

LONDON BOROUGH OF CROYDON

REPORT:	PENSION BOARD	
DATE OF DECISION	16 January 2025	
REPORT TITLE:	Mansion House Speech 2024 – Implications for LGPS	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett – Head of Pensions and Treasury;	
CONTAINS EXEMPT INFORMATION?	NO	

1. SUMMARY OF REPORT

- 1.1 On Thursday 14 November the Chancellor presented her Mansion House speech, which set out plans to boost growth of the UK economy. Alongside these announcements, the Government published various documents including a consultation titled 'Fit for the Future' on Local Government Pension Scheme (LGPS) reform.
- 1.2 The purpose of this report is to summarise the key issues to consider raised by the Consultation. The Consultation can be accessed via this link
<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>
- 1.3 Officers issued a draft response to the Consultation to members of the Pension Committee and Pension Board on 24th December 2024 and will send the final response before the Consultation closes on 16 January 2025.

2. RECOMMENDATION

The Pension Board is recommended:

- 2.1 to note the key issues raised by the Consultation.

3. REASON FOR RECOMMENDATION

- 3.1 It is important that the Pension Board are informed of the proposals mentioned in the Consultation as they will likely have a big impact on the way the Pension Fund is managed going forward.

4. BACKGROUND AND DETAILS

4.1 On Thursday 14 November the Chancellor presented her Mansion House speech, which set out plans to boost growth of the UK economy. Alongside these announcements, the Government published various documents including a consultation titled 'Fit for the Future' on Local Government Pension Scheme (LGPS) reform.

4.2 The Consultation focusses on three key themes: pooling, UK investment and governance. The Consultation will be open for 9 weeks, with interested parties having until 16 January 2025 to respond. The Consultation includes 30 questions (covering 18 separate proposals), asking respondents to confirm the extent to which they agree or disagree with the Government's proposals. Significantly, pools (working with their partner Funds) have until 1 March 2025 to also provide a report setting out how they intend to deliver the proposed pooling model and how they plan to complete transfers of all assets, including legacy assets. The key points from the three themes are summarised in sections 4.3-4.6 of this report.

4.3 Pooling

- Partner funds to fully delegate implementation of investment strategy to, and take principal investment advice from, the pools
- All pools to be regulated by the FCA
- Legacy assets to be transferred to the pools

The Consultation lays the groundwork for significant reform of the current pooling arrangements, suggesting that some pools are not well placed to deliver for the future as currently constituted. The Government's preference is that pools instead develop inhouse investment management and advisory capabilities, with a view to establishing themselves as investment managers (and thereby be authorised and regulated by the FCA). This will require significant reorganisation within some pools and may lead to further consolidation should pools and/or funds choose to merge or transfer to a different pool.

Once fully established, the expectation is that the pools would be fully responsible for the implementation of investment strategy. Further, each partner fund would be expected to take principal advice from the pools when setting its investment strategy. The Consultation notes that the partner fund may retain final decisions on strategic asset allocation, however the Government's preference would be for this also to be set by the pools. It is recognised that full advisory capability within the majority of pools would need to be developed over time, and that in the meantime, the Government expects that pools would seek to procure advice on behalf of their partner funds.

To facilitate this shift, the Government intends for all LGPS assets to be consolidated within the pools by March 2026. This would require partner funds to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer management of legacy illiquid investments to the pool (noting that it may not be possible to transfer these to pooled arrangements).

4.4 UK Investment

- Set a target allocation to local investment, with input from other local bodies to agree priorities and identify opportunities

- Record of local investments to be included in the Investment Strategy Statement and annual accounts.

The Government has reiterated its encouragement for the LGPS to increase investment into the UK, consistent with the announcement made under the previous Government. In line with the principles set out above, the Government believes the most effective way to implement local investment is via the pools. The Consultation also reiterates the importance of engaging with local stakeholders to identify and prioritise opportunities which will have the greatest impact.

Under these proposals partner funds would be required to set a target allocation to local investment, which would be recorded in the Investment Strategy Statement and the annual accounts. Importantly, the term 'local investment' is used to include investments local to any of a pool's partner funds, or investments in their region. The Government has not provided a more definitive definition for local investment and has invited views from respondents in this regard.

4.5 Governance

- Builds on many of the recommendations that emerged from the SAB's Good Governance Project.
- Independent person to be appointed as adviser/member of committee.
- Further requirements around transparency and reporting and board membership of pools

The majority of the proposals with regard to governance of the LGPS are based on the recommendations submitted to Ministry for Housing, Communities and Local Government (MHCLG) by the SAB as part of the Good Governance Project. The proposals include the requirement for partner funds to publish a governance and training strategy (which will include details of how knowledge requirements of officers/members will be met and also include a conflicts of interest policy), publish an administration strategy, and generally improve transparency by improving access to documents such as annual reports.

Again, building on recommendations emerging from the Good Governance Project, partner funds will be required to appoint a Senior Officer who will have overall delegated responsibility for the management and administration of the partner fund. Responsibilities will include the provision of advice to pension committees and local pension boards; developing the Fund's strategic approach across all areas (funding, investment, administration, governance, communication and overall risk management) and ensuring statutory responsibilities / regulatory requirements are met. Alongside this, pension committees will be required to appoint an independent pensions professional (with suitable qualifications and experience) to the committee, either as an advisor or a member to support on investment strategy, governance and administration matters.

Alongside meeting the requirements set out above, partner funds will also be required to participate in an independent governance review every two years (again referenced in the Good Governance recommendations). Such reviews would be designed to provide assurance to partner funds that governance requirements are being met. Pension committees would be required to add action plans to any reports prepared and summaries would then be published by partner funds and submitted to MHCLG.

For pools, to ensure partner funds can hold the pools to account the proposals will require that partner funds are represented on the pool board. In addition, the proposals will require pools to improve transparency and reporting, including publication of performance and transaction costs and Government is seeking views on what useful data could be reported.

- 4.6** Officers' initial view is that the Pooling and UK Investment proposals as currently viewed will not lead to a better outcome for the Fund or for the LGPS. The Fund has already made good progress working towards the implementation of the recommendations from the Good Governance Project, so Officers find these proposals more palatable. Officers intend to respond to the Consultation including their views on the merits of the current proposals and try and suggest ways of how some of the proposals can be modified to ensure a better outcome.
- 4.7** Officers will shared a draft response to the Consultation with the Pension Committee and Pension Board and will issue the final response on behalf of the Pension Committee and Pension Board by the deadline of 16 January 2025.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1** N/A

6 CONSULTATION

- 6.1** Officers consulted with Mercers in order to help summarise the key points from the Consultation and in preparing the response.

7 IMPLICATIONS

- 7.1** There are no direct implications arising from this report other than those already mentioned.

8 APPENDICES

- 8.1** None

9. BACKGROUND DOCUMENTS

- 9.1** None

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Matthew Hallett – Head of Pensions and Treasury.