

**SURREY COUNTY COUNCIL****SURREY PENSION FUND COMMITTEE****DATE: 15 DECEMBER 2023****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL****SUBJECT: RESPONSE OF THE DEPARTMENT OF LEVELLING UP, HOUSING & COMMUNITIES TO ITS CONSULTATION ON NEXT STEPS FOR INVESTING FOR THE LGPS****SUMMARY OF ISSUE:**

To provide details of the response of the Department for Levelling Up, Housing & Communities (DLUHC) to its consultation on the Next Steps for Investments for the Local Government Pension Scheme (LGPS).

**RECOMMENDATIONS**

This report recommended that the Pension Fund Committee (Committee):

1. Notes the report and annexe.

**REASONS FOR RECOMMENDATIONS:**

To provide the Committee with information regarding national initiatives with a consultation process and any response from Surrey the Fund.

**DETAILS:****Background**

1. In July 2023, the government published a consultation seeking views on proposals for the Next Steps for Investments in the LGPS. The consultation was launched alongside a range of other policy initiatives, as part of the 'Mansion House' set of reforms. In total, these are designed to improve outcomes for pension saver, while 'unlocking' additional investment for high growth businesses.
2. On 29 September 2023, the Surrey Pension Fund responded to this consultation. The Committee were consulted on the content of this response at their meeting of 8 September 2023 (this is included as Annexe 1).
3. On 22 November 2023, the government responded to its consultation. The government confirmed it will seek to implement its proposals to accelerate and expand pooling, and to increase investment in levelling up and in private equity. In summary, it will seek to:
  - a) set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

- b) revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- c) implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- d) revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- e) make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- f) amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- g) revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.

#### Details

4. The government consultation posited 15 questions. It has responded to the views of consultees on these 15 questions as follows:

Question	Summary Government Response
<p>1. The government asked for views on alternative approaches to pooling in the LGPS to that set out in the consultation. The proposed approach included setting a long-term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.</p>	<p>The government's view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. But in the long term the government considers that transition of assets alone will not deliver the full benefits of pooling, as the benefits of scale are present in the £50-75 billion range and improve as far as £100 billion.</p> <p>The Government Actuary's Department estimate that the LGPS could reach around £950 billion in assets in 2040. The government believes we should therefore look towards a smaller number of pools with assets under management averaging £200 billion in the future and government will work with funds and pools over the medium to long term to consider the pathway.</p> <p>In the meantime, the government would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication.</p>

Question	Summary Government Response
<p>2. The government sought views on the setting of a deadline in Investment Strategy Statement (ISS) guidance for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe.</p>	<p>The government will draft guidance to implement the proposal. The proposals set out in the consultation were to have a requirement in Investment Strategy Statement (ISS) guidance to either transition assets by March 2025, or to set out a detailed rationale for each asset remaining outside the pool including value for money considerations. This is effectively a “comply or explain” regime, which does not mandate particular investment choices.</p>
<p>3. The government sought views on revising guidance on pooling to ensure all funds participate in a strong partnership with their pool and with other partner funds, and delegate effectively to their pool.</p>	<p>The government has decided to revise guidance on pooling as proposed. It believes that this will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all. The government has recognised there are several current models of pooling, and that all have some benefits, but the government’s view is that in the medium- and longer-term certain key characteristics are essential for progress, although there may be transitional costs for some pools. Progress towards this model will be monitored and reviewed.</p>
<p>4. The government sought views on proposals to set out in guidance that administering authorities should have a training policy for pensions committee members and report against it.</p>	<p>The government will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members.</p>
<p>5. The government sought views on increasing transparency of asset allocation, pooling, returns and savings, in order to provide transparency on progress of pooling by fund, by pool and across the scheme.</p>	<p>The government will revise guidance to implement the proposed changes working with the Scheme Advisory Board (SAB). We believe that these measures will ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports.</p>
<p>6. The government sought views on our proposals for the SAB to expand their Scheme Annual Report to provide a report on the progress of pooling and on asset allocation across the LGPS.</p>	<p>The government have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category as well as by pooling status (pooled, not pooled or under pool management).</p>

**Question****Summary Government Response**

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| <p>7. The government asked for views on its proposed definition of levelling up investments. The proposed definition was that an investment would meet the levelling up requirement if:</p> <ul style="list-style-type: none"><li>a) it makes a measurable contribution to one of the levelling up missions set out in the Levelling Up White Paper; and</li><li>b) it supports any local area within the United Kingdom.</li></ul> | <p>The government's view is that the definition is sufficiently broad to allow administering authorities to work with fund managers and agree mandates which suit them.</p>                           |
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| <p>8. The government asked for views on whether funds should be able to invest through their own pool in another pool's investment vehicle.</p>   | <p>The government will revise guidance on pooling to set out the circumstances in which it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle.</p> |
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| <p>9. The government asked for views on the proposed requirements for the plan to invest up to 5% of assets under management in projects that support levelling up across the UK.</p>   | <p>The government will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects.</p>   |
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| <p>10. The government asked for views on the proposed reporting requirements on levelling up investments. These were to require funds to report annually on their progress against their plan in their annual report, to provide transparency and accountability on investments made by funds.</p>  | <p>The government will revise guidance on annual reports to include guidance on reporting progress against the fund's plan.</p>   |
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| <p>11. The government asked for views on whether funds should have an ambition to invest 10% of their funds into private equity as part of a</p>  | <p>The government will set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements.</p>  |
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Question	Summary Government Response
diversified but ambitious investment portfolio.	
12. The government sought views on whether the LGPS should be supported to collaborate with the British Business Bank (BBB).	The government will encourage LGPS pools to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity.
13. The government sought views about proposed amendments to regulations and guidance to require LGPS funds to set and review strategic objectives for any investment consultants which they use.	The government will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use investment consultants.
14. The government asked for views on a proposed technical change to the definition of investments within regulation 3(1)(b) and 3(4) of the 2016 regulations. This would correct an inconsistency in the definition of investment that the Joint Committee on Statutory Instruments identified in the 2016 regulations.	The government will bring forward amendments to the regulations to make a technical change to the definition of investments within regulation 3(1)(b) and regulation 3(4) of the 2016 regulations.
15. The government asked for views on impact on any particular groups with protected characteristics, in order to help us ensure that the impact of any changes on groups with protected characteristics is properly considered, with proper regard to our obligations under the public sector equality duty.	The government believe that the proposed reforms will not affect any particular groups with protected characteristics adversely

#### **CONSULTATION:**

5. The Chair of the Pension Fund Committee has been consulted on this report.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

6. Risk related issues have been considered and are included within the report.

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

7. Financial and value for money implications are considered as part of the Government response to the consultation.

#### **DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY**

8. The Director of Finance, Corporate and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

9. Any legislative changes, including new government guidance or revision to the LGPS regulations will be considered when available.

#### **EQUALITIES AND DIVERSITY**

10. The approval of the various options will not require an equality analysis.

#### **OTHER IMPLICATIONS**

11. There are no potential implications for council priorities and policy areas.

#### **WHAT HAPPENS NEXT**

12. The following next steps are planned:
  - a) Officers to work with Border to Coast and advisors in response to government guidance.

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#### **Contact Officer:**

Neil Mason, Assistant Director, LGPS Senior Officer

#### **Sources/background papers:**

1. Chancellor's Mansion House Reforms '[Mansion House](#)'
2. The DLUHC consultation: Next steps on investments [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](#)

3. The DLUHC policy paper on Levelling Up the United Kingdom [Levelling Up the United Kingdom - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/levelling-up-the-united-kingdom)
4. The DLUHC consultation response: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)

**Annexes:**

1. Surrey County Council response to the DLUHC consultation on Local Government Pension Scheme (England and Wales): Next steps on investments.

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