

Agenda Item

Subject	Consultation on LGPS Investment Matters	Status	For Publication
Report to	Authority	Date	7 th September 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To secure approval for the Authority's response to the Government's consultation "Local Government Pension Scheme (England and Wales): Next steps on investments" as set out at Appendix A.
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2 Recommendations

- 2.1 Members are recommended to:
- a. **Approve the consultation response set out in Appendix A and delegate authority to the Director in consultation with the Chair to finalise the response in the light of any further feedback from advisers and Border to Coast partners.**
 - b. **Note the work identified in the body of this report which will be undertaken in preparation for the introduction of the changes set out in the consultation.**
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3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The way in which investment pooling operates and the nature of the assets in which the Fund invests clearly impact on the level of returns achieved and potentially could have responsible investment implications. As such this consultation addresses issues fundamental to the ongoing success of the Authority in delivering its investment strategy and it is therefore important for scheme members that the debate on the Authority's response is held in as open and transparent a way as possible.

4 Implications for the Corporate Risk Register

The outcome of this consultation will undoubtedly have implications for the risks related to Border to Coast and the investment strategy included in the Corporate Risk Register.

5 Background and Options

5.1 The Government published a consultation "Local Government Pension Scheme (England and Wales): Next steps on investments" on 11th July 2023 shortly after the Chancellor of the Exchequer's Mansion House speech which set out a range of proposals for using pension funds (both LGPS and private sector funds) to support growth in the UK economy. This long-awaited consultation follows the abortive consultation on draft statutory guidance on investment and pooling issues in 2019, which was stalled following threatened legal action against the Government.

5.2 The key points raised in the consultation are:

- A clear timeline for the holding of all listed assets in pool run collective vehicles by March 2025 and a clear intention to use existing powers to make sure this happens. SYPA has already met this target.
- Clearer plans and timelines for the overall transition and what appears to be a higher bar for holding assets outside of the pool.
- A clearer view from Government on what counts as pooling and also how strategic asset allocation (the responsibility of funds) should be defined. This includes a clear view that pools should be more involved in advising on strategy.
- A clear view that the number of pools should be reduced with a minimum scale of at least £50bn and preferably £75bn. This should though be achieved through voluntary mergers. Notably officials in various public fora have indicated that the Welsh pool should be seen as being outside of this process.
- While accepting that pools might invest in each other's products a clear intention that there should not be competition between pools. The intent here is to allow pools to specialise in specific areas.
- A requirement to publish a plan showing how each Fund will move to achieve investment of 5% of AUM in projects which support "levelling up" and to report on the impact of these projects using the metrics in the "levelling up" white paper. The work already done by SYPA in this area anticipates this.
- A requirement to consider investing up to 10% of AUM in Private Equity and growth capital and to report on this.
- Detailed technical proposals concerned with the use of investment consultants (incorporating elements of the regulation of private sector schemes) and the definition of investment.

5.3 A briefing session for members was held on 2nd August and a recording of this is available for members who were unable to attend in the online reading room.

- 5.4 A draft response from the Authority is set out for approval at Appendix A. This is built on a core response developed with the Border to Coast operating company and other Partner Funds with additions reflecting SYPA’s interests and concerns.
- 5.5 There are several issues to bear in mind in considering our response this consultation, as set out at Appendix A:
- This is not a consultation on the principles involved, but rather focuses on practical issues associated with any of the proposals.
 - The proposals made and issues addressed are not a matter of contention between political parties and therefore while timescales for implementation may differ the result of the General Election which is due next year is not likely to change the direction of policy.
 - While we might differ on some of the detail of the proposals made the direction of travel is one that is supportive of the approach to pooling which the Authority and Border to Coast have taken and of the approach to Place Based Impact Investing which the Authority approved last March. Therefore, the broad tenor of any response will be positive.
- 5.6 Given that the direction of travel is clear it would be sensible for the Authority working with Border to Coast partners to begin to get ahead of things in order for us to be able to control our own destiny in this process, this approach is reflected in a number of pieces of work which are ongoing and which it is intended to complete over the remainder of the financial year, including:
- The completion of a plan setting out the timescale for the transition of the remaining legacy assets into the Pool, which it is intended to bring to the March meeting of the Authority.
 - The development and agreement by Partner Funds of a collaborative strategy for pooling.
 - The completion of the Partnership’s 2030 Strategy work which will be the subject of a member workshop in October and an initial briefing following this meeting and which will be reflected in the Company’s strategic plan which will be agreed early in 2024.
- 5.7 While the direction of travel in the consultation can be seen as an endorsement of the “Border to Coast” way of doing pooling it is important that we are not complacent and this is reflected both in the proposed response and proposed future work.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	None directly
Human Resources	None
ICT	None
Legal	The Consultation presages changes to the Investment Regulations and new Statutory Guidance.
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection
Consultation Document – Local Government Pension Scheme (England and Wales): Next steps on investments	Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)