

# GOVERNMENT CONSULTATION: LOCAL GOVERNMENT PENSION SCHEME (ENGLAND AND WALES): FIT FOR THE FUTURE

## 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 Committee be asked to approve the draft response to the Government consultation document attached at Appendix 1.

### 2) Introduction

- 2.1 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). The previous Government consulted on proposals to accelerate and expand the pooling of LGPS assets, to increase investment in local projects, and ambitions to grow investment in unlisted equity. The responses to that consultation, along with responses to the recent Pensions Review Call for Evidence and engagement undertaken with LGPS stakeholders have informed the proposals in a new consultation that was launched on 14<sup>th</sup> November.
- 2.2 The consultation can be accessed at:  
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future>
- 2.3 This report sets out the key points set out in the consultation. A draft response to the consultation is set out at Appendix 1 to this report.

### 3) Consultation document – key proposals

- 3.1 There has been much speculation that the Government would mandate consolidation of both pools and funds, that is that either the existing LGPS funds would be merged into larger funds, or the existing pools merged into larger pools. The consultation does not propose this, but does propose that administering authorities transfer some of their responsibilities to the pools in order to further achieve the benefits of scale. The key proposals are set out in the following paragraphs.

## Management of Investments

### 3.2 The consultation sets out the following proposals

- All listed investments to be pooled by March 2025 – the Devon Fund has already achieved this with all listed investments now managed by Brunel.
- All assets to be managed by the pool by March 2026 – this would mean that the infrastructure investments made prior to the formation of Brunel, plus the investments made from the Local Impact Portfolio recently agreed, would need to be passed over to Brunel to manage on our behalf.
- The Administering Authority would retain control of strategic asset allocation at a high level, based on a template set out in the consultation. This would mean, for example, that the Devon Fund would recommend how much should be allocated to listed equities, but the pool (Brunel) would decide how to allocate that between different portfolios. This would include the mix between active and passive, between developed markets and emerging markets, and whether to allocate to sustainable equities. There is also the option for the strategic asset allocation to be completely delegated to the pool, with the administering authority maintaining a monitoring role.
- Advice on strategic asset allocation should come from the pool, not from investment consultancy firms. Brunel is not currently set up to do this, so would need additional resources. The Government propose that this should be in place by March 2026.
- Pools must be registered with the Financial Conduct Authority (FCA). Brunel is FCA registered. Three of the current pools are not. This will make it imperative for those pools to be FCA regulated, or for the individual LGPS funds to join another pool that is regulated.
- Funds will need to set out their aspiration for local investments and work with local authorities and in particular with combined authorities to identify opportunities. It would be then up to the pool to assess and implement local investments.

## Fund Governance

### 3.3 The key proposals around governance include:

- Appoint a statutory Senior LGPS Officer who has overall delegated responsibility for the management and administration of the fund. The role should be carried out by a Director, Assistant Director or Head of Service, i.e. at a level that is either already part of the senior leadership team or is comfortable operating in that environment. The expectation would be that the LGPS role would be the main priority for the senior officer.
- Each LGPS fund would be required to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified (the equivalent of OFSTED for the LGPS).
- Each fund will need to prepare and publish a governance and training strategy (replacing the current governance compliance statement), including a conflicts of interest policy. This is similar to current requirements, but there will be more onerous training requirements for both officers and Committee/Board

members. This will match the knowledge and skills requirements for Committee members to the current statutory requirement for Pension Board members.

- Each fund will be required to prepare and publish an administration strategy. Currently administration strategies are optional, they will be compulsory and there will be new statutory guidance on their preparation. The Devon Fund has an administration strategy, so this will just be a question of assessing whether it meets the new guidance.
- There will be a requirement for an independent advisor to be appointed to Pensions Committees. The Devon Fund already has an appointed independent advisor.

### Pool Governance

3.4 The key proposals on pool governance include:

- Each fund will be required to prepare and publish an administration strategy. Currently administration strategies are optional, they will be compulsory and there will be new statutory guidance on their preparation. The Devon Fund has an administration strategy, so this will just be a question of assessing whether it meets the new guidance.
- There will be a requirement for an independent advisor to be appointed to Pensions Committees. The Devon Fund already has an appointed independent advisor.

## **4) Conclusion**

- 4.1 Members of the Committee have always emphasised the importance of their role in looking after the pensions of the fund members. This will to some extent be diluted by the proposed reforms, as more of the responsibilities of local funds will be delegated to their investment pool.
- 4.2 The Brunel pool is working well. However, as the consultation document shows, other pools have seen much lower proportions of assets transferred to their pools. Therefore Government has decided legislation is required to move things on. They are also proposing to use the reforms to boost UK investment with a particular emphasis on local investment.
- 4.3 We welcome the fact that Government have decided to retain local funds and not seek to create one “super-fund”. There are also governance reforms proposed within the consultation that are long overdue. However, we do have some concerns around proposals that may make it more difficult for the Fund to meet its fiduciary duty to look after the pensions of our pension fund members.
- 4.4 Appendix 1 provides a draft response to the consultation, with proposed answers to all the consultation questions. The Committee is asked to approve the consultation response, or provide comments on what changes to the draft response they would

want before it is submitted. If changes are required, then an amended draft can be circulated for comment and then signed off by the Director of Finance and Public Value in consultation with the Chair of the Committee.

**Angie Sinclair**

Director of Finance and Public Value

**Electoral Divisions:** All

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

Nil

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December 2024

**Consultation: Local Government Pension Scheme (England and Wales): Fit for the future**

We refer to the open consultation published by Government on 14<sup>th</sup> November. The following response was approved at the Devon County Council Investment and Pension Fund Committee held on Monday 2<sup>nd</sup> December 2024.

The primary purpose of the Devon Pension Fund, as with all LGPS funds, is to pay the pensions of its Pension Fund members. The Committee believes it has an important role in protecting the pensions of its members and ensuring that the Fund is accountable to fund employers and ultimately to local taxpayers. We believe that the LGPS is a well managed pension scheme, and we want to ensure that it remains so. We have provided answers to the questions in the consultation document within that context.

**Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?**

Paragraph 8 of the consultation document sets out three bullet points which it refers to as minimum standards. We have reservations about two of the three points, which we will address in answering the following questions.

**Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?**

We believe that administering authorities should retain the ability to set high-level investment objectives and to set a high-level strategic asset allocation. We suggest that there needs to be close working between the pool and their administering authority clients on the investment strategy and strategic asset allocation, such that administering authorities continue to have some input into more detailed allocations within asset classes, particularly listed equities (see answer to question 4 below). We support implementation activity related to the choice of underlying investment managers and funds being delegated to the pool.

**Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?**

In order to meet its fiduciary duty, the administering authority needs to be sure that the investment strategy is targeting a sufficient level of return at an appropriate level of risk. This means that it will need to retain sufficient influence over the investment strategy and strategic asset allocation to ensure that that is the case. Much of this will come down to the working relationship between the pool company and the administering authority, but a more granular breakdown of the listed equity allocation would be helpful (see answer to question 4 below).

**Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?**

We would suggest that given most LGPS Fund's still have a significant proportion of their investments in listed equity, there should be some discretion for AAs to discuss with the pool how their listed equity allocation is allocated at a more detailed level. We suggest at minimum that the balance between passive and active listed equity portfolios should be included in the template. AAs should also be able to set objectives around responsible investment and climate friendly allocations.

**Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?**

We would be concerned at the potential conflicts of interest that may arise from this scenario. Pools may have a vested interest in recommending certain products that they provide which may not be the best solution based on the risk and return requirements of the Pension Fund. Effective safeguard would need to be put in place, which could result in additional costs to the scheme. Should this option be pursued, then the Pensions Committee and officers (the Senior LGPS Officer) would need the ability to weigh up the advice and explore other options with the pool if they were unhappy with the advice.

**Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?**

The Brunel Pension Partnership is already set up as an FCA authorised investment management company, so we are happy to support this proposal.

**Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?**

The Devon Pension Fund has already transferred all listed assets into pooled vehicles managed by Brunel, so we are happy to support this proposal.

**Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?**

We have no strong objection to this proposal, subject to the assurance that these investments remain to the benefit of the Devon Fund. However, we can see no particular benefit in doing so. These stand alone investments will not generate any economies of scale through being transferred to pool management and may divert pool resources away from achieving the other objectives of the proposed reforms. Ownership of the funds would in most cases need to remain with the Devon Fund to avoid transfer costs. We would be happy to support a requirement that no new illiquid investments should be made by administering authorities other than through their pool company.

**Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?**

Additional resource would be required to manage partner funds' legacy assets. We think this would add an additional cost that is unnecessary.

## **Implementation**

### **Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?**

Pool resources would need to be scaled up and new expertise brought in, in order for pools to be able to provide strategic asset allocation advice. For those pools which are not currently authorised by the FCA, this also involves a time-consuming process. Therefore, March 2026 looks like an unrealistic timeframe for this all to be in place.

## **Other developments**

### **Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?**

We would support collaboration between pools where that enables larger investments at lower cost, or supports specialisation in certain asset classes. We support the principle that all AAs should invest through their pool, but that the pool can then decide to allocate via another pool if that enables a better investment to be made.

### **Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?**

The Devon and Somerset Pension Funds set up Peninsula Pensions as a shared service over 10 years ago. This is working well as an active collaboration between the two funds. One of the key areas to ensure effective pensions administration is the relationship with employers, which helps to ensure that the required data is provided in an accurate and timely manner. Given the large number of employers in the LGPS, there is a risk in growing too big to maintain an effective relationship with all employers.

## **Local investment**

### **Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes ?**

We are happy with a definition of local investment that includes investments in the county of Devon (including Plymouth and Torbay), or the wider South West region. We recognise that Buckinghamshire and Oxfordshire are members of the Brunel pool but are not usually seen as part of the South West, but we have no objection to their inclusion within the definition from a Brunel pool perspective.

### **Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?**

We are happy to invest in local investment opportunities where they provide the required investment return at the appropriate level of risk, to fit in with the Fund's Investment and Funding Strategies. We can support the Combined County Authority, or other local authorities in an initial assessment of whether a project may be worthy of consideration. However it is vital that any opportunities are subject to extensive due diligence by the pool company and/or an underlying fund manager, to identify whether the project will deliver an attractive return at an appropriate level of risk.

### **Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?**

The Devon Fund has already set out a target allocation to a local impact portfolio of 3% of the total Fund in our Investment Strategy Statement (ISS). This has now been fully committed to funds investing in sustainable infrastructure, affordable housing and local business support. We are open to reviewing that allocation, and we support the inclusion of a target range in the ISS.

**Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?**

If pools are to be responsible for implementing local investment, then they will need to have the capability to undertake due diligence. We think that this is also likely to need to involve specialist fund managers in certain areas of activity. For example, the pool might find it difficult to directly undertake lending to local businesses, with the appropriate due diligence necessary on each investment opportunity, and would need to look to invest via a specialist fund manager with the expertise to do that.

**Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?**

We agree that administering authorities should report on their local investments and their local impact. This could include metrics such as numbers of affordable homes provided, number of local jobs created, new businesses set up, units of renewable electricity provided. A range of metrics would need to be agreed. On the assumption that the pool is managing the investments, then the pool would be expected to provide the agreed metrics. As per the answer to question 8, if legacy illiquid local investments were to remain with the individual LGPS funds, then the administering authority should agree metrics with the individual fund manager.

**Fund governance**

**Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?**

We welcome the proposals based on the SAB's Good Governance recommendations. These improvements to governance are long overdue.

**Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?**

We support this proposal. The Devon Pension Fund already publishes an annual training plan.

**Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?**

We support the proposal for a statutory senior LGPS officer. We do not however see the relevance of the senior LGPS officer being involved in the local authority's budget-setting process. The focus of the LGPS Senior Officer should be to support the Section 151 Officer and the Pension Fund committee to set a budget for the Pension Fund.

**Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?**

The Devon Pension Fund has a published administration strategy, so we are happy to support this proposal.

**Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?**

We support improving the accessibility and readability of all LGPS Fund documents, including the Annual Report. Where policies and strategies are published on the Fund's website, there should be no



need for them to also be included in full within the Annual Report. We note that CIPFA's most recent guidance has already disapplied this requirement.

**Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?**

We note that this proposal will require additional resources and therefore add cost to the management of LGPS pension funds. However, we are supportive of improvements to governance arrangements. We suggest that the proposed governance reviews could be undertaken on a triennial basis, rather than biennial. This could then link in with the Section 13 review of the Triennial Valuation undertaken by the Government Actuary's Department.

**Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?**

The Devon Fund has always placed a high priority on ensuring regular training is provided for pension committee members to ensure they have the appropriate knowledge and understanding. We therefore support this proposal.

**Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?**

The Devon Fund has always placed a high priority on ensuring regular training is provided for pension committee members to ensure they have the appropriate knowledge and understanding. We therefore support this proposal.

**Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?**

The Devon Pension Fund has had an independent investment advisor for many years, so we are happy to support this proposal.

**Pool governance**

**Question 27: Do you agree that pool company boards should include one or two shareholder representatives?**

We think that it is vital that a strong working relationship is maintained between the pool company and its shareholders / client administering authorities. We support the proposal that pool company boards should include shareholder representatives.

**Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?**

Pension Fund members are currently represented in a non-voting capacity on the Brunel Oversight Board. The Board also comprises the chair of each of the partners' Pensions Committee. We think this arrangement should continue.

**Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?**

AAs will continue to need clear reporting on investment performance, climate impact, costs and other metrics. We currently receive clear quarterly reporting, annual carbon metrics and cost transparency

reports under the SAB's cost transparency initiative. Any additional delegation of responsibilities to the pool companies should not lead to a reduction in the level of reporting to the individual AAs.

### **Equality impacts**

**Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.**

We do not believe that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals

Mark Gayler, Head of Pensions and Investments  
On behalf of the Devon County Council Pension Fund