

Report of: Corporate Director of Resources

Meeting of: Pensions Committee

Date: 3rd December 2024

Ward(s): n/a

SUBJECT: Local Government Pension Scheme (England and Wales): Fit for the future consultation

1. Synopsis

- 1.1 This report highlights the recently released consultation for the future of the local government pensions scheme (LGPS) and what it means for the London Borough of Islington Pension fund. The Chancellor of the Exchequer has appeared to signal a step change in the pooling of assets for LGPS towards 100% pooling by March 2026.

2. Recommendation

- 2.1 To note the report.

3. Consultation

- 3.1 The last pooling consultation by the previous government concluded on 3rd October 2023, with little formal progress made since then in terms of a direction of travel. Since the new government has come to power, there has been increasing rhetoric from the Chancellor involving consolidation of the LGPS and encouraging them to invest in UK assets.
- 3.2 The direction of travel is now becoming more clear, with the Chancellor's Mansion House speech setting out accelerated pooling of investment assets for LGPS funds, with the formulation of eight "mega pools" of £80bn each by 2030.

3.4

Asset Pooling

- **Full Delegation:** Administering Authorities (AAs) to fully delegate investment strategy implementation to pools in full (including active vs passive investing, geographical split etc). Fund's will be expected to use a simple template to tell the pool what their strategic asset allocation is (example shown Table 2).
- **Principal Advice:** AAs to take principal investment advice from pools. This looks to be the governments way to reduce spend on external investment consultants.
- **FCA Regulation:** Pools to be established as FCA-authorized investment management companies. This places question marks of some of the pools that are not FCA regulated given the time frame to get to this position is challenging.
- **Legacy Assets:** AAs to transfer legacy assets to pool management. The proposal is for all assets (including illiquid assets) to be transferred under pool management by March 2026.
- **Fund Responsibility:** The Fund will have limited involvement in investment strategy, but will still lead on RI policy. Figure 1 below shows how the responsibilities are drawn.

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

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)		

3.5 Local investment

- **Investment Strategy:** AAs to include local investment objectives in their strategies.
- **Collaboration:** AAs to work with local authorities and combined authorities to identify investment opportunities.
- **Due Diligence:** Pools to develop capabilities for due diligence on local investments. The asset pools should deliver the local investments of its partner funds.
- **Reporting:** AAs to report annually on local investments and their impacts.

3.6 Governance of funds and pools

- **Governance and Training Strategy:** AAs to prepare and publish a strategy, including a conflicts of interest policy.
- **Senior LGPS Officer:** AAs to appoint a senior officer responsible for fund management.
- **Administration Strategy:** AAs to prepare and publish an administration strategy.
- **Independent Governance Review:** Biennial reviews to ensure compliance with governance standards.
- **Knowledge and Skills:** Pension committee members to have appropriate knowledge and understanding.
- **Independent Adviser:** Consideration of appointing an independent adviser to pension committees.

3.7 The London Borough of Islington Pension Fund has recently undertaken a governance review in 2023 and has already got plans in place to implement all the governance requirements, or, has indeed already implemented them. As such the fund is in a much better position to manage these requirements than others.

3.8 As a result of the consultation above it is clear to officers that manager selection as an activity is effectively over for partner funds and all such activity should be taken through the pool. This has resulted in some changes to the investment strategy implementation paper that was previously agreed in September, as officers will now

place on hold manager selections for European private debt and impact investment mandates.

- 3.9 Given that the London CIV does not currently have any impact investment / private equity allocations, officers will contact them to set up how they may work with us to get this implemented as soon as possible.

4. Implications

4.1 Financial implications

- 4.1.1 Investment costs are charged to the Pension Fund.

4.2 Legal Implications

- 4.2.1 Any changes to the Local Government Pension Scheme regulations would require primary legislation.

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2026 and 2030 to reduce the current and future absolute emissions by 49% and 60% respectively compared to when it was measured in 2016 and also invest 20% of the fund in green opportunities. The link to the full document is [Islington Pension Fund Investment Strategy Statement](#)

4.4 Equalities Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendation

5.1 Members are asked to note the report.

Appendices - none

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

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Legal implications –