



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 6 SEPTEMBER 2023

Report of the Director - Finance and ICT

Local Government Pension Scheme Investment Pooling Consultation

1. Purpose

- 1.1 To inform Committee about the publication by the Department for Levelling Up, Housing and Communities (DLUHC) of the 'Local Government Pension Scheme (England and Wales): Next steps on investments' consultation (the Consultation).

To seek delegation to the Director of Finance & ICT, in consultation with the Chair of the Pensions and Investments Committee, of the approval of the Pension Fund's response to the Consultation.

2. Information and Analysis

2.1 Background

- 2.1.1 At a meeting of Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool.
- 2.1.2 LGPS Central Limited (LGPS/Company) has been established to manage investments on behalf of the pool of the eight LGPS funds across the Midlands, administered by the authorities listed above,

known as the LGPS Central Pool (the Pool). The eight LGPS funds are referred to in this report as the Partner Funds.

- 2.1.3 The formation of the Pool was a response to the UK Government's November 2015 LGPS Investment Reform Criteria and Guidance, which followed a long period of information gathering and the Chancellor's announcement in the Summer 2015 Budget of the government's intention to invite LGPS Administrating Authorities to bring forward proposals for pooling LGPS investments, to deliver significantly reduced costs while maintaining overall investment performance.

The UK Government set out four criteria:

- Asset Pool(s) that achieve benefit of scale (i.e., AUM of at least £25bn)
- Strong governance and decision making
- Reduced costs and excellent value for money
- An increased capacity to invest in infrastructure

The government's expectation with respect to LGPS investment pooling is set out in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which include that administering authorities must set out their approach to pooling investments, including the use of collective investment vehicles and shared services.

- 2.1.4 In January 2019, the Ministry of Housing, Communities and Local Government (now DLUHC) published an informal consultation on draft updated statutory guidance on asset pooling, 'building on previous Ministerial communications and guidance on investment strategies and taking account of the current state of progress on pooling'. This draft updated guidance included the requirement for pool members to appoint an FCA regulated pool company to implement their investment strategies and the requirement for pool members to transition existing assets into the pool as quickly and cost effectively as possible, with the transition of listed assets expected to take place over a relatively short time.

Existing assets invested in life funds for the purpose of passive equity investment, some infrastructure investments and existing direct property assets were noted as assets that could be retained in existing arrangements subject to regular review.

A formal consultation on the draft updated asset pooling guidance has been expected for the last two years.

2.2 The Consultation

2.2.1 An investment pooling consultation, 'Local Government Pension Scheme (England and Wales): Next steps on investments' (attached as Appendix 2), was finally published on 11 July 2023. Publication of the consultation followed the inclusion in the 2023 Spring Budget book (published in March 2023) of a statement that the government was challenging the LGPS in England and Wales to move further and faster on consolidating assets, flagging that a forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025 and set direction for the future (which might include moving to a smaller number of pools in excess of £50bn). It was also flagged, that the government would consult on requiring LGPS funds to consider investment opportunities in illiquid assets 'such as venture and growth, thereby seeking to unlock some of the £364bn of LGPS assets into long term productive assets'.

2.2.2 The Consultation seeks views on government proposals in five areas:

- An acceleration and expansion of pooling, with administering authorities confirming how they are investing their funds and why. The Consultation notes that while pooling has delivered substantial benefits so far, the government believes that the pace of transition should accelerate to deliver further benefits which include: 'improved net returns, more effective governance, increased savings and access to more asset classes'. A deadline for asset transition by March 2025 is proposed, noting that the government will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, the government wants to see a transition towards fewer pools to maximise benefits of scale.
- A requirement to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the February 2022 Levelling Up White Paper. The Consultation sets out in more detail how the government proposes to implement this requirement and seeks views on its plans.
- An ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity, noting the government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants.

Noting these amendments are needed to implement the requirements of an order made the Competition and Markets Authority in respect of the LGPS.

- A technical change to the definition of investments within LGPS regulations.

2.3 Consultation Response

2.3.1 The Partner Funds within the LGPS Central Pool intend to submit individual responses to the Consultation. A joint response (potentially more high level) is expected to be submitted from the Partner Funds and from LGPS Central Limited.

Fund officers have discussed the Consultation with the other Partner Funds of the LGPS Central Pool and with LGPSC. A further series of discussions are planned with the Partner Funds, with LGPSC, with the Fund's Independent Investment Advisor and with other LGPS funds.

2.3.2 The response from Derbyshire Pension Fund is currently expected to include:

- support for the principle of pooling investment management
- a recognition that there are a range of pooling models
- an emphasis on net performance and value for money
- a reminder that the LGPS exists to pay benefits for its members when they become due
- a reminder that local taxpayers largely stand behind the liabilities of the LGPS
- support for administering authorities remaining responsible for setting investment strategies and for asset allocation
- an ambition to see greater collaboration between the LGPS pools

2.3.3 The closing date for the Consultation is 2 October 2023. It is proposed that approval of Derbyshire Pension Fund's response to the Consultation is delegated to the Director of Finance & ICT in consultation with the Chair of Committee.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Local Government Pension Scheme (England and Wales): Next steps on investments.

6. Recommendation(s)

That Committee:

a) delegates approval of Derbyshire Pension Fund's response to the 'Local Government Pension Scheme (England and Wales): Next steps on investments' consultation to the Director of Finance & ICT in consultation with the Chair of Committee.

7. Reasons for Recommendation(s)

7.1 To ensure that Fund officers have sufficient time to consult relevant parties and develop a well-informed response to the Consultation.

7.2 To provide assurance that the Fund's response to the Consultation will go through an appropriate governance process.

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Implications

Financial

1.1

Legal

2.1

Human Resources

3.1

Information Technology

4.1

Equalities Impact

5.1

Corporate objectives and priorities for change

6.1

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1