



LOCAL PENSION BOARD

27 MARCH 2024

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

REPORT SUMMARY

This report provides the Local Pension Board with details of the response to a consultation by the Department for Levelling Up, Housing & Communities (DLUHC) which sought views on the Local Government Pension Scheme's (LGPS) "next steps on investments".

RECOMMENDATION/S

That the Local Pension Board be recommended to consider and note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 As an important area of policy, it is important that the Local Pension Board is informed of the progress of the consultation.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant to this report. It is an important area of policy on which the Local Pension Board should be informed.

3.0 BACKGROUND INFORMATION

- 3.1 The consultation asked 15 questions, seeking views on proposals in 5 areas:

1. **Accelerating and expanding pooling**, with administering authorities confirming how they are investing their funds and why. While Government state that pooling has delivered substantial benefits so far, it believes that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. A deadline for asset transition by March 2025 is proposed, and Government notes it will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, Government wants to see a transition towards fewer pools to maximise benefits of scale.
2. **Requiring LGPS funds to have a plan to invest up to 5% of assets to support levelling up in the UK**, as announced in the Levelling Up White Paper (LUWP). The consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
3. **An ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity**. Government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
4. Proposed amendments to the LGPS Regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA).
5. A technical change to the definition of investments within LGPS regulations.

- 3.2 The Northern LGPS (NLGPS) issued a response to the consultation, as did each of the three partner funds. The NLGPS response is attached at Appendix A.

3.3 The NLGPS response repeats many of the messages from the response to the 2019 consultation, in particular:

- Government needs to focus on delivering successful outcomes.
- LGPS funds are diverse – a ‘one size fits all’ approach is not appropriate.
- Funds’ fiduciary duty is paramount.

3.4 In addition, the response makes the following points:

- Consistent reporting across funds and pools, whilst a worthwhile goal, is much more difficult than it sounds.
- NLGPS Pool is supportive of greater cross-pool collaboration.
- Long-term benefits of pool merger unlikely to outweigh short term disruption.
- Pools must deliver funds’ strategic asset allocation.
- Concerns regarding the conflicts of interest from Pools advising funds and individual funds’ ability (or lack of) to influence Pools.

3.5 CONSULTATION OUTCOME

Alongside the Chancellor’s Autumn Statement, the response to the “next steps on investments” consultation was published by DLUHC on 22 November 2023. The consultation largely adopts the measures the Government originally consulted on despite significant negative feedback to several of the proposals.

3.6 The measures the Government is due to adopt are to:

1. set out in revised Investment Strategy Statement (ISS) guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled;
2. revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation;
3. implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy;
4. revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark;
5. make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling;
6. 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;
7. revise ISS guidance to require funds to consider investments to meet the government’s ambition of a 10% allocation to private equity.

- 3.7 The Directors of the three NLGPS Partner Funds recently met with the lead Civil Servant for the LGPS at the Department for Levelling Up, Housing and Communities (DLUHC) to discuss the measures and their potential implications for the NLGPS. Whilst it is clear that DLUHC's preferred model of pooling will be very different to NLGPS, indications are that Government will take more of a 'comply or explain' approach to this than seeking to use its direction powers under the LGPS Investment Regulations.
- 3.8 Much of the detail will be set out in statutory guidance which will not be released for several months. In the meantime, whilst no immediate changes to the operation of NLGPS appear to be required as a result of the consultation being finalised, it may be a good time for the NLGPS Pool and its stakeholders to consider the strategic direction of the Pool.
- 3.9 Both the Pool and individual funds will need to consider whether any changes to their reporting of pooling activity is required in light of the consultation proposals. The consultation also indicates that DLUHC will monitor fund annual reports whilst preparing further guidance.

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.
- 4.2 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 response, 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 Committee and Board.

7.0 RELEVANT RISKS

- 7.1 A failure to provide the Local Pension Board 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 consulted 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

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 Response to consultation

The PDF file may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact peterwallach@wirral.gov.uk if you would like this document in an accessible format.

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>

DLUHC Response to next steps on investment consultation

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

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	26.09.23
	15.09.22
	22.06.21