

PENSIONS COMMITTEE

9 OCTOBER 2020

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

CENTRAL UPDATE

Recommendation

- 1. The Chief Financial Officer recommends that the LGPS Central Update be noted.**

Background

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation just over 2 years and several the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019 and its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020.

Transition of Assets

4. There are no further transitions planned at this stage but are presently looking at potential infrastructure investments with LGPS Central which was discussed in more detail at the Pensions Investment Sub Committee on the 17 September 2020 and further details will be provided at the December 2020 meeting.

LGPS Central Draft Strategic Business Plan & proposed budget for 2020/21.

5. The LGPSC budget and Strategic Business Plan for 2020/21 has now been agreed at £11.728m, an increase limited to RPI and the following principles underpin this

- 1. It represents the Company's annual permanent base budget i.e. the same figure (inflated) will be the base budget going forward.*
- 2. New requests for budget variations (such as for new products, regulatory changes or increased demand for services) will be dealt with via business cases for approval. Such business cases will be approved as now via recommendations to PAF for decision and, if approved, will be included in the Company's budget and Business Plan for the following year presented to Shareholders for approval.*
- 3. The company has the responsibility to manage within this budget to meet Partner Funds' outcomes without Partner Funds having to undertake line by line analysis.*

4. *The part year and full year cost of changes the company chooses to make to its cost base, not linked to budget variations approved as described in point 2 above, must be afforded within this base budget.*
5. *Partner funds will retain appropriate ‘open book’ access as described in the Shareholder Agreement (Clause 13.3) which provides that “LGPS Central will (subject to any requirements of the Financial Conduct Authority or its successor body) allow each shareholder and their respective authorised representatives access at all reasonable times to examine the books and records of LGPS Central”.*
6. *Partner Funds in their role as Clients will monitor performance against achievement of agreed client outcomes. Partner Funds, as Shareholders, will exercise stewardship of the company.*

The final figure was agreed after taking into account:

- *The 2019-20 full year (annualised) budget of £11.158m approved by the shareholders plus specific re-investment of £0.570m in the company*
- *Total projected costs estimated by the company including management choices impacting the cost base*
- *The level of underspend in 2019/20 still within the base budget that can be assumed, along with 2020/21 early year slippage, to provide flexibility to the company*
- *A recognition that Partner Funds/Councils are unable to continually provide additional resources other than for new products, regulatory changes or increased demand - subject to approved business cases.*
- *The need to identify a ‘quantum’ that works as a permanent base budget year on year to allow certainty for Councils and operational flexibility for the company*
- *In year underspends will continue to be dealt with as now to avoid trapped cash within the business. For the avoidance of doubt, it is not proposed that the permanent base budget be automatically adjusted for the amount of any prior year underspend or overspend*

Staffing

6. LGPSC have been looking to build resources in the Private Markets team to facilitate the launch of new sub-funds, manage Partner Funds' legacy assets, generate investment cost savings and develop the internal investment capability for the collective benefit of Partner Funds. LGPSC have finally been unsuccessful in appointing a Head of Private Markets called Ian Brown who started on the 18 September 2020. A new Passive Portfolio Manager Andrew Allison will also start shortly to add resilience and capacity to the team.

7. Michael Marshall, who was the Director for Responsible Investment & Engagement, left LGPS Central Limited on the 25 September 2020 which is a sad loss as he had ensured Responsible Investment was at the heart of all the company's products and services, and had helped build an exceptional reputation for the Pool in the RI field. Interviews are currently in process for Michael's replacement.

Cross-pool Chief Operating Officers Meeting

8. On the 23 September 2020 Mike Weston took part in a cross-pool Chief Operating Officer call with our fellow UK pension pools and were joined by the Ministry of Housing, Communities and Local Government's Head of Local Government Pensions, Teresa Clay, the civil servant who ultimately oversees pension pooling in the UK.

9. Teresa commented that there was no prospect of pooling going into reverse, that pooling was a project that was not going to be abandoned and that the alternative to current pooling isn't to halt pooling, it's more radical proposals. MHCLG are preparing further guidance and regulation on just how they would like pooling to go forward, although there is still no definitive date for this to be released.

Shareholders and Annual General Meeting (AGM) 8 September 2020

10. A shareholders meeting took place in the morning followed by the AGM in the afternoon. The AGM covered the following:

- a) Presentations of the past year activities and a forward look into 2020/21;
- b) Operating update covering regulatory capital and impact of Covid-19;
- c) Reports from the Company's sub committees and governance;
- d) Adoption of the company report and accounts for the year ended 31 March 2020;
- e) Reappointment of Deloitte LLP as external auditor of the company; and
- f) Re – election of Directors.

11. In addition, discussion took place on the company future accommodation and were looking to agree a mutually acceptable process with shareholders for identifying new accommodation and were looking to provide a resolution shortly for shareholders to agree.

Practitioner Advisory Forum (PAF) Working Groups

12. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These are

- Client Oversight and Governance Group
- Investment Working Group
- Responsible Investment Working Group
- Finance Working Group.

Review of the existing Pooling arrangements

13. Two years on from the launch of the company, the Partner Funds (PFs), as the asset owners, are looking to review progress towards investment pooling and to review their pooling objectives and their pooling arrangements. This will include:

- Confirmation of what the Pool is and who does it 'belong to' (and who should control external messages from the Pool)
- A confirmed understanding of each Partner Fund's investment beliefs
- An assessment of delivery against the Government's original pooling criteria (and any subsequent guidance/regulations), and delivery against original Partner Fund expectations.
- A review of the Pool's eight original Shared Objectives (these are currently written as objectives for the pooling company).
- Confirmation of the Pool's current aims and objectives.
- A review of the effectiveness of the Pool's governance arrangements.
- Consideration of the pooling delivery arrangement & any issues related to the delivery method.
- Partner Fund Expectations of LGPS Central Ltd.
- Identification of the factors blocking the pace and effectiveness of delivery.
- Consideration of options to move investment pooling forward

14. Three working groups have been set up (Roadmap for the Future, Governance and Trust and Confidence) with a mix of Partner Fund officers, Chief Officers and LGPSC representatives to aid the review which is looking to reach a set of conclusions and recommended actions at the end of October 2020.

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- LGPS Central business case submission to government 15 July 2016.