

# Pensions Committee

19 June 2019

<b>Report title</b>	Annual Report of the Local Pensions Board	
<b>Originating service</b>	Pension Services	
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## Recommendation for noting:

1. The Committee is asked to note the report.

## **1.0 Purpose**

- 1.1 To provide feedback to the Committee on the work undertaken by the Local Pensions Board (“the Local Board”) during 2018/19 and to meet the legislative requirement for producing an annual report.

## **2.0 Background**

- 2.1 The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.
- 2.2. The West Midlands Pension Fund created and implemented the Local Board ahead of the deadline of 1 April 2015 and has since developed an appropriate training programme and annual workplan in consideration of matters relevant to the Fund and the role of the Board.
- 2.3 In an effort to ensure continued good governance of the Fund, during the 2018/19 year the Fund engaged with the external organisation AON Hewitt to undertake a review of its governance arrangements. The review was undertaken in addition to the Local Board’s own annual review of the Terms of Reference, considering the development of practice across the LGPS, to ensure that they remain effective and relevant to their undertakings as a statutory board.
- 2.4 Key changes to the Terms of Reference included:
- Increasing the frequency of meetings to a minimum of four per year
  - Reducing the meeting quorum to four
  - Clarified expectations for meeting attendance and training- members are expected to attend a minimum of 2 meetings per year, one structured training event and attain at least 22 hours training per year.
- 2.5 Annually, the Local Board also consider their workplan for the coming year. A copy of the Local Board’s workplan for the 2019/20 year, approved in January 2019, is attached at Appendix A and aims to reflect the areas of focus for the LGPS over the coming year, together with the statutory duties of the Fund in its compliance with being a well governed Fund.

## **3.0 Board Membership and Governance**

- 3.1 During the democratic year the Local Board saw some movement in its membership with vacancies emerging for two-member representatives (now filled) and two employer representatives with one vacancy remaining under application with the relevant employer group due to be appointed in advance of the Local Board’s first meeting of the year in July 2019.
- 3.2 Following the Governance review by AON, the Fund has reviewed and revised its conflicts of interest policy for managing conflicts across the Fund (noting elected councillors have their code of conduct and public sector duties). This policy will be

presented to the Board for approval at their meeting in July and seeks to address the requirements of the Pension Regulator's Code of Practice 14 on managing conflicts of interest within the LGPS.

#### **4.0 Training**

- 4.1 The Fund has offered a number of training opportunities for Board members and, where possible, training has been delivered on the same day as Board meetings to maximise attendance and to support the delivery of topics relevant to the reporting that the Board were due to receive.
- 4.2 The Fund also endeavours to deliver joint training opportunities with the Pensions Committee to strengthen relationships across the two governance bodies. This year, in addition to the Fund's Mid-Year Review and AGM, the Local Board joined Committee members at the stakeholder event held by LGPS Central together with a joint training day in November 2018. Further joint events will be delivered during 2019-20.
- 4.3 All members are encouraged to meet their 22-hour training target to ensure that they obtain the relevant knowledge and skills required to undertake their role on the Board. Attached at Appendix B is a copy of the 2018/19 individual training hours for the Board.

#### **5.0 Reports of the Pension Board**

- 5.1 During the 2018/19 year the Board did not refer any matter to the Pensions Committee and continued its focus on Customer Engagement, Data Quality and Service Development, noting the work undertaken by the Fund to develop services available to our members and employers.
- 5.2 The Board continues to engage with their respective groups on these issues and regularly feeds back to their counterparts on key messages of the Fund, including the changes being implemented to ensure continued compliance with regulation and the ongoing development of comprehensive stakeholder engagement.
- 5.3 Throughout the year, the Board considered reports on the following topics:
- Customer Engagement
  - Data Improvement
  - Regulatory Updates within the LGPS
  - Service Development (including Digital Transformation and Exploitation)
  - Funding Management, with a focus on preparations for the 2019 Actuarial Valuation
  - Responsible Investment and Climate Change
  - Investment Pooling
  - Pensions Administration

#### **6.0 National Scheme Advisory Board Update**

- 6.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

6.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the average position from the 2018 reports, and is a useful point of reference for a variety of stakeholders.

6.3 Key LGPS Highlights for 2018 as noted by the SAB include

- The total membership of the LGPS grew by 197,000 (3.4%) to 5.8m members in 2018 from 5.6m in 2017.
- The total membership of employers increased from 14,019 in 2017 to 14,785 in 2018, an increase of just under 5.5%.
- The total assets of the LGPS increased to £275bn (a change of 5%). These assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), as well as other asset classes (7%).
- The Local Authority return on investment over 2017/2018 was 4.4%. This was reflective of the volatile market conditions during the year.
- The scheme maintained a positive cash-flow position overall. Scheme income was higher than total scheme outgoings by £500m; this is including investment income.
- Over 1.7m pensioners were paid over the year, a 6.3% increase from 2017.

6.4 In comparison, WMPF's (Main Fund) highlights for the year to 31 March 2018 show

- The total membership grew from 302,902 to 313,399 (3.5%)
- Employers increased from 605 to 623 (2.98%)
- The Fund's total assets increased from £14.2billion to £15.2 billion (7%)
- The total number of pensioners paid during the year was 91,741 an increase of 4.28% from 2017.

6.5 For the West Midlands Integrated Transport Authority Fund it is difficult to use the national average as a comparator due to the closed status of the Fund and it having only 2 employers. The majority of those members are in receipt of their pension benefits with just over half being supported by the purchase of an annuity buy-in contract held in the name of the Fund.

6.6 Throughout the year, the Scheme Advisory Board has issued a number of communications reporting on the outcomes of their meetings and delivery of their own workplan all of which have been presented to the Local Board and Committee in update reports at formal meetings and through the Fund's media round-up communication. Copies of all SAB meeting papers are available on their website [www.lgpsboard.org.uk](http://www.lgpsboard.org.uk)

## 7.0 Costs

7.1 The cost of operating and supporting the Local Pensions Board is absorbed into the Fund Governance budget and existing officer workload.

7.2 To support the work of the Scheme Advisory Board, all LGPS Funds are required to pay a levy based on membership numbers. For 2017/18 that levy was £24,106 (excluding VAT), which the Fund has paid as due.

## **8.0 Forward Plan for 2018/19**

8.1 In considering the work of the Local Board going forward to ensure the continued good governance of the scheme, the Fund has reviewed the workplan of the Scheme Advisory Board, together with the Pension Regulator's Corporate Plan. Throughout the year the workplan of the Local Board will likely evolve in response to any changes to statutory guidance and in response to any confirmed scheme or regulatory changes emerging during the year. The Local Board themselves may also add items as they review the Fund's governance in line with their statutory duty.

## **9.0 Financial implications**

9.1 As outlined in the report

## **10.0 Legal implications**

10.1 The Fund is required to have a Local Pensions Board as set out in the Public Service Pensions Act 2013 which also required the Fund to produce an annual report on the work of the Board.

## **11.0 Equalities implications**

11.1 There are no implications

## **12.0 Environmental implications**

12.1 There are no implications.

## **13.0 Human resources implications**

13.1 There are no implications

## **14.0 Corporate landlord implications**

14.1 There are no implications

## **15.0 Schedule of background papers**

15.1 Public Service Pensions Act 2013

<https://www.legislation.gov.uk/ukpga/2013/25/contents>

- 15.2 The Pension Regulator's Corporate Plan 2019 – 2022  
<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/corporate-plan-2019-2022.ashx>
- 15.3 LGPS Scheme Advisory Report 2018  
<http://lgpsboard.org/index.php/2018-foreword>
- 15.4 Pension Regulator's Code of Practice for Public Sector Pensions Schemes  
<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>

## **16.0 Schedule of Appendices**

- 16.1 Appendix A: Pension Board workplan 2019/20 year
- 16.2 Appendix B: Local Pension Board individual training hours 2018/19