



## **PENSIONS COMMITTEE**

**9 DECEMBER 2024**

<b>REPORT TITLE:</b>	<b>PENSIONS INVESTMENT REVIEW: CALL FOR EVIDENCE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

### **REPORT SUMMARY**

This report informs Members of a pensions review, launched by the Chancellor, with the objective of boosting investment, increasing saver returns and tackling waste in the pensions system.

### **RECOMMENDATION/S**

That the Pensions Committee be recommended to note the report and that the Director of Pensions in consultation with the Chair be authorised to approve a response to the call for evidence on behalf of the Fund and with the directors of Greater Manchester and West Yorkshire pension Funds on behalf of the Northern LGPS Investment Pool.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 The review specifies that the Local Government Pension Scheme (LGPS) falls within the scope of the review. There is a requirement for the Pensions Committee to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in its capacity as Scheme Manager.

### **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 On 4 September, the Chancellor launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution (DC) workplace schemes and the Local Government Pension Scheme.
- 3.2 In its initial stages the review will be considering evidence on a range of questions including those listed below. These are intended to guide government's stakeholder engagement with more targeted questions being considered with particular stakeholder groups. The review intends to engage extensively with stakeholders via meetings and workshops but would also welcome written submissions from relevant organisations and individuals on these topics.
- 3.3 The call for evidence notes that asset pooling policy in the Local Government Pension Scheme in England & Wales was consulted on in 2023. This was the "LGPS next steps on investment consultation" to which MPF responded in October 2023. In addition to the request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions. With regard to investing in the UK, the questions set out below are applied to both DC and LGPS funds, and where relevant stakeholders should feel free to make submissions focused solely on the LGPS or solely on DC. Apart from the LGPS, the rest of the defined benefit market is out of scope of this review.
- 3.4 **Scale and consolidation**
1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?
  2. What should the role of Single Employer Trusts be in a more consolidated future DC market?

3. What should the relative role of master trusts and group personal pensions (GPPs) be in the future pensions landscape? How do the roles and responsibilities of trustees and independent governance committees (IGCs) compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?
4. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?
5. To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

### **3.5 Costs vs value**

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?
2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

### **3.6 Investing in the UK**

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?
2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?
3. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

- 3.7 The call for evidence was only issued on 4 September and closes on 25 September. It is intended to be discussed at the Investment Monitoring Working Party on 18 September and the Director will provide a verbal update at Pensions Committee outlining the principal considerations of the proposed response.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 Proposed LGPS consolidation as part of the 'Government Landmark Pension Review' to further reduce fees, may result in changes to government's view of pool size and accelerated pooling of mandates if progress is not made by March 2025.
- 4.2 The Government's Pension review is intended to unlock at pace the £360 billion investment potential of the LGPS in UK-based "productive assets".
- 4.3 The Scheme Advisory Board's decision to not recommend any changes to the benefit structure following the scheme cost assessment, provides a known position for the Fund's actuary as he prepares for the upcoming triennial 2025 valuation.

#### **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 The proposal to separate the pension fund from the host authority's audit may open the market for more specialist external audit firms to engage on pension fund accounts. This has the potential to improve the quality of pension audits and for providing better value for money and cost savings.
- 6.2 The separation of the audit exercise will have a positive impact on the timely publication of pension fund accounts and pension fund annual reports with the latest documented evidence that 80% of Scottish and Welsh funds managed to publish audited pension fund accounts on or before 1st December 2021, whilst in England only 17% of audited pension fund annual reports were published by the same date.

#### **7.0 RELEVANT RISKS**

- 7.1 There is a material risk that further consolidation of LGPS funds and pools may significantly 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.

## 11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 There are none directly arising from this report.

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## BACKGROUND PAPERS

HM Treasury, DWP and MHCLG

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

## 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