

# LGPS Investment Consultation Summary

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# Pooling Consultation Summary (1 / 8)

## Chapter 2: Asset pooling in the LGPS

The Local Government Pension Scheme (LGPS) underwent investment management reform in 2015, leading to the creation of eight asset pools for pooling LGPS assets. Operational for over four years, these pools have achieved substantial savings and expertise in private markets and infrastructure investment. However, progress in consolidating assets varies across the scheme. To maximize benefits, the government aims to increase scale, governance, and transparency. As of March 2022, £145 billion (39%) of assets have been transferred to the pools, and a further £114 billion (31%) is under pool management. Accelerating asset consolidation is a key priority to achieve savings and efficiencies.

Driving greater scale through fewer pools is a key focus for the Local Government Pension Scheme (LGPS). The long-term goal is to transfer all assets, including less liquid ones, to the pools, though this may take time to minimize costs. Ultimately, the aim is to have around 5 pools with £50-75 billion, or even £100 billion, in directly invested assets through mergers. This scale would provide better

bargaining power with asset managers, access to a wider range of opportunities like private markets, and the ability to build internal capacity. Growing in-house investment management within the pools is also a goal to reduce costs. Collaboration and specialization among pools are encouraged to enhance benefits and limit duplication.

***Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?***

The government proposes a timetable for the transition of Local Government Pension Scheme (LGPS) assets to the pools. Currently, funds state their pooling intentions in their Investment Strategy Statement (ISS), but there is no set deadline for transition. The government suggests that all listed assets should be transitioned to the pool by 31 March 2025, with consideration for illiquid investments as they offer higher returns and savings. Funds must work with their pool to explore all opportunities available and provide a rationale for assets not intended to be pooled by 2025.

# Pooling Consultation Summary (2/8)

The government seeks views on including this transition timetable in statutory guidance on ISS and providing fuller guidance on requirements for pooling. Progress against the plan will be reported annually.

***Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?***

The Local Government Pension Scheme (LGPS) aims to achieve greater scale and cost efficiencies through pooling of assets. Administering authorities are responsible for setting investment strategies, but the expectation was for pools to handle external manager selection and strategy implementation to reduce costs. However, approaches vary, with some funds fully delegating decisions to the pool, while others maintain more control. The government emphasizes the need for effective governance and decision-making to achieve pooling benefits. Strong partnerships, effective delegation, and strategy alignment between funds and pools lead to higher gains. Encouraging full participation, the government seeks to maximize pooling benefits for all funds.

To improve governance in the Local Government Pension Scheme (LGPS) pooling, administering authorities will retain responsibility for setting investment strategies. Revised guidance proposes stronger delegation of manager selection and strategy implementation to the pools. Pools should act as a unified entity, advising on investment decisions and swiftly implementing strategies on behalf of partner funds. The government discourages inter-pool competition but encourages collaboration. Funds are urged to invest via existing sub-funds within the pool to avoid excessive duplication. Governance structures should be efficient in making decisions within their remit. The government seeks to accelerate pooling benefits through better cooperation and effective decision-making processes.

***Question 3: Should government revise 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?***

# Pooling Consultation Summary (3/8)

Pensions expertise is essential for decision-making in the Local Government Pension Scheme (LGPS), but current structures face challenges with turnover and lack of specific knowledge among committee members. To address this, the government proposes that each administering authority sets a training policy for committee members and regularly reports on the training undertaken. This aims to improve expertise levels and decision-making in the LGPS.

***Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?***

The current reporting on Local Government Pension Scheme (LGPS) assets lacks detailed information, with only overall asset values and limited data on pooled and non-pooled assets, costs, and performance. Annual reports by funds and the Scheme Advisory Board (SAB) vary in detail, and the SAB report lacks data on asset pooling progress.

The government emphasizes the importance of transparency and seeks views on increasing transparency regarding asset allocation, pooling progress, returns, and savings in the LGPS. Additionally, a recent consultation on climate-related risks reporting is pending. The aim is to provide a more comprehensive and transparent view of LGPS assets and progress in pooling.

The government proposes implementing a single standard set of data on investments across annual reports and LGPS statistics to enhance transparency and accountability. This data would include information on broad asset classes, such as equities, bonds, private equity, private debt, and property. The proposal aims to define categories for pooled assets and assets under pool management, clarifying their definitions. The requirements to report on asset allocation and pooling data will be set out in revised guidance. Additionally, funds will be required to include commentary on the progress of asset transfers in their annual reports. The government welcomes views on introducing a consistent regime for reporting returns achieved by assets invested in each class.

# Pooling Consultation Summary (4/8)

***Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?***

The Scheme Advisory Board (SAB) aims to improve the Scheme Annual Report by consolidating data from fund reports. The government supports a standardized set of data for clearer asset allocation and pooling progress. The SAB plans to include a table categorizing assets by type and pooled status, enhancing transparency in future reports.

***Question 6: Do you agree with the proposals for the Scheme Annual Report?***

The Secretary of State has the power to issue directions to Local Government Pension Scheme (LGPS) funds if they breach statutory guidance. No directions have been issued so far. The government expects compliance with the guidance, and non-compliance may lead to considering issuing a direction.

The Secretary of State also has authority to make regulations on LGPS pension funds' administration, management, and winding-up under the Public Service Pensions Act 2013, with consultation and Treasury consent.

## **Chapter 3: LGPS investments and levelling up**

The government aims to level up opportunities and boost productivity across the UK through the Local Government Pension Scheme (LGPS). With £364 billion in assets, projected to reach £500 billion by 2030, the LGPS is a major institutional investor. The government encourages the LGPS to invest in infrastructure, housing, regeneration, and SME finance nationwide, not just locally. An ambition is set for LGPS funds to allocate up to 5% of assets to projects supporting local areas. Collaboration with asset pools is required to publish plans for increasing local investments.

The government aims to promote levelling up and reduce regional disparities in the UK. The Local Government Pension Scheme (LGPS) can play a key role in this by investing in projects that contribute to levelling up and support local areas.

# Pooling Consultation Summary (5/8)

The proposed definition for levelling up investment is that it must make a measurable contribution to the levelling up missions identified in the LUWP and support any local area in the UK. Examples of such investments include renewable energy projects, supporting SMEs, and investing in local development. Funds must ensure their plans align with their existing investment strategy and funding strategy statements.

## **Definition:**

To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the [LUWP](#); and
- it supports any local area within the United Kingdom.

***Question 7: Do you agree with the proposed definition of levelling up investments?***

The government aims to promote levelling up while ensuring LGPS funds' fiduciary duty to pay pensions is not compromised. LGPS funds can invest up to 5% of assets in projects supporting levelling up, contributing to economic growth and societal benefits. Private markets are essential for such investments, and LGPS asset pools can facilitate investment in levelling up projects, ensuring efficient use of resources. Some pools have already created investment vehicles for this purpose. The government encourages the development of expertise in local investments within pools and proposes allowing funds to invest through their pool in another pool's investment vehicle to expand investment options.

***Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?***

The government proposes requiring LGPS funds to publish a plan detailing how they will invest up to 5% of their assets in projects supporting levelling up across the UK. The plan should include the current level of levelling up investments, a timeline to reach the 5% allocation, and the fund's collaboration approach with their pool.

# Pooling Consultation Summary (6/8)

Funds will have flexibility in deciding the appropriate level and types of investment. The plan should align with the investment and funding strategy statements and be reviewed at least every 3 years.

***Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?***

By incorporating these elements into the plans, funds will not only fulfill their obligation to invest 5% in levelling up projects but also showcase their commitment to responsible and effective investment strategies that support economic development and social progress.

The government proposes that funds publish a plan on investing up to 5% of their assets in levelling up projects and report annually on their progress. The plan should consider current investment levels, future allocations, and collaboration with LGPS pools. Annual reports should include the percentage of AUM invested in levelling up, details of investments made through pools and independently, and an explanation of changes and progress.

Guidance on this requirement and reporting will be provided through revised guidance on investment strategy statements and pooling.

***Question 10: Do you agree with the proposed reporting requirements on levelling up investments?***

## **Chapter 4: Investment opportunities in private equity**

The government's capital markets strategy aims to reform the pensions landscape, making more capital available to support UK companies and boost pension savers' incomes. The Local Government Pension Scheme (LGPS) is encouraged to invest up to 10% of its assets in high-growth companies through private equity, like venture capital and growth equity, to improve pension returns. The ambition is to drive business investment, benefit the UK economy, and incentivize companies to grow and list in the UK. Each fund will decide on their investment approach, and funds are expected to collaborate with pools to explore opportunities. The government seeks feedback on facilitating LGPS investments in UK growth equity and venture capital.

# Pooling Consultation Summary (7/8)

***Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?***

The British Business Bank (BBB) is a government-owned economic development bank that aims to improve finance markets for smaller businesses, promoting their growth and contributing to the UK economy. One of its strategic objectives is to support UK innovation by enhancing equity finance markets for promising businesses. The BBB's expertise in venture capital and growth equity makes it the largest domestic investor in UK venture capital. The government encourages collaboration between the BBB and the Local Government Pension Scheme (LGPS), particularly the pools, to explore investment opportunities and remove any existing barriers that inhibit such collaborations.

***Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?***

## **Chapter 5: Improving the provision of investment consultancy services to the LGPS**

Chapter 5 discusses the background of the investigation into the supply and acquisition of investment consultancy services and fiduciary management services to pension funds, including the LGPS. The investigation found low engagement by trustees, a lack of clear and comparable information for assessing value for money, and an incumbency advantage for investment consultants. The CMA made the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 to address these issues. LGPS administering authorities are exempt from certain requirements of the Order, but they must set strategic objectives for investment consultancy received outside LGPS pool companies and review them regularly.

The Department for Levelling Up Housing and Communities (DLUHC) plans to implement the requirements of the Competition and Markets Authority (CMA) Order for the LGPS regarding the provision of investment consultancy services.



# Pooling Consultation Summary (8/8)

Administering authorities must set strategic objectives for investment consultancy providers, review them regularly, and ensure compliance with the Order. The proposal includes defining investment consultancy services, requiring strategic objectives, and amending the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to incorporate the changes. The aim is to improve governance, transparency, and value for money in the LGPS investment processes.

***Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?***

## **Chapter 6: Updating the LGPS definition of investments**

The Government intends to amend the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 to address an issue identified by the Joint Committee on Statutory Instruments. The amendment aims to align regulation 3(1)(b) with regulation 3(4) by adding the word "partnership." This change clarifies that the definition of investments includes contributions to a limited partnership in an unquoted securities investment partnership, ensuring consistency and removing ambiguity in the regulations.

***Question 14: Do you agree with the proposed amendment to the definition of investments?***

## **Chapter 7: Public sector equality duty**

The Department for Levelling Up Housing and Communities ensures its policies and proposals consider equalities impact. An initial assessment indicates that the proposed reforms in chapters 2 to 6, including pooling, investment, venture capital, and changes to investment definition, will not adversely affect groups with protected characteristics, potentially benefiting those in deprived areas.

***Question 15: 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.***

# Summary of questions

	Greater Collaboration	Levelling Up Dividend	Autonomy to explore Small Scale opportunities	Rely on Pool's Due Diligence	Concentration Risk	Investment in reporting tools
<b>Chapter 2: Asset pooling in the LGPS</b>						
<b>Question 1:</b> Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?	X		X	X	X	X
<b>Question 2:</b> Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?						
<b>Question 3:</b> Should government revise 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?	X		X		X	
<b>Question 4:</b> Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?						
<b>Question 5:</b> Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?						X
<b>Question 6:</b> Do you agree with the proposals for the Scheme Annual Report?						
<b>Chapter 3: LGPS investments and levelling up</b>						
<b>Question 7:</b> Do you agree with the proposed definition of levelling up investments?				X		
<b>Question 8:</b> Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?	X					
<b>Question 9:</b> Do you agree with the proposed requirements for the levelling up plan to be published by funds?				X		
<b>Question 10:</b> Do you agree with the proposed reporting requirements on levelling up investments?						X

# Summary of questions

	Greater Collaboration	Levelling Up Dividend	Autonomy to explore Small Scale opportunities	Rely on Pool's Due Diligence	Concentration Risk	Investment in reporting tools
<b>Chapter 4: Investment opportunities in private equity</b>						
<b>Question 11:</b> Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?	X			X		
<b>Question 12:</b> Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?						X
<b>Chapter 5: Improving the provision of investment consultancy services to the LGPS</b>						
<b>Question 13:</b> Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?						
<b>Chapter 6: Updating the LGPS definition of investments</b>						
<b>Question 14:</b> Do you have any comments on the proposed amendment to the definition of investments?						
<b>Chapter 7: Public sector equality duty</b>						