

Local Government Pension Scheme (England and Wales): Fit for the future Consultation

A submission by:
The Chartered Institute of Public Finance and Accountancy

16 January 2025

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Any questions arising from this submission should be directed to:

Iain Murray
Director of Public Financial Management
CIPFA
77 Mansell Street
London
E1 8AN
Tel: +44 (0)7880 456190
Email: iain.murray@cipfa.org

1. Background

- 1.1 This is a response on behalf of CIPFA to the following call for consultation: [Local Government Pension Scheme \(England and Wales\): Fit for the future](#).
- 1.2 This is part of the government's wider pensions investment review, [announced in July 2024](#).
- 1.3 This consultation is the next step to a call for evidence that closed in September 2024.
- 1.4 The proposals come under three headings:
 - a. LGPS pooling
 - b. local investment
 - c. governance.

There are 30 questions. The final question concerns the proposals in the context of duties under the Equality Act.

2. LGPS pooling

- Q1 Do you agree that all pools should be required to meet the minimum standards of pooling set out above?**

This expansion would be a logical “next step” in the pooling agenda; however, each pool is starting this process from a different place, and some would require a step-change in their resourcing. Some are fully set up as investment management companies (IMCs), others outsource most or all of their fund management operations. Only one has advisory capacity.

- Q2 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?**

Administering authorities should continue to set high-level objectives and strategic asset allocations, since these should depend on the fund's individual characteristics (maturity, cashflow etc).

- Q3 Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?**

There may be some changes required to the ToRs of some bodies in the fund and particularly the investment committee. There would be a shift in their role of selecting and vetting investments discreetly to performing a role where they set parameters and perform oversight; this may require different skillsets. Also, would the board have the power to call in investment decisions made by the pool in the same way?

Q4 What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Fixed income should have a separate line from credit, or it could get confused with private credit or other debt instruments. Cash should include cash equivalents since call accounts and money market funds are used extensively to manage portfolios.

Q5 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?

The key concern here is conflicts of interest. The pools would be acting as advisor and presumably principal. Would the pool be sufficiently Chinese-walled to do this without conflicts? Boards would need to be cognisant of this fact and have the confidence and skills to call in any decisions made on the back of such advice, if required.

Q6 Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Having all pools as IMCs would be a realisation of one of the original aims of pooling. The conflict of issue remains as the concern over acting as advisor and principal. How could this potential conflict be resolved?

Q7 Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Subject to the pools being able to establish themselves as IMCs this would be a consistent with the remaining proposals. The only query would be managing asset transition, which could test capacity at the pools. This is a particularly intensive exercise, and care must be taken in order to avoid destroying value.

Q8 Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Again, subject to the pools being able to establish themselves as IMCs, this would be a sensible solution to the issue of closed-ended limited liability partnerships (LLPs) that a fund cannot just exit at a given date. The caveats above concerning pool capacity remain.

Q9 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?

Illiquid legacy assets in the main would consist of closed-ended limited liability partnerships, a structure commonly used in property and infrastructure projects. Pools would need the capacity to manage further drawdowns and distributions and ensure that the manager is continuing to receive the same level of member scrutiny. Member support officers and finance staff would be needed. Other legacy assets, such as equity and bond mandates, would need ongoing management and some thought as to transitioning the assets into a pool-managed mandate that aligns with the fund's objectives.

Q10 Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

It is ambitious. Gaining FCA approval as an IMC can have a very long lead time and given that pools will have little more than a year to implement once the final proposals come out, it may be tight, particularly as the FCA approval will be needed to proceed with the asset transfer.

Q11 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?

There are opportunities here – some collaboration between pools would be welcome. Clearly this becomes easier when they are all structured similarly; right now they are quite diverse in their expertise. Some already operate as IMCs, some just outsource all their investment activity to managers, with everything in between! Only one (LPP) has developed advisory capacity.

Q12 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?

There are certainly opportunities for collaboration on training. Funds can realise economies of scale for paid-for courses and the subject matter would be similar. On administration there are possible opportunities, but there is also a diversity in how funds operate, which may make this difficult. Some outsource their admin already to larger funds; some are entirely separate from an administering authority (eg South Yorkshire Pension Fund).

3. Local investment

Q13 What are your views on the appropriate definition of ‘local investment’ for reporting purposes?

Investments in the AA’s area or the pool’s region would qualify as ‘local investments’. The issues concerning conflict of interests remain. For instance, would an elected member of an area that stands to benefit from an investment be in a decision-making position? This would make the conflict-of-interest policy a key requirement.

Q14 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?

Using combined authorities could be a solution to the conflict-of-interest problem if it takes members with local interests out of the decision-making process. This is assuming that combined authorities/joint committees maintain no role in fund management.

Q15 Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

This would be an appropriate place to set these out, notwithstanding the conflict-of-interest concerns, however.

Q16 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?

This may help alleviate the conflict-of-interest issue that may arise in an administering authority. However, the way the decision-making process is managed needs consideration.

Q17 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?

Given that the nature and performance metrics of these investments could be quite diverse, it may be difficult to standardise these measures. Social value and gross economic value added could be suitable measures; these do have a subjective element, however. It should be clarified that these are for the consumption of Interested stakeholders and not for comparison between funds.

4. Governance

Q18 Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

We do agree. SAB and CIPFA have been pushing for the implementation of these recommendations since they were published, so this approach is not before time and very welcome. CIPFA and SAB's Joint Compliance and Reporting Committee would be ideally placed to support funds in this.

Q19 Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict-of-interest policy?

We do agree, a conflict-of-Interest policy would be particularly important, since there may be an increased potential for these with committee members potentially making decisions concerning investments in their local area.

Q20 Do you agree with the proposals regarding the appointment of a senior LGPS officer?

This would be a good idea if their role is clearly defined, particularly with respect to:

- Their relationship with the administering authority's CFO. Would they report via or directly?
- Would they have their own 'section' powers?
- What skills would they need, compared to a typical head of pensions currently?

Q21 Do you agree that administering authorities should be required to prepare and publish an administration strategy?

We do agree; new guidance is being discussed by the Compliance and Reporting Committee that will cover this.

Q22 Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

It is important that these documents, whatever they are named, remain relevant and fit for purpose. The Joint CIPFA/SAB Compliance and Reporting Committee regularly reviews and updates these documents as part of its workplan. It is sensible to review what is in them and how they should be published. The requirement to have a conflict-of-interest policy is welcome, as would more detail on this proposal in due course.

Q23 Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

What would constitute 'independent'? If peers, would there be capacity in the sector to carry these out? If a big firm, would there be clear guidance against which to assess the criteria the fund has to meet?

Q24 Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

We do agree with the proposal. CIPFA already promote this as good practice via our Knowledge and Skills Framework, last updated in 2021. This is another document that is currently under review by the CIPFA/SAB Joint Compliance and Reporting Committee.

Q25 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?

We agree that this is the appropriate place to do it. Guidance will be required to ensure that best practice is available to funds and responsible officers to administer this training. Given that this is training to hold advisors and pools to account, where would the provision of this training best sit? Normally the pools would be ideally placed to provide this; however, this may give rise to conflicts. Some funds may lack the resources to provide this training themselves.

Q26 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?

Having a "fresh pair of eyes," with no direct vested interest is always a good idea within a group of people such as a Pension Committee; this has been shown to work on boards. However, their role would need to be defined, and they would need to be a member **or** an adviser. The need is to ensure that committees are sufficiently skilled and confident to carry out their role effectively. This can be done by ensuring training is frequent, accessible and tailored to the development needs of the individuals on the committee.

Q27 Do you agree that pool company boards should include one or two shareholder representatives?

Given that the partner funds are all theoretically equal shareholders in the pool, then they should be represented on the board, mindful of the conflict of interests particularly vis-à-vis local investments.

Q28 What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Pool governance and decision-making should be transparent and clearly communicated to member funds. Each fund should have an investment committee with full decision-making powers that has a representation on the pool, so that the view of each fund is taken into account when making investment decisions.

Q29 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?

We do agree. Pools should report on performance as often as the partner funds require, at least monthly and with mandates for listed assets, possibly daily. Typical metrics for performance would include:

- asset value (bid/offer/mid-price)
- realised gain and loss
- unrealised gain and loss
- income
- carried interest (where applicable).

Metrics for cost would include:

- the [Cost Transparency Initiative](#) provides an ideal framework
- fees deducted at source (as an appropriate % of performance)
- retained fees as a % of asset value/income
- pool costs as a % of asset value/income
- pool costs as above analysed by:
 - direct investment management
 - overheads
 - admin and governance.

Q30 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.

A large number of the over 6 million LGPS scheme members, of which 4.4 million are among the lowest-paid public sector workers, not necessarily with protected characteristics. Any changes made to the scheme have to ensure that their benefits are protected.

5. In conclusion

- 5.1 CIPFA is generally supportive of a number of the proposals. It is particularly pleasing to see a serious push forward on implementing the recommendations of the Good Governance review.
- 5.2 Some of the proposals would constitute the next logical step for pooling and perhaps definitively answer the question “What are pools for?”
- 5.3 However, there is a diversity of pool expertise and the practicalities of them achieving FCA status should not be overlooked. A number would also need to make a significant investment and increase their resource base. Is there capacity in the labour market?
- 5.4 This would represent a significant change in the role of administering authorities as well. Again, this would require a change in the type of resourcing. Additionally, in the context of a tight labour market, this could lead to cost pressures on authorities.
- 5.5 Care needs to be taken with giving funds responsibility for the decision making surrounding local investments, since this could create conflicts of interest, if committee members are potentially making decisions concerning investments in their local wards.
- 5.6 The CIPFA/SAB Compliance and Reporting Committee is always considering and refreshing the governance guidance. We are well placed to assist in implementing these parts of the proposals.