

16 January 2025

Dear LGF Pensions Team

Hymans Robertson LLP is pleased to submit our LGPS (England and Wales) 'Fit for the future' consultation response.

Hymans Robertson LLP has a significant legacy in the Local Government Pension Scheme (LGPS), providing independent actuarial, investment, benefits and risk consulting services, as well as data and technology solutions to our clients. These include 75% of LGPS funds and some of the LGPS pools and local government employers.

Through our work, we know that:

- Compared to private sector and other public pension arrangements, the LGPS is already highly efficient at providing benefits and value for money for employers and taxpayers. The average employer contribution rate is 21.1% of pay – compared to rates ranging from 23.7% to 38.7% of pay in other public sector pension schemes.
- LGPS employer contributions typically account for around 8-10% of Local Authority budgets. Therefore, maintaining local control of pension costs is an important element of local service provision. A similar concept to the government's devolution drive to empower regional areas.
- The £400bn of assets as at 31 March 2024 is an increase of £210bn (110%) over the prior ten years, primarily due to investment returns. This increase is equivalent to c.7.5% pa, which compares favourably with financial indicators (e.g. UK GDP growth of 1.3% pa) and returns achieved from pension scheme peers.

With this in mind and reflecting on where the sector can support the Government's aspirations and continue to deliver successful outcomes for pension savers, we have drawn on the breadth and depth of our expertise in collating this response and we would welcome the opportunity to discuss the findings and recommendations with you further.

LGPS 'Fit for the future' consultation response – Hymans Robertson response summary

As an organisation focused on building better futures for people across the UK, we fully understand the ambitions the government has for the LGPS, are supportive of pooling and see the potential for the scheme to make more investments that catalyse UK growth. However, we believe the proposed changes outlined in the consultation would create a number of risks and unintended consequences for the LGPS.

We've set out these concerns in more detailed response to each of the consultation questions in our formal submission, but the key points are as follows:

Scope and size of the proposed changes: The consultation recommendations for the changes to the scope and scale of the Pools would be a significant change and huge undertaking with a proposed timescale that is hazardously ambitious. This creates the risk of inefficient progress and poor outcomes – including irrecoverable build costs and investment losses resulting in increased cost to the taxpayer. We would instead like to see the Government prioritise their objectives and focus on competing the asset transition to pools and building local investment capabilities.

Investment strategy setting: We do not believe that funds should be restricted in the setting of their investment strategy as proposed in the consultation. Further, the proposed template is not detailed enough for funds to adequately complete and discharge their fiduciary duty.

Strategic Asset Allocation advice: Funds should continue to have an option of selecting their adviser. This can include the pools once they have developed sufficient expertise and services. By forcing advice from a single provider (which funds cannot leave), who then fully implements that advice and reports on performance, you remove competitively driven value for money, high service levels and innovation, whilst introducing conflicts of interest. These concerns are examined in more detail in the [industry whitepaper](#) we have co-produced with a number of LGPS funds and industry experts on this issue. The paper also sets out an alternative model which promotes strategic asset consistency in the LGPS while enhancing capabilities for local investment to drive the growth of the UK economy.

Good Governance: After our involvement in the Good Governance review, we're excited to see the inclusion of the outcomes of the Good Governance work in the consultation. These proposals have good support and are positive for standards in the LGPS. Once again, the implementation timeline must be carefully considered to allow successful implementation at the local level.

Requirement to appoint independent pension adviser to Pension committee: We recognize that the LGPS is highly specialised, and appointing an independent pension adviser can enhance decision-making. However, this should not replace independent, regulated advice with proper research and modelling, which adds significant value and will be crucial as the role of pools grows. Without it, there is a risk of poor outcomes and delayed government priorities.

Local Investment: We support the policy on local investment but urge realistic timelines to build the necessary capabilities and governance framework. This will allow a steady flow of new local projects, preventing capital from being forced into a limited set of opportunities that drive up prices and reduce returns. While vital for local improvement, poor execution could have negative impacts.

Finally, from our discussions with civil servants, we understand HMT's desire for more consistency within the LGPS. While we agree that consistency can improve outcomes, making it a sole target risks unintended consequences—such as eroding local accountability, increasing systemic risk, and stifling innovation. The right time to pursue greater consistency is once pooling arrangements are more mature and there is evidence of best practise that can drive better outcomes.

We would encourage the government to work with LGPS officers to understand concerns and find workable solutions. Previous reforms have seen progress when the government and the LGPS community collaborated to identify solutions and shape the scheme's future evolution.
Yours sincerely,

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Encl. "Hymans Robertson LLP – LGPS 'Fit for the future' consultation response"

Local Government Pension Scheme (England and Wales): Fit for the future – Hymans Robertson’s response

January 2025

Chapter 2: LGPS pooling

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

Answer 1: We believe each of the proposed changes to the pools are addressed in the subsequent questions. Our response to this question is therefore from a higher-level implementation perspective only.

The context for these changes appears to be a view that the LGPS is not operating effectively. This is despite the very strong funding level of the Scheme after many years of strong investment returns and low running costs.

The proposed minimum standards for the pools represent a significant development of their role. The pools remain in their build phase and have not performed these roles before, yet are expected to provide these services in just over a year’s time. We see this as a significant risk to the investment outcomes of the LGPS and therefore the public finances of local government and taxpayers.

There is an inherent danger in not considering this as a sizeable and significant change for the LGPS. While the role of “strategy” sitting with the funds and “implementation” sitting with the pools was set out in the 2016 regulations, these terms were not clearly defined. This has meant that many funds have been working with their pools to develop and select from a number of different pool solutions within an asset class, believing they were fully aligned with the spirit of pooling and the regulations. This restating of those regulations does represent a significant shift from current practice, and in a very short space of time.

Such a substantial development of the role of the pools, in such a short period of time, creates a significant risk that substandard offerings are developed, leading to poor outcomes for both the LGPS and the UK.

We believe the purpose and driver of the proposals should be readdressed, with a significantly longer timeframe given to pools to develop any new services, and a prioritisation timetable implemented to focus on developments that create the most value and improve outcomes.

Question 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?

Answer 2: We do not believe that funds should be restricted in the setting of their investment strategy as proposed in the consultation.

Setting investment strategy

We strongly believe that funds should continue to be able to set their strategic asset allocation. This is supported by a [PLSA survey](#) of its members, showing 96% of respondents still want to set their own strategic asset allocation. The key difference between the proposed approach in the consultation and the current approach is an increasing level of delegation to the pool.

1. Proposed approach – restricting funds to setting high-level investment objectives only gives pools the ability to choose whichever strategic asset allocation and implementation they see as best to achieve those objectives. This is akin to a fiduciary mandate in private sector schemes, where high-level aims, such as achieving full funding by a certain date, are set, with the implementation to achieve that delegated to the fiduciary manager.
2. Current approach – by setting the strategic asset allocation, the funds maintain a higher level of control and local accountability. This remains important to funds, as the majority of pools have no experience or track record in delivering the fully delegated service.

Setting investment strategy is by far the most important decision in relation to the tailoring of pension costs (including the affordability and stability of contributions). Therefore, delegating this responsibility will restrict the fund's ability to meet employer requirements and could have significant financial outcomes. To perform their role efficiently, funds need to ensure that their local circumstances, requirements and beliefs are fully integrated in their investment strategy. This would be extremely challenging for any third party to achieve.

High-level investment objectives

From the consultation proposal, clarity is needed on what is classed within “high-level investment objectives”. While figure 1 in the consultation provides some idea of this, it is unclear what will be allowed to be set by funds. A critical example is the active/passive split. Many funds currently set core investment beliefs around active and passive management, which is then reflected in the implementation of their investment strategy. Funds have since received conflicting views from government on whether this will be viewed as an investment belief that sits with the funds, or an implementation issue that is delegated to the pools.

Similarly, many LGPS funds have set strong responsible investment criteria and climate ambitions that have led to the exclusion of some companies, industries and sectors, and the allocation of capital to climate solutions. Will this continue to be a fund decision? Or will this now fall to the pools to decide whether to implement, which may then place an additional burden on pools?

We also consider the separation of strategy and implementation to be problematic, which we cover in the next two questions.

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

Answer 3: We do not believe it would be sufficient to meet fiduciary duty under the existing primary legislation. Setting the high-level investment strategy and strategic asset allocation account for the majority of long-term returns and should therefore be based on well-founded advice.

The role of implementation in financial outcomes

While implementation may not typically be the biggest driver of returns, it still plays a significant role in long-term financial outcomes. This is especially important in extreme cases – while investment strategy is the biggest driver of returns on average, particularly good or bad implementation can have an even larger impact. Therefore, a fund cannot solely focus on high-level investment strategy, ignoring the implementation process, and still be considered to have met its fiduciary duty.

Importance of track record and due diligence

In the past, when funds appointed advisers or investment managers, a key consideration would be whether they can demonstrate a successful track record in delivering against agreed objectives. Having a stable team and process delivering as you would expect across different market conditions would be a key component of this. Without undertaking that due diligence, funds could be accused of not meeting their fiduciary duties.

Delegation of strategy implementation

Requiring LGPS funds to take advice from and fully delegate the implementation of their investment strategy to an entity that has not performed these roles before could prove challenging for funds to meet their fiduciary duties under existing primary legislation. How will funds gain comfort that they will receive strong advice and avoid the particularly bad implementation outcomes?

The disconnect between strategy and implementation

Similarly, the detachment of strategy from implementation is a significant issue. Many asset classes are incredibly diverse and offer very different characteristics, depending on how you invest. A prime example is infrastructure, which can range from low risk, established, income-generating assets, to investments in new construction projects and new technologies. How can a fund set a target allocation to infrastructure without knowing what level of risk and return it will be targeting?

Evolving pools and loss of investment knowledge

While it may be possible for funds to currently assess the level of risk offered by their pools' solutions, and consult with pools to clarify their needs, this may well change as time goes by and pools develop their offerings. This will become more difficult as pension committees are likely to lose important investment knowledge as a result of key decisions being delegated to the pools, and are less able to articulate to the pools what they want and challenge them.

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

Answer 4: The proposed template is not detailed enough for funds to adequately complete and discharge their fiduciary duty. While we understand government want to see greater consistency across fund investment strategies and pools wish for easier implementation, we strongly believe that more detail is required for funds to select from to meet their fiduciary duties.

Oversimplification issues – As noted above, many asset classes are incredibly diverse and offer very different characteristics, depending on how you invest. A fund simply allocating to “infrastructure” or “property” would not know the level of risk and return they would actually be targeting. While funds may be able to look at the pools' current vehicles to gain some information around this, these may change in future. This creates a particular challenge in private equity (for which the government has an ambition to see an increased allocation), which could be invested in lower-risk type global buy-out funds, covering large and established business, or in extremely high-risk venture capital funds. Funds should be able to select from specific areas of the asset classes, such as residential or commercial property, or for higher and lower risk types of investments in these asset classes. There may also be a risk that funds simplify their investments as a result of the limitations of the template, to the detriment of financial outcomes.

Unclear and wide definitions – Similarly, “Other alternatives” gives a huge amount of discretion for pools to invest across a large investment universe and gives funds absolutely no information about what they would be investing in, or the levels of risk and return.

Geographical issues – We also find it problematic that no regional or country-specific options are being given to funds, considering the potential for LGPS assets to be steered towards greater UK allocations to meet political aims, over financial outcomes.

Question 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?

Summary

- We point to the significant concerns raised in the [industry whitepaper](#) coproduced by a number of LGPS funds and industry experts on this issue
- Funds should continue to have an option of selecting their adviser. This can include the pools once they have developed sufficient expertise and services.
- Around 90% of LGPS funds use professional investment consultancy services for their investment strategy reviews. These operate within an efficient and competitive market, with a well-established procurement framework, with large resources dedicated to the delivery of high-quality advice in a cost-effective manner. The innovation and strong returns of the LGPS over decades is testament to it.
- By forcing advice from a single provider (which funds cannot leave), who both implements that advice and reports on performance, you remove competitively driven value for money, high service levels and innovation, while introducing conflicts of interest.
- To deliver improved consistency, advice can be limited to only the asset classes offered currently, or which could reasonably be offered, by the pools. We believe this is a far better way of achieving the benefits of greater scale than removing the benefits of the current competitive market.
- From a cost perspective, pools will not be able to leverage the economies of scale (and already significant sunk costs) which investment consultancies use to deliver advice services (eg our fixed costs are spread over 60 LGPS funds and 100+ private sector scheme clients).
- By reducing the requirement for pools to build advisory functions, it allows them to prioritise resource and to focus on the more impactful areas of the consultation proposals (for example, local investment).

Answer 5: No. We understand that the government desires greater consistency across LGPS investment strategies. However, we believe there are risks associated with pools providing investment strategy advice. We also do not see a way that this can be done in a more cost-effective manner than the current approach and believe that pools providing investment advice introduces a number of issues to this extremely important and impactful service.

Concerns raised by LGPS community

There are significant concerns in the market around the conflict of interests that can arise from a single entity (which funds can't leave) giving both investment strategy advice and then implementing it. [The Competition and Markets Authority's](#) review of fiduciary appointments in the private sector implemented several measures to provide protection around this, which are not addressed in the proposals.

- **Performance Reporting:** The pool controls performance reporting, which may lead to underperformance being excused without proper scrutiny, without established oversight. While there are experienced and effective independent advisers in the market, many do not have the resources to provide the level of oversight to adequately review due diligence and challenge it. The proposals may make it harder for funds to assess whether they received good advice, which has been implemented well, or if issues need fixing.
- **Lack of Competition:** Funds would be unable to change adviser from their pool to other providers if dissatisfied with the pool's advice or performance, which reduces the incentive for pools to offer top-quality services. While funds are shareholders in their pools, and able to remove underperforming staff or board members, this is far more difficult, expensive, time consuming and higher risk than simply being able to change providers.
- **Conflicting Objectives:** There's concern about the potential for government pressure on pools to prioritise political goals (eg investing in the UK), or de-risking, over fiduciary duties. This could impact investment decisions and reduce the pool's focus on achieving the best outcomes for funds.
- **Fees:** The structure of fees for additional services, like strategic asset allocation advice, could create conflicts of interest. For example, potentially influencing pools to favour internal management over external options. Pressure to minimise costs might also impact service quality.

- **Reduced Innovation:** There are worries that the proposed model will limit innovation and diversification within the LGPS, as the pools may be less willing to invest in new asset classes that require extra effort.
- **Pet Projects:** Concerns exist that pools may steer funds towards certain asset classes based on the personal interests of the pool, rather than what is best for the funds' investment strategies.

Investment strategy advice service

Building an investment strategy advice service of the standard required by the LGPS takes a huge amount of work and cost. At Hymans Robertson, we estimate that our annual costs for maintaining our service are around £6.5m. We are able to then offer this service affordably to the LGPS, as the costs are spread across the dozens of funds we work with within the LGPS, as well as across many non-LGPS clients. This does not appear possible within a pool, meaning costs will likely increase for funds.

Alternative approach

We believe there is an alternative approach that helps to address both the government's concerns over the current approach and funds' challenges to the government's proposal.

We propose that better outcomes would be achieved by instead working within the current structure, altered to work within the parameters set out within the consultation and address the government's concerns with the current approach.

We propose that the service operates as follows:

1. Funds should continue to be able to procure their own investment strategy advice, including from the pools if funds so wish. This procurement can continue to be on a competitive basis, helping to achieve lower fees. This will allow funds to continue to use the best value-for-money provider and give pools time to develop their offering, while addressing the concerns of conflicts of interest.
2. Advice can be limited to the solutions of the pool, or that could be reasonably provided by the pool, including being able to invest in other pools' solutions if a fund's own pool doesn't offer a solution. This manages the risk of advice being given to invest in asset classes and solutions outside of the pool.
3. New ideas for attractive investment opportunities can continue to be raised by the adviser, to be discussed with the pools, to ensure that the LGPS investment returns continue to benefit from market innovation and diversification.

This method has a significant number of key benefits compared to the proposal set out in the consultation:

- **Independent advice:** the solution provides independent advice, addressing the concerns around conflicts of interest.
- **Expertise and choice in advice:** the advice can continue to be based on the strong and well-developed expertise, experience and tools that investment consultants already possess. If funds would like to take their advice from the pools from day one, that is their choice. However, those that wish to wait until the pool has built up the expertise, experience and resources can continue to use investment consultants. Given the importance of this advice, with it being the most financially impactful decision a pensions committee can make, it is imperative that this choice is given. It also allows for continued idea generation and innovation within the LGPS.
- **Cost-effective and aligned interests:** the options for funds to procure their own investment adviser provides the benefits of continuing to achieve the lower fees currently provided by competitive procurement exercises, and clarity that investment consultants are there to serve the funds' best interests.
- **Addressing the adviser-implementer disconnect:** the solution addresses the concerns stemming from the disconnect between the adviser and implementer. With advice being limited to only asset classes implementable through the pool and the template set out by government, this prevents recommendations being given for assets to be invested outside of the pools or becoming excessively detailed and onerous for the pools to implement. As part of this process, new investment ideas can continue to be raised, such as attractive asset classes that the pool could invest in, to ensure new ideas and innovation continue to be delivered for funds.

- **Focus on core and impactful responsibilities:** the solution would allow the pools to focus their efforts elsewhere, helping to facilitate the monumental expansion of their roles. This would remove one distraction from their day job of managing the assets to achieve the target levels of risk and return. It would allow them to instead focus on the taking on of the significant levels of assets that will now need to be passed to them, building their ability to take full discretion on the management of those assets within the set investment strategies, overseeing a large set of illiquid assets currently held by their funds and, perhaps most importantly, building local investment capabilities. A single one of these roles is a significant task, so removing one will certainly help ease the load.

Finally, this would also free up valuable time for the pools to focus elsewhere. We suggest local investment, a key priority for government, is instead prioritised. This is incredibly important both in its potential for improving local areas, and in the ability for it to do damage if not appropriately devised. This may also increase the level of investment into the UK more quickly, while the current established market for investment strategy advice can continue.

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

Answer 6: We do not believe this is a necessary requirement to meet the stated objectives of pooling. We understand the reasons for wanting the standards of professionalism required to become authorised by the FCA. However, as fed back in the 2023 “next steps for investments” consultation, some very different approaches and operating models have developed across the pools, all demonstrating success against the government’s original aims. There is not yet any evidence that one operating model works better than any other. For this reason, the conclusion of the 2023 consultation was that specific structures would not be required, but the focus would instead move to “characteristics and outcomes” rather than specifying a single structure.

We discuss the three pools without current FCA authorisation below.

- **Wales and ACCESS** – For the outsourced models operated by Wales and ACCESS, they have developed an approach to benefit from the FCA authorisation of their outsourced investment managers. This means any additional benefits of becoming FCA authorised themselves will be limited. Instead, it will incur greater costs of both the adaptation to the new model, and then the operating costs of the additional internal staff that will need to be recruited. It may be particularly difficult and costly to recruit the required staff in such a short time span.
- **Northern LGPS** – They have not adopted this structure in the past because, as the pool covers the first, third and fifth largest LGPS funds in England & Wales, they saw minimal benefit and higher costs. There is now reasonable evidence that this approach has been correct. Under its current structure, Northern LGPS can clearly demonstrate that it has achieved strong levels of return while meeting the government’s new requirements, making the largest levels of investment in the UK and locally, utilising the largest levels of inhouse management, and operating with the lowest costs. Forcing them to change operating model may risk unnecessary harm in their delivery of strong risk-adjusted returns alongside these new government aims.

Another key area of this consultation is the governance and oversight of the pools. Across our experience of working with all of the pools, we have found that the operating model that uses a separately run FCA-authorised investment management company has created challenges for governance and oversight compared to the other models used. Under the owned investment management company model, while the company is fully owned by the partner funds, the partner funds have had to set up numerous oversight governance structures, both made up of officers and pension committee members, to try and ensure the pool company is operating as it should be and in the best interests of the partner funds. This is created by the degree of separation between the partner funds and the pool investment management company.

Within the outsourced model, this degree of separation is far smaller. The officers and committee chairs of the partner funds work together to make a far larger proportion of the decisions, meaning they understand why actions are being taken, why solutions have been developed in a particular way, and the reasons for any compromises. We have found that this leads to strong buy-in for the solutions that are then developed. While oversight of the outsourced providers is required, we have found this to be a far smoother and more established process of reviewing the performance of established third parties.

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

Answer 7: Not necessarily. We believe that all assets should be pooled where it is in the best interest of funds. However, as fed back by many in the 2023 “next steps on investments” consultation, there are many valid reasons why funds have not pooled all of their assets. This includes listed assets.

These reasons include:

- the pool not offering applicable solutions to replace their external holdings;
- significant concerns with the design of the pool’s investment solution; and
- the pool not achieving lower fees than achieved outside of pooling. An example often discussed is passively managed funds, where fees were procured by funds that were too low to possibly be reduced by pooling.

We do not believe that the cost inefficiency and risk created by indiscriminately targeting 100% pooling in the short timescales is outweighed by the potential for a “governance premium” in the longer term.

Funds should continue to pool their listed assets where it will be to their benefit, and they cannot clearly justify holding the assets outside of the pool. This also means that they should not be pooled regardless of cost or expected outcomes.

We believe a better approach to having all of the listed assets pooled would be to first address the reasons for them not being pooled currently. A process can be undertaken to understand these reasons, giving funds an opportunity to justify not pooling their assets. For example, where costs are expected to increase from pooling, this can be used as an opportunity for pools to explore opportunities to address this. Similarly, where pools do not offer solutions in asset classes important to funds, funds can justify their reasons for continuing to hold that asset class, and the pool can explore the potential for launching a solution. The opportunity to pool these external holdings can then be reviewed annually to regularly test these reasons for not pooling.

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

Answer 8: Not necessarily. Again, we believe that funds should pool their assets as far as possible, where it is in the funds’ best interests. Funds have generally not pooled legacy private assets due to challenges around an inability to exit funds, or excessive costs of doing so, as well as pools not offering this oversight service.

Increase in costs

Pools have largely not offered this service due to a combination of a lack of demand from funds and it being a huge amount of work to deliver on. The resources it will take for a pool to suddenly carry out due diligence, monitor, meet cashflow calls, receive distributions and take investment decisions on hundreds of private markets mandates should not be underestimated. This will lead to increased costs for funds compared to their current arrangements. We believe it would be far more economical for funds to continue to do this outside of the pools, investing new capital as it is returned into pool solutions when available.

Pool resource planning and staffing challenges

Continuing with the current approach would also make it easier for pools to plan resource. Given the significant work it will take to provide this service, it is likely a large increase in staff numbers will be required. However, once the legacy investments are wound down, these staff may become surplus to requirements. There is the potential that this will lead to the service being managed by temporary staff or outsourced at greater cost.

Bias towards pool solutions

For open-ended investments, where there will be a decision required by the pool of whether to terminate the mandate and transfer it into their own solution, or to run it on, there is likely to be pressure and bias to do the former. To not do so could easily be interpreted as the pool believing their solution is not as strong. Strict rules will need to be set around the reasons for pools liquidating the holdings, with justification provided to funds, rather than this just being fully delegated to the pools.

Maintain exposure to fund's own holdings only

If the oversight of the holdings is transferred to the pool, it is important that funds continue to maintain exposure to their own legacy private markets mandates. They should not be pooled with other partner funds' holdings to end up with a blended mix of investments they did not select.

Risk of losing exposure to key asset classes

Finally, for future investments, there is a risk for funds if their pool does not offer important private markets asset classes and will not offer investments into other pools that do. This might mean funds lose their exposure to asset classes that form an important part of their strategy. A prime example would be forestry investments, which often form an important part of a fund's Net Zero strategy, where many pools do not yet offer solutions.

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

Answer 9: This service would require a significant increase in expertise and resources for the pools to undertake effectively. If this solution is pursued, the pools should conduct a thorough evaluation in collaboration with the funds to assess the full scale of the requirements. The timeframe would be dependent on the requirements but might reasonably be 3-5 years.

Pools would need the resources to understand each private markets holding held by their partner funds. There will be some commonality across the holdings, but there is a large number of different funds, managers and asset classes. Some will be niche investment opportunities with little crossover elsewhere. These staff would need the knowledge and expertise required to understand these holdings and their performance, and to take a view on whether to run them on or exit them. This will take large numbers of experienced staff and probably help from third-party research companies.

There will then be significant work in managing the cashflows of these investments, ensuring all capital calls, regular distributions and final redemptions are properly accounted for and credited to/debited from the correct partner funds. Some pools will have some capabilities here from multi-manager private markets funds; however, this workload is likely to be far higher, with a significantly increased number of holdings.

It is unlikely that pools will be able to recruit the required number of people at reasonable levels of pay in such a short timescale, so they will either need to pay above-market rates or for much greater third-party support. This will come at significant costs to the partner funds, to replace a role they were performing themselves.

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

Answer 10: This timeline is extremely challenging. It is clear that setting such an aggressive timescale risks the launching of substandard offerings, the mismanagement of the current assets and excessive costs. We understand the desire to move quickly and give the LGPS clarity as soon as possible. However, we believe that more can easily be achieved through prioritisation, improved guidance and a workable timetable, rather than setting such challenging timescales.

Unnecessary urgency creates risks

For the pools to provide just one of these services to a high standard by the target date of 31 March 2026 would be a challenge. As would the onboarding of the £212.5 billion of remaining assets that government has stated are not yet within pooled vehicles. This creates significant risk that solutions are rushed in order to prevent being merged into others. The unnecessary urgency in the proposals risk substandard solutions being launched, which could lead to both poor returns and negative outcomes for the UK.

As an example, this is particularly important for local investment. This area is likely to require the greatest amount of work for pools to develop solutions, as an industry for local investment in the manner set out in the consultation does not yet exist. The risks here are also heightened by the sensitive nature of the investments. While all investments carry financial risk, with negative outcomes leading to upward pressure on employer contribution rates, local investments also carry significant responsible investment risk. While good investments have the potential for both strong financial returns and a positive impact on a local area, poorly considered investments have the ability to cause damage to local areas. Significant time and resource should therefore be given to building a strong solution in this area.

Impact on core function of pools

The timescales pose a substantial risk to the pools' core function (ie managing the assets already within pooled vehicles), which could ultimately lead to diminished investment returns. The launching of these new services over such a short timescale is a significant distraction for pools. It will require large amounts of resource that will be taken from elsewhere in the business. Any issues leading from this could significantly damage confidence in the pools, just when it is needed most.

A potential solution for this will, of course, be to hire in resource. However, to do this so quickly will be a challenge, and is likely to require the offering of above-market pay, leading to higher costs for the partner funds, particularly as current staff may also need to have their pay increased in line to maintain fairness.

Reasonable timeframe

We strongly believe the timescale should be extended, to at least 2030, with an order of priority provided by government for where pools should focus their efforts and attention. The higher priority and closer deadlines should then be focused on areas that create greatest value, such as local investment, while services that already exist should be pushed out further down the timeline.

A 2030 timescale remains ambitious and will still provide the LGPS with important clarity of the direction of travel, while negating the risk of solutions being launched without being fully considered.

Other developments

Question 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?

Answer 11: We believe there could be benefits to collaboration between pools, over each pool building their own solution to all requirements. This could prevent the replication of resources and costs, and pools competing for the same investments. However, this does then heighten the risk of a lack of diversification, where if all assets in a particular asset class are invested in only one or two solutions, which then underperform, the negative impact on the LGPS as a whole will be greater.

How this collaboration will work needs fuller consideration by government. We have observed that the government's approach to this pension review and consultation has caused competition to appear between pools, which may well dissuade pools from considering other pools' solutions. There may be fears that a pool deciding not to launch a solution, and invest instead in another pool's solution, is interpreted as that pool admitting it is unable to deliver as strong a solution itself. Pools may also fear that excessive use of another pool's solutions will align itself with being merged into that pool.

Consideration needs to be given to ensure these competitive elements do not prevent collaboration where it is in the best interests of funds.

Question 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?

Answer 12: The administration of the LGPS is of course an extremely important function, and there are already examples of collaboration in this area. Some funds take the view that they should offer a local service to their members and employers. This way, they can use their local knowledge to provide a better experience and service to members.

Others take the view that it should be outsourced to another provider. The benefits of this consolidation can include potential for economies of scale, such as lower costs and reduced risk of staff departures ie due to larger teams being in place at the larger provider.

There are merits to both approaches. While we believe there is scope for further collaboration on areas like administration, it should be left to funds to decide how best to provide that service, taking into consideration local views and expected costs/benefits. We do not see how pooling affects this. There are successful examples of funds in different pools sharing a single administrator. As long as this model works for those funds, we see no benefit in dismantling a successful arrangement to align administration provision with investment pools.

Similarly, on training, there are many examples of collaboration, but with scope for more. It could be beneficial to carry this out within the pools to share costs, provided it is delivered by suitably qualified providers and maintains the ability for training/discussion on fund-specific issues. The use of collaboration should also depend on the topic and the level of importance of it being personalised to that fund's requirements.

Any potential for pools to help in these areas will also be significantly delayed by the other substantial extra requirements being placed on them.

Chapter 3: Local investment

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

Answer 13: We note that the question specifically asks about local investment for “reporting purposes”, rather than for investment purposes, which we believe is an important distinction. This implies the potential for differences to arise through the investment process, which, while it could be appropriate, creates an unhelpful disconnect. For a fund, the most obvious definition of local is the region served by the administering authority (AA) and other participating public body employers. Drawing on question 17 of the consultation, if reporting is required in the form proposed, this would be most appropriate.

Recognising that some investments could have impact over multiple regions and that a commingled approach to local investment may be applied, we believe it would be inappropriate to adopt a single definition. We suggest that reporting addresses local investment at three levels: fund area, pool area and country. This would facilitate more informed reporting, allowing AAs and pools to demonstrate impact in different ways and prevent important and impactful investments from not being made because they wouldn't count towards the target.

Question 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?

Answer 14: There are clearly opportunities for administering authorities to work with other parties to identify potential local investment opportunities, but clarity is needed on the expected route to implementation.

As it stands, the government is expecting each fund to identify potential opportunities that will be proposed to the pool for consideration, including due diligence and underwriting. This creates a need for internal resource with appropriate skillsets at both the fund level and the pool level, and the division of responsibility between pool and funds to be clarified. In particular:

- Funds need to be able to identify what may or may not be appropriate forms of local investment and will, in turn, need appropriate investment guidelines covering what is acceptable to be clearly established.
- The pool acts as an aggregator of capital across all funds and thus is required to evaluate the relative merits of different opportunities from the partner funds.

For example, will funds be required to pass through all opportunities to the pool, or undertake some form of assessment themselves on what should be passed through? The former will place a large workload on the pools, but they should be better positioned to provide this assessment than the funds.

The complexity of skills required is further increased when considering local investment by asset type eg equity financing, debt financing and property/infrastructure. For example, getting diversification within an asset class may be more difficult in infrastructure compared with private equity. Similarly, achieving diversification by industry/sector/ economic driver will also be more straightforward in some asset classes than others.

In many cases, the skillsets to identify, assess and monitor/manage on an ongoing basis do not currently exist at the funds and/or pools, but these are essential if the right opportunities are to be identified and invested in. Therefore, we would expect most pools seek to achieve the local investing agenda objective by:

- leveraging the skills and expertise of those member funds that already allocate to local investments
- utilising the skills and expertise of external managers, particularly for ongoing management of the underlying assets

The governance and guidelines around how the pools allocate to local investments put forward should be structured to instil confidence in the funds that the pool is willing to consider the opportunities and that there are conflict-management processes in place as well as deal attribution. We would envisage some formal guidelines to be in place to ensure each member fund in the pool has their local region fairly represented.

And so, while we believe there are strong benefits to having AAs work with local bodies to identify opportunities in their region, we note that this will not be achievable from day one and will incur costs (time and money) to get the relative skillsets and guidelines in place. As indicated above, we would expect:

- Pools to leverage the good work done by their member funds, at least in the initial phase.
- Clear requirements for pools to represent every member fund and their associated AAs fairly.
- Pools to ensure a diversified portfolio of local investments, which we believe is most easily done by requiring a mix of local-regional opportunities and local-UK opportunities.

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

Answer 15: We note that the consultation does not ask for opinions on whether funds should invest locally. We do ask whether a fund setting out an approach that they do not believe in local investment, and setting a target allocation of 0%, would be accepted by government.

The consultation suggests that funds should set out their objectives on local investment, including a target allocation range. We support this. Strategic asset allocation should remain a local investment decision, given that funding objectives and investment policy decisions will otherwise remain with the AAs.

The proposals, however, do not clearly address how local investment overlaps with the proposed framing of strategic asset allocation. Therefore, if a target range approach is taken, then it would mean AAs would need to consider local investment as an asset class in its own right. The AAs would need to delegate authority to the pool on the underlying investments, which may include multiple asset classes (eg property, equity, debt, infrastructure). AAs must reflect this in their investment strategy statement to acknowledge that eg a 10% allocation to private equity is excluding any private equity exposure invested locally – so, in practice, private equity exposure could be upwards of 10% at any one time, depending on the local investment allocation.

The alternative approach that we've seen some funds take is to consider the high-level asset allocation to each asset class and target an allocation to local investment within that. For example, target 10% to private equity, 1% of which should be local private equity investment. While this approach is cleaner from a strategy perspective for the funds, the management of this at pool level will be complex, costly and make it difficult to achieve appropriate diversification across sector and region.

Both approaches have their merits and drawbacks. As indicated in the next question, we are in favour of the government delegating to the pools on their choice of approach. In doing so, this will allow each pool to work with the partner funds and their AAs to make the integration of existing assets into the pool as effective as possible.

Question 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?

Answer 16: We believe it appropriate that there is a clear mechanism through which due diligence on local investment opportunities can be undertaken, and investments made and subsequently managed on an ongoing basis. However, we also recognise that this requires access to considerable expertise and different skillsets, depending on the asset class.

Before progressing this requirement, government should be clear on how it expects local investment to be implemented. For example, if a pool creates a multi-asset local investment fund, then it will require the skillsets to evaluate investments across different asset types, suggesting there would be a need to develop a broad range of resource. Further, different skillsets will be required if the investments are made directly or if they are made through a pooled vehicle.

Rather than mandating a single approach, we believe that government should set out the broader framework through which it expects local investments to be considered. It should also allow pools to consider how best to access the skillsets and capabilities that would let them meet their mandate and the requirements of funds.

Question 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?

Answer 17: The consultation document suggests that reporting serves to make the funds accountable, yet the proposals are for local investment to be made via the pool, so the proposal seems inconsistent. Further, while we believe that reporting may be helpful, we believe the government should establish some clear principles for reporting on local investments to ensure clear, fair and not misleading descriptions of each fund's assets.

- Reporting should serve a clear purpose for administering authorities and be undertaken to meet the needs of stakeholders. While the Scheme Annual Report may be an appropriate forum for reporting, it's unlikely to be appropriate as a communication vehicle for members.
- Reporting should not duplicate reporting undertaken elsewhere. For example, if reporting on local investments is being provided by pools (who it is proposed be responsible for the implementation of local investments), then it would seem more appropriate for such reporting to be provided at a pool level. Funds could then reference pool reporting as necessary.
- Reporting should, as far as practicable, be consistent with other reporting frameworks. For example, the FRC is currently consulting on revisions to the Stewardship Code, and it would be appropriate that any form of reporting on local investments be undertaken in a similar manner to ensure that reporting efforts are not duplicated.
- Reporting should be proportionate and not create unnecessary cost and/or governance burdens on funds. Impact reporting is generally less well developed than other forms of stewardship reporting, and the mechanisms for calculating impact are likely to be more subjective than performance reporting.

In addition, we believe it's appropriate that government clearly set out the investments that fall in and out of scope of any reporting requirements. For example, a number of funds have already made impact investments. Clarity is therefore needed as to whether these would require to be reported on in addition to any new investments. This is an important consideration because it could cause a pause in investments while funds wait for pools to set up their services.

We believe the following should be included in reporting:

- Area of investment
- Type of investment asset class
- Value of investment
- Thematic focus of investment eg housing, climate, employment
- Specific aim of the investment
- Status of the investment eg in development

Chapter 4: Governance of funds and pools

Fund governance

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

Answer 18: We welcome the government's consultation on these proposals and are supportive of the government taking steps to implement the SAB's Good Governance recommendations following our work with the SAB on this in 2020 and 2021.

In the SAB's 2021 report, which we facilitated, we had set out why we considered many of the proposals to be valuable following our research in the scheme. While many LGPS funds have now taken steps to implement some of the changes voluntarily, we believe it's helpful that the government is taking steps to implement the recommendations so there is greater consistency across the scheme.

In particular, we're supportive of the proposal that the government works with the SAB on developing and issuing new statutory guidance on governance. Guidance will help to achieve consistency across the LGPS and will give greater clarity on the government's expectations for how the new requirements should be implemented. We would encourage there to be a broad consultation on the guidance to ensure that the range of views across the LGPS community can be considered for the final version.

One matter that will need careful consideration as the government progresses with the governance changes will be the timing of its implementation. Some of the new requirements will take time to consider at the local level and then put in place – for example, the creation of the new senior LGPS officer role may require local structures to be amended and there may need to be external recruitment to fill the role. It would be helpful if, in the response to this consultation, the government's anticipated timings for regulations, guidance and eventual compliance could be set out.

As the government refines its plans on governance, including in developing the guidance and regulations, we would be very happy to provide any support we can, including meeting with the department, to share what we learned from our work on the Good Governance project.

Question 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?

Answer 19: We agree that funds should publish a governance strategy, a training strategy and a conflict of interest policy. Although we're not persuaded that these should all form part of the same document. For reasons of practicality, ease of reference and flexibility to update, we feel these should be standalone documents. However, there is no reason why they can't reference or link to each other where relevant.

The current governance compliance statement guidance dates back to December 2008 and predates investment pools and local pension boards. We would welcome new guidance for funds in this area.

The members of most pension committees will be covered by the host local authority's elected member code of conduct, which sets out standards and includes a register of interest. We agree that an additional policy should be in place to cover the specific potential conflicts that arise from the fact that administering authorities are the bodies legally responsible for running LGPS funds and employers within those funds. We would welcome guidance on this topic to cover areas such as contribution setting, re-charging for local authority services, local investment and the situation of many administering authorities being both part owners and clients of an investment pool.

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

Answer 20: Yes. As a key part of SAB's Good Governance report, we believe a requirement for a senior LGPS officer in each LGPS fund would be a welcome development, and would potentially have several benefits:

- **Sufficient recognition of the LGPS function** – while the pensions provision within a council is not a frontline service, it is an important part of the local government system, and there are potentially significant financial and reputational risks of weak governance at the local level. A senior LGPS officer should help to ensure that LGPS issues are given appropriate consideration and prominence within the local authority, and that LGPS issues are duly represented.
- **Sufficient senior resource** – the LGPS has become increasingly complex in recent years and the creation of a senior LGPS officer position should help ensure that there is sufficient senior resource supporting the wider pensions team. In some authorities the existence of a senior LGPS officer will also free capacity for the s.151 officer, where pensions issues can be highly time-consuming. We would not, however, expect the introduction of a senior LGPS officer to change the overall responsibilities of the s.151 officer.
- **Consistency across the scheme** – local authorities can differ from each other significantly in size, culture, functions and resource, and these differences can lead to differences in how the LGPS function is delivered. Having a requirement for there to be a senior LGPS officer in each fund will ensure that, in spite of the differences in the local landscape, there is a designated officer in each administering authority who has responsibility for the LGPS.

We welcome the government setting out in the consultation that it would be expected that the LGPS role would be the main priority for the senior officer. We believe this means that the LGPS senior officer could not be the authority's s.151 officer, given that role will cover many different areas of the council's finances, and believe it would be helpful if the government could confirm that this is their view.

We also welcome the list of activities that the government say they would expect the senior officer to be responsible for. As the government has set out, it plans to issue updated statutory guidance on governance. We assume the government plans to build on this list in the statutory guidance and believe this would be helpful in achieving consistency across the scheme in respect of the areas of responsibility that the LGPS senior officer is expected to have.

There is an area where additional clarity could be provided. Paragraph 95 of the consultation states that the LGPS senior officer would have "overall delegated responsibility for the management, strategy and administration of the fund". This phrase is potentially confusing as it could suggest the LGPS senior officer should be formally delegated the LGPS function under s.101 of the Local Government Act 1972. In an LGPS context, it's typically the pensions committee that is delegated the overall responsibility for the LGPS under the 1972 Act. We assume that the government does not intend that the LGPS senior officer would supplant the role of the pensions committee, and instead it's envisaged that the LGPS senior officer's responsibility for the LGPS would be subject to any existing delegations that the authority has in place. In other words, in most funds the performance and work of the LGPS senior officer would be subject to scrutiny and oversight from the pensions committee. It would be helpful if the government could confirm this.

The statement that the LGPS senior officer "should be involved in the local authority's budget-setting process" could be clarified. We take this to mean that the LGPS senior officer should be involved in the budget relating to the LGPS fund, which is consistent with the intention of the Good Governance project. It is true that the pension fund budget is a sub-set of the local authority's budget but, as written, the phrase could be interpreted as meaning that the senior LGPS officer must be someone who has involvement for the budget of the wider authority.

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

Answer 21: While the publication of an administration strategy is technically optional, we're unaware of any LGPS fund that does not publish one. That said, we believe that there is value in requiring funds to produce an administration strategy and for guidance to be published on the matters to be included in that strategy. In producing that guidance, there should be consultation with both LGPS practitioners and employers.

The guidance should allow for consistent standards governing what administering authorities expect of scheme employers, and on the quality and timeliness of scheme data. It would also be useful to provide the scope for administering authorities to recover additional costs from poorly performing employers in a more effective way.

We also suggest exploring the extent to which the contents of the administration strategy can be legally binding on scheme employers.

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

Answer 22: Yes. While it's important that all stakeholders in the LGPS can easily access a fund's policy documents, we agree that it's not helpful for the full texts of these often-lengthy documents to be included in the annual report. We support the suggestion that the government work with the SAB to consider this further and update guidance.

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

Answer 23: We support the principle of an independent governance review, since this provides an objective assessment of how well funds are meeting the required standards of governance. It's important that the process is designed in such a way as to focus on enhancing governance, sharing best practice and supporting funds. It would be unproductive to focus on crude league tables and a 'name and shame' type approach.

The consultation appears to conflate two ideas of the Good Governance review: the biennial review and peer support. We feel that these two areas are quite different. The biennial review should be focused on ensuring that LGPS funds are meeting their statutory requirements by assessing evidence produced by the fund. Our understanding of the LGA's peer support process is that it provides a framework for local authorities to share best practice in a range of functions by working with experienced elected members and officers from other authorities. We would be interested to see how these two different functions could be merged together.

Without more detail it is difficult to comment further. We would hope to see a further consultation on any legislation and/or guidance that sets out details of how the review will be administered. One practical challenge of a biennial review of all LGPS funds is the resource it would require. With 86 administering authorities in England and Wales, there will be 43 independent reviews per year; meaning a review will need to be carried out every 6 working days. Such an enterprise would need to be properly resourced.

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

Answer 24: Yes. Pensions committees have overall responsibility for decisions in the LGPS, and it's vital for the effective governance of the scheme that they have an appropriate level of knowledge and understanding of the scheme's rules. Most LGPS funds will already place high value on the training of their committee members to ensure that committees are capable of providing valuable scrutiny and oversight of the running of the fund. However, formalising this through a statutory requirement will ensure that the government's expectations are clear and help to support greater consistency across the scheme.

As the consultation notes, local pension board members have had a requirement to have knowledge and understanding of the scheme since the establishment of local pension boards in April 2015. We believe it is important to address the anomaly that the same requirement does not yet apply to pensions committees.

Question 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?

Answer 25: We agree with this proposal. While most LGPS funds already have training strategies, the proposal that LGPS committee members must have appropriate knowledge and skills (see Q24) provides an opportunity to bring together various training requirements such as The Pension Regulator's General Code of Practice, CIPFA's knowledge and skills framework and MiFID II into consistent guidance.

Question 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?

Answer 26: While we support the government's consideration to how LGPS governance can be developed and how administering authorities can obtain greater support on the scheme's complex investments, governance and administration landscape, we are uncertain whether a requirement for an independent adviser is the right approach.

The consultation appears to envisage that the independent adviser would be an individual pensions professional who would support the pensions committee on investment strategy, governance and administration. We have reservations as to whether there are a sufficient number of individuals who have the skills and expertise to deliver this support to the 86 administering authorities in LGPS England and Wales and, importantly, that there would be a sufficient number for a competitive and healthy market to exist. It's not clear to us why the person best suited to provide investment advice would also be best suited to provide governance or administration advice.

Given each of these areas are very complex in their own right, an independent adviser would need significant research capacity to adequately fulfil this function. While we note that, within private sector pensions, there is a well-developed market for independent trustees who could potentially enter the LGPS market, the LGPS has many key differences from private sector pension schemes and it may take a number of years before such firms have sufficient LGPS expertise and capacity to effectively support committees in the way envisaged. Individuals would need to understand the complex statutory and regulatory foundations of the LGPS, the local government environment and the different characteristics of scheme versus private sector arrangements eg differing objectives (long-term sustainability vs insurance buy-out), asset allocations, timeframe (ie the LGPS is open to accrual and new staff joining), covenant strength, multi-employer arrangements, etc.

It appears that the government may believe that there is a need for an independent adviser at the fund level to ensure that administering authorities have sufficient investment expertise to be able to challenge pools on investments matters and to provide committees with support on setting the investment strategy. This appears to be a recognition that the proposal that pools provide partner funds with the principal advice on strategic asset allocation would leave an important gap in the LGPS's governance. We are unsure whether the addition of a complex new element in the LGPS governance landscape, with an undeveloped and untested market, would be better than the current position, where authorities can take their own decisions on who to obtain their investment advice from.

On balance, we believe that LGPS funds should be able to procure advice from a range of advisers according to their needs and in line with any regulatory and professional requirements.

Pool governance

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

Answer 27: We believe there would be some merit to this approach. In terms of a specific number, this most likely depends on each pool's specific make up and governance function, and we do not believe specific numbers should be set by government.

The key is that the correct individuals are selected to perform this role. The role is to properly hold the pools to account and the individuals will need to be knowledgeable enough to perform the role, as well as fully willing to challenge the board on their performance. They will also need to be able to represent the views of all partner funds, not just their own.

However, this will not be enough for the level of oversight required for funds to properly hold pools to account. It requires robust oversight structures and clear reporting mechanisms to enable funds to monitor pool performance and ensure adherence to investment strategies and cost management principles, as exist with all other providers used by the LGPS.

There need to be mechanisms in place to resolve issues when funds do not feel their strategy is being suitably implemented and performance is disappointing. We do not feel that these proposals provide funds with enough support to do this adequately.

We have found that groups made up of officers and/or the pension committee chairs of the partner funds of a pool, meeting regularly, without pool representatives, to discuss the performance of the pool, have been quite successful in achieving effective oversight. These groups could inform the pools directly of any concerns, or be used to inform the shareholder representative(s) of the issues most important to the partner funds as a whole to then challenge the board.

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

Answer 28: It has long been a challenge for funds to gain truly representative views of their members. Typically, only those with the strongest views will attend public sections of meetings or contact funds with questions, while surveys have often had low levels of response. Surrey Pension Fund had success in a survey they issued in 2021 and lessons could be learnt from that approach. The challenge of engagement is exacerbated by the move to pooling, where constituent funds within a pool may have membership with different demographics and beliefs.

It most likely makes sense for the funds to engage with their membership to understand their views and then feed this into the pool. Considering the challenge of engaging members, they are even less likely to engage with a pool they are unfamiliar with, compared to their local pension fund, of which they are already aware and know they are a member.

This will also help funds to ensure that their members' views are being represented, compared to the survey being undertaken by the pool, as they will have seen the information directly to then communicate to the pools and challenge them on. Appropriate governance mechanisms will need to put in place to allow the voice of the members to be heard, without giving undue influence to any group of the membership. The principle needs to be recognised that, unlike trust-based arrangements, the ultimate manager of LGPS assets remains the administering authority.

There already exists a body within each administering authority that is comprised of half scheme member representatives and half employer representatives, in the form of the local pension board. Some consideration could be given to allowing pension boards a degree of input into pool arrangements. However, the role of the pension board members should only ever be advisory, and we would not expect pension board members to have voting rights or decision-making powers.

The work of carrying out member engagement should not be underestimated, and it is likely that collaboration with the pools, partner funds and third parties will be needed to prevent this creating too large a burden on funds.

Question 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?

Answer 29: Yes. Pools should provide regular and transparent reporting in a way that allows easy comparison between the pools. This way, funds are better able to understand whether their pool has been performing well for them, both on an absolute basis and from having a peer group to compare to. There are standards within the private sector investment management industry that are operated for these exact purposes that can be adopted.

We believe reporting should include:

- **Monthly performance for each investment fund**, where possible, covering both returns (net of all fees and costs) and volatility, absolute and relative to the benchmark, on a monthly basis.
- **The turnover of portfolios and costs incurred**, so that they can be challenged and justified by the investment teams, and funds can ensure unnecessary costs aren't being incurred, on a monthly basis.
- **Climate metrics, ESG scores and voting and engagement activity**, so that funds can understand how their responsible investment beliefs are being implemented and challenge holdings that do not seem to align, on a quarterly basis.
- **Total costs of operation**, split out into key categories, including salaries, both total and for the top executives, to help partner funds assess whether they are receiving value for money, and if pay levels are reasonable for the levels of performance, on an annual basis.

Chapter 5: Equality impacts

Question 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.

Answer 30: We do not consider there to be any groups who would either benefit or be disadvantaged by these proposals.