



## **LOCAL PENSION BOARD – 5 FEBRUARY 2025**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **FIT FOR THE FUTURE CONSULTATION RESPONSE**

##### **Purpose of the Report**

1. The purpose of this report is to outline to the Local Pension Board (LPB) the Fund's appended response to the consultation paper issued by the Ministry of Housing, Communities and Local Government titled "Local Government Pension Scheme (LGPS): Fit for the future".

##### **Policy Framework and Previous Decisions**

2. Government instigated 'pooling' of pension funds in 2015 with the publication of criteria and guidance on pooling of Local Government Pension Scheme (LGPS) assets. Administering authorities (AAs) formed their own groups and eight asset pools were formed, which are now all operational. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to funds. The Fund is part owner of LGPS Central Limited (Central) alongside seven other LGPS funds (Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire West Midlands, Worcestershire).
3. On the 20 July 2024 the Chancellor launched Phase One of the Pensions Review. The government then issued a call for evidence on the 4 September which closed on the 25 September. Leicestershire County Council Pension Fund's (the Fund) response to this is attached. The government published the findings of Phase One of the Review on the 14 November which are available online: <https://www.gov.uk/government/publications/pensions-investment-review-interim-report>
4. On the 14 November the Chancellor announced [the fit for the future consultation](#) on significant proposals related to the LGPS. Given timescales a high-level report was taken to the 29 November Local Pension Committee (LPC) meeting where delegation was given to the Director of Corporate Resources in consultation with the Chairman of the LPC to respond ahead of the 16 January 2025 deadline.

## **Background**

5. The focus of the Pensions Review for the LGPS was to look at how tackling fragmentation and inefficiency of funds can unlock the investment potential of the scheme.

## **Fit for the Future Proposals**

6. The government's proposals look to further existing ambitions and the progress achieved to date through pooling. Government's main proposals, where they differ from the Fund's and Central's existing functions are set out below.

### **LGPS pooling**

7. As part of the consultation the government have highlighted the benefits to pooling thus far, such as lower fees, enhanced investment opportunities and improved efficiencies and resilience. It is the government's intention that these proposed measures build on these strengths and allow for funds and pools to operate with clarity and efficiency over the long term. Key themes of the proposals are as follows:
  - A requirement on Administering Authorities (AAs) to fully delegate the implementation of their investment strategy to their pool. In practice this would mean the Fund would retain its annual consideration of the strategic asset allocation (SAA), return objectives, risk tolerances, constraints and limitations and the high-level approaches to local investment and responsible investment. This will likely be limited to a broad strategic level and limited to broad asset class or general investment themes. The implementation of this approach, such as adjustments to the asset mix, geographic allocation, appointments of managers and choice of investment opportunity would be largely left to Central.
  - A requirement on AAs to take their principal investment advice from the pool. Currently investment and SAA advice is received from Hymans Robertson, the Fund's Investment Advisor. As part of this advice the Fund engages with Central to aid with the potential pipeline of investment projects that Central prepare. This proposal would result in pools advising on the investment strategy, and the implementation of it.
  - A requirement for AAs to transfer legacy assets to the management of their pool by 31 March 2026. There are different approaches that can be taken for transition of legacy assets, some more resource and cost intensive than others. This may include the transition of illiquid assets to Central for management responsibility. In such a case the decision on whether to hold these to maturity, rollover long-term contracts or invest elsewhere would rest with Central. The consultation also asks for views on what capacity and expertise the pools would need to develop to take on management of legacy assets to this end.

## Local Investment

8. Government's proposals set out that growth is their number one mission. Through this it is recognised that the LGPS already invests approximately 30% of its assets in the UK. The government believes that the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities. To this end the government have proposed the following within the consultation:
- Funds to set out approach to local investment with regard to local growth plans and local economic priorities in setting their investment strategy, and work with local authorities. This proposal defines local investment to include investments local to any of a pool's partner AAs, or investment in their region. Government propose that AAs set a high-level objective on local investment within the Investment Strategy Statement, including a target range for local investment as a proportion of the fund. It is unclear at this point whether for the Fund this would mean setting a target for Leicester, Leicestershire and Rutland target, or a wider pool area target.
9. To undertake the proposal the government are suggesting a requirement for the pools to develop the capability to carry out due diligence on local investment opportunities and decide whether to invest.

## Governance of funds and pools

10. The final key area relates to the governance of funds and pools. The government is largely proposing bringing in recommendations from the Scheme Advisory Board (SAB) Good Governance Review. These are recommendations which the Fund has followed for a number of years, including training and conflicts of interest. These areas will need to be reviewed in line with any final guidance. Further proposals include:
- A requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified. This will be led by the SAB along a similar line of the Local Government Association peer challenge service.
  - A requirement for pension committees to include an independent person who is a pension professional, whether as a voting member or as an adviser. The government have recognised there would be additional cost but that it would provide an increased knowledge base for committees.
  - a requirement for pool boards to include one or two representatives of shareholder AAs, such as the Chair of the Shareholder Committee or equivalent. As well as a question asking for views on the best way to ensure that members' views and interests are considered by the pools.

- A requirement for pools to publish asset performance and transaction costs. It will be important that performance reflects risk taken and that AAs are able to hold pools to account in the event of poor performance.
- That funds appoint a senior LGPS officer.

11. While these proposals do not mandate mergers, the potential for collaboration between partner funds in the same pools may be an indication of what could come next.

### **Consultation response**

12. The Fund's response is appended and was agreed by the Director of Corporate Resources in consultation with the Chairman of the LPC in line with the delegation given at LPC on the 29 November 2024 ahead of Government's 16 January deadline.

13. The response was written having regard to the comments previously made by the LPC and also discussions with LGPS Central Limited (Central) and partner funds, and consideration of the potential impacts and consequences of the proposals. The response looks to suggest how these potential concerns could be resolved, and how largely they can be managed through close working with the pool and partner funds, and processes developing over time. The response sets out this is especially vital in regard to:

- Minimum standards: That government expressly set out that AAs fiduciary duties are extended to pool companies such as Central, as their primary duty.
- AAs Role: That the Fund retain the ability to set high-level investment objectives and the SAA, and that Funds can continue to input into risk appetite, active versus passive, high-level geographic exposure and responsible investment considerations, in support their fiduciary responsibilities.
- Legacy Assets: That pool companies and Funds work together to develop a framework to transition assets wherever possible ahead of March 2026. With pools allowed flexibility to invest through existing mandates and managers to avoid inertia while pools develop appropriate products.
- Advice: That pools should not be mandate to provide 'principal' advice in the short-term for SAA considerations. Instead the Fund provides other options that may support pooling in the meantime, including joint procurement across pooled partner funds.
- Local Investment: The response welcomes a broad UK-wide definition to maximise the potential to identify investable opportunities, and that funds and pools consider the best options for how this is undertaken, whether as a pool or in collaboration with bodies such as the National Wealth Fund.

14. All partner funds and Central have individually responded to the consultation. As was to be expected the responses are a mix of commonalities and differences that reflect each respondent's priorities and experience of pooling.

### **Next Steps**

15. LGPS AAs and asset pools have to submit proposals on how they will implement the proposals to Government by 1 March 2025. The Fund is working with Central and partner funds on these proposals through a series of workshops ahead of the Central Shareholder Forum meeting due to be held in February 2025.
16. It is not yet clear what the Government intends to put in place in terms of primary legislation, secondary legislation or guidance. It is expected that any primary legislation required to implement outcomes of the consultation will be included in the upcoming Pension Schemes Bill to be introduced in 2025. Officers will provide updates to the Committee and Board as required.

### **Resource Implications**

17. It is noted that while pooling has delivered substantial benefits so far, progress has been slower than originally envisaged. The Government has strongly indicated that it will take further action if needed to accelerate the transfer of assets and responsibilities to pools.
18. Officers will address potential resourcing considerations and changes to the operation of the Pension Committee and Board as part of the consultation outcomes.

### **Recommendation**

19. The Board is recommended to note the report and the response to the "Local Government Pension Scheme (LGPS): Fit for the future consultation as set out in the Appendix to this report.

### **Equality Implications**

20. The Government had undertaken an initial equality impact assessment and do not believe the proposals affect any particular groups with protected characteristics adversely as there will be no change to member contributions or benefits as a result. The Government states there may be an indirect benefit to protected groups who live in disadvantaged areas which benefit from local investments.

### **Human Rights Implications**

21. There are no human rights implications arising from this report.

## **Environmental Implications**

22. The Fund has agreed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on Climate Risk. The consultation proposes that funds retain responsibility for setting a high-level investment strategy including environmental, social and governance matters and responsible investment. It is likely the Fund will need to continue to work closely with Central and Partner Funds on these matters.

## **Appendix**

Fit for the Future response.

## **Background Papers**

1 December 2023 – Local Pension Committee – Pooling Consultation: Next Steps on Investment and LGPS Central Meetings Update,  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7204&Ver=4>

24 May 2021 – Local Pension Board – Good Governance Phase 3 – Progress Report;  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1122&MID=6529#A167749>

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