



By email to: LGPensions@communities.gov.uk

In consultation with the Pensions Committee of the Shropshire Pension Fund we welcome the opportunity to respond to the Open consultation - LGPS: Fit for the future.

The Shropshire County Pension Fund (the Fund) is part of the LGPS Central pool (the pool). The Fund remains committed to work collaboratively alongside other Partner Fund colleagues in the pool to ensure the future success of our pooling company LGPS Central Limited (LGPSC).

LGPS pooling

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

The Fund agrees that all LGPS pools should be required to establish themselves as investment management companies authorised and regulated by the FCA. However, the Fund has concerns about the other minimum standards listed (implementation, investment advice, transfer of legacy assets and due diligence on local investments) which are covered in the Fund's responses to the following questions.

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

The Fund believes that Administering Authorities (AAs) and Funds should continue to set their own detailed Strategic Asset Allocation (SAA) criteria for LGPSC to implement (i.e. at a sub asset class level and covering core areas of risk e.g., active versus passive). Whilst the Fund accepts and supports the rationale for pooling investments, it is the Fund and its Scheme employers that are responsible for meeting their individual long-term liabilities. Therefore, to fully meet their Fiduciary Duty, the AA / Fund, through the Pensions Committee requires a greater degree of influence over the Fund's investment strategy than the Government is setting out in the consultation.

The Fund is concerned about the separation of responsibility for managing the investments from managing the liabilities of the Fund. The Fund governance structure includes elected members and representatives of employers and scheme

members. Assuming the Pools are able to take on the proposed roles, they will make all the decisions, but take none of the risk. The consequences of their actions will fall back on the employers of the Pension Fund creating a misalignment of power and risk that we feel is inappropriate.

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

No, we do not believe that the proposed arrangements allow the AA / Fund to fully meet its Fiduciary Duty.

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

For the Fund to set a SAA that is aligned with its own liability profile, funding strategy, risk appetite and cashflow requirements whilst also fully meeting its Fiduciary Duty then we suggest a greater level of detail is required to assist LGPSC to implement the Fund's investment strategy to meet the Fund's objectives. This includes the following key points:

- The strategic asset allocation should be set by the AA and not the pool.
- Listed equities is a very broad asset class and takes no account of the requirement for active / passive management or style factors e.g growth, value. These are key factors in achieving diversification within an equity portfolio and delivering the required risk adjusted returns. As a minimum we would expect AA to be able to select management style, regional allocation and specific ESG/Net Zero implications.
- We don't believe that the proposed template for strategic asset allocation contains sufficient granularity for an AA to retain adequate control of their investment strategy, or capture fund specific circumstances, given the fact that AAs, employers and admitted bodies will ultimately be required to increase contributions should there be adverse funding level outcomes.

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?

Whilst there may be some merit in LGPSC providing advice to those Partner Funds that require such on certain matters, the Fund believes that there is a clear conflict of interest with LGPSC being the principal, and potentially sole adviser to a Partner Fund, whilst also being responsible for implementing that Fund's investment strategy. The Fund strongly believes that external independent advice is more effective and will continue to utilise such to challenge the decisions of LGPSC. Our key concerns are listed below:

- Combining the provision of strategic investment advice with the investment management function runs the risk of introducing a significant potential conflict of interest and eroding clear accountability for investment outcomes. We believe that the two functions should be kept separate and that pools

should continue to work collaboratively with partner funds to understand their investment strategy requirements and consider the most effective implementation options. We do not agree that pools providing investment advice would subsequently ensure that advice was free from competing interests.

- We have concerns regarding the expertise that pools have to provide strategic investment advice. Investment strategy for the LGPS requires careful consideration, knowledge and expertise in pension liabilities and specialist areas of advice, which can only be built up over time and with significant resource.
- From a governance perspective, independent advice, scrutiny and oversight of the investment decisions taken by the pool is essential, therefore external consultancy support / advice would be required.

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?

We believe that the pools are best placed to respond to this question. We are already part of an FCA authorised pool.

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

The Fund agrees that all public market listed assets should be transferred into pooled vehicles where this provides value for money and / or added value. It should not be mandatory where assets, such as passive assets, already well managed in relatively cheap unit linked life policies, can be managed outside of an Authorised Contractual Scheme (ACS) under advisory agreements with the pool company.

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

The Fund does not agree that it should be mandated to transfer legacy illiquid assets to LGPSC to manage.

- Our key concern is that we see very little benefit of transferring legacy illiquid investments to the pool. There are no buy and sell decisions to be made with these assets. To transfer ownership would create enormous legal and ongoing management fees and to transfer purely the administration of cashflows on legacy assets would introduce a layer of costs with no added value.
- This requirement is likely to lead to pools managing a significant number of legacy illiquid investments e.g. although we only have one legacy private equity manager, they currently manage a total of 18 sub-funds covering approximately 12,000 companies. This would require a significant amount of resource for the pool to manage.
- We agree that future commitments to private markets strategies should be done via the pool, providing the pool has a viable investment option for the asset class, including alignment with an AA's responsible investment policy.

- The setting of an arbitrary deadline would be very unhelpful and in no way cost effective.

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?

The pools would be required to significantly increase their expertise and level of resources to be able to take on the oversight and management of all legacy assets. This would potentially be at a significant extra cost to Partner Fund's with limited ability to add real value in the case of long-term illiquid legacy assets. The Fund believes that the Government should not dictate the timescale for legacy assets to be transferred to the pool but allow Partner Funds and pool companies to work together to manage the run-off of legacy assets with any new allocations being re-invested via pooled products where suitable products are available. The setting of an arbitrary deadline would be very unhelpful and in no way cost effective.

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?

The Fund believes the indicative timeline is unrealistic given the breadth and depth of services the pool will be required to provide, as set out in the consultation. We do not believe that a fixed deadline provides funds with the most efficient or cost-effective solution for transferring fund assets. We believe that LGPS funds and their pools are best placed to determine a reasonable, appropriate and deliverable timetable for the transition of assets, with due regard for the Government's wider investment objectives. The proposed deadline creates a real risk of a disorderly and costly transition to the new arrangements, which may lead to reactive decisions being taken that result in sub-optimal outcomes for Funds and their members. Instead of arbitrary deadlines, the Fund suggests that pools should be given a longer timeframe to comply with the sentiment of the consultation and routinely report on progress to MHCLG.

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?

The Fund would encourage wider collaboration between pool companies where this adds value across the product range and increases the number of investment opportunities. The Fund also views this as a means of providing additional experience, support and resilience across a pooling companies resource, particularly in the private market asset classes, where it may reduce potential competition for deals between pools. However, collaboration needs to be a measured approach with proper governance arrangements in place, which may be complex to set up. It should also be cost effective with appropriate charging mechanisms.

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?

Partner Funds within pools already collaborate across several areas of mutual benefit which include responsible investment, governance, training, administration and audit; these have developed organically over several years and we see no reason why they will not continue to do so. The Fund wants to make it absolutely clear that it sees no role for LGPSC in the administration of the LGPS and for the reasons stated in previous consultation responses to Government the Fund is not supportive of forced Fund mergers.

The following are areas where wider collaboration could be beneficial:

- There are greater opportunities to standardise training in the LGPS for all Committee and Board Members, along with officers.
- All knowledge and understanding required for those working in the LGPS is set out in CIPFA guidance and so there are clear opportunities to produce standard training materials, or even a standard qualification.
- LGA are developing a standard qualification for administration staff at the moment. There is no reason why a similar approach cannot be taken for all knowledge and skills needs and requirements, rather than individual funds having to organise induction and ongoing training themselves.
- There may be scope to increase collaboration across private markets investments, with particular regard to due diligence over any new mandates or offerings. This includes, but is not limited to, local investments.

Local investment

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

We are broadly supportive of the definition of local investment being used to include investments local to any of a pool’s partner AAs, or investments in their region, as we feel this broadens the scope for investment opportunities. We also believe that this can be achieved by UK Investments and that a wider UK approach avoids a post code lottery in terms of investment opportunities.

We believe the Government’s ambitions would be better achieved by reverting to the outcome of the 2023 pooling consultation and defining local as being within the UK. It would then be up for the pools and their partner AAs to decide on the balance of any allocation between UK-wide investments and investments within the locality of their pool.

We would not be supportive of centrally driven targets for local investment as we believe that investment must always be on a risk driven basis.

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?

The Fund has reservations regarding the Government’s proposals on local investment. Whilst acknowledging the role the LGPS plays in the public sector and the likelihood that Scheme members would be pleased to see more investment in their local area, there seems to be an assumption by Government that AAs / Funds have the requisite expertise and resources to work pan-agency to deliver projects for the pools to undertake due diligence and opine on. Mandating AAs / Funds to undertake this complex additional work (e.g. local growth plans) across multiple agencies, that they may not be equipped or resourced for, will not be the most efficient use of resources. The proposal is also contradictory because Government is expecting a large expansion of local investment involvement for AAs / Fund’s whilst removing their involvement in more routine investments where the Fund would argue they do have the experience and expertise.

The Fund believes that implementation of any local investment allocation, including the discovery of the opportunity set, should be for the AAs / Funds and their pooling company to agree upon by working in partnership with local organisations; this has happened successfully for several years. This would satisfy the method outlined by the Government in the consultation (i.e., the AAs / Funds work with local bodies). Alternatively, at the other end of the spectrum, local investment could be outsourced to the pooling company to implement via external management.

There should be a clear process for potential investment opportunities to be suggested to the pool for evaluation for funding. Involving the pools in this role

solves many of the conflict of interest issues at a local fund. However, while aligning investments with local growth plans has merit, administering authorities must retain the flexibility to prioritise fiduciary responsibilities. Overemphasis on local investment risks compromising diversification and long-term returns.

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?

Whilst the Fund is not averse to AAs / Funds being asked to set a target allocation and high-level objectives regarding local investments, it would only be prepared to do so where it was able to ensure such investments allowed it to continue to fulfil its Fiduciary Duty and invest in line with the primary objectives of its investment strategy. Government must recognise that fulfilment of local investment targets may be difficult if the availability of local investment opportunities is limited, and the cost and risk and return profiles are prohibitive.

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?

The Fund believes it will be very difficult for pooling companies to fulfil this requirement in the short to medium term and longer term as the amount of resource needed to undertake the level of due diligence required may not be cost effective. Pool companies and their Partner Funds should therefore agree on the best implementation method (i.e. internal, or external) for local investment allocations, based on the local opportunity set, value for money considerations and the potential for acceptable risk adjusted returns for the Partner Funds.

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?

Whilst the Fund considers transparency on local investments is important and, subject to the level of detail required, would be supportive of reporting on such in the Fund's annual report, the issue of 'impact' is very subjective. It would be helpful if Government could provide guidance on how they would like 'impact' defined and also how it should be measured. This would enable a consistent approach to be taken across pools and in Fund's annual reports to provide meaningful information to a range of stakeholders.

We believe quantitative reporting should be provided by asset class on a UK basis.

Governance of funds and pools

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

The Fund agrees with the overall approach to governance and welcomes the introduction of the 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?

The Fund agrees that administering authorities should ensure Funds 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?

The Fund agrees 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?

The Fund agrees that administering authorities should ensure Fund's 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?

The Fund agrees 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?

Whilst the Fund agrees with the principal of independent governance reviews, the Fund feels that a biennial programme of reviews would be too frequent and quickly become an inefficient and burdensome process for all involved in undertaking and resourcing the review. The Fund suggests the following:

- A triennial review would be more practical, to be scheduled as part of the triennial review cycle, at a time when valuation activities are at their least demanding.
- Clarity is needed on the role of SAB, the role of independent third party assessors, the procedure for appointment and rotation, etc.
- Assessment criteria need to be unambiguous. Using the General Code of Practice as the assessment standard, with those requirements deemed mandatory to LGPS funds being at the core of the assessment – this needs to be set out clearly to avoid confusion, as currently there is limited guidance on

precisely how the GCoP relates to LGPS funds. “Good practice” requirements should be treated as optional, at least for the first review cycle.

- That following the initial review, the period for the next review could be flexed depending upon the level of compliance or improvement needed so that the review period follows a risk-based approach.

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

Whilst the Fund agrees with the proposal to require pension committee members to have appropriate knowledge and understanding, there should be some allowance for turnover of members, due to election cycles, and therefore the focus should be on the collective knowledge of the members on the pension committee.

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?

Subject to the previous comment regarding the collective knowledge and understanding of the pensions committee, the Fund agrees with the proposal to require AAs / Funds to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met.

The emphasis on structured training strategies is a positive step towards enhancing transparency, accountability, and the overall quality of governance. Providing consistent and accessible training will support councilors and other members of pension fund committees in navigating complex regulatory frameworks, financial management, and community engagement effectively.

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?

The Fund has already appointed an Independent Adviser to advise and challenge the Investment Consultant on investments and utilises the services offered by the Scheme Actuary when considered appropriate. Given each AA / Fund will have a different level of experienced resource, the Fund believes this approach should be optional for AAs / Funds based on their own circumstances. The approach should be set out in the Fund’s Governance Policy.

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

The Fund agrees absolutely that pool company boards should include one or two shareholder representatives. Given the intention of Government proposals is to give greater decision-making powers to the pooling companies over Partner Fund investments then it is imperative that Partner Funds have a greater role in the oversight and governance of the pooling company in fulfilling their role as shareholders alongside their Fiduciary Duty.

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

The Fund believes that Scheme members' views must be directed to their local Partner Funds in the first instance. Issues that then relate to the pool and / or the Fund's investments can be communicated to the pools via the usual collaborative working and communication channels.

New local investing expectations will also be of direct interest to members, who will want to know how pooling companies are identifying / evaluating / deciding to invest in opportunities in their local (ie Fund level) area. This is likely again to place a further burden on pools to respond to requests or produce regular member focused material for inclusion in Fund newsletters and on Fund websites.

The Central Pool has a Trade Union representative on its Joint Committee, which is another mechanism to ensure Fund members are represented.

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?

The Fund agrees that pools should report consistently and with greater transparency including on performance and costs; this would make it easier for stakeholders to assess the comparative performance and value for money being provided by their pool company. The Fund is aware that CEM Benchmarking Ltd is developing pool level reporting in this area, and it would be helpful if Government could encourage all pools to participate in this benchmarking service.

If Pension Fund Committees are to hold their pooling companies to account, even in the absence of available "sanctions" for poor performance, full transparent and consistent reporting of investment performance and relative cost must be made available. This will support onward communications to employers, should contribution rates be impacted by poor pooled investment outcomes.

We would expect the following metrics as a minimum:

Objective:

- Performance stated net and gross of fees
- Performance of individual investment funds, against benchmark and target, since inception and on a rolling basis over 12 months, 3 years, 5 years
- Impact of portfolio turnover on performance
- Overall cost of service in basis points per £bn invested
- Total assets invested per Fund by asset class – distinguishing if relevant between shareholder clients and non-shareholder clients

Subjective

- On the assumption that comparable metrics become available across all Pools, relative performance may also be helpful, eg quartile of performance outcomes relative to equivalent funds in other pools and elsewhere – with the risk of subjectivity being introduced – funds may not be directly comparable.
- Cost of investments in particular asset classes, eg public markets, private markets, property, etc – introduces subjectivity in terms of how costs are allocated to funds and assets.

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.

The Fund is not aware that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.

Justin Bridges

LGPS Senior Officer

Councillor Tom Biggins

Chair of the Shropshire Pensions Committee

15 January 2025