

Portfolio Holder Decisions

Date: Thursday 21 September 2023

Time: 12.00 pm

Venue: Virtual meeting

Membership

Councillor Peter Butlin

Items on the agenda: -

- 1. Local Government Pension Scheme: Next steps on Investment Consultation Response** 3 - 48

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Portfolio Holder Decision

Local Government Pension Scheme: Next steps on Investment Consultation Response

Portfolio Holder	Portfolio Holder for Finance and Property
Date of decision	21 September 2023
	Signed

1. Decision taken

1.1 That the response to the consultation, attached as Appendix 2 is approved for submission.

2. Reasons for decisions

- 2.1 The Local Government Pension Scheme (LGPS) is one of the world's largest funded pension schemes, investing approximately £364bn in total (excluding Environment Agency funds). The Government is consulting on the next steps in the development of the LGPS investments, in light of its scale, the potential further benefits of pooling, and the potential for LGPS funds to be used to support other government objectives such as levelling up and boosting levels of investment in private equity.
- 2.2 The response intends to provide positive feedback on the points consulted upon, whilst seeking to inform and influence the direction of travel of the next steps for the LGPS where possible.
- 2.3 The response was considered and approved for recommendation to a Portfolio Holder Decision by the Pension Fund Investments Sub Committee on the 11th September 2023.
- 2.4 One significant aspect of the consultation is pooling. LGPS Funds have been pooling assets for a number of years now, and the Warwickshire Pension Fund (WPF) has more than three quarters of its assets pooled as at the end of March 2023. The consultation aims to ensure all LGPS Funds are moving towards pooling at an appropriate pace, however, we believe it is clearly the case that the Warwickshire Pension Fund (WPF) and the Border to Coast Pension Partnership (BCPP) and its other partner Funds have made significant progress on pooling already and have already delivered on the majority of the government's pooling expectations to date. The response points this out and comments on aspects of how to make the changes the consultation is proposing whilst not placing unreasonable requirements or

constraints on Funds that are moving in the right direction voluntarily and pro-actively.

2.5 Another key aspect of the consultation is seeking to use LGPS funds to support the delivery of other government objectives such as levelling up, and to prescribe how Fund should invest. The response sets out that LGPS Funds have a primary fiduciary duty to pay pensions when they are due. Where proposals are made that impose other objectives or requirements upon LGPS Funds, this creates the potential for conflicts and it is important that Funds are given enough discretion and flexibility that Funds are not put in a position that requires them to compromise on their primary objective.

2.6 One other theme to highlight is the issue of being able to manage investments to the highest standards in an increasingly volatile and difficult environment, for example ensuring that Funds set strategic objectives for investment consultants and hold them to those standards (on this point the WPF already sets objectives for investment consultants).

3. Background information

3.1 The consultation is available online at the link below, but a copy is reproduced at Appendix 1 for the record.

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

3.2 The deadline for the submission of responses (to be sent to LGpensions@levellingup.gov.uk) is the 2nd October 2023.

4. Financial implications

Pooling is already delivering cost savings in terms of fund manager fees to LGPS Funds and there is the potential to save further. However, it is important to note that net risk adjusted returns are the bottom line and this is the key metric the Fund needs to remain mindful of.

Increasing the level of investment in the UK and in private equity may increase fees because the nature of investments means they are more expensive to manage than for example listed passively managed equity tracking funds. However, different types of fund provide diversification and enable the WPF to adopt the correct risk/return profile to meet its liabilities and for this reason a mix of investments that includes some asset types with higher costs is appropriate.

5. Environmental implications

5.1 Pools provide a greater concentration of expertise and capacity to promote responsible investment.

5.2 In 2022 the government consulted on new reporting requirements in respect of climate related

risks and intends to publish its response in due course. In the meantime, WPF is making progress on monitoring climate risk by reporting appropriate carbon metrics, and has regard to climate risk in making investment decisions.

Report Author	Victoria Moffett, Chris Norton amybridgewater-carnall@warwickshire.gov.uk, victoriamoffett@warwickshire.gov.uk, chrisnorton@warwickshire.gov.uk,
Director	Andrew Felton
Executive Director	Executive Director for Resources
Portfolio Holder	Portfolio Holder for Finance and Property

Urgent matter?	No
Confidential or exempt?	No
Is the decision contrary to the budget and policy framework?	No

List of background papers

Members and officers consulted and informed

Portfolio Holder – Councillor Peter Butlin

Legal – Sarah Duxbury

Finance – Andrew Felton

Equality – Delroy Madden

Procurement – John Hopper

Democratic Services – Amy Bridgewater-Carnall

Councillors – Resources F&R OSC Chair & Spokes – Cllrs Birdi, Boad, Feeney, Roberts & Warwick

Local Member(s): None – this is a County Wide report

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[Department for Levelling
Up,
Housing & Communities](#)

Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023

Applies to England and Wales

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Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope:

This consultation applies to England and Wales.

Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

Body/bodies responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 11 July 2023 to 2 October 2023.

Enquiries:

For any enquiries about the consultation please contact:

LGPensions@levellingup.gov.uk

How to respond:

Please respond by completing an [online survey \(https://consult.levellingup.gov.uk/local-government-finance/local-government-pension-scheme-england-and-wales/\)](https://consult.levellingup.gov.uk/local-government-finance/local-government-pension-scheme-england-and-wales/).

Alternatively, please email your response to the consultation to LGPensions@levellingup.gov.uk.

Alternatively, please send postal responses to:

LGF Pensions Team
Department for Levelling Up, Housing and Communities
2nd Floor
Fry Building
2 Marsham Street
London
SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

Chapter 1: Introduction

1. The Local Government Pension Scheme England and Wales (LGPS) is one of the world's largest funded pension schemes and a key player in global markets, investing around £364 billion (excluding Environment Agency funds) worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency. While long term stable returns in order to pay pensions for its members are the primary purpose of the investments, the government believes that there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for the financial stability of local councils, and ultimately is in the interests of local taxpayers.

2. The government also recognises that pension funds are under substantial pressure on a number of fronts. There is growing scrutiny of institutional investors on environmental issues and in the light of geo-political risks such as Russia's aggressive and illegal invasion of Ukraine. In addition, recent volatility in gilt and bond markets has underlined the need for the highest standards in managing financial risk. The LGPS as a public sector scheme is rightly subject to particularly high expectations and must keep pace with the best in managing these demands.

3. This consultation seeks views on proposals in 5 areas:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why.

While pooling has delivered substantial benefits so far, we believe 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. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require 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 \(LUWP\)](https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) (<https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's 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) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

4. The following chapters set out the government's proposals in more detail and provide the rationale for its proposals. Chapter 2 addresses the proposals regarding LGPS pooling, Chapter 3 outlines the plans for implementing the LUWP commitment, and Chapter 4 sets out a proposal to encourage the LGPS to contribute growth equity to the development of the UK. Chapter 5 explains the government's proposals in relation to the use of external investment consultants by LGPS funds and Chapter 6 sets out its proposal to update the definition of investments. Finally, Chapter 7 sets out our initial assessment of potential equalities impacts and invites views.

5. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

Chapter 2: Asset pooling in the LGPS

6. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. The aims were to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, and capacity and capability to invest in infrastructure to help drive growth. LGPS administering authorities responded by coming together in groups of their own choosing to form 8 asset pools.

7. Those 8 pools are now operational, in most cases for over 4 years. Their scale makes them significant players at European and global level. Set up and running costs of around £400 million to 2022 have been fully covered by savings. Net savings of over £380 million have already been delivered, with annual savings of £180 million, and total net savings are forecast to be over £1 billion by 2025 (based on data provided by pools and administering authorities). Significant expertise and capacity have been developed in private markets and infrastructure investment, giving funds access to the higher returns in these markets. In particular, UK and global infrastructure investment has grown from below £1 billion to around £27 billion (based on data collected by the pools).

8. While pooling has delivered substantial benefits so far, progress has varied across the scheme. Accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS punches its weight on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. To meet these challenging ambitions, the LGPS pools and their partner funds will need to strengthen their existing partnerships and work together to deliver outstanding net performance, risk management and transparency. This will enable the LGPS to provide long term finance for pensions for millions of low paid workers, and deliver for the UK through investment in the UK, while retaining local control and accountability. Government proposals, set out below, cover increased scale, governance and decision making, as well as transparency and accountability.

Delivering increased scale

Background

9. Across the scheme as at March 2022 £145 billion or 39% of assets have been transferred to the pools with the percentage varying by pool from under 30% (LGPS Central) to over 80% (LPP). A further £114 billion, or 31%, is under pool management and £34bn or 9% is covered by plans to transition into the pools. We make a distinction throughout this document between pooled assets and assets which are under pool management. Pooled assets are owned by the pool in their capacity as asset manager while assets under pool management are assets where the pool has some management or oversight arrangement without ownership.

10. The current scale of the individual pools (based on AUM pooled and assets under pool management) is in the range £16 billion to £60 billion. This covers a variety of arrangements including passively managed assets held by external managers under insurance contracts, and the pool's oversight and monitoring of these may be limited. However, excluding assets under pool management, the pools range in size from £2 billion to £30 billion. The pools therefore remain significantly below the scale which they could achieve with all assets transferred from their partner funds, rather than remaining under pool management.

11. A further substantial increase in effective scale is a key priority to enable delivery of the benefits of pooling. Increased scale would allow the pools to deliver further savings and efficiencies, including through negotiating lower fees from external investment managers and service providers, and developing internal capacity for investment management. Increased scale would also enable the pools to invest in larger projects which would help the LGPS to take advantage of attractive opportunities in alternative assets.

12. The government therefore wishes to see the existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. The approach to date has been to encourage funds through guidance to transition their assets into the pools, and substantial progress has been made over the last 4 to 7 years. However, progress is not consistent across the scheme and some pools have secured a much higher proportion of assets of their partner funds than others. We consider that the time is right for action to accelerate the delivery of savings and other benefits of pooling, and our proposals are set out in paragraphs 17 to 21.

Driving greater scale through fewer pools

13. In due course all assets including less liquid assets should be fully transferred to the pools. We recognise that this may need to take place over a longer period to minimise the costs including the costs of breaking existing arrangements. This would include passively managed insurance contracts which may be under some form of pool management. There may be some exceptions such as some types of local property investments. Once this was complete, 5 of the 8 pools would be around £50 billion or higher at current values and the remaining 3 pools would occupy the £25 billion - £40 billion range.

14. Completing the transition of assets would be a major step forward. However, we do not believe that this alone will deliver the full benefits of pooling in the long term. Our view is that the benefits of scale are present in the £50-75 billion range and may improve as far as £100 billion. As such, we should in future look towards a smaller number of pools in the region of or in excess of £50 billion in directly invested assets through merger. The benefits of scale were a key finding of [2021 research \(https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf\)](https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) based on interviews with large international comparators. Respondents confirmed that scale had improved bargaining power with asset managers, enabled access to a wider set of opportunities such as private markets, and had allowed them to build internal capacity.

15. As well as making better use of expertise in managing external managers, there is potential to grow in-house investment management within the pools to reduce or replace the use of external private sector investment managers. This should offer substantial reductions in cost. A small number of larger funds have existing in house capacity and expertise in some areas of investment, and we would like to see this expertise fully shared within their pools. In due course there

should be scope for all pools to access in house capacity and expertise in specific areas of investment within other pools.

16. In the short to medium term, we believe there are benefits which could be secured through joint working without incurring the costs of merger. Some joint vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern) already exist. We would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication. Areas where specialisation or collaboration may be particularly attractive include infrastructure and other alternative investments including private equity, private debt and venture capital, as well as investments in levelling up projects and social investments.

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?

A timetable for transition

17. Current statutory guidance relating to regulations on the management and investment of LGPS assets currently requires each fund to set out the proportion of its assets which it intends to pool in its Investment Strategy Statement (ISS). Funds are also required to provide in their ISS a summary of the assets which they do not intend to pool, with a rationale including value for money, and to review this at least every 3 years, including consideration of continuing value for money. This should be greatly assisted by the development of the [LGPS Code of Transparency](https://lgpsboard.org/index.php/the-code) (<https://lgpsboard.org/index.php/the-code>) by the Scheme Advisory Board. This has enabled funds to access transparent cost data from 150 asset managers as of November 2022. However, current guidance sets no timetable for change and provides funds with limited assistance in considering rationale and value for money.

18. The government now seeks views on the setting a deadline for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We consider a reasonable timeframe for liquid assets to be by 31 March 2025, which is the end of the current local fund valuation period. Transition of all assets should be considered in this timeframe, especially as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

19. If this is taken forward, funds would need to work with their pool to ensure that they have fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by 2025.

20. The government seeks views on setting out the transition timetable in statutory guidance on ISS, and requiring funds to review and revise their ISS in line with this expectation. Where funds have concluded that the asset should not be transitioned, the government will expect a rationale to explain why this is the case. We also propose to provide fuller guidance on the existing requirements for ISS in relation to pooling, including guidance on rationale, value for money and review for assets which it is not intended to pool.

21. For further proposals on annual reporting of progress against the plan set out in the ISS see paragraph 41.

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?

Governance and decision making

Background

22. Administering authorities are responsible for setting the investment strategy of their funds, having taken proper advice. This includes setting the asset allocation to achieve a diversified portfolio of investments which overall is suitable to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance.

23. Once the investment strategy has been chosen, the [expectation set \(https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance\)](https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance) when the funds were invited to form pools in 2016 was that as a minimum, the selection of external fund managers and the implementation of the investment strategy would take place at the pool level, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.

24. In practice, funds have adopted a range of approaches. A small number of funds have transferred most of their assets to the pool and delegated strategy decisions below a very broad asset allocation as well as all implementation decisions to their pool, including for assets remaining outside the pool. Some funds have delegated manager selection and other implementation decisions to the pool for their pooled assets only, as well as agreeing broad mandates for some pool vehicles. The pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey.

25. Some funds have transferred some assets to the pool but only where the pool provides their preferred external manager or mix of assets within a pool vehicle. In these circumstances pools may respond by creating different products for each

partner fund or for small groups of funds, leading to a high number of pool sub-funds or vehicles, which limits the savings which can be achieved.

26. A very small number of funds have joined a pool but pooled no or very few assets. They may have benefited from a wider reduction in fees in the market, in part driven by pooling, but have chosen not to take up the other potential opportunities to date.

27. More effective and consistent governance and decision making is therefore the second key priority for the future of LGPS pooling. [Research \(https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf\)](https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) suggests that asset pools internationally are more effective with modern governance structures which enable delegation with accountability and allow decisions to be taken quickly on behalf of partner funds. This will include in particular effective delegation of strategy implementation to the pools by administering authorities.

28. It is the government's view that the experience of the last 4 years has demonstrated that funds participating in a strong partnership with their pool and with other partner funds, in which they delegate effectively to their pool and align their strategies where possible, are likely to see the most gains, as these approaches allow the pool to deliver the benefits of scale. Others have moved more slowly but in order to maximise the benefits the full participation of all is essential. We want to see all funds moving in this direction in order to deliver the benefits of pooling for all.

Improving governance

29. Setting the investment strategy and asset allocation is a central responsibility for administering authorities, which gives them the most significant degree of influence on returns. It is generally accepted that the strategy accounts for most of the difference in net returns between portfolios, with implementation decisions such as manager selection having a relatively small impact. We do not propose any change to the responsibility of funds for setting investment strategies.

30. We therefore propose revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also propose to include guidance on investments in levelling up. This is discussed in Chapter 3.

31. Government recognises that each model has its own benefits. In order to move forward more quickly with the benefits of pooling, we regard the following aspects as being key to progress.

- Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

- Pools should be actively advising funds regarding investment decisions, including investment strategies.
- Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.
- Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.
- Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

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?

32. Pensions expertise is an important criterion for decision making, and there are some factors which may make it harder to acquire that expertise under current structures. Firstly, pensions committees generally have high levels of turnover. Second, members of such committees are not required to complete training and may have no specific expertise in pensions. The outcome of these factors is that expertise may be lower than an equivalent panel of trustees for a private sector scheme, with higher reliance on advisors. Some targeted requirements, specifically on training, would help administering authorities to manage these issues.

33. We propose that each administering authority sets a training policy for committee members. We propose that the administering authority should report regularly on the training undertaken by committee members and whether this is in line with their training policy.

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?

Transparency and accountability

Background

34. Current reporting relevant to the assets of the LGPS comprises the following:

- **Official statistics** - The annual LGPS statistics collected on the SF3 form by the Department and published in September contain only the overall asset value for the scheme and each fund, with no data on asset classes or other information.
- **Annual reports.** Annual reports are required by [CIPFA guidance](https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-) (<https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report->

[guidance-for-local-government-pension-scheme-funds-2019-edition](#)) to include the value and percentage of pooled and non-pooled assets, the costs and performance of pooled and non-pooled assets, the progress of transition during the reporting year and the plans for transition of non-pooled assets. Annual reports are required to be published by 1 December for the preceding financial year. Funds are also required by guidance on ISS to report annually to the SAB on the progress of asset transition to the pool against [implementation plans](#) (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627030/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf) (PDF, 150 KB). Pool annual reports provide some additional information but vary considerably in level of detail.

- **Scheme Advisory Board (SAB) annual report.** The SAB produces a report which summarises data from published fund annual reports on governance, funding, membership, financial position, investments and stewardship. It does not currently include data on the progress of asset transition or other data or commentary on pooling. With respect to investments, the Scheme Annual Report reports the proportion of the scheme which is invested in pooled investment vehicles, public markets, bonds, direct property, derivatives, cash and other asset classes. This is based on data in the Net Asset Statement in the annual accounts of administering authorities. Authorities do not report their asset breakdown in a consistent way, and a degree of judgement is exercised by the SAB in interpreting their reports. The commentary on investment performance is based on data provided by PIRC which covers around two thirds of funds. The Annual Report is published in the spring following the end of the financial year to which it relates.

35. In addition, the government [recently consulted](#) (<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks>) on new requirements for funds to report on climate-related risks to their assets. We will publish the government's response in due course.

36. The current reporting regime provides a substantial quantity of data but does not provide transparency on progress of pooling by fund, by pool or across the scheme. It also does not provide an overall view of asset allocation across the scheme.

37. It is the long-standing view of government, whatever the subject, that transparency should be welcomed. The government seeks views on increasing transparency of asset allocation, pooling, return and savings.

Annual Reports and LGPS statistics

38. We therefore propose to require a single standard set of data on investments across annual reports and LGPS statistics. This would consist of:

- data on the broad asset classes into which LGPS investments fall in a consistent way, for example equities, bonds, private equity, private debt, property. We would work with the SAB to define the asset classes to be chosen and seek the

agreement of the Central-Local Information Partnership (Finance) in the normal way for the necessary changes to the data collected from funds for LGPS official statistics. In designing this table, we will take account of requirements for defined contribution schemes and the reporting requirements which apply to private defined benefit schemes via the [scheme return \(https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return\)](https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return) (an annual return required by The Pensions Regulator).

- for each asset class, data on the assets which are pooled, under pool management and not pooled and that the definitions are clarified. This will include the allocation to infrastructure and levelling up.
- net savings achieved as a result of investing via the pool.

39. We also propose to define the categories as set out in paragraph 9. Pooled assets would mean that the assets are directly owned and managed by the pool. Assets under pool management would cover assets which are managed or overseen but not owned by the pool. Neither category would include any assets which are held by collective investment vehicles other than those managed by the 8 LGPS pools.

40. We propose that the requirements to report on asset allocation and pooling data would be set out in revised guidance on pooling and in revised guidance on annual reports which is under consideration by the SAB.

41. We also propose to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

42. We also view it as desirable that each fund report the returns achieved by assets invested in each asset class against an appropriate benchmark, in a way that is consistent across funds, and easily comparable between pooled and non-pooled assets. We welcome views on how such a regime may work in practice.

43. We believe that these measures would ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability.

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?

Scheme Annual Report

44. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports. The purpose of the Annual Report is to provide a single source of information for members, employers and other stakeholders. Continual improvement of this report is a key priority of the SAB and is supported by the government. We intend the proposals in this consultation to assist the SAB in this goal.

45. We believe that the single standard set of data discussed above will make it easier to provide a clear overview of the scheme's asset allocation and of the progress of pooling. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category (equity, bonds, property etc) as well as by pooled status (pooled, not-pooled or under pool management).

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Directions by the Secretary of State

46. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ([the "2016 regulations"](https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made) (<https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made>)) the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.

47. No such directions have been issued by the Secretary of State under Regulation 8.

48. 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 is appropriate. Examples of activities which could result 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.

49. The Secretary of State also has power under section 3(2)(a) and Schedule 3 of the Public Service Pensions Act 2013 to make regulations on the administration, management and winding-up of LGPS pension funds, subject to consultation and the consent of HM Treasury.

Summary of proposals

50. The proposals are:

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled
- To revise pooling 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 including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate.
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

51. Should this be taken forward, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

52. Whilst reserving our ultimate position, the government's strong preference is to see progress continue on a voluntary basis within a strengthened framework. This will maintain local management and accountability in the LGPS, while delivering significant savings and better risk management, and avoiding waste and duplication. But we will consider action to ensure progress if necessary, including making use of existing powers to direct funds.

Chapter 3: LGPS investments and levelling up

Background

53. In the [Levelling Up White Paper \(LUWP\)](https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) (<https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>) the government set out its mission to tackle the uneven distribution of opportunity in the United Kingdom (UK). The aim is to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level

of more prosperous areas. To do so will mean that the whole country succeeds by growing the economy and realising the potential of places and people across the UK.

54. One of the key ambitions in the levelling up programme is to boost productivity, grow the economy, and raise living standards across the UK. One way in which this mission can be achieved is by ensuring that some of the funds managed by institutional investors flow into projects that help deliver levelling up while also offering attractive returns.

55. The Local Government Pension Scheme (LGPS) with assets of £364 billion, projected to increase to £500 billion by 2030, is a major institutional investor. The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK, not only in the local area of an authority. Overall, £27 billion of LGPS funds had already been invested in infrastructure in the UK and overseas by March 2022.

56. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the Government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Defining investment in levelling up

57. In developing their plans, LGPS funds will need to consider what types of investments will contribute to levelling up. This section therefore sets out a proposed approach to assessing whether an investment supports levelling up, drawing on the LUWP and its discussion of different forms of capital and levelling up missions. The definition is intended to help LGPS funds and pools in considering how they could invest a share of their AUM in a way that promotes growth, supports levelling up, and meets their fiduciary duty to ensure members' pensions.

58. The ambition of the levelling up agenda is to reduce geographical disparities. While some areas of the UK already benefit from all the conditions for growth, the government is keen to improve productivity, boost economic growth, encourage innovation, create good jobs, and enhance educational attainment in those parts of the UK that have so far had an unequal share of the country's economic success. In pursuing this ambition, the government believes that a boost to productivity, pay, jobs, and living standards can be achieved through targeted interventions that extend opportunities more equally across the UK.

59. Current causes of the UK's spatial disparities include changes in the global economy and their uneven impact on the country's regions, but the key drivers lie in the 6 forms of capital identified in the LUWP (human, intangible, financial, physical, social and institutional). While each capital is important in its own right, it

is their interaction that creates a virtuous cycle that encourages economic growth and the associated societal benefits.

60. To address the imbalances in how the 6 capitals are distributed across the UK, the government has identified 12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership). Institutional investors such as pension funds can contribute to the levelling up missions while also benefitting from such investments. Global investors, including pension funds from Canada and Australia, are already active investors in such projects, but UK institutional investors are under-represented.

61. The government believes that the LGPS should secure the benefits of such investment and can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions. With assets of around £364 billion the LGPS has large investable assets, investment expertise in the pools, and local networks. It is well placed to identify investment opportunities and ensure these meet the risk/return profiles demanded by LGPS funds.

62. To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

63. We consider the following existing LGPS investments as examples of investments which would fall within the proposed definition:

- Nottinghamshire Pension Fund [invested £1.5 million](https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/) (<https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/>) in Nottinghamshire Community Energy in 2016 to help construct and manage a solar farm to produce clean energy. The profits help support projects in Nottinghamshire to address climate change mitigation, wildlife conservation, and reducing fuel poverty while delivering a good return on investment.
- Durham County Council Pension fund has [committed £18 million](https://www.foresightgroup.eu/private-equity?tab=6) (<https://www.foresightgroup.eu/private-equity?tab=6>) to enable the launch of a new private equity investment fund that supports SMEs across the North East. The fund's purpose is to support economic growth and create high-quality local jobs in the region, while targeting an appropriate rate of return for its investors.
- Greater Manchester Pension Fund [has a £50 million](https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes) (<https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes>) Invest 4 Growth portfolio which makes investments that provide a commercial return and have beneficial economic, social, or environmental impacts. The fund also uses its £401 million Impact Portfolio to invest regionally in supported living accommodation, renewable energy, and loans to SMEs.
- South Yorkshire Pension [invests around £80 million](https://bdaily.co.uk/articles/2022/12/09/80m-investment-from-south-yorkshire-pensions-) (<https://bdaily.co.uk/articles/2022/12/09/80m-investment-from-south-yorkshire-pensions->

[authority-boosts-local-economy](#)) in local development projects and aims to generate commercial return whilst delivering a positive local impact.

64. Funds should ensure that any levelling up investment plan they produce is consistent with their existing overall investment strategy statement and funding strategy statement. We intend to develop guidance working with the Scheme Advisory Board on levelling up investments which meet the requirement announced in the Levelling Up White Paper.

Question 7: Do you agree with the proposed definition of levelling up investments?

Fiduciary duty and investing in levelling up

65. This new requirement would not alter the established fiduciary duty of LGPS funds to make investment decisions in order to pay pensions. Investments that support levelling up may form part of a well-diversified portfolio with a range of risk/return characteristics. As current investment activity across the LGPS underscores, such investments may create attractive risk adjusted returns for pension funds and help deliver economic growth and societal benefits.

66. Under existing environment, social, and governance (ESG) criteria, set out in [Guidance on Preparing and Maintaining an Investment Strategy Statement](https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement) (<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>), funds may also take non-financial considerations into account when making investments, provided that they have good reasons to think the scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Enabling investment to support levelling up

67. Under these proposals, administering authorities would be expected to evaluate possible levelling up investments and assess their suitability for their fund's investment strategy. There is scope for projects of different scales, risk/return profiles, and geographical concentrations to be considered.

68. Private markets are a principal way through which investments that support levelling up can be made. These markets are particularly important in infrastructure, clean energy and regeneration investing and they are therefore likely to play a role in delivering funds' levelling up investments. This route to investment, however, presents challenges, especially for smaller LGPS funds. The minimum investment may be quite high, and at higher cost than public market investments. Specialist expertise is needed to assess risk and return profiles and source and negotiate opportunities.

69. The LGPS asset pools can offer a route to investing in levelling up through private markets. They can put together an investment of sufficient size with the

participation of their partner funds. Those which are wholly owned companies can also provide investment at lower cost as they are established on a not for profit basis and have developed the expertise and capacity to invest in private markets through intermediaries and in some cases are able to invest directly or to co-invest, which reduces costs.

70. There may also be concerns about local investments. Perceived or potential conflicts of interests may arise between the fund and the administering authority in its wider role as the local authority, if funds invest in inappropriately high-risk projects in the area in which they are located. The LGPS asset pools can assist by ensuring that decisions to invest in a local area can be taken at pool level to avoid any perceived or potential conflict of interest and take advantage of the pool's expertise.

71. Some LGPS asset pools have already created investment vehicles to enable funds to invest in levelling up projects more easily:

- GLIL was established in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million in capital commitments. It was expanded in 2016 with the admission of 3 further LGPS funds. GLIL invests in core infrastructure assets predominantly in the UK and focuses on investment opportunities that are backed by physical assets, offer a reliable cash flow, and are isolated from business cycles. It currently has £3.6 billion of committed capital and has deployed £2.1 billion across 13 assets that include offshore windfarms, electric train fleets, and solar farms.
- The London Fund is a collaboration between the Local Pensions Partnership Investments (LPPI) and the London Collective Investment Vehicle (LCIV). The Fund's aim is to invest in the capital, with a focus on developing housing and infrastructure. In making investment decisions, the London Fund is seeking positive contributions to social and environmental issues too. For the fund's partners the London Fund also represents an opportunity to access a greater range of investment opportunities than if they acted alone.
- Brunel Pension Partnership has designed and implemented a portfolio for one of its partner funds, Cornwall Pension Fund, to facilitate local investment in affordable housing and renewable energy in Cornwall. Cornwall Pension Fund made an initial investment of £115 million despite being one of the smaller LGPS funds.

72. The government wishes to see specialist expertise in local investments within pools and their private sector partners continue to evolve, to ensure that funds and the UK as a whole can benefit from investment in levelling up. The scale of the LGPS and a new requirement for the LGPS to set a plan to invest in levelling up should provide an important spur to this development.

73. The government looks to the pools to develop further such solutions in collaboration with their partner funds. This approach will maximise the opportunities to capitalise on administering authorities' local knowledge and asset pools' scale and private market access. Pools may choose to leverage their local networks to work with local partners to develop opportunities and avoid the deal by

deal auctions which can add cost to infrastructure investment. In due course they may also develop the capacity and knowledge to invest in smaller scale local projects which may be too small for private sector intermediaries, and help tackle the capital gap for smaller projects.

74. However, some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, it may be helpful for funds to invest through their own pool in investment vehicles provided by other pools. The government therefore proposes to set out in guidance that LGPS funds may invest through their pool in another pool's investment vehicle.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Implementing the requirement to publish plans for increasing local investment

75. The government proposes to amend regulations to require funds to publish a plan on how they will invest up to 5% of their assets under management (AUM) in projects that support levelling up across the UK. The plan may form part of the investment strategy statement. It should take account of the fund's investment and funding strategy statements and be reviewed at least every 3 years in line with the local valuation cycle.

76. It is proposed that the plan should include:

- The fund's current level of investment in levelling up investments
- A plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- The fund's approach to working with their pool to reach their chosen allocation.

77. Many funds will already have some investments which contribute to levelling up, and in some cases this may exceed 5%. Some funds may wish to increase their investment above 5%. It will be for funds to decide the appropriate level of investment and types of investment.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

78. The government also proposes to require funds to report annually on their progress against their plan in their annual report. This requirement is proposed to provide transparency and accountability on the progress and investments made by funds. The section of the annual report on levelling up would be expected to include:

- The percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- The amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool.
- A narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

79. The government intends to include guidance on the new requirement and on reporting progress in revised guidance on investment strategy statements and on pooling.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Divestment

80. Many administering authorities are under pressure to divest assets from certain countries or geographical regions, even though the UK government has no sanctions in place against those countries or regions. The government strongly believes that local authority pension funds do not, and should not, have their own foreign policies. The government intends to implement the manifesto commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .

Chapter 4: Investment opportunities in private equity

Background

81. The government is launching a package of measures to reform the pensions landscape as part of the government's capital markets strategy, making more capital available to support UK companies and seeking to boost the retirement incomes of UK pension savers. These measures sit alongside legislative and regulatory changes that strengthen the UK's position as a destination for listings, and cement the UK's standing as a global trading hub, attracting world leading companies including tech firms to incorporate, list and grow here. This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. British Business Bank (BBB) research suggests that the UK's venture capital financing gap relative to the US is over £5 billion per annum, despite UK funds making similar returns to their US counterparts.

82. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. Investing a higher percentage of LGPS capital into high-growth companies via private equity (particularly venture capital and growth equity), could generate improved returns to pay pensions. This includes but is not limited to innovative UK companies operating in fintech, life sciences, biotech, and green technology sectors.

83. The Scheme Annual Report for 2021-22 indicates the LGPS has a strong investment allocation into private equity of 4.3%, recognising the exact figure will vary across funds and will cover late-stage private equity in addition to venture capital and growth equity. Private reports indicate this is the highest performing asset class across the LGPS.

Ambition of 10% investment allocation in private equity

84. The government wishes to see LGPS funds and pools doubling their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition will help drive business investment throughout the country, in a way that allows everyone in the UK to benefit from the growth of our economy, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

85. Each fund will be different and will need to make its own investment decisions based on potential risk and reward appetite. As with any other asset class, it is important for administering authorities to exercise judgement on their exposure to private equity, as with any other asset class, and any investment in these asset classes should be part of a diverse and balanced portfolio.

86. We propose that LGPS funds should complete this consideration of private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement, and that the new requirement would be set out in revised guidance on investment strategy statements.

87. As with investments in levelling up, we expect that funds will work with their pool in considering such investments to ensure that they make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type. We welcome views on further opportunities for government to remove any barriers to investment in UK growth equity and venture capital by the LGPS.

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?

British Business Bank

88. The British Business Bank (BBB) is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

89. One of the BBB's strategic objectives is to back UK innovation by improving the way that equity finance markets work to support the UK's most promising businesses. The BBB has a range of programmes to deliver this objective, including [British Patient Capital \(https://www.britishpatientcapital.co.uk/\)](https://www.britishpatientcapital.co.uk/) (the BBB's commercial subsidiary with resources of £2.5 billion, which has delivered an internal rate of return of 32.9% since inception and Enterprise Capital Funds programme, which supports earlier stage businesses.

90. In delivering these programmes, the BBB has become the largest domestic investor in UK venture capital with deep expertise to support due diligence and the ability to invest at scale. This could be of benefit to the LGPS in finding attractive opportunities in this space. We support the LGPS, in particular the pools, to explore opportunities to collaborate and capitalise on the Bank's expertise and capabilities in venture capital and growth equity, and will bring forward any changes to secondary legislation which currently inhibit this.

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?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Background

91. In 2017 the Financial Conduct Authority (FCA) published its final [Asset Management Market Study Report \(https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf\)](https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf) (PDF, 317 KB). At the same time, the FCA made a reference to the Competition and Markets Authority (CMA) for a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

92. The CMA focussed its investigation on pension funds as the core clients for investment consultancy and fiduciary management services, and published its [final report \(https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Report\)](https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Report)

[port.pdf](#)) (PDF, 3.1 MB) in December 2018. This found that for both investment consultancy and fiduciary management services there was a low level of engagement by trustees, a lack of clear and comparable information to assess value for money, and an incumbency advantage for investment consultants in steering clients to their own fiduciary management services.

93. Based on its findings, the CMA made [The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 \(the Order\)](#) (https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf) (PDF, 230 KB) in June 2019 to tackle the adverse effects on competition identified. The Order applies to all registrable pension schemes including the LGPS and came into force on 10 December 2019.

94. The Order was intended as an interim measure to make changes quickly while statutory authorities take steps to implement the remedies in the relevant legislation. DWP has implemented the Order's requirements for private pension scheme trustees through [The Occupational Pension Schemes \(Governance and Registration\) \(Amendment\) Regulations 2022](#) (<https://www.legislation.gov.uk/ukxi/2022/825/note/made>).

95. However, LGPS administering authorities fall within the exemption in the Order at Article 3.6 that exempts any pension scheme trustees that are contracting authorities for the purposes of the Public Contracts Regulations 2015. These regulations cover local authorities including administering authorities, which means that administering authorities are exempt from the requirement of the Order to put fiduciary management services out to competitive tender.

96. Further, LGPS pool companies owned by LGPS funds are exempt from the Order under Article 1.7(b) which excludes in house or wholly owned investment consultancy providers and fiduciary management service providers. The exclusion under Article 1.7 of the Order applies to the Order as a whole (see para 15 of the Explanatory Note to the Order). This also puts LGPS pool companies outside the scope of the Order regarding any investment consultancy services they provide.

97. As a result, the only requirement in the Order which requires implementation in the LGPS is the requirement to set strategic objectives for investment consultancy they receive outside the LGPS pool companies. The Order prohibits funds from receiving any investment consultancy services unless they have set strategic objectives for their investment consultancy provider (Art 12). These strategic objectives should also closely relate to the fund's investment strategy and be reviewed at least every 3 years or whenever the investment strategy changes significantly. Further, there is an expectation of regular performance reporting by the investment consultancy provider that measures performance against these strategic objectives (see paragraph 91 of the Explanatory Note to the Order).

Implementing the CMA Order for the LGPS

98. As the responsible authority for the Local Government Pension Scheme, the Department for Levelling Up Housing and Communities (DLUHC) proposes to

amend LGPS regulations and statutory guidance to implement the Order's requirements for the provision of investment consultancy services for the LGPS.

99. Setting strategic objectives for investment consultants is in line with wider ambitions to improve governance and transparency in the LGPS and should encourage administering authorities to better monitor performance and improve the quality and value for money of such services over time.

100. We therefore propose that:

- Where the administering authority uses investment consultancy services in relation to its Investment Strategy Statement or for other matters, it must set strategic objectives for the investment consultancy provider, unless the provider is exempt (such as the LGPS pools);
- Administering authorities must not enter investment consultancy services contracts or continue to receive such services from any provider unless the authority has set strategic objectives for that provider
- Administering authorities must review strategic objectives at least every 3 years or every time the ISS changes substantially
- Strategic objectives must have regard to guidance on setting objectives for providers of investment consultancy services issued by the Pension Regulator in November 2019.

101. Investment consultancy services would include services where the provider advises the administering authority in relation to one or more of the following:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

102. In line with the definition of investment consultancy services in Article 2.1 of the Order, advice would mean advice on the merits of the administering authority taking or not taking a specific course of action and includes any recommendation or guidance to that effect. It is not intended that the term would cover the high-level commentary provided by actuaries in or in respect of triennial valuation reports and with regard to the link between investment approach and the administering authority's funding objectives.

103. The government proposes to implement these requirements by amending [The Local Government Pension Scheme \(Management and Investment of Funds\) Regulations 2016 \(the 2016 Regulations\)](#) (<https://www.legislation.gov.uk/ukxi/2016/946/contents/made>) and [associated guidance](#) (<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>).

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

104. In making the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ([S.I. 2016/946](https://www.legislation.gov.uk/ukSI/2016/946)) (<https://www.legislation.gov.uk/ukSI/2016/946/contents/made>) (the 2016 Regulations), the Government intended to ensure that the definition of investments which were or could be made by LGPS administering authorities included passive insurance contracts, private equity and derivatives.

105. After laying the 2016 Regulations, the Joint Committee on Statutory Instruments (JCSI) identified an issue relating to the drafting of regulation 3(1)(b) and regulation (4) of the 2016 Regulations. Regulation 3(1)(b) was intended to include contributions in an unquoted securities investment partnership within the definition of investment but reads as follows:

Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment

106. Regulation 3(4) defines unquoted securities investment partnerships as a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

107. The Department undertook to amend regulation 3(1)(b) of the 2016 Regulations to align it with regulation 3(4) at the earliest available opportunity. We therefore propose to add the word 'partnership' to regulation 3(1)b as follows:

Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership

108. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 4, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

109. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

110. We have made an initial assessment and we believe our proposals on reforms to pooling, investment in levelling up, investment in venture capital, requirements on the use of investment consultants and changes to the definition of investment in chapters 2 to 6 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments.

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.

Annex A: List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling 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 including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

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.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

Annex B List of consultation questions

Chapter 2: Asset pooling in the LGPS

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?

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?

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?

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?

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Chapter 4: Investment opportunities in private equity

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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?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

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.

About this consultation

This consultation document and consultation process have been planned to adhere to the [consultation principles \(https://www.gov.uk/government/publications/consultation-principles-guidance\)](https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure \(https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure\)](https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

Data Protection Officer
Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London
SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share [special category \(https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1\)](https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'), and Schedule 1 paragraph 6 of the Data Protection Act 2018 ('statutory etc and government purposes'). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

DLUHC may appoint a 'data processor', acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have your data corrected if it is incorrect or incomplete
- d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> (<https://ico.org.uk/>), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO:

dataprotection@levellingup.gov.uk or

Knowledge and Information Access Team
Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London
SW1P 4DF

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Warwickshire Pension Fund

LGPS (England and Wales) Next Steps On Investment

Consultation Response

21st September 2023

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?

- As a partner fund within the Border to Coast Pensions Partnership pool, our pool has not only complied with, but is considered by the pool's Joint Committee to be meeting all the original aims of the Government's 2016 pooling strategy.
- It is important that requirements imposed on Administering Authorities (Funds), which limit or hinder their ability to meet current and future Fund liabilities, do not create conflicts of interest which the Funds cannot navigate. Where proposals are made that do create an actual or potential conflict, for example prescribing that Funds should invest in certain assets or type of assets, or that Funds must invest via pools, etc, it would be helpful for Funds to have clarity on what is the priority. New requirements and objectives should at least be articulated in a way as to allow Funds enough discretion that Funds can still meet their fiduciary duty, should there be a conflict, for example through "comply or explain" approaches.
- It is important to recognise that Administering Authorities have responsibility for liabilities and the management of governance as a whole, not just investments, and they have the ultimate fiduciary duty to pay pensions. Administering Authorities need to be able to focus on ensuring pensions can be paid and not have to compromise on this in order to deliver other objectives.
- A recognised risk is whether there is adequate resourcing and sufficient ability to recruit the right capabilities within Funds.
- We believe that a separation of duties should continue between Funds and Pools, to minimise conflicts of interest and to maintain challenge, e.g. we believe there could be conflicts of interest for Pools taking on the core strategy advisory roles within Funds, and there will always be a need for independent strategy advisors.
- This said, scale can deliver benefits. A 2022 publication by CEM looked at the case for scale for pension schemes. Its findings were that asset pooling led to lower staff costs per assets invested (due to the ability to internalise certain investment capabilities) and to lower external management fees (due to the negotiating strength that comes from the value of mandates being placed, negotiated by professional investors whose interests are aligned with the ultimate asset owners).
- This is supported in the recent paper "Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans" (March 2023). This research demonstrates the benefits of economic scale in pension plan investments (particularly those with in-house investment capabilities): large plans have stronger bargaining power over their external managers in negotiating fees as well as access to better-performing funds, relative to small plans. They use this power to produce higher gross and net-of-fee return performance, particularly in private asset classes. Economies of scale in investment costs are particularly large

for passively managed accounts and for publicly traded assets and are significantly lower for actively managed accounts and alternative (private) asset classes.

- However, scale doesn't always deliver additional benefits; seeking scale without addressing issues such as good governance, a common vision and culture (within the Pool and among Partner Funds), complexity of investment strategies, and client needs, can either inhibit, or damage, a pools ability to deliver.
- Delivering the benefits of pooling can be challenging and requires an understanding at officer and elected member level of both the benefits and costs of compromise, and an ability to assess where such compromise does not have a material impact on the risk/return profile that we as a Fund wish to achieve. However, there is acknowledgment that Pools must be able to provide products that service the diversity profile of the liabilities of each Fund they support.

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?

- We support the principle of transferring, or having a clear path to transition, assets to pools. However, we believe March 2025 is too short a timescale to impose as a hard target. Products will need to be developed within pools to allow the suitable transition of assets, but forcing this to happen by this date has the potential to cause significant avoidable transition costs and risks.
- We would welcome clarity on the position of legacy illiquid assets particularly those in private markets. With fees already negotiated, and with typically no ability to adjust them post commitment, transferring these assets to the pool may simply incur new legal and tax costs. It may be more appropriate to agree that individual Partner Funds should not seek to make new illiquid investments outside their pool from this date, and the pools (where appropriate) support Partner Funds on the oversight of legacy illiquid assets as they run-off. This could be on a case-by-case basis – for example it is possible to transition UK Real Estate assets with appropriate tax planning and achieve strong investment and business case benefits, though this may not be able to take place before March 2025 without causing significant avoidable transition costs.
- We would also welcome clarity on 'passive' investments. In our pool's current arrangements, Funds have a commercial arrangement across a range of index' funds in large, liquid and low-cost pools. These assets benefit from oversight from Border to Coast, and there is no obvious value for them to be replicated within the Pool. We believe that these investments should continue to be considered pooled ("assets under pool management").
- We also note the current guidance that up to 5% of assets can be invested outside the pool. We believe this flexibility should remain – particularly as this allows Funds to ensure fiduciary duties are met whilst encouraging the opportunity to making local investments where suitable.

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?

- Through Border to Coast we have developed a model of pooling which has successfully allowed us to meet the government's objectives for pooling. We support the approach set out in the consultation, which is reflective on the manner in which we have sought to pool. Nonetheless, we would urge caution on being overly prescriptive in describing any model in guidance as doing so would bring with it the risk of stifling innovation and the ability of Partner Funds and pools to respond to changing circumstances.

- We would prefer that new requirements that impose new objectives onto Funds (e.g. stating Funds must invest in certain assets etc) are kept to a minimum as they will make it more difficult for Funds to innovate and to meet their fiduciary duties by reducing flexibility.
- We believe that within the Border to Coast pool we have been compliant with the government's intentions and so would not want to be the subject of directives intended to ensure non-compliant Funds and pools change their approaches.
- We believe that strategic asset allocation, and Fund investment strategy should remain with LGPS funds who have responsibility for the liabilities, and Funds can then commission investments primarily through pools.

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?

- Yes, we already have a training policy, and we already report against it in the annual report.
 - It is important to ensure decisions are made by the right people, with the right level of knowledge, at the right time.
- Due to the natural political cycles, turnover of Pension Fund Committee Members results in challenges with knowledge retention in the decision-making body.
 - The LGPS needs to consider how to recruit and retain committee members with appropriate skills given the significant responsibilities the committee holds.
 - The knowledge and understanding of Pensions Committees may be supported by independent advisors who can act in a role akin to Non-Executive Directors (who should be set clear objectives in such a role) but cannot be a replacement – and may play a key role in supporting the Committee in their responsibilities in the oversight and scrutiny of the investment strategy by the pool.

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?

- We support the proposal to have standard reporting requirements (with clear and consistent definitions). We would welcome this is progressed as part of the Good Governance project. We would also welcome a complete review of the regulations to simplify and streamline processes.
- We support the reporting of net savings, but definitions would need to be modernised to the most appropriate benchmarks or comparators.
- Any standardised reporting on asset performance would need to be designed such that it is at a level and in a form where comparisons are meaningful and are reported in a way that does not incentivise Funds to make sub optimal decisions.
- In addition to reporting aimed at highlighting performance, there needs to be reporting on pool performance.
- What is the added value of an increased and standardised reporting framework?
- Is there a benefit to members of producing information for scheme members of individual asset class performance? E.g. against the Asset Liability Modelling risk/return metrics. This is already done to a certain extent by SAB, CEM benchmarking
- Risk-adjusted net returns is the most important investment objective for a Fund, more important than fee saving. What is the need to consolidate responses from all AAs? Consider liability benchmark too, e.g. Longevity

- Who decides on the level of granularity of asset classes?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

- We support clear and consistent reporting by the Scheme Advisory Board, provided the Board is sufficiently resourced to undertake the work and it is undertaken in such a way as to minimise the data collection burden on us as Funds.
- We also note the broader issue of increased reporting for the LGPS. The research in “LGPS: Views from inside the scheme” found that over half (54%) of respondents feel that the legislation/regulatory requirements are too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.
- This is not to diminish the fundamental role of transparency and reporting. This is essential to ensure accountability, and to drive best practice across the LGPS. However, simplicity is key. Partly driven by the scale and complexity in current reporting requirements, we understand a recent review by SAB suggested that nearly a third of LGPS funds were not meeting their annual report disclosure requirements.
- Simply adding additional reporting requirements not only adds cost, but there is a significant negative impact for the intended audience of the scheme members due to the volume and complexity of information being published. We believe that the impact assessment of changes in guidance – in terms of cost, transparency, and in the ability of readers to interpret what is shared – should be taken in the context of the ongoing review of LGPS reporting requirements being undertaken by the Scheme Advisory Board.

Question 7: Do you agree with the proposed definition of levelling up investments?

- Any arbitrary rule about how to invest makes it harder for Funds to deliver our purpose of being able to set funding strategies, with an appropriate level of risk-adjusted return, to meet current and future liabilities, in line with our fiduciary duty. If an investment opportunity naturally meets the Fund's risk/return objectives, then we will naturally invest without the need for prescription, but Funds need to have the freedom to choose this in line with our statutory responsibilities.
- Through our Pool, Border to Coast, a new private markets strategy, ‘UK Opportunities’ is being developed anyway. Set to launch in April 2024, this will provide us with opportunities to invest in the regions across the UK, including venture and growth capital, and will ultimately support the policy intent outlined in the Levelling Up white paper, if this fits with our funding strategy.
- Under current guidance, we have the flexibility to invest up to 5% outside of pools anyway. The local and specific nature of these investments mean they may be of a small scale and unable to be effectively delivered through the pool. As such, this exemption to making these investments outside of the pool should be maintained (although this should still be subject to regulatory permissions, resourcing, recognising the importance of managing conflicts of interest that may still arise, and the role pools can play in advising in relation to non-pooled investments).
 - We agree with the definition outlined in the consultation.
 - We would reiterate the comment that it would be more positive to allow Funds enough flexibility to avoid Funds having to compromise on meeting their fiduciary duty in order to achieve levelling up objectives, should there be a conflict.

Question 8 : Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

- Yes, this would open up a wider opportunity set to LGPS Funds and therefore increase the likelihood of Funds being able to meet their investment objectives through LGPS pools.
- This could be a positive option to have available. We also support the Government's view that this approach, if used, should promote choice and centres of excellence, and not be driven by competition, the focus should be on collaboration. This could allow further economies of scale in certain asset classes that would naturally benefit from this as an alternative approach to increasing pool size to gain efficiency, without the potentially significant cost of merging pools. This could allow pools to specialise in certain asset classes and be recognised as 'best in class'.
 - It would potentially allow further economies of scale in asset classes that seem to benefit from this.
 - This would allow access to products that a Fund's Administering Authority's own pool has not yet developed, and avoids additional resources being used to recreating something that already exists within the LGPS pools.
- However, it needs to be recognised that there are several implications that need to be fully considered and risks mitigated. These include issues such as:
 - *Proposition development* – currently propositions are designed with, and for us by our Pool where we are both a shareholder and a customer. Care will be required should external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes may need to be reviewed to overcome this challenge.
 - *Niche strategies* – certain investments may have capacity issues. For example, despite significant demand, the initial Climate Opportunities strategy was capped at £1.35bn. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.
 - *Cost model* – as shareholders, we principally manage risk through Border to Coast's regulatory capital. As non-shareholders, external pool customers would be subject to different pricing.
 - *Managing demand* – in owning and building Border to Coast, there has been a structured approach to its growth –building capacity and capability to reflect our long-term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing in- and out-flows, potentially destabilising the Pool's ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.
- There would need to be appropriate arrangements in place to promote collaboration and to ensure that the governance arrangements in pool are appropriate.
- There would need to be clarity around fee structures in these circumstances, ensuring that fees remain transparent and fair.
- Pools managing additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager's vehicle.
- There would need to be clarity around how demand is managed by pools.
- We would want the whole of the LGPS to do well and would want any arrangements to have that objective in mind.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

- We do not agree with this proposal, as this potentially does not support the fiduciary duty of funds, it is simply imposing additional burdens and costs on the LGPS to support UK Government policy objectives.
- There would be challenges in reporting information consistently. Any investment strategy and associated reporting on Levelling Up would need to be through the principal asset classes (e.g. Real Estate, Private Equity, Infrastructure, Private Credit, etc). This ensures that the risk-adjusted returns are considered on the same basis.

Funds already have to produce and publish their funding strategies, which clearly set out our liabilities, the risk-adjusted returns we are seeking to satisfy those liabilities, and the strategic asset allocations that best deliver the funding strategy defined. Adding a requirement around levelling up to this has the potential to cause conflict for some funds with our fiduciary duty to pay current and future pensions.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

- No in that this would be additional reporting on a matter that is not a core LGPS objective and would cause resourcing implications for Funds.
- To the extent that there are reporting requirements they would need to be simple to administrate.
Based on our response to question 9 i.e. not agreeing with the need to have a published levelling up plan, we don't feel it necessary to comment on the potential reporting requirements as these don't add value to Funds' fiduciary duty and this simply adds unnecessary costs to Funds.

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?

- No. As open DB pension schemes, it is essential that LGPS Funds develop appropriate diverse investment strategies designed to balance risk and return to ensure the LGPS remains affordable with stable employer contributions. Funds should be free to determine their Strategic Asset Allocation without constraints that tie them to other objectives that could be conflicting with a Fund's main objective. In the current financially volatile environment, it is also important that employers have stability in their contributions rates, which strategic asset allocations also support. Imposed asset allocations like this could risk more instability.
- Funds should be free to determine our Strategic Asset Allocation without constraints, based on our assessed level of liabilities and the appropriate level of risk-adjusted returns needed to ensure we can fund our liabilities, when they fall due.
- There is the potential for arbitrary constraints like this to cause a conflict with Funds' fiduciary duty to pay pensions on time.
- Private markets (and all asset classes) can play a role in this, but requiring all Funds to have to have a certain amount of a certain asset will cause sub-optimal decision making.

- Should there be any directive, the broader it is the less risk of poor decision making it will cause.
- If Government decides to implement a requirement, any defined allocation should be to private markets globally rather than purely private equity, as simply focusing on private equity is likely to create more of an issue for a higher number of funds through risk concentration than using private markets. Could this 10% allocation be to private markets rather than just private equity?
- Rather than imposing arbitrary targets, the most effective way to encourage any investment in the UK is the provision of a stable investing environment through policy certainty. If the LGPS and private capital is being asked to make large, long-term, capital investments, the Government needs to offer corresponding long-term guarantees and/or the necessary policy certainty to protect these potential investors. Examples include policy certainty on renewable energy, transport and other climate transition considerations; improvements to the planning regime to accelerate development opportunities and to enable clearer partnership opportunities with Local Authorities; and the development of structures (perhaps with the support of BBB or UKIB) that enable risk sharing or return visibility.
- The optimal allocation to private equity (or any asset class) may will vary over time and should be considered as part of a full Strategic Asset Allocation.

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?

- There are a range of potential partners that could support the LGPS pools to deliver growth capital in the UK. The British Business Bank (BBB) is one of many experts in the private capital market, whilst it could be unwise to ignore their expertise, there are many other sources which are equally relevant in this space.
- Given their state ownership and strategic focus to 'crowd in' other investors, these institutions may be well placed to support the LGPS pools source and commit to ventures that meet our normal investment criteria. However, the BBB was only established in 2018, so does not yet have an established track record that its fund is able to perform in line with returns available elsewhere from other more established providers, which will be a consideration in any engagement.
- We do note that one of the key objectives of LGPS pooling was to reduce the fee burden paid by pension funds, and in a private market context, reduce the reliance on fund of fund structures which introduce an additional layer of fees and carry (profit share) expense. As such, any vehicle should be offered on a cost only basis if the intention is to encourage greater participation in this part of the market. Additional fee load will detract potential investors who are sensitive to fees. BBB will be investing balance sheet capital into all investments so a successful investment policy will deliver profitability for them without a reliance on fee income.
- Noting our comments in previous bullet points it is important that any partner to the LGPS has the appropriate capacity, capability, and fee structure to support the implementation of our investment strategies. Without this, this could be another unhelpful constraint for Funds and Pools.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

- We already meet the CMA review criteria with an annual review of consultants and advisors, so this wouldn't present an issue for us, and we'd welcome a consistent approach across the sector.
- If advisory work was to be done through Pools in the future, we believe LGPS pools should have the same requirements as any other investment consultants or advisors. However, we believe pools would have significant conflicts of interest if advising on investment strategy and implementing the strategy.
- We have a very strong view that there will always be a need for independent advisors regardless of who is providing the core advice, given there are potential conflicts of interest for any core advisor, the type of conflict simply differs depending on whether it's a specialist consultancy firm or a Pool.
- There would need to be independent checks on advice received from pools, either that is provided by an investment consultancy or through internal expertise e.g. an independent adviser, as the conflict of interest in having responsibility for assets but not the liabilities is a significant issue.

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

- No.

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.

- No.