Legal and Governance

Middlesbrough
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TEESSIDE PENSION BOARD

Date: Wednesday 26th February, 2025
Time: 2.00 pm
Venue: Spencer Room, Town Hall

AGENDA

1.	Welcome and Fire Evacuation Procedure In the event the fire alarm sounds attendees will be advised to evacuate the building via the nearest fire exit and assemble at the Bottle of Notes opposite MIMA.	
2.	Apologies for Absence	
3.	Declarations of Interest To receive any declarations of interest.	
4.	Minutes - Teesside Pension Board - 25 November 2024	3 - 6
5.	Minutes - Teesside Pension Fund Committee - 25 September 2024	7 - 14
6.	Teesside Pension Fund Committee - 11 December 2024 Verbal Report	
7.	Update on Work Plan Items	15 - 22
8.	Government Consultation - LGPS (England and Wales) Fit for the future	23 - 76
9.	XPS Administration Report	77 - 100
10.	Any other urgent items which in the opinion of the Chair, may be considered	

Charlotte Benjamin

Director of Legal and Governance Services

Town Hall
Middlesbrough
Tuesday 18 February 2025

MEMBERSHIP

P Thompson (Chair) , J Stubbs, J Bell, M Dunbar, C Massey and N Walker

Assistance in accessing information:

Should you have any queries on accessing the Agenda and associated information please contact Claire Jones/Susan Lightwing, 01642 729112/01642 729712, claire_jones@middlesbrough.gov.uk/susan_lightwing@middlesbrough.gov.uk

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 25 November 2024.

PRESENT:	Paul Thompson (UNISON), J Bell and N Walker
ALSO IN ATTENDANCE:	L Pelmear (XPS)
OFFICERS:	Nick Orton and Claire Jones
APOLOGIES FOR ABSENCE:	J Stubbs and Councillor C Massey

23/11 **WELCOME AND FIRE EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

23/12 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
J Bell	Non pecuniary	Member of Teesside Pension Fund

23/13 **MINUTES - TEESSIDE PENSION BOARD - 8 JULY 2024**

The minutes of the meeting of the Teesside Pension Board held on 8 July 2024 were taken as read and approved as a correct record.

23/14 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 17 JULY 2024**

A copy of the minutes of the meeting of the Teesside Pension Fund Committee held on 17 July 2024 was submitted for information.

23/15 **TEESSIDE PENSION FUND COMMITTEE - 25 SEPTEMBER 2024**

The Head of Pensions Governance and Investments provided a verbal update on agenda items considered at a meeting of the Teesside Pension Fund Committee held on 25 September 2024.

It was noted that £67m had been invested in the quarter, at the end of the quarter the Fund was 66% invested in equities. It had been agreed that the Fund would sell passive equities after discussions with advisors.

The Committee had agreed to complete the National Knowledge Assessment, facilitated by consultants Hymans Robertson, to help assess the Committee's collective relevant LGPS knowledge with a view to facilitating targeted training to meet any training needs identified.

A presentation was delivered from the Actuary on the Section 13 Report whereby the government had provided a 3-year comparison and analysis of Pension Funds. It was noted that there were no areas of concern in regards to the Teesside Pension Fund, the report did however, highlight that our Employers pay the second lowest rate of contributions (however the fund is the 20th best funded out of 86). A discussion had taken place at the Committee around contributions and what may happen in the future.

The Strategic Asset allocation update had been provided to the committee . A reclassification of the category known as 'other alternatives' had been agreed.

AGREED that the information provided was received and noted.

23/16 **UPDATE ON WORK PLAN ITEMS**

A report of the Director of Finance was presented to provide Members of the Teesside Pension Board with information on items scheduled in the work plan for consideration at the current meeting and to present the Board with an updated work plan covering the next two calendar years.

The item scheduled for consideration in the work plan for this meeting was the annual review of board training. The work plan at Appendix A set out the planned activity for the Board. This was brought to each Board meeting and would be updated in line with suggestions from the Board and to take account of any changes to best practice or the regulations and guidance for the Scheme.

A discussion took place in respect of methods of training available to members, other than the online learning tool. It was agreed that the Head of Pensions, Governance and Investments would research additional training opportunities, it was further noted that board members are permitted to attend Committee meetings.

AGREED that the information provided was received and noted.

23/17 **PENSION FUND ADMINISTRATION - PROCUREMENT OUTCOME - VERBAL UPDATE**

The Head of Pensions, Governance and Investments gave an update on the recent procurement outcome of the pension fund administration.

There were two bidders with The Tyne and Wear Pension Fund noted as the successful bidder, due to pricing/best value and; XPS, the current provider, noted as being unsuccessful. The opportunity to partner up with Tyne and Wear Pension Fund aligns with the ethos of Public Sector and not for profit regulations. The tupe of XPS staff will now be explored.

AGREED that the information provided was received and noted.

23/18 **DRAFT PENSION FUND ANNUAL REPORT 2023/24**

A report of the Director of Finance was presented to provide Members with a draft Pension Fund Annual Report which took into account updated guidance on annual reports issued earlier this year.

A copy of the draft unaudited Report and Accounts for the year ended 31 March 2024 was attached to the submitted report at Appendix A.

The Pension Fund had carried out an assessment on its financial position and performance during 2023-24 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £5.47b as at 31 March 2024. £3.53b (64.5%) of this is held in assets which are considered to be liquid, and which could be converted to cash if required (including £0.20b actually held as cash).
- The Fund had estimated it would pay out £234m in benefits and other outgoings in the coming twelve months and had forecasted contribution income in the region of £121m. This shortfall in contribution income versus benefits and other expenditure of £113m would be met from investment income – forecast to be £145m if dividend income could be taken from Border to Coast equity funds, or £75m if this option does not become available during 2024/25. Assuming the lower amount of investment income was received, the remaining £38m would be taken from the Fund's cash balance, which was £199m at 31 March 2024.

The Annual Report and Accounts were presented in draft form and, whilst the main numbers and outcomes were not expected to change in any significant way, changes might be needed as further review took place and an updated report would be circulated to the board.

The audit process for the Council, and so for the Pension Fund, had been protracted in recent years. As at the time of writing the report, the 2021/22 and 2022/23 Pension Fund accounts had not been signed off by the external auditor. However, this situation was expected to be resolved in the beginning of December, as all delayed audits need to be signed off or 'disclaimed' by mid-December. This meant that there remained some uncertainty over the starting position within the draft accounts, although no significant changes were expected. The audit of the 2023/24 accounts had also been delayed, owing to the delay to completing the previous years' audits. The 2023/24 audit is underway and is expected to be completed by the end of February 2025.

AGREED that the information provided was received and noted.

23/19 **XPS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The report provided information on the following:

- Headlines
- Errors and Complaints
- Member Engagement
- Membership
- Data Quality
- Regulations and Guidance

The highlights of the report included;

- Membership continued to steadily increase (total membership 83,612 members).
- Active and Deferred Benefit statements were issued by the legislative deadlines.
- SLA 99.96%
- 9 live complaints remained outstanding.
- Member self-serve figures continued to increase, with a projected rise by August 2025.

AGREED that the information provided was received and noted.

23/20 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The Head of Pensions, Governance and Investments presented the 2024 LGPS National Knowledge Assessment of the Teesside Pension Fund to the board and thanked members for their involvement.

It was noted that the participation level was 50% of the board and 60% of the committee. Based on the results of the assessment, training sources were provided for consideration in training plans, to make the planning and delivery of these sessions more efficient for the Fund.

The board agreed that it would be useful to compile a training plan whereby training modules form part of each board meeting.

AGREED that the information provided was received and noted.

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 25 September 2024.

PRESENT: Councillors J Rostron (Vice-Chair), J Ewan, D Branson, D Coupe, T Furness, D Jackson, J Young, J Beall, M Fairley, M Scarborough and Ms J Flaws

ALSO IN ATTENDANCE: W Brown,
D Knight (Border to Coast)
A Owen, R Quinn, G Rutter (CBRE)
P Moon (Independent Adviser)
T Backhouse (Mazars)
S Durrant, L Pelmear (XPS)

OFFICERS: Claire Jones, Debbie Middleton and Nick Orton

APOLOGIES FOR ABSENCE: J Kabuye, S Hill and Mr T Watson

24/21 **WELCOME AND FIRE EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/22 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item / Nature of Business
Councillor Beall	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Coupe	Disclosable personal interest	Non-Executive Director of Border to Coast Pensions Partnership LTD.
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non-Pecuniary	Member of Teesside Pension Fund

24/23 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 17 JULY 2024**

The minutes of the meeting of the Teesside Pension Fund Committee held on 17 July 2024 were taken as read and approved as a correct record.

24/24 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance was presented to inform Members how the Investment Advisors' recommendations were being implemented. A detailed report on the transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's valuation was included, as well as a report on the treasury management of the Fund's cash balances and the latest Forward Investment Programme.

The Fund continued to favour growth assets over protection assets. For the period under discussion, bonds were still not considered value for the Fund. The Fund had no investments in Bonds at this time.

At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash. The cash level at the end of June 2024 was 3.44%.

Investment in direct property continued where the property had a good covenant, yield and lease terms. There were no purchases or sales in the quarter. Investment in Alternatives, such as infrastructure and private equity, offered the Fund diversification from equities and bonds. An amount of £67m was invested in the quarter.

It is a requirement that all transactions undertaken are reported to the Committee. Appendix A detailed transactions for the period 1 April 2024 – 30 June 2024. There were net purchases of £66m in the period.

The Fund Valuation detailed all the investments of the Fund as at 30 June 2024, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,524 million. The detailed valuation was attached as Appendix C was also available on the Fund's website www.teespen.org.uk. This compared with the last reported valuation, as at 31 March 2024 of £5,468 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2024 compared with the Fund's customised benchmark.

As at the 30 June 2024 the Fund's equity weighting was 60.26% compared to 60.92% at the end of March 2024. Redemptions of £75m in total, were made from the Border to Coast Overseas Developed Market and UK Listed Equity Funds. It was agreed between the Investment Advisers and the Head of Pensions Governance & Investments that the Fund will disinvest from our State Street (SSGA) Passive Equity Funds.

The redemptions from SSGA had started with the proceeds coming back to the fund, (approximately £340m would be returned as cash), they would be completed over the coming quarter and reported to the Committee. The transfer of £330m to the Border to Coast Overseas Equity Fund was complete in September.

To date the Fund had agreed 4 Local Investments:

- GB Bank – £20m initial investment called in full in September 2020. £6.5m was paid to the bank in December 2021. £13.5m paid August 2022 as the bank received regulatory approval to exit mobilisation. £4m was agreed at the September 2023 Committee and paid to GB Bank in October. £5m agreed at March 2024 Committee and paid May 2024.
- Ethical Housing Company - £5m investment of which £765k had been called.
- Waste Knot - £10m investment agreed at the June 2021 Committee, payment made in full December 2021.
- FW Capital – At the September Committee agreement was given for an investment of £20m into the Teesside Flexible Investment Fund. The money would be called down as and when investments were made.

As at 30 August 2024 total commitments to private equity, infrastructure, other alternatives and other debt were £1,963m

ORDERED that the information provided was received and noted.

24/25 **EXTERNAL MANAGERS' REPORTS**

The Head of Pensions, Governance and Investments presented a report which provided Members with Quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited ('Border to Coast') and with State Street Global Advisers ('State Street').

At 30 June 2024 the Fund had investments in the following three Border to Coast listed equity sub-funds:

- The Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
- The Border to Coast Overseas Developed Markets Equity Fund, which had an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).
- The Border to Coast Emerging Markets Equity Fund, which had an active emerging markets equity portfolio aiming to produce long term returns at least 1.5% above the FTSE Emerging markets indices. Part of the Fund was managed externally (for Chinese equities) by FountainCap and UBS, and part managed internally (for all emerging markets equities excluding China) by the team at Border to Coast.

For all three sub-funds the return target was expected to be delivered over rolling 3 year periods, before calculation of the management fee.

The latest report showed performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture controversial weapons. As expected for a passive fund, performance closely matched the performance of the respective indices.

As reported to the 13 December 2023 Committee, State Street had advised that it had made further changes to its passive equity indices and is excluding additional sectors. The Fund was notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in have applied screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies were any involved in production of tobacco or tobacco products and companies that extract thermal coal or have thermal coal power generation and this activity represented 10% or more of revenues. This was in addition to the screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications are across the four State Street Sub-Funds these changes covered around 0.36% of the assets (tobacco) and 0.88% of the assets (thermal coal) that the Fund invests via State Street.

ORDERED that the information provided was received and noted.

24/26 **LGPS NATIONAL KNOWLEDGE ASSESSMENT**

The Head of Pensions, Governance and Investments presented a report which provided Members with information about the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson and asked Members to agree that they and Members of the Teesside Pension Board (‘the Board’) would undertake this assessment.

In January 2019 the LGPS Scheme Advisory Board (“SAB”) had commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS. This review was termed the ‘Good Governance’ project. This review recognised the Pension Regulator’s (“TPR”) push to increase governance and administration standards in pension schemes, including public service pension schemes, for which it had oversight responsibility.

ORDERED:

- That members would participate in the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson, to help assess the Committee’s collective relevant LGPS knowledge with a view to facilitating targeted training to meet any training needs identified.
- that the members of the Teesside Pension Board would be included in the assessment process.

24/27 **PRESENTATION FROM THE ACTUARY - 2022 VALUATION SECTION 13 RESULTS**

A representative from Hymans attended the meeting to present the 2022 Valuation Section 13 Results.

Under Section 13 of the Public Service Pensions Act the Ministry of Housing, Communities and Local Government (“MHCLG”) appointed the Government Actuary’s Department (GAD) to carry out a review of the LGPS local funding valuations. GAD published their report on the 2022 valuations on 14 August 2024.

GAD recognised the improved presentational consistency in the 2022 valuations, and that the continued use of the section 13 dashboard (first introduced for the 2019 valuations) greatly aids stakeholders’ understanding. GAD noted concern around the continued lack of evidential consistency since the previous review at 2019. Whilst GAD appreciate that specific fund circumstances may merit the use of different actuarial assumptions, they believe that these differences may lead to different outcomes, for example different contribution rates. Wherever possible, GAD believe in the importance of information being presented in a way that facilitates comparisons. GAD made two formal recommendations in this area for the Scheme

Advisory Board to consider:

- Whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks, and
- whether guidance would be helpful to support greater consistency on emerging issues.

GAD recognised the significant progress made by funds and actuarial advisers in the presentation of climate risk analysis as part of the 2022 fund valuations. They recommended that work continues to refine their Climate Change Principles Document in advance of the 2025 fund valuations.

On solvency GAD reported:

- In aggregate, the funding position of the LGPS had improved since 31 March 2019; and the scheme appeared to be in a strong financial position.
- Total assets had grown in market value from £290bn to £366bn
- Total liabilities disclosed in the 2022 local valuation reports amounted to £344bn.
- The aggregate funding level of the LGPS on prudent local bases had improved from 98% (in 2019) to 106% (at 2022) due in large part to strong asset returns over the 3-year period to 31 March 2022.
- The size of funds had grown significantly over the three years to 31 March 2022 relative to the size of the underlying authorities. This meant that funds in deficit were more likely to trigger GAD's asset shock measure, where there is a risk of a large changes in contribution rates following a sustained reduction in the value of return-seeking assets. GAD raised white flags against impacted funds. Given the strong position, no red or amber flags were raised in the LGPS for solvency concerns.

Despite having Teesside Pension Fund having one of the lowest contribution rate levels at 14.8% of pay, no flags were raised against the Fund for long-term cost efficiency concerns.

A discussion took place whereby Members queried the Fund's low level of contributions and whether this would have an impact on solvency. It was noted that there was no overall cause for concern or immediate pressures. The Director of Finance highlighted that the Medium Term Financial Plan (MTFP) and the financial pressures of employing authorities needed to be further understood by the Committee; the Pension Fund is in a stable state with no cause for concern, however, there would be cause for concern for the MTFP, should there be a significant need to increase contributions.

ORDERED that the information provided was received and noted.

24/28 **DRAFT PENSION FUND ANNUAL REPORT 2023/24 - VERBAL UPDATE**

The Head of Pensions, Governance and Investments gave a verbal update on the Draft Pension Fund Annual Report 2023/24.

It was noted that the report required further completion due to the Government's new format. The report would be circulated to the committee for comment and to the Teesside Pension Fund Board in November, prior to submission on 1st December.

ORDERED that the information provided was received and noted.

24/29 **BORDER TO COAST PRESENTATION**

The Committee received a summary and update on the Fund's investments with Border to Coast.

The presentation provided information on the following:

- Investments with Border to Coast
- Global Market Outlook
- Listed Investments
- Private Equity Summary
- Climate Opportunities
- Infrastructure Selected Fund Updates

ORDERED that the information provided was received and noted.

24/30 **GOVERNMENT CALL FOR EVIDENCE**

The Head of Pensions, Governance and Investments presented a report which advised Members of a recent ‘Call for Evidence’ issued by the government which asked for views on the Local Government Pension Scheme (LGPS), including on asset pooling and investments in the UK.

The previous government carried out a 12-week consultation which ended on 2 October 2023 entitled “Local Government Pension Scheme (England and Wales): Next steps on investments”. This consultation looked to build on and accelerate progress towards greater LGPS pooling. The stated objective of the consultation was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging / requiring all LGPS funds to complete the pooling process with their current pool and then reduced the number of pools from eight to an unspecified lower number. The outcome of this consultation was reported to the 13 December 2023 Pension Fund Committee.

The new government confirmed on 4 September 2024 that it was carrying out a pensions review which it described as follows: “The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme.”

The government issued a ‘call for evidence’. The following three topics were covered in the call for evidence, some questions under these topics related to defined contribution schemes others purely relate to the LGPS and some potentially cover both:

- Scale and consolidation
- Costs vs Value
- Investing in the UK

The deadline for response, 25 September 2024, was 3 weeks after the document was published. The Head of Pensions Governance and Investments has worked with colleagues in Border to Coast and its Partner Funds to produce a coherent and consistent response designed to emphasise:

- The benefits of scale provided by the Fund’s participation in Border to Coast.
- The extent to which the Fund already invests in the UK.
- Consideration to whether potential pool or fund consolidation would of itself lead to greater investment in UK assets, as the call for evidence seems to imply.

A draft response was shared with Members of the Teesside Pension Fund Committee for agreement.

ORDERED, as follows that:

- The draft response was approved.
- Final approval would be sought from the Chair / Vice Chair before submission to Government.

24/31 **STRATEGIC ASSET ALLOCATION UPDATE**

The Head of Pensions, Governance and Investments presented a report which asked Members to agree to a revision to the Pension Fund’s strategic asset allocation and that a short consultation should be carried out with employers in the Fund to explain the proposed changes.

The Head of Pensions Governance and Investments met with the Fund’s two independent investment advisors in July to discuss the Fund’s strategic asset allocation approach and a number of other investment issues. Points considered in relation to the current asset allocation included the following:

- The current allocation to growth assets is significantly higher that the target, with the converse being true for the allocation to protection assets.

- The "Other Alternatives" category is not particularly helpful, particularly as the Fund is being asked to report on private equity allocations and commitments, some of which will currently be covered under this "Other Alternatives" category.
- There was a question over whether Property is correctly allocated as a Growth rather than a Protection asset.
- Is it correct to continue with such a flexible approach to the allocation to "Bonds / Other debt / Cash" or should each element be allocated a separate target?

Following discussion it was agreed that assets currently classified as "Other Alternatives" would be reclassified as appropriate to either private equity, infrastructure, property or other debt

ORDERED:
- That Members agreed to the proposed revised strategic asset allocation.
- That the table in paragraph 6.1 would be incorporated into an updated ISS and circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation would be brought to the next Committee meeting, but if there were no such changes the ISS would be published in due course.
- Officers would continue to work to implement the revised strategic asset allocation and would report back to future Committee meetings on progress.

24/32 **INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors provided reports on current capital market conditions to inform decision-making on short-term and longer-term asset allocation, which were attached as Appendices A and B to the submitted report.

Further commentary was provided at the meeting.

ORDERED that the information provided was received and noted.

24/33 **CBRE PROPERTY REPORT**

A report was submitted that provided an overview of the current property market and informed Members of the individual property transactions relating to the Fund.

As of 30th June 2024, the portfolio comprised 34 properties located throughout the UK, with a combined value of £484.2m. This reflected an overall Net Initial Yield of 4.47%, and an Equivalent Yield of 5.61%. The portfolio comprised of principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 94% of the Portfolio by capital value. There were 91 demises and a total net lettable area of 2,751,651 sq. ft. The portfolio had a gross passing rent of £27,284,260 per annum against a gross market rental value of £27,570,187 per annum. The weighted average unexpired lease term was 9.7 years to the earlier of the first break or expiry and 10.2 years to expiry, ignoring break dates.

ORDERED that the information provided was received and noted.

24/34 **XPS PENSIONS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The report provided information on the following:
- Highlights
- Headlines
- Errors and Complaints
- Member Engagement
- Membership Data
- Quality Regulations and Guidance

The following was noted:
- Membership continued to steadily increase over Q1 for active members.
- Newsletters were issued the week of 17th September.

- Active and Deferred Benefit statements were issued by the legislative deadline.

ORDERED that the information provided was received and noted.

24/35 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

24/36 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

24/37 **LOCAL INVESTMENT UPDATE - GB BANK**

A report was presented which provided Members of the Teesside Pension Fund Committee (the Committee) with an update on local investment.

ORDERED that the information provided was received and noted.

24/38 **LOCAL INVESTMENT UPDATE - ETHICAL HOUSING COMPANY**

A report was presented which provided Members of the Pension Fund Committee (the Committee) with an update on local investment.

ORDERED that the recommendation at paragraph 2.1 of the report was approved.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2025

DIRECTOR OF FINANCE AND TRANSFORMATION– ANDREW HUMBLE

Update on Work Plan Items

1. PURPOSE OF THE REPORT

1.1 To present Members of the Teesside Pension Board (the Board) with information on items scheduled in the work plan for consideration at the current meeting.

2. RECOMMENDATION

2.1 That Board Members note this report.

3. FINANCIAL IMPLICATIONS

3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

4.1 At its meeting on 19 July 2021 the Board agreed an updated work plan for the coming months and years which set out areas for the Board to discuss or consider at subsequent meetings. These were typically areas that the Pensions Regulator and/or the Scheme Advisory Board (SAB) had identified as important for Local Pension Boards to consider. This work plan has been reviewed and updated periodically by the Board, with the last updated approved at its 25 November 2024 meeting.

4.2 The items scheduled for consideration in the work plan for this meeting are Pension Board Conflicts of Interest and an Update on the Code of Practice Review – these are set out below. The current work plan is contained at Appendix A.

5. PENSION BOARD CONFLICTS OF INTEREST

5.1 The Pension Regulator's General Code of Practice explains the legal requirement scheme managers of public service pension schemes have to meet certain requirements in respect of conflicts of interest relating to a pensions board. This is the relevant section of the General Code of Practice:

"**Public service pension schemes – pension boards**

22. Under section 5 of the Public Service Pensions Act 2013, scheme managers of public service pension schemes have to meet certain requirements relating to conflicts of interest regarding the pension board. In this situation, a conflict of interest is a financial or other interest, which is likely to prejudice the way in which someone carries out their role as a member of the pension board. It does not include a financial or other interest arising merely from them being a member of the scheme or any connected scheme.

23. The scheme manager must:
    a. be satisfied that a prospective member of the pension board does not have a conflict of interest
    b. remain satisfied that none of the members of the pension board has a conflict of interest

24. The scheme manager should:
    a. circulate the register of interests and the other relevant documents to the pension board for ongoing review
    b. publish these documents (for example, on a scheme's website)"

5.2 The Board's terms of reference includes the following about conflicts of interest:

"30. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

31. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

32. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Board Secretary, with the assistance of the Monitoring Officer if required, shall ensure that any potential conflict is effectively managed in line with both the requirements of the Board's conflicts policy and the requirements of the Code"

5.3 In practice, conflicts of interest are unlikely to occur but nonetheless it is important to be aware of the possibility of conflict and, if in doubt, to declare and discuss any potential conflict in advance of a meeting.

5.4 Although membership of the Local Government Pension Scheme is specifically highlighted in the Pensions Regulator's guidance as not being a conflict of interest, some Board (and Committee) members choose to declare this anyway for transparency.

5.5 As yet, no actual conflicts of interest have been identified in respect of the Board. Consideration is being given as to whether a 'nil return' statement should be posted on the Council's website to ensure compliance with the publication requirement set out in the Regulator's Code at paragraph 5.2 above.

6. UPDATE ON CODE OF PRACTICE REVIEW

6.1 The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. It has a wide range or responsibilities in relation to regulating trust-based (private sector) pension schemes and plays a more limited but still very significant, role in regulating public service pension schemes such as the Local Government Pension Scheme (LGPS).

6.2 The TPR produces guidance in relation to the governance and administration (but not the investment or funding) of public service pension schemes. As reported previously, TPR went through an exercise to merge its existing codes of practice into a single new code, the General Code of Practice, which came into force on 27 March 2024. The General Code of Practice can be found on TPR's website at the following link:

https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/general-code-of-practice.ashx

8.3 The General Code of Practice is divided into five sections (shown in bold below). Also shown below are the new modules included in the General Code of Practice (not present in the previous codes of practice). Some of these (asterisked and shown in italics) will not directly apply to the LGPS but where this is the case, compliance will usually be viewed as 'best practice' by TPR.

The governing body
- Meetings and decision-making
- *Remuneration and fee policy **
- *Managing advisers and service providers **
- *Scheme continuity planning **
- *Own risk assessment **

Funding and investment
- *Investment governance **
- *Investment monitoring **
- *Climate change **

Administration

- Planning and maintaining administration
- Financial transactions
- Transfers out
- Record-keeping
- Data monitoring and improvement
- Maintenance of IT systems
- *Cyber controls **

Communications and disclosure

- General principles for member communications
- Scams

6.4 Although the General Code of Practice took effect from 27 March 2024, TPR has indicated that it does not expect schemes to be able to demonstrate full compliance with all the provisions of the Code from that date. However, what is expected that schemes will have an awareness of where there are potential gaps in compliance and, ideally, a plan setting out how and when these gaps will be filled.

6.5 As reported to the 8 July 2024 Board meeting, the Fund carried out an initial assessment to determine its level of compliance with the Code, with the aid of a spreadsheet-based assessment tool developed by Hymans Robertson (the Fund's actuary). That initial assessment showed that, from the 14 chapters of the General Code of Practice that are analysed in the report, five showed full compliance, with the remaining nine showing levels of compliance between around 57% and 93%. A task list was produced showing what steps needed to be taken to reach full compliance with the Code.

6.6 An updated version of this task list is attached at Appendix B.

7. NEXT STEPS

7.1 The workplan will continue to be provided to future Board meetings.

7.2 The Code of Practice checklist will be provided to future Board meetings as required.

AUTHOR: Nick Orton (Head of Pensions Governance and Investments)

TEL NO: 01642 729024

Appendix A

Teesside Pension Board Work Plan		
Date of Board meeting and any standard items scheduled	**Suggested areas of focus (from the Pensions Regulator's Public Service Toolkit list)**	**Suggested activities (including from the Scheme Advisory Board guidance)**
November 2024 Annual Review of Board Training		Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2025	**Conflicts of interest**	**Update on Code of Practice review**
April 2025 Annual Board Report	Managing risk and internal controls	Review of risk register Review internal and external audit reports
July 2025 Draft Report and Accounts	Maintaining accurate member data	Review administration reports, including data quality scores and progress in relation to any data improvement plans.
November 2025 Annual Review of Board Training	Maintaining member contributions	Review administration reports including in relation to any late payment of contributions. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2026	Providing information to members and others	Review standard employer and scheme member communications. Review procurements carried out by Fund
April 2026 Annual Board Report	Resolving internal disputes	Review and internal dispute cases / Pensions Ombudsman cases since the last review. Review the outcome of actuarial reporting and valuations.
July 2026 Draft Report and Accounts	Reporting breaches of the law	Review breaches process and log. Review the complete and proper exercise of employer and administering authority discretions.
November 2026 Annual Review of Board Training		Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2027	TBC	TBC
April 2027 Annual Board Report	TBC	TBC
July 2027 Draft Report and Accounts	TBC	TBC
November 2027 Annual Review of Board Training	TBC	TBC

Appendix B

Task	Original Target Timescale	Status	Revised Target Timescale
The Governing Body: Board Structure and Activities			
1. Include Nolan principles within induction training for Pension Fund Committee and Teesside Pension Board, to ensure non-Councillors are aware of required characteristics.	30/06/2024	Complete	
2. Note - Going forward, Appendix 2 (qualities of a Chair) could be shared with group leaders prior to any appointment process for a future chair of the Pension Fund Committee	30/06/2024	In-hand (for May 2025 annual Council meeting)	
Administration: Scheme Administration			
3. Develop a strategy for the long-term administrative objectives of the scheme and agree a process for delivering these with the administrator - will be picked up as part of the ongoing re-procurement of the outsourced pensions administration function.	31/12/2024	Initially align with Tyne & Wear Pension Fund's stated administration strategy objectives: "comply with…statutory requirements, improve data quality and reduce the risk of breaching rules and regulations that could result in penalties and reputational damage. The focus of the strategy is to ensure the timely flow of required and accurate information between employers and the Fund."	
Administration: IT & Cyber Security			
4. Consider providing more detail to Committee on cyber risks and controls	30/09/2024	Ongoing – Cyber risk, data security and business continuity were covered extensively in Tyne & Wear Pension Fund's administration proposal. Detail will be included in the Pension Fund Business Plan to be provided to the March 2025 Committee	31/03/2025
Communications and Disclosure: Information to Members			
5. Deferred members where no address is known do not receive benefit statements (although, technically, those statements are produced). Ongoing discussions about bulk address tracing with outsourced pensions administrator will be progressed. Assess on-line availability as a longer-term alternative.	31/12/2024	Discussions with XPS were put on hold following the announcement of the tender outcome. Will be considered once new pensions administrator onboarded.	30/09/2025

Appendix B

Task	Original Target Timescale	Status	Revised Target Timescale
The Governing Body: Knowledge & Understanding			
6. Maintain list of key scheme documents available to access outside of the on-line learning academy.	30/09/2024	Key scheme documents are currently held on https://www.teespen.org.uk/lgps-members/investments-and-funds/trust-documents/ These will be transferred to another site (tbc) from June 2025.	30/06/2025
7. Further review of the Pension Committee and Board knowledge and understanding should be scheduled.	30/09/2024	National Knowledge Assessment carried out in 2024 with Board and Committee participation, reported to Committee and Board in November/December 2024	
8. Pension Board knowledge and understanding could be further reinforced by scheduling further Board training through the Pension Board workplan	30/09/2024	Ongoing – Pension Board workplan is flexible enough to incorporate training opportunities	Ongoing
9. Could develop and document Pension Committee and Board training plans more fully.	30/09/2024	Ongoing	30/06/2025
The Governing Body: Risk Management			
10. More formal annual review of all internal control documents need to be put in place.	31/12/2024		30/06/2025
11. Further analysis is required to ensure all TPR expectations on the design of internal controls are covered.	31/12/2024		30/06/2025
12. Diarise review of assurance reports (from external providers), assess whether any gaps exist i.e. any investment managers who do not / can not provide reports. Liaise with external audit, who also go through a process to collate these reports, to avoid duplication of effort.	30/09/2024		30/06/2025
13. Review pensions administration provider's Business Continuity Plan at same six month frequency as the Fund's Plan Develop an annual review process of any potential conflicts of interest in relation to the six non- Middlesbrough Council Committee members.	31/12/2024	New provider's business continuity plan assessed as part of tender exercise.	Complete

Appendix B

Task	Original Target Timescale	Status	Revised Target Timescale
14. Develop an annual review process of any potential conflicts of interest in relation to the six non- Middlesbrough Council Committee members.	30/09/2024	Under discussion with Democratic Services	30/06/2025
15. Arrange to publish Board conflict register on website (although this is currently a 'nil' return).	30/06/2024	To be discussed with Democratic Services	30/06/2025
Investment			
16. Develop written policy on the use of advisers "These policies should consider the specific circumstances of the scheme, such as the investment knowledge and experience available to the governing body and the relevant legal requirements"	31/12/2024	On hold pending outcome of Government 'LGPS Fit for the Future' consultation exercise, which looks likely to require Funds to use their Pool company as their principal source of investment advice	30/09/2025
17. Further onward reporting and additional analysis required to fully meet the standard outlined, for example including stress testing, scenario testing and any early warning triggers that are relevant. Work with other managers to fully understand their climate risk approach.	31/12/2024	Need to identify internal (or external) resource to carry this out.	31/12/2025
Administration: Information Handling			
18. Annual review of processes and systems for financial transactions recommended. Finalise reporting on scheme-specific data.	31/12/2024	Scheme-specific data report finalised with XPS. Need to ensure reporting carried forward with new pensions administration provider	30/09/2025
19. Formal data improvement plan should be devised and implemented - will progress once new pensions administration contract is in place.	31/12/2024	Develop data improvement plan with new provider post-31st May 2025 transfer	30/09/2025
20. Carry out data reviews annually.	31/12/2024	Implement with new pensions administration provider	30/09/2025
Communications and Disclosure: Public Information			
21. Update IDRP guide leaflet to include correct contact details of Money and Pensions Service.	30/06/2024	Updated	30/06/2024
Reporting to TPR: Reporting Breaches			
22. Update breaches policy to include reference to advising TPR if another regulatory body e.g. ICO is advised of a breach.	30/06/2024	Updated	30/06/2024

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2025

DIRECTOR OF FINANCE AND TRANSFORMATION– ANDREW HUMBLE

Government Consultation - LGPS (England and Wales) Fit for the future

1. PURPOSE OF THE REPORT

1.1 To inform Members of the consultation issued by the Government intended to make the Local Government Pension Scheme (LGPS) in England and Wales 'fit for the future', outline some key points from that consultation and how the Teesside Fund could be impacted by the eventual outcome.

1.2 To provide a copy of the Fund's response to the consultation.

2. RECOMMENDATIONS

2.1 That Members note this report.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 The government confirmed on 4 September 2024 that it was carrying out a pensions review which it described as follows:

> "The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme."

4.2 The Government issued a 'call for evidence' focusing on the following three topics some questions under those topics related to defined contribution schemes others purely related to the LGPS and some potentially covered both:

- Scale and consolidation
- Costs vs Value
- Investing in the UK

In addition, the document referred to the consultation carried out by the previous Government in 2023 and stated:

> "Asset pooling policy in the Local Government Pension Scheme in England & Wales (LGPS) was consulted on in 2023. In addition to the below request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions."

4.3 There was a three-week deadline for responses. The Head of Pensions Governance and Investments worked with colleagues in Border to Coast and its Partner Funds to produce a response that emphasised:

- The benefits of scale provided by the Fund's participation in Border to Coast
- The extent to which the Fund already invests in the UK

And considered whether potential pool or fund consolidation would of itself lead to greater investment in UK assets, as the call for evidence seemed to imply.

5. GOVERNMENT CONSULTATION

5.1 On 14 November 2024 Chancellor of the Exchequer Rachel Reeves announced as part of her Mansion House speech that she was:

> "publishing the interim report of the Pensions Investment Review. It sets out our plans to create Canadian and Australian style-"megafunds" to power growth in our economy… underpinned by a clear commitment to legislate for these changes for the first time in the Pension Scheme Bill next year."

and that the Government would "legislate on measures to consolidate the Local Government Pension Scheme… and require that the 86 Local Government Pension Scheme administering authorities consolidate all their assets into 8 pools."

5.2 This was followed by the publication of a set of documents including a consultation "Local Government Pension Scheme (England and Wales): Fit for the future" which closed on 16 January 2025. A copy of the main consultation document is enclosed as Appendix A.

5.3 Links to all documents are on this page: https://www.gov.uk/government/collections/pensions-investment-review-interim-report-consultations-and-evidence

Links to the separate documents are as follows:

LGPS Consultation - https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future
The full text of this consultation document is also attached as Appendix A.

Interim Report - https://www.gov.uk/government/publications/pensions-investment-review-interim-report

Evidence base - https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy

(Also, not directly relevant to the LGPS – **Defined Contribution Pension Scheme Consultation**) - https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

5.3 Some significant points from the consultation include:

- LGPS Pool companies will need to be regulated by the Financial Conduct Authority (FCA) and able to offer internal management (Border to Coast is already FCA regulated and offers internal management in some asset classes)
- Funds/Administering Authorities will need to transfer all their listed assets to their Pool by 31 March 2025 (our Fund has already achieved this) and will be expected to transfer legacy assets to the management of the Pool by 31 March 2026 (this is the date suggested in the consultation by which pooling should be 'complete'). This is challenging – the Pool company would need to develop the capacity to manage our legacy assets (and the legacy assets of Border to Coast's other ten Partner Funds) quickly.
- Pool companies will be expected to be the principal source of investment advice to Funds/Administering Authorities. Strategic Asset Allocation can still be set at Fund level but only within strictly defined parameters. For example, Funds could choose how much to allocate to equities but seemingly could not determine whether that was internally or externally managed, or what geographical region the equities are invested in. There is some ambiguity around this however: Funds will still be able to determine, at a top level, "return objectives, risk tolerances, investment preferences, constraints and limitations" – this could potentially include a preference for passive to active management, internal or external investment (linked to risk and return parameters) and willingness to accept currency or specific geographical area risk. Proposed roles and responsibilities of the Pool and Administering Authority are set out in the following diagram from paragraph 32 of the consultation document:

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

- Paragraph 37 of the consultation further defines what investment choices an Administering Authority would be restricted to, as shown on the following page:

37. The government invites views on templates which best meet the objectives described above noting the range in possible approaches, and particularly invites views on the following template:

Table 2: template for strategic asset allocation

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds
(ii)For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

- Funds/Administering Authorities will be expected to set a target allocation to 'local investments' and to work with their local (Mayoral) Combined Authority to identify local investment opportunities. Pools would be expected to develop and provide due diligence expertise in relation to local investments.
- The proposals from the 2001 Good Governance review will be adopted, including: Pension Committee members would be required to have appropriate knowledge and skills.
- Funds/Administering Authorities would be required to appoint an independent pension professional to act as an adviser (or potentially sit as a voting member of the Committee).

5.4 We worked with our Border to Coast Partner Funds to draft a collective response to the consultation. It was also important to respond separately on behalf of the Fund, both to amplify the Border to Coast consultation response and to emphasise any issues particularly relevant to our Fund. A copy of our consultation response is enclosed as Appendix B.

5.5 As set out in the covering letter to the consultation response, these are the particular areas of focus the Fund drew attention to in its response:

- The strategic asset allocation template needs to allow administering authorities to define their choices in more detail, this could perhaps be achieved through more explicit linkage to investment beliefs. Without the option for more detailed application of asset allocation, administering authorities may be left with ultimate responsibility for investment performance (fiduciary duty) without access to the right levers to influence this performance.
- The overall deadline of March 2026 to 'complete pooling' and for pools to have developed all the skills and capacity to achieve this unrealistic. It should be acknowledged that pools will fall short in meeting this in some areas. Without some flexibility in the timetable there is a real risk of value loss caused by suboptimal decision-making driven by haste
- Involving combined authorities in administering authorities' local investment approaches can be useful, however is important to recognise the key distinction between a Mayoral / Combined Authority's regeneration objectives and the pension fund's investment return imperatives
- Creating an expectation that eight pools is too many and, perhaps, four or fewer would be the optimal number, has led to an atmosphere that is not conducive to encouraging joint working between pools. Instead, pools will understandably focus on survival.

5.6 As well as responses to the consultation, the document also asked each of the LGPS pools to prepare a proposal setting out how it would meet the requirements and timescales set out in the consultation. This proposal has to be submitted by 1 March 2025 – Border to Coast has been working on this document with its Partner Funds and is expected to have it in final form by the date of this meeting. The document will confirm that Border to Coast is well placed to meet the Government's expectations, will emphasise the key role of partnership in achieving success and will also highlight some of the potential risks inherent in achieving the consultation's ambitions.

6. NEXT STEPS

6.1 Further updates on the consultation outcome and how they will impact on the Fund, on Border to Coast and on the wider LGPS will be provided to future meetings.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

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GOV.UK

Ministry of Housing, Communities & Local Government

Open consultation

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

Published 14 November 2024

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future

Scope of the consultation

Topic of this consultation

This consultation seeks views on proposals relating to the investments of the Local Government Pensions Scheme (LGPS). It covers the areas of asset pooling, UK and local investment and governance.

Scope of this consultation

The Ministry of Housing, Communities and Local Government (MHCLG) is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope

This consultation applies to England and Wales.

Impact assessment

The proposed interventions affect the investment of assets by LGPS administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic information

Body responsible for the consultation

Ministry of Housing, Communities and Local Government

Duration

This consultation will last for 9 weeks from 14 November 2024 to 16 January 2025.

Enquiries

For any enquiries about the consultation please contact: LGPensions@communites.gov.uk

How to respond

Please respond by completing an online survey (https://consult.communities.gov.uk/local-government-pensions/fit-for-the-future). You can also access the online survey by scanning the following QR code:

Alternatively, please email your response to the consultation to LGPensions@communities.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Ministry of Housing, Communities and Local Government
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

1. Introduction

1. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). The UK has the third largest stock of pension assets in the world. It is crucial that those assets are invested effectively, to provide security in retirement. Pension funds are also critical as a major source of domestic investment. That is why the Pensions Review has been set up with the twin objectives of improving pension outcomes and increasing investment in the UK.

2. The LGPS is fully funded with good investment returns and has achieved many successes in recent years. These include the establishment of LGPS asset pools as strong regional investment managers, thanks to the commitment and hard work of people across the scheme. But few in the scheme would disagree that pooling has not delivered to its full potential and that change is needed to ensure that the scheme continues to perform in the long term in the best interests of members, employers, local communities and the wider UK economy.

3. The focus of the review for the LGPS is to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through further consolidation. The government is now consulting on proposals to put the LGPS on a clearer, firmer trajectory to scale and consolidation, as well as measures to improve scheme governance and investment. Together these proposals seek to provide long-term clarity and sustainability, putting the scheme on the strongest possible footing for the future.

4. The LGPS is one of the world's largest funded pension schemes, managing the pensions of 6.7m members and investing £392 billion worldwide, as at March 2024. Its scale makes it a significant investor with the potential to boost growth across the country, while delivering its core duty to make long-term stable returns to pay the pensions of those who have delivered vital local services. At present, however, the scheme does not reach its full potential as an investor and engine of growth due to the fragmented nature of the scheme, and inconsistent standards of governance.

5. Since 2015, the 86 administering authorities (AAs) have come together in 8 groups of their own choosing to move towards managing their investments through 8 LGPS asset pools. The previous Government consulted on proposals to accelerate and expand the pooling of LGPS assets, to increase investment in local projects , and ambitions to grow investment in unlisted equity. The responses to that consultation, along with responses to the recent Pensions Review Call for Evidence and engagement undertaken with LGPS stakeholders have informed the proposals in this consultation. The government is grateful to those who have contributed their views.

6. In August 2024 the Chancellor of the Exchequer met with leaders of Canadian pension schemes. The Canadian model has key strengths including the integration of investment advice, consistent delegation and in-house investment management, which enhance control over investments and reduce reliance on external managers. The model's governance structures ensure accountability and strategic alignment with long-term goals. Importantly, the consolidation of multiple pension funds under a unified governance framework has proven effective in achieving economies of scale and optimising resource allocation. Their model has demonstrated robust performance, setting an example globally. In developing proposals the Pensions Review has taken valuable learnings from the Canadian model.

7. The proposals will complement key Government growth programmes aimed at creating an attractive pipeline of investment opportunities such as the National Wealth Fund and the British Growth Partnership. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.

8. This consultation seeks views on proposals to strengthen the management of LGPS investments in 3 areas:

Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:

- AAs would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;
- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:

- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities,

- to work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.
- to set out their local investment and its impact in their annual reports.

Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:

- committee members would be required to have the appropriate knowledge and skills.
- AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- pool boards would be required to include representatives of their shareholders and to improve transparency.

9. The following chapters describe the government's proposals in more detail and provide the rationale behind them. Chapter 2 sets out proposals regarding asset pooling, Chapter 3 sets out proposals regarding UK and local investment, and Chapter 4 sets out proposals on governance. Finally, Chapter 5 sets out our initial assessment of potential equalities impacts and invites views.

10. Government has received representations on the issue of LGPS fund mergers. The government recognises that fund mergers can incur significant costs and risk. Nonetheless, a number of LGPS funds have successfully merged on a voluntary basis and the government encourages administering authorities to consider whether there would be benefit in merging with another fund, taking into account final decisions on the reforms proposed in this consultation.

11. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

2. LGPS pooling

Background

12. Following the publication of guidance on the pooling of LGPS assets in 2015, the 86 AAs came together in groups of their own choosing to establish 8 asset pools. As of 31 March 2024, £178 billion (45%) of LGPS assets were invested through these pools, with a further £107 billion (27%) of assets managed by the pools outside of pool investment vehicles.

13. The scale and expertise of the asset pools have delivered a step change in the expertise, capacity and resilience of the LGPS. This has enabled AAs to diversify their portfolios significantly, and to manage assets more efficiently, at reduced risk. AAs have been able to use the pools to invest in asset classes they would previously not have had the expertise or capacity to invest in, particularly in private markets. The pools have supported their partner funds by delivering investments, reporting and engagement that meets the AA's requirements on responsible investment, and which individual funds may not have had capacity to pursue by themselves. As a result, since their inception the pools have reported that they have delivered net savings of £870 million, against total costs of £675 million.

14. Examples of the benefits of scale since the inception of asset pooling in the LGPS in 2015 have included:

- Lower fees: pooling has allowed for access to complex asset classes at lower rates of management fees. For example, the cumulative net savings of Local Pension Partnership (LPP) to 31 March 2024 amounted to over £200 million. A significant proportion of these savings derives from their use of direct internal management including private market mandates such as the GLIL direct infrastructure vehicle, which is able to provide access to the asset class at a lower fee rate than comparable private sector asset managers.
- Enhanced investment opportunities: pooling allows for more sophisticated investment in diverse and large-scale projects that individual funds might not be able to access. For example, Border to Coast have launched a UK Opportunities private markets programme, which has recently committed £48.5 million to build onshore solar and wind farms as well as battery storage. The investment will develop 4 wind farms in Scotland with further sites in the pipeline. LGPS Central has introduced substantial growth funds with a focus on sustainable investing, including an internally managed £5.2 billion climate factor fund which invests in publicly listed companies targeting lower carbon emissions.
- Improved efficiencies and resilience: pooling has allowed for expertise and capacity to be shared including on reporting, and the development of in-house management of assets ('internal management') with associated lower costs, by LPP, LGPS Central and Border to Coast.

15. Most respondents to the Pensions Review Call for Evidence were positive about LGPS pooling as a concept, and thought that it was delivering scale, diversification of assets and cost savings. More than half of responses also recognised greater collaboration between funds in the same pool since pooling's introduction.

16. In addition to the evidence from LGPS pooling to date, the Pensions Review has established a broader evidence base on the benefits of investing at scale, including through analysis of international comparators such as Canadian pension schemes. The Pensions and Lifetime Savings Association found that schemes between £25 billion and £50 billion assets under management (AUM) had strong governance and could more easily invest in productive finance directly. Going further, a report by JP Morgan analysing Australian superfunds showed how funds of more than £50 billion AUM were able to drive down costs through internal management. A report by NMG consulting, which compared seven LGPS pools to eleven international comparators, also showed the benefits of economies of scale materialising once a pool reaches more than £80 billion AUM.

17. These analyses are consistent with the responses to the recent Call for Evidence which demonstrated wide support and agreement that scale leads to greater economies, efficiencies and reduced risks, as well as enabling greater expertise and diversification in investments which can importantly deliver better long-term returns for scheme members. Academic research (https://www.top1000funds.com/wp-content/uploads/2024/05/CEM-BBFS_JPM2021_CanadianModelQuantitativePortrait.pdf) also suggests the model deployed by Canadian pensions schemes, including the integration of advice, consistent delegation and in-house investment management, is able to generate 0.4% a year of additional returns vs their international competitors. Taken together, the findings of the analytical work of Phase 1 of the review suggest a clear link between scale and both asset diversification and lower costs. This is set out in further detail in the Pension fund investment and the UK economy paper (https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy) published alongside the Pensions Review Interim Report (https://www.gov.uk/government/publications/pensions-investment-review-interim-report).

18. In the light of the evidence set out above the government has considered the current position of LGPS pooling. The 8 pools each have different models: 5 are standalone FCA-authorised investment management companies ('LGPS pool companies'), 2 have an outsourced model that relies on external providers, and one has a model in which a joint committee provides oversight, but the partner funds retain management of most assets. As shown in Table 1 below the pools vary in their capability to provide advice and/or internally manage assets, in their number of partner funds, the total assets held by those partner funds, and the degree to which those assets

have been pooled. The table below distinguishes between assets that are invested in pooled vehicles, and those that are managed by the pool but have not been transferred to a pooled vehicle. Assets invested via the pool are distributed across a number of separate sub-funds designed to meet different investment objectives, each with one or more investment managers, and the pools also vary in the number of sub-funds that have been established.

19. As Table 1 shows, some of the pools have made very limited progress transferring assets from partner funds to the pool. Others have created large numbers of sub-funds, often with multiple sub-funds for the same asset class, which reduces the potential benefits of scale. Although each of these models has reported successes to date, they are not equal in their ability to continue to develop to meet future challenges.

Table 1: Overview of existing LGPS pooling models.

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Total Assets managed by pool (£bn/%) (ii)	Number of pooled sub-funds (iii)
ACCESS	Joint Committee management Fully outsourced investment management provider	11	64.6	32.7 (51%)	44.7 (69%)	30
Border to Coast	Partner/shareholder FCA regulated Internal management Developing advisory	11	63.7	37 (58%)	45.3 (71%)	17
Brunel	Partner/shareholder FCA regulated External management only	10	40.3	32.2 (80%)	34.7 (86%)	27
LGPS Central	Partner/shareholder FCA regulated Internal management Developing advisory	8	61.4	19.7 (32%)	27.5 (45%)	26
Local Pensions Partnership (LPP) (iv)	Partner/shareholder Advisory FCA regulated Internal management Administrator	3	23	21.9 (95%)	23 (100%)	10
London CIV	Partner/shareholder FCA regulated External management only Developing advisory	32	50.8	17.2 (34%)	31.6 (62%)	24

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Total Assets managed by pool (£bn/%) (ii)	Number of pooled sub-funds (iii)
Northern LGPS (v)	Joint Committee management Two pooled investment vehicles – GLIL infrastructure and NPEP private equity	3	61.4	3.7 (6%)	59 (96%)	2
Wales	Joint Committee management Fully outsourced investment management provider	8	25	13.3 (53%)	18.5 (74%)	10

(i) Assets invested in pooled vehicles reflects those assets that are managed via the pool's sub-funds, which are shared investment vehicles across the partner LGPS funds.
(ii) Assets managed by the pool also includes additional investments specific to an individual partner fund, including legacy investments in closed-end fund vehicles being managed to maturity on the fund's balance sheet by the asset pool.
(iii) This treats multiple vintages as the same sub-fund.
(iv) These figures are in respect of LPPI's three partner funds only.
(v) Although Northern LGPS report 96% of partner funds' assets as being under pool management, the Government's understanding is that this refers to oversight by the pool committee of investment management and decisions made by the pension committees of the individual AAs.

20. The government's view is that pools with outsourced models, or pooling of some private markets assets only, have delivered significant savings and diversification to date but are not well placed to deliver for the future while retaining their current model. They lack the substantial in-house expertise, capacity and resilience provided on a non-profit basis by the LGPS pool companies. In addition, the pool companies that have - or are in a position to develop - in-house investment management capabilities should benefit from significantly lower costs compared to the use of external private sector investment managers, given existing experience within the LGPS. Some existing expertise formerly within larger funds has already been transferred to the pools, and other AAs have capacity and expertise that could be more widely shared.

21. The government believes that, to deliver successfully for members and employers, all the pools will need to develop further as powerful global and local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals set out below draw on the evidence and experience of the advantages and disadvantages of the range of models built up over the 5 years since all the pools became operational.

Proposals - Optimising pooling for the future

22. For the LGPS to adapt to future challenges and maximise its success the government believes that all funds and pools need to adopt an operating model that meets the following minimum standards:

- AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;
- AAs would be required to take principal advice on their investment strategy from the pool;
- Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool;
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

23. The first 4 proposals are set out in more detail below, with the final proposal covered in Chapter 3. These measures build on the strengths of the asset pools established over the last decade and would allow for funds and pools to operate with clarity and efficiency over the long-term.

Requirement that implementation of the investment strategy is fully delegated to the pool

24. At present, AAs set the investment strategy for their fund including setting the strategic asset allocation to meet requirements on diversification and suitability of investments to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance. This gives AAs the most significant influence on returns, as the strategy is the key factor in the difference in net returns between portfolios, while implementation decisions such as manager selection play a much smaller role.

25. Since AAs were invited to form pools in 2016, guidance has set out that the selection of external fund managers and the implementation of the investment strategy should be delegated to the pool, in order to streamline decision making, reduce the number of external managers and deliver reduced fees. In practice, AAs have adopted a range of approaches as shown by the table above, ranging from full delegation to no or very limited delegation, and from significant alignment of investment strategies to no alignment. Many AAs continue to set tactical asset allocation and select investment managers.

26. Limited delegation to the pool has prevented the delivery of the full benefits of scale and resulted in continuing duplication of effort across funds in the same pool. Pension committees may focus on manager selection and detailed asset allocation, when they may not have the skills and experience to be discerning and challenging clients of advice. A more efficient model would be for these decisions to be delegated to the asset pool with the capability and expertise to assess options and make robust decisions on behalf of the pension committee. Further, if funds are unable to reach agreement on manager selection, this can result in multiple similar sub-funds being created in a single pool for a similar purpose, and a consequent reduction in scale.

27. The government's view is that full, effective and consistent delegation of strategy implementation is needed to ensure the benefits of scale and ensure that decisions are taken at the appropriate level by people best placed to make those decisions. This would require clarity on the roles and responsibilities of the AA and their pool as further set out below.

28. The government is proposing that AAs retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment
- local investments, with a target range (further discussed in chapter 3)
- If the AA wishes to do so, a high-level strategic asset allocation – although the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.

29. This proposal draws on good practice in board-level governance, as found in overseas comparators and closer to home, the balance of responsibilities of the Universities Superannuation Scheme trustee and in house investment manager. The key is that decision-

makers focus their efforts where these will have greatest impact. This approach has become widespread across trust-based pension schemes, where fiduciary management employs those best equipped to make the strategic and implementation decisions.

30. Setting the investment objectives and determining the strategic asset allocation are the most impactful investment decisions for a pension fund as they have the greatest bearing on the investment return achieved by the fund overall. These decisions lay the foundation for the entire investment strategy, guiding how capital is allocated across different asset classes to balance risk and return. By clearly defining the financial goals and establishing a long-term asset mix, these steps ensure that the portfolio is aligned with the fund’s objectives, ultimately driving its sustainability and stability. The government considers that this proposal would allow the AA to ensure that the investment strategy is appropriate to deliver its funding requirements and to pay pensions over the long term, and is therefore sufficient to satisfy its fiduciary duty.

31. Implementation of this high-level investment strategy would be fully delegated to the pool to ensure that decisions are made by experienced investment professionals, and to give the pools flexibility to set tactical asset allocation, define sub-funds, manager selection, cashflow management, and decisions to buy sell or hold individual holdings, as required to meet the high-level objectives and strategic asset allocation set by the strategy. To achieve the full benefits of scale it would be important for AAs and their pools to work together on alignment of their approaches to ESG and responsible investment matters, to achieve a common approach.

32. The proposed roles and responsibilities of the pool and AA are summarised in Figure 1 below:

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
Strategy	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
Implementation	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
Implementation	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
Implementation	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
Implementation	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Figure 1: The role and responsibilities of the Administering Authority versus the pool - accessible version

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role	Definitions
Investment objectives	Strategy	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
Strategic asset allocation	Strategy	High	Decide or Monitor	Advise or Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Tactical asset allocation	Implementation	Med	Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
Investment manager selection	Implementation	Med	Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
Stock selection	Implementation	Med	Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
Investment stewardship	Implementation	Low	Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
Cashflow management	Implementation	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role	Definitions
					administrators and Fund Actuary

33. Where AAs choose to set a strategic asset allocation, the government's view is that this should be limited to either setting target ranges either for growth and income assets, or for a small number of broad asset classes. There are differences between funds in their membership, proportion of non-statutory employers, maturity, cashflow and funding, and the government expects the pools to consider these features in their operation. But the government does not consider that these justify or require asset allocation below this level, in addition to the investment objectives. In response to feedback during engagement on the need for clarity and consistency, the government proposes stipulating in guidance that funds would need to record their strategic asset allocation in the Investment Strategy Statement, based on a template. This would support pension committees in establishing a strategic asset allocation and also provide a coherent and consistent framework for pools to implement at scale.

34. The government has considered a range of options for the level of involvement AAs should have in any strategic asset allocation, from full delegation to the pool, to setting ranges for growth and income assets, to setting allocations to a wide range of detailed asset classes. Government recognises the range of approaches currently in place within the LGPS, and in other comparable schemes, which may include fewer asset classes and wider asset class definitions than those listed below. This includes dividing the allocation into 2 categories – growth and matching assets.

35. The proposed template aims to strike a balance between on the one hand, ensuring investment decisions are made by those with appropriate professional expertise and avoiding loss of scale that can arise from AAs requiring a detailed asset allocation, and on the other hand, allowing AAs to take local decisions on high level asset allocation and recognising their fiduciary duty.

36. AAs would have the option of completing the template themselves or allowing the pool to choose an appropriate allocation in line with their investment strategy. The AA's objectives for local investment would be captured in the high-level investment objectives. Any strategic asset allocation set by the AA would therefore not include an explicit asset class for local investment, which in practice may be invested across private equity, credit, property or other asset classes. The asset classes in the template are and would be expected to remain, different from the requirements of national data collection, which are set and collected for a different purpose.

37. The government invites views on templates which best meet the objectives described above noting the range in possible approaches, and particularly invites views on the following template:

Table 2: template for strategic asset allocation

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds
(ii)For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

Requirement for principal advice on investment strategy to be taken from or through the pool

38. Under these proposals, the AA's responsibility in respect of investments is to set the investment strategy. At present investment advice may be sought from investment consultants, with each AA using their own. Whilst it is recognised advice needs to be bespoke, there may be duplication and inefficiency across a pool and AAs may receive divergent advice from the same providers without clear justification, which inhibits asset pooling.

39. The government proposes that AAs should be required to take principal advice on their investment strategy from their pool. This would ensure that advice is provided on a consistent basis, tailored to individual AA's requirements, and free from competing interests given that the pools exist solely to serve the AAs. The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances, however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool.

40. Not all pools have the existing capability to provide advice to the AAs. Full advisory capability, or the means to share advisory capability across pools, would need to be developed over time. In the meantime, the government expects that pools would seek to procure advice on behalf of their partner funds. The government's intention would be to set out a timeline for this, subject to the outcome of this consultation.

Requirement that LGPS pools are established as investment management companies, regulated and authorised by the FCA

41. Currently, 5 of the 8 pools are established as FCA authorised investment management companies, with their partner AAs as their sole shareholders and clients. As set out above the government's view is that this model has clear advantages over other approaches. It provides in-house expertise, capacity and resilience on a non-profit basis and the ability to provide, share or develop in-house investment management to reduce costs. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed. It also provides a basis for the development of capabilities to provide advice to AAs on investment strategies and to assess and manage the local investments that the government's proposals envisage.

42. The government therefore proposes that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:

- Implementation of the investment strategies of their partner AAs, including any strategic asset allocation

- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

43. Government's expectation is that pools will develop capabilities to deliver the implementation of investment strategies through in-house investment management in time. This approach has been demonstrated to have favourable outcomes when also combined with asset pooling at scale. Where it is thought to be inefficient to deliver a mandate in-house, pools should consider partnering with other LGPS asset pools or third-party investment managers to deliver select mandates.

44. The government recognises that this proposal would represent a substantial challenge for all pools whatever their starting point. For the 5 pools which already constitute investment management companies, most will need to develop new capabilities to deliver in all these areas, in particular building capacity on local investment and providing advice on investment strategies to funds. There will be costs involved in building capacity and expertise, offset by reduced costs for AAs.

45. This will be a substantial undertaking for all pools, especially those 3 which have adopted other models. The government believes that this step change in the investment framework of the LGPS creates an opportunity for increasing effective scale and encourages all pools to carefully consider all options in that light. These may include establishing a new pool company, merging with another pool, or becoming a client of another pool company for some or all services required. Depending on the approach chosen, there will be set up and ongoing costs. But as has been demonstrated by existing asset pools using a pooling company model, these costs should be recouped through savings in reduced investment management fees. Pools will need to consider which route is most viable and efficient over the expected timescale (discussed below).

46. The government encourages pool mergers and sharing of services where this provides a more efficient route to the required standard. As part of their proposal, each pool will be expected to demonstrate why a merger with another pool, or use of existing capability in an established pool company, would not be a more cost effective or otherwise more preferable approach to achieving compliance with the reform proposals. For the avoidance of doubt, Government is not seeking to use this process to move to a single pool for all AAs.

Requirement to transfer legacy assets to the management of the pool

47. In November 2023 the previous government set out its expectation (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) that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis. Transition of all assets was expected to be considered in this timeframe given pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

48. The present government, alongside its announcement of the Pensions Review (https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings), signalled that it would consider legislating to mandate pooling if insufficient progress towards the March 2025 deadline was made. Many AAs have made significant progress on pooling assets, but there remains significant variation with the percentage invested in pooled vehicles ranging from 6% to 95% as of March 2024, and total assets under pool management ranging from 45% to 100%. The government is aware that AAs have been considering how they can transition further assets by the deadline, and will take progress into account when making final decisions on reforms.

49. The government's view remains that in order to deliver the full benefits of scale AAs would need to transfer 100% of their invested assets to their pool with no new investments being made

outside the pool, including local assets. However, the government recognises that transferring legacy assets into pooled vehicles may incur unnecessary costs in the short term, including for termination of long-term contracts.

50. For these reasons legacy assets are already managed by some pools with the assets remaining in the ownership of the AA rather than in pooled vehicles. This ensures that:

- staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;
- reporting across an AA's entire portfolio can be consolidated;
- pools can assess the merits and risks of all investments, with AAs able to hold them to account for all outcomes; and
- decisions on whether to hold to investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA's investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.

51. The government therefore proposes that, in line with previous communications, AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer legacy illiquid investments to the management of their pool.

52. The pools would be required to develop and maintain capacity and expertise to manage all legacy assets which will often be unlisted illiquid investments. This would include management of risk and asset valuations. As pools vary in the capacity and expertise that they currently have to take on this role, the government seeks views on what steps would need to be taken to develop this capacity.

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

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?

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

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

Question 5
Do you agree that the pool should provide principal 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?

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?

Question 7

Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8

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

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

Implementation

53. The government believes that reforming pooling in this way would deliver the full benefits of scale to the benefit of members employers and taxpayers. Subject to the outcomes of this consultation, the government will consider legislating to require in law the pool minimum standards set out above, including transition or management of all assets.

54. The King's Speech (https://www.gov.uk/government/speeches/the-kings-speech-2024) set out plans for a Pension Schemes Bill in this session of Parliament. The Bill provides an opportunity to introduce any primary legislation required to implement outcomes from the Pensions Review, with any necessary secondary legislation and guidance updated when parliamentary time allows.

55. In advance of this, asset pools, working with their partner AAs, are invited to submit a separate proposal, in addition to their response to this consultation, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of the costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted, and expects pools to be working closely and collaboratively in doing so.

56. The government is proposing an indicative timeline to move to the new model of March 2026. Government expects each pool to consider and provide submissions on the viability of meeting this timescale. This is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 actuarial valuations, and takes account of the timescale over which the Financial Conduct Authority (FCA) may consider applications for investment management companies and authorisation to provide investment advice. Pools working with their partner AAs are invited to comment on the viability of meeting this timeline.

57. Each pool is invited to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity.

58. We will expect proposals to be submitted by 1 March 2025. This will provide 15 weeks for pools and AAs to consider how these could be delivered if required.

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?

Other developments

Collaboration and specialisation

59. Some pools are already developing significant investment specialisms and share expertise between pools. This would be expected to increase as the pools mature and adapt to the model outlined above. The government encourages pools to consider how they could collaborate with each other in areas where they have specialisms – for example through joint investment vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern).

60. Government understands that many asset pooling companies were established under the vertical exemption to public procurement as within the 2023 Procurement Act, previously known as the ‘Teckal’ exemption as set out in regulation 12 of the Public Contracts Regulations 2015. Engagement has indicated that there are differing views in AAs and pools on the degree to which this is a barrier to greater collaboration between pool. Government welcomes views on this issue and any other barriers to collaboration between pools.

61. Collaboration between pools could deliver many of the benefits of additional scale and avoid duplication. In addition, collaboration could avoid competition between pools driving up costs for investments in the same specialist asset classes. Areas where specialisation or collaboration may be particularly attractive include alternative investments including private equity, private debt and venture capital, as well as infrastructure and investment in specific local or regional investments.

Scale and regional alignment

62. The government has considered whether any additional reforms are needed to the existing pools to redraw them along regional lines. It is recognised that there are factors at play, other than eventual pool size, when considering which funds should collaborate together in a pool. In particular, the Wales Pension Partnership operates within a devolved nation and has separate partnerships with the Welsh Corporate Joint Committees. It may therefore make sense for Welsh LGPS funds to continue in a separate pool.

63. The existing pools differ in that some bring together AAs from geographically contiguous areas, whereas elsewhere the partner AAs are geographically scattered but share other similarities. This reflects their origins, developing out of existing collaborations or through AAs collaborating with other like-minded partners. There are benefits to regionally defined pools in that the partner funds have a mutual interest in local investment and can typically build on existing strong working relationships, for example in Wales. However, other pools have demonstrated that shared geography is not the only determinant of success, provided there are strong partnerships and a shared commitment to collaborate and compromise to deliver shared goals. Chapter 3 sets out proposals to strengthen the role of the pools in local investment. For these reasons, the government does not consider it necessary to redraw pooling arrangements along geographic lines where this alignment does not already exist.

Role in administration

64. In the longer-term, the government is interested to hear views as to whether there is a role for the pools in the administration of the LGPS, or whether there could be greater collaboration and cooperation between funds on administration issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

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?

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?

3. Local investment

65. Growth is the number one mission of this government. Through the growth mission, the government is restoring economic stability, increasing investment and reforming the economy to drive up prosperity and living standards across the UK. The government will invest in transport, including schemes like East West Rail, kickstart the delivery of 1.5 million homes, support new industries and job creation, and back innovation through research and development funding. In total, the government will spend 2.6% of GDP on public sector net investment on average over the Parliament, with an increase of over £100 billion in capital investment over the next 5 years.

66. In addition to the Pensions Review, the government is supporting UK investment in several ways. It has created the National Wealth Fund, which is expected to catalyse over £70 billion of private investment, and has set out plans for a modern Industrial Strategy to support investment in growth sectors. The British Business Bank will create a new vehicle, the British Growth Partnership, to crowd-in UK pension fund and other institutional investment into venture capital funds and innovative businesses, supported by a cornerstone government investment. The Budget outlined plans to reform how the government delivers infrastructure, including the planned publication of a 10-year infrastructure strategy, the establishment of the National Infrastructure and Service Transformation Authority and ambitious planning reform.

67. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth. Investing in local communities

68. The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities. Many AAs have already deeply embedded these wider considerations into their investments. It is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did through their working lives. LGPS investments can both pay pensions and unlock growth in local communities.

69. There are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance (ESG) issues. These may contribute to the government's key missions including making Britain a clean energy superpower and accelerating to net zero is one of the key missions of the government. This consultation focusses on local investment by LGPS funds.

The roles of AAs and pools

70. AAs are already committed investors in projects which support growth in their local areas. These are investments which, in addition to being suitable pensions investments and generate good returns, have external benefits which support the AA's local area. But it is recognised that identifying and assessing the suitability of local investments requires resource intensive due diligence, and AAs may not have the capacity to undertake this work. AAs may also be concerned about reputational and concentration risks. Funds must also navigate conflicts of interest if there

is a link between the employer authorities and the investments selected. These factors may limit local investments unnecessarily.

71. The pools can address many of the specific factors which make local investment harder for AAs to consider. Pools are in a position to provide central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflict of interests, as their role is serving the AAs. Pools create a degree of separation between AAs and their investments, reducing any reputational risk. For example, Border to Coast and Local Pensions Partnership have facilitated pool investment in local opportunities and worked closely with their partner AAs to identify local opportunities. The government recognises that pools currently have different approaches to local investment and vary in the extent to which they have the capability to assess and manage local investments, but it is the government's view that it is the pool which is in the best position to provide the central capability to carry out due diligence and manage local investments.

72. In addition, pools invest over a wider geographical area than AAs, reducing risks from under performing assets. But pools and AAs may both lack a comprehensive view of investment requirements and opportunities across a wider regional area, as set out in local growth plans. When fully implemented, local growth plans will act as a guide to investors seeking opportunities which support local growth and contribute to the National Industrial Strategy.

Proposals

73. With these considerations in mind, Government's view is that the right approach to increasing local investment brings together the distinctive strengths of AAs and pools and takes account of the role of Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) and the Greater London Authority (GLA) in regional growth and development. The government wishes to see greater collaboration between AAs, pools and combined authorities of all types on local investment, for the long-term benefit of local areas, and believes that scheme members support the LGPS in making local investments.

74. For the purposes of this consultation, the term 'local investment' is used to include investments local to any of a pool's partner AAs, or investments in their region (or in Wales, for Welsh AAs). The government invites views on the appropriate definition of the term 'local investment' for reporting purposes.

Requirement to set out approach to local investment in the Investment Strategy Statement

75. AAs normally review their Investment Strategy Statements every 3 years following the triennial valuation of the fund. To ensure that local and wider investment priorities are fully considered by AAs as part of deciding their investment strategy, the government proposes a requirement in regulations for AAs to set out their high-level objective on local investment in their Investment Strategy Statement, including a target range for local investment as a proportion of the fund.

76. AAs would also be required to take account of local growth plans, including local economic priorities and specific investment requirements, in setting their investment strategies. For areas where there is no local growth plan, we would expect AAs to work closely with local authorities in their areas to identify local opportunities. In Wales, AAs would be required to take account of the economic development priorities and plans of the relevant Corporate Joint Committee (CJC) or Committees.

77. Our intention would be to include guidance on the new requirement in statutory guidance on investment strategy statements. This would include guidance on government's expectations on working with CAs, MCAs, CCAs, CJCs and other local authorities and Local Growth Plans to identify opportunities.

Requirement to work with combined authorities and similar bodies

78. AAs are well placed to draw on their knowledge of the local area and its changing circumstances, in identifying potential investment opportunities which may align with their investment strategies and with local growth plans or equivalent. The government therefore proposes setting new requirements for AAs to work with CAs, MCAs, CCAs or the GLA, or local authorities in other areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities. AAs would be expected to put forward opportunities they have identified to their pool at any time in the valuation period as they arise.

79. In line with the proposals set out in chapter 2, it would then be for the pools to make the final decision on whether to invest, and to manage all assets on behalf of their partner AAs including legacy and new local investments. Requirement for pools to carry out due diligence on potential local investments

80. The proposal above to require AAs to identify local investment opportunities to put forward to their pool means pools would need to have arrangements to receive proposals and conduct due diligence on projects. Pools may also be able to assist in developing some proposals into investable opportunities. For some pools this would be a significant development. But as set out above, it is the government's view that pools are in the best position to provide the necessary expertise and capacity.

81. The government therefore proposes a new requirement for pools to develop the capability to carry out due diligence on local investment opportunities. Pools would be expected to collaborate as necessary with their partner AAs, CAs, MCAs or CCAs, and other relevant authorities (including the GLA in London and Corporate Joint Committees in Wales) to support local investment. Some projects for which LGPS support would be considered may be inappropriate for pensions investment, or require disproportionate resources to assess and manage, but many should benefit from collaboration across AAs, pools and CAs.

Requirement to report annually on local investment

82. To ensure funds are accountable, the government is proposing that funds include in their annual report, as part of the report on the fund's investments, a report on the extent and impact of their local investments. This will increase transparency and allow members to see the locally important projects delivered thanks to LGPS investment.

83. Our intention would be to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports, and to consider how to reflect this new requirement in the Scheme Annual Report.

Question 13

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

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?

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?

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?

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?

Implementation

84. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to include in new statutory guidance on pooling, and updated guidance on investment strategy statements and annual reports.

4. Governance of funds and pools

85. LGPS assets have more than doubled in the last decade, membership has increased by almost 50%, and there are now nearly 20,000 employers, so it is more important than ever that the scheme is effectively governed. Members and employers have a right to expect consistently high standards across the scheme with robust and resilient governance and administration in every AA.

86. There is evidence to suggest that good governance also has financial and wider benefits through a governance premium for well governed pension schemes which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the Pensions Policy Institute (https://www.pensionspolicyinstitute.org.uk/media/t2djkxca/201702-bn89-db-the-role-of-governance.pdf) suggests that this premium could be as high as 2% greater returns a year. This benefit would be much greater than the cost of investment in improved governance.

87. The proposals set out below aim to enhance the capability of the LGPS as a well-governed institutional investor on a global scale, ensure it continues to deliver for members and employers.

Fund governance and reporting

88. The government's aim is to encourage continuous improvement across the scheme, combined with consistent standards on knowledge and understanding and improved reporting. The majority of our proposals are based on the recommendations submitted to MHCLG by the SAB in 2021 at the conclusion of their Good Governance project, which were strongly supported by respondents to the Call for Evidence.

89. In summary the government's proposals are:

- New requirements on AAs to:
  - appoint a senior LGPS officer who has overall delegated responsibility for the management and administration of the fund
  - participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.
  - prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy, and

- prepare and publish an administration strategy
- improve accessibility of annual reports
- New requirements on knowledge and training for those involved in the management of LGPS funds

90. In addition to these proposals, the government is considering one further change, to require AAs to appoint an independent adviser.

Requirement to prepare a governance and training strategy

91. The government proposes that AAs should be required to prepare and publish a governance and training strategy to replace the governance and compliance statement. This new strategy would set out the AA's approach to governance, knowledge and training, representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period. It would replace the governance compliance statement. Such actions could include a plan on how the AA aims to address gaps in knowledge and skills for committee members over a certain period, and how it might manage potential conflicts of interest between the local authority as administering authority and as an employer within the pension fund.

92. It is the government's view that the requirement to review this strategy at least once in each valuation period provides AAs with the flexibility to update it as required and will ensure the strategy is a live document. We are also proposing that as with the other strategies which AAs are required to prepare, AAs must have regard to statutory guidance on governance.

93. The government proposes that a conflict of interest policy must be included in this strategy. There is no current requirement for conflicts of interest policies to consider conflicts of interest for members serving on pension committees, or to cover conflicts between the AA and the employer. There may be specific conflicts that arise in managing a pension fund within the local authority environment and this may become more common as pools and partner AAs consider further local investment.

94. It is important that in a conflict of interest policy, AAs consider how they will recognise, manage, and mitigate all conflicts of interest. Requiring each AA to have a specific conflicts of interest policy within its governance and training strategy should ensure that AAs are taking proactive steps to mitigate the risks of conflicts not being addressed appropriately; by setting out how actual, potential, and perceived conflicts are addressed within the governance of the fund.

Requirement to identify a senior LGPS officer

95. The government's proposal is that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund. The senior officer would be identified within the AA's Governance and Training Strategy. The government recognises that management structures differ but expects that the role would be carried out by a Director, Assistant Director or Head of Service, i.e. at a level that is either already part of the senior leadership team or is comfortable operating in that environment. The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process.

96. The senior officer would be a substantial role that will require significant time and energy. The expectation would be that the LGPS role would be the main priority for the senior officer. Senior officers should have authority and be able to set strategic direction. Officers reporting to the senior officer should be responsible for all LGPS functions.

97. The senior officer's role would be to lead delivery of the LGPS function under the direction of the AA or pensions committee. The government expects the senior officer's role to include the areas below, although this list is not intended to be exhaustive:

- providing advice to the pension committee and local pensions board

- developing the fund's strategic approach to funding, investment, administration, governance and communication;
- ensuring that risk management arrangements effectively identify and manage risks
- ensuring the fund is organised and managed to deliver statutory responsibilities and regulatory compliance, and meet service level agreements including timely and accurate pension payments
- ensuring that the role of the pension fund and LGPS matters are understood and represented by the AA's senior leadership
- working with other partner AAs and the pool company as appropriate

Requirement to prepare an administration strategy

98. Currently AAs may prepare an administration strategy but are not required to do so. Administration strategies must set out procedures relating to employer communication, administrative procedures, and administrative performance. There is currently no statutory guidance to assist fund in the preparation of this strategy, and while AAs must keep any administration strategy under review, there is no specific timeframe required.

99. The government believes that if AAs were required to prepare and maintain this strategy and have regard to guidance, this would increase consistency on how administrative matters are approached across the scheme (including in working with employers) and drive improvement in administration of pensions.

100. The government is therefore proposing that AAs should be required to prepare and publish an administration strategy and to have regard to statutory guidance in its preparation. The government is also proposing that AAs review this strategy at least once in every 3 years in line with the proposed requirement for other strategies; and that AAs should no longer be required to send the administration strategy to the Secretary of State upon publication, as this is no longer considered to be necessary.

Improving readability of annual reports

101. Each year AAs publish an annual report on management and financial performance, which includes fund accounts. It is a key document for members, employers and other stakeholders with an interest in the fund. The SAB uses the annual reports to compile the scheme annual report.

102. Currently the annual report is required to include the funding strategy, investment strategy and governance compliance statements in full. The readability and accessibility of the reports is reduced by the size and complexity of the combined document.

103. The government is therefore proposing that, in line with the LGPS in Scotland, funds should no longer be required to include the full texts of any strategy, including the governance and administration strategies we are proposing. It is the government's intention to work with the SAB to update guidance on annual reports to set out how funds should ensure accessibility and transparency for members, employers and others.

Requirement to participate in a biennial independent governance review

104. Under this requirement, each AA would participate in an independent governance review every 2 years, in order for administering authorities to receive assurance that they are meeting governance requirements. The review would need to be carried out by independent experts in the field with good understanding of the LGPS. The Secretary of State for MHCLG would reserve the right to commission reviews of specific funds where there is reason to believe the fund may not be equipped or resourced to fulfil its responsibilities.

105. Once complete, the draft report on the review would go to the senior LGPS officer, pensions committee and local pensions board. The pension committee would be required to add commentary and an action plan in the final report. This could include a range of actions including to seek peer support to address problems or to disseminate good practice. Administering authorities would be required to publish a summary of the final report and submit it to MHCLG.

106. The Scheme Advisory Board is developing a peer support offer including identifying experts already associated with the LGPS to be available to conduct the independent governance review and assess the report and action plan. In cases where the process was not successful at delivering change or peer support was not deemed a realistic way to address issues, it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.

107. Government will be working closely with the Scheme Advisory Board and the Pensions Regulator on further detail of the review process and welcomes views on the format and assessment criteria that could be applied.

Requirements on knowledge and skills for those involved in the management of LGPS funds

108. There is an expectation that those responsible for making key decisions within LGPS funds, which provide benefits to millions and manage significant amounts of money, should have the right level of knowledge and training to carry out the functions of their role. In most cases in the LGPS, the role of scheme manager held by the AA is delegated to a pension committee, who are responsible for all key decisions related to the pension fund. Pension committees are composed largely of councillors, with a SAB survey (https://lgpsboard.org/images/CRC/12022024_Item6PaperD_Workstream_update.pdf) showing that 66% possess little or no knowledge of the LGPS prior to appointment. High turnover of committee members can in some cases compound the problem.

109. Currently, there are no statutory requirements for committee members and officers to maintain appropriate knowledge and skills specific to the LGPS or to undertake training of any kind. By contrast, members of the local pension board (which brings together union and employer representatives to assist the AA and committee), have a statutory duty to have appropriate knowledge and skills under s.248A of the Pensions Act 2004. Committees are required to take proper advice, but where there are gaps in the knowledge of and skills of committee members and officers, it may be difficult to ensure that this advice is tested and challenged appropriately.

110. The SAB survey showed strong support for higher standards of knowledge and understanding for pension committee members. A very large majority (90%) of respondents supported new guidance on minimum training requirements, and 67% agreed that requirements for pension committee members should be the same as for local pension board members.

111. The government therefore proposes to require that committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned. This change aims to ensure that those involved in the management of LGPS funds have the capability to carry out their duties as needed and can exercise the correct level of oversight on investments, governance, and administrative matters. This will include the knowledge and skills, for both officers and committee members, to challenge and test advisers and hold their pool to account.

112. The government is also proposing to require 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. The government expects AAs to include their policy on training and assessment to meet this requirement. It is recognised that committee members and officers on appointment will possess different levels of relevant prior knowledge. The government therefore also proposes that the requirement on knowledge and understanding will apply to individuals within a reasonable period from taking up the role or appointment.

Role of independent adviser

113. In addition to requiring pension committee members to have appropriate knowledge and skills, the government is also considering how best to bring professional and independent expertise to pension committees to improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements.

114. One way in which this could be achieved would be to require pension committees to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration. Those who were or might be involved in recommending specific investment products to the committee would not be eligible. We expect that suitable pensions professionals would have one or more of the following qualifications and experience:

- Qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustees
- Member of, and accredited by, the Association of Professional Pension Trustees (APPT)
- Significant experience of pensions and/or investments

115. The small number of administering authorities with no pension committee could be required to have an independent person as adviser to the senior officer.

116. The government recognises that the aim may be achieved in a range of ways and invites views on the best approach.

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

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?

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

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

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?

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

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

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?

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?

Pool governance and reporting

117. Under the government's proposed reforms, all pools would need to move to the new minimum standards for pooling set out in chapter 2. Consistent high standards of governance for all the pools would be essential in delivering the full benefits to members and employers, providing assurance for the partner AAs that the pool is properly managed and ensuring that the AAs are able to hold the pools to account.

118. In summary the government proposes to require:

- Boards to include a representative or representatives of the group of partner AAs
- Requirement for pools to publish asset performance and transaction costs

Requirements on pool company board membership

119. The minimum standards on pooling set out in Chapter 2 would require boards of all pool companies to have the skills and experience appropriate to the leadership of an investment management company. Boards would meet the requirements for FCA authorisation including independent directors.

120. To ensure that shareholder AAs can hold the pool to account, it is important to include shareholder representation on the board. The government's proposal is that in addition to meeting the requirements of the FCA, boards should also include one or two representatives for the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

121. It will also be important to ensure that scheme members' views and interests are properly understood and taken into account by the pools. The government therefore invites views on the best way to achieve this.

Requirement to meet transparency and reporting standards

122. The government also wishes to introduce a greater level of consistency and transparency through reporting standards for pools. Currently, all pools publish annual reports and financial statements, while some go further and publish regular in-depth reports on responsible investment or separate reports which detail breakdowns of performance by sector, such as private markets. In order to achieve a greater level of accountability and to encourage greater efficiency, the government is proposing to add requirements for pools to improve transparency and reporting, including publication of performance and transaction costs.

123. The government is exploring what this could look like for pools, and welcome views on what data and reporting would be most useful for increasing transparency. It is our intention to set out in new pooling guidance how pools should ensure transparency and accountability to members, employers and others.

Question 27

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

Question 28

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

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?

Implementation

124. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to provide new statutory guidance on governance and training, on administration and on pooling and updated guidance on annual reports.

5. Equality impacts

Public sector equality duty

125. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

126. We have made an initial assessment and we believe our proposals on the LGPS in chapters 2 and 4 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in disadvantaged areas which benefit from local investments.

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.

Annex A: List of consultation proposals

Chapter 2: LGPS pooling

Proposal 1: Requirement on AAs to fully delegate the implementation of their investment strategy to their pool.

Proposal 2: Requirement on AAs to take their principal investment advice from the pool.

Proposal 3: Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

Proposal 4: Requirement for AAs to transfer legacy assets to the management of their pool.

Chapter 3: Local investment

Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.

Proposal 6: Requirement on AAs to work with CAs, MCAs, CCAs, and local authorities in other areas to identify suitable local investment opportunities,

Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.

Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

Chapter 4: Governance of funds and pools

Proposal 9: Requirement to prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy.

Proposal 10: Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.

Proposal 11: Requirement to prepare and publish an administration strategy.

Proposal 12: Changes to the way in which strategies on governance and training, funding, administration and investments are published

Proposal 13: Requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

Proposal 14: Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

Proposal 15: Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.

Proposal 16: Requirement for pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

Proposal 17: Requirement for boards to include one or two representatives of shareholder AAs, such as the chair of the shareholder committee or equivalent.

Proposal 18: Requirement for pools to publish asset performance and transaction costs

Annex B: List of consultation questions

Chapter 2: LGPS pooling

Proposals

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

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?

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

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

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?

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?

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

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

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?
Implementation

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?

Other developments

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?

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?

Chapter 3: Local investment

Proposals

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

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?

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?

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?

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?

Chapter 4: Governance of funds and pools

Fund governance

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

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?

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

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

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?

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

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

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?

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?

Pool governance

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

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

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?

Chapter 5: Equality impacts

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.

About this consultation

This consultation document and consultation process have been planned to adhere to the [consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance)](https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation). In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing Communities and Local Government will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not, or you have any other observations about how we can improve the process please contact us via the [complaints procedure (https://www.gov.uk/guidance/contact-the-ministry-of-housing-communities-and-local-government)](https://www.gov.uk/guidance/contact-the-ministry-of-housing-communities-and-local-government).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk or by writing to the following address:

> Data Protection Officer
> Ministry of Housing Communities and Local Government
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by MHCLG of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'), and Schedule 1 paragraph 6 of the Data Protection Act 2018 ('statutory etc and government purposes'). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

MHCLG may appoint a 'data processor', acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@communities.gov.uk or

> Knowledge and Information Access Team
> Ministry of Housing Communities and Local Government
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Pensions Governance and Investments

Middlesbrough
moving forward

16 January 2025

LGPensions@communities.gov.uk.

Dear Minister

'Fit for the Future' – consultation on the LGPS

This response is from Middlesbrough Council in its role as Administering Authority for the Teesside Pension Fund. The Teesside Pension Fund has 82,000 members and assets of £5.5 billion and is one of the 11 Local Government Pension Schemes (LGPS) Administering Authorities ('Partner Funds') that form part of the Border to Coast Pensions Partnership which are collectively responsible for over £64 billion of investments on behalf of over 1.1 million members, employed at over 2,800 participating employers.

Much of our Fund's response mirrors the response that will be submitted by Border to Coast (which it developed in collaboration with its Partner Funds). Areas we have sought to bring emphasis to from our Fund's perspective are as follows:

- The strategic asset allocation template needs to allow administering authorities to define their choices in more detail, this could perhaps be achieved through more explicit linkage to investment beliefs. Without the option for more detailed application of asset allocation, administering authorities may be left with ultimate responsibility for investment performance (fiduciary duty) without access to the right levers to influence this performance.
- The overall deadline of March 2026 to 'complete pooling' and for pools to have developed all the skills and capacity to achieve this unrealistic. It should be acknowledged that pools will fall short in meeting this in some areas. Without some flexibility in the timetable there is a real risk of value loss caused by suboptimal decision-making driven by haste
- Involving combined authorities in administering authorities' local investment approaches can be useful, however is important to recognise the key distinction between a Mayoral / Combined Authority's regeneration objectives and the pension fund's investment return imperatives
- Creating an expectation that eight pools is too many and, perhaps, four or fewer would be the optimal number, has led to an atmosphere that is not conducive to encouraging joint working between pools. Instead, pools will understandably focus on survival.

Yours sincerely

Cllr John Kabuye	Nick Orton
Chair, Teesside Pension Fund Committee	Head of Pensions Governance and Investments
	Middlesbrough Council / Teesside Pension Fund

Finance
Middlesbrough Council , Fountain Court , 119 Grange Road , Middlesbrough , TS1 2DT , middlesbrough.gov.uk

LGPS POOLING

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

1.1. Yes. Whilst we accept this proposal brings some challenges, we support the stated minimum standards and believe this could help to deliver better outcomes for Scheme members, employers and, ultimately, taxpayers.

1.2. The high-level requirements set out in para 22 of the consultation either mirror those already in place within our partnership or are part of our plan for our second strategic phase (which was unanimously supported by all 11 Partner Funds in July 2024).

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?

2.1. Yes. We welcome the flexibility in enabling individual funds to continue to make strategic asset allocation decisions.

2.2. While we welcome clarity in defining the roles and responsibilities of the fund and the pool, funds ultimately remain responsible and accountable to members, employers and taxpayers for the payment of pensions effectively and efficiently. In order for funds to continue to carry out this fiduciary duty effectively, we believe that it remains essential that funds and the pool work in a close, constructive, continuous and collaborative manner in the development of investment strategy and its implementation (whilst being mindful of clear roles and responsibilities to enable accountability for decision making). This has been, and will continue to be, the foundation of our partnership.

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

3.1. Yes. The importance of the fund and its pool working collaboratively together is essential.

3.2. Each fund remains responsible and accountable for its investment strategy. The model described in the consultation is a well-established governance model that enables institutional investors (such as LGPS funds) to delegate the more detailed aspects of investing to their investment team (or to a professional firm). Making this a requirement, in this case to a pool wholly owned by funds, enables the development of a clear operating model to support decision-making.

3.3. This governance model is designed to enable a holistic approach to investing – enabling the strategy setting to clearly link to implementation and to enable feedback on the model as whole. This approach underpins the "governance premium", which ultimately should lead to improved financial outcomes, better meet the time and expertise requirements of investing a pension scheme, and deliver improved value for money. Clear delegation and strong oversight (and ultimately the ownership of the pool carrying out the work) should enable funds to retain sufficient accountability over investment outcomes (important for funds' fiduciary duty).

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

4.1. The new framework states the pool is to be responsible for both investment advice to funds in setting strategy, and implementation of this strategy.

4.2. The provision of a template is helpful; it provides a formal mechanism for funds and the pool to explore how investment objectives may be translated to a strategy, and subsequent measurement of the pool's performance on its implementation at a practical level. It will also enable clearer reporting at a consolidated LGPS level.

4.3. However, we believe that this is only one part of the process. As outlined in our response to Q2, funds and the pool need to work in a close, constructive, continuous and collaborative manner in both the development of investment strategy and its implementation, which should be recognised in any guidance. This requires a strong cultural commitment by all to partnership.

4.4. The strategic asset allocation template is, understandably, very top level however this means it lacks detail or nuance. For example it allows a fund to express a belief that a percentage of its assets should be invested in 'listed equity' but does not allow funds to specify what geographical region(s) should be included (or excluded), whether the listed equity will be invested passively or actively, managed internally or externally, or what level of risk/return should be targeted. However, assuming the fund has specified some or all of these parameters within their investment beliefs should mean that these preferences can/should be taken into account by the pool company. But on the face of the consultation it is not clear whether or not this is the intention of the new proposals. If the intention of the proposals is for funds only to be able to pick 'listed equity' and to have no input or say as to whether this is active/passive, overseas/UK, internally managed/externally managed, targeting 1% or 2.5% outperformance etc. this is an unacceptably high level of delegation, one that is incompatible with the fund retaining sole responsibility for investment outcomes (its fiduciary duty).

4.5. We note the template includes cash as a separate category. The way in which cash is viewed in the template, and perhaps more particularly in the edict for investment cash to be managed by the pool, risks creating an artificial distinction between investment cash and operational cash, which could result in higher levels of cash holding than is currently the case, to guarantee the availability of cash to pay pensions, which is undesirable in terms of investment outcomes. This is one example where implementation could differ from the SAA as set out in the template, and we would expect that the pool would agree with each fund the extent to which this is acceptable.

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?

5.1. Yes.

5.2. Our partnership has agreed a strategy which includes the development of advisory capabilities for use by Partner Funds. We also believe that, in addition to the knowledge and expertise brought to the process by experienced officers, independent and impartial challenge will strengthen the LGPS. As such we would expect external advice to be part of the process of challenge and debate around the development of investment strategy, oversight of pools, as well as working with external advisers to frame the questions which any strategy review should address.

5.3. Any future system can only operate with a robust governance framework (including oversight), where conflicts of interest are identified, appropriately mitigated, and transparently reported; where both funds and the pool have the capacity and capability to be fully engaged and committed to working in partnership; and where funds have the ability to hold pools to account.

5.4. We note a key mechanism for funds to hold pools to account is through ownership of the pool and associated normal corporate governance procedures.

6. Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

6.1. Yes. Establishing Border to Coast as a regulated entity was a key decision in the creation of our partnership. The Partner Funds recognised the additional governance and strong control environment that is associated with FCA regulation.

6.2. We believe a pool needs to have in-house investment management capability that can both directly, and working with external manager specialists, service all relevant asset classes in the implementation of strategic asset allocation and provide advisory services with all the relevant FCA permissions.

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

7.1. In principle, yes.

7.2. We note that not all pools have the full range of investment capabilities required by their funds. Indeed, new FCA approved investment sub-funds can take time to design, develop, and launch. It is important any transfer of assets (whether listed or unlisted) is completed in a thoughtful and structured process, minimising costs for funds.

7.3. We also believe that there are circumstances where the creation of a pool vehicle may not be cost or risk effective (for example in certain passively managed vehicles). There may also be instances where, due to timing of strategic asset allocation reviews around the 31 March 2025 LGPS valuation, the March 2026 deadline for transition may not be achievable cost effectively. We would encourage some leeway, at the discretion of the pool, to enable a cost/risk assessment of transition of listed assets into pool company vehicles – those that are not transitioned should be managed as "under pool management" akin to legacy illiquid investments.

7.4. One element that would support the cost-effective transition of assets is the potential of tax relief. This could be a narrowly defined and time limited opportunity to provide relief for the transition of UK equities.

7.5. We recommend Treasury/HMRC deliver amendment to SDLT Relief regulations that would enable Heritable Property Assets owned by LGPS funds that have not been pooled to be transferred into existing LGPS Pooled Manager managed UK (regulated) investment vehicles after closure of those vehicles initial seeding window. The entry criteria would only be available to LGPS fund property assets not already pooled and only applicable to those assets joining (subject to satisfactory DD) extant and operating existing pooled structures."

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

8.1. Subject to how this is achieved, yes.

8.2. We welcome recognition that there may be unnecessary costs and implications in transferring legal ownership of legacy illiquid assets to the pool in the timescales proposed; it may be more appropriate that, while managed by the pool, they remain in the direct ownership of the administering authority (AA), to facilitate an orderly and good value transition. It should be noted, however, that even providing pool level oversight may bring additional costs to the extent that the level of oversight increases. The benefits of being able to assess and report investment and operational risks holistically, to use specialist resource to deal with any issues, to manage target allocations to private markets, and to apply a consistent approach to stewardship, may outweigh such additional costs.

8.3. As mentioned in 7.4, there may be an opportunity to offer tax relief on a narrowly defined and time limited opportunity to support the transition UK Real Estate. This would be regarding supporting Stamp Duty & Land Tax Relief to enable property assets owned by LGPS funds that have not been pooled, to be transferred into existing LGPS Pooled Manager managed UK (regulated) investment vehicles after closure of those vehicles initial seeding window.

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?

9.1. Our partnership has spent the last six years building significant expertise both within the pooling company and across the Partner Funds whose endeavors have a presumption towards pooling. Border to Coast is now responsible for a £16bn private markets programme.

9.2. While Border to Coast currently has the appropriate capabilities to manage legacy private market investments, additional capacity will be required to undertake oversight of these investments. The operating model to enable data sharing between Funds and Border to Coast will need to evolve (working with the Funds' custodians), and legal agreements to clearly set out roles and responsibilities and to enable Border to Coast to exercise management actions developed and agreed.

10. Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

10.1. Our partnership has spent several years designing, launching, and building Border to Coast. This has been a significant collective endeavour which should not be underestimated.

10.2. Over the last three years, we have developed our plan for our second strategic phase. This anticipated many of the themes and issues outlined in the consultation. While we already meet most of the capabilities and characteristics outlined in the consultation, there remain some areas where additional build is yet to be operational (e.g. a strategic asset allocation advisory capability; and local investment structures as envisaged in the consultation).

10.3. The timeline outlined in the consultation is ambitious. Given the proposed timeline will coincide with the 2025 valuation process, to manage risks and avoid costs, evidence that delivery of the policy intent is in process may need to be accompanied by flexibility over the precise implementation of all elements, particularly the pooling of remaining unpooled assets. Border to Coast will explore this issue in more detail in its March 2025 submission to Government.

10.4. If our pool company, which is already set up broadly in line with the proposed pool template, will potentially find it difficult to fully develop all required capacities and 'complete' pooling within the next 14 months or so, other pools may find the deadline even more challenging. Without flexibility, there is a real risk of value loss caused by suboptimal decision-making driven by haste.

OTHER DEVELOPMENTS

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?

11.1. The LGPS has a strong history of collaboration, and this is something our partnership is committed to. Indeed, we have worked with several of the pools on areas such as investing in private markets and active stewardship. Regardless of the future policy landscape our partnership remains committed to working with the wider LGPS. Indeed, we are continuing to engage with several pools on potential areas of collaboration.

11.2. To avoid duplication and cost, there may be merit in one pool providing another service or capability to another pool. However, it needs to be recognised that there are several implications that need to be fully considered, and risks mitigated. These include issues such as:

11.2.1. Proposition development – Border to Coast's propositions are collectively designed with, and for, 11 Partner Funds who are both shareholders and customers, and who meet the costs of proposition development directly. Care will be required should an external pool customer(s) wish to evolve existing propositions. The existing governance structures and processes may need to be reviewed to overcome this challenge.

11.2.2. Niche strategies – certain investments may have capacity issues. For example, despite significant demand, Border to Coast's initial Climate Opportunities strategy was capped due to the immature state of the market. Care will be required in balancing the needs of shareholder customers vs external pool customers for capacity constrained investments.

11.2.3. Cost model – as shareholders, existing customers principally manage the financial implications of risk through Border to Coast's regulatory capital. As non-shareholders, external pool customers would be subject to different pricing to reflect operational risk.

11.2.4. Managing demand – in owning and building Border to Coast, there has been a structured approach to our growth – building capacity and capability to reflect Partner Funds' long term needs. This is likely to be absent with non-shareholder customers and, in accepting external customers, there is a risk of managing in- and out-flows, potentially reducing the ability to plan the required capacity in various functions of the business. There are also similar considerations regarding management of liquidity in certain propositions.

11.2.5. Additional complexity - management of additional customers will require careful consideration, particularly noting the potential additional layer of due diligence costs that will be required as a regulated asset manager investing into another regulated asset manager's vehicle.

11.3. An additional challenge is maintaining procurement exemptions under the Procurement Act 2023. Partner Funds are currently exempt from having to competitively procure Border to Coast's services through the 'Vertical Exemption', whereby they can demonstrate 'control' of Border to Coast by virtue of being a shareholder.

11.4. For the Vertical Exemption to continue to apply, more than 80% of the activities carried out by the pool must be carried out for or on behalf of Partner Funds. If more than 20% of the activities of the pool are undertaken for third party customers (e.g. other authorities that do not meet the conditions of the Vertical Exemption such as non-shareholders), then a Partner Fund procuring its services from the pool would no longer meet the requirements of the Vertical Exemption.

11.5. The exact definition of the 80%:20% rule is yet to be established, secondary legislation confirming this has not yet been delivered by Government. It may be appropriate that there is a clarification, such that any pool wholly owned by the LGPS can deliver any services for the ultimate benefit of the LGPS and such services would be deemed to fall within the calculation of the 80%'

11.6. This Government (and the previous one) has intimated that 8 pools is not the ultimate optimal number and there should be fewer in the medium term. Paragraph 46 of the consultation states: "The government encourages pool mergers and sharing of services where this provides amore efficient route to the required standard." One unintended consequence of a focus on mergers is that the pools are all likely to focus much more on ensuring they meet the required standard and scale and are potentially less likely to be open to collaboration opportunities, as the other pools may be perceived primarily as competitors.

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?

12.1. Our partnership is wider than investments alone. Indeed, we have collaborated across a range of areas including governance and accounting. This is generating significant value and there are plans to extend this further. Most recently for example, in October 2024, our Fund announced a strategic partnership on administration with the Tyne & Wear Fund.

12.2. In the area of administration, the voluntary creation of genuine shared services (whether within or outside of a pool) seems likely to be a more beneficial approach than any forced models.

LOCAL INVESTMENT

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

13.1. The LGPS is a global investor. Nonetheless, it continues to invest a significant proportion of its assets in the UK – in aggregate, some £100bn of the c.£400bn of LGPS assets are invested in the UK.

13.2. In the context of being a global investor, investing in the UK can be seen to be 'local'. On behalf of its Partner Funds, Border to Coast launched 'UK Opportunities' which is designed to deliver productive finance in the UK, and consistent with the outcome of the 2023 pooling consultation, takes a definition of "local" as being within the UK. For some Partner Funds, this strategy satisfies Fund appetite for UK investments, whereas for others it is supplemented through region-specific strategies which to date have been implemented by some Partner Funds (and who will wish to maintain this 'local' approach to investment).

13.3. One of the great strengths of the UK is how it has evolved a dynamic governance and governmental structure to reflect the needs and context of the nations and regions of the UK. As such, what is 'local' for one region may be 'regional' for another locality. Unless there is a clear and consistent approach for LGPS reporting, there is a danger that some localities are either excluded from such reporting – or indeed, be subject to multiple reporting.

13.4. We note the publication of the Devolution White Paper, which is seeking to introduce a consistent approach to Strategic (Mayoral) Authorities. Nonetheless, we recognise that these new regions are unlikely to align with the regions of the 86 Administering Authorities, as the current combined authorities do not always align with Fund boundaries.

13.5. In any event, whether the definition is UK-wide or more region-based, we believe each Fund should retain the right to report on any investments made within their own administrative region in addition to any regulatory definition.

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?

14.1. Several of the Funds in our partnership already work closely with both their Local, and Combined Authority (or equivalent). SYPA, for example, has a Memorandum of Understanding with its Combined Authority, which covers a local investment strategy based on an agreement between the Fund and the Combined Authority on local priorities that are considered investible by the Fund. Equally, Durham and Tyne & Wear are currently in consultation with the newly formed NEMCA. However, some Funds face uncertainty around the future of the local public administration environment, for example pending the implications of the Devolution White Paper. Our Fund (the Teesside Fund) did have a Memorandum of Understanding with the Tees Valley Combined Authority intended to help identify and develop investable opportunities for the Fund on the local area. Unfortunately this lapsed several years ago without any suitable opportunities being sourced, in at least one example this was because the Combined Authority was able to source an alternative funding source at a lower cost. It would be possible to relaunch this approach, although it is important to recognise the key distinction between a Mayoral / Combined Authority's regeneration objectives and the pension fund's investment return imperatives.

14.2. In April 2024 Border to Coast launched 'UK Opportunities', which is a bespoke private markets strategy focused on delivering productive finance in local communities across the UK. A key element of this strategy is the development of close and effective relationships with local authorities and other interested stakeholders (e.g. British Business Bank, Homes

England, National Wealth Fund, etc). This is to ensure a two-way flow of information and engagement between Border to Coast and its Partner Funds, investment managers, and local stakeholders to create an investment pipeline (e.g. through joint ventures, understanding and supporting local growth plans, etc).

14.3. As UK Opportunities is a UK-wide strategy, Border to Coast will need to expand its capacity to support the execution of Fund specific local / regional investment strategies. How this will be developed is subject to detailed discussions with Partner Funds, but we recognise the importance of collaboration and partnership in the process given the combination of investment expertise, investment industry knowledge and relationships, and local knowledge and relationships, required to be successful.

15. Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

15.1. The objective of a pension fund is to pay pensions correctly when they fall due, and to manage the affordability and stability of employer contributions. In developing any investment strategy, it is essential individual Funds and pools work together to understand the implications and consequences of such a strategy.

15.2. Several Border to Coast Partner Funds have a long history of successfully delivering local investments and remain committed to delivering 'local' investments (i.e. within their own administrative boundaries) regardless of the future policy framework.

15.3. Equally, several Funds continue to seek to invest across the widest opportunity set possible and would prefer the definition of "local" investment to be as wide as possible (e.g. UK wide).

15.4. Any target on 'local investing' (regardless of the definition) should be determined by the Fund; and investing locally needs to be possible in a way that doesn't compromise meeting the objectives of a Fund (i.e. being able to pay pensions).

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?

16.1. Yes.

16.2. Border to Coast currently conducts due diligence on local investment opportunities through the innovative 'UK Opportunities' private markets strategy. Nonetheless, this is a limited strategy and does not replicate what some Partner Funds currently undertake. As such, the Pool's capability and capacity will need to evolve to reflect how individual Partner Funds set an approach and target range for 'local' investment. This may include identifying, conducting due diligence, and overseeing suitable third-party managers with the requisite specialist expertise to deliver these targeted and 'local' investments. This could include working with managers with government mandates and capital to deliver local investment.

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?

17.1. Given the Pool will be responsible for making local investments, it may be more appropriate for the Pool to produce a single report for all UK based 'local' investments. The Pool may be able to secure better pricing for delivery than individual Funds and reduce the demands on third-party managers by making a single data request.

17.2. To ensure consistent reporting we believe a common framework should be utilised. An example of this is the Place Based Impact Investing Framework, developed on behalf of the Impact Investing Institute. This would ensure consistency in both outputs and the demands placed on fund managers and does not preclude prioritising particular forms of impact sought in addition to financial return.

17.3. We would caution against 'league tables' etc being used to state those Funds who have lower targets/allocations as they would not take into account the specifics of local economies and/or investment opportunities.

GOVERNANCE OF FUNDS AND POOLS

Fund governance

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

18.1. For the most part, yes.

18.2. We welcome the decision to finally implement the Good Governance proposals. However, while there should be no delay in introducing these, we believe there is an opportunity to build on them. There are several areas which we believe can be enhanced, including the need to appropriately insulate the Pension Fund from the operation of the Council, including the ringfencing of the pension fund from Local Authority budget constraints. A Good Governance review should also encompass credibility of pooling transition plans and compliance with pooling regulations.

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?

19.1. Yes.

19.2. We agree that Funds should maintain both governance and training strategies and a conflicts of interest policy. We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the condition for sitting on a Pension Committee should match that of membership of a Local Pension Board.

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

20.1. Yes.

20.2. We note the consultation states (paragraph 95) "*The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process".* However, the local authority budget setting process does not include the pension fund as it is not part of a council's budget - all costs are met from within the pension fund. Therefore, the senior officer should have autonomy from the local authority in setting the budget for the Pension Fund functions.

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

21.1. Yes.

22. Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

22.1. Yes.

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

23.1. Yes;, albeit a triennial period may be more appropriate than biennial (to align with the valuation frequency).

23.2. We believe that delivering these reviews through a peer led mechanism is in line with the way in which LGPS has historically developed and shared good practice and works with the grain of the scheme. The broad process set out in the consultation seems appropriate.

23.3. A robust framework will enable a comprehensive assessment to be made of how effectively the AA is discharging its responsibilities towards the Fund. Importantly this cannot be a pass/fail assessment. All of these reviews will identify some areas for improvement as no Fund will be perfect. However, where significant weaknesses are identified there also needs to be a view taken on whether there is the willingness and capacity to address the weaknesses, or if an alternative solution needs to be sought.

23.4. The reviews should be overseen by SAB and not be carried out by consultancies with inherent conflict of interest.

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

24.1. Yes.

24.2. We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the condition for sitting on a Pension Committee should match that of membership of a Local Pension Board.

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?

25.1. Yes.

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?

26.1. Our partnership recognises the value independent and impartial challenge brings the LGPS. As such we welcome the use of independent advisers as part of the process of challenge and debate around the development of strategy and of oversight of pools, together with working with them to frame the questions which any strategy review should address.

26.2. The democratic accountability of the LGPS is an extremely important aspect of the scheme and care is required not to undermine this. While not opposed to the idea of an independent advisor being a member of a Committee, this can have significant disadvantages; as such, the exact role of an independent advisor should be a matter for each AA.

Pool governance

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

27.1. Effective oversight and governance of the pool by its shareholders is fundamental to Border to Coast's model and continues to deliver significant benefits, as outlined in detail in Border to Coast's Governance Charter[1]. At Border to Coast the shareholder and customer voice is at the heart of everything they do.

27.2. Border to Coast incorporates this into its governance model by its shareholders (the Partner Funds) having nominated two non-executive directors to Border to Coast's Board since its inception in 2018. These non-executive directors are currently elected members, nominated by the Joint Committee and appointed by the Board following the requisite assessment required of an FCA-regulated entity (and then subsequently approved by Partner Funds as shareholders). Their roles have been invaluable in bringing Partner Fund perspectives to life and in providing an additional link between Border to Coast and Partner Funds.

27.3. Nonetheless, it's important to recognise the primary role of all directors on the Border to Coast Board. The role of a company director (even more so an FCA regulated company director) is to oversee the effective running of the organisation in line with legislative and regulatory requirements. It carries significant personal responsibilities and liabilities,

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[1] https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/Border-to-Coast-Pensions-Partnership-Governance-Charter-2023.pdf

including those set out in section 172 of the Companies Act 2006. To deliver these responsibilities to the highest standard, a good degree of understanding of both corporate governance and the financial services sector is necessary.

27.4. We are also mindful of CIPFA guidance on accountability within public bodies when responding to this question. We note this guidance suggests it is for an officer to undertake the role, rather than an elected member; our pool's approach doesn't mirror this element of the guidance but we note the rationale behind it which would apply to LGPS pools, including the challenges around election cycles and the impact on succession planning and corporate memory.

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

28.1. The Border to Coast Joint Committee includes two Scheme Member Representatives, elected by members of the 11 Partner Fund Local Pension Boards, who contribute to the oversight of the pool company. Similarly, the pool company is typically represented at meetings of individual pension committees (through Border to Coast colleagues), at which it is exposed to the views of scheme members and, equally as important, employers (given the balance of financial risk).

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?

29.1. As a pool, wholly owned by 11 LGPS funds, Border to Coast already operates in a highly transparent manner. Subject to FOIA, Border to Coast operates a Publication Scheme[2], which provides extensive information on its investments and other corporate information.

29.2. A consistent approach in transparency in the LGPS is to be welcomed; this also needs to be balanced with commercial confidentiality and reflecting the different risk/return objectives of each of the constituent Partner Funds in each pool. The interface with Financial Services regulation should also be recognised.

<u>Equality impacts</u>

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.

30.1. No.

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[2] https://www.bordertocoast.org.uk/about-us/publication-scheme/

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2025

DIRECTOR OF FINANCE AND TRANSFORMATION– ANDREW HUMBLE

XPS ADMINISTRATION REPORT

1. PURPOSE OF THE REPORT

1.1 To provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

2. RECOMMENDATIONS

2.1 That Board Members note the contents of the paper.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications for the Fund.

4. BACKGROUND

4.1 To enable the Board to gain an understanding of the work undertaken by XPS Administration and whether they are meeting the requirements of the contract. The report is contained within Appendix A.

CONTACT OFFICER: Graeme Hall (Head of Public Sector Relations, XPS Administration)

TEL. NO.: (01642) 030643

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Teesside Pension Fund

Performance Delivery Report

Quarter 3 - 2024 / 2025 (inc. January)

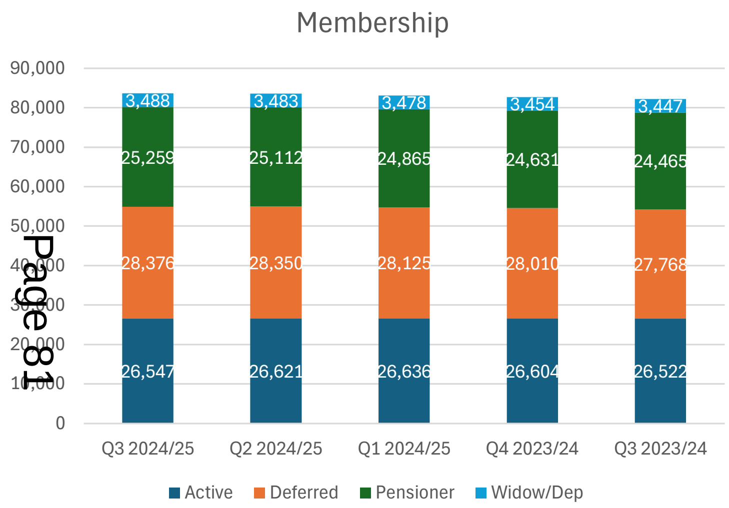
Contents

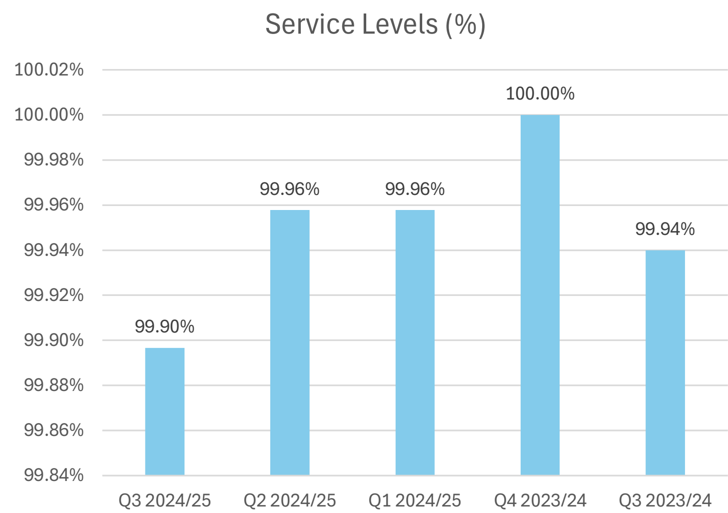
Items requiring a decision or attention are marked in the report with this logo

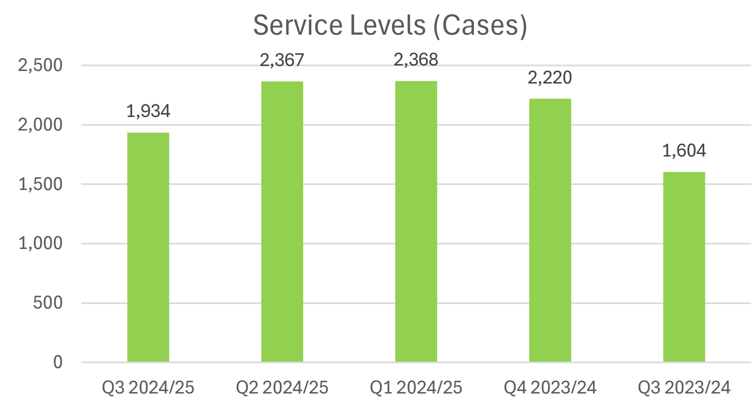
XPS Group

Highlights

Membership numbers







XPS Group

Headlines

Membership

- Membership continues to steadily increase

Scheme and Legislative

- DFE Guarantee for Further Education Providers
- LGPS Death Grants to be subject to IHT from April 2027
- Extension of New Fair Deal to FE colleges
- LGPS 'Fit for the Future' consultation launched
- ONS confirms CPI average to September 2024 as being 1.7%
  - Used to uprate active, deferred and pensioner accounts

Key items

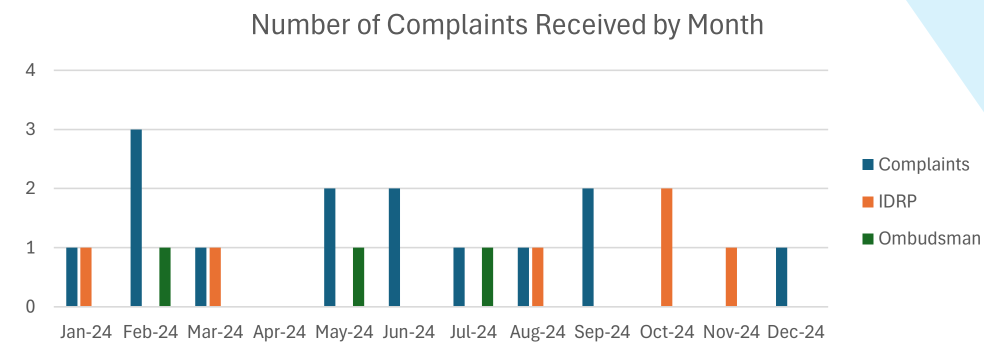
- SLA: 99.90%
- Total membership is 83,670 members

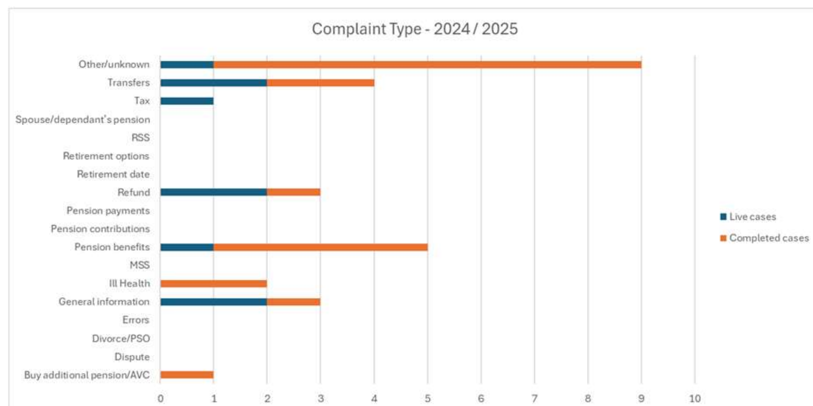
PM0

Errors and complaints

Complaint type	Live cases	Completed cases	Total
Buy additional pension/AVC	0	1	**1**
Dispute	0	0	**0**
Divorce/PSO	0	0	**0**
Errors	0	0	**0**
General information	2	1	**3**
Ill Health	0	2	**2**
MSS	0	0	**0**
Pension benefits	1	4	**5**
Pension contributions	0	0	**0**
Pension payments	0	0	**0**
Refund	2	1	**3**
Retirement date	0	0	**0**
Retirement options	0	0	**0**
RSS	0	0	**0**
Spouse/dependant's pension	0	0	**0**
Tax	1	0	**1**
Transfers	2	2	**4**
Other/unknown	1	8	**9**
Total	**9**	**19**	**28**

Open IDRP Description	Open Ombudsman Cases
General Dispute (General Dispute) – Stage 1 General Dispute (General Dispute) – Stage 2	Mistake made in retirement quote





Slide 5

PM0 Need updated complaints stats - email to team 27/1/2025
Paul Mudd, 2025-01-27T15:30:17.676

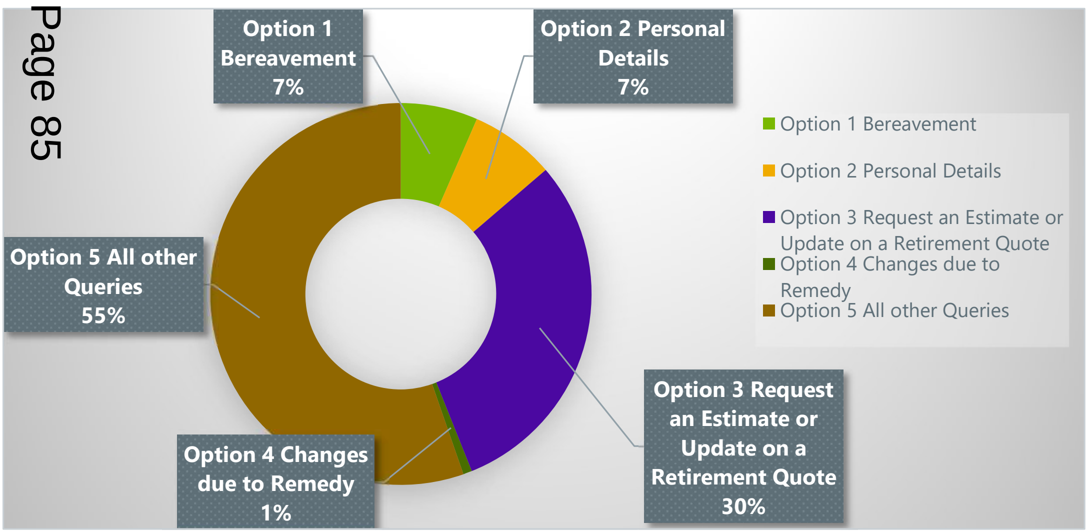
Member engagement – telephony

Telephone calls (Q3)

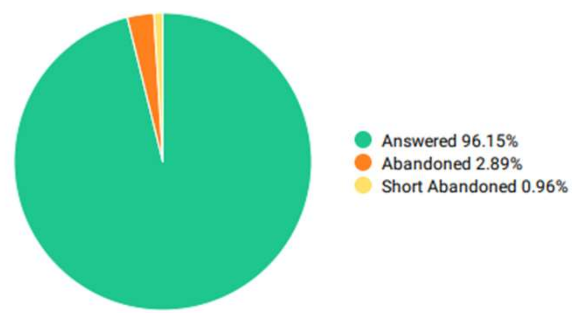
Total Calls	Answered Calls	Abandoned Calls	Short Abandoned Calls	Missed Calls
3847	3699	111	37	0

Average wait time	Average duration	Average abandon time
59 Seconds	9 Mins 15 Seconds	2 Minutes

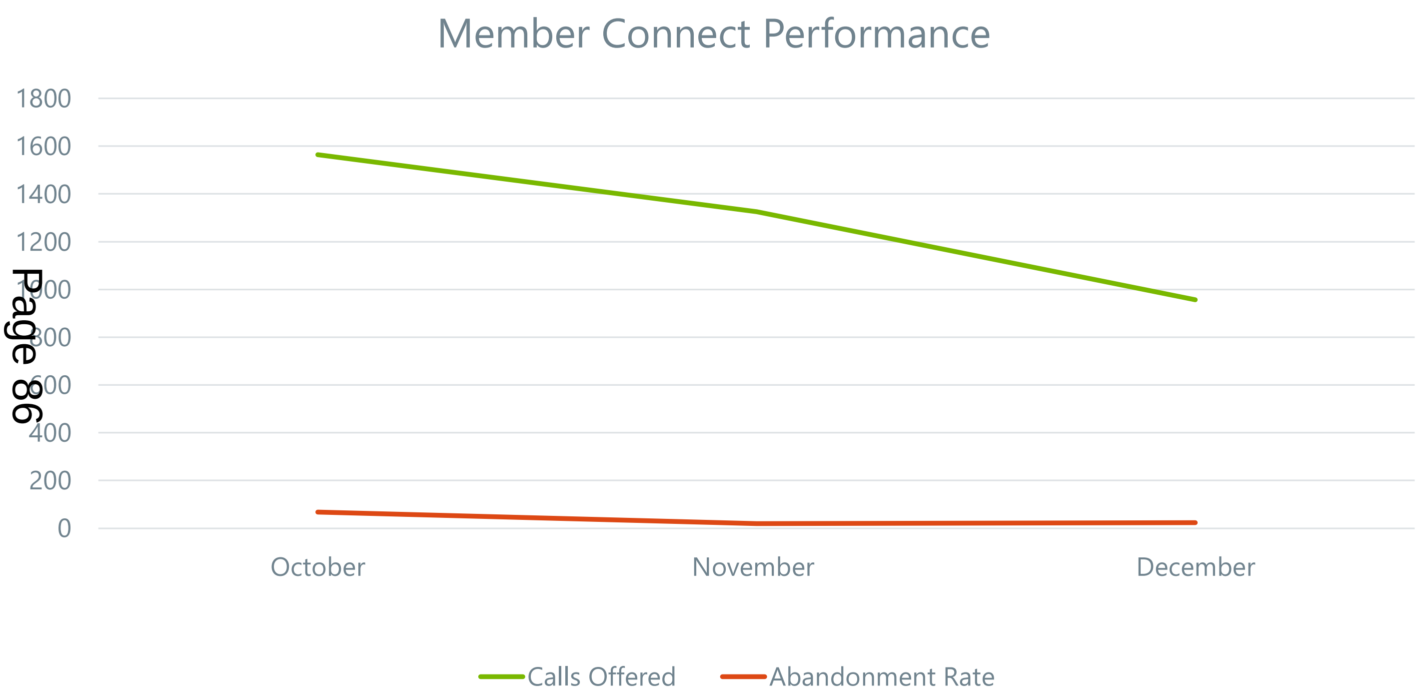
Breakdown of Member Selection:



Performance Summary:



Member Connect Performance 2024



Page 86

Member engagement – telephony

Summary of Performance

Highlights

October

- Decrease in calls from 2112 in September to 1564 (548) in October. With wait time decreasing from 00:05:51 to 00:01:21.
- Call trends due to Updates and General requests
- Hunt Group in place for any queries we are unable to answer:
- In October, 310 referral calls made to this hunt group in total with 301 (97.10%) of these answered. 5 of these calls was from another area of the business. An average wait time to get through of 00:00:51 with the longest wait time of 00:19:27.

November

- Decrease in calls from 1564 in October to 1326 in November, with wait time decreasing by 41 seconds.
- Call trends due to Updates and General requests
- Hunt Group in place for any queries we are unable to answer:
- In November, 329 referral calls made to this hunt group in total with 321 (97.57%) of these answered. An average wait time to get through of 00:00:48 with the longest wait time of 00:20:45.

Highlights (cont) / Key Achievements / Challenges

December

- Decrease in calls from 1326 in November to 957 in December, with wait time increasing by 8 seconds.
- Call trends due to Updates and General requests
- Hunt Group in place for any queries we are unable to answer:
- In December, 198 referral calls made to this hunt group in total with 187 (97.40%) of these answered. An average wait time to get through of 00:00:48 with the longest wait time of 00:05:14.

Overall

- Two-way feedback still in place to provide any feedback or changes to processes.
- Administration team finish at 16:30 on a Friday which means any calls which need a referral between 16:30 – 17:00 are tasked as a callback.

PM0

Member engagement

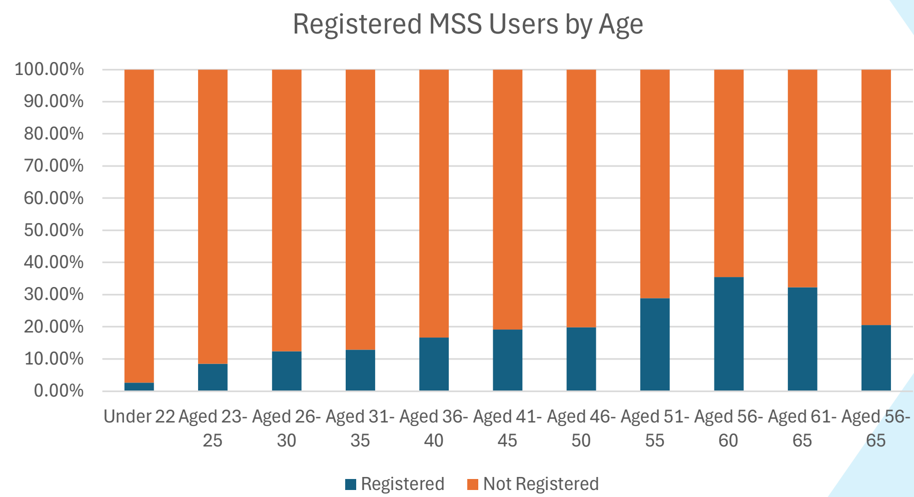
Teesside Pension Fund Website Traffic

PM0 Requested from Michael 27/1/2025
Paul Mudd, 2025-01-27T15:36:15.599

Member engagement – Member Self Service

Status	Not Registered	Registered	Total	% Uptake
Active	18,751	5,197	23,948	21.70%
Deferred	17,518	2,034	19,552	10.40%
Pensioner	18,727	2,916	21,643	13.47%
Widows/Dependants	3,382	32	3,414	0.94%
	58,378	**10,179**	**68,557**	**14.85%**

Age Group	Not Registered	Registered
Under 22	97.33%	2.67%
Aged 23-25	91.53%	8.47%
Aged 26-30	87.60%	12.40%
Aged 31-35	87.09%	12.91%
Aged 36-40	83.30%	16.70%
Aged 41-45	80.89%	19.11%
Aged 46-50	80.17%	19.83%
Aged 51-55	71.14%	28.86%
Aged 56-60	64.57%	35.43%
Aged 61-65	67.73%	32.27%
Aged 56-65	79.47%	20.53%



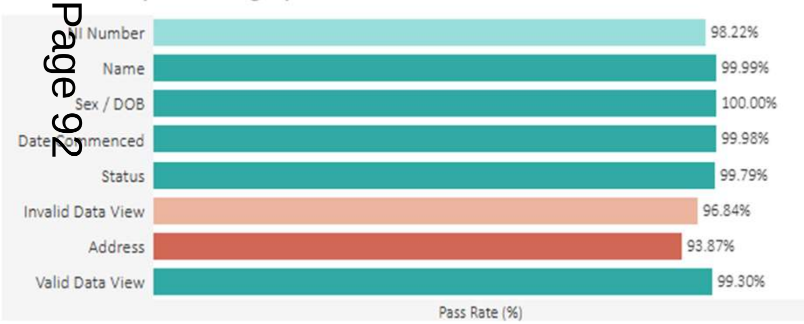
Membership

Membership	Period Ending 31/12/2024	Period Ending 30/09/2024	Period Ending 30/06/2024	Period Ending 31/03/2024
Active Members				
Total at period start	**26,621**	**26,636**	**26,604**	**26,522**
New Starters	301	824	733	886
New Leavers	285	617	503	639
Retirements	89	215	190	163
Death	1	7	8	2
Total at period End	**26,547**	**26,621**	**26,636**	**26,604**
Deferred Members				
Total at period start	**28,350**	**28,125**	**28,010**	**27,768**
New Deferred	268	485	354	511
New Leavers	72	77	57	87
Retirements	166	177	175	174
Death	4	6	7	8
Total at period End	**28,376**	**28,350**	**28,125**	**28,010**
Pensioner Members				
Total at period start	**28,595**	**28,343**	**28,085**	**27,912**
New Retirements	255	392	365	339
New Dependents	34	58	61	64
Notified (need further details)	23	19	17	15
Death/cessation	114	179	151	215
Total at period End	**28,747**	**28,595**	**28,343**	**28,085**
Total membership at period end	**83,670**	**83,566**	**83,104**	**82,699**

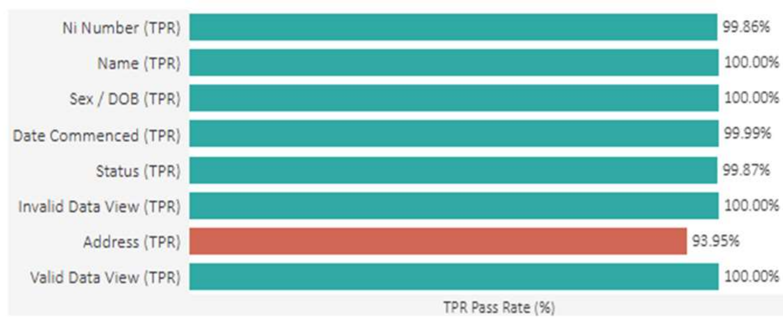
Data Quality

110,359	100,057	90.7%	95.8%
Members Tested	Members Passed All Tests	Pass Rate %	TPR Pass Rate %

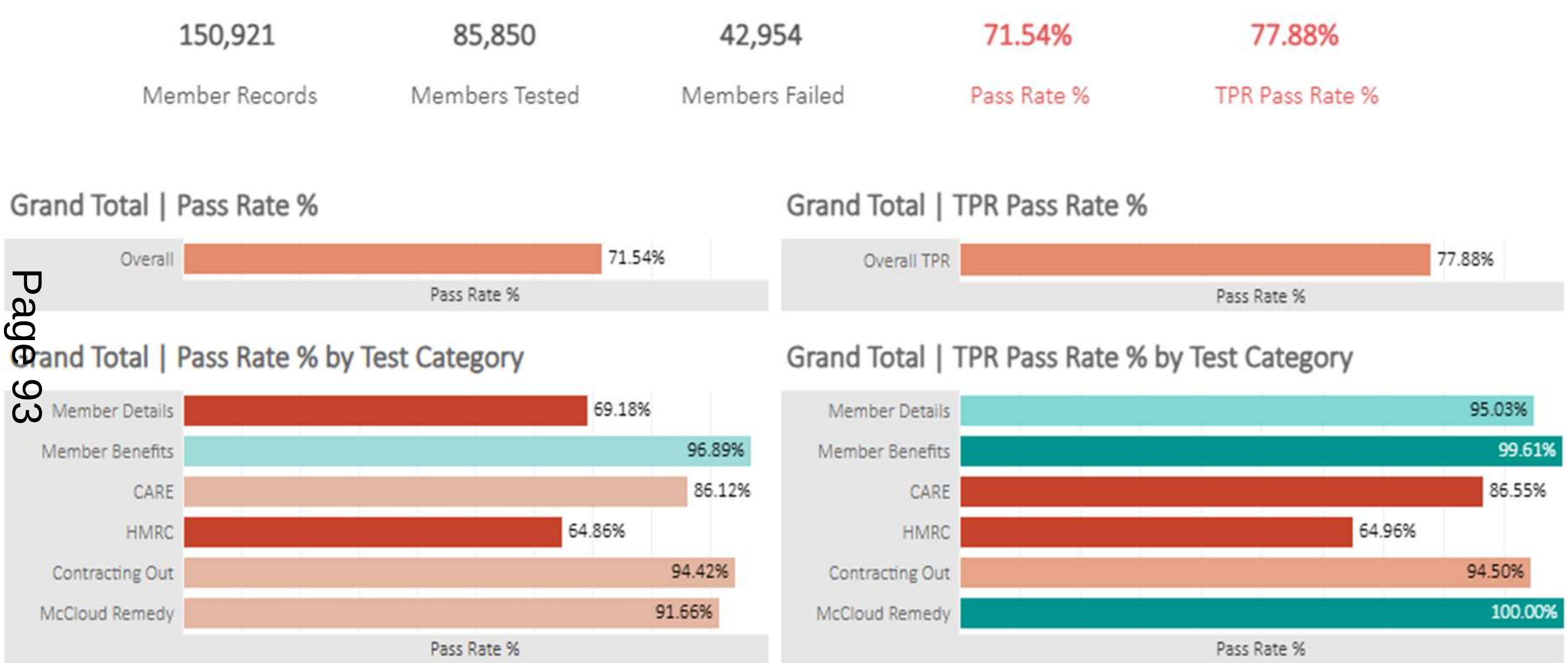
Pass Rate % by Test Category



TPR Pass Rate % by Test Category



Data Quality



Regulations and Guidance

The King's Speech 2024 - Following the general election on 4 July 2024, the State Opening of Parliament took place on 17 July 2024 and the King's Speech set out the Government's plans and priorities for the first parliamentary session. Of potential interest is the Bill on Audit Reform and Corporate Governance. This could be a potential vehicle for separation of pension fund from host authority audit in England, as is already the case for LGPS funds in Scotland and Wales. The Board called for this in a letter to MHCLG in August 2022. The idea was supported by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Levelling Up Select Committee in the last Parliament. The Board was previously assured that its recommendation would be taken forward once a suitable legislative vehicle had been identified.

Court of Appeal dismisses Virgin Media appeal

On 25 July 2024, the Court of Appeal dismissed the appeal in the Virgin Media Ltd v NTL case. The High Court had previously ruled that:

- amendment of pension scheme rules in respect of Section 9(2B) rights were void unless the scheme actuary certified that the scheme still met the contracting-out adequacy test
- this applied to rights built up before and after the change in rules
- all amendments are affected by the ruling, not just those that have a negative impact on section 9(2B) rights.

The appeal concerned the second bullet point only, and the Court of Appeal upheld the High Court's ruling. The ruling will apply to the LGPS and that HM Treasury is currently assessing the implications for all public service pension schemes**.**

Updated flexible retirement guidance On 16 August 2024, MHCLG issued updated flexible retirement guidance. This replaces the guidance dated 28 April 2016 and is effective immediately. The guidance includes a revised methodology for calculating Death Grants.

Regulations and Guidance

Pensions review – call for evidence

On 4 September 2024, the government published a call for evidence to inform the first phase of the pensions review. The review aims to boost investment, increase pension pots and tackle waste in the pensions system, focusing on defined contribution workplace schemes and the LGPS. The first phase of the review is looking at measures to accelerate asset pooling and increasing investment in 'productive finance' in the UK by LGPS funds. The LGA submitted a response on behalf of the LGPC before the call for evidence closed on 25 September 2024. The response to the call for evidence is located on the SAB website. The second stage of the pensions review is expected to look at the issue of pensions adequacy and fairness, such as the gender pensions gap.

The Local Government Pension Scheme (Information) Regulations 2024 (SI 2024/880) have been laid before Parliament and will come into force on 23 September 2024 and will be backdated to 01/10/2023:

These remove the requirement for LGPS administering authorities to include estimated calculations relating to the McCloud remedy in members' annual benefit statements for the 2023/24 scheme year.

LGPS statistics for 2023/24 published

On 24 October 2024, the Ministry for Housing, Communities and Local Government (MHCLG) published the LGPS statistics for England and Wales: 2023 to 2024. Highlights include:

- total expenditure of £17.1 billion, an increase of 11.9 per cent on 2022/23
- total income of £20.7 billion, an increase of 19.3 per cent on 2022/23 5
- employer contributions of £10.5 billion, an increase of 24.6 per cent on 2022/23 - this reflects early payment of employer contributions following the triennial valuation
- employee contributions of £3.0 billion, an increase of 8.3 per cent on 2022/23
- the market value of LGPS funds on 31 March 2024 was £391.5 billion, an increase of 9.0 per cent since 31 March 2023
- 99,505 retirements in 2023/24, an increase of 6.3 per cent on the number of retirements in 2022/23.

September 2024 CPI rate announced

On 16 October 2024, the Office for National Statistics announced the Consumer Price Index (CPI) rate of inflation for September 2024 as 1.7 per cent.

Regulations and Guidance

Club transfers – extension of 12-month time limit

On 24 October 2024, the Cabinet Office emailed public sector pension scheme stakeholders regarding the 12 month time limit for Club transfers. This communication stated that if administering authorities need to extend the 12 month time limit for a club transfer due to the McCloud Remedy, this is deemed as an exceptional circumstance and the deadline can be extended if both schemes agree.

The Pensions (Abolition of LTA Charge etc) (No 2) & (No 3) Regulations 2024

On 7 and 9 October 2024, the Pensions (Abolition of Lifetime Allowance Charge etc) (No 2) Regulations 2024 and the Pensions (Abolition of Lifetime Allowance Charge (No 3) Regulations 2024 were laid. Both sets of regulations will come into force on 18 November 2024 and have effect from the tax year 2024/25.

The regulations amend the Taxes Management Act 1970, the Income Tax Earnings and Pensions Act 2003, the Finance Act 2004 and secondary legislation. The changes include:

- minor corrections relating to LTA protections
- new provisions covering Transitional Tax-Free Amount Certificates (TTFAC) and the calculation to determine the value of member's benefits when paying a Trivial Commutation Lump Sum (TCLS).

LGPS 'Fit for the Future' consultation launched

The Chancellor has announced plans for further reform in the LGPS in a consultation which closes on 16 January 2025. The reforms will focus on the eight existing investment pools. The SAB is not expecting any changes to the structure of the underlying 86 funds in England and Wales as a result of this consultation.

Extension of New Fair Deal to FE colleges

HMT has confirmed in a letter to the Association of Colleges that New Fair Deal guidance applies to FE colleges that operate in the statutory sector in England from 14 November 2024. The new Fair Deal guidance provides that compulsorily transferred employees must have continued access to the same public sector pension scheme with the new employer. It was published in 2013 and applies directly to central government departments, agencies, and other parts of the public sector under the control of central government eg academies. It has been extended to FE colleges in England following the reclassification of FE colleges as public bodies in November 2022. When a Fair Deal employer undertakes an outsourcing, the new employer must continue to provide the transferred employees with access to the LGPS in their new employment (where the employees were eligible to be members of the LGPS before the transfer).

Appendix 1 - Service Level Reports

The table below shows our performance against the Service Level Agreement during the reporting period plus historic Service Levels to show a full 12 months for comparison.

Period	Cases completed	Cases completed within target	Cases completed outside target	%age within target
February	742	742	0	100%
March	896	896	0	100%
Quarter 4 2023/24	**1,638**	**1,638**	**0**	**100%**
Year - Total	**6,518**	**6,512**	**6**	**100%**
April	805	805	0	100%
May	718	718	0	100%
June	845	844	1	100%
Quarter 1 2024/25	**2,368**	**2,367**	**1**	**100%**
July	776	776	0	100%
August	776	775	1	100%
September	815	815	0	100%
Quarter 2 2024/25	**2,367**	**2,366**	**1**	**100%**
October	860	859	1	100%
November	516	515	1	100%
December	558	558	0	100%
Quarter 3 2024/25	**1,934**	**1,932**	**2**	**100%**
January	688	688	0	100%

Appendix 1 - Service Level Reports

Key Performance Requirements (KPRs)

				Oct-24				Nov-24				Dec-24				Jan-25			
KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Within Target	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Within Target	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Within Target	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	2.19	335	335	100.00%	2.31	126	126	100.00%	3.66	100	100	100.00%	2.67	154	154
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100.00%	5.40	50	50	100.00%	6.30	37	37	100.00%	5.20	20	20	100.00%	6.43	42	42
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100.00%	4.76	17	17	100.00%	5.00	3	3	100.00%	4.29	7	7	100.00%	4.81	16	16
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	99.73%	4.80	368	367	100.00%	4.79	291	291	100.00%	4.75	293	293	100.00%	4.72	357	357
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100.00%	N/A	N/A		100.00%	N/A			100.00%	N/A	N/A	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	45,535	98.75%	N/A	N/A	N/A		N/A	N/A			N/A	N/A	N/A	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100.00%	4.94	90	90	98.31%	3.36	59	58	100.00%	3.90	138	138	100.00%	3.79	119	119
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100.00%	100.00%	N/A	N/A		100.00%	N/A			100.00%	N/A	N/A	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100.00%	N/A	N/A		100.00%	N/A			100.00%	N/A	N/A	N/A	N/A	N/A		

Key Performance Requirements (KPRs)

- January performance 100%

Appendix 3 – Administration Team

Key contacts		
Laura Pelmear	Client Relationship Manager	laura.pelmear1@xpsplc.com

Other contacts		
Salima Durrant	Service Delivery Manager	Salima.Durrant@xpsplc.com
Mathew Spurrell	Administration Manager	Mathew.Spurrell@xpsplc.com

Award-winning

Pensions advisory

Investment consulting

Administration

Technology

Culture and Sustainability

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