

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

Pooling Consultation – Government Response

1. PURPOSE OF THE REPORT

- 1.1 The purpose of the report is to provide the Members of the Teesside Pension Board (the Board) with details of the Government's recently published response to a consultation exercise: "Local Government Pension Scheme (England and Wales): Next steps on investments" which indicates the Government's proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

2. RECOMMENDATION

- 2.1 That the Board notes this report and that any subsequent guidance in relation to LGPS investment pooling will be reported to future Pension Fund Committee and Board meetings as it becomes available.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications resulting from this report.

4. BACKGROUND

- 4.1 In 2015 the Government published criteria and guidance on the pooling of LGPS assets. This guidance set out four criteria:
- A. Asset pool(s) that achieve the benefits of scale (pools of at least £25 billion).
 - B. Strong governance and decision making (for example: appropriate resources, governance structures, reporting, collective policies on how environmental, social and governance issues are taken into account when investing).
 - C. Reduced costs and excellent value for money (reporting on fees, transition costs and savings, appropriate justification for using active management).
 - D. An improved capacity to invest in infrastructure.

- 4.2 Once this guidance was published, LGPS administering authorities went through a process which eventually resulted in eight asset pools being set up across England and Wales (Scotland was not covered by the pooling guidance). None of these pools are identical in structure or approach and the level of asset pooling that has actually taken place has varied between pools and between the constituent Pension Funds within those pools.
- 4.3. As the Board will be aware, the Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership ('Border to Coast'). Border to Coast is acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that exist between the pool members and with the pool company. Border to Coast and its Partner Funds has also largely delivered the original pooling objectives the government set out in 2015.
- 4.4 The government issued a consultation on next steps for LGPS investments in England and Wales last year which looked to build 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 reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document, along with details of the response being drafted on behalf of the Fund was presented to the 11 September 2023 Board. The Fund's full response was shared with the 27 September 2023 Pension Fund Committee.

5. CONSULTATION OUTCOME

- 5.1 On 22 November 2023 the Government issued its [response to the consultation](#), the final consultation outcome (enclosed as Appendix A), which confirmed that it would produce guidance and/or regulations to enact most of the changes proposed in the consultation document. The Government will progress its reform of the LGPS to accelerate and expand pooling, and to increase investment in levelling up and in private equity.
- 5.2 The consultation response sets out a number of expectations for LGPS Funds and Pools, the main outcomes are summarised in paragraph 9 of the document as follows:
- "After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their Investment Strategy Statements (ISS) assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government’s ambition of a 10% allocation to private equity.”

5.3 The Government also confirms that pools should seek scale and should reduce in number in the medium to long term from the current 8 to probably around 4 or 5. This number of pools is implied in the document through reference to a Government Actuary’s Department (GAD) projection that the LGPS in England and Wales could have assets of around £950 billion, at which point the expected pool size would be around £200 billion. The Government wishes to see greater collaboration between pools in the meantime.

5.4 Much of the detail of implementing the proposals will be set out in guidance which is expected to be released during the first half of this year. Although there are asset allocation targets set out within the response, namely the 10% allocation to (global) private equity and the 5% allocation to UK ‘levelling up’ assets, the Government has stated these targets will (initially at least) be voluntary:

“Guidance will not mandate investment in any particular assets, and the government’s strong preference [is] for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns.” (consultation outcome, paragraph 7)

6. IMPLICATIONS FOR THE FUND

6.1 Through Border to Coast, the Fund has already made significant progress towards asset pooling and so to compliance with the requirements set out in the consultation outcome. As at 30 September 2023 55.7% of the Fund's assets are invested through Border to Coast. This is the approximate split of the remaining 44.3%:

Asset class	Percentage of Fund at 30 September 2023	Pooling position
Listed Equities	11.7%	Passive equity – not offered by Pool, unlikely to be cost effective to do so in future
Alternatives (Private Equity/Infrastructure/Other)	18.1%	Not cost effective / practical to transfer to Pool. Will reduce to minimal amount over time (5 to 10 years)
Direct UK Property	9.6%	The 13 December 2023 Pension Fund Committee decided not to transfer the Fund's directly held real estate portfolio to Border to Coast, principally for reasons relating to cost and risk.
Indirect Property Funds	1.2%	Small proportion could potentially transfer, remainder not possible to transfer
Cash	3.7%	Always expect to retain cash for working capital (perhaps 2% of Fund). Cost effective to manage cash at Fund.

6.2 The Fund will continue to work with Border to Coast and its Partner Funds to consider whether and how the unpooled assets could be transferred to pool management when it is cost effective, and in the Fund's best interests, to do so.

6.3 On the 10% private equity target, as at 30 September 2023 the Fund had already broadly met this, with an allocation of around 10% and an expectation that this allocation will grow in the short to medium term as more commitments already made to private equity managers are drawn.

6.4 On the 5% 'levelling up' target – the Fund currently invests a small proportion (under 1%) of its assets in local investments which would fit the definition of UK 'levelling up' investments. Border to Coast is currently working with its Partner Funds to develop a private markets UK Opportunities sub-fund. Should the Fund choose to make a commitment to that sub-fund in future, any investment would be likely to meet the 'levelling up' definition.

6.5 On governance, the consultation response sets out proposals to ensure pensions committee members are appropriately trained in order to carry out their role, and that this is reported on and monitored. This is in line with the current requirement for Board members to be trained. Paragraph 56 states:

“We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.”

7 NEXT STEPS

7.1 The Board will be kept up to date with future developments as and when the expected guidance is produced. In the meantime, the Fund will continue to work with Border to Coast and its other Partner Funds to ensure we can respond appropriately to Government directions whilst continuing to prioritise the fiduciary duty we have to our own stakeholders and beneficiaries.

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