

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	13 DECEMBER 2024
TITLE:	LGPS Consultation: Fit for the Future
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft response to the consultation	

1 THE ISSUE

- 1.1 The government is consulting the LGPS on further changes to how our investment assets are managed. The proposals embed pooling and extends the role of the FCA regulated pool company in managing our assets.
- 1.2 The proposed changes are highly material and broadly cover three areas:
 - a) Reforming LGPS asset pools
 - b) Boosting LGPS investment in their localities and regions of the UK
 - c) Strengthening governance of both LGPS and pools
- 1.3 The deadline for responses is 16 January 2025.
- 1.4 The draft response is set out in Appendix 1.
- 1.5 Any proposals taken forward may require primary legislation, regulatory changes or further guidance.

2 RECOMMENDATIONS

The Committee is:

- 2.1 **Invited to comment on the draft response.**
- 2.2 **Approve the draft subject to 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. However the proposals to extend the services provided by the pool will increase the ongoing costs of the pool and any savings may not offset all the increase in costs, at least in the short term. Once these costs are known and approved by shareholders, APF's budget will be amended as necessary.

4 CONSULTATION CONTENTS AND BACKGROUND

- 4.1 This consultation builds on previous consultations (of the previous government) to increase consolidation of assets and delegate greater investment decision making to FCA regulated pool to increase efficiencies. Whereas the previous consultations focused on UK investing and Levelling Up, the focus this time is around local/regional investing and bringing together strategic objectives from local/regional public bodies.
- 4.2 The consultation document can be found here:
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future>
- 4.3 Prior to the Mansion House speech there was speculation of more radical proposals to consolidate/merge LGPS funds and/or pools. There will still be 8 (existing) LGPS pools or 'mega funds' but there is now clarity as to the pooling model that must be adopted. There is no change in the structure of the underlying LGPS funds.

5 PROPOSALS

- 5.1 These reforms dilute the role of the administering authority as more of the current responsibilities for the investment assets are delegated to Brunel. The challenge for APF will be to ensure there is sufficient oversight of strategic advice provided by Brunel (which may be at asset allocation level within equities for example or strategic advice we request Brunel provides to APF), and to ensure any potential conflicts of interest are managed.
- 5.2 It is a positive that the reforms retain the local LGPS funds and do not propose mandating consolidation of the 8 pools or creating a single 'super-fund', given the impact substantial structural change would have on the funds and pools. The reforms as proposed will enable Brunel to focus on BAU as well as build out new capability in a measured way.
- 5.3 The Brunel pool is working well with 89% of assets transitioned or under pool management. Some of the other pools have not achieved this level of pooling and the proposals will force these pools to act. In addition the government wants there to only be one model for pooling, which is consistent with the Brunel model. However expanding Brunel's capabilities (or procuring the new services) will result in higher costs for APF as a client, not necessarily fully offset by savings.
- 5.4 The proposals focus on local investing to boost UK growth and investment. This is in line with our investment strategy and under these proposals, Brunel will manage this portfolio. The challenge will be for APF and Brunel to work closely on this portfolio so we can demonstrate the impact on our locality and communities directly to our stakeholders, through our own communications.
- 5.5 The main proposals are summarised below:

Reforming the asset pools:

- 5.6 The pooling model adopted by Brunel already meets most of the proposed criteria. It is an FCA regulated asset manager which implements client investment strategies. Importantly for the Brunel portfolios, clients cannot select or choose which managers or funds to invest in; such decisions are already fully delegated to Brunel. Furthermore, APF and most of the other Brunel funds have already transitioned all their listed assets in to the pool. Currently APF only selects managers for its Local Impact Portfolio. APF's new private market assets

are managed by Brunel except for the Local Impact Portfolio which is managed by the internal investment team.

5.7 The proposals that will have significant impact on APF and/or Brunel are as follows:

- (1) **LGPS funds fully delegate investment strategy implementation to the pool.** APF would define its high-level investment objectives and strategic asset allocation based on 9 buckets of assets, setting a target allocation and range for each. Brunel would decide how to implement the strategic allocation across the portfolios it offers. For example for the allocation to equities, Brunel and not APF would decide the allocation to developed markets, emerging markets, small cap, as well as the active/passive split.
- (2) **All legacy assets to transfer into the pool before April 2026.** If the pool is to provide strategic advice to LGPS funds (see below) it is logical for them to manage all legacy assets. However, there are no efficiencies to be gained on legacy holdings which are being naturally wound down (closed ended funds) as Brunel will be left managing a long tail of small holdings. It is logical though to bring other legacy investments under pool management if Brunel is to provide solutions across all investment buckets.
- (3) **Pools to develop capability to provide strategic advice to client funds.** In essence the pools are moving to a fiduciary manager model except that they have no oversight or responsibility for the liabilities. There are concerns as to how clients will hold the pool accountable and how conflicts will be managed. It may result in changes to the relationship and governance arrangements of the pool overall. Currently we can withdraw assets from the pool if necessary but in future would only be able to use shareholder rights to remove directors if unhappy with service or performance.
- (4) **Pools to develop internal management capability.** Brunel currently appoint external managers for the listed assets but in some of the private market portfolios they have a more direct role in asset selection. The pool would have to consider where internal management would add value in terms of net returns and governance, and if so, if just in private markets or across all assets. It would increase costs that would not initially be offset by savings.

5.8 Proposals on how pools will deliver new fiduciary duties and operating models are to be submitted by 1 March 2025 which is a very tight deadline given the issues that need to be thought through. The consultation does not cover costs associated with these changes, and extending the pools remit in this way will require an increase in resources. We should assume that such costs would be borne by the LGPS funds.

5.9 Although the pools may provide some strategic advice, APF would still require independent investment advice to set the strategic objectives and high-level asset allocation that supports the funding strategy. Furthermore, if more investment decision making responsibility is delegated to the pool, then the committee needs advice to ensure APF can challenge and hold the pool accountable. At this stage it is unclear how our Risk Management strategies would be managed between us and Brunel.

Boosting LGPS investment in localities and regions

5.10 These proposals are:

- (1) **Funds need to formalise target allocation to local investments.** This has less impact for APF as we have a target in place and are building out the

portfolio. The intention has always been to keep the target allocation under review once the portfolio is established.

(2) **Local investment plans will need to be developed with local authorities, combined authorities, mayors, etc. to identify suitable opportunities.**

This will have more impact on APF as currently we have only informally consulted local bodies and introduced them to the investment managers we have selected. This will need to be formalised.

(3) **Pool will assess and decide on local investment opportunities.** This will have significant impact on APF as the implication is that APF will propose opportunities to Brunel whereas currently the Pension Committee makes the decision. It does ensure there is independent decision making but will require local bodies to develop economically attractive investment proposals for Brunel to consider.

5.11 Local impact investing is an important aspect of APF's investment especially in terms of communications with our stakeholders and any changes must not diminish the link to and interaction with APF. How APF and Brunel work together on this aspect of our investment strategy will need to be developed to ensure this does not happen.

5.12 Again there may be an increase in costs if investment decisions are delegated to Brunel as they will need to add resources to the team.

Strengthening Governance of both LGPS Funds and pools

5.13 It is pleasing to see that the main recommendations of the of the 2021 Good Governance Review by The Scheme Advisory Board are finally being implemented. APF has already implemented many of the recommendations and as a result these proposals will have less impact on the fund.

5.14 APF already:

- (1) Publishes a compliance statement, representation policy, training policy, conflicts policy.
- (2) Has appointed the Head of Pensions as the senior LGPS officer.
- (3) Has three independent members (with voting rights) on the committee, providing expertise.
- (4) Publishes its admin strategy and has made its annual report in accessible format.

5.15 If committee members are to be subject to the same knowledge and skills regime as Pension Board members, then the training policy will have to be strengthened to ensure compliance.

5.16 The Good Governance review proposes biennial independent governance reviews followed by an action plan. This is new and would increase workload but as APF has implemented the majority of the review's recommendations, the practical effects are likely to be marginal.

5.17 At the pool level the only proposal that could have an impact is around shareholder representation on the board of the pool company. Currently there is a Shareholder Non-Exec Director that 'represents' the client funds and meets with the shareholder representatives from informally to discuss strategic issues. If this needs to change to meet the new requirement it would be manageable.

6 NEXT STEPS

- 6.1 The Committee is invited to comment on the draft response 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 in January 2025.
- 6.2 Officers will keep Committee informed of Brunel's plans as they develop over the next few months.
- 6.3 In 2025 officers will put forward the plan to move the legacy assets to the pool for the Panel to consider. This will obviously be done in conjunction with Brunel and the wider pool.

7 RISK MANAGEMENT

- 7.1 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.

8 EQUALITIES STATEMENT

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

9 CLIMATE CHANGE

- 9.1 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.

10 OTHER OPTIONS CONSIDERED

- 10.1 None.

11 CONSULTATION

- 11.1 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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Background papers	None
Please contact the report author if you need to access this report in an alternative format.	