



Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director - Resources

Report to:	Pensions Committee
Date:	11 January 2024
Subject:	DLUHC Pooling Consultation and Transition Plan Report

Summary:

This report brings to the Pensions Committee DLUHC's response to their pooling consultation – "Next Steps on Investments" and sets out how the Fund intends to address the requirements set out.

Recommendation(s):

That the Committee consider the report and discuss DLUHC's consultation response and the Fund's transition plan.

Background

- 1 The Government opened a consultation on asset pooling titled "Next steps on investments" in July 2023, as reported previously to the Committee, and the Fund's response was shared at the September meeting. In total, 152 responses were received from the sector, and the Government published its response on 22 November 2023. This response can be found in full at [Local Government Pension Scheme \(England and Wales\): Next steps on investments - government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response).
- 2 After having considered the responses, the government has decided to implement the proposals set out in the consultation to accelerate and expand pooling, and to increase investment in levelling up and in private equity. In terms of timescale, the Government has indicated its intention to develop the associated Guidance by the summer. The Government has previously stated that if an individual Fund doesn't meet this policy intent, their position as an Administering Authority can be removed through existing powers.
- 3 The key areas within the response are set out below, with narrative on the sectors responses and how the Fund will meet these requirements.

Pooling of assets

- 4 To *“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.”*
- 5 The Government wants focus “in the short term” to remain on accelerating the transition of assets, improving governance, transparency and accountability. Anticipating the LGPS will reach £950bn assets in 2040, Government wants to see fewer pools averaging £200bn and will consider the pathway to achieving that. In the meantime, Government wishes to see collaboration between pools and consider specialisation.
- 6 The response accepts the March 2025 deadline will be “a significant challenge” for some but argues the proposals are a comply and explain model that does not mandate investment choices. In response to concerns about pooling passive funds and other assets, the Government will require a detailed rationale to be provided in the ISS for why any asset remains outside the pool “and the plan with regard to pooling that asset”.
- 7 The Fund has already pooled nearly 60% of its assets, and has a plan for the remaining asset transitions, set out in at paragraph 30 below. The Annual report currently breaks down the asset between pooled, under pool management and not pooled and the rationale, so this will easily be added to the ISS.
- 8 Government has stated its expectation that there will be fewer and larger pools over time, whether this happens by pool mergers or by funds moving pools. Border to Coast and Partner Funds have already started discussions on how this could be managed.

Governance and decision making

- 9 To *“revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.”*
- 10 Government acknowledges there are several models of pooling but believes that in the medium and long term “certain key characteristics are essential for progress”. The preferred model will be based on characteristics and outcomes rather than structures with a focus on the benefits of scale. Ministers will review change, “engaging pools as necessary”. The response rejects the suggestion that there is a conflict of interest for pool companies owned by LGPS funds to provide advice.
- 11 The model for the Fund’s asset pooling, Border to Coast, is considered to meet the preferred model, so no changes should be required.

Training for pension committee members

- 12 To *“implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.”*
- 13 Government suggests 91% of respondents were supportive of this proposal and points to responses that suggested guidance should refer to existing requirements including “CIPFA Knowledge and Skills Framework and Guidance, MiFID II requirements, and the requirements for local pension board members”.
- 14 The Fund has had a Training Policy for a number of years with a minimum level of mandatory training required. Additional reporting will be included within the Fund’s annual report.

Transparency and accountability

- 15 To *“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.”*
- 16 Acknowledging the number of responses highlighting concerns about the proposed requirement to report on asset returns against an “appropriate and consistent benchmark”, Government will instead require that annual reports include performance for each asset class against the benchmark of the Fund’s choice. The broader proposed reporting requirements will go ahead with guidance to be developed with the Scheme Advisory Board (SAB) and take note of the preference expressed in responses for consistency in asset class reporting with other DB and DC schemes.
- 17 Where passive funds are held outside the pool, funds will have to set out reasoning and review timeline in their investment strategies. Where there is oversight by the pool, funds will need to set out how that is exercised. Funds will report passive that is under pool oversight as under pool management.
- 18 The Fund already reports as the revised guidance will require. In respect of the passive funds outside of the pool, the Fund’s investment in LGIM does have oversight from the pool, but will be reviewed, as set out in the transition plan at paragraph 30.

Scheme Annual Report

- 19 To *“make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.”*
- 20 SAB will include a table in the Scheme Annual Report dividing assets by category as well as by pooling status.

21 The Fund will report to any template that SAB devise.

Levelling Up

22 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.”*

23 Government promises to address requests for additional clarity on definition in guidance to be developed with SAB but wishes to retain a broad definition that allows administering authorities to pursue opportunities with beneficial impacts. The response includes explicit rejection of proposal to create levelling up bonds. Funds are encouraged to invest through their pool to help with due diligence and manage conflicts of interest.

24 It also commits to going ahead with guidance to set out circumstances where funds can invest through their pool in another pool’s investment vehicle. Government does not want to see direct investment by funds outside their pools as this could undermine the relationship between pools and their partner funds.

25 Government believes proposals to set out a plan to invest up to 5% in levelling up projects does not mandate investment or cut across fiduciary duty. It acknowledges levelling up is not an asset class. Acknowledging the concerns expressed about the proposed reporting requirements, Government will expect data to be reported on a best endeavours basis.

26 The Fund already invests in assets that fit within the definitions of the missions within the levelling up white paper. It will address this in its transition plan as set out at paragraph 30 below.

Private equity

27 To *“revise ISS guidance to require funds to consider investments to meet the government’s ambition of a 10% allocation to private equity.”*

28 This proposal was opposed by 84% of respondents, however the Government believes this is based on an understanding that it would be mandating investment in private equity. Intends to proceed with setting an ambition through revised guidance on investment strategy statements. In its response, Government is clear its specification of private equity is intentional. It recognises opportunities in private markets more broadly and that Fund decisions to allocate *outside* the 10% private equity allocation ambition are appropriate.

29 The Fund has an allocation of 8% currently to private equity. Any increase to this would be considered as part of the normal strategic asset allocation reviews undertaken and would only be increased if it met the Fund’s investment objectives. It is worth noting that this is global private equity and not specifically UK.

LPF's Transition Plan

- 30 The table below sets out the transition plan for the Fund moving assets to Border to Coast and how it will address the levelling up requirement.

Assets Not Pooled (strategic asset allocation)/Levelling Up	Current Arrangement	Plan
15% global equity allocation	LGIM's Future World Fund (passive), with oversight from Border to Coast.	Working with Border to Coast to assess the feasibility of a vehicle for this. Will only transition if it will be more effective/efficient than the current vehicle.
21% Private Markets allocation	Morgan Stanley (including legacy PE and infrastructure)	Working with Border to Coast on the capability of a full managed service as we currently receive from Morgan Stanley. Any transition would take a number of years due to legacy investments that may be required to run off.
10.5% Property allocation	Several managers across UK commercial, Global, and UK residential	Committed to investing in the Border to Coast Overseas and UK Real Estate Funds. Investment period will be across a number of years.
1% Cash allocation	Managed by LCC Treasury Team	No plans to pool, managed alongside LCC cash
5% Levelling Up	No specific policy or allocation to levelling up investments. Approx. 2% of current investments fit within the levelling up missions' definitions (across infrastructure and UK residential).	To consider investment into the next iteration of the Border to Coast UK Opportunities Fund (first vehicle launching April 2024), specifically developed to meet the levelling up requirements.

Conclusion

- 31 Following the consultation “Next steps in Investment”, the Government confirmed it will progress its reform of the LGPS to accelerate and expand pooling, and to increase investment in levelling up and in private equity. In publishing its consultation response, the Government gave clear guidance on its expectations.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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