

**PENSION FUND COMMITTEE – 8 SEPTEMBER 2023**

**RESPONSE TO GOVERNMENT CONSULTATION ON INVESTMENT ISSUES**

**Report by the Director of Finance**

**RECOMMENDATION**

**The Committee is RECOMMENDED to agree the key principles as set out Annex 1 and delegate to the Service Manager (Pensions) responsibility for drafting the final response to the Government Consultation**

**Introduction**

1. On 11 July 2023, the Government published the long awaited consultation on the future direction of investment pooling. The consultation document entitled Local Government Pension Scheme (England and Wales): Next steps on investments is available on the Government's websites at [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](http://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments).
2. The consultation sets out the Government's next steps on pooling and also addresses a number of issues raised by the Chancellor of the Exchequer in his recent Mansion House speech including investing in local levelling up projects and in the UK economy through venture and growth capital.
3. The Government has invited responses to the consultation, to be received by 2 October 2023. The Funds within the Brunel Pension Partnership and the Brunel Company itself are currently seeking to agree a consensus in respect of the key principles arising from the consultation questions, with a view to producing a single document which can be included with the individual responses from each Fund and Brunel. The first draft of these key principles has been developed by the Client Group and will be reviewed by the Brunel Oversight Board and the Shareholder Forum before a final decision agreed

**Key Elements of the Consultation Document**

4. The consultation document appears to reflect a frustration within Government about the progress made to date with investment pooling, and the failure to deliver against some of the Government's initial expectations. The consultation acknowledges the substantial benefits delivered to date, but believes further benefits in terms of improved net returns, more effective governance, increased savings and access to more asset classes are all possible. However, it should be noted that the Government have not yet utilised the powers within The Local

Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which gave the Government wide powers to intervene if Funds failed to comply with the guidance issued in respect of pooling investment funds.

5. The latest consultation therefore seeks to go further than the previous guidance and set a deadline of March 2025 for the pooling of all listed investments. The Government states that this alone will not deliver the full benefits of scale and therefore want to explore reducing the numbers of pools in the future with a minimum of £50bn of assets under management. The paper states a view that increased benefits of scale will come from pool sizes of £50bn to £75bn and potentially up to £100bn, including the ability to negotiate lower fees from third party managers and increase the delivery of internal capacity to manage assets.
6. The consultation also includes proposals for improving the current governance arrangements including issuing clearer guidance on the roles and responsibilities of individual administering authorities and pool companies, with fund manager selection and implementation strategies sitting clearly with the pool companies. The Government are keen to address what they see as too many sub-portfolios within pools all delivering similar investment benefits, and which undermines the purpose and benefits of pooling.
7. Linked to the need to improve the current governance arrangements, the Government is proposing requiring each administering authority to produce a training policy for Committee members, and report against its implementation.
8. There are further proposals to require all Funds to report in a more standard way, including against standard definitions of asset classes with standard benchmarks. The Government believe that this greater transparency will enable greater public accountability.
9. The consultation document contains a separate chapter on investments in levelling up and proposes that all Funds will need to publish a plan as to how they will invest up to 5% of their total funds in projects that support levelling up across the UK. The Government includes a proposal that individual funds can invest through their own pool into another pool's investment vehicles where this supports their plan.
10. Chapter 4 of the consultation document focuses on the Government's wish to see Funds invest 10% of their total assets under management into private equity. Whilst the proposal is not specific to the UK, the rest of the chapter makes it clear that the Government is looking to Funds to invest in the UK economy through investments in venture capital and growth equity. The Government proposes a role for the British Business Bank in supporting the local investments in the UK economy.
11. The final two chapters of the consultation are more focused on technical issues to bring the LGPS legislation into line on the Competition and Markets Authority Order which requires strategic objectives to be set for investment consultations, and to update the definition of investments under the LGPS regulations.

## Key Principles to be covered within any Consultation Response

12. The key principles discussed within the Client Group and as set out in Annex 1 recognise that the Brunel Pension Partnership has in fact successfully delivered against much of the objectives set out by Government. This is despite a current scale below the £50bn lower threshold set by Government. There is a view therefore that the Government should initially focus on addressing those areas where pooling has not been successfully implemented without damaging the work already achieved elsewhere.
13. There is a view that the Government have not made the case for increased scale and a worry that any change in scale now will only be an interim measure with a requirement for further scale in the future. The key concern here is in respect of the additional costs of any transition under the merger of pools, especially where a number of Funds, including Oxfordshire have not yet recovered the transition costs associated with the initial pooling exercise.
14. Funds felt that exploring the options for greater collaboration between pools which allowed economies of scale to be achieved across specific asset classes as appropriate without wholesale upheaval was a better approach for the Government to adopt. This would also avoid the risks of dis-economies of scale within certain asset classes/portfolios where fund managers were already capacity constrained.
15. In the event that this or a future Government pursued the option of requiring pools of a minimum scale £50bn, the Funds were keen to see more work undertaken on how our work in the responsible investment field would be protected, and how the increased risks to shareholders would be managed.
16. There is also significant concern over the Government's proposals to seek to influence the asset allocation of individual administering authorities whether through the requirement to produce a plan in respect of levelling up or to invest 10% of funds in private equity. The concern centres around the fiduciary duty held by the administering authorities and the potential conflict with this duty resulting from the Government's proposals. There is a clear view that if investments in levelling up projects and/or private equity including venture capital and growth equity are in the best interests of a Pension Fund, then the respective administering authority will include these in their strategic asset allocation without a requirement from Government.
17. In terms of reporting, the Funds, whilst welcoming greater standardisation in respect of reporting against asset classes, expressed strong opposition to the introduction of standard benchmarks. Again, it was felt that this conflicted with the fiduciary duty of the administering authority to determine the level of risk it wanted to allocate against any asset allocation decision.
18. Funds were also concerned about the increased burdens being proposed in respect of reporting against arbitrary targets set by Government which had nothing to do with their fiduciary duty. Whilst increased transparency is

welcomed, it must be against the primary objectives of the Administering Authority under their regulatory requirements and fiduciary duty.

19. There was also comment in respect of a lack of understanding by Government in the apparent definition of levelling up projects as an asset class. Funds already invest in a number of levelling up projects across a range of asset classes including infrastructure, private equity/debt and property. If the Government wished to see specific reporting on levelling up projects, they would need to provide a more precise definition which could be shared with third party fund managers, as well as additional funding to support the collection and reporting of the data.

### **Oxfordshire Position**

20. In the event that it is not possible to draft a response on behalf of the Brunel Pension Partnership as a whole, it is intended to draft a response in line with Annex 1 on behalf of Oxfordshire, subject to any comments raised by the Committee today.
21. The main point of difference with other Funds maybe the holdings in the listed private equity companies. If these are treated at listed, then we would not want to be forced to dispose of them by March 2025. As per the draft principles though, we would expect to be able to retain the investment and explain the rationale as part of the investment strategy statement, given the Brunel currently do not have the relevant approval from the FCA to manage the investments on our behalf.
22. This point can be covered in any holding letter drafted to accompany any document agreed by the Partnership. Members can also ask for the covering letter to emphasise any point raised in Annex 1 where they feel the issue is particularly relevant to Oxfordshire.

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