

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  Low	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	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

TEL NO.: 01642 729040