

PENSIONS COMMITTEE**9 DECEMBER 2024**

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME CONSULTATION: FIT FOR THE FUTURE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with details of a consultation recently instigated by the Ministry of Housing, Communities and Local Government in relation to the investments of the Local Government Pension Scheme (LGPS).

RECOMMENDATION/S

That the Pensions Committee be recommended to:

1. note the report and the implications of the consultation on MPF and the Northern LGPS.
2. to authorise the Director of Pensions, in consultation with party spokespersons, to respond to the consultation on behalf of Merseyside Pension Fund.
3. to authorise the Director of Pensions, in consultation with party spokespersons, to work with the Northern LGPS (NLGPS) Investment Pool to prepare a report by 1 March setting out how NLGPS proposes to deliver the requirement for an FCA regulated investment manager.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 The consultation has been issued for a period of nine weeks with a closing date of 15 January 2025. In view of the constrained timeline, there has not been an opportunity to prepare a response for this Committee. The consultation has been on the agenda at recent Fund events which has given Members the opportunity to be informed of the potential implications.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing Pensions Committee of legislative developments.

3.0 BACKGROUND INFORMATION

- 3.1 At this Committee in September, the Director of Pensions tabled a report informing Members of the landmark pensions review launched by the Chancellor on 4 September.
- 3.2 Following the Chancellor's Mansion House speech, an interim report of the Pensions Investment Review was issued together with consultations on proposals for changes within Defined Contribution pensions and Local Government Pension Scheme (LGPS) the Local Government Pension Scheme (LGPS). A summary of the proposals contained in the 'Fit for the future' consultation are set out below and a copy of the consultation is attached as an appendix to this report.
- 3.3 The consultation seeks views on proposals to strengthen the management of LGPS investments in three areas:
- 3.4 Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:
- Administering Authorities (AA) would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;
 - Pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
 - AAs would be required to transfer legacy assets to the management of the pool.
- 3.4 Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:
- Set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities:

- To work with local authorities, Combine Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities;
 - To set out their local investment and its impact in their annual reports.
- 3.5 Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.
- 3.6 Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review.
- Committee members would be required to have appropriate knowledge and skills;
 - AAs would be required to publish a governance and training policy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
 - Pool boards would be required to include representatives of their shareholders and to improve transparency.
- 3.7 In addition to considering the proposals in the consultation, asset pools, working with their partner AAs, are invited to submit a separate proposal, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted. Government is proposing an indicative timeline to move to the new model of March 2026.
- 3.8 Each pool is invited to demonstrate a clear path to meeting the requirements outlined in the consultation document. In their reports, pools will be expected to provide clear evidence that they are able to capture the advantages of managing assets at a very large scale. Proposals are expected to be submitted by 1 March 2025.
- 3.9 Members attending recent events such as the Annual Employers Conference and the Northern LGPS stakeholder day have received presentations on the consultation and an opportunity to consider and discuss the potential implications.
- 3.10 The timelines for responses to the consultation and the establishment of a new pooling model are very stretching and officers are already developing and evaluating options in order for Members to assess the most appropriate course of action for MPF and for the Northern LGPS.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Until a course of action is approved by Committee, the financial implications are unknown. The costs of establishing an FCA regulated entity will be material. Equally, the costs of transitioning assets to pooled funds within an FCA regulated entity will also be very considerable. Government have indicated that these requirements will be legislated and therefore MPF will need to realign its arrangements accordingly.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority's solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.
- 5.2 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 None arising directly from this report. The pool changes will have a direct effect on the majority of the Fund's internal investment team.

7.0 RELEVANT RISKS

- 7.1 There are none arising directly from this report. Further consolidation of LGPS funds and pools may materially increase operational and governance demands across the scheme.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The terms of reference of the Government's pension review confirms the intent to "consult widely" and will seek views from "employers, trade unions, the pensions industry, financial services, local government and consumer voices".

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.
- 9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpsequalitystatement>
- 9.3 MHCLG and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are none arising directly from this report. The consultation indicates that responsible investment policy will remain with LGPS funds but investment stewardship will be a pool responsibility.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none directly arising from this report.

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APPENDIX

LGPS consultation: Fit for the future: <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future>

BACKGROUND PAPERS

HM Treasury, DWP and MHCLG

<https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence/https://www.gov.uk/government/publications/pensions-investment-review-interim-report>

TERMS OF REFERENCE

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

- (d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

Subject History (last 3 years)

Council Meeting	Date