

## LGPS Update

### Report of the Director of Finance and Public Value

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Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

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#### **1) Recommendation**

That the Board be asked to:

- (a) Note the developments affecting the LGPS

#### **2) Introduction**

- 2.1 This report is brought to the Board to provide an update on the latest developments affecting the LGPS.

#### **3) Efficiencies in the Management of LGPS Funds**

- 3.1 During May a letter was sent out to Chief Executives and Section 151 Officer of LGPS Administering Authorities from Simon Hoare MP, Minister for Local Government. The letter requested a response setting out how the Pension Fund was progressing the pooling agenda and how the Authority ensured that the Fund was being managed efficiently, including consideration of governance and the benefits of scale. A copy of the letter is attached at Appendix 1 to this report.
- 3.2 The letter raised the idea that LGPS funds could be merged, or larger pensions authorities could be created.
- 3.3 A response was requested by 19<sup>th</sup> July. Despite the calling of the General Election, the LGPS community's view was that a response should be drafted and then sent to whoever the relevant Local Government minister is following the election. The response from the Devon fund is attached to this report.

#### 4) **LGPS Guidance for Academies**

4.1 The Education & Skills Funding Agency has released new LGPS guidance for academies. The guidance, produced by the Academy Working Group, was published on 24 April 2024 and is aimed at academies in England.

Key areas of the guidance:

- L G P S overview – high level look at membership, LGPS funds and Employee and Employer contributions
- Regular valuations – covering the triennial valuation and FRS102
- L G P S academy guarantee from the Department for Education
- pooling – explains pooling at a trust and fund level
- academy conversions and transfers – explains the actuarial process of setting up the academy and subsequent transfers between trusts
- engaging with the L G P S – important of communication and supply of data to the fund

4.2 Of interest to officers was the clarification around the extent of the guarantee from the Department for Education in outsourcing arrangements. Officers are currently waiting for guidance and advice from the fund actuary in order to formulate a fund policy going forwards.

#### **Angie Sinclair**

Director of Finance and Public Value

**Electoral Divisions:** All

#### **Local Government Act 1972: List of background papers**

Nil

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3<sup>rd</sup> July 2024

Dear Minister,

**Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds**

We refer to the letter dated 15<sup>th</sup> May 2024. We address the issues raised below.

**Progress on Asset Pooling**

As at 31 March 2024, 100% of the Devon Pension Fund's listed assets, comprising Equities, Bonds and Property fund assets had been pooled. We have therefore met the expectation that all listed assets should be pooled by 31 March 2025.

In addition, the Fund has made significant allocations to Infrastructure, Private Equity and Private Debt funds selected and managed by the pool. In total 93.6% of the Fund's total assets were pooled as at 31 March 2024. The remaining 6.4% of assets held outside the pool comprise:

- Illiquid infrastructure and private debt funds that have been held since before the Brunel Pension Partnership (the pool) was established. These equate to 3.2% of the total Devon Fund assets. It is anticipated that these funds will return all capital over time, which would then be reinvested through the pool.
- Cash – currently 2.1% of Fund assets. This is managed outside of the pool to support cashflow such as payment of pensions. A higher level of cash was being held at 31 March pending drawdown of private markets commitments, and given the relatively high current level of interest rates.
- Local Impact portfolio – currently 1.1% of Fund assets. The local impact portfolio was agreed by the Investment and Pension Fund Committee in 2023 to promote investment in Devon and the South West, whilst still achieving the required return for the pension fund. The Committee was mindful of the Government's desire for pension funds to support UK growth initiatives when they agreed to establish the portfolio, but wished in particular to support growth in the local area. Given the local Devon dimension, it was agreed with Brunel that this would be managed outside the pooling arrangements for the time being.

The Devon Pension Fund may use investment consultants to undertake ad-hoc tasks, such as a triennial review of the Fund's Investment Strategy statement and strategic asset allocation. Over the last three years, the total spend on investment consultancy came to £67,000 (average £22,333 per

year). In addition the Committee receives independent investment advice costing £27,000 per annum. We believe that the expenditure incurred is extremely cost effective, and the advice received is of high standard. The pool is responsible for implementing the agreed asset allocation strategy, and we believe that this should remain the focus of Brunel. Involvement of the pool in providing asset allocation advice could lead to conflicts of interest.

The Brunel Pension Partnership is set up as a company regulated by the FCA, and investments are made in Authorised Contractual Scheme and other appropriate FCA approved investment vehicles. The company is managed by the company Board of Directors, following up-to-date corporate governance best practice. The company is accountable to shareholders (the ten participating administering authorities), and an Oversight Board of Pensions Committee members from the ten participating funds provides democratic oversight. We believe these arrangements provide effective oversight and governance.

### **Efficient and Effective Governance of the Devon Pension Fund**

The Investment and Pension Fund Committee acts as the decision making body for the Pension Fund. It comprises members of the administering authority (6 members) as well as representatives of other employers in the Fund (4 members) and pension fund members (1 voting member, plus 2 non-voting members). It is supported by the Pension Board who seek to provide effective scrutiny and is comprised of 4 employer representatives, 4 fund member representatives and one independent member. We believe this provides effective accountability to fund employers, pension fund members and local taxpayers.

The Fund provides regular training to ensure that members of the Committee and Pension Board have the skills and knowledge required to provide effective governance to the Devon Pension Fund. Pension Board members are required to complete the Pension Regulator's self-assessment toolkit, and members of the Committee are also encouraged to complete the toolkit. While we believe that we have effective governance in place, we are always striving to improve. We would request the Government to enact the good governance regulations that have been anticipated for some time, as we believe that such regulations would provide added rigour to the governance structures in place.

### **Fund Merger or Creation of a larger Pension Fund Authority**

We are already benefiting from scale in the management of our investments through the creation of the Brunel Pension Partnership investment pool. From a pension administration perspective, we have set up Peninsula Pensions to provide an in-house shared service to the Devon and Somerset Pension Funds. The annual cost of Peninsula Pensions in 2022/23 came to £19 per pension fund member, compared with an England and Wales average of £27 (based on scheme annual report). We therefore believe we already manage an efficient and cost-effective service.

A key part of managing an efficient benefits administration service is maintaining an effective relationship with fund employers. This results in better data quality, which is vital to ensuring fund members receive the correct pension. With over 400 employers across the two funds, this is already a challenge. We would be concerned that a significantly larger pensions authority with 500+ or 1000+ employers to work with could lead to diseconomies of scale, and a poorer more remote service to pension fund members. It would also risk losing the effective democratic accountability referred to in the previous section. We regularly receive feedback from fund members complimenting the service we provide and expressing the view that they value the fact that we are looking after their pension locally.

Yours sincerely



Donna Manson  
Chief Executive



Angie Sinclair  
Director of Finance and Public Value  
S151 Officer