



Pension Fund Committee

11 January 2024

Title	Pooling Update
Date of meeting	11 January 2024
Report of	Executive Director of Strategy & Resources (S151 Officer)
Wards	All
Status	Public
Urgent	No
Appendices	Appendix A – LGPS Investment Consultation Government Response – Summary
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Summary

This report provides an update on pooling, namely the Government's response to the LGPS Investment Consultation published on 22 November 2023.

The Government lays out a number of key policy objectives and its commitment to further pooling and delivering greater efficiencies through economies of scale. The key immediate action will be for the Fund to develop a plan to develop as much "liquid" assets to the pool by March 2025 as possible, and where this is not possible to explain why.

The Fund has taken significant steps to increasing its pooled assets over the last 12-months and looks forward to working collaboratively with the London CIV to increase the level of pooled assets over the next 12-months.

Recommendations

That the Pension Fund Committee notes the importance of pooling and the update provided by Officers.

1. Reasons for the Recommendations

- 1.1 On 22 November 2023 the Government issued its response to the LGPS Investment Consultation. The full response can be accessed [here](#).
- 1.2 Barnet's response to the initial consultation (which includes links to the initial consultation material) can be accessed through the 2 November 2022 Pension Fund Committee paper linked [here](#).
- 1.3 This report sets out:
 - The key points of the Government's response (and key next steps); and
 - How the Government response relates to the "six recommendations" we made through our response
 - A summary of the Government's response (Appendix A)

Key Points

- 1.4 All "liquid assets" to be moved to pool by 1 April 2025 – effectively "comply or explain" why not complied. *Barnet advocated accelerated transition within its response and will work up a plan with LCIV and Hymans to achieve this goal (or explain why we cannot)*
- 1.5 Further guidance on more consistent reporting for LGPS Funds. *Barnet advocates this and will engage with both SAB and LCIV on how reporting can be made more efficient and useful.*
- 1.6 Government objective for fewer larger pools by 2040. This suggests an ambition of four pools which would require merger of existing pools. *This aspect gained most headlines, but is consistent with what the Government has indicated for pooling over several years now and so should not be a surprise to the LGPS community.*
- 1.7 Guidance to follow on how Funds reflect government aims for 5% towards Levelling-up and 10% towards Private Equity. *We await the guidance with interest, but this is potentially an exciting opportunity for the Committee to think more broadly and creatively about its investment objectives.*
- 1.8 Points that were referenced in our response that were not addressed:
 - Recognition that there is a diverse employer base and that the pooling structure should be flexible enough to cope with this
 - Acknowledgement of possibility of concentration risk from having too many pools and to review this
 - Explicit recognition of whether a Fund could allow for a Levelling Up dividend in decision making, although oblique references were made to this (although see item 2. Within table below)
- 1.9 A summary setting out Barnet's six recommendations made within its consultation response relative to the Government's response is set out in the table on the next page:

Barnet Recommendation

Outcome

<p>1 Regulations modified to encourage greater collaborations between the Pools and Funds so the big opportunities and best assets can be accessed – we think this will increase the overall level of pooled assets</p>	<p>The response from Government overwhelmingly supports this approach with regulations and guidance potentially allowing Pool’s to take a more active role in delivering investment strategy and a stated goal of moving to fewer larger scale pools by 2040.</p>
<p>2 The ability to allow for a ‘Levelling Up’ dividend in decision making where Local Taxpayers and / or employers benefit from the investment collaterally – we think this will increase and accelerate investment towards Levelling Up initiatives</p>	<p>Whilst not addressed directly, there are three very interesting points made in the consultation response which relate to this:</p> <p>Paragraph 129</p> <p><i>“Member benefits are guaranteed in statute and are unaffected by the performance of any LGPS Fund”</i></p> <p>Paragraph 131</p> <p><i>“There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments”</i></p> <p>Paragraph 94</p> <p><i>“.....[levelling up investments] are generally expected to provide good returns but may include investments with lower returns made under existing guidance on non-financial factors in investment.”</i></p>
<p>3 Encourage investment in smaller Private opportunities as well as large – Funds are adept at discovering high value Private Assets locally. Encouraging and utilising this network of expertise, in collaboration with pools where possible, will help drive value for our taxpayers and increase investments towards Private Assets overall</p>	<p>Tangentially recognised in relation to Levelling Up investments (Para 81) “we recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment”.</p>
<p>4 Made explicit that Funds can rely on the Pools’ due diligence – this will reduce our overall governance expense and help us build a closer relationship with our Pool. We would further recommend that Pool’s obtain their own independent due diligence</p>	<p>We believe this has been indirectly recognised by allowing Pool’s to deliver investment strategy through delegation.</p>
<p>5 Government commission a review on the potential for concentration risk from greater consolidation to fewer Fund managers - with greater concentration comes potential risk, we think this needs to be properly explored and understood as it may inform the extent of ultimate pooling</p>	<p>This point was not addressed at all within the Government’s response. We may wish to ask DHULC why this point has not been addressed as, in Officers view, this risk could be significant.</p>

<p>6 That the governance burden is supported by investment in centralised reporting tools (which could be co-ordinated by a Pool) – this will transform governance within Funds and allow clearer comparison between funds</p>	<p>Not addressed directly.</p> <p>We should work with the London CIV to see how we can drive greater efficiency through investment in central reporting tools.</p>
<p>2. Alternative Options Considered and Not Recommended</p>	
<p>2.1 Not applicable in the context of this report.</p>	
<p>3. Post Decision Implementation</p>	
<p>3.1 None</p>	
<p>4. Corporate Priorities, Performance and Other Considerations</p>	
<p>Corporate Plan</p> <p>4.1 The Local Pension Board supports the delivery of the Council’s strategic objectives and priorities as expressed through the Corporate Plan, by assisting in maintaining the integrity of the pension Fund by monitoring the administration and compliance of the Fund. Awareness of changes to LGPS investment legislation and regulations is therefore essential for the Board.</p> <p>Corporate Performance / Outcome Measures</p> <p>4.2 Not applicable in the context of this report.</p> <p>Sustainability</p> <p>4.3 Not applicable in the context of this report.</p> <p>Corporate Parenting</p> <p>4.4 Not applicable in the context of this report.</p> <p>Risk Management</p> <p>4.5 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.</p> <p>4.6 The regulatory framework around LGPS investment is key to overall risk management.</p> <p>Insight</p> <p>4.7 Not applicable in the context of this report.</p> <p>Social Value</p> <p>4.8 Not applicable in the context of this report.</p>	
<p>5. Resource Implications (Finance and Value for Money, Procurement, Staffing, IT and Property)</p>	
<p>5.1 Effective investment management is key to the sustainability of the Pension Fund.</p>	

6. Legal Implications and Constitution References

- 6.1 Government Guidance around the pooling requirements is linked in the body of this report.
- 6.2 The Council's Constitution – Part 2B section 15 includes within the responsibilities of the Pension Fund Committee.
- 6.3 The terms of reference for the committee includes: "To have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund, including, but not limited to the following: To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice.

7. Consultation

- 7.1 Not applicable in the context of this report.

8. Equalities and Diversity

- 8.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.
- 8.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The [Public Sector Equality Duty](#) requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements will benefit everyone who contributes to the fund.

9. Background Papers

- 9.1 A more comprehensive update on pooling was provided at the 4 July 2023 Pension Fund Committee meeting (papers linked [here](#))
- 9.2 A further paper setting out Barnet's initial consultation response can be accessed [here](#)