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60-second summary

Government consultation - LGPS (England & Wales): next steps on investments

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The government released their long-awaited consultation on Local Government Pension Scheme investments on 11 July. This set out their vision for the important matters of pooling, the LGPS's role in levelling up and private equity, as well as CMA requirements, investment definitions and the LGPS's equality duty. Here we provide a summary of the consultation's main issues.

Clear support for pooling

The consultation sets out a clear preference for pooling to go further and faster. While the government acknowledges the benefits achieved by pooling in its current guise, there's a belief that greater scale can achieve more. They therefore set out ambitions for:

- Increased scale, with a smaller number of pools in excess of £50bn of assets, to achieve further fee reductions and access to larger investment projects. Merger may be required for any pools which remain below £50bn even after all assets are pooled.
- All liquid assets to be pooled by 31 March 2025, with a preference for assets to be under pool "ownership", rather than the pool serving an oversight role. Pooling of illiquid assets is also to be considered within this timeframe, but no firm deadline has been set for these.
- In-house investment management within the pools to grow, reducing or removing the additional layer of third-party manager fees.
- Pools to specialise and collaborate, with funds to access in-house management in specific investment areas in other pools if their own pool doesn't provide this. Competition between pools is explicitly discouraged.
- Increased reporting by funds of progress on pooling assets in the Investment Strategy Statement and annual report, including explanations for assets that are not intended to be pooled.
- The setting of investment strategy is to remain with administering authorities, but with this defined as the "broad instruction regarding asset classes and level of risk". The implementation decisions below that broad definition are to be delegated to pools, including the ability to move quickly with assets as opportunities arise. The consultation also states that pools should be "actively advising funds regarding investment decisions, including investment strategies".

- Formal training of pension committee members will be required, with regular reporting of training undertaken.
- Increased transparency of reporting of assets held by funds, with greater detail on asset allocation and pooling progress in annual reports and by the LGPS Scheme Advisory Board.

Some details offered on levelling up

Michael Gove's levelling up white paper mentioned a potential requirement for the LGPS to invest 5% in assets that assist with the government's levelling up agenda. Further notes were dropped into the Edinburgh Reforms and most recent Budget regarding "venture and growth capital". While this generally raised more questions than answers, it's helpful to see more clarity around the future path, including:

- A clear view that levelling up investments can be wholly compatible with fiduciary duty.
- 12 levelling up missions that, if investments contribute to, will count towards the 5% target.
- All asset classes will count towards the target, along with investments anywhere in the UK.
- A requirement for funds to publish a plan of how up to 5% of assets will be invested in projects that support the levelling up agenda (funds may invest more than 5% if they wish).
- Annual reporting of progress against this plan.
- Reliance on pools to access these opportunities, partly to manage issues with conflicts of interest, with a preference for opportunities to be sought out and developed by funds and pools, rather than simply joining auctions of already established opportunities.
- Funds to be able to access local investments through other pools.
- Funds should also be able to demonstrate how they assess levelling up investment opportunities.

A surprise push for private equity?

While wording around levelling up shifted towards "venture and growth capital" in government communication, it was perhaps surprising to see a separate consideration of requirements to invest in private equity. Much of the discussion in the consultation is intertwined with levelling up; however, the potential requirement to invest 10% in private equity doesn't explicitly state this should be within the UK. The government's rationales for greater investment in this area are:

- Making more capital available to support UK companies, and the UK's attractiveness for company listings.
- The LGPS's long investment time horizon, and the asset class's historically high returns.

The government also discussed the potential for working with the British Business Bank to build capabilities to invest in this area.

Summary

The future of pooling and potential requirements placed on funds by the levelling up agenda have been significant uncertainties hanging over the LGPS. At times these have prevented actions being taken and progress being made. While it's positive to have the further clarity provided by the release of this consultation, many questions remain. We'll follow up with another note setting out our views on the consultation and areas where we feel more clarity is required.

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