

PENSIONS COMMITTEE**26 SEPTEMBER 2023**

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION: NEXT STEPS ON INVESTMENTS
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Pensions Committee with details of a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) seeking views on the Local Government Pension Scheme's (LGPS) "next steps on investments" and seeks comment on and approval for the proposed response which has been prepared by officers.

RECOMMENDATION/S

That the Pensions Committee be recommended to consider and comment on the report and approve a response to the consultation subject to any additional suggestions from the Local Pension Board to which the Director of Pensions may agree in consultation with the Chair.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The consultation was issued on 11 July 2023 and closes on 2 October 2023 which only provides time for a report to be prepared for this Committee. As an important area of policy, it is important that Pensions Committee is informed of the consultation and has an opportunity to review and contribute to the Fund's response before it is issued.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The option not to respond to the consultation was considered but was dismissed in view of the materiality of the subject matter and the implications of the anticipated requirements on LGPS funds.

3.0 BACKGROUND INFORMATION

- 3.1 A consultation from DLUHC on LGPS investment matters has been anticipated for some time. The consultation is framed to cover the following areas:

1. Asset Pooling in the LGPS
2. LGPS investments and levelling up
3. Investment opportunities in private equity
4. Provision of investment consultancy services
5. Updating the LGPS definition of investments

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the Investment Strategy Statement (ISS):

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy.

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark and, if so, how this requirement should operate.

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the Competition & Markets Authority (CMA) order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition.

3.2 Response to the consultation.

MPF's response is attached at appendix 1. In principle, Merseyside Pension Fund (MPF) is supportive of the overall intentions of the consultation. As set out in the consultation, across the LGPS in aggregate, pooling is delivering benefits in the areas of improved net returns, more effective governance of investments, increased savings and access to more asset classes. In general, MPF has responded on those matters of particular relevance to it, rather than matters affecting other LGPS funds.

Good governance is fundamental to the success of any initiative. For effective delivery of investment pooling, it is important that the roles of the investment pools and LGPS funds are clarified and aligned appropriately and we are supportive of revised guidance setting clear standards on how pools and partner funds should interact. We note that opportunity was not taken to include in this consultation proposals to implement the recommendations contained in the action plan relating to the Scheme Advisory Board's Good Governance in the LGPS project. We would encourage the department to address this matter as a priority.

In considering its response, MPF has taken into account the fiduciary duty LGPS funds have to their members and employers to invest in assets with an appropriate risk profile, so they can fulfil the promise of paying pensions when they fall due. The responsibility and risk of investments remains at a Fund level, which means Funds are responsible for all investment decisions made by the pool.

With regard to the proposed 5% ambition for levelling up investments and the 10% ambition for investments in private equity, MPF already has more than 8% at work in levelling up investments and around 10% in private equity. However, these allocations have arisen from MPF's assessment of opportunities in private markets as part of our strategic allocation design, based on our appetite for risk and return. This is typically best practice across private and public sector pension funds. Strategic allocations are reviewed periodically, and for some LGPS Funds investments in these assets will make more sense than for others. Due to this, and the fact that suggesting a specific target allocation will impinge upon pension funds' fiduciary duty, MPF does not agree that 'ambition' targets should be set. Indeed, based on our experience, we suggest the emphasis should be on growth capital in private markets as a whole instead of private equity alone. Having a focus on 'private capital' allows pension funds to build private market portfolios which suit their own circumstances, rather than limiting options to a more narrowly defined and therefore potentially crowded part of the market with greater volatility.

The consultation brings additional reporting requirements and MPF is keen that reporting consistent with other LGPS reporting requirements should be adopted wherever possible to reduce the resourcing burden.

3.3 Levelling Up Definition

Proposed definition of levelling up involves twelve medium-term levelling up missions:

1. Living Standards
2. Research & Development
3. Transport
4. Digital Connectivity
5. Education
6. Skills
7. Health
8. Well-Being
9. Pride in Place
10. Housing
11. Crime
12. Local Leadership

- 3.7 It is intended that responses will be submitted in respect of the Northern LGPS Investment Pool (NLGPS) and for the Fund. Officers of the Fund have been working with their pooling colleagues to agree a response on behalf of NLGPS which closely mirrors the Fund's response. At the time of writing, the Pool's response was not available.

4.0 FINANCIAL IMPLICATIONS

- 4.1 As drafted, the consultation has limited immediate financial implications for MPF (although this is not necessarily the case for other LGPS funds). Membership of the Northern LGPS Investment Pool (NLGPS) has enabled MPF to deliver on the

original pooling objectives particularly in reducing fees in higher cost areas of investment such as private markets where investments in GLIL and the Northern Private Equity Pool have delivered significant savings, improved governance and resilience.

The Joint Committee structure adopted by NLGPS has obviated the need to establish a Financial Conduct Authority (FCA) regulated Pool company which other LGPS pools require. As drafted, the consultation does not affect this arrangement but should this change in the guidance in relation to the categorisation of assets, then substantial costs would be incurred in establishing an FCA regulated entity.

5.0 LEGAL IMPLICATIONS

- 5.1 Following the consultation, statutory guidance will be issued. The consultation states that government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction (under regulation 8 the LGPS (Management and Investment of Funds) Regulations 2016) is appropriate. Examples of activities which could result in in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The extensive reporting requirements will place additional demands on the Fund at a fund and pool level. These will be assessed and, where quantifiable, included in the subsequent reports to this Committee.

7.0 RELEVANT RISKS

- 7.1 A failure to provide Pensions Committee with information on legislative changes and the Fund's activities could hinder the Committee in fulfilling its statutory duties.
- 7.2 Following the consultation, statutory guidance will be issued. The consultation states that government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction (under regulation 8 the LGPS (Management and Investment of Funds) Regulations 2016) is appropriate. Examples of activities which could result in in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The Fund is consulting with its pool partner funds and the Pension Board in the preparation of this report.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising from this report. DLUHC have made an initial assessment under the duty and do not believe there would be impacts on protected groups from the proposals in this consultation, as they do not affect member contributions or benefits.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 None arising directly from the report. The consultation recognises the potential for pooling to “ensure the LGPS punches its weight on responsible investment, management of climate risks....[by] strengthening existing partnerships”. The NLGPS has a Responsible Investment policy which explicitly addresses environment and climate implications as financially material to the long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.0 There are none arising directly from this report. The levelling up proposals contained in the consultation may result in greater investment in deprived areas of the UK.

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APPENDICES

Appendix 1 Draft Response to consultation

BACKGROUND PAPERS

DLUHC Consultation Next Steps on Investment

<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments>

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section a of its Terms of Reference:

- (a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	15.09.22 22.06.21