

SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: THE GOVERNMENT'S CONSULTATION ON THE FUTURE OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

SUMMARY OF ISSUE:

In November 2024, the government published a consultation entitled "Local Government Pension Scheme (England and Wales): Fit for the future". This paper explores the key implications for the Surrey Pension Fund of government proposals in this consultation.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report and proposed schedule of consultation.

REASON FOR RECOMMENDATIONS:

The proposals in the government consultation represent a significant evolution of asset pooling in the LGPS and the role of LGPS funds. The Pension Fund Committee require full engagement in the process of drafting the Surrey Pension Fund response to the consultation.

DETAILS:

Background

1. In July 2024 the government launched a Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS).
2. This was followed by a Call for Evidence issued by the government in September 2024 and responded to by Surrey on 24 September 2024.
3. The government published a consultation on 14 November 2024, entitled "Local Government Pension Scheme (England and Wales): Fit for the future" (shown as annexe 1). The consultation is for 9 weeks, closing on 16 January 2025.

Summary of the consultation

4. This consultation seeks views on proposals to strengthen the management of LGPS investments in three areas: Reforming LGPS Asset Pools, Boosting LGPS investment in their localities and regions in the UK and Strengthening the governance of both LGPS funds and LGPS pools. This report summarises these areas.

Reforming LGPS Asset Pools

5. The government is proposing to mandate certain minimum standards for funds deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:
- a) Funds would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool. The proposed separation of roles and responsibilities and sample template for strategic asset allocation are set as follows:

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High ↓ Low	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management		Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

- b) Pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies.
- c) Funds would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK

- 6. The government proposed to require funds to:
 - a) Set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities.
 - b) Work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, Funds would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.
 - c) Set out their local investment and its impact in their annual reports.

Strengthening the governance of both LGPS funds and LGPS pools

- 7. Building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review the government proposes the following:
 - a) That committee members be required to have the appropriate knowledge and skills.

- b) That Funds be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- c) That pool boards would be required to include representatives of their shareholders and to improve transparency.

Positioning of the Surrey Pension Fund response to the government consultation

8. As outlined in a briefing to members of the Pension Fund Committee and Local Pension Board by the LGPS Senior Officer (shown as Annexe 2). Surrey is well placed to respond positively to the consultation, due to the fact that Border to Coast already has many of the ingredients that the government sees as optimal (an FCA entity, internal management capability, an established private market program) and because of the significant progress the Fund has made in improving the governance of the Fund.
9. In addition, many of the government proposals for the pools to develop additional capabilities, including investment advisory, are consistent with the Border to Coast 2030 Strategy, which received shareholder consent after consultation with the Committee at its meetings of June and September 2024.
10. There are areas the Fund needs to explore further, particularly regarding the role of Border to Coast as its principal investment advisor. This will need to be supported by robust governance and oversight.
11. There is also further work to be done to understand how the Fund will capture local growth plans and local economic priorities in setting out its investment strategy.
12. The Fund will consult with senior stakeholders as well as pool partners, in forming a draft response. The proposed schedule of consultation is as follows:

Date	Activity
Week ending 22 November 2024	Officer sessions including Border to Coast partners, to map out indicative position on key points.
26 November 2024	Border to Coast Joint Committee briefing.
6 December 2024	Border to Coast Officer Operations Group and Senior Officer Group meetings.
20 December 2024	Draft response issued to members of the Pension Fund Committee, Local Pension Board and other senior stakeholders.
6/7 January 2025	Teams meeting with members of the Pension Fund Committee and Local

	Pension Board to discuss draft response.
13 January 2025	Final sign off of consultation response by Pension Fund Committee Chair, Section 151 Officer and Senior LGPS Officer.
16 January 2025	Submission of response to government.

CONSULTATION:

13. The Chair of the Pension Fund Committee.

RISK MANAGEMENT AND IMPLICATIONS:

14. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

15. Any relevant financial and value for money implications will be considered in the response to the government consultation. The cost of the resources necessary for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

LEGAL IMPLICATIONS – MONITORING OFFICER:

16. The County Council has delegated responsibility to the Pension Fund Committee for its statutory functions as the Administering Authority for the SPF. Any legal implications or legislative requirements will be considered in the response to the government consultation, in consultation with the Monitoring Officer.

EQUALITIES AND DIVERSITY:

17. There are no equality or diversity issues.

OTHER IMPLICATIONS:

18. There are no other implications.

NEXT STEPS:

19. As outlined in paragraph 12.

Contact Officer: Neil Mason, LGPS Senior Officer

Annexes:

1. Government consultation: Local Government Pension Scheme (England and Wales): Fit for the future.
2. LGPS Senior Officer briefing note.

Sources/Background papers:

1. Border to Coast 2030 Strategy.