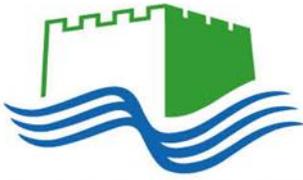


<p>Non-Executive Report of the:</p> <p><b>Pensions Committee</b></p> <p><b>Monday, 11 December 2023</b></p>		 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Julie Lorraine Corporate Director, Resources</p>		<p><b>Classification:</b> Restricted</p>
<p><b>LGPS Consultation (England and Wales) Next Steps on Investments: Government Response</b></p>		
<p><b>Originating Officer(s)</b></p>	<p>Miriam Adams, Interim Head of Pensions and Treasury</p>	
<p><b>Wards affected</b></p>		

### Executive Summary

The Government has published the results of its consultation on LGPS Next Steps on Investments Consultation which closed 2<sup>nd</sup> October 2023. This report summarises the key points from the Consultation response and confirms the Governments vision for the future of LGPS investments.

### Recommendations:

The Pensions Committee is recommended to:

1. Note the Government's response to the consultation.
2. Note Tower Hamlets Pension Fund position as applicable.

### 1. REASONS FOR THE DECISIONS

- 1.1 It is good practice to keep the Committee updated with key LGPS updates. This report highlights the key points coming out of the Consultation response.

### 2. ALTERNATIVE OPTIONS

- 2.1 There is no alternative to this report. The Fund is directly impacted by LGPS legislations and regulations.

### 3. DETAILS OF THE REPORT

Governance

- 3.1 Funds will be required to formally publish a training policy for Pension Committee Members and to report on training undertaken. The Fund reports on training undertaken and its training policy is included in the annual report.
- 3.2 Funds must provide an annual update on pooling progress in their annual reports. Tower Hamlets Pension has significant proportion of its assets invested via pools.
- 3.3 Funds will need to set out a plan in their investment strategy for investing up to 5% of assets in Levelling Up projects and in annual reports they must report on their progress.
- 3.4 Amendments to the definition of investments in the 2016 LGPS Regulations 3(1)(b) and 3(4) to be amended to correct an inconsistency in the definition of investment that the Joint Committee on Statutory Investments identified. The government proposes to add the word 'partnership' to regulation 3(1)(b) as follows:
- Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership.

The proposed amendment would ensure consistency with the language used in regulation 3(4), where unquoted securities investment partnerships are defined. It is also anticipated that this will eliminate any ambiguity in regard to regulation 3(1) b.

#### Pooling

- 3.5 2025 stays as the pooling transition deadline for transition of liquid assets to the pool on a 'comply or explain' basis. LGPS funds will be required to pool all listed assets by 31 March 2025 on a comply or explain basis with an explanation taking into account value-for-money considerations.
- Tower Hamlets Fund currently invests all its listed assets either directly through the pool or via pooling fee structures in place for Legal and General Low Carbon funds.
- 3.6 The government intends fewer pools of at least £50bn, with scale achieved by pool merger where required. The government has confirmed its intention to proceed with this but stated there is no intention to force any mergers in the medium term.
- The Government Actuary Department estimate that the LGPS could reach around £950 billion in assets by 2040, the government is therefore looking towards a smaller number of pools with assets under management averaging £200bn.
- Tower Hamlets Fund is a partner fund of London CIV.

- 3.7 Revised guidance will focus on and include a preferred model of pooling which is expected to be adopted over time on “characteristics and outcomes” rather than specifying single or prescribed structures.
- 3.8 Investment in other pools should only be done via a Fund’s existing pool. The government will set out in legislation under what circumstances it will be appropriate to invest through your own pool in another pool’s product. Funds will not be permitted to invest in other pools’ product directly, as the government wishes to prevent competition between pools.
- 3.9 The government will produce strengthened guidance on increased levels of delegations to pools to support greater delegation of manager selection and strategy implementation at pool level. The government remains in favour of pools providing advice to Funds.
- 3.10 Greater transparency on reporting to be developed in conjunction with the LGPS Scheme Advisory Board (SAB). The government will work with the SAB to create more transparent and consistent reporting on fund assets allocation and returns. The use of single standardised benchmarks for asset classes has been dropped by the government.

#### Levelling Up

- 3.11 Up to 5% investment in levelling up remains an ambition. Funds can invest more or less if they cannot find sufficient investment opportunities. The government recognises it is not a separate asset class. The broad definition suggested in the consultation will remain to provide flexibility for funds in finding investments that meet this definition.

The government states that investments are expected to provide good returns, but lower-returning investments can also be made under existing guidance on non-financial factors. The government acknowledges that funds may choose to invest these opportunities outside of the pool, but encourages as much pool involvement as possible, such as in conducting due diligence and to help manage conflict of interest.

The Tower Hamlets Fund strategic asset allocation currently includes allocation to UK Housing and Renewable Infrastructure which may count toward levelling up. Some investments in Schroder Real Estate may count towards levelling up.

- 3.12 The government made clear in the response to consultation that it does not see these requirements as going against fiduciary duties of the Fund and Funds should consider investments in Levelling Up as they do any other investment.

#### Private Equity

- 3.13 Government remains committed to unlocking capital to support growth businesses. The government will continue to encourage funds to invest 10% of assets in private equity and venture capital investments. This will not be

mandatory, but funds are required to set up allocation ambition. Investments in the UK is welcomed by the government does not propose to restrict this ambition to investments in private equity and venture capital in the UK.

The consultation response recognises that 10% investments in private equity and venture capital investments remains and ambition and would not be mandated on LGPS funds. Funds can include other investments in private equity outside of this where appropriate on risk and return grounds.

Pools will be encouraged to work with and strengthen partnerships with British Business Bank to explore investment opportunities in venture capital and growth equity. A government-led investment vehicle to support pension fund investment in these areas is being expected.

Competitive and Markets Authority (CMA)

- 3.14 The government will also amend regulations and associated guidance to require funds to set objectives for investment consultants. Pool companies owned by the LGPS will also be required to set objectives for all investment consultancies including pools. Guidance is required to make clear that all providers of investment consultancy services are covered including independent advisers and that such services include advice on investments, investment strategy statements, strategic asset allocation and manager selection.

All Fund investment advisers, independent advisers and actuary have set objectives which may require review once the regulations are in place.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no equalities implications arising from this report.

#### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Environmental Implications

- 5.2 Tower Hamlets Pension Fund is making progress on monitoring climate risk by reporting appropriate carbon metrics, reports on TCFD on a voluntary basis

as an early adopter and has regard to climate risk in making investment decisions.

## Risk Management

- 5.3 The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic asset allocation, The pension fund's Investment Strategy Statement requires all external investment managers and London CIV to consider and manage all financially material risks.

## **6. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Tower Hamlets Council is the administering authority for the LGPS which provides pensions and other benefits for employees of the Council, Tower Hamlets Homes, Academies, various catering and cleaning contractors and a range of employers within the Fund.
- 6.2 The LGPS is a 'defined benefit' scheme which means that members benefits are not calculated based on investment performance. Contribution levels for scheme members are set nationally, and contribution levels for scheme employers including the council are set locally by the scheme actuary.
- 6.3 Increasing the level of investments in the UK and in private equity may increase fees because the nature of investments means they are more expensive to manage than for example listed passively managed equity tracking funds. However, different types of funds provide diversification may enable the Fund to adopt the correct risk/return profile to meet its liabilities and for this reason a mix of investments that includes some asset types with higher costs may be appropriate.

## **7. COMMENTS OF LEGAL SERVICES**

- 7.1 There are no direct legal implications arising from this report.

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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- List any linked reports
- NONE

### **Appendices**

- NONE.

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

- <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments>

**Officer contact details for documents:**

Miriam Adams, Interim Head of Pensions and Treasury

Email: [Miriam.Adams@towerhamlets.gov.uk](mailto:Miriam.Adams@towerhamlets.gov.uk)