



THE SOCIETY OF PENSION  
PROFESSIONALS  
*making pensions work*

## **The Society of Pension Professionals (SPP) response to the Ministry of Housing, Communities & Local Government (MHCLG) consultation; *Local Government Pension Scheme (England and Wales): Fit for the future***

### **1. Executive summary**

- 1.1. **The SPP does not support the proposal to “require” the transfer of listed assets into pooled vehicles owned by the pool company.**  
Instead, we suggest that a “comply or explain” approach is adopted to accommodate the possibility that legacy arrangements remain appropriate in the view of any Administering Authority.
- 1.2. **The consultation document provides no evidence to support why implementation must be completed by March 2026 for pools that have – hitherto with Government approval – adopted a different governance model.** Furthermore, the Government expects each pool to consider and provide submissions on the viability of meeting this timescale to be submitted by 1 March 2025 i.e. within less than two months of this consultation closing. Such a timescale raises serious questions as to whether this can be considered a genuine consultation rather than a predetermined policy. As a result, the SPP suggests that the Government seriously reconsiders its position on this issue and revises the associated timescales.
- 1.3. **The Government should not compel those funds who are not FCA authorised to become so given there is little to no evidence that any of the hypothetical benefits being suggested can be sufficiently evidenced.**
- 1.4. **Although SPP agrees it would be beneficial for stakeholders if AAs were required to prepare an administration strategy, and for such a strategy to be published, it is important that these are not too prescriptive and that any statutory guidance is sufficiently flexible.**
- 1.5. **The SPP suggests that the Government should not mandate the means of taking account of member views but should instead leave this to shareholder funds to determine, supported by suitable guidance.**
- 1.6. **A one-size-fits-all reporting requirement should not be applied across all categories, but instead attention should be paid to the nuances of each category.**

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## 2. Consultation response

### Chapter 2: LGPS pooling

- 2.1. **Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?**
- 2.2. The SPP accepts that AAs should remain responsible for setting an investment strategy for their fund, and should be required to fully delegate the implementation of that strategy to the pool; and that AAs should be required to take principal advice on their investment strategy from the pool.
- 2.3. In relation to pools being required to develop the capability to carry out due diligence on local investments and to manage such investments, this may raise some conflict of interest concerns about pools both advising and implementing. There appears to be a lack of sufficient independent oversight in the proposals.
- 2.4. We also have some concerns around the FCA authorisation requirements as set out in response to question six (below).
- 2.5. Furthermore, in relation to requirements for AAs to transfer legacy assets to the management of the pool, we would rather see a move to a “comply or explain” approach to accommodate the possibility that legacy arrangements remain appropriate in the view of any AA (as detailed in response to question seven below).
- 2.6. **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?**
- 2.7. Yes, the SPP believes that Administering Authority’s (AAs) will be best placed to assess their specific circumstances, including their return requirements and risk tolerance.
- 2.8. As a result, we agree with the principle that the AAs should retain responsibility for setting investment objectives and a high-level strategic asset allocation for their respective fund, although we accept that some AAs might decide to leave this to their pool.
- 2.9. **Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?**
- 2.10. The proposed arrangements meet some aspects of the AA’s fiduciary duty but this duty extends beyond setting a high level strategy. AAs can appoint their pool to implement the strategy and invest assets on their behalf, but the legal obligation to manage their funds remains with the AAs. Adequate oversight will therefore be critical - AAs cannot just leave it to their pool and think that is the end of the matter.
- 2.11. The proposal to restrict AAs from taking independent investment advice and leave oversight to a single quasi-professional trustee on the pension committee is a concern and looks weak in comparison to the CMA’s recent bolstering of private sector trustee duties when appointing and reviewing a fiduciary manager.
- 2.12. AAs will likely wish to consult with their legal advisors on the legality of such requirements.
- 2.13. **Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?**
- 2.14. In general, we would be wary of using a standard (and relatively simplified) template to define investment strategy. Although we understand this is meant to be simplified guidelines from the partner AAs to their pool, there is a risk that AA investment strategy becomes distilled into this template. Investment mandates for large institutional investors are typically many pages long and will cover, amongst other things:
- Medium-long term strategic asset allocation and tolerance ranges (both for individual asset classes but also for collections of asset classes e.g. growth and matching or equity, spread and matching)
  - Shorter-term asset allocations – which take into account positioning between strategic reviews

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- Policies on illiquid asset allocation e.g. maximum allocations
- Interest rate and inflation hedging policy (together with tolerance ranges)
- Regional allocation strategy (per asset class)
- Currency hedging strategy per category
- Exceptions to the strategic asset allocation restrictions during ramp-up phases or planned sales – particularly for illiquid categories.
- Cash and liquidity management policy

2.15. These elements are all necessarily interconnected. Defining the strategic asset allocation in isolation may restrict the other elements. Specifically on the template proposed, the SPP observes that;

- There is a risk that the template will be completed with wide tolerance ranges to avoid tying the hands of the pools. This then obviates the purpose of setting a strategic asset allocation which should, in any case, evolve with market and AA scheme developments.
- How frequently the AAs would be expected to renew the strategic asset allocation is not covered. For large schemes, triennial ALM exercises leading to revised strategic allocations are common in the industry, but these are also usually accompanied by annual updates (which may deviate from the longer-term strategic allocation).
- The use of symmetric tolerance ranges is potentially problematic, particularly for illiquid asset classes where a larger range to the upper bound may be preferred.
- Categories might be grouped to allow more flexibility and better restriction on overall exposure e.g. listed equities and private equity might have their own strategic allocation but also a combined strategic allocation.
- Listed real estate and listed infrastructure could be grouped with their non-listed equivalents or under listed equity. It is not clear where these would fall in the templates shown.

2.16. We would also raise the question of the purpose(s) of the template.

2.17. If it is for the AA to set their investment mandate with the pool, we would expect that it is better for the pool to propose a total mandate to the AA on the basis of their analysis of the AA's investment objectives and liabilities, in line with how the pool generally designs its investment mandates for all their partner AAs, and for the AA to then discuss and comment on the proposed mandate (rather than beginning with a generic template).

2.18. If it is to encourage the AAs to invest in the same strategies, we wonder if this will not be a natural effect of requiring the AAs to transfer assets to the pools and only allowing legacy assets in given circumstances. The pools will, in any case, have an interest in restricting the number of strategies they manage to avoid sub-scale investments. Requiring pools to only operate strategies at scale seems to be a better way of achieving this goal without simplifying the strategic asset allocation.

2.19. If it is to provide an overview of how the AAs are investing, we would imagine it is better to provide a more detailed template for the pools to fill in on behalf of all their partner AAs.

2.20. **Recommendation one. The SPP would appreciate much greater clarity on the purpose of the template and urges caution in using a standard (and relatively simplified) template to define investment strategy.**

2.21. **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?**

2.22. In this scenario, each pool would be acting as a form of fiduciary manager to its partner AAs. The role of a fiduciary manager can comprise several elements with key elements:

- direct asset management (for strategies managed in-house)
- manager selection and oversight (for strategies managed externally), and
- strategic investment advice

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- 2.23. This model works very well in several countries (including the UK) in both commercial and non-commercial settings – see the example of USS in the consultation, and fiduciary managers in the Netherlands and Canada providing advice to large industry-wide schemes. Key advantages are encouraging a long-term investment strategy, economies of scale and a wider range of investment opportunities than pension funds can invest in on their own.
- 2.24. We do however note that the AAs would not have much flexibility with their pool choice. Whilst many industry-wide schemes set up their own fiduciaries and adopt long-term partnerships with those fiduciaries, it is likely that they would retain the right to move to another fiduciary manager as a last resort, particularly where they are not a dominant investor with the fiduciary.
- 2.25. We therefore think it is critical to have a governance mechanism for how an AA (or several AAs acting together) can, as a potential last resort, move to another pool or force the pool to change management or strategic direction. The recent replacement of the entire board of the Alberta Maple 8 fund provides particular food for thought here<sup>1</sup>.
- 2.26. Again, the proposals here look much weaker than the CMA's recent bolstering of private sector trustee duties in relation to fiduciary managers.
- 2.27. With regards to investment advice, if the pools' in-house expertise is of sufficiently high standard and they have sufficient capacity and governance (both external and internal), there is no reason why they should not be able to service their partner AAs.
- 2.28. We would expect this to include a wide range of functions such as regular Asset-Liability Management exercises, risk management, liquidity analyses, new and existing asset class research, and shorter-term tactical positioning. Resource constraints may be a contributor to the slow progress of some pooling and the added responsibility of setting SAAs will likely add to these issues, particularly given the timescales set out in this proposal.
- 2.29. That said, we would expect that there would still be an important role for third-party investment advice in the form of second opinions, support on larger scale projects or projects where specific expertise may be required, as well as periodic review of the pool performance. This might be work carried out for individual AAs but could also be on behalf of groups of AAs (e.g. all the AAs invested in or proposing to invest in a new asset class).
- 2.30. It is worth noting that "fiduciary manager oversight" is a growing role within the private sector. It therefore appears somewhat unrealistic to expect AAs to simply rely upon advice from their pool - there is a conflict of interest in the pool both advising and implementing without independent oversight. The potential for conflicts of interest needs to be explicitly recognised and mitigations put forward.
- 2.31. The proposal for a quasi-professional trustee on pension committees to provide an alternative to independent advice is not sufficient given the scale of the oversight involved.
- 2.32. **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?**
- 2.33. The consultation describes the Government's view of the benefits of this approach as reduced cost through in-house capability, assurance that assets will be "*properly managed*", pool advice capability and capacity "*to assess and manage the local investments that the government's proposals envisage*" (para 41). We consider that the consultation has not provided a strong evidential basis for this conclusion and therefore do not agree that all pools should be authorised by the FCA.

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<sup>1</sup> **Calgary Herald, 7 November 2024, "Alberta government dismisses AIMCo board and CEO, citing underperformance":**  
<https://calgaryherald.com/business/local-business/alberta-government-dismisses-entire-aimco-board>

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- 2.34. Reduced costs: Neither this consultation nor the previous Government's proposals have been accompanied by an impact assessment. There are set up costs which will be incurred in establishing an investment management company; and (especially given the timescales proposed) potential opportunity costs to the extent that planned progress under existing pooling models is delayed or seen as lower priority. It is not clear which data the Government has assessed to compare ongoing running costs between those pools which already have an FCA authorised function and those which have not, nor whether comparable data is available. The development of in-house capability must also be balanced against a more concentrated resource, recruitment and key person risk.
- 2.35. Management of assets: The consultation has not explained why assets are not or are not capable of being "properly managed" in an environment where the pool company is not FCA authorised. In an outsourced model, services are provided by third parties with FCA permissions and approvals. Pooling models exist where management of those third parties is also outsourced to an FCA authorised party; with oversight and contract management undertaken by the pool through individuals with relevant experience. This would be strengthened by the fund and pool governance measures proposed in the consultation.
- 2.36. Pool advice: As explained at question five above, it is unrealistic to expect AAs to simply rely upon advice from their pool - there is a conflict of interest in the pool both advising and implementing without independent oversight. As a result, the potential for conflicts of interest should be explicitly recognised and mitigations put forward.
- 2.37. Local investments: The consultation has not explained why FCA authorisation would enable capacity to make local investments; were the Government to legislate appropriately, its aims could be achieved through existing pool arrangements. There is a risk that by focusing on scale and in-house capability, some of the existing smaller-scale locally focused impact investments many LGPS funds already have in their portfolio become inefficient to manage without (as now) the involvement of specialist third party managers who are not looking for the size of investments the consultation is targeting.
- 2.38. **Recommendation two. The Government should not compel those funds who are not FCA authorised to become so, given there is little to no evidence that any of the hypothetical benefits can be sufficiently evidenced.**
- 2.39. **Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?**
- 2.40. We support the aim of encouraging the pooling of LGPS assets, within the overall fiduciary duty of administering authorities to determine the best approach for their own fund. However, we do not believe it is appropriate for Government to mandate how individual administering authorities must invest their funds' assets (unless Government is prepared to accept responsibility should such mandation result in poorer outcomes, for example by underwriting investment performance to prevent any consequent increase in employer contributions).
- 2.41. Consequently, we do not support the proposal to "require" the transfer of listed assets into pooled vehicles owned by the pool company. There may be good reasons (for example, connected with the terms of the legacy pooled vehicle) why individual administering authorities consider a transfer not to be in the best interests of their fund and its beneficiaries. We would support a move to a "comply or explain" approach to accommodate the possibility that legacy arrangements remain appropriate in the view of any AA. Where assets remain outside the ownership of the pool company but can efficiently be overseen (i.e. managed) by the pool company (and the AA considers that to be in the best interests of its fund) then we support that as an acceptable alternate approach to a full transfer.
- 2.42. **Recommendation three. The SPP does not support the proposal to "require" the transfer of listed assets into pooled vehicles owned by the pool company and instead suggests that a "comply or explain" approach is adopted to accommodate the possibility that legacy arrangements remain appropriate in the view of any Administering Authority.**

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- 2.43. **Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?**
- 2.44. See response to question 7 above. The same logic applies here; and we consider it more likely with legacy illiquid investments than with listed investments that the terms of the legacy investment structure (e.g. early redemption penalties) could mean that an AA concludes a full transfer to the pool company is not in the best interests of the fund and its beneficiaries. Where a legacy illiquid asset can be overseen (i.e. managed) more efficiently by the pool than the AA, we would support administering authorities being encouraged (but not required) to engage the services of their pool to that effect together with transition arrangements. A “comply or explain” approach might be effective for illiquid investments as well as listed investments. It would be important for the timescales to be realistic to enable pool companies to develop the necessary expertise and capacity to oversee illiquid assets effectively.
- 2.45. **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?**
- 2.46. If pool companies are required to oversee additional investments and include details in performance reports to partner funds they will need to expand analyst capacity accordingly. A purely oversight role for existing investments only as they run-off would be less onerous and (subject to existing recruitment pressures, which may be exacerbated if all pools are looking to expand capacity in the short term) might realistically be accommodated within the envisaged March 2026 timescale.
- 2.47. An expanded role including active management of any performance issues, investment strategy advice/recommendations, new investments and crucially transition management will require significantly greater capacity and the timescales will depend upon the pool’s starting point and the extent to which there is existing in-house capability.
- 2.48. **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?**
- 2.49. March 2026 will be a very challenging timescale for pool companies that already have FCA authorisation to develop or expand in-house management and advisory capabilities. It will put pressure on an already constrained recruitment market as several pool companies look to expand their capacity and capabilities at the same time. Administering authorities who are already struggling with internal resourcing will not welcome further approaches to their staff from pool companies looking to expand.
- 2.50. The consultation does not provide any evidence to support why a March 2026 deadline is considered an appropriate deadline for pools that have – hitherto with Government approval – adopted a different governance model. Establishing an ACS and/or obtaining FCA approvals is a significant and costly undertaking and imposing such a short deadline risks administering authorities incurring additional fees and/or being constrained in how they can approach the project solely for the reason of meeting this deadline.
- 2.51. The Government has indicated that it expects each pool to consider and provide submissions on the viability of meeting this timescale to be submitted by 1 March 2025, i.e. within less than two months of this consultation closing. Such a timescale raises serious questions as to whether this can be considered a genuine consultation rather than a predetermined policy. It seriously constrains the ability of pools to undertake a full assessment of the merits of the different options which Government is intending to prescribe. We are not at all convinced of any merit in forcing those pools to change their approach, incurring further unnecessary costs and fundamentally changing the relationship between partner funds that has built up successfully over the last decade.
- 2.52. **Recommendation four. The SPP suggests that the Government seriously reconsiders its position on this issue and revises the associated timescales.**

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- 2.53. **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?**
- 2.54. The SPP acknowledges the Government's decision to rule out a merger of pools into a single fund and to establish a minimum indicative size for achieving critical mass.
- 2.55. However, there is significant merit in enhancing collaboration among all pools, particularly in areas where competition is not a concern and where size can yield additional benefits. We think collaboration can be particularly beneficial in alternative investments, where critical mass can enhance internal management capabilities, reduce reliance on external fund managers, achieve better diversification, and facilitate direct sourcing of assets. This is especially relevant in three key areas: Private Equity, Private Debt, and Infrastructure.
- 2.56. Private Equity (PE): There are three primary methods for pools to gain exposure to PE:
- Funds of Funds: This low-maintenance approach incurs additional fees due to the LP (Limited Partnership) structure, which can erode returns.
  - Direct Access to GPs (General Partnerships): Some pools currently access primary funds and co-investments directly, allowing them to bypass extra fees, but still incurring significant base fees and performance fees. Regrouping market access can lead to better terms, increased co-investment opportunities (bypassing the largest portion of the GP fees), and enhanced diversification. Assessing co-investments for instance requires skills that go beyond mere manager selection, thereby creating the need for in-house capabilities, which would be best achieved when pooled.
  - Developing In-House GP Capabilities: This would represent a significant leap and entail several risks:
    - Reputational Risks: Local government subsidiaries managing companies may face scrutiny, leading to potential reputational damage.
    - Conflicts of Interest: The dual role of managing investments and public accountability may create conflicts.
    - Compensation Misalignment: The performance-based compensation structure of GPs may not align with the remuneration framework of LGPS officials.
    - Establishment Challenges: Setting up in-house GP capabilities can be lengthy and costly, diverting resources from core functions at this juncture.
- 2.57. Private Debt:
- 2.58. We anticipate that barriers to entry in private debt are lower than in private equity. By pooling assets, the LGPS could develop its capabilities and benefit from critical mass. However, it is essential to consider the credit risk associated with private debt investments and ensure robust due diligence processes are in place.
- 2.59. Infrastructure:
- 2.60. The existing GLIL platform for pooling infrastructure assets serves as a valuable template for further development. It is crucial to assess the risks associated with infrastructure investments, including regulatory changes and project execution risks, to safeguard the interests of the LGPS.
- 2.61. Pooling assets would empower the LGPS to source nationwide investment opportunities and undertake larger projects. This approach would enhance governance in selecting projects identified by each AA. However, it is vital to implement strong risk management frameworks to evaluate the viability and sustainability of local projects, particularly in a competitive landscape for quality assets. Collaboration could also enhance access to markets.
- 2.62. In summary we feel fostering collaboration among pools presents a valuable opportunity to enhance the effectiveness and efficiency of the LGPS but that ensuring adequate oversight where pools collaborate will be an extra challenge. For instance, establishing which pool "leads", who does that pool owe duties/reporting/responsibilities to as a matter of law, how do partner pools (and their own shareholder funds) get comfortable with the structure and their options if performance is not as hoped? These issues are not insurmountable but do represent sizeable challenges.
- 2.63. **Recommendation five: The SPP encourages the Government to support initiatives that facilitate this collaboration while ensuring that appropriate safeguards are in place.**

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- 2.64. **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?**
- 2.65. There is a strong rationale for pooling asset management support functions where there is no competition between funds.
- 2.66. Some funds have shared services arrangements with other administering authorities already. The benefits are the same in every fund so there is some logic to shared services in benefit administration too, particularly if it means stretched in-house administration teams can be deployed more efficiently.
- 2.67. It is feasible for all funds to select a unified front-to-back-office infrastructure. Engaging a single provider is likely to yield better terms than individual funds could achieve due to economy of scale. This is particularly relevant for risk control systems, as the anticipated growth of private assets necessitates a robust infrastructure to effectively assess and manage risk. Additionally, integrating technology and AI into these systems can enhance data analysis and improve decision-making processes. Doing this collectively would ensure that all LGPS benefit from it and have access to the best available techniques.
- 2.68. We foresee no issues in pooling training functions, and we believe this collaboration would be beneficial. It would allow LGPS members to deepen their networking opportunities and share best practices, ultimately enhancing the overall effectiveness of the scheme. Incorporating technology into training programmes, such as online learning platforms and AI-driven tools, can facilitate more flexible and tailored learning experiences for members.
- 2.69. There are two additional areas that warrant further consideration for collaboration in our view:
- 2.70. Access to the Market:
- 2.71. While liquidity in the equity market is generally strong and intermediation costs are transparent and manageable, liquidity in fixed income can be more challenging. Pooling market access in fixed income could strengthen the bargaining power of the LGPS as a collective entity. By increasing size, the LGPS can negotiate better terms with counterparties and brokers, thereby reducing overall market access costs.
- 2.72. ESG initiatives:
- 2.73. We recognise that each AA may have its own approach to ESG. However, when it comes to company engagement, collaboration can amplify impact and lead to more effective outcomes. We have observed efforts to unite asset owners in engaging with issuers, and pooling all LGPS members would create a formidable force in the market.
- 2.74. In both cases, accessing the best available technology is essential to achieve the best outcomes and we believe that pooling this access can help.

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## Chapter 3: Local investment

- 2.75. **Question 13:** What are your views on the appropriate definition of 'local investment' for reporting purposes?
- 2.76. It is worth noting that in November 2023 the Government appeared to agree on a definition as, "...any local area within the United Kingdom."<sup>2</sup>
- 2.77. They stated that, "... a broad definition allows administering authorities to seek out opportunities which they feel will have beneficial impacts."
- 2.78. We agree with this sentiment. Narrowing to a specific geographical area e.g. for example for the Wales Pension Partnership to only invest in Wales as its local area or for the Northern LGPS to be restricted only to investing in the north would unnecessarily limit investment opportunities and constrain LGPS pools in securing the stated policy intention of investing more in UK productive assets.
- 2.79. There is also a more acute conflict of interest where LGPS funds invest in their "own" area (i.e. the area for which administering authority, or participating employers, are responsible).
- 2.80. **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?**
- 2.81. It is difficult to agree or disagree depending on how "work with" is defined. This could limit investment opportunities (see above comments in relation to narrow geographical areas) and there is a real risk of conflicts of interest arising. Naturally, there must always be rigorous focus on assessing the investment potential for each opportunity.
- 2.82. This would also require a significant amount of pool resourcing and expertise. Given the issue with access to pipeline and funding of deals, we expect the pools would need to work with private sector managers in this space, as well as develop strong working relationships with banks, both national and local, and organisations such as the British Business Bank and the National Wealth Fund.
- 2.83. **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?**
- 2.84. The SPP very much agrees that Funds should set out their objectives on local investment.
- 2.85. Similarly a target range in their investment strategy statement appears reasonable - even if that target is zero due to conflicts of interest, they should say so.
- 2.86. No minimum target should be specified, not least because doing so would impact on fiduciary duties.
- 2.87. **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?**
- 2.88. The clear objective of the wider proposals is for pools to manage investments and to be the primary source of investment advice for AAs. In our view, it is then consistent for pools to be required to develop the capability to carry out due diligence on local investment opportunities (as if they are responsible for investment advice on those opportunities, they will need the capability and skill set to carry out due diligence). Our view is that a local investment opportunity will need to pass the test as a good investment, and we agree with the consultation document that it will be beneficial for there to be a separation between the AAs and the pools in

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<sup>2</sup> **Local Government Pension Scheme (England and Wales): Next steps on investments - government response, 22/11/23:**  
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response#definition-of-levelling-up-investments>

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relation to the due diligence of the investment opportunity - as that should reduce the risk of conflicts of interest or bias in the assessment of the investment opportunity. Ultimately, investment opportunities, local or otherwise, should be given the same rigour when assessing whether to proceed with the investment.

- 2.89. We note that the internal investment capability of a pool will need to be supplemented by external advice from time to time given the potentially huge range of investment opportunities which may arise (i.e. housing, infrastructure (transport and energy), new technology) and therefore recognition should be given to this.
- 2.90. In relation to management of local investments, it would seem to be consistent with the wider proposals that local investments should also be managed by the pool. This approach should support the relevant local investment being treated properly as an investment over the long term rather than creating blurred lines between the pool and the AA whose local area an investment may be located. However, given the range of investments which may be treated as a local investment (which question 13 deals with) the way in which a local investment is to be managed may be different. A UK wide infrastructure project is likely to have a very different approach to management when compared to a specific energy or housing project in a local area, and therefore any proposed legislation or statutory guidance on management of local investments should have regard to the level of active management which may be appropriate to that investment. It is also important that small-scale projects continue to attract LGPS investment. This might mean continuing to use specialist managers and it is important that the focus on scale does not mean smaller opportunities become inefficient (some managers are unable to cope with the size of assets that would potentially need to be deployed).
- 2.91. **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?**
- 2.92. The SPP agrees that AAs should report on their local investments within their annual report on their fund's investments. We agree this will support transparency as to how an AA is investing.
- 2.93. We note the comment at paragraph 82 of the consultation which says, "*This will ... allow members to see the locally important projects delivered thanks to LGPS investment*". In this context it is possible that decisions are made, for good investment and fiduciary reasons, not to invest in local investment opportunities (as those available may not reach the investment grade threshold).
- 2.94. Equally it is possible that, across a pool, the local investments made are not local to an AA. For example, it would be possible that local investments lead to a concentration in certain geographic areas. However, this perhaps supports the need for local investments to be reported, and for transparency across the LGPS.
- 2.95. In relation to what needs to be reported, this should include the value of the investments held, together with the change in value since the previous report. Consideration should be given to how the costs making an investment are reported – pools should adopt a consistent policy on this for the purposes of transparency and comparison. AAs may also wish to comment on the local impact that an investment makes – but, as noted above, it may be that there is no direct local impact to report on.
- 2.96. Finally, where pools are managing the local investments, individual AAs will be largely or wholly reliant on the pools providing the relevant information to the AAs. It would therefore be helpful if pools could adopt a consistent approach of providing the reportable information to AAs on the local investments, as this would hopefully reduce the time and costs for AAs in reporting on the same.

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- 2.97. **Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?**
- 2.98. Yes, we agree that the SAB's Good Governance recommendations should be applied and built on to help bring the governance of all LGPS funds to the standard expected of trustees of similarly large private sector DB schemes.
- 2.99. We particularly agree with the building of those recommendations to incorporate a conflicts of interest policy given the likely conflicts that will be experienced by pension committee members in looking after their fund beneficiaries versus potential investments in 'local' projects.
- 2.100. The SPP also agrees that given the often transient nature of pension committee membership that the expertise of an independent adviser is sought to augment the overall knowledge and skills of pension committees and their senior officer (where applicable). We also welcome the proposed requirement for committee members to have the same level of knowledge as those on Local Pension Boards as the current disconnect can cause real frustration at many LGPS funds.
- 2.101. **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?**
- 2.102. The SPP agrees that administering authorities should be required to prepare and publish a governance and training strategy but suggests that the difference between this and the currently required governance compliance statement needs to be clearly articulated.
- 2.103. The governance of an LGPS fund and, in particular the governance and training strategy for those governing an LGPS fund, can only properly be held to account if performance can be measured against a published strategy. This also helps to make sure that this strategy is taken seriously, and that due care and attention is applied in its formation. It also helps to ensure that anyone joining a pensions committee is aware of what is expected of them.
- 2.104. Publishing the conflicts of interest policy is necessary but is unlikely to be sufficient. A conflicts management strategy is needed. This would help to ensure that all relevant activities are transparent in their nature and that all, not necessarily just those involved in decision making, can see that conflicts of interest are taken seriously, managed and mitigated appropriately. This will help to ensure that ethical standards are upheld, particularly the seven principles of public service, and that those interacting with LGPS funds such as advisers and providers are aware of what is expected of them. In relation to investment in 'local' projects, this should also help to prevent actual (or the appearance of) corruption.
- 2.105. **Recommendation six. The SPP suggests that the difference between a governance and training strategy and the currently required governance compliance statement is clearly articulated and also urges the Government to consider requiring a conflicts management strategy too.**
- 2.106. **Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?**
- 2.107. In principle, the SPP agrees with the proposals for the appointment of a senior LGPS officer.
- 2.108. It is clear that there are many tasks associated with administering an LGPS Fund and its interaction with various stakeholders that must be carried out and given a sufficiently high priority to ensure the fund is being successfully run and policy objectives being achieved.
- 2.109. Having a named senior officer along the lines envisaged, whose main focus is the LGPS, would create an advocate for the Fund at the highest level. It would also provide an element of accountability and would be expected to add a level of knowledge, understanding and experience to the overall governance of an LGPS fund.
- 2.110. As the proposals note, it will be key that the individual is at a sufficiently senior level that they have the ability to make decisions, set policy, and interact with various stakeholders appropriately.

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- 2.111. It will be important to have clarity as to where the responsibility for the LGPS fund sits within the administering authority - currently the "section 151" officer has ultimate sign-off. That is a named statutory function within the council. It is important to know if this new role will sit alongside or under that post.
- 2.112. There is a question around an AA's ability to resource the role, and in particular whether they will have the ability to make a new appointment. There are already succession issues as individuals approach retirement in some AAs and it would be unfortunate if this new role added to those problems. That said, to some extent this is arguably formalisation and realignment of what should already be happening in practice. The key will therefore be to give AAs sufficient time to transition to a new approach.
- 2.113. It is also worth noting that the proposal is not necessarily the only way to achieve the stated aims, and that other structures would certainly be possible.
- 2.114. **Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?**
- 2.115. Yes, the SPP agrees it would be beneficial for stakeholders if administering authorities were required to prepare an administration strategy, and for such a strategy to be published.
- 2.116. We also agree that it would be beneficial for all parties if such a strategy includes at least some elements on a consistent basis across Funds, as set out in statutory guidance.
- 2.117. However, whilst having some elements on a consistent basis will aid comparisons between Funds, we also believe it is important not to be too prescriptive; some funds may have good reasons for reporting in different ways to different timeframes. It is important that the statutory guidance gives sufficient flexibility to recognise this.
- 2.118. Setting strategy and publicly monitoring performance will help to drive improvements in administration.
- 2.119. Reviewing the strategy at least every three years appears to be a sensible timeframe in line with for example the triennial valuation. Given Funds will be required to publish their administration strategy, there seems no sense in maintaining the requirements to also issue it to the Secretary of State upon publication.
- 2.120. **Recommendation seven. Although SPP agrees it would be beneficial for stakeholders if AAs were required to prepare an administration strategy, and for such a strategy to be published, it is important that these are not too prescriptive and that any statutory guidance is sufficiently flexible.**
- 2.121. **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?**
- 2.122. We agree with the required elements to be included in a governance and training strategy.
- 2.123. Such policies need to be reviewed regularly to ensure that they continue to be appropriate, taking account of the schemes' funding position and legislative and regulatory requirements since the strategy was produced.
- 2.124. While the proposed review period to coincide with actuarial valuation cycles may be possible where there has been minimal change, there do need to be requirements for out of cycle reviews where there is material change.
- 2.125. Additionally, this quinquennial review timescale appears out of step with the proposed biennial independent governance review. It would be appropriate for the review periods to be aligned for good governance, with the internal review preparing the AAs for any independent review.
- 2.126. A conflicts of interest policy, and preferably a conflicts of interest strategy, is a fundamental requirement in respect of this governance framework, similar to the requirements in respect of Trustee Boards where members will have to manage conflicts from time to time and should therefore also be published.

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

2.128. We agree that there should be regular governance reviews. There may be changes to legislative and regulatory requirements, as well as changes in market conditions. There will also be lessons learned from ongoing experience to help to improve these strategies going forwards.

2.129. The timing of such reviews should be commensurate with the degree of change and should be aligned with the timescales for the review of the relevant strategies and policies. We need more detail on the format and assessment criteria for these reviews in order to be able to comment further.

2.130. However, given that there can sometimes be quite a lot of turnover in the membership of Pension Committees, which is an integral part of the governance arrangements, we suggest that a fuller independent governance review could be undertaken triennially (biennial is probably too frequent) with intermediate yearly reviews focusing on weaknesses identified in those reviews. We also suggest that these fuller reviews should be manifestly independent e.g. not using peer support from LGPS funds in the same pool and ensuring that where external reviewers are used, that they are totally independent of the other services being provided to the LGPS fund in question.

**Recommendation eight. We suggest that the Boards of each pool should also be subject to regular independent governance reviews; given their role, this is arguably as, if not more, important than the governance at AA level.**

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

2.132. Yes. The SPP agrees that pension committee members should have an appropriate level of knowledge and understanding.

2.133. However, like the Government, the SPP recognises that committee members will possess different levels of relevant prior knowledge on appointment, and it is therefore essential that any requirements on knowledge and understanding should not apply to individuals immediately upon appointment but instead within a reasonable period from taking up the role.

2.134. **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?**

2.135. Requiring 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 requirements (and within what timescale) appears reasonable and including this in their policy on training and assessment to meet this requirement makes sense. We also suggest that it should be mandatory for committee members to complete TPR's public service toolkit (or similar).

2.136. **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?**

2.137. The proposal to require pension committees to appoint an independent person who is a pension professional, whether as a voting member of the pensions committee or as an adviser, theoretically appears sensible.

2.138. However, in practice there could be local government constitutional issues in having a non-councillor as a voting member of a pension committee given committees need to reflect the overall political balance within the local authority.

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- 2.139. Furthermore, many funds already have an “investment adviser” who is a one-man-band with investment experience. They are rarely FCA authorised and cannot provide full, nuanced formal advice across all areas of an LGPS fund’s operations (e.g. administration, governance, legal compliance). As such, it would be inappropriate to ever consider this as a suitable alternative to investment advice.
- 2.140. **Question 27: Do you agree that pool company boards should include one or two shareholder representatives?**
- 2.141. Collaboration and appropriate communication channels between the pool company and its shareholders is critical.
- 2.142. It is also important for pool company boards to be sufficiently independent of shareholders to allow for proper accountability; with the ultimate recourse to remove the board where performance is unsatisfactory. An alternative would include an independent board, with legally enforceable obligations to consult and communicate with shareholders, rather than through formal representative board membership. The best means of achieving this will depend on each pool’s arrangements. This should not be mandated but left to shareholder funds to determine, supported by suitable guidance.
- 2.143. **Question 28: What are your views on the best way to ensure that members’ views and interests are taken into account by the pools?**
- 2.144. It is important to ensure that members have sufficient insight into the role and performance of the pool company and its impact on funds e.g. through contribution rates. However, it would not be appropriate for member representatives to have any decision-making role within the pool company and board representation would need to be considered very carefully. We consider that the means of taking account of member views should not be mandated but left to shareholder funds to determine, again supported by suitable guidance.
- 2.145. **Recommendation eight. The SPP suggests that the Government should not mandate the means of taking account of member views but should instead leave this to shareholder funds to determine, supported by suitable guidance.**
- 2.146. **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?**
- 2.147. Disclosure and transparency have improved considerably in recent years, not least due to measures such as the Cost Transparency Initiative that LGPS members signed up to some years ago and means that they are now much better at measuring and publishing costs that have long existed but were not transparent.
- 2.148. Nevertheless, the SPP agrees with the Government’s intent for greater reporting transparency for the pools, in particular on performance and cost. The pools are, and will, represent guardians of a large amount of public money and so it is reasonable to expect a high degree of transparency and disclosure.
- 2.149. Certain reporting should be consistent across pools to allow for meaningful comparisons and for high minimum standards. However, this should not mean that standard performance templates are adopted and then never reviewed. The requirements should also not dumb down the reporting so that innovation is not encouraged – there should be an incentive for the pools to improve their own reporting and encourage others to follow and lift reporting standards further across the pools.
- 2.150. We are also conscious that different asset categories will require different forms of reporting. It is therefore important that a one-size-fits-all reporting requirement is not applied across all categories, but that attention is paid to the nuances of each category – in particular private markets and real asset categories are likely to require different reporting to equities and fixed income categories.
- 2.151. Annualised performance over short, medium, and long-term time horizons (both before and after fees) and versus a benchmark (where relevant) would be expected as standard. For actively managed strategies, where investment (outperformance) objectives have been set, these should also be monitored and reported.
- 2.152. Some risk-adjusted return requirements relative to benchmark may also be appropriate for certain categories – this is particularly the case where the pools have risk objectives for the returns e.g. within a certain margin of the risk of the benchmark.

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- 2.153. For costs, total costs should be presented as a percentage of assets managed but also, potentially, in pound terms. These should be broken down into manager fees (internal to the pool and external where third party management is used), and the various other expected fees e.g. accounting, legal, administration, valuation, custodian etc. Where performance fees are applied, these should also be reported separately.
- 2.154. Lastly, as the expectation is that pools are acting as fiduciary managers to their AAs, it is reasonable to expect reporting tailored to the investment objectives of each AA (and taking into account their liabilities). Too much standardisation and too great a focus on returns in isolation may lead to unhelpful comparisons being drawn. For example, a long-term performance comparison of two pools running bond mandates with the same investment universe and benchmark may be fair, but if one pool operates a much shorter duration mandate (due to the more mature profile of its AAs' memberships) its performance may naturally be very different to one with a much longer duration profile.
- 2.155. **Recommendation nine. A one-size-fits-all reporting requirement should not be applied across all categories, but instead attention should be paid to the nuances of each category.**

### **3. About The Society of Pension Professionals**

- 3.1. Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.
- 3.2. Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.
- 3.3. The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

### **4. Further information**

- 4.1. For more information about this consultation response please contact SPP Head of Public Policy & PR at: [phil.hall@the-spp.co.uk](mailto:phil.hall@the-spp.co.uk) or telephone the SPP on 0207 353 1688.
- 4.2. To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>
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