

LGPS Fit for the Future – Draft Response Warwickshire Pension Fund

Appendix 1

Scope of the consultation

Topic of this consultation

This consultation seeks views on proposals relating to the investments of the Local Government Pensions Scheme (LGPS). It covers the areas of asset pooling, UK and local investment and governance.

Scope of this consultation

The Ministry of Housing, Communities and Local Government (MHCLG) 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 LGPS administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic information

Body responsible for the consultation

Ministry of Housing, Communities and Local Government

Duration

This consultation will last for 9 weeks from 14 November 2024 to 16 January 2025.

Enquiries

For any enquiries about the consultation please contact: LGPensions@communities.gov.uk

How to respond

Please respond by completing an [online survey](#). You can also access the online survey by scanning the following QR code:



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

Alternatively, please send postal responses to:

LGF Pensions Team
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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

1. Introduction

1. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). The UK has the third largest stock of pension assets in the world. It is crucial that those assets are invested effectively, to provide security in retirement. Pension funds are also critical as a major source of domestic investment. That is why the Pensions Review has been set up with the twin objectives of improving pension outcomes and increasing investment in the UK.

2. The LGPS is fully funded with good investment returns and has achieved many successes in recent years. These include the establishment of LGPS asset pools as strong regional investment managers, thanks to the commitment and hard work of people across the scheme. But few in the scheme would disagree that pooling has not delivered to its full potential and that change is needed to ensure that the scheme continues to perform in the long term in the best interests of members, employers, local communities and the wider UK economy.

3. The focus of the review for the LGPS is to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through further consolidation. The government is now consulting on proposals to put the LGPS on a clearer, firmer trajectory to scale and consolidation, as well as measures to improve scheme governance and investment. Together these proposals seek to provide long-term clarity and sustainability, putting the scheme on the strongest possible footing for the future.

4. The LGPS is one of the world's largest funded pension schemes, managing the pensions of 6.7m members and investing £392 billion worldwide, as at March 2024. Its scale makes it a significant investor with the potential to boost growth across the country, while delivering its core duty to make long-term stable returns to pay the pensions of those who have delivered vital local services. At present, however, the scheme does not reach its full potential as an investor and engine of growth due to the fragmented nature of the scheme, and inconsistent standards of governance.

5. Since 2015, the 86 administering authorities (AAs) have come together in 8 groups of their own choosing to move towards managing their investments through 8 LGPS asset pools. The previous Government consulted on proposals to accelerate and expand the pooling of LGPS assets, to increase investment in local projects, and ambitions to grow investment in unlisted equity. The responses to that consultation, along with responses to the recent Pensions Review Call for Evidence and engagement

undertaken with LGPS stakeholders have informed the proposals in this consultation. The government is grateful to those who have contributed their views.

6. In August 2024 the Chancellor of the Exchequer met with leaders of Canadian pension schemes. The Canadian model has key strengths including the integration of investment advice, consistent delegation and in-house investment management, which enhance control over investments and reduce reliance on external managers. The model's governance structures ensure accountability and strategic alignment with long-term goals. Importantly, the consolidation of multiple pension funds under a unified governance framework has proven effective in achieving economies of scale and optimising resource allocation. Their model has demonstrated robust performance, setting an example globally. In developing proposals the Pensions Review has taken valuable learnings from the Canadian model.

7. The proposals will complement key Government growth programmes aimed at creating an attractive pipeline of investment opportunities such as the National Wealth Fund and the British Growth Partnership. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.

8. This consultation seeks views on proposals to strengthen the management of LGPS investments in 3 areas:

Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:

- AAs would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;
- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:

- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities,
- to work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.
- to set out their local investment and its impact in their annual reports.

Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:

- committee members would be required to have the appropriate knowledge and skills.
- AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- pool boards would be required to include representatives of their shareholders and to improve transparency.

9. The following chapters describe the government's proposals in more detail and provide the rationale behind them. Chapter 2 sets out proposals regarding asset pooling, Chapter 3 sets out proposals regarding UK and local investment, and Chapter 4 sets out proposals on governance. Finally, Chapter 5 sets out our initial assessment of potential equalities impacts and invites views.

10. Government has received representations on the issue of LGPS fund mergers. The government recognises that fund mergers can incur significant costs and risk. Nonetheless, a number of LGPS funds have successfully merged on a voluntary basis and the government encourages administering authorities to consider whether there would be benefit in merging with another fund, taking into account final decisions on the reforms proposed in this consultation.

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

2. LGPS pooling

Background

12. Following the publication of guidance on the pooling of LGPS assets in 2015, the 86 AAs came together in groups of their own choosing to establish 8 asset pools. As of 31 March 2024, £178 billion (45%) of LGPS assets were invested through these pools, with a further £107 billion (27%) of assets managed by the pools outside of pool investment vehicles.

13. The scale and expertise of the asset pools have delivered a step change in the expertise, capacity and resilience of the LGPS. This has enabled AAs to diversify their portfolios significantly, and to manage assets more efficiently, at reduced risk. AAs have been able to use the pools to invest in asset classes they would previously not have had the expertise or capacity to invest in, particularly in private markets. The pools have supported their partner funds by delivering investments, reporting and engagement that meets the AA's requirements on responsible investment, and which individual funds may not have had capacity to pursue by themselves. As a result, since their inception the pools have reported that they have delivered net savings of £870 million, against total costs of £675 million.

14. Examples of the benefits of scale since the inception of asset pooling in the LGPS in 2015 have included:

- Lower fees: pooling has allowed for access to complex asset classes at lower rates of management fees. For example, the cumulative net savings of Local Pension Partnership (LPP) to 31 March 2024 amounted to over £200 million. A significant proportion of these savings derives from their use of direct internal management including private market mandates such as the GLIL direct infrastructure vehicle, which is able to provide access to the asset class at a lower fee rate than comparable private sector asset managers.
- Enhanced investment opportunities: pooling allows for more sophisticated investment in diverse and large-scale projects that individual funds might not be able to access. For example, Border to Coast have launched a UK Opportunities private markets programme, which has recently committed £48.5 million to build onshore solar and wind farms as well as battery storage. The investment will develop 4 wind farms in Scotland with further sites in the pipeline. LGPS Central has

introduced substantial growth funds with a focus on sustainable investing, including an internally managed £5.2 billion climate factor fund which invests in publicly listed companies targeting lower carbon emissions.

- Improved efficiencies and resilience: pooling has allowed for expertise and capacity to be shared including on reporting, and the development of in-house management of assets ('internal management') with associated lower costs, by LPP, LGPS Central and Border to Coast.

15. Most respondents to the Pensions Review Call for Evidence were positive about LGPS pooling as a concept, and thought that it was delivering scale, diversification of assets and cost savings. More than half of responses also recognised greater collaboration between funds in the same pool since pooling's introduction.

16. In addition to the evidence from LGPS pooling to date, the Pensions Review has established a broader evidence base on the benefits of investing at scale, including through analysis of international comparators such as Canadian pension schemes. The Pensions and Lifetime Savings Association found that schemes between £25 billion and £50 billion assets under management (AUM) had strong governance and could more easily invest in productive finance directly. Going further, a report by JP Morgan analysing Australian superfunds showed how funds of more than £50 billion AUM were able to drive down costs through internal management. A report by NMG consulting, which compared seven LGPS pools to eleven international comparators, also showed the benefits of economies of scale materialising once a pool reaches more than £80 billion AUM.

17. These analyses are consistent with the responses to the recent Call for Evidence which demonstrated wide support and agreement that scale leads to greater economies, efficiencies and reduced risks, as well as enabling greater expertise and diversification in investments which can importantly deliver better long-term returns for scheme members. [Academic research](#) also suggests the model deployed by Canadian pensions schemes, including the integration of advice, consistent delegation and in-house investment management, is able to generate 0.4% a year of additional returns vs their international competitors. Taken together, the findings of the analytical work of Phase 1 of the review suggest a clear link between scale and both asset diversification and lower costs. This is set out in further detail in the [Pension fund investment and the UK economy paper](#) published alongside the [Pensions Review Interim Report](#).

18. In the light of the evidence set out above the government has considered the current position of LGPS pooling. The 8 pools each have different models: 5 are standalone FCA-authorized investment management companies ('LGPS pool companies'), 2 have an outsourced model that relies on external providers, and one has a model in which a joint committee provides oversight, but the partner funds retain management of most assets. As shown in Table 1 below the pools vary in their capability to provide advice and/or internally manage assets, in their number of partner funds, the total assets held by those partner funds, and the degree to

which those assets have been pooled. The table below distinguishes between assets that are invested in pooled vehicles, and those that are managed by the pool but have not been transferred to a pooled vehicle. Assets invested via the pool are distributed across a number of separate sub-funds designed to meet different investment objectives, each with one or more investment managers, and the pools also vary in the number of sub-funds that have been established.

19. As Table 1 shows, some of the pools have made very limited progress transferring assets from partner funds to the pool. Others have created large numbers of sub-funds, often with multiple sub-funds for the same asset class, which reduces the potential benefits of scale. Although each of these models has reported successes to date, they are not equal in their ability to continue to develop to meet future challenges.

Table 1: Overview of existing LGPS pooling models.

Pool	Pool Model	Number of LGPS Funds	Total Assets £bn	Assets in pooled vehicles £bn	Assets managed by pool £bn	Number of pool sub funds
Access	Joint committee management, Fully outsourced investment management provider	11	64.6	32.7 (51%)	44.7 (69%)	30
Border to Coast	Partner/shareholder, FCA regulated, Internal management, Developing advisory	11	63.7	37 (58%)	45.3 (71%)	17
Brunel	Partner/shareholder, FCA regulated, External management only	10	40.3	32.2 (80%)	34.7 (86%)	27
LGPS Central	Partner/shareholder, FCA regulated, Internal management, Developing advisory	8	61.4	19.7 (32%)	27.5 (45%)	26
Local Pension Partnership	Partner/shareholder, FCA regulated, Internal management, Administrator	3	23	21.9 (95%)	23 (100%)	10
London CIV	Partner/shareholder, FCA regulated, External management only, Developing advisory	32	50.8	17.2 (34%)	31.6 (62%)	24
Northern	Joint committee management, 2 pooled investment vehicles: GLIL Infrastructure, NPEP Private Equity	3	61.4	3.7 (6%)	59 (96%)	2
Wales	Joint committee management, Fully outsourced investment management provider	8	25	13.3 (53%)	18.5 (74%)	10

(i) Assets invested in pooled vehicles reflects those assets that are managed via the pool's sub-funds, which are shared investment vehicles across the partner LGPS funds.

(ii) Assets managed by the pool also includes additional investments specific to an individual partner fund, including legacy

investments in closed-end fund vehicles being managed to maturity on the fund's balance sheet by the asset pool.

(iii) This treats multiple vintages as the same sub-fund.

(iv) These figures are in respect of LPPI's three partner funds only.

(v) Although Northern LGPS report 96% of partner funds' assets as being under pool management, the Government's understanding is that this refers to oversight by the pool committee of investment management and decisions made by the pension committees of the individual AAs.

20. The government's view is that pools with outsourced models, or pooling of some private markets assets only, have delivered significant savings and diversification to date but are not well placed to deliver for the future while retaining their current model. They lack the substantial in-house expertise, capacity and resilience provided on a non-profit basis by the LGPS pool companies. In addition, the pool companies that have - or are in a position to develop - in-house investment management capabilities should benefit from significantly lower costs compared to the use of external private sector investment managers, given existing experience within the LGPS. Some existing expertise formerly within larger funds has already been transferred to the pools, and other AAs have capacity and expertise that could be more widely shared.

21. The government believes that, to deliver successfully for members and employers, all the pools will need to develop further as powerful global and local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals set out below draw on the evidence and experience of the advantages and disadvantages of the range of models built up over the 5 years since all the pools became operational.

Proposals - Optimising pooling for the future

22. For the LGPS to adapt to future challenges and maximise its success the government believes that all funds and pools need to adopt an operating model that meets the following minimum standards:

- AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;
- AAs would be required to take principal advice on their investment strategy from the pool;

- Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool;
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

23. The first 4 proposals are set out in more detail below, with the final proposal covered in Chapter 3. These measures build on the strengths of the asset pools established over the last decade and would allow for funds and pools to operate with clarity and efficiency over the long-term.

Requirement that implementation of the investment strategy is fully delegated to the pool

24. At present, AAs set the investment strategy for their fund including setting the strategic asset allocation to meet requirements on diversification and suitability of investments to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance. This gives AAs the most significant influence on returns, as the strategy is the key factor in the difference in net returns between portfolios, while implementation decisions such as manager selection play a much smaller role.

25. Since AAs were invited to form pools in 2016, guidance has set out that the selection of external fund managers and the implementation of the investment strategy should be delegated to the pool, in order to streamline decision making, reduce the number of external managers and deliver reduced fees. In practice, AAs have adopted a range of approaches as shown by the table above, ranging from full delegation to no or very limited delegation, and from significant alignment of investment strategies to no alignment. Many AAs continue to set tactical asset allocation and select investment managers.

26. Limited delegation to the pool has prevented the delivery of the full benefits of scale and resulted in continuing duplication of effort across funds in the same pool. Pension committees may focus on manager selection and detailed asset allocation, when they may not have the skills and experience to be discerning and challenging clients of advice. A more efficient model would be for these decisions to be delegated to the asset pool with the capability and expertise to assess options and make robust decisions on behalf of the pension committee. Further, if funds are unable to reach agreement on manager selection, this can result in multiple similar sub-funds being created in a single pool for a similar purpose, and a consequent reduction in scale.

27. The government's view is that full, effective and consistent delegation of strategy implementation is needed to ensure the benefits of scale and ensure that decisions are taken at the appropriate level by people best placed to make those decisions. This would require clarity on the roles and responsibilities of the AA and their pool as further set out below.

28. The government is proposing that AAs retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment
- local investments, with a target range (further discussed in chapter 3)
- If the AA wishes to do so, a high-level strategic asset allocation – although the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.

29. This proposal draws on good practice in board-level governance, as found in overseas comparators and closer to home, the balance of responsibilities of the Universities Superannuation Scheme trustee and in house investment manager. The key is that decision-makers focus their efforts where these will have greatest impact. This approach has become widespread across trust-based pension schemes, where fiduciary management employs those best equipped to make the strategic and implementation decisions.


30. Setting the investment objectives and determining the strategic asset allocation are the most impactful investment decisions for a pension fund as they have the greatest bearing on the investment return achieved by the fund overall. These decisions lay the foundation for the entire investment strategy, guiding how capital is allocated across different asset classes to balance risk and return. By clearly defining the financial goals and establishing a long-term asset mix, these steps ensure that the portfolio is aligned with the fund's objectives, ultimately driving its sustainability and stability. The government considers that this proposal would allow the AA to ensure that the investment strategy is appropriate to deliver its funding requirements and to pay pensions over the long term, and is therefore sufficient to satisfy its fiduciary duty.

31. Implementation of this high-level investment strategy would be fully delegated to the pool to ensure that decisions are made by experienced investment professionals, and to give the pools flexibility to set tactical asset allocation, define sub-funds, manager selection, cashflow management, and decisions to buy sell or hold individual holdings, as required to meet the high-level objectives

and strategic asset allocation set by the strategy. To achieve the full benefits of scale it would be important for AAs and their pools to work together on alignment of their approaches to ESG and responsible investment matters, to achieve a common approach.

32. The proposed roles and responsibilities of the pool and AA are summarised in Figure 1 below:

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High  Low	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management		Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

33. Where AAs choose to set a strategic asset allocation, the government's view is that this should be limited to either setting target ranges either for growth and income assets, or for a small number of broad asset classes. There are differences between funds in their membership, proportion of non-statutory employers, maturity, cashflow and funding, and the government expects the pools to consider these features in their operation. But the government does not consider that these justify or require asset allocation below this level, in addition to the investment objectives. In response to feedback during engagement on the need for clarity and consistency, the government proposes stipulating in guidance that funds would need to record their strategic asset allocation in the Investment Strategy Statement, based on a template. This would support pension committees in establishing a strategic asset allocation and also provide a coherent and consistent framework for pools to implement at scale.

34. The government has considered a range of options for the level of involvement AAs should have in any strategic asset allocation, from full delegation to the pool, to setting ranges for growth and income assets, to setting allocations to a wide range of detailed asset classes. Government recognises the range of approaches currently in place within the LGPS, and in other comparable schemes, which may include fewer asset classes and wider asset class definitions than those listed below. This includes dividing the allocation into 2 categories – growth and matching assets.

35. The proposed template aims to strike a balance between on the one hand, ensuring investment decisions are made by those with appropriate professional expertise and avoiding loss of scale that can arise from AAs requiring a detailed asset allocation, and on the other hand, allowing AAs to take local decisions on high level asset allocation and recognising their fiduciary duty.

36. AAs would have the option of completing the template themselves or allowing the pool to choose an appropriate allocation in line with their investment strategy. The AA's objectives for local investment would be captured in the high-level investment objectives. Any strategic asset allocation set by the AA would therefore not include an explicit asset class for local investment, which in practice may be invested across private equity, credit, property or other asset classes. The asset classes in the template are and would be expected to remain, different from the requirements of national data collection, which are set and collected for a different purpose.

37. The government invites views on templates which best meet the objectives described above noting the range in possible approaches, and particularly invites views on the following template:

Table 2: template for strategic asset allocation

Asset Class	Strategic Asset Allocation (%)	Tolerance Range (+/-%)
Listed Equity		
Private equity		
Private credit		
Property/real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds

(ii) For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

Requirement for principal advice on investment strategy to be taken from or through the pool

38. Under these proposals, the AA's responsibility in respect of investments is to set the investment strategy. At present investment advice may be sought from investment consultants, with each AA using their own. Whilst it is recognised advice needs to be bespoke, there may be duplication and inefficiency across a pool and AAs may receive divergent advice from the same providers without clear justification, which inhibits asset pooling.

39. The government proposes that AAs should be required to take principal advice on their investment strategy from their pool. This would ensure that advice is provided on a consistent basis, tailored to individual AA's requirements, and free from competing interests given that the pools exist solely to serve the AAs. The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances, however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool.

40. Not all pools have the existing capability to provide advice to the AAs. Full advisory capability, or the means to share advisory capability across pools, would need to be developed over time. In the meantime, the government expects that pools would seek to procure advice on behalf of their partner funds. The government's intention would be to set out a timeline for this, subject to the outcome of this consultation.

Requirement that LGPS pools are established as investment management companies, regulated and authorised by the FCA

41. Currently, 5 of the 8 pools are established as FCA authorised investment management companies, with their partner AAs as their sole shareholders and clients. As set out above the government's view is that this model has clear advantages over other approaches. It provides in-house expertise, capacity and resilience on a non-profit basis and the ability to provide, share or develop in-house investment management to reduce costs. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed. It also provides a basis for the development of capabilities to

provide advice to AAs on investment strategies and to assess and manage the local investments that the government's proposals envisage.

42. The government therefore proposes that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:

- Implementation of the investment strategies of their partner AAs, including any strategic asset allocation
- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

43. Government's expectation is that pools will develop capabilities to deliver the implementation of investment strategies through in-house investment management in time. This approach has been demonstrated to have favourable outcomes when also combined with asset pooling at scale. Where it is thought to be inefficient to deliver a mandate in-house, pools should consider partnering with other LGPS asset pools or third-party investment managers to deliver select mandates.

44. The government recognises that this proposal would represent a substantial challenge for all pools whatever their starting point. For the 5 pools which already constitute investment management companies, most will need to develop new capabilities to deliver in all these areas, in particular building capacity on local investment and providing advice on investment strategies to funds. There will be costs involved in building capacity and expertise, offset by reduced costs for AAs.

45. This will be a substantial undertaking for all pools, especially those 3 which have adopted other models. The government believes that this step change in the investment framework of the LGPS creates an opportunity for increasing effective scale and encourages all pools to carefully consider all options in that light. These may include establishing a new pool company, merging with another pool, or becoming a client of another pool company for some or all services required. Depending on the approach chosen, there will be set up and ongoing costs. But as has been demonstrated by existing asset pools using a pooling company model, these costs should be recouped through savings in reduced investment management fees. Pools will need to consider which route is most viable and efficient over the expected timescale (discussed below).

46. The government encourages pool mergers and sharing of services where this provides a more efficient route to the required standard. As part of their proposal, each pool will be expected to demonstrate why a merger with another pool, or use of existing capability in an established pool company, would not be a more cost effective or otherwise more preferable approach to achieving compliance with the reform proposals. For the avoidance of doubt, Government is not seeking to use this process to move to a single pool for all AAs.

Requirement to transfer legacy assets to the management of the pool

47. In November 2023 the previous government [set out its expectation](#) that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis. Transition of all assets was expected to be considered in this timeframe given pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

48. The present government, alongside its [announcement of the Pensions Review](#), signalled that it would consider legislating to mandate pooling if insufficient progress towards the March 2025 deadline was made. Many AAs have made significant progress on pooling assets, but there remains significant variation with the percentage invested in pooled vehicles ranging from 6% to 95% as of March 2024, and total assets under pool management ranging from 45% to 100%. The government is aware that AAs have been considering how they can transition further assets by the deadline, and will take progress into account when making final decisions on reforms.

49. The government's view remains that in order to deliver the full benefits of scale AAs would need to transfer 100% of their invested assets to their pool with no new investments being made outside the pool, including local assets. However, the government recognises that transferring legacy assets into pooled vehicles may incur unnecessary costs in the short term, including for termination of long-term contracts.

50. For these reasons legacy assets are already managed by some pools with the assets remaining in the ownership of the AA rather than in pooled vehicles. This ensures that:

- staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;
- reporting across an AA's entire portfolio can be consolidated;
- pools can assess the merits and risks of all investments, with AAs able to hold them to account for all outcomes; and

- decisions on whether to hold investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA's investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.

51. The government therefore proposes that, in line with previous communications, AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer legacy illiquid investments to the management of their pool.

52. The pools would be required to develop and maintain capacity and expertise to manage all legacy assets which will often be unlisted illiquid investments. This would include management of risk and asset valuations. As pools vary in the capacity and expertise that they currently have to take on this role, the government seeks views on what steps would need to be taken to develop this capacity.

Question 1

Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

The proposals bring some challenges, but we support that minimum standards for pooling will be beneficial, however it is important that standards applied are appropriate and that they are implemented well. We question the realism of the timetable for all pools to meet the proposed minimum standards.

The high-level requirements set out in paragraph 22 of the consultation broadly mirror those already in place within our pool's partnership, the Border to Coast Pension Partnership, or are part of the plan for the second strategic phase for our pool. The strategy being unanimously supported by all 11 Partner Funds.

We believe that timely provision of high-quality information to support funds in overseeing and monitoring the performance of pools will be critical to delivering the Government's vision for LGPS and should be an explicit minimum standard for all pools.

Question 2

Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

We believe it is crucial that LGPS Funds retain explicit accountability for setting their SAA, with the option to set this with input from the pool, or to delegate the setting of the SAA to the pool. The Warwickshire Pension Fund currently intends to take the option of setting the SAA itself. We strongly believe this needs to be clarified in Figure 1 by deleting the words 'Advise or' in the 'pool role' column – Funds must always decide the strategic asset allocation, with the option to seek advice from the pool. But the pool should never decide this on behalf of the Fund due to the very obvious conflict of interest.

We will need greater clarity in defining the roles and responsibilities of the fund and the pool, having regard to the fact that LGPS Funds, not pools, ultimately remain responsible and accountable to members, employers and local taxpayers for the payment of pensions.

It will be important that Funds and the pool work in a close, constructive, and collaborative manner in the development of investment strategy and its implementation.

Question 3

Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Yes. We would expect LGPS Funds to be specific in the expected likelihood of success of a given investment strategy and for the implementation plan to show that this can be delivered.

Investment strategies will need to contain enough information to express the needs of each LGPS Fund and need to be implementable, but how pools work with Funds to interpret and express investment strategies will be key. Clear delegation to, and strong oversight of, pools will be required to enable each Fund to remain accountable for investment outcomes, which will be necessary for Funds to fulfil their fiduciary duties.

Question 4

What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

The provision of a template / minimum standard is welcomed, however we believe funds should be able to express a more specific asset allocation requirement than the table provided in the consultation, which we think is overly simplistic.

For example, funds may have views or requirements about active/passive, geographic concentration, etc. In some circumstances those considerations may amount to implementation factors, and in some circumstances they could amount to strategy issues. We would want an approach that allows for this nuance.

It may be possible for funds to express views on such matters through a combination of the wording of their investment strategies plus their strategic asset allocation tables, however there will be a requirement for very close working between Funds and their pools to ensure that pools do a good job of implementing the investment strategy and SAA that a fund requires.

The definition of cash needs to be clarified, so that it is explicit whether this refers only to investment-related cash holdings, or also to operating cash / cashflows for the payment of benefits and receipt of contributions.

Question 5

Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

There is a conflict of interest in pools, who are responsible for investment implementation, also being the principal provider of investment strategy advice and this would require appropriate management. The pool would effectively advise on strategy, set asset allocation and then implement that strategy, effectively marking its own homework. For example will an advisor suggest a strategy that is easier for a pool to implement but less suitable and tailored to a Fund, or suggest a strategy that is more suitable and tailored to a Fund but more challenging or expensive for a pool to implement.

Our partnership has agreed a strategy which includes the development of advisory capabilities for use by Partner Funds. We fully support this, however, we also believe that, in addition to the knowledge and expertise brought to the process by our Local Government Pension Scheme officers, independent and impartial challenge is essential. As such we welcome the use of independent external advice as part of the process of challenge and debate around the development of investment strategy and the oversight of pools.

If LGPS Funds no longer have any choice about their principal advisor this would take away an important lever (the ability to hire and fire) for maintaining an appropriate and high-quality service and ultimately securing the investment returns needed to meet Funds' primary fiduciary duty to generate sufficient returns to meet current and future liabilities. We would expect to see in any new requirements appropriate checks, balances, and levers present in the system to ensure that investment advice is high quality and that advisors on matters of investment strategy are representing the interests of their client Fund(s).

Any future system can only operate with both a robust governance framework (including oversight), where conflicts of interest are identified, transparently reported, and appropriately mitigated, and both Funds and the Pool have the capacity and capability to be fully engaged and committed to working in partnership, and funds have the ability to hold Pools to account.

Question 6

Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Yes, establishing Border to Coast as a regulated entity was a key decision in the creation of our pool.

We believe a pool needs to have in-house investment management capability that can both directly, and working with external manager specialists, service all relevant asset classes in the implementation of strategic asset allocation, and provide advisory services we all the relevant FCA permissions.

It will be beneficial for pools to be authorised to provide relevant advice, but we refer you to the answer to question 5 regarding pools providing advice.

Question 7

Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

In principle yes, however some listed assets managed outside the pool at very low cost and we would expect total cost of matched or bettered in all listed assets to transfer into the pool.

We note that not all pools have the full range of investment capabilities required by their Funds, indeed, new FCA approved investment sub-funds can take time to design, develop, and launch. It is important that any transfer of assets (whether listed or unlisted) are completed in a thoughtful and structured process, minimising costs for funds.

There are circumstances where the creation of a pool vehicle may not be cost or risk effective (for example in certain passively managed vehicles). There may also be instances where, due to timing of strategic asset allocation reviews around the 31 March 2025 LGPS valuation, the March 2026 deadline for transition may not be achievable cost effectively. We would encourage some leeway, at the discretion of the Pool, to enable a cost/risk assessment of transition of listed assets into pool company vehicles – those that are not transitioned, should be managed as “under pool management” akin to legacy illiquid investments. Otherwise there is a real risk that an arbitrary deadline will be detrimental to Funds with no beneficial impact from an investment or cost perspective.

Question 8

Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Any transfer of illiquid assets must have regard to the costs and risks of transition. We welcome recognition that there may be unnecessary costs and implications in transferring legal ownership of legacy illiquid assets to the pool in the timescales proposed; it may be more appropriate that, while managed by the pool, illiquid assets remain in the direct ownership of the administering authority (AA), in order to facilitate an orderly and good value transition. It should be noted, however that providing pool oversight may bring additional costs to the extent that the level of oversight increases. The benefits of being able to assess and report investment and operational risks holistically, to use specialist resource to deal with any issues, to manage target allocations to private markets, and to apply a consistent approach to stewardship, may outweigh such additional costs.

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

The Border to Coast Pension Partnership has spent the last six years building significant expertise both within the pooling company, and across the Partner Funds whose endeavours have a presumption towards pooling. Border to Coast is now responsible for a £16 billion private markets programme.

While Border to Coast currently has the appropriate capabilities to manage legacy private market investments, additional capacity will be required to undertake oversight of these investments. The operating model to enable data sharing between Funds and Border to Coast will need to evolve (working with the Funds' custodians), and legal agreements to clearly set out roles and responsibilities and to enable Border to Coast to exercise management actions developed and agreed.

Implementation

53. The government believes that reforming pooling in this way would deliver the full benefits of scale to the benefit of members employers and taxpayers. Subject to the outcomes of this consultation, the government will consider legislating to require in law the pool minimum standards set out above, including transition or management of all assets.

54. [The King's Speech](#) set out plans for a Pension Schemes Bill in this session of Parliament. The Bill provides an opportunity to introduce any primary legislation required to implement outcomes from the Pensions Review, with any necessary secondary legislation and guidance updated when parliamentary time allows.

55. In advance of this, asset pools, working with their partner AAs, are invited to submit a separate proposal, in addition to their response to this consultation, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of the costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted, and expects pools to be working closely and collaboratively in doing so.

56. The government is proposing an indicative timeline to move to the new model of March 2026. Government expects each pool to consider and provide submissions on the viability of meeting this timescale. This is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 actuarial valuations, and takes account of the timescale over which the Financial Conduct Authority (FCA) may consider applications for investment management companies and authorisation to provide investment advice. Pools working with their partner AAs are invited to comment on the viability of meeting this timeline.

57. Each pool is invited to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity.

58. We will expect proposals to be submitted by 1 March 2025. This will provide 15 weeks for pools and AAs to consider how these could be delivered if required.

Question 10

Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

The timeline outlined in the consultation is ambitious. Given the proposed timeline will coincide with the 2025 triennial valuation process, in order to manage risks and avoid costs, evidence that delivery of the policy intent is in process may

need to be accompanied by flexibility over the precise implementation of all elements, particularly the transfer of illiquid assets.

The Border to Coast Pension Partnership has spent several years designing, launching, and building Border to Coast. This has been a significant collective effort which should not be underestimated in the context of either mergers or more fundamental changes in other pools which are less advanced in their pooling journeys. Our overall view is that the proposed timetable is too quick for changes to be implemented effectively, and Government should reflect on how to assure itself that changes can be delivered securely and with appropriate pace.

Over the last two years, the Border to Coast Pension Partnership has developed a plan for a second strategic phase. This anticipated many of the themes and issues outlined in the consultation. Our pool already meets most of the capabilities and characteristics outlined in the consultation, however there remain some areas where additional build is yet to be operational (e.g. strategic asset allocation advisory capability, and local investment structures as envisaged in the consultation).

Other developments

Collaboration and specialisation

59. Some pools are already developing significant investment specialisms and share expertise between pools. This would be expected to increase as the pools mature and adapt to the model outlined above. The government encourages pools to consider how they could collaborate with each other in areas where they have specialisms – for example through joint investment vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern).

60. Government understands that many asset pooling companies were established under the vertical exemption to public procurement as within the 2023 Procurement Act, previously known as the ‘Teckal’ exemption as set out in regulation 12 of the

Public Contracts Regulations 2015. Engagement has indicated that there are differing views in AAs and pools on the degree to which this is a barrier to greater collaboration between pool. Government welcomes views on this issue and any other barriers to collaboration between pools.

61. Collaboration between pools could deliver many of the benefits of additional scale and avoid duplication. In addition, collaboration could avoid competition between pools driving up costs for investments in the same specialist asset classes. Areas where specialisation or collaboration may be particularly attractive include alternative investments including private equity, private debt and venture capital, as well as infrastructure and investment in specific local or regional investments.

Scale and regional alignment

62. The government has considered whether any additional reforms are needed to the existing pools to redraw them along regional lines. It is recognised that there are factors at play, other than eventual pool size, when considering which funds should collaborate together in a pool. In particular, the Wales Pension Partnership operates within a devolved nation and has separate partnerships with the Welsh Corporate Joint Committees. It may therefore make sense for Welsh LGPS funds to continue in a separate pool.

63. The existing pools differ in that some bring together AAs from geographically contiguous areas, whereas elsewhere the partner AAs are geographically scattered but share other similarities. This reflects their origins, developing out of existing collaborations or through AAs collaborating with other like-minded partners. There are benefits to regionally defined pools in that the partner funds have a mutual interest in local investment and can typically build on existing strong working relationships, for example in Wales. However, other pools have demonstrated that shared geography is not the only determinant of success, provided there are strong partnerships and a shared commitment to collaborate and compromise to deliver shared goals. Chapter 3 sets out proposals to strengthen the role of the pools in local investment. For these reasons, the government does not consider it necessary to redraw pooling arrangements along geographic lines where this alignment does not already exist.

Role in administration

64. In the longer-term, the government is interested to hear views as to whether there is a role for the pools in the administration of the LGPS, or whether there could be greater collaboration and cooperation between funds on administration issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

Question 11

What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

The LGPS has a strong history of collaboration. The Border to Coast Pension Partnership has worked with several of the pools on areas such as investing in private markets and active stewardship and remains committed to working with the wider LGPS.

To avoid duplication and cost, there may be merit in one pool providing another service or capability to another pool. 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:*

- 1. Proposition development – Border to Coast’s propositions are collectively designed with, and for, 11 Partner Funds who are both shareholders and customers, and who meet the costs of proposition development directly. Care will be required should an external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes may need to be reviewed to overcome this challenge.*
- 2. Niche strategies – certain investments may have capacity issues. For example, despite significant demand, Border to Coast’s initial Climate Opportunities strategy was capped due to the immature state of the market. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.*
- 3. Cost model – as shareholders, existing customers principally manage the financial implications of risk through Border to Coast’s regulatory capital. As non-shareholders, external pool customers would be subject to different pricing to reflect operational risk.*
- 4. Managing demand – in owning and building Border to Coast, there has been a structured approach to growth – building capacity and capability to reflect Partner Funds’ 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 reducing the ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.*

5. Additional complexity - management of additional external customers who are not shareholder owners 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.

An additional challenge is Teckal, now covered by the Procurement Act 2023. Partner Funds are currently exempt from this through the 'Vertical Exemption', whereby they can demonstrate 'control' of Border to Coast by virtue of being a shareholder. For the Vertical Exemption to continue to apply, more than 80% of the activities carried out by the pool must be carried out for or on behalf of Partner Funds. If more than 20% of the activities of the pool are undertaken for third party customers (e.g. other authorities that do not meet the conditions of the Vertical Exemption such as non-shareholders), then a Partner Fund procuring its services from the pool would no longer meet the requirements of the Vertical Exemption.

The exact definition of the 80%:20% rule is yet to be established, secondary legislation confirming this has not yet been delivered by Government. It may be appropriate that there is a clarification, such that any pool wholly owned by the LGPS can deliver any services for the ultimate benefit of the LGPS and such services would be deemed to fall within the calculation of the 80%' This important point needs clarification and should be an explicit consideration in the final policies brought forward from Government.

Question 12

What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

The partner funds of the Border to Coast Pension Partnership already collaborate extensively beyond investment implementation. Collaboration occurs across a range of areas including governance and accounting and there are plans to extend this further. This has been a real benefit of pooling to date.

The voluntary creation of genuine shared services (whether within or outside of a pool) would be more likely to realise benefits than any forced models, and is an area where we see future potential as long as this is not forced.

3. Local investment

65. Growth is the number one mission of this government. Through the growth mission, the government is restoring economic stability, increasing investment and reforming the economy to drive up prosperity and living standards across the UK. The government will invest in transport, including schemes like East West Rail, kickstart the delivery of 1.5 million homes, support new industries and job creation, and back innovation through research and development funding. In total, the government will spend 2.6% of GDP on public sector net investment on average over the Parliament, with an increase of over £100 billion in capital investment over the next 5 years.

66. In addition to the Pensions Review, the government is supporting UK investment in several ways. It has created the National Wealth Fund, which is expected to catalyse over £70 billion of private investment, and has set out plans for a modern Industrial Strategy to support investment in growth sectors. The British Business Bank will create a new vehicle, the British Growth Partnership, to crowd-in UK pension fund and other institutional investment into venture capital funds and innovative businesses, supported by a cornerstone government investment. The Budget outlined plans to reform how the government delivers infrastructure, including the planned publication of a 10-year infrastructure strategy, the establishment of the National Infrastructure and Service Transformation Authority and ambitious planning reform.

67. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth. Investing in local communities

68. The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities. Many AAs have already deeply embedded these wider considerations into their investments. It is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did through their working lives. LGPS investments can both pay pensions and unlock growth in local communities.

69. There are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance (ESG) issues. These may contribute to the government's key missions including making

Britain a clean energy superpower and accelerating to net zero is one of the key missions of the government. This consultation focusses on local investment by LGPS funds.

The roles of AAs and pools

70. AAs are already committed investors in projects which support growth in their local areas. These are investments which, in addition to being suitable pensions investments and generate good returns, have external benefits which support the AA's local area. But it is recognised that identifying and assessing the suitability of local investments requires resource intensive due diligence, and AAs may not have the capacity to undertake this work. AAs may also be concerned about reputational and concentration risks. Funds must also navigate conflicts of interest if there is a link between the employer authorities and the investments selected. These factors may limit local investments unnecessarily.

71. The pools can address many of the specific factors which make local investment harder for AAs to consider. Pools are in a position to provide central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflict of interests, as their role is serving the AAs. Pools create a degree of separation between AAs and their investments, reducing any reputational risk. For example, Border to Coast and Local Pensions Partnership have facilitated pool investment in local opportunities and worked closely with their partner AAs to identify local opportunities. The government recognises that pools currently have different approaches to local investment and vary in the extent to which they have the capability to assess and manage local investments, but it is the government's view that it is the pool which is in the best position to provide the central capability to carry out due diligence and manage local investments.

72. In addition, pools invest over a wider geographical area than AAs, reducing risks from under performing assets. But pools and AAs may both lack a comprehensive view of investment requirements and opportunities across a wider regional area, as set out in local growth plans. When fully implemented, local growth plans will act as a guide to investors seeking opportunities which support local growth and contribute to the National Industrial Strategy.

Proposals

73. With these considerations in mind, Government's view is that the right approach to increasing local investment brings together the distinctive strengths of AAs and pools and takes account of the role of Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) and the Greater London Authority (GLA) in regional growth and development. The government wishes to see greater collaboration between AAs, pools and combined authorities of all types on local investment, for the long-term benefit of local areas, and believes that scheme members support the LGPS in making local investments.

74. For the purposes of this consultation, the term 'local investment' is used to include investments local to any of a pool's partner AAs, or investments in their region (or in Wales, for Welsh AAs). The government invites views on the appropriate definition of the term 'local investment' for reporting purposes.

Requirement to set out approach to local investment in the Investment Strategy Statement

75. AAs normally review their Investment Strategy Statements every 3 years following the triennial valuation of the fund. To ensure that local and wider investment priorities are fully considered by AAs as part of deciding their investment strategy, the government proposes a requirement in regulations for AAs to set out their high-level objective on local investment in their Investment Strategy Statement, including a target range for local investment as a proportion of the fund.

76. AAs would also be required to take account of local growth plans, including local economic priorities and specific investment requirements, in setting their investment strategies. For areas where there is no local growth plan, we would expect AAs to work closely with local authorities in their areas to identify local opportunities. In Wales, AAs would be required to take account of the economic development priorities and plans of the relevant Corporate Joint Committee (CJC) or Committees.

77. Our intention would be to include guidance on the new requirement in statutory guidance on investment strategy statements. This would include guidance on government's expectations on working with CAs, MCAs, CCAs, CJsCs and other local authorities and Local Growth Plans to identify opportunities.

Requirement to work with combined authorities and similar bodies

78. AAs are well placed to draw on their knowledge of the local area and its changing circumstances, in identifying potential investment opportunities which may align with their investment strategies and with local growth plans or equivalent. The government therefore proposes setting new requirements for AAs to work with CAs, MCAs, CCAs or the GLA, or local authorities in other areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities. AAs would be expected to put forward opportunities they have identified to their pool at any time in the valuation period as they arise.

79. In line with the proposals set out in chapter 2, it would then be for the pools to make the final decision on whether to invest, and to manage all assets on behalf of their partner AAs including legacy and new local investments. Requirement for pools to carry out due diligence on potential local investments

80. The proposal above to require AAs to identify local investment opportunities to put forward to their pool means pools would need to have arrangements to receive proposals and conduct due diligence on projects. Pools may also be able to assist in developing some proposals into investable opportunities. For some pools this would be a significant development. But as set out above, it is the government's view that pools are in the best position to provide the necessary expertise and capacity.

81. The government therefore proposes a new requirement for pools to develop the capability to carry out due diligence on local investment opportunities. Pools would be expected to collaborate as necessary with their partner AAs, CAs, MCAs or CCAs, and other relevant authorities (including the GLA in London and Corporate Joint Committees in Wales) to support local investment. Some projects for which LGPS support would be considered may be inappropriate for pensions investment, or require disproportionate resources to assess and manage, but many should benefit from collaboration across AAs, pools and CAs.

Requirement to report annually on local investment

82. To ensure funds are accountable, the government is proposing that funds include in their annual report, as part of the report on the fund's investments, a report on the extent and impact of their local investments. This will increase transparency and allow members to see the locally important projects delivered thanks to LGPS investment.

83. Our intention would be to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports, and to consider how to reflect this new requirement in the Scheme Annual Report.

Question 13

What are your views on the appropriate definition of ‘local investment’ for reporting purposes?

The LGPS is a global investor because this provides this provides access to the widest opportunity set in order to meet fund objectives. However, the LGPS continues to invest a significant proportion of its assets in the UK – in aggregate, some £100bn of the c.£400bn of LGPS assets are invested in the UK.

We believe that the definition of “UK” should be as broad as possible in order to minimise the extent of any restrictions to opportunities being imposed on the LGPS and to simplify reporting requirements.

In the context of being a global investor, investing in the UK can be seen to be ‘local’. On behalf of its Partner Funds, Border to Coast launched its ‘UK Opportunities Fund’ which is designed to deliver productive finance in the UK, and consistent with the outcome of the 2023 pooling consultation, takes a definition of “local” as being within the UK. For some Partner Funds, this strategy satisfies Fund appetite for UK investments, whereas for others – particularly those with larger local opportunity sets – it is supplemented through region-specific strategies which to date have been implemented by some Partner Funds (and who will wish to maintain this ‘local’ approach to investments).

One of the great strengths of the UK is how it has evolved a dynamic governance and governmental structure to reflect the needs and context of the nations and regions of the UK. Unless there is a clear and consistent approach for LGPS reporting, there is a danger that some localities are either excluded from such reporting, or may be subject to multiple reporting.

We note the publication of the Devolution White Paper, which is seeking to introduce a consistent approach to Strategic (Mayoral) Authorities. Nonetheless, we recognise that these new regions are unlikely to align with the regions of the 86 Administering Authorities.

Whether the definition is UK-wide or more region-based, we believe each Fund should retain the right to report on any investments made within their own administrative region in addition to any regulatory definition.

Finally, we fundamentally disagree with the suggestion in paragraph 68 of 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 fundamentally

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 final proposals should not repeat this assertion.

Question 14

Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

We agree that to the extent that there is local investing that local organisations with an interest in economic development should be involved. However roles and responsibilities should be clear that ultimately Pension Funds decide upon local investing targets and decide upon the arrangements for their implementation. It is also absolutely critical that Mayors and/or Combined Authorities can only propose a pipeline of potential investments and that robust, independent due diligence takes place by Pools or Funds to assess whether an opportunity is investable or not. There is a significant risk of Mayors and/or Combined Authorities seeing the LGPS as a funding source for investments the market is not willing to back, and seeking to exert undue influence on investment decisions which have political salience but do not allow funds to meet their fiduciary duties.

Across all the Partner Funds in our pool, there are a broad range of local circumstances. Several of the Funds in our pool already work closely with both their Local, and Combined Authority (or equivalent). SYPA, for example, has a Memorandum of Understanding with its Combined Authority, which covers a local investment strategy. Equally, Durham and Tyne & Wear are in consultation with NEMCA.

The White Paper also includes proposals for Local Government Reform; great care will be needed to consider the risk of potential additional complications for pension funds arising from any reorganisation of local government in addition to and at the same time as the proposals in this consultation.

In April 2024 the Border to Coast Pension Partnership launched ‘UK Opportunities’ fund, which is a bespoke private markets strategy focused on delivering productive finance in local communities across the UK. A key element of this strategy is the development of close and effective relationships with local authorities and other interested stakeholders (e.g. British Business Bank, Homes England, National Wealth Fund, etc). This is to ensure a two-way flow of information and engagement between Border to Coast and our Partner Funds, investment managers, and local stakeholders to create an investment pipeline (e.g. through joint ventures, understanding and supporting local growth plans, etc.)

Border to Coast will need to expand its capacity to support the execution of Funds’ specific local / regional investment strategies. It is not possible to specify this by the consultation deadlines, how this will be developed will be subject to detailed discussions. This will require collaboration and partnership in the process given the combination of investment expertise, investment industry knowledge and relationships, and local knowledge and relationships, in order to be successful.

Question 15

Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

The objective of a pension fund is to pay pensions correctly when they fall due, and to manage the affordability and stability of employer contributions by investing in such a way as to fund current and future liabilities. In developing any investment strategy, it is essential to prioritise these objectives. Any investment to support the UK or locally can only be justified where the investment supports achieving the pension fund’s strategic objectives.

Warwickshire Pension Fund has no issue in principle with the role of local investment in the LGPS but whilst targets may be set, LGPS Funds should never be required or expected to compromise on their core objectives in order to meet local investing targets for example if local investment is not the correct investment strategy for a particular Fund.

We are of the view that Funds should consider the widest opportunity set possible. If a target range is to be set, the definition of “local” investment should be as wide as possible (i.e. UK wide).

Any target should ultimately be determined by the LGPS Fund.

Question 16

Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Yes, we would expect to benefit from the additional expertise that the pool can bring, and also benefit from the pool being more removed from any particular location and so will have fewer potential conflicts of interest to deal with in managing local opportunities.

Border to Coast currently conducts due diligence on local investment opportunities through the 'UK Opportunities' private markets strategy. However, this is a limited strategy and does not replicate what currently takes place by several Partner Funds. As such, this capability and capacity will need to evolve to reflect how individual Partner Funds set their approach and target range for 'local' investment. This may include identifying, conducting diligence on, and overseeing suitable third-party managers with the requisite specialist expertise to deliver these investments. This could include working with managers with government mandates and capital to deliver local investment.

Question 17

Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting.

It may be appropriate for Funds to report locally if they wish but that should be voluntary. Regarding a minimum reporting requirement, if pools are responsible for the sourcing of local investments, it is more appropriate for each pool to produce a single report for all UK based 'local' investments. The Pool may be able to secure better pricing for delivery than individual Funds and reduce the demands on third-party managers by making a single data request.

We would caution against 'league tables' etc being used to state those Funds who have lower targets/allocations as they would not take into account the specifics of that Fund, their local economies and/or investment opportunities.

Implementation

84. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to include in new statutory guidance on pooling, and updated guidance on investment strategy statements and annual reports.

4. Governance of funds and pools

85. LGPS assets have more than doubled in the last decade, membership has increased by almost 50%, and there are now nearly 20,000 employers, so it is more important than ever that the scheme is effectively governed. Members and employers have a right to expect consistently high standards across the scheme with robust and resilient governance and administration in every AA.

86. There is evidence to suggest that good governance also has financial and wider benefits through a governance premium for well governed pension schemes which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the [Pensions Policy Institute](#) suggests that this premium could be as high as 2% greater returns a year. This benefit would be much greater than the cost of investment in improved governance.

87. The proposals set out below aim to enhance the capability of the LGPS as a well-governed institutional investor on a global scale, ensure it continues to deliver for members and employers.

Fund governance and reporting

88. The government's aim is to encourage continuous improvement across the scheme, combined with consistent standards on knowledge and understanding and improved reporting. The majority of our proposals are based on the recommendations submitted to MHCLG by the SAB in 2021 at the conclusion of their Good Governance project, which were strongly supported by respondents to the Call for Evidence.

89. In summary the government's proposals are:

- New requirements on AAs to:
 - appoint a senior LGPS officer who has overall delegated responsibility for the management and administration of the fund
 - participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.
 - prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy, and
 - prepare and publish an administration strategy
 - improve accessibility of annual reports
- New requirements on knowledge and training for those involved in the management of LGPS funds

90. In addition to these proposals, the government is considering one further change, to require AAs to appoint an independent adviser.

Requirement to prepare a governance and training strategy

91. The government proposes that AAs should be required to prepare and publish a governance and training strategy to replace the governance and compliance statement. This new strategy would set out the AA's approach to governance, knowledge and training, representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period. It would replace the governance compliance statement. Such actions could include a plan on how the

AA aims to address gaps in knowledge and skills for committee members over a certain period, and how it might manage potential conflicts of interest between the local authority as administering authority and as an employer within the pension fund.

92. It is the government's view that the requirement to review this strategy at least once in each valuation period provides AAs with the flexibility to update it as required and will ensure the strategy is a live document. We are also proposing that as with the other strategies which AAs are required to prepare, AAs must have regard to statutory guidance on governance.

93. The government proposes that a conflict of interest policy must be included in this strategy. There is no current requirement for conflicts of interest policies to consider conflicts of interest for members serving on pension committees, or to cover conflicts between the AA and the employer. There may be specific conflicts that arise in managing a pension fund within the local authority environment and this may become more common as pools and partner AAs consider further local investment.

94. It is important that in a conflict of interest policy, AAs consider how they will recognise, manage, and mitigate all conflicts of interest. Requiring each AA to have a specific conflicts of interest policy within its governance and training strategy should ensure that AAs are taking proactive steps to mitigate the risks of conflicts not being addressed appropriately; by setting out how actual, potential, and perceived conflicts are addressed within the governance of the fund.

Requirement to identify a senior LGPS officer

95. The government's proposal is that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund. The senior officer would be identified within the AA's Governance and Training Strategy. The government recognises that management structures differ but expects that the role would be carried out by a Director, Assistant Director or Head of Service, i.e. at a level that is either already part of the senior leadership team or is comfortable operating in that environment. The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process.

96. The senior officer would be a substantial role that will require significant time and energy. The expectation would be that the LGPS role would be the main priority for the senior officer. Senior officers should have authority and be able to set strategic direction. Officers reporting to the senior officer should be responsible for all LGPS functions.

97. The senior officer's role would be to lead delivery of the LGPS function under the direction of the AA or pensions committee. The government expects the senior officer's role to include the areas below, although this list is not intended to be exhaustive:

- providing advice to the pension committee and local pensions board
- developing the fund's strategic approach to funding, investment, administration, governance and communication;
- ensuring that risk management arrangements effectively identify and manage risks
- ensuring the fund is organised and managed to deliver statutory responsibilities and regulatory compliance, and meet service level agreements including timely and accurate pension payments
- ensuring that the role of the pension fund and LGPS matters are understood and represented by the AA's senior leadership
- working with other partner AAs and the pool company as appropriate

Requirement to prepare an administration strategy

98. Currently AAs may prepare an administration strategy but are not required to do so. Administration strategies must set out procedures relating to employer communication, administrative procedures, and administrative performance. There is currently no statutory guidance to assist fund in the preparation of this strategy, and while AAs must keep any administration strategy under review, there is no specific timeframe required.

99. The government believes that if AAs were required to prepare and maintain this strategy and have regard to guidance, this would increase consistency on how administrative matters are approached across the scheme (including in working with employers) and drive improvement in administration of pensions.

100. The government is therefore proposing that AAs should be required to prepare and publish an administration strategy and to have regard to statutory guidance in its preparation. The government is also proposing that AAs review this strategy at least once in every 3 years in line with the proposed requirement for other strategies; and that AAs should no longer be required to send the administration strategy to the Secretary of State upon publication, as this is no longer considered to be necessary.

Improving readability of annual reports

101. Each year AAs publish an annual report on management and financial performance, which includes fund accounts. It is a key document for members, employers and other stakeholders with an interest in the fund. The SAB uses the annual reports to compile the scheme annual report.

102. Currently the annual report is required to include the funding strategy, investment strategy and governance compliance statements in full. The readability and accessibility of the reports is reduced by the size and complexity of the combined document.

103. The government is therefore proposing that, in line with the LGPS in Scotland, funds should no longer be required to include the full texts of any strategy, including the governance and administration strategies we are proposing. It is the government's intention to work with the SAB to update guidance on annual reports to set out how funds should ensure accessibility and transparency for members, employers and others.

Requirement to participate in a biennial independent governance review

104. Under this requirement, each AA would participate in an independent governance review every 2 years, in order for administering authorities to receive assurance that they are meeting governance requirements. The review would need to be carried out by independent experts in the field with good understanding of the LGPS. The Secretary of State for MHCLG would reserve the right to commission reviews of specific funds where there is reason to believe the fund may not be equipped or resourced to fulfil its responsibilities.

105. Once complete, the draft report on the review would go to the senior LGPS officer, pensions committee and local pensions board. The pension committee would be required to add commentary and an action plan in the final report. This could include a range of actions including to seek peer support to address problems or to disseminate good practice. Administering authorities would be required to publish a summary of the final report and submit it to MHCLG.

106. The Scheme Advisory Board is developing a peer support offer including identifying experts already associated with the LGPS to be available to conduct the independent governance review and assess the report and action plan. In cases where the process was not successful at delivering change or peer support was not deemed a realistic way to address issues, it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.

107. Government will be working closely with the Scheme Advisory Board and the Pensions Regulator on further detail of the review process and welcomes views on the format and assessment criteria that could be applied.

Requirements on knowledge and skills for those involved in the management of LGPS funds

108. There is an expectation that those responsible for making key decisions within LGPS funds, which provide benefits to millions and manage significant amounts of money, should have the right level of knowledge and training to carry out the functions of their role. In most cases in the LGPS, the role of scheme manager held by the AA is delegated to a pension committee, who are responsible for all key decisions related to the pension fund. Pension committees are composed largely of councillors, with a [SAB survey](#) showing that 66% possess little or no knowledge of the LGPS prior to appointment. High turnover of committee members can in some cases compound the problem.

109. Currently, there are no statutory requirements for committee members and officers to maintain appropriate knowledge and skills specific to the LGPS or to undertake training of any kind. By contrast, members of the local pension board (which brings together union and employer representatives to assist the AA and committee), have a statutory duty to have appropriate knowledge and skills under s.248A of the Pensions Act 2004. Committees are required to take proper advice, but where there are gaps in the knowledge of and skills of committee members and officers, it may be difficult to ensure that this advice is tested and challenged appropriately.

110. The SAB survey showed strong support for higher standards of knowledge and understanding for pension committee members. A very large majority (90%) of respondents supported new guidance on minimum training requirements, and 67% agreed that requirements for pension committee members should be the same as for local pension board members.

111. The government therefore proposes to require that committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned. This change aims to ensure that those involved in the management of LGPS funds have the capability to carry out their duties as needed and can exercise the correct level of oversight on investments, governance, and administrative matters. This will include the knowledge and skills, for both officers and committee members, to challenge and test advisers and hold their pool to account.

112. The government is also proposing to require AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements. The government expects AAs to include their policy on training and assessment to meet this requirement. It is recognised that committee members and officers on appointment will possess different levels of relevant prior knowledge. The government therefore also proposes that the requirement on knowledge and understanding will apply to individuals within a reasonable period from taking up the role or appointment.

Role of independent adviser

113. In addition to requiring pension committee members to have appropriate knowledge and skills, the government is also considering how best to bring professional and independent expertise to pension committees to improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements.

114. One way in which this could be achieved would be to require pension committees to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration. Those who were or might be involved in recommending specific investment products to the committee would not be eligible. We expect that suitable pensions professionals would have one or more of the following qualifications and experience:

- Qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustees
- Member of, and accredited by, the Association of Professional Pension Trustees (APPT)
- Significant experience of pensions and/or investments

115. The small number of administering authorities with no pension committee could be required to have an independent person as adviser to the senior officer.

116. The government recognises that the aim may be achieved in a range of ways and invites views on the best approach.

Question 18

Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

We welcome the decision to implement the Good Governance proposals.

We believe any reviews of governance should encompass pooling.

Question 19

Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

We agree that funds should maintain governance and training strategies and a conflicts of interest policy.

We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the training requirements for sitting on a Pension Committee should match that of membership of a Local Pension Board.

Question 20

Do you agree with the proposals regarding the appointment of a senior LGPS officer?

We note the consultation states (paragraph 95) “The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority’s budget-setting process”. However, the local authority budget setting process does not include all aspects of the pension fund and the pension fund is funded from employer/employee contributions and investment returns i.e. all costs are met from within the pension fund. Therefore, the senior officer should have autonomy from the local authority in setting the budget for the Pension Fund function.

We understand the rationale behind the suggestion of a Senior LGPS Officer, however we question making this requirement mandatory. It should be recognised that there are different ways of effectively achieving delivering a well governed pension fund, and prescribing a structural requirement is not necessary.

Question 21

Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Yes.

Question 22

Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Yes.

Question 23

Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

We are concerned whether there is enough capacity to deliver biennial reviews, especially initially when there is no existing capacity and a biennial frequency may be less efficient than a longer interval given the nature of the reviews and associated action plans. We therefore question the biennial frequency and feel a longer review period would both be more appropriate and feasible to deliver to a high quality.

We believe that delivering these reviews through a peer led mechanism should be considered, in line with the way in which LGPS has historically developed and shared good practice.

A robust framework will enable a comprehensive assessment to be made of how effectively the AA is discharging its responsibilities towards the Fund. We believe this should not be a pass/fail assessment. All of these reviews will identify some areas for improvement as no fund will be perfect. However, where significant weaknesses are identified there also needs to be a view taken on whether there is the willingness as well as the capacity to address the issues, or if an alternative solution needs to be sought.

The reviews could be overseen by SAB and not be carried out by consultancies who would have an inherent conflict of interest.

Question 24

Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes, we recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the condition for sitting on a Pension Committee should match that of membership of a Local Pension Board.

Question 25

Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Yes

Question 26

What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

We believe that pension fund committees should have access to independent advisers.

We believe Funds should have the use of independent advisers as part of the process of challenge and debate around the development of strategy and oversight of pools, together with working with them to frame the questions which any investment strategy review should address.

The democratic accountability of the LGPS is an extremely important aspect of the scheme and care is required not to undermine this. While not opposed to the idea of an independent advisor being a member of a committee, this can have disadvantages, and as such, the exact role of an independent advisor should be a matter for each administering authority to determine.

Pool governance and reporting

117. Under the government's proposed reforms, all pools would need to move to the new minimum standards for pooling set out in chapter 2. Consistent high standards of governance for all the pools would be essential in delivering the full benefits to members and employers, providing assurance for the partner AAs that the pool is properly managed and ensuring that the AAs are able to hold the pools to account.

118. In summary the government proposes to require:

- Boards to include a representative or representatives of the group of partner AAs
- Requirement for pools to publish asset performance and transaction costs

Requirements on pool company board membership

119. The minimum standards on pooling set out in Chapter 2 would require boards of all pool companies to have the skills and experience appropriate to the leadership of an investment management company. Boards would meet the requirements for FCA authorisation including independent directors.

120. To ensure that shareholder AAs can hold the pool to account, it is important to include shareholder representation on the board. The government's proposal is that in addition to meeting the requirements of the FCA, boards should also include one or two

representatives for the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

121. It will also be important to ensure that scheme members' views and interests are properly understood and taken into account by the pools. The government therefore invites views on the best way to achieve this.

Requirement to meet transparency and reporting standards

122. The government also wishes to introduce a greater level of consistency and transparency through reporting standards for pools. Currently, all pools publish annual reports and financial statements, while some go further and publish regular in-depth reports on responsible investment or separate reports which detail breakdowns of performance by sector, such as private markets. In order to achieve a greater level of accountability and to encourage greater efficiency, the government is proposing to add requirements for pools to improve transparency and reporting, including publication of performance and transaction costs.

123. The government is exploring what this could look like for pools, and welcome views on what data and reporting would be most useful for increasing transparency. It is our intention to set out in new pooling guidance how pools should ensure transparency and accountability to members, employers and others.

Question 27

Do you agree that pool company boards should include one or two shareholder representatives ?

Effective oversight and governance of the pool by its shareholders is important. This is embedded in the Border to Coast Pension Partnership governance model by shareholders (Partner Funds) having nominated two non-executive directors on the pool Board. These non-executive directors are currently elected Partner Fund pension committee members, nominated by the Joint Committee and appointed by the Board following the requisite assessment required of an FCA-regulated entity (and then subsequently approved by Partner Funds as shareholders).

The role of a company is to oversee the effective running of the organisation in line with legislative and regulatory requirements. It carries significant personal responsibilities and liabilities, including those set out in section 172 of the Companies Act 2006. To deliver these responsibilities to the highest standard, a good degree of understanding of both corporate governance and the financial services sector is necessary.

CIPFA guidance suggests it is for an officer to undertake such roles, rather than an elected member. The Border to Coast Pension Partnership has not followed this element of the guidance but notes the rationale behind it which would apply to LGPS pools, including the challenges around election cycles and the impact on succession planning and corporate memory.

Question 28

What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

The Border to Coast Joint Committee includes two Scheme Member Representatives, elected by members of the 11 Partner Fund Local Pension Boards, who contribute to the oversight of the pool company. Similarly, the pool company is typically represented at meetings of individual pension committees (through Border to Coast colleagues), at which it is exposed to the views of scheme members and, equally as important, employers (given the balance of financial risk).

The Border to Coast Pension Partnership Joint Committee is represented by LGPS committee members who also have regard to members' interests.

Question 29

Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

We agree there should be consistency and transparency in pool reporting. However, we believe that the current focus on cost needs to be expanded to include net risk adjusted returns, performance, and the delivery of overall value for money to LGPS funds as customers. We believe value for money includes whether a pool is meeting the individual needs of client Funds in terms of both risk adjusted returns and costs.

As a pool, wholly owned by 11 LGPS funds, Border to Coast already operates in a highly transparent manner. Subject to FOIA, Border to Coast operates a Publication Scheme¹, which provides extensive information on its investments and other corporate information.

Any public reporting needs to be balanced with commercial confidentiality requirements and should reflect the different risk/return objectives of each of the constituent Partner Funds in each pool.

124. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to provide new statutory guidance on governance and training, on administration and on pooling and updated guidance on annual reports.

5. Equality impacts

Public sector equality duty

125. 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.

¹ <https://www.bordertocoast.org.uk/about-us/publication-scheme/>

126. We have made an initial assessment and we believe our proposals on the LGPS in chapters 2 and 4 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 disadvantaged areas which benefit from local investments.

Question 30

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.

Annex A: List of consultation proposals

Chapter 2: LGPS pooling

Proposal 1: Requirement on AAs to fully delegate the implementation of their investment strategy to their pool.

Proposal 2: Requirement on AAs to take their principal investment advice from the pool.

Proposal 3: Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

Proposal 4: Requirement for AAs to transfer legacy assets to the management of their pool.

Chapter 3: Local investment

Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.

Proposal 6: Requirement on AAs to work with CAs, MCAs, CCAs, and local authorities in other areas to identify suitable local investment opportunities,

Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.

Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

Chapter 4: Governance of funds and pools

Proposal 9: Requirement to prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy.

Proposal 10: Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.

Proposal 11: Requirement to prepare and publish an administration strategy.

Proposal 12: Changes to the way in which strategies on governance and training, funding, administration and investments are published

Proposal 13: Requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

Proposal 14: Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

Proposal 15: Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.

Proposal 16: Requirement for pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

Proposal 17: Requirement for boards to include one or two representatives of shareholder AAs, such as the chair of the shareholder committee or equivalent.

Proposal 18: Requirement for pools to publish asset performance and transaction costs

Annex B: List of consultation questions

Chapter 2: LGPS pooling

Proposals

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered? Implementation

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Other developments

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Chapter 3: Local investment

Proposals

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes ?

Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Chapter 4: Governance of funds and pools

Fund governance

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Pool governance

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Chapter 5: Equality impacts

Question 30: 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](#) 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 Ministry of Housing Communities and Local Government 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](#).

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 Ministry of Housing Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk or by writing to the following address:

Data Protection Officer
Ministry of Housing Communities and Local Government
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](#) 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 MHCLG 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

MHCLG 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/>, 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@communities.gov.uk or

Knowledge and Information Access Team
Ministry of Housing Communities and Local Government
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.

