



REPORT FOR: Pension Board

Date of Meeting:	5 February 2024
Subject:	Government Consultation on Investments and Pooling
Responsible Officer:	Sharon Daniels, Interim Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	None

Section 1 – Summary and Recommendations

This report updates the Board on the recently published results following responses to the consultation document on LGPS Investments and Pooling.

Recommendations:

The Board is requested to note the report and comment accordingly.

Section 2 – Report

1. As previously reported, the Government has undertaken a consultation on reforms to the arrangements for investment of LGPS assets. The latest plans were outlined in the Chancellor of the Exchequer's speech at the annual Mansion House dinner in July 2023. During that speech the chancellor announced reforms for the LGPS in England and Wales, covering asset pooling, levelling up and opportunities in private equity. Following this, the next day, the Department for Levelling Up Housing and Communities (DLUHC), published a consultation on the areas the chancellor highlighted in his speech.
2. Primarily the consultation covered five areas:
 - i. Acceleration and expansion of pooling - all assets into the pools by 2025 and each investment pool to be £50bn+ which could mean pool consolidation.
 - ii. Expectation for funds to invest up to 5% of assets, supporting UK levelling up.
 - iii. Increase investments in unlisted equity - looking for a 10% allocation to private equity.
 - iv. Amendments to LGPS regulations around the use of investment consultants - Officially implementing CMA requirements on investment consultants.
 - v. Technical changes to definition of investments within LGPS regulations.
3. This consultation closed on 2 October 2023.
4. Following the Consultation, the Government has on 22 November 2023 published the consultation outcome = Local Government Pension Scheme (England and Wales): Next steps on investments - government response. This can be found at the following link [Local Government Pension Scheme \(England and Wales\): Next steps on investments - government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response)
5. The key points are set out in the following paragraphs.
6. **Pooling**
 - a) a move towards **fewer, larger pools** (£50billion in size) – as a comparison, London Funds total assets at 31 March 2023 totalled £45bn, LCIV currently has around £14bn of investments pooled

or commitment (the latter in respect of private markets), and there are a further £12.3bn of passive funds counted as pooled. It is suggested that pools will have £200 billion of assets by 2040, by which time LGPS total assets are projected to have grown to £900 billion.

- b) **Requirement to pool listed assets by 31 March 2025** – this has also been confirmed; however, it will be on a “comply or explain” basis, with any explanation taking into account value-for-money considerations.
- c) **Passive assets** – these will fall within the “comply or explain” requirement and so may remain outside pools. However, funds must report the nature of the arrangement, the value-for-money case for holding the assets outside the pool, and the date when the arrangement will be reviewed. For any passive assets under the oversight of pools, funds must set out how that is exercised, and report these assets as “under pool management”.
- d) **Delegation of manager selection and strategy implementation** – the government will produce strengthened guidance on increased levels of delegation to pools in these areas.
- e) **Pools providing investment advice to funds** – despite the majority of feedback being negative, the government remains in favour of this proposal.
- f) **Preferred model of pooling** – feedback for the government’s specification of a single model of pooling was largely negative. Guidance will, therefore, be provided, focusing on “characteristics and outcomes” rather than specifying a single structure.
- g) **Investing in other pools, through your own pool** – the government will set out under what circumstances it will be appropriate to invest through your own pool in another pool’s product. Funds will not be permitted to invest in other pools’ products directly, as the government wishes to prevent competition between pools.

7. Levelling Up

- a) **Definition of Levelling Up investments** – the broad definition suggested in the consultation will remain to provide flexibility for funds in finding investments that meet this definition. The government states that investments are “generally expected to provide good returns” but lower-returning investments can also be made under existing guidance on non-financial factors. The guidance will be to increase investment into private markets – public-market investments in providers such as housebuilders will generally not count.
- b) **Issues of scale** – much of the feedback noted the potential for Levelling Up investments to be too small in scale to access, particularly for pools. The government acknowledges that funds may choose to invest in these opportunities outside of the pool, but encourages as much pool involvement as possible, such as in conducting due diligence and to help manage conflicts of interest.

- c) **Up to 5%, or more if you like** – the government has confirmed that “an ambition” of 5% is not a limit. Similarly, funds can invest less if they don’t find sufficient investment opportunities.
- d) **Fiduciary duty** – it’s made clear that the government doesn’t see these requirements as going against fiduciary duty, and that funds should consider investments in Levelling Up projects as they do any other investment.

8. **Private equity**

- a) **“Allocation ambition”** – despite noting the largely negative feedback, the government will push ahead with encouraging funds to invest 10% of assets in private equity. This will not be forced, but funds will be set an allocation ambition.
- b) **UK or not?** – it’s made clear that the purpose of this measure is to encourage investment in the UK; however, this will not be mandated.
- c) **Private equity or private markets?** – the government recognises that private equity isn’t the only asset class that can help boost economic growth in the UK while providing strong returns. Funds can decide where they wish to invest.
- d) **British Business Bank (BBB)** – pools will be encouraged to work with the BBB to explore investment opportunities in venture and growth capital. A government-led investment vehicle to support pension fund investment in these areas is being explored.

9. **Other issues**

There are also requirements placed on funds in relation to committee training and increased reporting, including:

- All funds to publish formal training policies for their committees and report on the training undertaken.
- The government will work with the Scheme Advisory Board to create more transparent and consistent reporting on fund asset allocation and returns. The use of single standardised benchmarks for asset classes has been dropped.
- Funds must also provide an annual update on pooling progress in their annual reports.
- In their investment strategy statements, funds will need to set out a plan for investing up to 5% of assets in Levelling Up projects. And in annual reports they must report on their progress.

10. The Government has not modified its proposals significantly as a result of the Consultation, which may present some challenges for funds, committees and officers. The Government plans to issue amended Regulations and detailed guidance in due course.

Legal Implications

11. There are no direct legal implications arising from this report.

12. The terms of reference for the Board include the Board's role as set out in the following paragraphs.
13. The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:
 - securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
 - securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
 - such other matters the LGPS regulations may specify.
14. The Administering Authority retains ultimate responsibility for the administration and governance of the scheme. The role of the Board is to support the Administering Authority to fulfil that responsibility.
15. In its role, The Board will have oversight of the administration of the fund including:
 - a. The effectiveness of the decision making process
 - b. The direction of the Fund and its overall objectives
 - c. The level of transparency in the conduct of the Fund's activities
 - d. The administration of benefits and contributions
16. The Board will provide the Scheme Manager with such information as it requires to ensure that any Member of the Board or person to be appointed to the Board does not have a conflict of interest.
17. The Board will ensure it effectively and efficiently complies with the Code of Practice on the Governance and Administration of Public Service Pension Schemes issued by the Pensions Regulator. It will help to ensure that the Fund is managed in the same way.
18. The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

Financial Implications

19. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

Risk Management Implications

20. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review is elsewhere on this agenda.

21. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

Equalities implications / Public Sector Equality Duty

22. Was an Equality Impact Assessment carried out? No
23. There are no direct equalities implications arising from this report.

Council Priorities

24. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed by the Chief Financial Officer

Date: 26 January 2024

Statutory Officer: Sharon Clarke

Signed on behalf of the Monitoring Officer

Date: 25 January 2024

Chief Officer: Sharon Daniels

Signed on behalf of the Corporate Director

Date: 26 January 2024

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall - Interim Pensions Manager
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Telephone 020 8736 6552

Background Papers: None