



LOCAL PENSION BOARD – 26 APRIL 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL JOINT COMMITTEE AND ANNUAL GENERAL MEETING UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Pension Board with an update regarding LGPS Central's (Central) Joint Committee and Annual General Meetings and other relevant matters.
2. The Chair of the Audit, Risk and Compliance Committee and Non-Executive Director for LGPS Central will be in attendance for this item.

Policy Framework and Previous Decisions

3. On 15 November 2016 the Local Pension Committee approved the proposed governance structure for the investment pool that was established to manage the assets of eight Midlands-based Local Government Pension Funds. This was subsequently approved by the meeting of the County Council on 22 March 2017.
4. It was agreed that the Chairman of the Local Pension Committee should act as the Fund's representative on the Shareholders' Forum and Joint Committee.

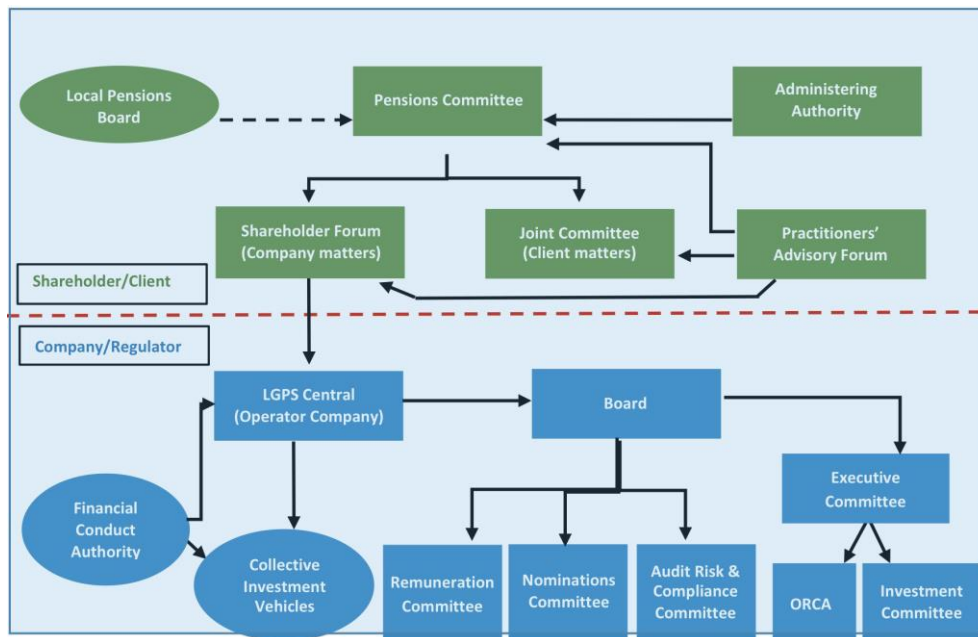
Background

5. The Government instigated the 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets. Administering authorities formed their own groups and eight asset pools were formed, which are now all operational. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to funds.
6. LGPS Central has been in operation since 1 April 2018. The Leicestershire Pension Fund (Fund) is a stakeholder from two different

perspectives:

- a co-owner of the company (shareholder); and
- a recipient of investment services.

7. These interests are managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement, Investment Statement Strategy and Conflict of Interest Policy.



8. The Joint Committee (JC) deals with the 'Investor' functions related to Fund's investment in the collective investment vehicles. The JC meets twice a year. It is comprised of eight members, representing each of the partner funds. These representatives may be different to those on the Shareholders' Forum, who are dependent on the authority.
9. The JC is a public forum for Councils within the pool which had oversight of the delivery of pool objectives, delivery of client service, delivery against the LGPS Central business case and to deal with common investor issues. It also provides assistance, guidance and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The JC does not have delegated authority to make binding decisions on behalf of the participating councils.
10. The supervisory body of Central is the Shareholders' Forum, which focuses on shareholder issues. The Shareholder's Forum includes representatives from each of the eight pension funds. The members are usually elected representatives, typically the Chairs of the Local Pension Committee, but this is at the discretion of the individual funds.

11. The Shareholders Forum meets at least twice a year to agree certain reserved matters, and 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 £5million

12. The Shareholders' Forum normally precedes general meetings of the company, allowing discussions to take place in advance of decisions being made at the meeting.

23 June 2022 Joint Committee Update

13. A virtual meeting of the JC was held on 23 June 2022 and was streamed live. It was attended by councillors and partner fund representatives as well as a number of LGPS Central employees. The Chair of the Local Pension Committee represented the Fund at the meeting.

14. There were a number of actions agreed, or reports noted which are listed below:

- Risk Register
- Scheme Advisory Board Update
- An update on the Practitioners Advisory Forum.
- LGPS Central Update: Discussion was held regarding the recruitment and retention, noting staff turnover. Central were reviewing the issue and retention and recruitment remained a high priority with a focus being given to promoting non-financial benefits, such as the nice working environment, and culture of the organisation and exciting future for LGPS Central and its funds.

27 September 2022 Shareholders Forum and Annual General Meeting Update

15. The annual general meeting was held on 27 September 2022, preceded by a Shareholders' Forum. It was attended by councillors and partner fund representatives as well as a number of LGPS Central employees. The Chair of the Local Pension Committee represented the Fund.

16. Joanne Segars, the Chair of the LGPSC Board, provided an update on the company's key themes: Fund Performance; Recruitment and Retention; Business Maturity; and The Future. An update was also provided on the recruitment of two Non-Executive Directors (NEDs) to replace two out-going NEDs, and on the governance arrangements of the company.
17. The Chairs of LGPSC's Audit, Risk and Compliance Committee, its Nomination Committee; and its Remuneration Committee also provided shareholders with updates on the work of their committees. Matters highlighted included:
- The successful completion of the AAF 01/20 report (an assurance report on the internal controls of the company) for the period from 1 Jan 2021 to 31 December 2021
 - Annual Board effectiveness review
 - NED succession planning and recruitment processes
 - Annual review of Chair and NED 'Fit and Proper Assessments'
 - Development of the Remuneration and Benefits Frameworks and Policies including assessment criteria.
18. Mike Weston, the Chief Executive Officer of LGPSC, updated shareholders on progress against the company's six focus areas for 2022-33 which are:
- Effective management of existing assets
 - Transitioning new assets into the Pool
 - Increasing the effectiveness of the company's Partner Fund relationships
 - Recruiting, motivating and retaining the 'One Central' team
 - Extending, enhancing and embedding Responsible Investment and Engagement with a particular focus on Climate
 - Continued enhancement of operational resilience
19. The Deputy Chief Executive Officer of LGPSC, John Burns, provided an update on the company's financial position and a review of the company's balance sheet, reporting that expenditure was being managed within the budget agreed by shareholders and that the level of regulatory capital currently held continues to be sufficient.
20. Eight resolutions were presented to shareholders for approval at the LGPSC Annual General Meeting, which all received unanimous approval:
- Adoption of the Company Report and Accounts for the year ended 31 March 2022. The report and accounts were subject to external audit by

Deloitte LLP who issued an unmodified opinion, meaning there were no errors or omissions that need to be rectified or disclosed in the notes to the financial statements.

- Approval of the Re-appointment of Deloitte LLP as external Auditor of the Company
- Authorisation of the Board to agree the external Auditor's remuneration
- Approval of the re-election of Directors: Joanne Segars; Eithne McManus; Susan Martin; Mike Weston and John Burns.

11 November 2022 Joint Committee Update

21. A virtual meeting of the Joint Committee (JC) was held on 11 November 2022 and streamed live. It was attended by councillors and partner fund representatives as well as a number of LGPS Central employees. The Chair of the Local Pension Committee represented the Fund at the meeting and was elected Vice-Chair. There were a number of actions agreed, or reports noted which are listed below:

- Scheme Advisory Board (SAB) Update: Among other updates the SAB had noted a long-term increase in the number of members opting out of LGPS, particularly those with over two years' service. Those affected seemed predominantly younger and lower paid members, the Board would consider whether any action can be taken to address this.
- Practitioners Advisory Forum update.
- Risk Register
- LGPS Central Update overview of fund performance, recruitment and retention, business maturity and the future.
- The Committee noted Central's Net Zero 2050 commitment, and how Central were progressing requirements to show how investment portfolios progressed towards targets set.

28 February 2023 Shareholders Forum and General Meeting Update

22. A general meeting was held on 28 February 2023, preceded by a Shareholders' Forum. The following approvals were made:

23. **Strategic Business Plan and Budget for 2023/2024 and Regulatory Capital Statement.** This includes the:

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

- Balance sheet forecast

The total operating budget increased by 12.3% from the prior year (2022/2023) to £15.2m (including £1.92m of costs driven by assets under management). This compares to an RPI figure of 12.6% (as of September 2022) which is the reference figure in the Shareholders' Agreement relating to year-on-year rollover of the budget.

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.

Key focus areas for the business were also set out:

- Existing management of existing assets
- Transitioning new assets into the pool
- Responsible investment and engagement
- Grow partner fund relationships
- Operational resilience
- Recruitment motivation and retention

24. Remuneration packaged for the Chair and Non-Executive Directors: The Shareholders agreement requires LGPS Central to seek approval of its shareholders to increase the Chair and Non-Executive Directors (NED) remuneration. The Remuneration Committee assessed criteria of the NED remuneration and ultimately recommended an overall percentage increase in line with staff remuneration costs at 6.5%. As well as an increase for those with chairing responsibilities.

25. Individual Remuneration packages for Executive Directors: The Shareholders agreement requires LGPS Central to seek approval of its shareholders for Directors' remuneration. The Remuneration Committee also considered executive directors remuneration following the Framework for Executive Directors previously agreed with Shareholders. The outcome of which recommended Executive Directors are paid within the recommended LGPS Central pay award structure.

LGPS Central Non-Executive Directors

26. LGPS Central have a total of six NEDs, and further information can be found here: <https://www.lgpscentral.co.uk/our-people/>

27. The search for the two replacements NEDs was led by the Nominations Committee, which was established by Shareholders. Its responsibilities

include recruitment of Board members and the appointment of senior executives. The Nominations Committee undertook an extensive exercise to identify suitable candidates and was outlined to the Shareholders at the Annual General Meeting on 27 September 2022.

28. Following the September AGM LGPS Central wrote to Shareholders for their approval of the two proposed NEDs to replace two outgoing NEDs whose terms of office were due to expire.
29. The two final candidates selected for the role of NED were Ciaran Barr and Ian Armfield, who will also act as Chair of the Audit, Risk and Compliance Committee. Both NEDs were ultimately appointed 1 November 2022 following shareholder approval.
30. Ian Armfield has been invited to the Local Pension Board meeting. His previous experience includes more than 40 years' experience specialising in investment, risk management and pensions. He has spent most of his working life as an audit and risk assurance partner at PWC, non-executive director and Chair of Audit Committee at Keystone Investment Trust PLC since November 2012, and a previous board director at NEST.

Resource Implications

31. The Local Pension Committee agreed the Fund's Budget of £47m for 2023/24 which includes a budget for LGPS Central of £1.216m alongside a delegation to the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, to be authorised to make minor amendments to the Fund's overall budget. The LGPS Central budget covers their governance, product development and running costs.
32. On 9 December 2022 the Chancellor announced plans for a wide-reaching review of the UK financial services sector in the Edinburgh Reforms. The announcement included reference to a consultation in early 2023 on issuing new guidance on LGPS asset pooling. As part of the Budget Report issued in March 2023 Government again confirmed that a forthcoming consultation will look to set the direction for the future structure for LGPS funds. It notes while pooling has delivered substantial benefits so far, progress needs to accelerate to deliver, and government stands ready to take further action if needed. This may result in a smaller number of pools in excess of £50bn to gain benefits of

scale, and/or expecting funds to accelerate the transfer of assets. The Fund awaits further information on timescales, approach and expectations for cost savings.

Recommendations

33. That the report be noted.

Background papers

3 March 2023 Local Pension Committee Pension Fund Business Plan and Budget 2023/23

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7202&Ver=4>

4 May 2022 Local Pension Board LGPS Central Joint Committee and Annual General Meeting Update

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&MId=6816&Ver=4>

Equality Implications/Other Impact Assessments

There are no equality implications arising from the recommendations in this report.

Human Right Implications

There are no human rights implications arising from the recommendations in this report.

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