

REPORT TO:	Pension Board 17 January 2024
SUBJECT:	Local Government Pension Scheme: Next Steps on Investments
LEAD OFFICER:	Matthew Hallett – Acting Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 The Board are asked to note the contents of this report.

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Board of the progress in respect of the Government’s consultation on various proposals contained in the “Edinburgh Reforms” and their response to that consultation. It also includes, so far as can be ascertained at this stage, the likely implications for the Council’s Fund.

3 DETAIL

3.1 Background

- 3.1.1 On 9 December 2022, the Chancellor of the Exchequer announced a set of reforms (known as the “Edinburgh Reforms”) intended “to drive growth and competitiveness in the financial services sector.” Amongst the, roughly 30, proposals it was confirmed that the Government would be consulting in early 2023 on issuing new guidance on Local Government Pension Scheme (LGPS) asset pooling. It also became clear that the Government would also consult on proposals requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.
- 3.1.2 Immediately after the Chancellor’s “Mansion House Speech,” on 11 July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation on a number of investment-related proposals for the LGPS. These included imposing a deadline of 31 March 2025 for the transition of listed assets from funds to pools; proposals around increasing LGPS investments in private equity and projects that meet the Government’s levelling up agenda; details around the implementation of the Competition and Markets Authority Order relating to investment consultants, and a technical change to the 2016 investment regulations. The consultation ran for twelve weeks and closed on 2 October 2023.

3.1.3 At their meeting on 27 July 2023 the Board received a report discussing the consultation process in some detail.

3.2 Current Position

3.2.1 On 22 November 2023, alongside the Chancellor's Autumn Statement, the [response to the "next steps on investments" consultation](#) was published by DLUHC.

3.2.2 In paragraph 4 of the response the Government state:

In our consultation we sought views on proposals in five areas:

- *First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.*
- *Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the [Levelling Up White Paper \(LUWP\)](#). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.*
- *Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.*
- *Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on 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.*
- *Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.*

3.2.3 In paragraphs 5-7 the Government report that they received 152 responses. They acknowledge, that "The consultation received a broad range of responses" but appear minded to go ahead with the proposals. In paragraph 8 they put

forward the view that the LGPS is “.....in a favourable position to make a greater contribution to UK growth.” The whole of paragraph 8 reads as follows:

The government also views the LGPS as being in a favourable position to make a greater contribution to UK growth. Scheme members are protected as their benefits are guaranteed in law and do not depend on investment returns. Many LGPS funds are in surplus, and the LGPS has over 2 million active members and remains open to new members. As a result, the LGPS has the freedom to invest for growth over the long term, unlike many private sector comparators. We encourage funds to consider what this should mean for their risk appetite and investment strategy, and to review the investment opportunities, particularly in private markets, which are available to them. We look to successes in Canada and Australia, where good pension outcomes have aligned with societal and economic benefits.

Notwithstanding the comments in paragraph 8, paragraph 13 reads as follows:

The government believes that whilst long term stable returns in order to pay pensions for its members are the primary purpose of the investments, there is scope at the same time to deliver substantial benefits to the UK as a whole.

3.2.4 In paragraph 9 the Government confirm their position by stating as follows:

After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- *set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled [1]*
- *revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation [2]*
- *implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy [3]*
- *revise 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 [4]*
- *make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling [5]*
- *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 [6]*
- *revise ISS guidance to require funds to consider investments to meet the government’s ambition of a 10% allocation to private equity [7]*

3.2.5 In paragraphs 10 and 11 the Government confirm their intentions in respect of objectives for investment consultants, amendments to the 2016 investment

regulations, reporting and other requirements of the Scheme Advisory Board and monitoring of progress.

3.2.6 When Regulations and Guidance are published, officers along with the Fund's Investment advisers, will consider how to implement the requirements and will recommend to the Committee accordingly. Meanwhile, a preliminary response to the 7 points referred to in section 3.2.4 based on the Fund's current circumstances is as follows (points numbered as at the end of each of the Government's proposals):

1. By 31 March 2025 the Fund will be in a position to report on which of its assets are pooled, under pool management and, where not pooled, the rationale, value for money and date for review. The table below shows the assets held at 30 September 2023.

	Valuation at 30/06/23 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 30/09/2023 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					45.8%	42%
Legal & General FTSE World (Ex Tobacco)	708,107	-	6,255	701,852		
LCIV RBC	77,915	-	1,387	76,527		
LCIV	150			150		
Fixed Interest					15.2%	23%
Standard Life	120,944	-	2,731	123,675		
Wellington	53,798	-	28	53,769		
LCIV Global Bond	81,876	-	1,355	80,521		
Infrastructure					14.3%	12%
Access	37,736	831	403	38,970		
Temporis	80,128	1,509	1,169	79,789		
Equitix	72,769	6	98	72,873		
Macquarie GIG Renewable Energy	21,288	512	99	20,876		
I Squared	28,774	581	1,615	30,971		
Private Equity					9.9%	10%
Knightsbridge	59,176	1,427	1,808	62,411		
Pantheon	67,479	827	2,148	68,800		
Access	15,305	1,271	169	16,746		
North Sea	19,777	-	1,207	20,984		
Property					11.9%	12%
Schroders	139,586	-	1,290	138,297		
M&G	64,075	347	44	63,772		
Cash					2.8%	1%
Legal & General FTSE4Good Cash	946	-	69	1,015		
Cash	51,901	5,601	-	46,300		
Fund Total	1,701,733	- 4,679	1,246	1,698,300	100%	100%

The current breakdown in accordance with the likely reporting requirements is:

Status	Manager	Valuation (£m)	Percentage of Fund
Pooled	LCIV RBC	76.53	4.50
Pooled	LCIV	0.15	0.01
Pooled	LCIV Global Bond	80.52	4.74
Under Pool Management	Legal and General	701.85	41.33
Not Pooled		839.25	49.42

There is currently a plan to transfer more of the Fund's fixed interest bucket to the London CIV. The Fund will be in a position to meet the requirement to either comply or explain for asset pooling.

2. Awaiting Government Guidance
3. Knowledge and Skills Policy agreed by Pension Committee on 14 June 2022
4. All items regularly reported to Pension Committee and/or Pension Board
5. Statistics can be provided as required
6. Officers will work with our Investment Advisers to initially identify our current assets which meet the definition of a 'levelling up' asset.
7. The Fund has a target allocation is 10.0% and current investment is 9.9%

4. DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Matthew Hallett on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

CONTACT OFFICER:

Matthew Hallett – Acting Head of Pensions and Treasury.

BACKGROUND DOCUMENTS:

Local Government Pension Scheme (England and Wales): Next steps on investments – government response.

APPENDICES:

None.