LGF Pensions Team
MHCLG
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16 January 2025

Local Government Pension Scheme (England and Wales): Fit for the future consultation

Thank you for the consultation seeking views on the Government's proposals relating to the investments of the Local Government Pension Scheme (LGPS).

I respond on behalf of the Local Government Association (LGA) and the Local Government Pensions Committee (LGPC).

The LGA is a politically led, cross-party membership organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. 315 of the 317 councils in England are members of the LGA. These include district, county, metropolitan and unitary authorities along with London boroughs and the City of London corporation. The 22 Welsh unitary authorities are also in membership via the Welsh Local Government Association (WLGA).

The LGPC is a committee of councillors constituted by the LGA, the WLGA and the Convention of Scottish Local Authorities (COSLA). The LGPC considers policy and technical matters affecting the Local Government Pension Scheme (LGPS).

The response does not answer all 30 questions posed in the consultation; it focusses on the proposals the LGPC and LGA have specific feedback on.

I hope the content is helpful. Please do not hesitate to contact me if you have any questions about this response.

Yours faithfully

Lorraine Bennett

Lorraine Bennett
LGPC Secretary

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

The table makes an artificial distinction between investment and operational cash which doesn't exist in practice. Cash is not a strategic asset class – authorities need to hold cash to pay pensions, transfers out etc. We recommend that cash is removed from the table.

Whilst it is accepted that pools will be responsible for implementing the investment strategy statement, it is important that administering authorities retain the right to determine the split between active and passive equities. This directly impacts on risk management, which remains with the administering authority. It also impacts on an authority's ability to ensure their assets are invested in line with its responsible investment approach.

Employers' key concern is affordability. It is vital that LGPS administering authorities are able to continue investing in the best financial interests of scheme members and employers. The primary purpose of investment must be to achieve the required returns to pay pensions when they become due. This will minimise the need for additional funding from employers or local taxpayers.

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

The LGPC has concerns about authorities being required to take their principal investment advice from the pool. As part of a broad spectrum of advice, the pool clearly has a role, but our view is that it should not be required to be the only source of advice.

Regulation 7(5) of the 2016 Investment Regulations 2016 states that authorities 'must consult such persons as it considers appropriate as to the proposed contents of its investment strategy' and must also take 'proper' advice.

Whilst we understand this type of approach may be common in private sector DB pension schemes, it is important to note that most are closed schemes that do not have multiple employers. This means the funding obligation for the remaining liabilities is time limited and much more predictable than the LGPS. The funding obligation for the LGPS is obviously very different as it is an open scheme – administering authorities should be able to take the investment advice they deem appropriate accordingly.

Where an authority takes its principal advice from the pool and independent advice from another source, there should be no suggestion that it is required to follow the pool's advice where they differ. Authorities still have the legal responsibility to make their own decisions, informed by appropriate advice.

Key areas, such as the authority's approach to responsible investment, arguably need to remain close to the fund and may well require specialist and/or independent advice.

The LGPC is also concerned from a governance perspective about perceived, if not actual, conflicts of interest which arise where the pool is the fund's principal, and possibly only, source of investment advice. It is acknowledged that these conflicts can be managed, but it is of central importance that this is managed transparently via robust governance arrangements.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

We agree there should be no further commitments to existing mandates; however, we question whether pools will have the capacity to oversee hundreds of legacy private market mandates when management is initially transferred. There is a risk of missed drawdown payments in the shorter term which could have significant implications.

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

We support increased collaboration between pools on specific asset classes and would like to see this area explored further.

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

We believe there is potential for collaboration between partner funds and administering authorities more widely. There are already examples of successful shared services and authorities merging. In our view, these changes should happen organically and not be mandated.

There is already a lot of good work happening in this area, which should not be overlooked. Administering authorities already collaborate on a regional basis on training. They do this by commissioning administration training for their region from the LGA. This could be replicated for pension committee and local pension board training.

Other examples of collaborative working include the national communications working group (CWG) and the national pension officer group (NPOG). 20 administering authorities are members of the CWG which produces standard member communications to prevent duplication of effort and provide a consistent message across the LGPS. Examples include template McCloud communications, wording for annual benefit statements and newsletters.

The recently formed NPOG has replaced the national technical group. Representatives from each region work together on administration issues eg issues with AVC provider performance.

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

The LGPC is unclear whether any form of target or range is helpful given that local investment is not in itself an asset class.

There is a widely acknowledged shortage of local investment opportunities. The LGPC would prefer that the local investment definition include any investments in the UK to ensure authorities have sufficient projects to enable a diversified portfolio. We also support the Scheme Advisory Board's view that the National Wealth Fund and British Business Bank should work together to create a pipeline of investable opportunities for the LGPS.

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Yes. We are very supportive of the introduction of the long-awaited good governance recommendations made by the Scheme Advisory Board in 2021.

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Yes. We agree it would be beneficial for all authorities to prepare and publish their policies on these key areas. However, we think they should be published as separate policies rather than combined into one. They relate to different areas and are likely to have different review cycles within the three-year period. Publishing shorter policy documents will make them more readable and mean they are less likely to be watered down.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

We are generally supportive of this proposal but think guidance/regulations should set out whether it is appropriate for a section 151 officer to be named as the senior LGPS officer. If authorities merge the role, there is a risk that key areas of conflict will be concentrated further, and the post holder could be stretched too thinly to do the job effectively. Given the recruitment and retention issues in the pensions sector, we would not want to see authorities merging the role as a default position.

Whilst we agree the senior LGPS officer should be responsible for ensuring there is sufficient resource for the pension function to meet its duties, we do not agree that they should be involved in the local authority's budget setting process. The pension fund budget is agreed separately from the administering authority's budget and should not be conflated.

Authorities should be given appropriate time to review their current staffing structures and recruit to the role. We suggest 12 months from the date the regulations take effect.

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Yes, we agree with this proposal. Although almost all administering authorities have an administration strategy it would be helpful for it to be on a statutory basis to encourage consistency and better governance across the whole scheme.

We would also like to see monthly data collection mandated. Although almost all authorities collect data monthly, some employers will only submit data annually. Monthly data collection is an expectation of the Pensions Regulator, it allows authorities to identify data issues earlier and improves administrative performance.

We agree there should be statutory guidance to assist authorities to prepare and maintain their administration strategy. The LGA would be willing to input into this guidance and recommends that authorities are also consulted via the NPOG.

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Yes. We agree the suggested approach. We also think that the documents should meet the WCAG 2.2 accessibility requirements when published. This would ensure the documents are accessible to all.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

We would like to see more detail on how this would work in practice. The consultation document suggests there will be two separate processes:

- reviews commissioned by MHCLG
- peer support offered by SAB

We think a review should be a supportive process that is welcomed and resourced by the LGPS community. However, we do have concerns about how it will be managed, given current resourcing issues. We wonder if the review cycle should be longer as we are not sure a two-yearly review is achievable.

The wording in paragraph 106 is not helpful. The reference to the Investment Regulations 2016 only relates to the exercise of investment powers, so is not relevant. The LGPC wonders how the Government perceives its stewardship role interacts with the role of the Pensions Regulator (TPR), which is the body who regulates occupational pension schemes, including the LGPS. TPR's General Code sets out its expectations of scheme managers. It has a well-established enforcement strategy to deal with non-compliance.

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes. The LGPC agrees that those making key decisions within the LGPS should have an appropriate level of knowledge and understanding to carry out the functions of their role effectively. This would align with the existing requirement for pension board members.

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Yes, but see our response to question 19.

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

We do not think appointing an independent person as adviser or member of the pension committee will be beneficial. Having a professional adviser on the committee could be problematic, particularly if there is a disagreement between the advice given by the pool and advice from the independent member.

There is a concern that committee members will see an independent adviser as a specialist to be deferred to. This could lead to members being less likely to engage, leaving the important matters to the expert.

The LGPC is also not convinced there will be 86 individuals who will meet the criteria to fulfil the role at a reasonable cost to authorities; particularly noting their expertise must include supporting the committee on investment strategy, governance and administration. It is likely that authorities will need to pay the adviser significantly more than committee members receive in allowances – this could lead to calls for increases to the allowances.

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

The LGPC is supportive of the proposal to have shareholder representation on the pool board; however, it is not convinced it goes far enough as it is proposed that the pool will be providing principal advice to the fund and have full control over implementing investment strategies. We think this issue requires further consideration.

There needs to be further discussion around how the pool board, chief executive and individual members can be held to account and if necessary, replaced. There should also be further consideration about how an authority exits a pool if there is long standing underperformance or divergence from other partner funds within the pool.

We are also concerned that it will be difficult to find councillors to fulfil this role due to FCA requirements. Using councillors in this way is also not in line with CIPFA guidance on controlled companies.