

City of London Corporation Committee Report

Committee(s): Pensions Committee – For Discussion/ Information	Dated: 03 December 2024
Subject: Autumn Budget 2024, Mansion House Speech and LGPS (England and Wales): Fit for Future Consultation Summary	Public report: For Discussion/For Information
This proposal: <ul style="list-style-type: none"> • provides statutory duties • provides business enabling functions 	
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	No
Report of:	The Chamberlain
Report author:	Amanda Luk

Summary

On the 30 October 2024, the Labour Government announced their ‘*Autumn Budget 2024 – Fixing the Foundations to Deliver Change*’. The Chancellor of the Exchequer, Rachel Reeves, outlined measures aimed at fixing the foundations of the economy and delivering change.

This was followed by a number of measures announced in the Mansion House Speech on 14 November 2024 and the Local Government Pension Scheme (England and Wales): Fit for Future Consultation released the same evening.

Recommendations

Members are asked to note this report.

Main Report

1. The Chancellor of the Exchequer, Rachel Reeves, delivered the new Labour Government’s first budget on 30 October 2024. ‘*Fixing the Foundations to Deliver Change*’ was focussed on announcing measures to raise £40bn in taxes some of which have had an impact on the Local Government Pension Scheme (LGPS).
2. Following the Chancellor’s budget, the Mansion House Speech took place on 14 November 2024, in which a series of measures were announced, aimed at the LGPS. This included a new Consultation ‘*Local Government Pension Scheme (England and Wales): Fit for the Future*’.

Autumn Budget

3. The Autumn Budget (which can be found [here](#)) introduced several pension reforms including maintaining the state pension triple lock, a requirement for all scheme administrators of registered pension schemes to be UK resident and bringing in line the conditions of Overseas Pensions Schemes (OPS) and Recognised Pension Schemes (ROPS) established in the European Economic Area with OPS and ROPS established in the rest of the world from 6 April 2025.
4. The Government also introduced a reform on Inheritance Tax, whereby from 6 April 2027, inherited pensions i.e. unused pensions and death benefits will be included within the value of a person's estate for Inheritance Tax (IHT) purposes. The IHT thresholds will remain frozen until 2030.
5. If the IHT threshold is passed, Pension Scheme Administrators will become liable for reporting and paying any IHT due on pensions to HMRC and a consultation on how to implement the proposals has been launched, which can be found [here](#). The technical consultation will run for 12 weeks and responses are due by 22 January 2025.

Mansion House

6. Chancellor Rachel Reeves announced a number of major pension reforms to "*tackle the fragmented pensions landscape, deliver investment and drive economic growth – which is the only way the make people better off*".
7. The reforms will be introduced through a new Pension Scheme Bill in 2025 creating 'megafunds' through consolidating defined contribution schemes and pooling assets from 86 separate LGPS authorities. These so called 'megafunds' will mimic Australia and Canada's set up to take advantage of size to invest in assets and '*deliver real change in our economy*'. The full Mansion House speech can be read [here](#) and associated press releases from the Government about the 'megafunds' can be found [here](#).

LGPS Consultation: Fit for the Future

8. In the evening on 14 November 2024 and **immediately** following the Mansion House Speech, MHCLG (Ministry of Housing, Communities and Local Government) published the '*Local Government Pension Scheme (England and Wales): Fit for Future*' Consultation. The consultation lasts for 9 weeks and responses are due by 16 January 2025.
9. There are **thirty questions**, and the consultation is seeking views on the proposals to put the LGPS on a clearer, firmer trajectory to consolidate, as well as measures to improve scheme governance and investment. MHCLG claim that '*together these proposals seek to provide long-term clarity and sustainability, putting the scheme on the strongest possible footing for the future.*'
10. There are three areas covering both Administrating Authorities (AAs) and Pools in which the Consultation is seeking views on which are outlined in Table 1 below.

Table 1: Summary of proposals covered in the Consultation

Summary	Proposal
<p>Reforming the LGPS asset pools by mandating certain ‘minimum standards’ deemed necessary for an optimal and consistent model in line with international best practice.</p>	<p>The proposed ‘minimum standards’ include:</p> <ul style="list-style-type: none"> • 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.
<p>Boosting LGPS investment in their localities and regions in the UK.</p>	<p>AAs would be required to:</p> <ul style="list-style-type: none"> • 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; • To set out their local investment and its impact in their annual reports.
<p>Strengthening the governance of both LGPS AAs and LGPS pools, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review.</p>	<ul style="list-style-type: none"> • 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.

11. Members should note that although the Pool would implement the Investment Strategy, the AA would still be responsible for setting the high-level investment strategy. A template table has been included in the Consultation document of what the high-level investment strategy would look like. MHCLG have also included a table showing the AA and Pools role in the Pensions Funds Investment Function. These have been included in Appendix 1.
12. Subject to the outcomes of this Consultation, the Government will consider legislating, to require in law, the pool 'minimum standards', including transition or management of all assets. The indicative timeline for the pooling of all liquid assets is March 2025 and all other assets (including illiquid) by March 2026.
13. The full consultation can be found [here](#) and included at Appendix 2 is the list of thirty questions.

Conclusion

14. Following the Autumn 2024 Budget, Mansion House speech and release of the 'LGPS: Fit for Future' Consultation, the LGPS is to undergo a number of changes. Members should note the fast approaching deadlines to the Consultations, and going forward the major changes to how the LGPS is managed.

Appendices

- Appendix 1 – MHCLG template Strategic Asset Allocation and AA/ Pools roles and responsibilities
- Appendix 2 – Local Government Pension Scheme (England and Wales): Fit for Future Consultation Questions

Amanda Luk

Senior Accountant – Pensions

Chamberlains Department

T: 020 7332 1372

E: amanda.luk@cityoflondon.gov.uk

MHCLG template Strategic Asset Allocation and AA/ Pools roles and responsibilities


Template 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.

Roles and responsibilities of the Administering Authority vs 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

LGPS (England and Wales) Fit for the Future Consultation Questions

Chapter 2: LGPS Pooling
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 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?
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 AAs 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?
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?
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
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**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?

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.