

## **Briefing Note on the Pensions Review and the Local Government Pension Scheme**

In her Mansion House Speech on 14 November the Chancellor of the Exchequer announced a series of significant changes affecting the Pensions industry intended to support greater investment by pension funds in assets which support the growth of the UK economy. A key element of these proposals is a series of further reforms to how the Local Government Pension Scheme (LGPS) manages and makes its investments and linked improvements to the governance of the scheme.

The Government has launched a consultation running until 16 January which is available at the link below. The remainder of this note sets out the headline proposals and tries to outline the potential implications for the Surrey Pension Fund (SPF).

It is also important what is not in this consultation is any proposal to force the merger of individual funds.

[Local Government Pension Scheme \(England and Wales\): Fit for the future - GOV.UK](#)

The Government intend to enact elements of their proposals through the Pension Schemes Bill which is scheduled to be introduced into Parliament in the Spring with other elements being dealt with through regulations and statutory guidance.

### **LGPS Investment Pooling**

The current 8 LGPS investment pools became operational in 2018 and represent a number of different operating models and are perceived to have had significantly variable levels of success.

In summary the proposals are:

- Administering Authorities (AAs) to fully delegate implementation of their investment strategy to their pool.

For the SPF this does not represent a major change in principle although the devil will be in the detail. The Government is clear that 100% of assets should be managed by the pool. The SPF will need to have active discussions with Border to Coast over how key aspects of our strategy will be addressed. This is supported by a much clearer definition of Strategic Asset Allocation (the AA role) which is helpful and broadly reflects existing SPF practice and/or the current direction of travel.

- AAs to take their principal investment advice from the pool. This is something which Border to Coast already plans to develop as a capability. The SPF will need to explore how this might work in practice and ensure it is supported by robust governance and oversight.

- Pools to be established as investment management companies authorised and regulated by the FCA with the expertise and capacity to implement investment strategies. This specifically includes having internal management capabilities.

Border to Coast pretty much meets these requirements. Pools will have to submit by the end of February 2025 plans setting out how they will meet the prescribed standards by March 2026. For the three pools that do not currently have an FCA registered entity this will be extremely challenging while for the two who do not have internal management capability there will be some considerable risks in the changes required. This may lead to proposals to either merge whole pools or break up some existing arrangements with underlying funds joining the remaining pools. There are potentially significant implications for pools like Border to Coast which can meet the required standards if additional partners are added as success to date has been driven by the strength of partnership which could be disrupted by adding in other funds who have not been on the same journey.

- AAs to transfer legacy assets to the management of their pool.

This is the requirement to pool 100% of assets although it is accepted that at least initially some legacy assets may not be contained in pool vehicles but managed by the pool on the fund balance sheet for either technical or economic reasons. Consideration of the legacy portfolio is already on the agenda for SPF, however the proposed timescale of March 2026 for this could be challenging depending on what route is pursued. This also may have not inconsiderable associated costs (depending on how it is achieved) for no benefit in terms of performance.

Overall, the direction of travel here has been well telegraphed for some time and there are no real surprises.

## Local Investment

Increasing investment in the UK is a clear focus of both this consultation and proposals consulted on but not implemented by the previous government. The Government's proposals go further than those previously consulted on and set clear expectations about how this sort of investment strategy should be developed with input from a range of stakeholders.

In summary the proposals are:

- AAs to set out their approach to local investment including a target range for investment in their Investment Strategy Statement and to have regard to local growth plans and local economic priorities in setting their investment strategy.

The SPF has already made great progress in this area and made its first allocation to the Border to Coast UK Opportunities Fund this week, consistent with our strategic investment objectives.

- Pools to develop the capability to carry out due diligence on local investment opportunities.

Border to Coast has already made progress in developing this new capability.

- AAs to include in their annual report a report on the extent and impact of their local investments.

Overall, this is an endorsement of the SPF direction of travel. Management of these investments by the pool is a logical outcome of the requirement for all assets to be pooled but the type of investments to be made will be dictated by the Fund with specific investments chosen by the pool who are seen as better placed to undertake stock selection.

## **Governance of Funds and Pools**

The Scheme Advisory Board (SAB) made statutory recommendations to ministers in 2021 on proposals to improve governance across LGPS. These proposals are a comprehensive response to those recommendations set in the wider context of the other proposals being put forward by Government.

Locally the SPF has been working to meet the standards reflected in the SAB recommendations including the creation of a LGPS Senior Officer, Committee training and recent changes in pension fund governance regarding conflicts of interest and delegations of pension fund decision.

In summary the proposals are:

- AAs to prepare and publish a governance and training strategy (replacing the governance compliance statement) including a conflicts of interest policy.

This does not represent a major change for the SPF bringing together a number of existing documents.

- AAs to appoint an LGPS officer with overall delegated responsibility for the management and administration of the scheme.

The SPF have already initiated this. However, this could be more challenging for some funds particularly smaller ones which are tightly integrated into a host council.

- AAs to prepare and publish an administration strategy.

This is something the SPF already does, as do many other funds. Some changes may be required to reflect any guidance that is issued on this.

- Changes to the way in which strategies on governance and training, funding administration and investments are published.

This is simply bringing some arcane rules which require the whole text of documents to be included in annual reports up to date and will be widely welcomed.

- AAs required to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

This is being framed as an assessment of whether or not an AA is fit for purpose. The detail provided indicates that the intention is to deliver this through an LGA Peer Support offer managed by the SAB, which would be broadly welcomed. The SPF has already reviews of this nature which have been valuable in helping frame plans for further improvement.

- Pension committee members, the senior officer and officers to have the appropriate level of knowledge and understanding of their roles with the requirements for pension committee members and local pension board members aligned.

The SPF currently operates on the basis that the requirements are aligned with identical mandatory training requirements although the ability to enforce such requirements is limited.

- AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirement within a reasonable period from appointment.

For members this is already written into the SPF Training Policy. For officers this would be looked at more on a case by case basis but a policy statement will need to be developed.

- Pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

This goes slightly beyond the role of the current independent advisers although more detail is necessary to determine whether any changes will be required. This could be seen as a move to inject “professional trustees” into the mix as has happened in private sector schemes. Certainly, the ability for members to call on independent advice as part of the overall system of checks and balances is something that SPF recognises as important and figures strongly in our current arrangements.

- Boards (of pool companies) to include one to two representatives of the shareholder AAs such as the chair of the shareholder committee or equivalent.

Border to Coast already has two shareholder nominated Non-Executive Directors.

- Pools to publish asset performance and transaction costs.

This is a move to increased transparency and standardization and should not be difficult to implement.

While these are significant changes in the regulatory framework these are things that the SPF has been anticipating for some time. The detail of the consultation gives the Independent Governance Review considerably more teeth than was previously anticipated and it is clear that this is seen as the vehicle to address issues and failings at Fund level whether caused by lack of scale or otherwise.

## **Conclusion**

These proposals and the 30 consultation questions which accompany them are very much the continuation and fleshing out of the direction of travel for LGPS set by the previous government. The focus on FCA regulated entities for pools supports the decision made by Surrey members to support the Border to Coast pool and the investment of time and money devoted to creating one of the more successful pooling entities will not be lost, rather it is likely to be capitalised upon.

While the SPF has already taken steps in a number of areas that put it in a good place to address new requirements, as has the whole Border to Coast partnership it is important not to be complacent. There will be a substantial amount of work required to respond to this consultation in the timescale both as a fund and as part of the Partnership as well as to produce the plan which the pool will need to submit by the end of March setting out how it will meet the required standards by 2026. This will need to be accommodated alongside the Valuation and Investment Strategy Review processes.

A full report setting out a proposed line to take in the formal consultation response will be presented to the Committee at its December meeting. The final response, which will need to incorporate input from the collective Border to Coast response, will need to be agreed by senior stakeholders fairly close to the submission deadline of 16th January 2025.

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