

<b>Committee(s):</b> Pensions Committee	<b>Dated:</b> 19 March 2024
<b>Subject:</b> Government Response - DLUHC Consultation on LGPS	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>ALL</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N/A</b>
<b>If so, how much?</b>	<b>£</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>N/A</b>	<b>Y/N</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
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### Summary

On 11 July 2023 the Department for Levelling Up, Housing & Communities (DLUHC) issued a consultation on the Local Government Pension Scheme entitled "*Local Government Pension Scheme (England and Wales) Next Steps on Investments*". The Consultation sought views on proposals relating to investments of the Local Government Pension Scheme (LGPS) and covered the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The scope of the consultation was on proposals for new requirements on LGPS administering authorities. The consultation was open for 12 weeks from 11 July to 2 October 2023 and Officers responded during this period.

The Government published their response on the 22 November 2023 and this report summarises their response.

### Recommendation

Members are asked to note this report.

### Main Report

#### Background

1. The Government believes that whilst the primary purpose of the Pension Fund investments is for long term stable returns to pay pensions for its members, there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for financial stability of local councils and ultimately is in the interests of local taxpayers.
2. Administering authorities are responsible for the asset allocations of their Fund and these are set to ensure stable employer contribution rates and that pensions can be paid out now and in the future. Each Fund's asset allocation will depend on their funding position, deficit recovery plan and how mature they are.

## Consultation

3. At Pensions Committee held on 12 September 2023, a paper was circulated summarising the consultation and its proposals. Members can find the paper [here](#).
4. As a reminder the Consultation sought views on the following five areas:
  - a) The acceleration and expansion of pooling with administering authorities confirming how they invest their funds and why. There is a proposal for a deadline for listed asset transition by March 2025, and going forward the government wants to see a transition towards fewer pools to maximise the benefit of scale.
  - b) Funds will be expected to have a plan to invest up to 5% of assets to support levelling up in the UK.
  - c) Proposals of an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity.
  - d) Proposed amendments to the LGPS Regulations to implement requirements in pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
  - e) A technical change to the definition of investments within the LGPS regulations.
5. There was a total of 15 questions and the full consultation document can be found [here](#).

## Consultation responses

6. The response to the consultation was delegated to the Chamberlain and Officers submitted a response on the 2 October 2023 following liaison with the London CIV and other administering authorities in addition to input from the Chairman of the Pensions Committee. The formal response was circulated to Members of the Pensions Committee and Local Government Pensions Board on 3 October 2023.
7. In total, the Government received 152 responses from across the sector. There were a broad range of responses considered by DLUHC, however there was a clear message of collective commitment to making pooling work well.
8. The Government published their response on the 22 November 2023. A summary of the Government's response to each section of the Consultation can be found in Appendix 1. The full response can be found [here](#).
9. Following the Consultation, the Government will now be implementing the proposals set out below in order to accelerate and expand pooling, and increase investment in levelling up and private equity.
  - a) Revise Investment Strategy Statement Guidance (ISS) that funds should transfer **all assets** to their pool by **31 March 2025** and set out in their ISS which assets are pooled, under pool management and not pooled. Funds will also need to state the rationale, value for money, and date for review if not pooled(i.e. comply or explain).
  - b) Revise pooling guidance to set out preferred model of pooling, including delegation of manager selection and strategy implementation.

- c) Implement a requirement in guidance for administering authorities to set a Pensions Committee training policy, and to report against the policy, in order to align the expectations for Pensions Committee Members with those for Local Pension Board Members.
- d) Issue revised guidance on Annual Reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- e) Make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled, and the net savings of pooling. The government will work with the Scheme Advisory Board (SAB) to consider the design of the annual return, noting the preference for consistency with other defined benefit and defined contribution schemes.
- f) Amend regulations to require funds to set a plan to invest up to 5% of assets in Levelling Up the UK and to report annually on progress against the plan. The guidance will provide clarity on the definition of “levelling up”, but administering authorities should seek opportunities which they feel will have “beneficial impacts”.
- g) Revise ISS guidance to require funds to consider investments to meet the government’s ambition of a **10% allocation to private equity**. This ambition is considered to “*help drive investment, in a way that allows everyone in the UK to benefit from growth, by boosting LGPS investment returns, incentivising companies to grow and list in the UK...*” However, it is not proposed to restrict this ambition to investments in private equity in the UK only. In addition, to support the 10% ambition, LGPS pools are encouraged to develop and strengthen partnerships with the British Business Bank (BBB) to explore opportunities in venture capital and growth equity.
- h) In addition, the Government will also amend the regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations; and more widely, monitor progress over the current valuation period to 31 March 2025, on transition, governance, reporting and how effective these are in delivering improvements in efficiency, cost, and performance.

## Conclusion

10. The Government believes that while the primary purpose of the investments is for long term stable returns in order to pay pensions for its members, there is scope to deliver substantial benefits to the UK as a whole at the same time. Having published their responses to the Consultation, the Government will be implementing the proposals set out in the Consultation. Officers are awaiting formal guidance on how and when the Government will be implementing these proposals.

## Appendices

- Appendix 1 - Summary of Government responses to the *LGPS: Next Steps on Investments* Consultation

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## Summary of Government responses to the LGPS: Next Steps on Investments Consultation

### **Chapter 2: Asset Pooling in the LGPS**

The Government have confirmed that there is no intention to take steps to mandate a move to fewer pools in the immediate term and that focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. However in the longer term, the Government believes that the transition of assets alone will not deliver the benefits of pooling.

#### Driving greater scale through fewer pools

Using the Government Actuary's Department (GAD) estimation of LGPS assets in 2040 (could reach £950bn), DLUHC believe a smaller number of pools with assets under management (AUM) of £200m average is the future. In the meantime, pools should move towards greater collaboration and consider specialisation to deliver further benefits of scale and limit unnecessary duplication.

#### A timetable for transition

DLUHC expect all assets, not just listed, to be transitioned by March 2025. If Funds fail to meet this deadline, they will need to set out in the Investment Strategy Statement (ISS) a detailed rationale for each asset remaining outside the pool including value for money considerations. This will be a 'comply or explain' regime.

For assets transitions which are difficult or undesirable to transition by March 2025, Funds should include the above information under the 'comply or explain' regime, in addition to why it is not appropriate to pool the asset by March 2025, and the plan with regard to pooling the asset. The rationale should also set out when the decision will be reviewed on each asset and what the plan is to transition by a later date.

#### Governance and decision making

The Government have confirmed that guidance on pooling will be revised as proposed as this will set a clear direction for all funds to move towards the delegation of strategy implementation and manager selection to deliver benefits of scale.

Whilst the Government recognise there are several models of pooling and they all have some benefits, the revised guidance will include a preferred model of pooling which DLUHC expect pools to adopt over time. This model will be based on characteristics and outcomes rather than particular structures, encouraging inter-pool collaboration.

DLUHC do not consider pools providing funds with advice on investments as a conflict of interest as pools are controlled by their partner funds, exist to provide services to the funds and do not benefit financially if funds take their advice.

#### Improving training for Pension Committee Members

The Government will revise guidance on annual reports to require all funds to publish a formal training policy for pension committee members, to report on training undertaken and to align expectation for pension committee members with those for local pension board members.

## Transparency and Accountability

Guidance will be revised to implement proposed changes working with the Scheme Advisory Board (SAB) to ensure that data and commentary on pooling progress and asset allocation is available earlier is consistent across the scheme and statistics/annual reports.

The Government will require funds to report performance in annual reports for each asset class against the benchmark of their choice.

## Scheme Annual Report

DLUHC have agreed with the SAB to expand the content of the Scheme Annual Report to include an update on pooling and asset allocation as per the transparency and accountability section of the consultation. This will be in a table which divides assets by category as well as pooling status (pooled, not pooled or under pool management).

## **Chapter 3: LGPS investments and levelling up**

### Definition of Levelling Up

On the definition of levelling up, the Government noted requests for additional clarity and have advised this will be addressed in guidance, however maintain that a broad definition allows funds to seek out opportunities which they feel have beneficial impacts.

The Government encourage funds to invest in levelling up projects through their pool but recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment and therefore funds may wish to continue to invest outside the pool.

### Enabling investment to support Levelling Up

Guidance on pooling is to be revised to set out circumstances where it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle.

### Requirement to publish plans for increasing local investment

The Government will revise guidance on investment strategy statements to require funds to have a plan to invest in up to 5% in levelling up projects. Public market investments in providers such as housebuilders, construction, utilities companies will generally not be eligible.

Funds may invest more than 5% if they consider it appropriate with a diversified strategy, or Funds may invest less than 5% if there is not sufficient opportunity for good returns.

### Reporting requirements on Levelling Up investments

The Government will revise advice on Annual Reports to include guidance on reporting progress against the Fund's plans on levelling up investments. This will be done by designing a template in consultation with the SAB and practitioners. Government expect the annual report to include:

## Appendix 1

- a. The percentage of assets under management (AUM) invested in levelling up projects compared to projects and to the plan for the year, percentage in the prior year, and ambition set by the fund;
- b. Amount and type of levelling up investments made through the pool and outside the pool;
- c. Narrative account explaining changes in AUM and rationale for investing/not investing through the pool.

### **Chapter 4: Investment opportunities in private equity**

The Government will set a new ambition for funds to invest 10% of assets in private equity in guidance on investment strategy statements. This does not mandate investment and Administering authorities continue to be under the same requirement as current to act in the interests of members under their fiduciary duty.

#### British Business Bank (BBB)

LGPS pools will be encouraged to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity.

### **Chapter 5: Improving the provisions of investment consultancy services to the LGPS**

The Government have confirmed they will bring forward amendments to the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016* and associated guidance to implement requirements on LGPS funds that use investment consultants. LGPS funds will be required to set and review strategic objectives for any investment consultant they use.

### **Chapter 6: Updating the LGPS definition of investments**

The Government will be amending regulations to make the technical change to the definition of investments to provide consistency and clarity.

### **Chapter 7: Public Sector equality duty**

DLUHC believe that the reforms will not affect any particular group with protected characteristics adversely as there will be no change to member contributions or benefits as a result.