



**Open Report on behalf of Andrew Crookham, Executive Director - Resources**

Report to:	<b>Pensions Committee</b>
Date:	<b>21 September 2023</b>
Subject:	<b>Investment Pooling Consultation</b>

**Summary:**

This report shares with the Committee a draft response to the Government's recent consultation on investment pooling in the LGPS.

**Recommendation(s):**

That the Committee consider, discuss and approve the draft consultation response on the consultation "LGPS – Next steps on Investment".

**Background**

1. As mentioned at the Pensions Committee on 13 July, and shared in the weekly email on 17 July, the long-awaited consultation on LGPS investment pooling was published on Tuesday 11 July 2023. The consultation can be found at: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments).
2. A working group was created including representatives from Border to Coast and the Partner Funds, with the objective of delivering a single response from Border to Coast that could be co-signed by the Joint Committee. This has been shared with all members of the Officer Working Group for further comment, and a draft taken to the Border to Coast Board. A meeting was held with all Joint Committee members on 30 August to explain the rationale for the draft response and to provide early sight ahead of the Joint Committee meeting being held on 28 September, where it is being taken for approval. In addition, it was expected that all Partner Funds would submit their own response, aligned to the Border to Coast one but with any issues pertinent to their own situation covered.

3. To provide further context to the response from Border to Coast:
  - The consultation is championed by HM Treasury and is seeking to understand the barriers to implementing the proposals, rather than being a fully open consultation.
  - The main political parties are understood to support the policy intent, therefore any change in government is likely to see the proposals proceed.
  - In many ways the consultation reflects the Border to Coast model, however other pools have differing levels of engagement and participation.
  - To maximise influence, the response seeks to provide constructive commentary on how the policy objectives can be most effectively delivered, whilst maintaining the flexibility required to evolve how Border to Coast operates. It also looks to ensure that any unintended consequences are brought to the fore.
  
4. The Government does not believe that, across the LGPS, pooling has been fully or appropriately implemented and more benefits can be delivered. The key points raised in the consultation are:
  - A plan for all assets to transition to a pool within a reasonable timeframe (Government considers this to be 31 March 2025)
  - The Government believes in the benefits of scale, and expects there to be a smaller number of pools in the future (suggesting that c.£100bn is an optimal size) and that all pools should be able to access internal investment management capabilities through working with other pools
  - Individual funds are to delegate more to their pools, use them as advisors on investment strategy, and strategies should be implementable by the pool. Investment strategy should be a broad instruction regarding asset class and level of risk
  - Increase the training (and knowledge) of Pension Committee members
  - Consistent reporting to track the progress of pooling; also each fund to report returns against appropriate benchmarks with an aim of being able to compare across funds
  - Confirms the LGPS is to develop plans to invest 5% of their assets to support the policy objectives of Levelling Up
  - Seeks to double LGPS allocation to Private Equity to 10%
  - It suggests that if a Fund doesn't adhere to future Government policy, their position as an Administrating Authority can be removed through existing powers.
  
5. Government has indicated that this is to be seen as a three-stage approach over a period of time, with assets transitioning first, then greater collaboration across pools, then consolidation. However, this does raise concerns that if consolidation is the overall policy intent, then funds will be unwilling to transition assets if they believe there will be further transitions at some point as a result of pool mergers, therefore duplicating costs.
  
6. A high-level summary of the draft position from Border to Coast, as discussed with Joint Committee members on 30 August, is set out below. The full version of the

response will be shared in the Joint Committee papers, ahead of their 28 September meeting.

<b>Consultation Question</b>	<b>Border to Coast Proposed Position</b>
Question 1. Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?	<ul style="list-style-type: none"> <li>• Support the broad thrust of the consultation.</li> <li>• No <u>fundamental</u> barriers to increasing scale.</li> <li>• Key issue to delivering this is good governance.</li> </ul>
Question 2. Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?	<ul style="list-style-type: none"> <li>• Support the principle of transferring, or having a clear path to transition, assets to pools.</li> <li>• Seek clarity on definitions, particularly on passive investments.</li> <li>• Raise the issue of 5% of assets outside pool if it meets other policy intent (e.g. local investment).</li> </ul>
Question 3. Should government revise 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?	<ul style="list-style-type: none"> <li>• Support the broad approach, although emphasise Administering Authority's remain responsible for setting investment strategies.</li> </ul>
Question 4. Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?	<ul style="list-style-type: none"> <li>• Support the approach.</li> <li>• Ask this is addressed as part of the Good Governance project.</li> </ul>
Question 5. Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?	<ul style="list-style-type: none"> <li>• Welcome standard and consistent reporting.</li> <li>• Raise the challenges of reporting against a benchmark and provide an alternative mechanism to the deliver policy intent.</li> </ul>
Question 6. Do you agree with the proposals for the Scheme Annual Report?	<ul style="list-style-type: none"> <li>• Support clear and consistent reporting.</li> <li>• Highlight concern on cost of additional reporting requirements, and any reporting should be focused</li> </ul>

	on simplicity (to aid understanding and support oversight).
Question 7. Do you agree with the proposed definition of levelling up investments?	<ul style="list-style-type: none"> <li>• Support proposed definitions.</li> <li>• Request 5% of assets can be invested outside pool to support local investments.</li> </ul>
Question 8. Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?	<ul style="list-style-type: none"> <li>• Support in principle but raise several challenges to doing this.</li> </ul>
Question 9. Do you agree with the proposed requirements for the levelling up plan to be published by funds?	<ul style="list-style-type: none"> <li>• Support proposals but emphasise role of Administering Authority is to deliver appropriate risk adjusted returns.</li> </ul>
Question 10. Do you agree with the proposed reporting requirements on levelling up investments?	<ul style="list-style-type: none"> <li>• Agree with the reporting requirements.</li> </ul>
Question 11. Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?	<ul style="list-style-type: none"> <li>• Emphasise Administering Authorities are responsible for their investment strategies.</li> <li>• Seek to expand definition of private equity to "private growth capital" and that these strategies should be global in nature (and not limited to UK).</li> </ul>
Question 12. Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?	<ul style="list-style-type: none"> <li>• Agree that there are several potential partners, including UK Investment Bank.</li> <li>• Note the principle of pooling was to remove costs and highlight the risk of BBB introducing a new layer of fees.</li> </ul>
Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?	<ul style="list-style-type: none"> <li>• Welcome the consistent application across the LGPS.</li> </ul>
Question 14: Do you agree with the proposed amendment to the definition of investments?	<ul style="list-style-type: none"> <li>• No comments.</li> </ul>

<p>Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.</p>	<ul style="list-style-type: none"> <li>• No.</li> </ul>
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7. From this company response, Partner Funds have created their draft consultation responses, and the Lincolnshire Pension Fund draft response is attached at appendix A. The response has been written from the viewpoint of the Fund, rather than Border to Coast, but is generally aligned. The changes mainly reflect the position of the Lincolnshire Fund, such as how we currently invest in private markets. However, there the key differences that some funds have included or added, that the Committee may wish to discuss, are set out below:
  - Some funds have mentioned fund consolidation in looking at the wider LGPS ecosystem, and to enable appropriate capacity and capabilities at a fund level to deliver their objectives. Is this something the Committee would like to include?
  - References to the private markets offering from Border to Coast have been amended to reflect our use of Morgan Stanley for our private markets mandate.
  - References to retaining 5% outside of the pool for local investment have been amended as the Fund does not include geographically local investment (i.e. Lincolnshire) in its investment strategy. Local in the wider sense of Levelling Up is seen as UK.
  - The response in question 4 proposes that consideration should be given to properly remunerating pensions committee members given the significant training requirements and responsibilities of committee membership. Some funds are not including this in their response.
8. The deadline for responses is 2 October 2023, and any proposed amendments to this draft will be made to meet that deadline.
9. Any comments or questions that the Committee may have on the Border to Coast response for the Joint Committee to raise, can be sent to the Chairman of this Committee, Cllr Strenziel, who will raise them at the 28 September meeting.

**Conclusion**

10. The long-awaited consultation on the next steps for investment pooling was issued on 11 July 2023. Border to Coast will be responding with a co-signed response from the Joint Committee, and Partner Funds are expected to respond in a similar vein, but with any points pertinent to their own situations. The draft response for the Lincolnshire Fund is attached at appendix A for consideration and approval.

## Consultation

### a) Risks and Impact Analysis

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

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Draft Consultation Response – LGPS: Next Steps on Investment

## Background Papers

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

This report was written by Jo Kempton, who can be contacted on 01522 553656 or [jo.kempton@lincolnshire.gov.uk](mailto:jo.kempton@lincolnshire.gov.uk).