Middlesbrough
moving forward

Pensions Governance and Investments

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

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.

<u>Pool governance</u>

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/