

## Agenda Item

<b>Subject</b>	<b>Policy and Regulatory Update – LGPS Investment Consultation Outcome</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	7 <sup>th</sup> December 2023
<b>Report of</b>	Director		
<b>Equality Impact Assessment</b>	Not Required	Attached	No
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### **1 Purpose of the Report**

- 1.1 To update members of the Authority on the outcome of the consultation on LGPS investments which was announced alongside the Autumn Statement and the implications for SYPA.

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### **2 Recommendations**

- 2.1 Members are recommended to:
- a. **Note the contents of this report and the implications of the consultation outcome for future work programmes.**

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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 proposals set out by Government have implications for how the Authority invests and hence potential returns and the ability to achieve particular responsible

investment goals. In addition the continuing development of the pooling process is likely to require further evolution of the Authority's governance arrangements.

#### **4 Implications for the Corporate Risk Register**

- 4.1 Implementation of the outcomes of the consultation will potentially impact various investment and governance risks already contained in the Corporate Risk Register and there may be new risks which emerge when the proposed statutory guidance is produced.

#### **5 Background and Options**

- 5.1 The Government published the outcome of the consultation on LGPS Investments which closed on 2<sup>nd</sup> October alongside the Autumn Statement on 22<sup>nd</sup> November 2023 (see link in background papers). The Authority had previously considered its response at its September meeting. The more rapid response to a consultation than the sector is accustomed to possibly indicates the strength of the drive from the Treasury behind the broader package of Mansion House reforms of which this exercise forms a part.

- 5.2 There was a significant level of response to the consultation with 82 of the 86 administering authorities and all 8 pools responding among a total of 152 responses. As members will be aware there was a significant degree of collaboration between Border to Coast partners to agree a common core approach to the issues raised in the consultation.

- 5.3 Broadly the Government now propose to proceed with all of the proposals which they outlined in the original consultation with some small variations and softening in some areas, in particular:

- The March 2025 timeline for transitioning listed assets will remain but will be on a comply or explain basis, which will reduce some of the practical challenges that a hard deadline would have posed for some funds although this is not an issue for SYPA.
- The proposal to adopt standardised asset class benchmarks has been dropped.
- There is clarity that the proposals in relation to private equity and so called "levelling up" investments are not intended to cut across fiduciary duty but point to wider opportunity sets.

- 5.4 The following sections of this report deal with the main issues considered in the consultation in turn the Government's response and the implications for SYPA.

##### *Pooling and Driving Scale*

- 5.5 The response to the Government's proposal that pools should target a minimum size of £50bn is at best described as cautious scepticism. The Government continues to believe that fewer pools is an optimum position but does not intend to force the issue although it makes clear based on an estimate of future asset values that by 2040 it would want to see 4 or 5 pools of in excess of £200bn rather than the current 8. Government encourages greater collaboration between pools to exploit specialism and avoid duplication.

- 5.6 With regard to the timetable for transition of listed assets there was significant opposition to the proposed 2025 date for a variety of practical reasons. The Government's view is that they need to provide some clearer direction to deliver a step change in the rate of progress being made in pooling assets. Therefore they propose that funds should either transition listed assets or provide in their Investment Strategy Statement a detailed rationale for those that remain outside the pool including any value for money considerations and when the decision not to pool will be reviewed.
- 5.7 The Government set out a view about how funds and pools should work together including a clearer division of responsibilities and pool entities being more actively involved in advising on investment strategy. There was significant opposition to this approach, and in particular to a more active advisory role for pools. The Government propose to provide revised guidance which includes a preferred model which pools will be expected to adopt over time. This model will be based on characteristics and outcomes rather than prescribed structures.
- 5.8 There was almost unanimous support for proposals to formalise requirements for a training policy for members of pension committees (in SYPA's case the Authority). The Government intends to enact these proposals through further guidance which stops short of setting the requirements around knowledge and understanding as called for by the Scheme Advisory Board in the Good Governance review.
- 5.9 The Government made proposals to increase the transparency of reporting around asset allocation and around the savings delivered by pooling, including additional reporting by the Scheme Advisory Board. There was broad support for these proposals. The area of most contention was the suggestion of reporting asset class returns against standardised benchmarks. The Government will bring forward guidance to implement these proposals and will work with the SAB to develop a scheme return looking to achieve some consistency with other parts of the pensions industry. The proposal to use standardised asset class benchmarks will not be taken forward.

#### *LGPS and "Levelling Up"*

- 5.10 There was broad support for the Government's proposed definition of a "levelling up" investment. The Government will therefore proceed on this basis although guidance will provide additional clarity to the definition.
- 5.11 The Government sought views on the ability of pools to invest in another pools products. This was broadly supported although in many cases with significant caveats. The Government will take forward this proposal through guidance although it will be a matter for each pool whether it pursues this approach.
- 5.12 The Government sought views on a requirement for Funds to publish a plan to invest 5% of assets in projects to support "levelling up". A majority of respondents opposed this on the ground that it was dictating asset allocation and therefore not in line with Funds' fiduciary responsibilities. The Government intends to proceed with these proposals but has accepted the "levelling up" investment are not an asset class in their own right.

- 5.13 A large proportion of responses opposed the Government's proposals in terms of reporting in relation to "levelling up" in particular drawing attention to the increasing reporting burden on funds. The Government intends to proceed with these proposals and will work with SAB on proposals to minimise the burden of these requirements including through producing reporting templates.

#### *Investment in Private Equity*

- 5.14 The Government consulted on whether Funds should have an "ambition" to invest 10% of AUM in private equity. This was opposed by 84% of respondents largely on the grounds that direction of asset allocation was contrary to Funds' fiduciary responsibilities. The Government believes that the well funded position of LGPS and its long time horizon means the scheme is well placed to benefit from more illiquid but **potentially** (emphasis added) higher returning investments and will therefore proceed with their proposals. The Government has clarified that this requirement is not restricted to the UK private equity investments, but has not widened the definition to include other forms of growth capital.

#### *Other Issues*

- 5.15 The other issues covered in the consultation including the use of investment consultants were largely technical and received a significant weight of support.

#### *Implications for SYPA*

- 5.16 The direct implications of the proposals for accelerating pooling on SYPA are limited as we have completed the transition of listed assets. However, there are requirements in this area that will impact and in particular the need to provide a clear transition plan. Work has already begun on this plan with a view to bringing it to the March meeting of the Authority and if appropriate this will be incorporated in revisions to the Investment Strategy Statement. We already comply with the spirit of the reporting requirements suggested in this area but will need to await clarity on the templates and forms of reporting in order to understand whether there are significant implications.
- 5.17 The more significant implications in this area are around the development of the relationship with Border to Coast and the impact of any consolidation amongst the pools, although the Government's preferred model reflects existing practice within the Pool. These have already been recognised as part of the 2030 Strategy on which members have been briefed. In the short term it is likely that the operating company will require further regulatory permissions and the need to facilitate the pooling of listed assets by 2025 may necessitate some alterations to the order in which new products are delivered.
- 5.18 In relation to "levelling up" or as SYPA has termed it place based impact we have already developed a strategy although the outline requirements for a plan do indicate that this will need some further work to ensure compliance. If possible this work will be undertaken to allow it to be considered at the March Authority, if not this will come to the June Authority alongside any amendments necessary to the Investment Strategy Statement.
- 5.19 SYPA already reports on the impact achieved through the place based impact strategy. However, the consultation indicates some additional requirements in this area which do not seem unduly onerous and which we will seek to meet in the next annual report.

- 5.20 In terms of the Private Equity issue the current Strategic Asset Allocation is for this to be 7.5% of AUM. In the overall context of the Fund, its risk appetite and importantly the requirement to access regular income this for the moment seems sufficient and is 50% greater than the average across the LGPS. However, this is an issue that will need to be examined at the next strategy review which will be conducted to reflect the results of the 2025 valuation.

*Conclusion*

- 5.21 Overall the outcome of this consultation is as anticipated and there does seem to be a broad political consensus around the direction of travel, if not always about some of the detail. The Government has indicated an intention to publish revised guidance next summer although given both past performance and the wider political timetable this may be a little optimistic.

**6 Implications**

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

Financial	None directly although there may be budget pressures resulting from the increased reporting burdens included in the Government's proposals.
Human Resources	None identified
ICT	None
Legal	The Government proposes to enact most of its proposals through the issuing of statutory guidance. While this does allow more detail to be provided on specific requirements it also increases the latitude for individual funds in terms of how they comply which can result in issues in terms of the comparison of performance and other metrics between funds.
Procurement	Some of the changes proposed by Government (for example the extension of the pool role in provision of advice) may need careful consideration to ensure that the nature of the arrangements put in place do not run counter to the requirements of procurement law to ensure proper and fair competition for work.

**George Graham**

**Director**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
Government Response to the consultation on LGPS Investments	<a href="http://www.gov.uk">Local Government Pension Scheme (England and Wales): Next steps on investments - government response - GOV.UK (www.gov.uk)</a>
SYPA response to the original consultation on LGPS Investments	<a href="http://www.sypensions.org.uk">Auth Sept 23 - Investment Consultation Response Appendix A.pdf (sypensions.org.uk)</a>