

Pension Fund Investment Sub-Committee

9 December 2024

Government Review of Local Government Pension Scheme

Recommendations

That the Pension Fund Investment Sub-Committee (PFISC):

1. Notes and comments on this report; and
2. Approves holding a special meeting of the PFISC in January to sign off a formal response to the Government's "LGPS Fit for the Future" consultation from the Warwickshire Pension Fund.

1. Executive Summary

- 1.1 The Government is partway through a process of review of the LGPS (and the wider pensions industry) and recently the Warwickshire Pension Fund ("the Fund") responded to a "call for evidence" relating to the review. Now the next stage of consultation has been launched entitled "LGPS Fit for the Future", with a deadline to respond of 16 January 2025 (nine weeks from the date of issue). A hyperlink to the full consultation is provided [here](#) and an extract from this, summarising the proposals and consultation questions, is reproduced at Appendix 1.
- 1.2 The consultation has three themes:
 - reforming LGPS asset pooling;
 - boosting investment in localities and regions in the UK; and
 - strengthening the governance of LGPS Funds and Pools.
- 1.3 The key elements of the consultation to bring to the Sub-Committee's attention are:
 - There are no proposals for forced mergers of Pools or LGPS Funds; however, the Government is setting out minimum expectations of pools and asking pools to submit their plans to respond to the changes by March 2026. Government's focus is largely on greater scale in pooling, which is likely to drive further consolidation of the pools. The minimum expectations around LGPS governance will be tested through biennial reviews which may drive further pressure for consolidation of funds.

- The proposals around pooling appear to be aimed at completing the pooling project and bring all areas of the LGPS to the same position and the same minimum standard, likely with fewer, larger pools.
- The Border to Coast Pension Partnership (BTC), of which the Fund is a part, is already well positioned against the minimum standards for pools; for example, it is already regulated by the Financial Conduct Authority (FCA), and its partner funds are well progressed on the road to being fully pooled. In addition BTC has developed a long term strategy that already takes steps in the direction that the consultation is proposing.
- There is no hard target to invest any given amount in the UK or locally; however, there are expectations of LGPS funds engaging more locally, and investing more locally. Funds will need to set out their approach to local investment as part of their investment strategies and report on its impact.
- The requirement to implement the Good Governance Review is welcomed by the Fund and by the LGPS generally who have wanted it to go ahead for some time.

1.4 The consultation proposes some significant changes to how the LGPS operates and therefore it is important to take the opportunity to respond.

1.5 Appendix 2 sets out the three areas of the proposals and associated considerations in more detail. Some initial key considerations are highlighted below:

- Transfers of assets should not be pushed at such a pace that forces the distressed sale of illiquid assets at poor values. The timetable for implementation is:
 - 1 March 2025 – Funds and Pools submit plans for the completion of pooling.
 - 31 March 2025 – completion of pooling of all listed assets.
 - March 2026 – completion of move to the new model of pooling, including FCA registration of all pools, and the pooling of all assets.
- Funds should retain full control over the setting of the Strategic Asset Allocation, as this is a strategic activity fundamental to the performance of funds and is not implementation of investment strategy.
- The proposals require Funds to take principal investment advice from their pool. It is crucial that Funds retain the ability to procure appropriate advice to support them in discharging their fiduciary duties and overseeing the performance of their pool. Advice from the pool requires careful consideration of appropriate controls to manage conflicts of interest, and consideration of the role of independent advisers and the facilities available to Funds to take independent advice.

- Greater clarity is needed around how local investing would work, for example the definition of “local”, how to manage conflicts of interest, how pension funds are required to interact with local organisations, how to avoid concentration risk, and how to use the scale and expertise in the pools to support local investing. There are likely to be strongly divergent views across the country, with a strong temptation to use local pension funds to support local policy objectives. We believe that the objectives of the pension fund, which are fundamentally to pay pensions now and in the future, must remain the sole focus of the Fund and so local investing should only be considered where it is an appropriate element of the investment strategy and fundamental purpose of the Fund.
- We favour a broad definition of ‘local’ investment, covering the whole of the UK to avoid the concentration risks of very local investment. There are also issues requiring careful management around how Mayors and Combined Authorities may seek to influence investment decisions, to ensure pension pools only make ‘good investments’ from a fiduciary perspective. More clarity is needed in respect of the impact of the Devolution White Paper and any interaction with pensions reform.
- Although mergers of pools or Funds is not being mandated, greater clarity on what the government expects is required so that Funds and pools can understand the likely circumstances under which mergers would be expected or potentially imposed.
- The timescales for pooling do not leave enough scope for orderly transition of assets (or for those pools who are not FCA regulated to become so, but this challenge does not apply to the Border to Coast Pension Partnership).
- There should be flexibility for administering authorities to use different internal structures to deliver LGPS responsibilities, and we do not agree with the proposal that the senior LGPS officer should be involved in the administering authority’s budget setting process (other than in the usual planning and management of budgets to do with the running of the Pension Fund).
- We would expect pools to be able to provide a much wider suite of reporting if pools are managing or overseeing all assets, and for the minimum standards for pools to be clear about the timeliness and quality of information and reporting expected from pools.
- We fundamentally disagree with the suggestion in the consultation that “...it is in the interests of members that their investments support the prosperity of their local areas...”. This does not follow, and compromises the purpose of the Pension Fund which is simply to pay pensions through effective investment to meet current and future needs, and a well-run pension administration function to support members and employers.

- The nature of biennial governance reviews, and the potential consequences of good and bad results need to be made clearer.
- The requirement to professionalise pension fund committees overlooks the democratic mandate that committees have to oversee funds, and overlooks the success in delivery of objectives that the current model has demonstrated.

2. Financial Implications

- 2.1 The proposed reforms of the LGPS aim to further reduce costs. Warwickshire Pension Fund has made significant progress on pooling and cost savings, but there is further to go.
- 2.2 The local investing proposals have the potential to lead to more local investing; however, this cannot be done at the expense of the Pension Fund meeting its core objective of paying pensions.
- 2.3 The good governance review requirements have the potential to drive higher costs if/where it is necessary to invest in order to meet them; however, the Fund is already well governed and well placed to take actions to meet the new requirements. Therefore while there may be costs they are not anticipated to be high.

3. Environmental Implications

- 3.1 The Border to Coast Pension Partnership has a track record in developing and delivering strong Responsible Investment (RI) stewardship, and with pooling being pushed further, we have no concerns about being able to continue to express our RI views through the pool under the proposed reforms.

4. Supporting Information

- 4.1 Appendix 1 lists a summary of the actual proposals and consultation questions. Appendix 2 sets out the three areas of the proposals and associated considerations in more detail.

5. Timescales associated with the decision and next steps

- 5.1 A meeting of the PFISC and Portfolio Holder for Customer and Transformation (and Chair of the Staff and Pensions Committee) will be held in January in order to consider and approve a response to be submitted by the 16 January deadline.

- 5.2 A joint response from partner funds of the Border to Coast Pension Partnership is being drafted and the Fund is engaging on the content of this. However, it should be noted that on some matters there may be differing opinions between partner funds and a consensus may not be achievable across all issues.

Appendices

1. Appendix 1 – Extract of consultation proposals and questions
2. Appendix 2 – Summary of the three areas of proposals and some initial considerations.

Background Papers

None

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The report was circulated to the following members prior to publication:

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Other members: