

## Scheme Advisory Board (SAB)

### **Scheme Advisory Board response to the Local Government Pension Scheme (England and Wales): Fit for the future consultation**

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

The Board agrees that it is helpful to have clarity from government on the structure it would like to see for pools, and by when it expects those structures to be implemented. The timescales involved in this consultation are extremely challenging when considered in the context of the time of year it is being conducted, as well as in the context of pension committee and local authority meeting cycles.

The 1 March 2025 deadline for pool business plans is especially challenging for those pools that are not structured in a way that meets all or most of the minimum standards set out. The Board is concerned that those pools needing to do the most work to meet the minimum standards may not have had sufficient time to do all the preparatory work they would have liked to do; and hopes that there will be an ongoing constructive dialogue between government, funds, and pools in the coming months. This was certainly the impression given by the Local Government Minister, Jim McMahon MP, when he met pension committee chairs and talked about the co-creation of the new structures.

Clarification over roles and responsibilities is helpful but the Board wants to reiterate the importance of LGPS members and employers being at the heart of considerations about what is best for funds and their particular circumstances, and what the pools can deliver on their behalf.

It is right that where pools are implementing investment strategies and managing the transfer and investment of assets, as well as identifying suitable new investable opportunities for their funds, that they should have the expertise and capacity to do that in the best way for their partner funds.

It is critical that pools are properly able to take on the functions that government wishes them to. It is recognised that there will be extra transitional costs, and an element of dual-running, while pools develop the in-house services that they currently procure externally. To minimise costs from duplication, sufficient time should be allowed to manage that transition as efficiently as possible.

#### **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 Board understands the rationale for this approach, given the government's desire to make roles and responsibilities between funds and pools clearer and more consistent across the LGPS. For some funds this will not be a significant change to how they currently operate with their pool, but for many it will be a shift. The Board's key concerns relate to governance and transparency, and where the pools can demonstrate or develop strong governance and more transparency, then this

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evolution in how LGPS funds operate will be easier to navigate.

Funds already set out their investment objectives in their Investment Strategy Statement (ISS) as well as their high-level strategic asset allocation but there is variation in how much implementation is done at fund versus pool level. Given resourcing pressures in funds it makes sense for pools to take on responsibility for implementation and other resource-intensive work which the pool can deliver at scale, such as reporting.

There are many other elements that influence a fund's investment strategy, including the profile of their liabilities, cashflow needs and funding level. It is vital that if the changes the government is consulting on are implemented in full, any modification to high-level strategy or asset allocation relating to these important elements can be reacted to in a timely manner by the pool. That requires there to be effective relationships and communication channels between funds, their actuaries, and pools.

The minimum standards for pooling were set out in the consultation and in the subsequent letter that was sent out from HMT to individual pool CEOs. These minimum standards do not refer to funds having to adopt a common approach to either strategic asset allocation or responsible investment policy. We think this is correct and while there may be benefits which flow from the harmonisation of strategies over time, it is a fundamental function of the administering authority to have control over both aspects of investment strategy. Any attempt to require funds to adopt a common position would squarely cut across their fiduciary duty, in the view of the Board.

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

The Board is concerned about this and has sought advice from Nigel Giffin KC – this advice is awaited. A key concern is whether the fund's legal duties can be discharged by simply setting high level objectives and delegating all responsibility for implementation to the pool. It is also key for funds to have the ability to flex their strategy when needed, perhaps for cash flow reasons or in response to unforeseen investment or economic conditions/factors, to effectively discharge their fiduciary duty. We say more in our response to Question 29 below, about the information and assurance which pools need to provide funds on how they are performing.

The primary, fiduciary duty is to ensure pensions are paid in full and on time, and this is what should remain at the heart of considerations about the future of LGPS pools. The closeness of the connection between the fiduciary duty and the approach to responsible investing means that the administering authority needs to retain the role of setting the responsible investment beliefs and priorities of the fund.

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

There are nine high level asset classes set out in the consultation document, which

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differ from the categories most LGPS funds currently use when setting out their strategic asset allocation. The separation of UK government bonds from the credit category that includes non-UK government bonds is not replicated for the other asset classes, where there could be allocations to UK-based investments, for example in property and/or infrastructure, as well as listed equities and private credit.

The recent changes to [SF3 reporting](#) as well as the latest [guidance on preparing the fund annual report](#) requests disclosure of allocation to certain categories of assets invested in the UK, indicating government's interest in understanding LGPS funds' appetite for allocation to UK investments. It is interesting that this is not replicated in the proposed strategic asset allocation template, indicating that the decision about UK versus global asset allocation will be taken by the pool, not the fund.

There are concerns that the inability to allocate to passive or active equity will impact on funds' ability to ensure that their assets are invested in line with their responsible investment approach.

In addition, the inclusion of the category of "cash" – even with the clarification that it relates only to cash held by the pool – is not helpful and does not reflect the reality of fund practice. Cash is not a strategic asset class, and funds need flexibility to hold cash in the way that ensures they can deliver on their primary duty to pay pensions, as well as to provide cash for investments at the appropriate time. The Board would recommend removing cash from the asset class table.

### **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?**

It is certainly possible for pools to develop this function – and several pools already have – but the Board has some concerns about funds being required to (as opposed to choosing to) take investment advice from the pool. As part of a broad spectrum of advice, the pool clearly has a role, but the Board's view is that it should form part of a (limited) number of sources of advice.

It is also worth pointing out that regulation 7(5) of the 2016 Investment Regulations states that funds "must consult such persons as it considers appropriate as to the proposed contents of its investment strategy" and must also take "proper" advice.

Where a fund takes its principal advice from the pool and separate, independent advice from another source, then there should be no suggestion that it is required to follow the pool's advice where they differ. Funds still have the legal responsibility to make their own decisions, informed by appropriate advice.

Key areas, such as the fund's approach to responsible investment, arguably need to remain close to the fund and may well require specialist and/or independent advice.

The Board is also concerned from a governance perspective about perceived, if not actual, conflicts of interest which arise where the pool is the fund's principal, and possibly only, source of investment advice. It is acknowledged that these conflicts can be managed, but it is of central importance that this is managed transparently

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via robust governance arrangements.

**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?**

Funds have established their LGPS pools in several different ways, at least in part to meet their own particular circumstances. For those pools which sought FCA authorisation, that was something the member funds collectively signed up to at the outset and still wish to keep for their pool. Securing FCA authorisation for new entities will come at a cost and involves significant resource and time.

Although the FCA indicated to MHCLG that the authorisation process should take no more than 12 months, in practice other pools have found it takes longer – more like 18 – 24 months. LGPS pools are unique constructs with no direct comparators in the investment sphere, therefore FCA officials have little or no experience of working with LGPS pools.

The Board has concerns that requiring FCA authorisation may not lead to tangible evidential improvements in how pools operate or, crucially, how they deliver outcomes for their LGPS funds. It is also a process that is likely to take a lot of resource (both time and cost) over the coming 12 months which could be better used on other matters.

While we understand the government's desire to set ambitious deadlines, if the government's intention by requiring FCA authorisation by an earlier date than is feasible is to effectively force pools to merge or collaborate more deeply than has been the case to date, then we do not believe that is an appropriate approach – the government should deal openly with funds about their intentions.

**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 Board agrees that this proposal makes sense, and the vast majority of LGPS funds have already transferred a substantial proportion of listed equity assets to pool management – or are on a trajectory towards that. Other listed asset classes may be more difficult than equities to transfer – particularly property – for various reasons, including tax. Pools may also need time to get themselves into a position where they are resourced sufficiently to manage these additional assets.

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

The transfer of legacy assets needs to be managed carefully, in a way that minimises costs which can be substantial with illiquid assets for various reasons – including tax rules. It is helpful that government has recognised this and allowed for the asset to be classed as pooled via the transfer of management to the pool, rather than the actual asset – which may need to happen to a slower timescale.

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### **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?**

If pools are to take on the management of legacy assets, it is likely that most, if not all the pools, will need to develop or acquire some additional capacity and expertise in a number of areas. These will include strengthening relationship management; bringing in specialists to manage administrative aspects of legacy asset management and ensure compliance requirements are met.

There may also be a need for pools to improve their IT systems to reflect more complex portfolios, especially where there may be legacy systems around some older assets.

### **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?**

As mentioned above, the timescales are extremely challenging, and the Board is concerned that moving with too much haste could lead to additional costs and a lack of time to sufficiently plan and realise what is needed to progress pools towards the government's preferred model. This is particularly the case around the timetable for FCA authorisation.

### **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 Board believes that there is significant scope for more collaboration between pools and although the Board is aware that the pools have increased their collaboration and regularly communicate and interact with each other, there is still more that could be done.

### **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?**

In the same way as pools could collaborate more, the Board believes that is also possible amongst LGPS funds. However, the Board would note that the evolution of pooling has led to significantly greater collaboration between funds in some pools which should not be overlooked. It is also important to acknowledge that a number of strong relationships already exist between funds that belong to different pools. There are examples of successful shared services being developed and delivered within and for the LGPS which could be built upon in future if funds find delivering a full service more challenging, largely down to resourcing pressures.

## **Chapter 3: Local investment – General Comments**

The Board believes investment by LGPS funds anywhere in the UK is positive but

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that a degree of genuinely local investment is appropriate for the LGPS. Many funds are already open to making an allocation to place-based initiatives where particular projects can be demonstrated to be consistent with the fund's fiduciary duty and appetite for risk. It is perhaps a statement of the obvious that the over-riding objective of funds is to ensure that pensions can be paid on time and in full. Some caution and realism needs to be established though about the likely scale of LGPS investment in local projects.

It is also sensible that the government is implementing the Board's Good Governance review recommendations, which include the need for each fund to have a conflict-of-interest policy, alongside these proposals. Not least because local authorities and other scheme employers (e.g. universities and housing associations) may well be partners in some of the proposals which the fund is invited to support.

Local authorities, including those which are administering authorities, do however have a deep understanding about how their local economy works, which could give them a competitive advantage over other investors. But the key barriers are scale and supply of opportunities: we would like to see a deeper consideration by Government of what can be done collectively to address those barriers. We make some suggestions in response to the questions below about how central and local government can work together to address the very different levels of capacity and sophistication at officer level available to mayors and combined authorities.

Similar arguments do not apply to investments in UK-listed equities. Here the Board welcomes that there is no attempt to push LGPS funds to invest more in these assets. There is no evidence that pension funds investing more in UK-listed assets would impact on UK growth. Many of the companies which choose to list in the UK have most of their economic activity in other jurisdictions and the choice of where a company will list (or whether it is to list at all) is driven by many factors.

As global investors, and in line with the requirements of the LGPS Investment Regulations 2016, LGPS funds have to consider the benefits of investing in equities in other jurisdictions in order to achieve diversification (for risk management) and the necessary returns. LGPS investment decisions must take into account competing investment opportunities from around the world and the establishment of large investment pools are likely to increase rather than decrease the ability to appraise and take up opportunities in other markets.

### **Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?**

The consultation says that the term 'local investment' is used to include investments local to any of a pool's partner AAs, or investments in their region (or nation, Wales). To be clear, we understand this to mean anywhere in England for the Environment Agency, which has that national jurisdiction.

The Board agrees that the definition of "local" needs to be construed with some geographical limitations to be meaningful. It should not be used to refer to investment anywhere in the UK.

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However, nor should it be narrowly construed as being within the local government or regional boundaries of participating funds. Local opportunities that present close to boundaries but are within a relevant [Functional Economic Area](#) (FEA) or [Functional Urban Area](#) (FUA) in which the fund or pool is situated should be considered within the definition. These terms are recognised in the recently released Devolution White Paper and have a specific geographical orientation but are more flexibly delineated.

The Board also feels that there should be consideration of a necessary link to the delivery of other social aims. This means that “local investment” in this context would also have to be impact investing, as generally understood (see for example the [definition given by the Impact Investing Institute](#)). Without that it is possible that buying shares in BP plc, which is headquartered in London, could lead to such investments being classed as a local investment for London funds.

This definition also reiterates that the investment should be consistent with the fund’s financial aims – LGPS funds are not philanthropists – and there should also be an idea that the investment is made purposefully with a view to securing a positive social impact. That could be local improving local economic performance, improving the environment (natural or urban), or addressing the significant regional disparity that can be seen in the UK. Social purposes might also include dealing with the under-supply of housing, other social infrastructure or increasing human capital.

It has been noted that the UK is the most inter-regionally unequal large high-income country<sup>1</sup>, and that the UK’s inter-regional inequality is particularly notable given that it occurs over small geographic distances. The Board feels that regional inequality should be seen as both a social issue that ought to be addressed by government, and something which will impact on the likely availability of investable opportunities for funds locally. The table below illustrates the marked differences in wealth between the regions, which along with differences in the ability of projects to capture uplift in land values, are likely to be relevant to making local projects viable.

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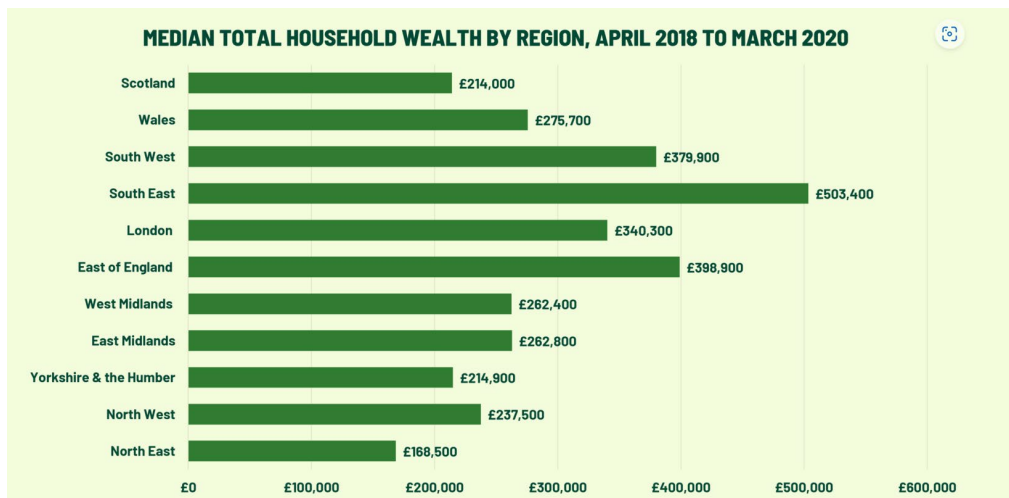
<sup>1</sup> McCann, P (2020), “Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK”, *Regional Studies* 54(2): 256–67. Summarised [here](#)

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From : The Scale of Economic Inequality in the UK - Equality Trust

The Board also questions whether the model proposed will work for funds based in more rural economies.

**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?**

Such a broad duty would be potentially onerous, depending on the number of 'plan' areas that funds are expected to understand and consider engaging with. Where there are a large number of local growth plans potentially in scope then administering authorities should only be obliged to direct a proportionate amount of time in engaging with them.

Local investment is already disproportionately demanding of officer and pension committee time, in terms of looking for and triaging viable propositions (even if the full due diligence is done by the pool). Building up a track record of having a reasonably high "hit rate" from the proposing growth plan area to the relevant LGPS fund will help to make this process work.

We are aware that there are already strong teams working for mayors in some high growth areas (like London and Manchester) that have demonstrated the ability to understand the likely needs of LGPS investors and present them with a plausible set of opportunities. For those less politically committed, or without the capacity to develop and present marketable opportunities, the Board would encourage the Government to consider the need for capacity building with local authority and mayoral authorities. There seemed to be some very welcome acknowledgement of that in the Devolution White Paper.

In some cases, authorities' strategic and project development skills have been

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hollowed out after so many years of financial challenge. We believe that government should consider how it could develop specific resources to support the development of expertise in the financing of local growth initiatives, and how the needs of institutional investors can be factored into successful project financing.

It also depends on what the government intends “work with” to mean in this context. As a potential future investor in projects, it might be sensible for administering authorities not to be too closely involved in the development of particular proposals that will then be considered by the pool.

The Board would reiterate its view from the consultation which the previous government undertook on “Levelling Up” investments, that departments and agencies like the National Wealth Fund (NWF) and British Business Bank should work together to create a pipeline of investable opportunities for LGPS funds and institutional investors more generally. The Board has long recommended that the government create and market a selection of social impact bonds. Currently these tend to be at too small a scale to interest LGPS investors, but the aggregation of appropriate opportunities would allow all funds to invest at a scale that is appropriate for them.

The Board feels that there is also a logical distinction to be drawn between “local investment” and the much-needed investment in our national infrastructure, which we recognise is critical to the government’s drive for “national renewal.” Investments in physical infrastructure projects, by their nature, will tend to be identifiable with a place – but are a very different investment prospect from local growth opportunities. The scale of investment and place within the fund’s overall asset allocation will be different.

There is clearly a role for the NWF in the infrastructure space, and this is acknowledged in the Devolution White Paper. It therefore seems appropriate for the NWF to establish strong links with LGPS funds and pools, and the Board would be happy to help facilitate that, for example by hosting workshops and investment events. Given the need for significant additional finance for Net Zero transition projects the Board would also welcome the participation of the Department for Energy Security and Net Zero and Department for Environment, Food & Rural Affairs officials at those events. This would help to provide LGPS funds and pools with a broad and consistent message on what their role might be in the financing of infrastructure projects in the public sector.

The Devolution White Paper also says that the NWF will have a “strong regional objective to unleash the full potential of our cities and regions.” The Board understands from the White Paper that the NWF will be resourced to work with Mayors to develop investable propositions for their Local Growth Plans and will be looking to co-operate with institutional investors to develop project pipelines and financing. Those plans may include a mix of smaller local growth projects and significant infrastructure projects (e.g. new light rail) and as mentioned earlier LGPS funds and pools will have an interest, but different approaches, to both.

The Board also believes that in discussing local investing, it is important to distinguish between the financing and the funding of projects. By this we mean that

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the overall cost of a project can be financed from different sources (from grant funding, from borrowing or from sharing of equity in an asset). Sourcing finance from an LGPS fund does not reduce the overall cost of a project in the way that grant funding might be considered to, since all money that is sourced from LGPS needs to be repaid to the fund in full, plus a commercial rate of return. Grant funding on the other hand may contribute to the cost and be assessed as offering value for money to the taxpayer on the basis that it secures other public benefits (consistent with standard “HM Treasury Green Book” methodology). While those wider social benefits may be of interest to LGPS investors in choosing to invest, they cannot be considered as part of the return to the fund.

### **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?**

We are more comfortable with the approach of setting a target range rather than a target. However, it is unclear whether any form of target or range is helpful since local investment is not really an asset class (and certainly not one that the fund has been asked to attach an allocation for in the table it is required to provide to its pool in the consultation). Given that the government’s model limits a fund’s control over how money is invested, beyond setting a strategic asset allocation, it will be important that the pool is prepared to apply each fund’s definition of and approach to local investment. While it may be hoped that these will align over time, it should not be the case that funds are required to compromise their investment values just for the administrative convenience of the pool.

We believe that artificial targets are not a good idea and even if discretionary are likely to distort decision making. The Board is in the process of obtaining legal advice on how consistent it is with the funds’ fiduciary duty to have regard to targets set politically.

The government also needs to acknowledge that the LGPS experience is mixed. While some funds have had successful experiences with investing locally, and these have been widely reported, there is a reporting bias in that funds whose experience has been less successful, or even lost money, will not be advertised. Funds whose experiences have not been positive in the past may have a lower risk appetite than others in trying again. This variation in experience should be acknowledged and the way to change the approach of those funds is through positive reinforcement, for example by giving extra support to local government in those areas to develop excellent proposals.

It is widely acknowledged that the shortage of investable proposals available is the key constraining issue for investment in local growth. There is less evidence that access to project finance or capacity/resource at local government level (which this proposal would potentially address), is the most significant limiting factor. It may therefore prove the case that implementing this proposal by itself will not have a significant impact on the level of local investment by LGPS funds. Higher investment levels are much more likely to be driven through successful implementation of the Devolution White Paper proposals and the NWF proving its worth at scale.

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It is worth observing that there is a considerable requirement for investment across many sectors (energy, housing, transport, skills etc.) and there will be a natural, and low ceiling to the likely total proportion of LGPS assets that would sensibly be invested in higher risk projects such as local growth initiatives.

There is a question surrounding the way in which pools will endeavour to invest on behalf of the funds and whether funds have joint ownership of assets within an investment vehicle with other funds in the same pool. Further clarification on how the varying objectives of funds will be managed is needed in this instance. Having a single investment vehicle with a mix of projects co-owned by the funds has merit, in that risk is spread out across underlying funds. However, given that all funds within the pool may not have the same objectives, pools may be faced with challenges to satisfy the objectives of all their underlying funds if investing in this way.

It is hoped that pools will develop expertise and skills and that this, combined with the knowledge from funds already involved in local investing, will foster the innovation needed to develop sufficiently diversified investment vehicles to satisfy varying objectives. It may be possible that to satisfy individual fund objectives there is a combined approach of co-ownership of assets within a single investment vehicle and funds having individual holdings in addition to this.

### **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 Board assumes this refers to the general viability assessment and does not require the pool to have detailed knowledge of each local economy within the area that meets the eventual definition of “local.” That level of expertise in specific places is more likely to be found at fund level.

It is sensible for the pool to do the appropriate due diligence, but the Board would welcome clarity about whether the Government sees the ultimate decision about whether to invest or not being the responsibility of the pool or the fund. As these decisions could be politically contentious it is appropriate that decisions are made by those who are politically accountable. The Board therefore suggests that the final investment decision should be made by funds, informed by the pool’s assessment.

If instead it is the pool which decides, the Government needs to be clear if this is a negative veto (a fund could not invest unless it got the go-ahead from the pool) or whether the pool makes a completely independent decision. If the latter, then is there a risk that a pool could commit a fund to invest in a project against that fund’s wishes? That might not be acceptable for elected members of the fund if a particular local investment was locally politically unpopular.

Equally, funds should be free to decide to disinvest from a local project, for example if a project had been signed up to by a different administration and again was very unpopular locally. Would the incoming administration be able to instruct the pool to withdraw from the project?

While politics, local or otherwise, should play no part in the financial assessment of a

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particular proposition, it would be naïve to pretend that would not be a relevant non-financial consideration in a scheme like the LGPS.

### **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?**

Any additional reporting requirements placed on administering authorities need to be for a clear, intended purpose and audience with an assessment made of the expected additional cost and resources for this additional reporting on each fund against the value added. Therefore, more information is needed on this proposal to understand what is expected and how it could impact the fund annual report, as well as the scheme annual report that is produced by the Board.

The Board notes the government proposes to work with us to consider the changes to be made to the recently updated statutory guidance on preparing the fund annual report. To introduce new requirements so soon after recent updates would need to be done proportionately and provide ample advance notice to funds.

The Board welcomes the opportunity to be involved in establishing whether it is possible for common scheme-level reporting standards (including non-financial data) to be agreed and reported in fund annual reports. This will take time and needs to be planned alongside other items in the Board's workplan. It also needs to be sensitively considered alongside the other proposals made in this consultation, which will impact on funds, pools, and the Board's ability to contribute to the scoping of this work.

It should be noted that the fund annual report guidance is jointly produced with CIPFA therefore any proposed changes to the guidance will require appropriate agreement from them. Separately, the recent audit consultation proposes many changes which will have connections with fund preparation of accounts - impacting the annual report. The audit consultation states that it aims to '*simplify financial reporting requirements to ensure they are proportionate*'. The Board is keen to understand how this fits with more reporting on local investments in the fund annual report.

The Board notes the consultation includes a requirement for administering authorities to set out their approach to local investment in the Investment Strategy Statement (ISS) and how the ISS and fund annual report interlink in terms of reporting strategy and impact would need to be examined.

There are good examples of impact reporting already underway within the LGPS, but it should be noted that many funds need external assistance to report this data. The Good Economy's [Annual Assessment of the Place-Based Impact of GMPF's Local Investment Portfolio](#) shows the impact themes across GMPF's two local investment portfolios are jobs, place and economic development. Metrics used in the report fall under these themes and examples include; number of jobs supported or created, number of homes completed, in development or planned and the number of clean energy and sustainable assets. This is a small sample of possible metrics as an example, but it is important to note this is still an evolving industry and a new

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scheme level endeavour.

It may be more advisable for there to be an effort within the LGPS to co-create the standards and metrics for measuring the impact of local investing to avoid burdensome requirements for funds that are already subject to numerous reporting requirements. It may also take a longer period to capture the data for metrics more commonly associated with impact investing and requirements placed on funds must be reflective of this. Metrics will also heavily depend on investment portfolio holdings which will vary between pools (and/or funds if a combined approach to investing as mentioned in response to Question 15 is taken). If the government intends for the data in annual reports to be aggregated for inclusion in the Board's Scheme Annual Report, metrics will need to be developed with this in mind.

Clarity is needed from government as the metrics included will depend on the intended expected audience. It will take time for impacts to become measurable in some cases. There is also the possibility that measuring impact will require expertise either from the pools or external organisations (possibly both). If funds are expected to measure impact, the government will need to consider the limited resource available at funds.

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

The Board greatly welcomes this long-awaited progress of its Good Governance recommendations which were submitted to then Minister Luke Hall nearly four years ago, in February 2021.

Within the consultation there are references to working with the Board to provide new guidance. It is therefore expected that Ministers continue to ensure the Board is appropriately resourced to assist in the delivery of this workplan and clear timelines are provided by MHCLG on delivery of these proposals. It is important to allow appropriate engagement with LGPS stakeholders and ample time for administering authorities with already pressured workplans to implement the new requirements.

Whilst the Board understands that this consultation is fairly high-level, with the detail to be set out in statutory guidance, there are some missing key recommendations that featured in the Board's [original action plan](#). The Board wishes to understand whether the omissions still may feature as requirements in the subsequent statutory guidance or have been left out intentionally, and if so, the reasons for this.

As an example, paragraph 91 of the consultation document mentions in extremely broad terms the need for 'representation' to be covered in the new strategy document. The Board would like confirmation that this is shorthand for the recommendation in its Good Governance action plan (shown below) and that the Government expects the full recommendation to be specifically covered.

**C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.

The Board believes the requirement for each administering authority to publish a

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clear policy on representation, as set out above, should be explicitly committed for the avoidance of doubt. We would also emphasise that for voting rights to be meaningful, the policy should also state how member and employer representatives can be supported, through information and officer time, to the same degree that elected members on Committees are supported. It is also expected that the proposals should include publication of key roles and responsibilities within a decision-making matrix, and the inclusion of pension committees in the business planning process.

### **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 Board agrees with the intention of this proposal to require administering authorities to prepare and publish each of these key documents and specifically it would be beneficial for the minority of administering authorities who do not have (a conflicts of interest policy and/or training strategy) that this should be mandated. The Governance Compliance Statement is already a statutory requirement, so all administering authorities should have this policy in place.

However, the Board believes the intention in this proposal for these documents to be combined into one strategy document should be reconsidered as this was not part of the original Good Governance recommendations. Combining into one document could become unwieldy for administering authorities to produce and maintain. A single document would undoubtedly also be more difficult for readers.

The requirement to cover all three subjects in one document (governance strategy, training, and conflicts) creates the risk that these important issues are watered down in order to be practically covered in one document. These are important issues for administering authorities to address and must be dealt with appropriately and proportionately.

The Board agrees that policies should be reviewed periodically but does not agree with the period suggested of the actuarial valuation as this is already an extremely busy time for administering authorities.

In support of our argument that these should be individual documents, the Conflicts of Interest policy must address a wider range of issues and page eight of the Good Governance project's [final report](#) specifically covered an extensive list of what should be included. However, that obviously doesn't include any additional issues arising from this consultation.

The Secretariat have taken a small sample from funds who already have produced each of these three documents and the average size of all three documents when combined is 48 pages.

### **Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?**

As a core recommendation from the 2021 proposals, the Board agrees with this

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proposal and would expect the requirement for this role to exist to be set out in the LGPS regulations and supported with further guidance to assist administering authorities in the creation/identification of this post within current structures. However, clarity is required on the specific wording within the consultation which states *'overall delegated responsibility for the management, strategy and administration of the fund,'* considering the current statutory responsibility of the Pensions Committee. The Board believes that the role is expected to have senior responsibility across all pension functions within the administering authority to ensure the fund is appropriately managed and resourced across administration, investment, and governance matters.

There are some issues on the specifics of the role and implementation of the role which need to be refined from what is currently set out in the consultation document and would benefit from discussion within the Board's Good Governance working group and through further engagement with stakeholders.

For example, the Board agrees with the expectation of the role, as set out at paragraph 96, but the consultation document at paragraph 95 proposes the individual *'should be involved in the local authority's budget-setting process'*. The Board believes the latter requirement should not be an expectation for the Senior Officer role, considering the pension fund budget is agreed separately from the administering authority's budget and as written, could become a barrier to this role being fulfilled.

In considering the timeline for having this role in place, the Board would suggest that ample time is given for administering authorities to review existing structures, to create the job role and perform the necessary selection or recruitment activities.

Finally, the Board recommends that guidance should set out that the committee is included in the business planning process and both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year. Guidance could also address how this role relates to the s151 officer, and the circumstances in which it might be appropriate (or not) for them to be the same person, recognising that different structures within administering authorities will come with their own unique challenge in ensuring that this substantial role is in place.

### **Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?**

As a core recommendation from the 2021 proposals, the Board wholly agrees with this proposal to mandate that administering authorities prepare and publish an administration strategy.

The Board believes the scheme is already prepared for this proposal and by setting this as a statutory requirement it will encourage remaining administering authorities to prepare a strategy as [survey findings from 2022/23 by The Pensions Regulator](#) (TPR) showed 94 per cent of Local Government funds had an administration strategy, which was an increase from 89 per cent in 2020/21. TPR also acknowledges that the LGPS is generally an extremely well administered scheme, a

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view also reflected in statistics provided by the Pensions Ombudsman. According to the latest statistics TPR has shared with us (for the year 2022/23), there were only 160 complaints made in relation to LGPS decisions from a membership of over six million (and those were mostly around ill-health retirements).

The Board believes an essential element to the proposal is the requirement set out in paragraph 100 which covers that funds should have regard to statutory guidance when preparing the administration strategy. The Board welcomes this suggestion and believes it would fill a gap in the current suite of guidance documents available.

It will be critical when creating the proposed statutory guidance for the administration strategy that views are sought from a wide range of officers within administration teams, the national Pension Officer Group and scheme employer representatives to ensure all relevant administrative matters are accurately and appropriately covered by those with a deep understanding about how the administration service is run and delivered.

It is noted the consultation document does not cover mandating the requirement for monthly data to be submitted to administering authorities by scheme employers. The Board would recommend that this requirement is reconsidered to be part of this proposal. Mandating for monthly data collection would help administrators work with scheme employers to achieve the aim outlined in paragraph 99 which mentions '*driving improvement in the administration of pensions*'.

Whilst it is acknowledged that a large proportion of funds are collecting monthly data from scheme employers, there are gaps across the scheme of employers who do not issue good quality monthly data and the Board understands that this remains a challenge for administrators.

Findings from TPR's [Public service pension schemes: governance and administration research 2023 survey](#) found that the mean per cent of employers that always submitted required monthly data on time was 86 per cent for the Local Government Pension Scheme.

Finally, the Board agrees with the overall aim of this proposal which seeks to support administration teams to drive improvement and is linked to the guidance by the Board on Preparing the Fund Annual Report, as well as the original recommendation in the Good Governance action plan that '*administering authorities must report the fund's performance against an agreed set of indicators designed to measure standards of service*'.

The Board feels that for administrators to deliver an excellent administration service to scheme members and employers, there must be the appropriate staffing, technological infrastructure, and internal processes in place which are supported by the pensions committee and local pensions board. Guidance should set out that the pensions committee is included in the business planning process and both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service.

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**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 Board agrees with the proposed change to LGPS regulations to align with the Board's guidance, on preparing the Annual Report which suggested that policies do not need to be republished in the fund Annual Report. The Board welcomes this practical approach and commitment to ensure that fund annual reports are produced with readability in mind and do not become unwieldy in simply reproducing already published fund documents.

**Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?**

The Board welcomes that this is featured in this consultation for further discussion by the sector as it was part of the original Good Governance recommendations. The Board's original Good Governance action plan contained two closely related recommendations outlined below:

**F.1** Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.

**F.2** LGA to consider establishing a peer review process for LGPS Funds.

Whilst the consultation document seems to cover both recommendations set out above, at times the consultation document combines the two recommendations. Specifically, the current wording of paragraph 106: *'the Scheme Advisory Board is developing a peer support offer including identifying experts already associated with the LGPS to be available to conduct the independent governance review and assess the report and action plan'*.

On the recommendation set out at F.2, the Board has started a project to scope out the work involved to deliver this type of peer review and support. The Board is also mindful that The Pensions Regulator is the appropriate regulator for governance issues with LGPS funds. Considering the establishment of TPR's new General Code, the Board does not want to potentially create uncertainty by establishing a separate set of governance standards that would be used for a stand-alone assurance process.

Instead, what the Board feels that it could uniquely add would be to develop an offering which would be welcomed and resourced by the LGPS community, shaped by administering authorities' needs and aiming to formalise an already established network of best practice sharing and LGPS support networks across the scheme.

The Board is grateful that it has been allocated sufficient additional budget to take on another member of staff to develop this work and collate a proposal to be considered by the Board in early 2025. It is hoped that an LGPS specific peer review process could learn from the approach taken by the [LGA in some of its peer challenge offering](#), with the specific focus on governance assurance for LGPS funds.

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The Compliance and Reporting Committee agreed the following three objectives when it met in June 2024:

- Allow LGPS funds to gain external assurance support of its governance activities
- To share, promote and increase good governance practices
- To facilitate access to an expert network of LGPS peer members.

The Board would like to keep open the option that the independent review and peer support offer are rolled together in a way that makes the experience of undertaking a review the important thing, and one that brings together both the external assurance and the learning opportunity. The Board feels that this would be more valuable than a new and separate process for checking governance arrangements, which might end up being either quite onerous, or worse, little more than a tick-box exercise.

The Board does not feel that the wording of paragraph 106 of the consultation is helpful. It says that if a peer support offer were not successful or deemed unlikely to succeed “it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund”.

The LGPS Investment Regulations 2016 only relate to the exercise of investment powers and so are not relevant here. The Secretary of State could amend Schedule 3 Part 2 of the LGPS Regulations 2013 to make another administering authority the relevant AA for the geographical area in question, however, that requires another authority to be willing to take on that function. That would require – as a minimum – a good deal of co-operation between the funds to make the handover a success.

Such a transfer would appear to be at the risk of the staff delivering administrative services and members who might experience significant disruption in service (especially if the administrative processes or software supplier were different in the new authority). This outcome would also come about without addressing where or how the breakdown in governance came about – responsibility for which ultimately would probably lie higher up in the organisation.

The Board feels that the government should instead consider its stewardship function in the round and produce a more measured and staged approach to dealing with perceived service or governance failure, consistent with its approach to tackling under-performance in other service areas. The Board would be very happy to participate in discussions around establishing that, and how funds can be engaged to improve where issues are identified.

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

The Board agrees with this proposal to align the statutory requirements of knowledge and understanding to both Pension Committee and Board members and welcomes the references in the consultation document to the findings from the survey results organised by the Board.

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The Board has had a working group looking at this issue for some time and welcomes the proposals to update statutory requirements and guidance on this subject. It should be acknowledged that guidance has been developed using a piecemeal approach, spread over several documents and therefore not widely accessible for all funds.

The impact of the broader proposals in this consultation will need to be considered and how the knowledge and understanding for officers, pension committee and board members will need to adapt going forward, e.g. with the expectation of increased pooling and the role of the pool in giving advice.

It will be important when implementing this proposal that requirements align with the expectations in TPR's General Code of Practice and, where possible, guidance created to fill in the LGPS-specific gaps in the Code and to assist officers to deliver a fit-for-purpose LGPS specific training strategy.

The guidance will need to:

- use insight from officers who are already providing a successful training program for their committee and board members;
- take into consideration the effectiveness of different training methods;
- consider any barriers in place which may prevent access to training; and
- consider incentives which could improve training take-up.

The Board would like clarity from Government as paragraph 111 seems to suggest all officers are in scope, not just the 'key individuals' as mentioned in the original recommendations. Whilst a fund specific Training Strategy would need to reference officer roles, the detailed requirements for covering all officer roles would not be practical to include.

### **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?**

Yes, but see responses to question 24 and question 19.

### **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 Board is not convinced that this proposal will help to "improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements" as hoped. In relation to investment strategy advice, this proposal does not seem to fit with the rest of the consultation, with investment function being the almost exclusive preserve of the pool, and the proposal that the fund needs to take its 'principal advice' from pool. Having a professional adviser on the committee could be problematic in terms of meeting the government's own aims, for example if there is a disagreement between the advice given by the pool and advice from the independent member.

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The Committee's role is to make decisions and it seems unnecessary to give an external adviser voting rights. The Board agrees that the Committee should still have access to independent advice, aside from the pool, but believes it would be better to retain clarity between the respective roles.

The Board also has concerns that there is a risk that these independent advisers will be seen as having "special knowledge" and be deferred to by the other committee members. If the aim is to improve the knowledge and participation of elected members, then this change could have the reverse effect and mean they are less likely to engage, instead leaving important matters to the "expert."

Alternatively, in those Committees where there is some politicisation of decision making, an independent member risks finding themselves being side-lined in any significant decision.

The Board is also interested in any evidence which suggests that there are 86 individuals who fit the criteria and are available at reasonable cost to support the role requirements – noting that their expertise must encompass supporting the committee on investment strategy, governance, and administration.

The Board requests that MHCLG conduct a New Burden Assessment for the associated cost of this proposal. That would have to include the expected knock-on impact of this proposal on the remuneration of other pension committee members. If one member of the Committee is going to receive significant remuneration for making the same decisions as the others, that is likely to lead to calls for an increase in the allowances paid to the others.

The Board considers that if funds were to bring in an independent voice to improve governance and scrutiny then a more appropriate place to start would be setting requirements for an independent chair of the local pension board.

If the proposal is implemented, then the Board would welcome more guidance on what is classed as 'significant experience' for someone who does not have one of the first two qualifications given at paragraph 114 of the consultation document.

The consultation says that "Those who were or might be involved in recommending specific investment products to the committee would not be eligible." While the Board agrees that managing conflicts of interest is important, and those who have been involved in providing advice to funds in the past may have conflicts, such a blanket ban would seem to unnecessarily constrain the selection process.

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

The consultation document says that "to ensure that shareholder AAs can hold the pool to account, it is important to include shareholder representation on the board." The Board believes that the governance around pool companies and their accountability to the administering authorities requires deeper consideration. There are various ways in which Board seats might be allocated, e.g.

- the administering authority nominates its own representative to sit on a Board

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(which we understand to mean an elected member or officer from that authority). The Board believes that each partner administering authority needs to have a role in oversight of pool company and some power to act if they are concerned that the pool is inhibiting their ability to discharge their fiduciary duty;

- the administering authority nominates someone it trusts from an appropriate professional background to sit on a board (this is the approach taken in some other schemes, such as the USS);
- there could be a process whereby administering authorities as a group try to agree on a single nomination (with a process to be followed if there is no consensus on who that should be). Experience of what works can be taken from those pools which have Joint Committees overseeing them, but there are also administering authorities for which joint committees would need to be an option (e.g. EAPF, LPFA).

However, none of these is a complete answer to the question of accountability. The first two options (for each fund to be given a seat on the board) do not appear to be practical for the pools with large numbers of partner funds. However, the third option does risk some funds feeling unrepresented if they find themselves in a minority position amongst their partner funds.

Accountability would also require clarity on:

- How obligations of being a Board member of the pool company are reconciled with other obligations for those representatives / nominees who “wear different hats”;
- The circumstances in which, and the process by which, individual Board members, the Board as a whole and the Chief Executive can be called to account and if necessary replaced;
- Whether it is possible to design “exit strategies” should an administering authority conclude that because of long-standing poor performance, or divergence of approach from other partner funds, remaining in a particular investment pool is not consistent with its fiduciary duty. Given the permanent transfer of key responsibilities to the pool, many funds would feel more comfortable to engage in this process if they felt that there was a way out should things not work out as envisaged;
- Related to the next consultation question, the interests of stakeholders and other employers also need to be factored into the governance structure.

The Minister, when meeting Pension Committee Chairs at the Board’s invitation on 26 November 2024, emphasised that he wanted to “co-create” solutions to tricky questions such as these. Indeed, it may be necessary to have slightly different solutions for different pools (given their different sizes and compositions) while respecting a common set of principles or a single preferred overall governance model. The Board believes that it would be helpful if the government could, following its extensive engagement with funds and pools, articulate the principles it expects to be followed.

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If it is the Government's intention to use the forthcoming Pension Schemes Bill to take powers to require certain features of investment pool structure, then there is still the time to work through how a principles-based approach can be legislated for, while allowing space for pool governance to continue to evolve and adapt to changing circumstances (e.g. if it were to be the case two pools chose to merge, or one subsumes another).

We believe that these issues, if not addressed at this stage, are likely to become more problematic over time as pools evolve and there is turnover, leading to established and respected board members needing to be replaced. Setting someone up as a director of an FCA regulated entity is time consuming given that there are regulatory requirements in terms of the fit and proper person test, as well as knowledge and understanding requirements etc.

The experience of pools which are already FCA regulated is that FCA requirements make it increasingly difficult to find councillors who can undertake the role, not least because of the time commitment. That is not to say that fund representation on the board should be abandoned, but it is not straightforward to deliver it. Also, using elected members in this way does not seem to be in line with the CIPFA guidance on controlled companies which looks to using officers; but the time commitment on an officer would be even more of a challenge in this case. That inconsistency should be addressed in discussion with CIPFA and the Board, potentially via the Board's Compliance and Reporting Committee.

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

Members' views and representation is a long-standing feature of the governance of the administering authority. It is given effect in all cases via the Local Pension Board and in many cases with other opportunities to participate in decision making by the pension committee, or sub-committees of the pension committee.

The Board believes in the same way that representation at pool level is necessary, we would also emphasise the importance of obtaining feedback, for example via regular reporting and communication targeted at members from the pools, pool engagement with members (via representatives and surveys), attendance at fund events and contributing to key fund and member documents (such as annual reports). We welcome the sentence: *important to ensure that scheme members' views and interests are properly understood and taken into account by the pools.*

As mentioned above, the proposals here envisage a significant transfer of investment responsibilities from the administering authority to the pool. As a general principle, the Board believes that member representation should be present where decisions are taken. A principles-based approach would work well here also and there is a view that member representation in whatever structure oversees and holds the board to account would be more appropriate than a seat on the board itself. Finding a member representative to sit on a board might not be straightforward in terms of the time commitment needed, level of remuneration, managing conflicts of interest and personal liability.

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The Board also believes that the way member representation is made real and effective must be set out in each administering authority's Governance Strategy document (see Board response to question 19)

### **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 Board agrees that a greater level of consistency and transparency should be achieved by the pools, which should as a minimum be required to remain signed up to the requirements of the Code of Transparency established by the Board. This Code covers the provision of transparent and consistent investment cost and fee information between investment managers and administering authorities.

In instances where the pool uses external managers, the Board expects all external asset managers sign up to the LGPS Code of Transparency as part of their terms of business. We are aware that cost data is more difficult to obtain in the private markets space, however the commitment to transparency should still be upheld as a matter of good practice. The Board proposes that pools strongly encourage private markets asset managers to provide data as required and remain engaged in discussion to elaborate further on the issues hindering the timely provision of cost data.

The Board is aware that currently some data is passed by the pools to government, and as has been stated previously by the Board, it would be helpful if the data already shared with government is published to give a starting point to be built upon. Like the Board's scheme-level annual report, which aggregates fund annual reports to give a scheme-level picture of key LGPS data, government should require pools to produce consistent data to be collected and reported at individual pool level and published at scheme-level, as it does with SF3 data.

It was agreed by the Board at its meeting on 25 November 2024 to work with the National LGPS Frameworks team to build on their current offering of cost monitoring and benchmarking data services, under their existing Investment Consultancy Management Services Framework. The Board is aware that pools can access these services via the LGPS Frameworks and would encourage the usage of cost monitoring and benchmarking services via the framework or otherwise. Collating this information and benchmarking their performance against investors of a similar size and/or against previous years' performance can be an additional way to assure themselves and their clients (administering authorities) of the quality of their service.

On transparency, and linked to the Board's response to question 28, the pool should ensure there are direct reporting and communication requirements so members and employers can regularly access the information.

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**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 Board would expect that when more detail emerges on these specific proposals that the relevant equality impact assessment is undertaken by government.