

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>22 SEPTEMBER 2023</b>
TITLE:	<b>LGPS Consultation: Next steps on investments</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: Exempt Appendix 1 – Draft response to the consultation	

## **1 THE ISSUE**

- 1.1 The government is consulting the LGPS on a range of investment issues, namely asset pooling, levelling up, opportunities in private investments, investment consultancy services and the definition of investments. The deadline for responses is 2 October 2023.
- 1.2 This covering note is supported by two appendices: 10 a) covers proposed answers to Questions 2-15 of the government consultation, where we believe there is a clear answer for each question: 10 b) addresses Question 1 and provides three very different options for the Committee to consider.
- 1.3 Any proposal taken forward may require regulatory changes or further guidance.

## **2 RECOMMENDATIONS**

### **The Committee:**

- 2.1 **Is invited to comment on our proposed responses. And approve that any changes made as a result of comments from Committee members be cleared by the Committee Chair before APF's final response is submitted.**

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications at this stage as it is only a consultation document.

## **4 CONSULTATION CONTENTS AND BACKGROUND**

- 4.1 The consultation brings together the issue of investing more in UK levelling up and venture capital/growth companies and the need to effectively use LGPS asset pools to enable better value for money and scale to invest across the UK.
- 4.2 The consultation embodies the following issues
  - a) Asset pooling
  - b) Levelling up, local impact investing
  - c) Opportunities in private investments
  - d) Investment consultancy services

- 4.3 Consolidation of pension funds is not an issue confined to the LGPS. There is an emerging direction of travel to consolidate smaller schemes, to provide better outcomes and lower costs for members. We do not think gradual consolidation (it was £25bn size pools, now £50bn is targeted) benefits LGPS funds; it merely repeats transition costs over different stages and increases uncertainty for pools and funds alike.
- 4.4 Regardless of whether there is more consolidation or not, LGPS pools and funds need to deepen collaboration and shared arrangements to ensure all LGPS funds have access to expertise and centres of investment excellence.
- 4.5 One risk of further consolidation is the transition period. Managing pools through a consolidation period and the required governance arrangements have not been developed. One benefit of Brunel is that it is large enough to have achieved significant savings and economies of scale yet, having only 10 shareholders, means it has achieved strong client alignment and consensus for its portfolios and strategy. This model will be difficult to replicate for a larger pool so alternative governance arrangements will need to be considered.
- 4.6 The consultation confirms the government's desire for LGPS funds to allocate 5% of assets to levelling up, a further 10% to private investments (possibly) on top of 10% in infrastructure. We do not agree that the government should direct how LGPS assets are allocated, even if only an 'ambition'. Instead asset allocation needs to be considered within the context of each Funds' investment objectives and funding strategy, with investment authority remaining with Pension Fund Committees as part of their overriding fiduciary duties.
- 4.7 Avon's asset allocation already includes 32.5% in private (non-public and less liquid) investments including 10% in infrastructure with a 3% target for local impact. At the last strategic review in March 2023, there was limited headroom to increase the allocation to less liquid assets from a risk perspective and it was agreed to maintain the 32.5% allocation. Hence it is difficult for APF to invest further in less liquid assets.
- 4.8 The consultation proposes additional reporting on levelling up and private assets. This would raise the reporting burden without any tangible benefit at a time when we face increasing reporting requirements across all aspects of the APF. Reporting should be consistent across all assets, to explain how the asset allocation contributes to strategic objectives and progress made rather than additional reporting for government requirements.
- 4.9 The Committee is invited to comment on our proposed responses and any changes made as a result of the comments from members will be cleared with the Committee Chair before APF's final response is submitted.

## **5 RISK MANAGEMENT**

- 5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

## **6 EQUALITIES STATEMENT**

- 6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **7 CLIMATE CHANGE**

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **8 OTHER OPTIONS CONSIDERED**

8.1 None.

## **9 CONSULTATION**

9.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

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<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format.</b>	