

Pension Fund Committee

17 December 2024

LGPS Consultation – ‘LGPS: Fit for the Future’



Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

- 1 This report briefs the Committee on the government’s proposals for further reform of the LGPS following the first phase of the Pensions Review.

Executive summary

- 2 In July 2024 the government launched a Pensions Review of both workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS).
- 3 The focus of the Review for the LGPS was to look at how “tackling fragmentation and inefficiency” could unlock the investment potential of the scheme, including through further consolidation. As part of the first phase of the Review, the Fund responded to a government ‘Call for Evidence’.
- 4 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 are intended to provide long-term clarity and sustainability for the future.

Recommendation(s)

- 5 The Pension Fund Committee is asked to:
 - (a) note the report,
 - (b) provide any comments,
 - (c) delegate authority to the Corporate Director of Resources to respond in consultation with the Chair and Vice Chair of the Committee.

Background

- 6 In July 2024 the government launched a Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). This was followed by a Call for Evidence issued by the government in September 2024 – which was subsequently responded to by the Durham County Council Pension Fund.
- 7 In her first Mansion House Speech on 14 November 2024, the Chancellor confirmed that the government will legislate that the 86 LGPS Funds in England and Wales must consolidate their assets into 8 “megafunds” supporting change in the UK economy. The full text of the Mansion House speech is available online at <https://www.gov.uk/government/speeches/mansion-house-2024-speech>.
- 8 Following the Mansion House speech, the government immediately published a consultation titled “Local Government Pension Scheme (England and Wales): Fit for the future”. The consultation runs for 9 weeks and closes on 16 January 2025. The consultation is available online at <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future#introduction>, and is included in full in Appendix 1.
- 9 LGPS Funds are currently working with key LGPS stakeholders including the Scheme Advisory Board (SAB) and their own investment pools in preparation to submit responses to the consultation.

Summary of the consultation

- 10 The consultation includes 30 questions covering 18 proposals. It should be noted that despite earlier press coverage to the contrary, there are no proposals for mandated mergers of LGPS Funds or their Pools. The Government is clear however in setting out minimum expectations of pools and asking pools to submit their plans to respond to the changes by March 2026.
- 11 The consultation seeks views on proposals to strengthen the management of LGPS investments in three key areas:
 - (a) Reforming the LGPS asset pools,
 - (b) Boosting LGPS investment in their localities and regions in the UK, and;

- (c) Strengthening the governance of both LGPS Funds and LGPS pools.

Reforming the LGPS asset pools

- 12 Under the proposals consulted on, a more uniform approach to pooling would be implemented, with a target operating model, and minimum standards for LGPS pooling consistent with international best practice. The minimum standards for LGPS Pooling proposed are:

- (a) Funds would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal investment strategy advice from the pool. The proposed separation of roles and responsibilities and sample template for strategic asset allocation are set out in the tables below:

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	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		Low	Monitor	Decide

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)		

- (b) 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.
- (c) Funds would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK

- 13 Under the proposals consulted on, LGPS Funds will be required to:
- (a) Set out their approach to local investment in their investment strategy including a target range for the allocation having regard to local growth plans and priorities,
 - (b) Collaborate with Local Authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities to identify local investment opportunities, and;
 - (c) Set out their local investment and its impact in Annual reports.

Strengthening the governance of both LGPS AAs and LGPS pools

- 14 Building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review(Appendix 2) the government proposes the following:

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

Durham County Council Pension Fund Consultation Response

- 15 The consultation proposes some significant changes to how the LGPS operates and it is therefore essential that the Fund responds. The Fund is well placed to respond positively to the consultation, due to our Border to Coast Partnership already having in place many of the components that government see as optimal (an FCA entity, internal management capability, and an established private markets program which supports productive UK investment). As part of the Partnership's 2030 strategy plans were already in place to develop advisory capabilities.
- 16 The Fund has made significant progress in transitioning its assets to the Border to Coast pool, with very limited assets held outside of the pool and a commitment to pool the remaining assets as appropriate Real Estate products become available through Border to Coast. Additionally, the Fund has sought to continually improve its governance arrangements.
- 17 There are, however, areas which the Fund needs to give consideration, where the proposed approach differs from existing arrangements. This includes the role of Border to Coast as its principal investment advisor, and the role of the independent advisor. The provision of advice from Border to Coast will need to be supported by robust governance and oversight. The Fund will need to consider how it procures appropriate advice to properly discharge its fiduciary duty, and to oversee the performance of the pool. The proposals also seek to expand the role of independent advisor.
- 18 Officers of the Fund are also carefully considering how the Fund will consider local growth plans and local economic priorities in and how these interact with the Fund's investment objectives. Whilst the Durham Fund already has an explicit 5% allocation to impact investing with the objective of greater local investments, it

had been anticipated that some of this allocation would be transacted outside of the pool. Under consultation proposals, no further investment should be made outside of the pool, including local investment. It is now proposed that Border to Coast would carry out due diligence on local investment opportunities, which will require capability development at the pool.

- 19 The Fund will consult with stakeholders and pooling partners in forming a draft response to the consultation. The proposed schedule of consultation is as follows:

Date	Activity
Week commencing 18 November 2024	Officer sessions including Border to Coast partners, to map out indicative position on key points.
26 November 2024	Border to Coast Joint Committee briefing.
6 December 2024	Border to Coast Officer Operations Group and Senior Officer Group meetings.
17 December 2024	Pension Fund Committee and Local Pension Board meetings.
January 2025, date tbc	Draft response issued to members of the Pension Fund Committee, Local Pension Board and other stakeholders.
January 2025, date tbc	Final draft, considering any feedback received, by Head of Pensions and Corporate Director of Resources; in consultation with Chair and Vice Chair of Committee.
16 January 2025	Submission of consultation.

Author(s)

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