



Purpose: For Discussion

Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	6 SEPTEMBER 2023
Title	DLUHC CONSULTATION - LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): NEXT STEPS ON INVESTMENTS
Report of	PENSION FUND MANAGER

EXECUTIVE SUMMARY

1. On 11 July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation: Local Government Pension Scheme (England and Wales): Next steps on investments. The consultation closes on 2 October 2023.
2. This report summarises the key themes of the consultation, and some of the key issues which should be considered in framing the fund's response.
3. It also proposes the process for the completion of the fund's response and seeks contributions from committee members on matters to be included in the response.

RECOMMENDATION

4. That the consultation from the Department for Levelling Up, Housing and Communities be noted.
5. That the Pension Fund Manager's initial thoughts on the themes in the consultation be noted.
6. That the Pension Fund Manager, following review by the Director of Finance, the chairman and vice-chairman of the committee, be authorised to submit the fund's final response by the consultation deadline of 2 October 2023.
7. That the final response to the consultation be published on the fund's website after it has been submitted to DLUHC.

CONFIDENTIAL / EXEMPT ITEMS

8. This covering report is not deemed exempt from publication. However the appendix, containing initial thoughts on the interpretation of, and the fund's possible response

to, the government's consultation document, is deemed to be exempt from disclosure by virtue of paragraph 3 of part 1 of schedule 12A of the Local Government Act 1972 (as amended) as it "relates to financial or business affairs of any particular person", (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it. Disclosing the information could place the council at risk of legal challenge from individuals or other bodies identified in the report.

9. The views expressed in the appendix to this report are currently those of the Pension Fund Manager, informed by published briefing notes from advisers to the fund and other professional firms, and consideration of the draft ACCESS response, which will have been shared for the first time with the ACCESS Joint Committee at its meeting on 4 September 2023.

BACKGROUND

10. In 2015, the government set out its expectations that Local Government Pension Scheme (LGPS) funds in England and Wales should form pools for the management of their investment assets, with the stated aims of reducing investment management costs while maintaining overall investment performance.
11. At that stage, the government stated that it would be for administering authorities to determine how the pooling arrangements would be constituted and would operate, provided they had regard to the following four key criteria:
 - (a) Benefits of scale: in 2015 this was defined as pooled assets of at least £25 billion.
 - (b) Strong governance and decision making.
 - (c) Reduced costs and excellent value for money.
 - (d) Improved capacity to invest in infrastructure.
12. During 2016, eight pools were formed following the government's direction:
 - ACCESS
 - Border to Coast
 - Brunel
 - Central
 - London CIV
 - LPP
 - Northern Pool
 - Wales
13. Since 2016 the Isle of Wight Pension Fund has been working with ten other 'like-minded' Administering Authorities to form and discharge the activities of ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pool. The other participating ACCESS Funds are Cambridge, East Sussex, Essex, Hampshire, Hertfordshire, Kent, Norfolk, Suffolk, West Northamptonshire and West Sussex. Governance and cost sharing arrangements are set out in an Inter-Authority Agreement (IAA) signed by all eleven authorities, to establish the ACCESS Pool and define governance and cost sharing.

14. It was agreed that the ACCESS pool would buy-in the services of an operator, currently Link Fund Solutions, to deliver the asset management services for the pool, rather than setting up a separate company (which would be owned jointly by the 11 authorities) to provide in-house investment management. This was because no one of the constituent authorities had previously had in-house investment management. Wales followed a similar route, again using Link Fund Solutions for their operator. All other pools formed owned companies for their investment management.
15. In January 2019, the government issued an informal consultation covering draft guidance on LGPS asset pooling, setting out proposals that administering authorities must pool their investment assets, stating that pool companies “may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients”. It further recommended that governance structures for the pools should consider including observers from the Local Pension Boards of constituent authorities. It also stated that liquid assets should be transitioned into pools “over a relatively short period”, and that assets kept outside of the pool should “normally not exceed and aggregate of 5% of the value of the pool members’ assets”.
16. That consultation closed in March 2019. No response was received from the government to this consultation.
17. Government have continued to focus on investment pooling in the LGPS and had promised that further consultation would follow in due course.

2023 CONSULTATION

18. On 11 July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation: Local Government Pension Scheme (England and Wales): Next steps on investments.
19. This consultation document, along with a briefing note for Hymans Robertson, was forwarded to all committee and board members, as well as senior management within the council, on 14 July 2023. The consultation document is linked in the background papers to this report.
20. The key proposals from the consultation, reproduced from Annex A to the consultation document are as follows:

Pooling

- To revise [Investment Strategy Statement] ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:
 - assets which are pooled, under pool management and not pooled, and
 - to provide a rationale, value for money and date for review for assets which are under pool management or not pooled.
- To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy

implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

- To implement a requirement in guidance for administering authorities to have an investment-related training policy for pensions committee members and to report against the policy.
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling, and to report the returns achieved by each asset class against an appropriate benchmark.
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in private equity

- To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

- To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

- To amend investment regulations to correct an inconsistency in the definition of investment.

21. Initial thoughts on the main key issues from this consultation are set out in Appendix 1 to this report. These are the opinions of the Pension Fund Manager, and as proposed as matters for discussion at the meeting or comment thereafter.
22. The ACCESS Support Unit are formulating a response to the consultation from the pool's perspective. The fund may wish to consider endorsing that response in its own submission, while highlighting additional points which it wishes to include.

FINANCIAL / BUDGET IMPLICATIONS

23. There are no direct financial implications in responding to the government's consultation document.

LEGAL IMPLICATIONS

24. There are no direct legal implications in responding to the government's consultation document.
25. Once the consultation is concluded and the proposals are introduced into regulations and/or statutory guidance, the fund will be required to comply with all aspects.

26. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.
27. Paragraph 48 of the consultation document states "Government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction is appropriate. Examples of activities which could result in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets."

RISK MANAGEMENT

28. It is important that the fund considers responding, to ensure that matters directly impacting the fund can form part of the consideration of the next steps.
29. Once the proposals in the consultation have been reviewed, draft regulations will be consulted upon, and the council, as administering authority, will be required to comply with the final regulations.

APPENDICES ATTACHED

30. Appendix 1: key issues identified from the consultation (confidential).

BACKGROUND PAPERS

31. November 2015: Local Government Pension Scheme: Investment Reform Criteria and Guidance
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf
32. January 2019: Draft MHCLG guidance on LGPS asset pooling – informal consultation document
https://lgpsboard.org/images/Other/Draft_guidance_on_pooling-consultation.pdf
33. July 2023: DLUHC consultation paper
[Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)

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