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| <b>Report title</b>                        | Local Pensions Board Annual Governance Report |  |
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**Recommendation for action:**

The Pensions Committee is asked to note:

1. The Committee is asked to note the report, prepared annually in order to meet the legislative requirement for recording the work of the Local Pensions Board.

## **1.0 Purpose**

- 1.1 To inform the Committee on the work undertaken by the Local Pensions Board (“the Board”) during the 2021-22 municipal year 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 Pensions Board ahead of the deadline of the 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.

## **3.0 Board Membership**

- 3.1 The Board undertook its annual nomination process during July 2021 where Joe McCormick, the Board’s academy representative, was re-appointed for a second term. The Board also appointed a second Academy Representative, Steve Smith, as an observer member, recognising the strength of Steve’s application, the growing number of academies in the Fund’s employer base and potential for future turnover among employer representatives on the Board.
- 3.2 With the exception of the annual appointments undertaken at the start of the municipal year Board membership has been stable, with a full complement of Board members in place throughout the year. At their meeting on 26 April 2022 the Board agreed to revise its terms of reference and appointments policy so that recruitment and nominations would take place biennially (rather than annually) to allow the Board to retain knowledge and skills and in light of the delay and ongoing increase in regulatory changes anticipated throughout this year. Therefore, a nomination process will not take place during 2022/23 unless a vacancy occurs naturally.

## **4.0 Training**

- 4.1 The Fund offered a number of both face-to-face and virtual training opportunities for Board members over 2021/22, to add ongoing development of knowledge and skills relevant to the broad range of topics and information report and discussed at Board meetings. A wide range of reading material has also been signposted to include relevant briefings and updates prepared by the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) and the Pensions Regulator.
- 4.2 The Fund endeavoured to deliver joint training opportunities alongside the Pensions Committee to continue to build and strengthen relationships across the two governing bodies. During the 2020/21 year, in addition to the Fund’s virtual Mid-Year Review, the

Board were invited to attend a Responsible Investment Summit held by the Fund's Investment Pooling Company, LGPS Central, as well as joint training events hosted by the Fund in October and March 2021. The Fund will look to continue this collaborative training over 2022/23 year, as well as responding to individual requirements and requests received through member feedback.

- 4.3 Board members have continued to have access to a wide variety of reference and training materials including briefing notes and media updates, through continued use and update of a dedicated online learning platform available to both Pensions Committee and Local Pensions Board members, which also hosts governance documents, handbooks, and training materials.
- 4.4 All members are encouraged to meet their training target to ensure that they obtain the relevant knowledge and skills required to undertake their role on the Board. Attached in Appendix A is a copy of the 2021/22 individual training hours recorded for members of the Board as at 30 April 2022.

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

- 5.1 During 2021/22 the Board did not refer any matter to the Pensions Committee and continued its focus on Customer Engagement, Risk Management, Service Development and Investment Governance. The Board continued to consider customer engagement and service provision through both periods of restrictions due to the pandemic and the return of face-to-face events, working with officers to ensure support and information was available to members, as well as working with Fund's employers to support and understand matters of interest and relevance across the employer-base and to differing sectors within.
- 5.2 The Board also considered the impact of LGPS regulatory changes on the Fund, continuing to engage with their respective groups on these issues and regularly informing their counterparts on key messages of the Fund, including the changes being implemented to ensure continued compliance with regulation, including, for example, the pending McCloud remedy.
- 5.3 Throughout the year, the Board considered reports on the following topics:
- Customer Engagement
  - Pensions Administration
  - Governance and Assurance, including monitoring of Key Performance Indicators and Risk Management
  - Impact of changes to regulations
  - Service Development
  - Funding Management
  - Responsible Investment and Climate Change
  - Investment Governance
  - Funding Valuation

## **6.0 Reports of the LGPS Pension Board**

6.1 In line with its Regulatory duty, the national SAB has every year since 2013 produced 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 reports and accounts of the LGPS Funds across England and Wales. It is therefore produced retrospectively each year. The latest report, published June 2022, highlights the aggregated position from individual LGPS Fund 2021 annual reports and provides a useful point of reference for a variety of stakeholders.

6.3 The LGPS highlights for 2021 as noted by SAB (covering LGPS England & Wales) include;

- The total membership of the LGPS grew by 66,624 (1.08%) to 6.226m members in 2021 from 6.16m in 2020
- The total number of active LGPS employers in 2021 was over 14,448.
- The total assets of the LGPS increased to £342bn (change of 23.4%) during 2021.
- The net investment return on these assets (after fees) as at 31 March 2021 was 20.56%, reflecting market conditions during the year.
- The Scheme held a positive cash-flow position in 2020, including investment income.
- The most recent Scheme funding level, aggregated across local valuations, remains at 98% (2019 valuation)

6.4 In comparison, the Fund's highlights for the year to 31 March 2021 show;

- The total membership grew from 333,934 to 335,101 (0.4%)
- Employers increased from 704 to 743 (5.2%)
- The Fund's total assets increased from £15.3 billion to £18.91 billion (20%), reflecting the market recovery post the Covid pandemic
- The Fund's local funding level was 94% (2019 valuation)

6.5 Throughout the year, the SAB 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 Pension Board and Committee in update reports at formal meetings, through training events or communication roundups.

6.6 The SAB is undertaking a "forward look" to agree its future strategic priorities following the appointment of new Board secretariat earlier this year and its workplan for 2022/23 is expected to be published in due course.

## **7.0 Costs**

7.1 The cost of operating and supporting the Local Pensions Board is included within the Fund's annual budget as part of the Good Governance of the Fund.

7.2 To support the work of the SAB, all LGPS Funds are required to pay a levy based on membership numbers. For 2021/22 that levy was £29,632 (excluding VAT), which the Fund has paid as due.

## **8.0 Forward Plan for 2022/23**

8.1 In considering the work of the Local Pensions Board going forward to ensure the continued good governance of the Scheme, areas of focus for 2022/23 will continue to be focused around effective governance, customer engagement, regulatory change, service delivery and operational resilience to ensure the Fund is able to adapt and respond to the changing demands of service from its customers and to the changing regulatory landscape of the LGPS. The Board themselves may also add items as they review the Fund's governance in line with their statutory duty.

8.2 The Board will also continue to monitor delivery of the Fund's Corporate Plan 2022 – 27, having supported the Pensions Committee and officers to shape the goals and objectives of the Fund and to develop its areas of focus to support the achievement of those goals, as outlined below;

- People and Customers – ensuring we provide an inclusive and supportive working environment and create opportunities to build careers, securing future knowledge and skills.
- Corporate Communications – increasing accessibility to the Fund's support services and engaging wider stakeholders in the Fund's stewardship and partnership activity.
- Compliance and Risk – building and maintaining integrated assurance to instil confidence in our outcomes.
- Operational Resilience – ensuring that the Fund is able to flex, adapt and successfully respond to change.
- Investment Implementation – continuing to build a long-term, diverse portfolio with the ability to withstand volatility in markets.
- Stewardship – ongoing review and reporting to demonstrate that our outcomes are aligned to our stewardship ambitions, which seek to invest for real world change.
- Corporate Responsibility – to ensure that we are developing our own organisation in line with the standards that we set for others.

## **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 requires the Fund to produce an annual report on the work of the Board.

## **11.0 Equalities Implications**

11.1 There are no direct equalities implications.

## **12.0 All Other Implications**

12.1 There are no other direct implications to consider.

## **13.0 Schedule of Background Papers**

13.1 Scheme Advisory Board, Annual Report 2021

<https://lgpsboard.org/index.php/schemedata/scheme-annual-report>

13.2 Scheme Advisory Board meeting papers are available on their website.

[www.lgpsboard.org](http://www.lgpsboard.org)

## **14.0 Schedule of Appendices**

14.1 Appendix A – Local Pensions Board Training Hours