

Responsible Investment Advisory Group

Meeting of 13th July 2022

Item 5 – Paper C

Levelling Up

Background

1. At the RIAG meeting on 18 May the group stated that it was largely in sympathy with the aims of the White Paper and the key action was to ask DLUHC to share its developing thinking with the group, to enable it to engage constructively.
2. DLUHC had been invited to give an update to the July meeting, but even before the recent political changes they were not expecting to be able to issue a consultation before the Autumn.
3. The SAB's steer when it met on 6 June was that we should try to shape the Government's thinking, or at least be in the best possible position to respond to the anticipated consultation. There was a particular interest in defining what "local investment" should mean. The currently available published material on the Levelling Up requirements are set out in Annex A.
4. Improving regional economic performance and reducing regional inequality has been a longstanding government priority across all parties. We do not anticipate that there will be any change to the current government's commitment to Levelling Up despite recent political events.

What we expected the DLUHC Consultation to say

5. From discussions with DLUHC we had expected the consultation to confirm:
 - DLUHC say "up to 5%" of LGPS funds should be invested "locally"
 - this is not a ceiling and includes existing investments. It has also been framed as £16bn in new investment, but that appears to have assumed a zero starting point (which we know is not the case)
 - "local investment" has been confirmed as including anywhere in the UK (including devolved nations and more prosperous parts of the UK)
 - DLUHC have stated that they do not expect funds to either set no target nor to set one at a very low level. The 2016 Investment Regs do include intervention powers but there were various assurances given in Parliament that this was very much a last result for systematic failure
 - The Levelling Up Bill, as currently drafted, contains no new powers and DLUHC have stated they do not intend to change existing fiduciary duties

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- SAB will be asked to produce a scheme-level report to demonstrate Levelling Up progress across the Scheme (in E&W).

What are the opportunities for funds?

6. The consultation should provide an opportunity for officers to refresh their local Pension Committee's understanding of the issues around local or social investment opportunities (especially for those less familiar with these kinds of investments) and test their appetite to do more of it. The group could also have helped to shape the Board's response and comms with funds around that.
7. The group previously said that it would be helpful if the United Kingdom Infrastructure Bank or GLIL can be persuaded to get involved and aggregate opportunities to a scale pension funds could engage with. Funds have previously reported that they might be willing to invest more in this area if more investable opportunities were available. There is also understandable concern about the amount of work involved for funds on the due diligence of these kinds of investments, which is often disproportionate to the size of the mandate. Some assistance with this work, for example from their pool, would be necessary for smaller funds particularly to increase the amount of this kind of investment.

We recommend that the Secretariat and one or two members of the group arrange to meet GLIL and UKIB over the summer to better understand their plans.

8. Where LGPS funds have involved in these social investments then they could be used as a “good news” story about the fund that might help to engage employees and existing members. Increasingly, private sector schemes are being very media savvy about promoting their ESG credentials and LGPS should respond and tell its own story. If not then there is a risk that some members may choose to transfer their pensions out based on a misconception.

Does the group have ideas about how this kind of investing should be communicated?

Are there downsides or risks?

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10. Funds will need to ensure that they have processes in place to manage any conflicts of interest. GAD's section 13 report and the SAB's Good Governance review have highlighted that this is an issue which needs to be managed. Some funds have more experience than others, though, and can offer a view on what has worked for them when considering (truly) local investments.

Does the Group feel SAB/LGPC could pull together a best practice guide to assist funds?

11. We are familiar with the Law Commission tests and the need to have some confidence that scheme members would support investments that are made with a social purpose, and not entirely due to the financial strength of the proposition.

The Group is invited to consider whether any consultation with members would be appropriate if a target for local investment is required to be set, and how such a consultation could be undertaken? Would it be a public consultation or would taking views from Trade Unions representatives, or the Local Pension Board member representatives, be sufficient?

Definition of Local Investment

12. There are a number of questions about how this is defined, including key questions such as:

- how is spatial location to be determined, given some investments will be multi-nationals or have intangible or virtual operations
- Would pooled or passive investments be excluded, or could funds estimate a notional “local” share?
- In terms of physical infrastructure, it should be relatively easy to determine its spatial location, but again, does this need to be linked to some social purpose (e.g. the Levelling Up Missions, if these are readopted by the new government)? Or should it cover all kinds of infrastructure: e.g. commercial property, housing (public/social and private)
- Is there a role also for other kinds of infrastructure – such as broadband networks or waste treatment plants which can improve local areas?

Does the group have particular views on the definition questions, and should we take a view on whether there should be a link between local investments and social purpose?

Reporting and Communications

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13. It would clearly be good to have consistency in reporting and definitions, both so that it is easier for funds to publish this information, and for the SAB in aggregating responses. We had been expecting that DLUHC would require publication of fund data on local investment, and the question was whether this is done in a stand-alone report, as an additional section in the already quite full annual report or collected by DLUHC via its SF3 return. In terms of these options, the Group is invited to note that:

- SF3 is a mandatory return, although we know not all authorities actually comply and data standards can be poor. It is a national statistic, overseen by the Office of National Statistics, which means there will need to be some process involved in amending it
- Environment Agency is not included in the SF3 return
- If collection were via SF3, then DLUHC would do the aggregation themselves, meaning that the SAB report could concentrate on more commentary/qualitative analysis
- Annual reports have been issued very late (or not at all for some funds)
- The annual reports are already very long (150-200 pages)
- The newly established Compliance and Reporting Committee is also looking at similar issues.

Would the Group support DLUHC mandating reporting on local investment and if so, does it have a view as to how that might best be achieved?

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Annex A

Summary of Currently Available Levelling Up Targets

The Levelling Up Missions

- Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging
 - An increase in pay employment and productivity, a globally competitive city in each region, and closing the gap between the top performing and other areas (by 2030). Increasing domestic public investment in R&D outside the Greater South East by at least 40% (by 2030), and over the Spending Review period by at least one third, with a view to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth and improving local public transport connectivity as well as broadband and 4G/5G coverage (by 2030).
- Spread opportunities and improve public services, especially in those places where they are weakest
 - Improving literacy and numeracy rates in primary school children, with 90% of children meeting the expected standard by 2030. Increasing the number of trained skilled workers in every region of the UK and narrowing the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest; by 2035 HLE will rise by five years. By 2030, well-being will have improved in every area of the UK, with the gap between top performing and other areas closing.
- Restore a sense of community, local pride and belonging, especially in those places where they have been lost
 - Pride in place, e.g. satisfaction with their town centre and engagement in local culture and community, will have risen in every area of the UK, with the gap between top performing and other areas closing. It also includes renters having a secure path to ownership with the number of first-time buyers increasing in all areas; and aiming to reduce the number of non-decent rented homes by 50% with the biggest improvements in the lowest performing areas. By 2030, homicide, serious violence and neighbourhood crime will have fallen, focused on the worst affected areas.
- Empower local leaders and communities, especially in those places lacking local agency
 - By 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.

The ask of LGPS funds in the White Paper

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“The UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment. The new UK Infrastructure Bank is committed to expanding institutional investment in UK infrastructure, including exploring opportunities with the LGPS.”

Levelling Up Bill Reporting Requirements

The Levelling-up and Regeneration Bill Part 1, Section 2 (1) states that ‘*A Minister of the Crown must prepare reports on the delivery of the levelling-up missions in the current statement of levelling-up missions, in accordance with this section.*’ There is currently no explicit requirement for local authorities generally, or LGPS administering authorities specifically, to report progress against the missions or the local investment ambition.