient of investment services. These interests are managed through the Shareholders Forum and the Joint Committee.
4. The supervisory body of the company LGPS Central is the Shareholders' Forum, which focuses on shareholder issues. It is comprised of eight members, representing each of the partner funds. The members are elected representatives, typically the Chair of the Local Pension Committee. The Directors of the company are responsible for the day-to-day management and operation of LGPS Central. The Shareholders' Forum meets at least twice a year to agree certain reserved matters; this provides a greater degree of control than for most private companies. Their powers as shareholders are set out in a Shareholder Agreement and include:
  - Amending or adopting new strategic plans
  - Admitting new members to the Pool
  - Appointment and removal of Directors
  - Approve accounts and appoint auditors
  - Approving capital expenditure over £5M
5. The Shareholders' forum normally precedes general meetings of the company, this allows discussion in advance of decisions being made at the meeting.
6. The Joint Committee focuses on investor issues of the authorities and meets twice each year. It is comprised of eight members, representing each of the partner funds. This provides oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating councils.

7. To allow LGPS Central access to the authorities in a more frequent and informal setting, for example to develop investment products, a Practitioners' Advisory Forum was created. This is a working group of officers that meets on a regular basis. The forum also provides support to members of the Shareholders' Forum and Joint Committee. LGPS Central will also provide performance reports to individual Funds and, periodically, attend meetings with individual pension fund committees
8. Appendix A – provides a diagrammatic breakdown of the Governance structure

### **Shareholders Forum and Company Meeting Update**

9. A general meeting was held on 12<sup>th</sup> February 2019, preceded by a Shareholders' Forum. The following approvals were made.

10. Strategic Plan and Regulatory Capital Statement.

This includes the:

- Annual budget
- Profit and loss forecast
- Capital expenditure forecast
- Balance sheet forecast

The total operating budget was increased to £11.2m, an increase of 17.7%. This reflected inflationary pressures and growth of the business. Governance costs are charged equally to partner funds, reflecting the equal shareholding, and investment related costs are charged on the basis of assets under management. The amount payable by Leicestershire will be £0.8m.

The £2 million of capital that was provided by partner funds in January 2018 (£1.3m equity plus £0.7m debt) remains sufficient to meet regulatory requirements and is projected to be sufficient until at least March 2022.

The Cost savings forecast has been revised and remains broadly in line with the original estimate at £236 million over 15 years. The benefit to the Fund is £6 million, a slight reduction on the original forecast of £6.2 million. However, the first two product launches that the Fund has invested in have exceeded the initial cost saving estimate, which should improve the benefit to Leicestershire.

11. Increase to the Directors remuneration.

The Shareholders Agreement requires LGPS Central to seek approval of its shareholders to increase the Directors remuneration. The Board recommended that each of the Director's remuneration is increased in line with the general increase applicable to all LGPS Central staff. Some structural changes were made within LGPS Central. Where these had an impact upon Director's responsibilities and consequentially their remuneration the impact was separately presented for consideration. This matter has little direct impact on the Fund.

12. Re-appointment of John Nestor as Non-Executive Director

The appointment is for a term of three years with effect from July 2019. John Nestor was first appointed in 2017 and is Chair of the Remuneration Committee and member of the Audit Risk and Compliance and Nominations Committees.

13. Ratify Appointment of the Chief Executive Officer (CEO)

Following a recruitment process, led by the Nominations Committee of LGPS Central, Mike Weston was selected for the role of CEO. The CEO is a Board member, hence shareholder approval was required. Mike Weston is an experienced Chief Executive of an FCA regulated investment management company having recently stepped down as CEO of the Pensions Infrastructure Platform (PiP). He also has extensive knowledge of defined benefit pension schemes in his previous role's as Chief Investment Officer (CIO) at the Daily Mail and General Trust Pension Funds.

**Joint Committee Update**

14. The Joint Committee meeting took place on 21<sup>st</sup> June and a verbal update will be provided at the committee meeting on 5<sup>th</sup> July 2019. Topics covered included:
- a. Review of the Joint Committee Terms of Reference
  - b. National Picture – briefing on pooling and wider LGPS developments
  - c. Report from the Practitioners Advisory Forum
  - d. Review of the Pool Risk Register
  - e. Presentation of the Assurance Framework
  - f. LGPS Central performance/progress update:
    - Key performance indicators – 14 have been identified
    - Assets under stewardship - £17bn
    - Investment performance
    - Cost savings
    - Product Development Protocol
    - Responsible Investment & Engagement
- 15 The papers for the committee meeting can be found on the link below.  
<http://www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/lgps-central-committee/>

**Recommendation**

16. The Local Pension Committee is asked to note the report.

**Appendix**

Appendix - Outline governance structure.

**Equality and Human Rights Implications**

18. None.

**Officers to Contact**

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**Appendix**