

# Portfolio Holder Decision

## Local Government Pension Scheme: Next steps on Investment Consultation Response

<b>Portfolio Holder</b>	<b>Portfolio Holder for Finance and Property</b>
<b>Date of decision</b>	<b>21 September 2023</b>
	<b>Signed</b> 

### 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 11<sup>th</sup> 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](mailto:LGpensions@levellingup.gov.uk)) is the 2<sup>nd</sup> 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.

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<b>Urgent matter?</b>	<i>No</i>
<b>Confidential or exempt?</b>	<i>No</i>
<b>Is the decision contrary to the budget and policy framework?</b>	<i>No</i>

### 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