

DERBYSHIRE COUNTY COUNCIL

COUNCIL

9 October 2019

**Report of the Executive Director for
Commissioning, Communities and Policy**

LGPS CENTRAL POOL GOVERNANCE ARRANGEMENTS

1 Purpose of the Report

To seek approval for changes to the governance arrangements of Derbyshire Pension Fund with respect to the LGPS Central Pool.

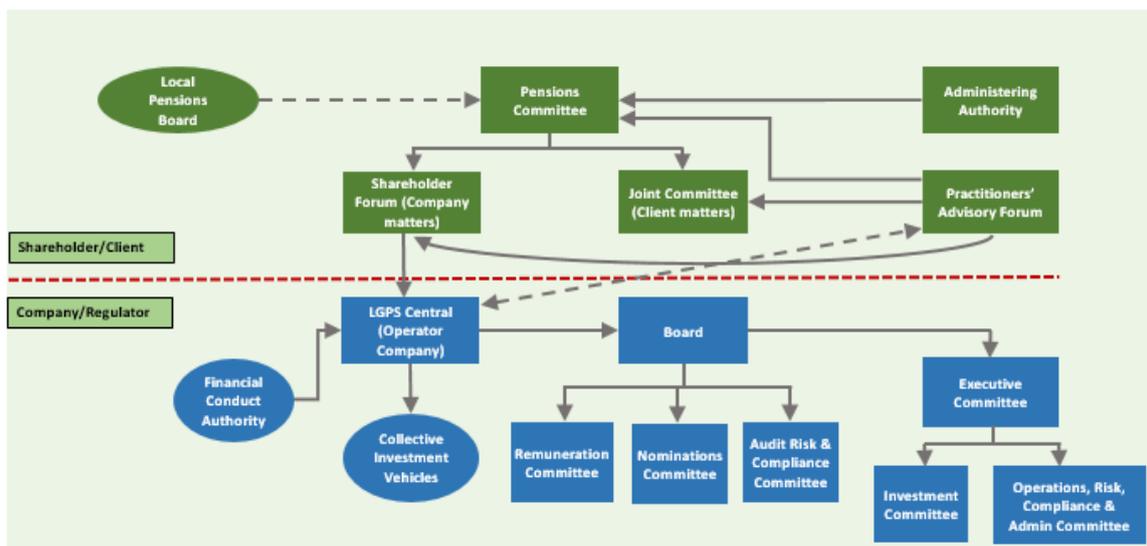
2 Information and Analysis

At a meeting of full Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016: to be overseen by a Joint Committee established under s102 of the Local Government Act 1972 and a Shareholders' Forum made up of representatives from all the shareholding councils.

LGPS Central Limited (LGPSC/the company) has been established to manage the investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above, together with the investments of the West Midlands Integrated Transport Authority Pension Fund, with combined assets under management of around £45bn at the end of March 2019.

The governance arrangements of the LGPS Central Pool (the Pool) are set out in the chart overleaf:

LGPS Central Pool Governance Arrangements



2.1 Shareholders' Forum

The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the shareholding councils within the Pool. The Shareholders' Forum is independent of the company and its meetings are distinct from company meetings, however members of the Shareholders' Forum also represent the councils at company meetings.

The shareholding councils are individual investors in the company and each council has in place local arrangements to enable its shareholder representative to vote at company meetings. A Shareholders' Agreement ensures that the councils act in a unified way, having agreed to a common set of principles, with collective shareholder discussions taking place in the Shareholders' Forum.

Derbyshire Council County is a shareholder in LGPSC as the administering authority of Derbyshire Pension Fund; Derbyshire's share of all costs relating to LGPSC are met from the Pension Fund.

LGPSC was set up as a 'Teckal' company in order to satisfy the exemption criteria in regulation 12 of the Public Contracts Regulations 2015 and thereby avoid the need for a full procurement exercise to procure the services of the company. In order to meet the test for the Teckal exemption, the shareholders are expected to exercise a high level of control.

Certain reserved matters are set out in the Shareholders' Agreement which require unanimous shareholder decisions. These include, in the main, appointing and removing Directors, the admission of new joiners to the Pool, approving strategic plans, approving accounts and audits, and decisions on

borrowing/lending powers. Other matters not directly related to the control of the company but to manage its operation, are subject to a majority approval (75%) and these include payments of dividends and entering into lease agreements/ capital expenditure.

It was agreed at the Council meeting in February 2017, that the Chair of the Pensions and Investments Committee (the Committee) would represent the Council on the Shareholders' Forum. Subsequently, it was agreed, at a meeting of the Pensions and Investments Committee in June 2017, to delegate authority to the Director of Finance and ICT to make decisions, in consultation with the Chair of the Committee, on any matter which requires a decision by the shareholders of LGPSC.

In order to develop further the Council's oversight of the company and enable greater immediate challenge on increasingly complex matters at company meetings, it is recommended that the Director of Finance & ICT, or his nominee, should represent Derbyshire County Council on the Pool's Shareholders' Forum with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC. All decisions made by the Director of Finance & ICT using his delegated powers would be reported to the following meeting of the Pensions and Investments Committee.

Article 12 of the Council's Constitution, adopted in May 2019, sets out the Pensions and Investments Committee's role in overseeing the Pension Fund's involvement in investment pooling as follows:

- Ensure that the Fund is effectively represented in the Pool's governance structure
- Determine what is required from the Pool to enable the Fund to deliver its Investment Strategy
- Be responsible for the selection, appointment and dismissal of an investment pooling operator (the Operator) to manage the Fund's assets
- Monitor the performance and effectiveness of the Operator both as a shareholder in the Operator and as an investor in the Operator's products
- Ensure that appropriate measures are in place to monitor and report on the ongoing costs and cost savings of investment pooling
- Ensure that the responsible investment, corporate governance and voting policies of the Fund are delivered effectively
- Receive and consider reports and recommendations from the Pool's Joint Committee, Shareholders' Forum and Practitioners' Advisory Forum

2.2 Joint Committee

The Joint Committee is a public forum for the Councils within the Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool's business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual councils within the Pool and does not have delegated authority to make binding decisions on behalf of the participating councils.

It was agreed at the Council meeting in February 2017, that the Vice Chair of the Pensions and Investments Committee would represent the Council on the Joint Committee in order to maintain clarity over the governance arrangements. Further to the proposed change to the Council's Shareholder Forum representative, it is recommended that the Chair of the Pensions and Investments Committee, or his nominee, should represent the Council on the Pool's Joint Committee.

3 Other Considerations

In preparing this report the relevance of the following further factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

4 Officer's Recommendation

That Council appoints:

- 4.1** the Director of Finance & ICT, or his nominee, to represent Derbyshire County Council on the LGPS Central Shareholders' Forum with delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPS Central Limited.
- 4.2** the Chair of the Pensions and Investments Committee, or his nominee, to represent Derbyshire County Council on the LGPS Central Joint Committee.

EMMA ALEXANDER

Executive Director for Commissioning, Communities and Policy