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Consultation: Local Government Pension Scheme (England and Wales): Fit for the future

We refer to the open consultation published by Government on 14th November. This letter is the response of the Somerset Council Pension Fund (SCPF) and was approved at the Somerset Council Pension Fund Committee held on Friday 13th December 2024.

The primary purpose of the SCPF, as with all LGPS funds, is to pay the pensions of its Pension Fund members. The Committee believes it has an important role in protecting the pensions of its members and ensuring that the Fund is accountable to fund employers. Secondary to ensuring the pensions of our members, but still upmost in our considerations, is maximising our investment returns and minimising our costs to keep the costs of the fund to employers and ultimately to local taxpayers as low as possible. We believe that the LGPS is a well managed pension scheme, and we want to ensure that it remains so. We have provided answers to the questions in the consultation document within that context.

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

We broadly support the requirements set out in the consultation document but will specifically respond to the detail in later questions.

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?

We support administering authorities retaining the ability to set high-level investment objectives and to set a high-level strategic asset allocation. We suggest that there needs to be close working between the pool and their administering authority clients on the investment strategy and strategic asset allocation, such that administering authorities continue to have some input into more detailed allocations within asset classes, particularly listed equities (see answer to question 4 below).

We support implementation activity related to the choice of investments, underlying investment managers and funds being delegated to the pool. This is already the case for the Brunel pool.

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

In order to meet its fiduciary duty, the administering authority needs to be able to set the investment strategy. The administering authority needs to ensure that the investment strategy balances targeting a sufficient level of return at an appropriate level of risk. This means that the administering authority must set and drive the investment strategy and strategic asset allocation to ensure that this is the case. Much of this will come down to the working relationship between the pool company and the administering authority, but a more granular breakdown of the listed equity allocation would be helpful (see answer to question 4 below).

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

We would suggest that given most LGPS Fund's still have a significant proportion of their investments in listed equity, there should be some discretion for administering authorities to discuss with the pool how their listed equity allocation is allocated at a more detailed level. We suggest as a minimum that the balance between passive and active listed equity portfolios should be included in the template.

We also believe that Index Linked Gilts provide a significantly different type of asset to conventional UK Gilts and that these should be separated out on the template.

Across all of the asset classes we believe Administering Authorities should be able to input into the pool their risk and return expectations for each asset class, the objectives around responsible investment and climate friendly allocations.

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?

We do not agree that the pool should provide investment advice. The SCPF has an independent adviser that supplements our officers in advising on the investment strategy and attends Pension Fund Committee meetings. It is not clear how the pool could provide investment advice in a way that does not create a conflict of interest.

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?

The Brunel Pension Partnership is already set up as an FCA authorised investment management company, so this is supported.

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

SCPF completed the transfer of all listed assets into pooled vehicles managed by Brunel in July 2021, so this is supported.

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

We do not support the transfer of legacy illiquid investments to the pool. In the case of SCPF these investments were made prior to 2020 and were part of long standing investments that SCPF officers built up over a number of years with a small number of private equity providers, the administering authority is better suited to managing the run off of these over time. These stand alone investments will not generate any economies of scale through being transferred to pool management and may divert pool resources away from achieving the other objectives of this consultation. Ownership of the funds would in most cases need to remain with SCPF to avoid transfer costs.

A requirement for any new illiquid investments to be made only through Administering Authority's pool company would be supported.

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?

We believe that the pools should have the relevant expertise to sufficiently carry out their duties. As such we believe that Brunel already has sufficient expertise, however capacity could be an issue and therefore additional resource would be required to manage partner funds' legacy assets. We think this would add an additional cost that is unnecessary and divert management time.

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?

Differing pools and Administering Authorities have very different starting positions. Even those whose starting position gives them the easiest route to meeting all of these requirements will need to work with their pools on revised budgets and resources to meet the new requirements and some of this work will not be possible until the detail is confirmed in regulations. Scaling up and recruiting the right staff takes time and could be an additional cost.

We would suggest that for the best placed the timetable is a stretch. For others it feels unachievable.

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?

We would support collaboration between pools where that enables larger investments at lower cost or supports specialisation in certain asset classes. We support the principle that all Administering Authorities should invest through their pool, but that the pool can then decide to allocate via another pool if that enables a better investment to be made.

The scale and breadth of these reforms will take significant management effort by all of the pools to deliver. It is hard to see how they will have the capacity to work on collaboration in the short term whilst they are working to deliver the other aspects of this consultation.

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?

The Devon and Somerset Pension Funds set up Peninsula Pensions as a shared administration service over 10 years ago. This is working well as an active collaboration between the two funds. We think this collaboration, which also provides administration to a local Police and Crime Commissioner and a local Fire brigade, is of sufficient scale to have accessed the efficiencies that might be available.

One of the key areas to ensure effective pensions administration is the relationship with employers, which helps to ensure that the required data is provided in an accurate and timely manner. Given the large number of employers in the LGPS, there is a risk in growing too big to maintain an effective relationship with all employers.

Administering Authorities within the Brunel partnership have done ad-hoc joint working on training since long before pooling was implemented and are content they remain able to have those conversations where they make sense.

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?

The most important thing is that the definition is clear and consistently applied. We have concerns regarding the availability of sufficient quantities of good investments that will meet our risk and return needs and so we would favour a fairly broad definition of local, certainly nothing smaller than the area covered by the Funds within the Brunel group.

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?

We have concerns that capacity could be an issue for both Administering Authorities and Local Government entities to work in this manner.

Whilst we support working with our pool and the local authority community we have significant doubts that they will generate sufficient viable and good quality investments. For local investments to be done at the scale envisaged by government other avenues to sourcing local investments will need to be explored such as working with Government agencies.

We also have concerns at the costs and capacity involved in having to conduct the appropriate due diligence on significant numbers of proposals as this is resource intensive work.

We believe that LGPS funds need to maintain their focus on fiduciary duty and investment returns and therefore should not be required to have any regard for local growth plans or local growth priorities. This is consistent with the proposal that Pools have the final say on which investments to allocate money to.

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?

This requirement seems inconsistent with the proposed template for strategic asset allocation in the investment strategy statement discussed under question 4. We believe that if we are to be required to set a target range for local investment in our investment strategy then this should be incorporated into the template.

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?

If pools are to be responsible for implementing local investment, then they will need to have the capacity and capability to undertake due diligence. We have concerns regarding the costs that could be associated with this.

We think that this is also likely to need to involve specialist fund managers in certain areas of activity. For example, the pool might find it difficult to directly undertake lending to local businesses, with the appropriate due diligence necessary on each investment opportunity, and would need to look to invest via a specialist fund manager with the expertise to do that.

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?

We support the proposal that Administering Authorities should report on their local investments.

If we are required to report on impact there needs to be clear guidance on how this is to be done and believe it needs to be based on empirical metrics such as numbers of affordable homes provided, units of renewable electricity provided etc. A range of standard metrics would need to be agreed. On the assumption that the pool is managing the investments, then the pool would be expected to provide the agreed metrics.

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

We support the proposals based on the SAB's Good Governance recommendations. These improvements to governance are long overdue.

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?

We support this proposal. SCPF already has a written training policy and reports on training activity in its annual report.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

We support the proposal for a statutory senior LGPS officer.

We do not however see the relevance of the senior LGPS officer being involved in the local authority's budget-setting process. The focus of the LGPS Senior Officer should be to support the Pension Fund Committee in running the Fund with limited other responsibilities so as to ensure there are no conflicts of interest within the administration authority.

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

SCPF already has a published administration strategy, so we support this proposal.

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?

We support the freedom to make a local decision as to whether to include these documents in the annual report.

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

We note that this proposal will require additional resources and therefore add cost to the management of LGPS pension funds. However, we are supportive of improvements to governance arrangements.

We suggest that the proposed governance reviews could be undertaken on a triennial basis, rather than biennial. This could then link in with the Section 13 review of the Triennial Valuation undertaken by the Government Actuary's Department.

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

SCPF has always placed a high priority on ensuring regular training is provided for Pension Fund Committee members to ensure they have the appropriate knowledge and understanding. We therefore support this proposal.

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?

SCPF has always placed a high priority on ensuring regular training is provided for Pension Fund Committee members to ensure they have the appropriate knowledge and understanding. We therefore support this proposal.

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?

SCPF has had an independent investment advisor for many years, so we support this proposal.

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

We think that it is vital that a strong working relationship is maintained between the pool company and its shareholders / client Administering Authorities. We support the proposal that pool company boards should include shareholder representatives. However, we are mindful that as an FCA regulated company any Non-Executive Directors of Brunel will have to satisfy the relevant FCA requirements.

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Pension Fund members are currently represented with 2 observers on the Brunel Oversight Board. The Board also comprises the chair of each of the partners' Pensions Committee. We support that this arrangement should continue.

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?

Administering Authorities will continue to need clear reporting on investment performance, climate impact, costs and other metrics. We currently receive clear quarterly reporting, annual carbon metrics and cost transparency reports under the SAB's cost transparency initiative. In this sense Brunel are meeting all of our needs.

Any additional delegation of responsibilities to the pool companies should not lead to a reduction in the level of reporting to the individual Administering Authorities.

Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

We do not believe that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.

For and on Behalf of the Somerset Council Pension Fund.

Anton Sweet
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