PENSIONS AND LIFETIME SAVINGS ASSOCIATION

LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): FIT FOR THE FUTURE

PLSA RESPONSE

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ABOUT THE PENSIONS AND LIFETIME SAVING ASSOCIATION

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

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INTRODUCTION/GENERAL COMMENTS

The Pensions and Lifetime Savings Association (PLSA) welcomes the opportunity to respond to the Ministry of Housing, Communities & Local Government (MHCLG) consultation relating to the investments of the Local Government Pension Scheme (LGPS) in England and Wales.

The PLSA conducted a survey with its members, consulted with its Local Authority Committee and several LGPS and pool members on the proposals set out in the consultation. The outputs of these efforts are reflected in our response, and the positions we have reached.

The LGPS is one of the few remaining open, funded defined benefit schemes in the UK, at a time when most employers are offering defined contribution (DC) schemes. It is of the utmost importance that LGPS Funds are supported by pools to make the best of their investment decisions, and we see this consultation as a positive step in this journey.

The PLSA supports in broad terms the Government's objectives, detailed in the consultation, of increasing scale and improving governance and investment outcomes. However, we have some concerns in relation to some policy aspects and its practical implementation.

On the former, the PLSA and its LGPS members are concerned that administering authorities will remain accountable for paying pensions to scheme members and for costs to employers and taxpayers; and yet will have limited means of controlling outcomes. Specific issues relate to pools becoming the principal source of advice for Funds and, potentially, setting Funds' strategic asset allocation. On the latter, there are concerns about the feasibility of the March 2026 deadline for pools to implement the proposed characteristics and how local investments should be defined.

The PLSA and its LGPS members remain open and available to work further with Government in the implementation of these proposals.

EXECUTIVE SUMMARY

LGPS pooling

- Ensuring all pools meet minimum standards would help maintain consistency and reliability across the board. It should also provide an assurance that pools are managed in a way that aligns with the best interests of the administering authorities (AAs), LGPS Funds and their members.

- It is widely recognised that setting the right asset allocation is the most important factor in driving long-term investment returns for a scheme. In a recent survey of PLSA LGPS members, 93% of respondents would prefer to set their own strategic asset allocation. We believe Funds should remain responsible for this aspect, given they remain accountable to members, with pools being responsible for implementing such strategy.

- Independent investment advice is crucial for the success of the LGPS. It is also a requirement enshrined in current regulation. Two-thirds (65%) of respondents to our survey do not favour Funds taking principal advice on investment strategy from the pool. PLSA believes the sign-off of the advice given by the pool should be conducted by an independent adviser working for the Fund, or a suitably qualified investment consultant.

- Most of our LGPS Fund members support all pools being regulated by the FCA (74%), since it is perceived to provide greater assurance of high standards for pools. The PLSA also believes it will be imperative for pools to be authorised if they are going to be providing advice to Funds. However, consideration should be given to the impact on day-to-day operations of partner Funds of pools which will need to get FCA authorisation, while this process is occurring.

- The PLSA is supportive of LGPS Funds transitioning their listed assets to pools if they have not already done so, providing this is not done in a way that is detrimental to the investments and the Funds' investment strategies. In relation to legacy assets, it is positive to see that the proposal is for these assets, while managed by the pool, to remain in the direct ownership of the Fund.

- Almost two-thirds of PLSA LGPS members (59%) regard it as unachievable for pools to move to the new model by March 2026. The 2025 LGPS triennial valuations and the due diligence being asked of pools are some of the issues which will affect timeline compliance. We would support if Government would accept that to comply with the deadline it would be sufficient for pools to show significant progress, with clear plans in place to comply with the proposals.

- The PLSA fully supports the intention to promote collaboration between pools and agrees more initiatives such as the London Fund and GLIL Infrastructure would be positive and welcomed.

Local investments

- The opportunity for Funds to set their own targets in relation to local investments, and for that target to be a range, instead of having a target set for them, is welcomed by the PLSA and its members, who have long argued the need for independence when setting their investment strategy due to their fiduciary duty.

- The PLSA proposes a two-tier definition for local investments when analysing investable options: First, Funds should look at their local area and region for these opportunities; second, if the local projects do not fit the Fund's profile and investment strategy, Funds should be allowed to look at other regions in the UK.

- Proper structures and processes, including clear roles and responsibilities for funds and pools, are essential to efficiently implement the proposal for LGPS officials to work with local authorities in identifying investable opportunities. We welcome the announcement that all Mayoral Strategic Authorities will have to produce a Local Growth Plan under the English Devolution Bill.

Governance of Funds and pools

- The PLSA welcomes the long overdue implementation of the Good Governance recommendations. However, further detail in relation to the implementation of these measures will be welcome, as well as clarification on the reasons why some of the original proposals, published in 2021, were not included in this consultation.

- The PLSA proposes the biennial independent governance review is led through a peer review mechanism, supervised by the Scheme Advisory Board (SAB), looking to formalise an already established network of best practice sharing and LGPS support networks.

- Considering how the proposal to appoint an independent adviser is currently formulated, there is a risk of these individuals being considered a quasi-professional trustee for LGPS Funds by Committee members, which would undermine the democratic accountability of the Funds.

- When considering the direction of travel established in this consultation, pools will become quasi-fiduciary managers for the LGPS. The PLSA strongly supports the creation of an appropriate oversight structure of pools, akin to Fiduciary Management Oversight structure in place in the private sector.

- The PLSA and its members strongly believe Fund member views and interests should be integral for pools and must be carefully and thoroughly integrated into relevant governance structures.

RESPONSE TO CONSULTATION QUESTIONS

LGPS pooling

1. Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

1. Ensuring that all pools meet minimum standards would help maintain consistency and reliability across the board. It should also provide an assurance that pools are managed in a way that aligns with the best interests of the administering authorities (AAs), LGPS Funds and their members.

2. However, implementing the proposals in the expected timeline can be challenging. Pools may need to invest in additional resources and training to meet these standards, which could be a significant undertaking. A phased approach to implementing the new requirements could help address potential challenges and ensure a smooth transition.

3. In relation to the specific proposals, the PLSA has significant concerns in relation to delegating the setting of the strategic asset allocation to the pool, the requirement for pools to provide principal advice to Funds, the timeline for complying with the requirement for FCA authorisation and the transfer of legacy illiquid assets, which are explained in detail in the answers below.

4. The PLSA LGPS Fund members have also highlighted the need for clear governance structures and accountability for pools. As pools become larger and more complex, having well-defined governance structures is crucial to manage responsibilities, control, and accountability effectively.

5. The PLSA also believes it would be beneficial to increase the dialogue between Funds/pools and private Defined Benefit (DB) schemes which have similar arrangements to pooling. The Railways Pension Scheme, for example, has over 100 separate schemes/sections, which have a wider range of requirements due to maturity, date closed, covenant, etc. However, Railpen, its investment manager, has been able to deliver for the scheme through a relatively small number of pooled funds, which meet specific investment objectives.

2. Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

6. It is widely recognised that setting the right asset allocation is the most important factor in driving long-term investment returns for a pension scheme. In the LGPS, decisions such as setting investment objectives, risk appetite and choosing investment beliefs are paramount for Funds to comply with their fiduciary obligations – to set an investment strategy that is appropriate to their own liabilities and funding approach, and ensure pensions are paid.

7. Due to this, the PLSA and its LGPS members believe Funds should remain responsible for setting the strategic asset allocation, as well as setting high-level investment objectives, with pools being responsible for implementing such strategy. In a survey of 32 PLSA LGPS members conducted in November/December 2024, the vast majority (94%) of respondents supported this option.

8. There are, however, concerns from Funds in this area – not all pools, with their current structures, will have the capacity to fully implement their partner Funds investment strategies. Allowances should be made for those pools who are currently building these capacities, since it is paramount Funds continue to comply with their fiduciary duties.

9. Another issue to consider is the Funds investment beliefs in regard to responsible investments and environmental, social and governance (ESG) approaches. While the strategy for these assets sits at a Fund level, the pool will be responsible for its implementation. At an extreme, the pool could end up having to create products specific for each Fund, which goes against the principle of scale to reduce costs. The PLSA believes work should be done between partner Funds and the pool to find synergies in these investment beliefs, with the aim to create products that can comply with the overall responsible investment strategies. The publication of the long-awaited guidance on Task Force on Climate-related Financial Disclosures (TCFD) for the LGPS, with MHCLG setting clear objectives in this area, would assist to achieve consistency in the Scheme.

10. The PLSA and its members believe the overall implementation of the strategic asset allocation should be conducted through constant dialogue between Funds and pools, and it remains imperative that Funds and their pools work in a close, constructive and collaborative manner on the development of the investment strategy and its implementation.

3. Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

11. As explained in the answer above, the PLSA and the large majority of its LGPS members (94%) believe it is a requirement for Funds to set their own strategic asset allocation to be able to comply with their fiduciary duties – ensuring pensions are paid and that employer contributions are both stable and affordable.

12. Through clear delegation and subsequent oversight of the pool, each Fund can remain accountable for the outcome so it can fulfil its fiduciary duty. It is important to have strong mechanisms in place to hold the pool accountable for performance, as pooling removes the option to change an asset manager in case of underperformance. It is also important to note the difficulty in completely changing pool or seeking alternative open market solutions. These changes represent a meaningful reduction in choice for Funds.

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

13. The proposed template is acceptable as it allows Funds to select the growth and matching assets for their investment strategy while taking into account their membership, employers, maturity, cashflow and funding. However, Funds should not be constrained by a single template if their circumstances demand otherwise.

14. The PLSA and its members believe that it is important the template includes a choice between active and passive asset management approaches, which is something that the Fund will set according to its investment beliefs and risk appetite.

15. Another area of concern for some of our members is the definition of cash. The way in which cash is viewed in the template creates an artificial distinction between investment cash and operational cash, which seems likely to result in higher levels of cash holding, to guarantee the availability of cash to pay pensions, which is undesirable in terms of investment outcomes.

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?

16. The PLSA and its LGPS members believe independent investment advice is crucial for the success of the LGPS. It is also a requirement enshrined in current regulation, which requires committees to take independent investment advice and could be detrimental if committees cannot get independent sign-off for the advice they receive.

17. While we recognise the rationale behind the proposal to have pools providing principal advice to their partner Funds, the PLSA believes this advice should always be reviewed by a third party to ensure that it is challenged and there is a debate around the development of Fund's strategy. LGPS Funds are liable for the investments that are made on their behalf and are the entities responsible for ensuring members receive their pensions, while pooling removes the option to change an asset manager in case of underperformance.

18. The review of the advice given by the pool, over a set period of time, should be conducted by an independent adviser working for the Fund, or a suitably qualified investment consultant, which can provide an independent analysis of the proposals made by the pools. This requirement would be in line with the private sector current practice, with new rules introduced after an investigation from the Competition and Markets Authority in 2018 found that trustees had difficulty monitoring the quality of investment consultancy services due to the limited information available to them.[1] We are aware that having such process in place will probably add to costs (although lower than the current arrangements), but the cost of sub-optimal investment choices arising from unchallenged advice will almost certainly be higher.

19. PLSA LGPS members are concerned, however, with the current capability of pools to meet this and other requirements proposed by the Government. We note that the intention is to have pools procure advice on behalf of their partner Funds while this service is built in-house. Funds

[1] Competition and Markets Authority "Investment Consultants Market Investigation - Final Report" (2018) https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Report.pdf

should be free to decide whether to retain their current advice until the pools have capacity, or to decide whether they want to go down the centralised route immediately.

6. Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

20. Most of our LGPS Fund members support all pools being regulated by the FCA (74%), since it is perceived to provide greater assurance of high standards for pools (albeit there is no evidence to suggest a link between FCA regulation and improved investment performance). The PLSA also believes it will be imperative for pools to be authorised if they are going to be providing advice to Funds. However, consideration should be given to the impact on day-to-day operations of partner Funds of pools which will need to get FCA authorisation while this process is occurring. Consideration should also be given by the FCA to the differences between LGPS pools and general investment managers, and for the regulator to recognise that pools will have to grasp new concepts, such as MiFID and treating customers fairly.

21. There are also concerns about the feasibility of complying with the proposed timelines set by Government (March 2026). Legislation will need to be introduced in this area, and pools will have lengthy discussions amongst themselves about their future models, alongside setting up plans for the other services they will need to develop and introduce – all these factors make complying with the deadline extremely improbable. It will be more important to build up services and capabilities that will work well for Funds, and manage this process in a sustainable way, rather than comply with a set arbitrary timeline.

22. When Government introduced pooling requirements, LGPS Funds set out their pools according to the models that worked best and were most effective for them. Although some of them did opt for FCA authorisation model, this was not a requirement set into regulation or statutory guidance when pooling was introduced, and it will involve significant costs, resources and time to do so.

7. Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

23. The PLSA is supportive of LGPS Funds transitioning their listed assets to pools if they have not done so, providing this is not done at a detriment to the investments and the Funds' investment strategies. It is also positive to note the vast majority of LGPS Funds have already transferred their listed assets to their pools or have plans in place to do so.

24. However, there are a couple of areas that would benefit from some clarification from Government. First, Funds which are in pools which are not FCA authorised, and will have significant changes to their operating model, are concerned about their current plans to transition assets into pools in 2025. Clarity would be welcomed if the best strategy is to put these plans on hold until the pool adopts its new model or if the transition should continue as it is currently set, since the transition of assets incurs significant costs and partner Funds want to have these transfers managed in a sensible way.

25. Second, there is the issue of passive investments which are managed by insurance companies which cannot be held within the pool. These are very cheap forms of investment which represent a significant proportion of some fund's equity allocations, and the PLSA and its members would appreciate if these assets could continue under pool management – held by the Funds and managed by the pools.

26. Third, pools need to have the ability to run segregated mandates where this would be effective. These allow individual shares and bonds to be traded directly on the investors' behalf, all income to be received immediately by the investor, votes can be cast at AGMs and there are no additional non-investment related costs. Segregated mandates also allow for strategies which are liability and risk aware (e.g. including use of overlays to manage specific risks). This is a well-known investment vehicle in the UK pensions sector, with the majority (67%) of assets managed for third-party UK institutional clients being managed through segregated mandates in 2022.[2]

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

27. Transferring legacy assets to the pool would, in many cases, incur new legal and tax costs, since fees for these investments have already been negotiated and there is typically no ability to adjust them post commitment. It is therefore positive to see that the proposal is for these assets, while managed by the pool, remain in the direct ownership of the administering authority.

28. However, the proposal has created some confusion among LGPS practitioners, so it would be beneficial if Government clarifies that the objective is for Funds and pools to enter into investment management agreements, which set out the basis on which the pool will manage the asset for the Fund.

9. What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

29. Managing legacy assets will in some circumstances require pools to develop particular expertise or knowledge and increasing in house capacity with specialists in this area, to ensure compliance is achieved. Due to this, we believe the transfer of the management of these assets should only be completed when the pool has achieved the necessary standards for this.

10. Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

30. Yes. In a recent survey of PLSA LGPS members, six in ten (59%) of the respondents believe it will be unachievable for pools to move to the new model by March 2026, with a quarter (24%) saying it will be completely unachievable.

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[2] The Investment Association "Investment Management in the UK 2022-2023 - The Investment Association Annual Survey" (2023) https://www.theia.org/sites/default/files/2023-10/Investment%20Management%20in%20the%20UK%202022-2023.pdf

31. While we understand the Government reasoning for setting an ambitious deadline – such as frustration with the progress of pooling in some instances - it is essential that any changes are conducted in the most cost-effective way while ensuring positive outcomes for LGPS members and employers. As mentioned above, it is more important to ensure the process is managed sustainably rather than complying with a specific timeline.

32. There are also particular practical considerations that would render adhering to the timeline a highly challenging task. First, LGPS Funds will have their valuations in 2025, so resources will most likely be needed elsewhere. Second, the due diligence being asked of pools in the process, such as engaging with their peers to ensure a merger would not represent a better outcome for their partner Funds, is a huge task which will take up significant time. Due to the latter, we also believe the deadline for pools to submit proposals (March 2025) to MHCLG is also too challenging to deliver a complete cost benefit analysis and fully robust assessment of options and risks. Having a deadline of June 2025 would be more sensible and feasible.

33. The PLSA and its LGPS members appreciate the intensive dialogue Government has been having with Funds and pools during the consultation period and beyond, and would support if Government would accept compliance with the March 2026 deadline if pools show significant progress in this area, with clear plans in place to comply with the proposals. It is important this process in done right rather than at haste, given the impact on employers and savers and billions of assets under management involved.

Other developments

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?

34. The PLSA fully supports the intention to promote collaboration between pools and agrees more initiatives such as the London Fund and GLIL Infrastructure would be positive and welcomed by LGPS funds. An option which could be considered are Shared Servicing Agreements, which would provide an organic transition to full collaboration between pools.

35. While we are supportive of the idea of Funds investing in other pools' products as a way to access investment opportunities, and avoid the duplication of costs, there are a number of issues that need to be taken into account:

- Pools' offerings are designed for their partner Funds, which means they might not suit other Funds' needs.
- External pool customers would be subject to different pricing when compared to partner Funds. It can be expected external customers will have an added layer of costs.
- The cost basis for these services to be offered and who would benefit from any profit.
- Deciding who will be setting what services that can be offered externally (partner Funds or pool).

- Potential barriers to parties using or sharing services, with a need for clarification of LGPS use and reliance on the financial services exemption in UK procurement regulation, enabling consistency in interpretation and application.

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?

36. There are opportunities for further collaboration between Funds, and there has been already significant process, such as the creation of the National Frameworks, which allow Funds reduced procurement timescales and costs. The advent of pooling has also increased collaboration between partner Funds, which should not be overlooked, and several pools are expanding their services to other areas outside investments to respond to Funds' demands.

37. The PLSA and its LGPS members believe improvements are needed to admin and training systems – such as improving the level of service provided by software providers and having sufficient engagement from Committee and Board members in training. Significant thought should be given if a solution for these issues should be provided at a pool level or at a national scale.

Local Investment

13. What are your views on the appropriate definition of 'local investment' for reporting purposes?

38. LGPS Funds have a long-standing relationship with their local community, and in recent years, due to an increase in impact investments, more and more Funds have committed to assets which can be classified as local investments.

39. However, the way in which these investments have been made can differ from Fund to Fund – some opt for their local area since the assets make sense under their investment strategy – and others have invested in assets in a different region of the UK – simply because there are not fit for purpose investments in their area, they invest through a pool vehicle, or there are concerns over potential local political risks and conflicts of interest.

40. The PLSA and its members believe flexibility should be given to LGPS Funds in this area and is proposing a two-tier definition for local investments when analysing investable options (which will impact reporting purposes): First, Funds should look at their local area and region for these opportunities; second, if the existing local projects do not fit the Fund's profile and investment strategy, Funds should be allowed to look at other regions in the UK. An investment in another part of the country will still be local for the community it serves and should not be overlooked. It is important to remember the LGPS should only invest in local assets where they provide value for the scheme and not be seen as a source of local funding.

41. This two-tier definition, if introduced, would be especially relevant for the London Funds, which are geographically limited; and Funds in regions where inequality – the UK, and England

in particular, has some of the deepest spatial inequalities and regional productivity divergence among the OECD countries[3] - could impact on the availability of local investable opportunities.

42. Consideration should also be given to how these investments are usually linked to the Fund's ESG investment beliefs – there are currently several examples of local investments having a social impact in local UK regions – and how this dimension of the assets responds to the Fund's investment beliefs.

43. Some of our members also highlighted that UK equity assets should not be considered under the umbrella of local investments, since there is not a direct link to investment in local projects.

14. Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

44. While the PLSA and its LGPS members understand and support this proposal, there is a need for properly thought through structures and processes for roles and responsibilities of funds and pools in this area - 44% of respondents to our survey consider the implementation of this proposal could be challenging. Therefore, it would be welcomed if the Government provides a pragmatic, efficient, and proportional approach for Funds to meet these new duties.

45. There are already a number of LGPS Funds with structures in place similar to the one being proposed, such as Greater Manchester Pension Fund, West Midlands Pension Fund or the South Yorkshire Pension Authority – with the latter having a memorandum of understanding with its Combined Authority – where local teams have experience and knowledge in working with LGPS investors. However, not all authorities have developed these skills, which are imperative for this proposal to work. We welcome the announcement that all Mayoral Strategic Authorities will have to produce a Local Growth Plan under the English Devolution Bill, which will also introduce a reciprocal requirement on Strategic Authorities to work with LGPS AAs and their pools to develop investment opportunities that are appropriate for pensions investment.[4] While recognising the different objectives local authorities and Funds have, we would expect Funds to be aware of the Local Growth Plan and include it in their discussions regarding local investments. It is also worth noting that local authorities may take differing avenues to how they approach Funds, which will impact how Funds interact with them.

46. Once there are agreements in place between the relevant authorities and LGPS Funds, we would expect that the relevant pool would become a party of these discussions, working collaboratively with the other entities.

[3] Andy Westwood, Michael Kenny "How is regional inequality affecting the UK's economic performance?", Economics Observatory (2024) https://www.economicsobservatory.com/how-is-regional-inequality-affecting-the-uks-economic-performance.

[4] Ministry for Housing, Communities and Local Government "English Devolution White Paper Power and Partnership: Foundations for Growth" (2024) https://assets.publishing.service.gov.uk/media/676028c9cfbf84c3b2bcfa57/English_Devolution_White_Paper_Web_Accessible.pdf

47. The National Wealth Fund and the British Business Bank also have a role to play in creating investible opportunities that could fit the LGPS investors' profile, and several pools are already in dialogue with both entities.

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

48. The opportunity for LGPS Funds to set their own targets in relation to local investments instead of having a target set for them by Government is welcomed by the PLSA and its members, which have long argued the need for independence when setting their investment strategy due to their fiduciary duty. The PLSA also welcomes that the target takes the form of a range.

49. However, local investments are not an asset class per se, so consideration should be given to how these investments can be mapped using the existing asset classes, and what current reporting areas could be used for this purpose.

50. If the Fund is to set their investment beliefs for local investments while delegating implementation to the pool, there is a risk of fragmentation, since there can be as many distinct objectives as there are partner Funds in the pool, which will prevent scale to be achieved - one of the main objectives of pooling. Further clarification from Government is needed in this area, and consideration should be given to increased dialogue and collaboration between partner Funds and their pool when Funds are setting their local investment beliefs, so that synergies can be created. There are also examples of pools which have created single pooled investment vehicles, where there are a mix of assets in several different regions in the UK, but challenges can occur if some partner Funds' objectives are not met by the investments.

16. Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

51. Considering the Government is proposing that pools should implement the Fund's investment strategy, it makes sense for pools to develop capabilities in this area. However, in a recent survey of PLSA LGPS members, over half see the requirement for pools to carry out due diligence on potential local investments as a challenge (56%).

52. This could be attributed to the fact that besides building capacity to carry out due diligence on local investments, pools will need to establish significant resources to ensure partner Funds' (which can be geographically spread) specific local objectives are met. Pools should also establish relationships with asset managers who have a track record in this area, since they are specialists in these fields to a degree which the pool could not easily develop.

53. Some of our LGPS members have highlighted, however, there is a danger that smaller local investments, which would previously be included in a Fund's portfolio and have a significant local impact, could be overlooked by pools, since they do not have the desired significant scale. Due to this, the PLSA and its members believe it would be important for the Government to clearly establish desired outcomes of this policy.

17. Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

54. The PLSA and its LGPS members do not oppose this proposal, as long as it is executed in a sensible way to avoid unduly increasing the reporting burden on LGPS Funds. According to a survey of PLSA LGPS members conducted in 2023,[5] respondents noted an increase in their reporting requirements, with over half (54%) of respondents feeling that the legislation/regulatory requirements are too complex to execute, while two in five (43%) continue to feel legislation/ regulatory requirements hinder them from doing their job effectively.

55. Some of our members have suggested reporting should follow the Place Based Impact Investing Framework developed on behalf of the Impact Investing Institute, which would ensure consistency in both outputs and the demands placed on fund managers, and does not preclude individual funds prioritising particular forms of impact which they are seeking to achieve in addition to financial return.

56. Consideration should also be given to who will be the target audience of the report, since experience in other areas of the pensions system, such as the DC Chair's Statement and overall with TCFD reports, shows reports have become extremely complex and lengthy and not fit for purpose if the goal is to inform scheme members.

Governance of funds and pools

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

57. The PLSA welcomes the long overdue implementation of the Good Governance recommendations, which should improve effective relationships between Funds and asset Pools with a focus on the type and quality of outcomes administering authorities should aim to achieve.

58. However, further detail in relation to the implementation of these measures will be welcome, as well as clarification on the reasons why some of the original proposals, published in 2021, were not included in this consultation. Some of our members also believe it would be essential to revisit the governance requirements once the transition of assets to pools is completed, based on the new structures and responsibilities.

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?

59. Yes. The PLSA understands the majority of LGPS Funds already publish both documents, which makes this proposal easier to implement. However, some of our members do not agree that the

[5] Pensions and Lifetime Savings Association "Local Government Pension Scheme (England and Wales): Next Steps On Investments" (2023) https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2023/LGPS-Next-Steps-On-Investments-Oct-2023.pdf

governance and training strategy and the conflicts of interest policy should be contained in the same document, since the former is likely to require more frequent updates.

60. The PLSA would support the training strategy to cover both Pension Committee and Local Board Members in an equal manner, which should be clarified in guidance. Clarity is also needed around whether Fund's require their own training and conflict policy, outside of any held by the wider Local Authority.

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

61. The PLSA and its members support this proposal, with only a small minority (6%) of respondents to a recent survey considering this measure challenging. We would also support requirements for this role to be specified in the LGPS regulations, alongside additional guidance to aid AAs in establishing this position within existing structures.

62. Some of our members have alerted to the wording on paragraph 95 of the consultation, which states: "The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process". The latter requirement should not be an expectation for the role, since the Pension Fund budget is agreed separately from the AA's budget. The senior officer should have autonomy from the local authority in setting the budget for the Pension Fund functions.

63. Other members have noted that the way the role of senior LGPS officer is defined makes it practically impossible for it to be carried out by the Section 151 officer. Firstly, the Section 151 officer cannot conceivably have the time required to fulfil the role as described; and secondly, if the Section 151 officer is the LGPS senior officer, that would crystallise the fundamental conflict of having the Council and the admin authority roles combined in a single person.

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

64. Yes. The Pensions Regulator (TPR) report *Public service pension schemes: governance and administration research 2022-23*[6] showed 94% of Funds already have an administration strategy, an increase from 89% in 2020-21.

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

65. Yes.

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

[6] OMB Research "Public service pension schemes: governance and administration research 2022-23", The Pensions Regulator (2023) https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#b856d02f01714192895cdb91e84a4410

66. Yes, although we note the proposal is slightly different from the original recommendation, and now combines the requirement for an independent review with the establishment of a peer review process.

67. On the potential format for the review, some of our members have suggested it should occur every three years, in line with Funds' triennial valuation – so that any Fund assessments, whether on a governance or a financial position basis, can occur in the same period of time.

68. The PLSA proposes the review is led through a peer review mechanism, supervised by the Scheme Advisory Board (SAB), looking to formalise an already established network of best practice sharing and LGPS support networks across the scheme. This should also reduce the cost of such reviews to the scheme and further reduce dependency on external consultants.

69. Details of the review format and expected outputs should be developed by SAB in collaboration with LGPS Funds. It is essential the entity responsible for this review has the appropriate resources and expertise to conduct the process. The result of these assessments should provide Funds with meaningful areas to improve or work on, and it is important this exercise will not be a pass/fail assessment.

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

70. Yes. Training requirements for Local Pensions Board and Pension Committee members should be aligned, with this proposal eliminating the current differences in this area.

71. Guidance on this area should include insight from LGPS officers who are already providing a successful training program for their committee and board members, since several of our members have reported a challenge in having all Committee and Board members equally engaged in training. Government should also consider aligning the training requirements with TPR's General Code of Practice and address any specific LGPS gaps in the Code.

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?

72. Yes.

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?

73. With pools potentially providing advice to Funds, it is of vital importance, as mentioned in the answer to question 5, to have an independent adviser, or a suitably qualified investment consultant, which can provide an independent analysis of the investment advice made by the pools. These professionals should also be involved in the independent governance reviews.

74. There are several LGPS Funds who already have independent advisers sitting on their Pension Committees or other governance structures. However, considering how the proposal is currently formulated, there is a risk of these individuals being considered a quasi-professional trustee for LGPS Funds. In some instances, we could see other Committee members deferring any decisions, not just on investment advice, to the individual as they are considered “experts” in the field, which would undermine the democratic accountability of the Funds, which is an extremely important aspect of the scheme. The proposed new training requirements, alongside having a strong Committee Chair, should prevent this risk.

Pool governance

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

75. Effective oversight and governance of the pool by its shareholders is a fundamental aspect of pooling. The PLSA and its LGPS members support this proposal, but also believe there should be added checks and balances in this area.

76. The PLSA recognises that partner Funds of FCA authorised pools have their interests represented in two ways – company law states pools must act in the best interests of its shareholders; and as a FCA regulated entity, pools also must act in the best interests of their customers. In this case the shareholders and customers are one and the same.

77. However, when considering the direction of travel established in this consultation, pools will become quasi-fiduciary managers for the LGPS. Funds will only control their high-level investment strategy, with pools being responsible for providing strong advice and effectively implement that strategy.

78. In the private sector, schemes have the option to change their fiduciary managers if the firm is underperforming. There are also specific requirements that schemes must follow, since the Competition and Markets Authority (CMA) introduced requirements in 2018 for private sector schemes designed to separate investment consulting and fiduciary management services and reduce conflicts of interest. LGPS Funds will not have this option, nor there is any specific oversight requirements of pools included in the proposals.

79. The PLSA strongly supports the creation of an appropriate oversight structure of pools, akin to Fiduciary Management Oversight structure in place in the private sector, which would monitor the implementation of the consultation proposals, ensure the desired efficiencies are achieved and hold pools to account when needed. This structure should be contemplated as part of the overall consideration of what is the best governance structure given the new balance of functions.

28. What are your views on the best way to ensure that members’ views and interests are taken into account by the pools?

80. The PLSA and its members strongly believe Fund member views and interests should be integral for pools and must be carefully and thoroughly integrated into relevant governance structures. However, the current proposal should be reviewed, considering that directors have responsibilities to the company and significant time commitments, making it difficult for councillors to fulfil these roles. It should also be noted that having councillors in these roles contradicts the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on appointing directors to controlled companies, which looks to officers to fulfil these roles instead.

29. Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

81. Yes. Data consistency is key for managing the transition of assets and have proper governance oversight. Currently, there is a lack of comparability in LGPS Funds and pools data, and we would welcome a consistent and transparent approach in this area.

82. Overall, there is a need for a more holistic assessment of performance of Funds and pools, ensuring both high integrity in the collection / analysis of data and enabling like for like assessment of value and cost (with consistency in levels of transparency and disclosure underpinning).

Equality impacts

30. Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

83. No.

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