

CLWYD PENSION FUND COMMITTEE	
Date of Meeting	Wednesday, 30 August 2023
Report Subject	DLUHC Consultation on LGPS: Next steps on investments
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The government consultation on LGPS investments has now been released by the Department for Levelling Up, Housing & Communities (DLUHC). The consultation has requested responses, seeking views on the following five proposals:

1. Asset pooling
2. Levelling up
3. Investment opportunities in private equity
4. Improving the provision of investment consultancy services to the LGPS
5. Updating the LGPS definition of investments

The appendix to this report identifies the main points to be made in response to the consultation, covering all 15 questions. The points have been drafted from the Fund's specific point of view rather than the wider LGPS.

Following comments from the Committee, this will be finalised into the Fund's full consultation response, which should also be consistent with the views of WPP whose response has yet to be drafted and which the Fund's Officers will contribute towards.

DLUHC have noted that the consultation will close on 2 October 2023. The consultation can be read in full through the following link: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)

RECOMMENDATIONS

1.	That the Committee note and comment on the main points identified for the DLUHC consultation response.
2.	That the Committee delegates responsibility for approving the final DLUHC consultation response to the Head of Clwyd Pension Fund.

REPORT DETAILS

1.00	Department for Levelling Up, Housing and Communities (DLUHC) Consultation Response
1.01	<p data-bbox="300 255 491 293">Background</p> <p data-bbox="300 331 1331 510">The DLUHC consultation in relation to LGPS investments has requested responses on five themes: asset pooling, levelling up, investment opportunities in private equity, improving the provision of investment consultancy services to the LGPS and updating the LGPS definition of investments.</p> <p data-bbox="300 555 1353 593">A summary of the key points within each theme has been provided below:</p> <p data-bbox="300 629 517 667">Asset Pooling</p> <ul data-bbox="347 667 1401 1041" style="list-style-type: none">• Proposals to accelerate and expand pooling.• Proposed deadline of 31 March 2025 to transition at least all listed assets.• Government will consider action if progress is not seen, including making use of existing powers to direct funds.• Going forward, the expectation is that there will be a transition towards fewer pools to maximise benefits of scale, but this is not expected to apply to Wales.• A number of different proposals to increase transparency about what has been pooled, including requirements for annual reports. <p data-bbox="300 1077 496 1115">Levelling Up</p> <ul data-bbox="347 1115 1369 1892" style="list-style-type: none">• Require funds to have a plan to invest up to 5% of assets to support levelling up, and a requirement to report annually against this.• 12 medium-term levelling up missions:<ul data-bbox="443 1227 863 1668" style="list-style-type: none">○ Living Standards○ Research & Development○ Transport○ Digital Connectivity○ Education○ Skills○ Health○ Well-being○ Pride in place○ Housing○ Crime○ Local leadership• An investment would meet levelling up requirements if it makes a measurable contribution to one of the levelling up missions and it supports any local area within the United Kingdom.• Private markets mentioned as the principal way in which this can be implemented.• The Fund is already well positioned for this. <p data-bbox="300 1928 943 1966">Investment opportunities in private equity</p> <ul data-bbox="347 1966 1385 2076" style="list-style-type: none">• Increasing investment into high growth companies via unlisted equity, including venture capital and growth equity.• Ambition of 10% allocation to private equity.

	<ul style="list-style-type: none"> • Compares to the Fund’s current target allocation to private equity of 8%. <p>Improving the provision of investment consultancy services to the LGPS</p> <ul style="list-style-type: none"> • Proposed amendments to the LGPS’s regulations to implement requirements for pension funds that use investment consultants. • Funds would need to set and monitor objectives for their investment consultants. In practice, the Fund is already doing this. <p>Updating the LGPS definition of investments</p> <ul style="list-style-type: none"> • Technical change to the definition of investments within LGPS regulations.
1.02	<p>DLUHC Consultation Response</p> <p>The main points to be made in the Fund’s response to the consultation have been identified. These have been drafted from the Fund’s specific point of view rather than the wider LGPS. It is also suggested that the main response will be consistent with the views of the WPP, which is yet to be drafted. Officers will be having input into the WPP response.</p> <p>Although not stated in the consultation, it is understood that Funds within Wales will be exempt from potential pool size limitations. Based on this understanding, the Fund is in general agreement with the main themes of the consultation such as levelling up and private equity ambition targets, as well as the general reporting requirements suggested. The Fund also notes that it is already in compliance with all of these ambitions within the consultation but has provided a view to each ambition within its response.</p> <p>A summary of the key points is provided below:</p> <ul style="list-style-type: none"> - The Fund was pleased to hear that decisions relating to the Fund’s investment strategy will be retained locally, continuing to allow local control and accountability. - The Fund has developed good governance structures within the pool, which has enabled all constituent authorities to enact decisions. - At the time of creating a rented model in the WPP, the consensus in Wales was it would not be sustainable to create an in-house investment manager or have an investment team in Wales. - The Fund’s priority is to maintain the Wales pool, rather than attempt to create any further potential fee savings through cross-border pooling. - The Fund has already transitioned all listed assets into the pool and notes that new private market commitments from 1 April 2023, are being made to available sub-funds within the WPP (subject to appropriate funds being available). - The Fund welcomes the opportunity to explain within the Fund’s ISS reasons why holdings have not been pooled, in support of

transparency.

- The Fund does not support delegating investment strategy decisions to pools. The Fund seeks proper regulated investment advice, and foresees a conflict of interest with this proposal. For pools with several constituent authorities, this would also involve making decisions for several distinct investment strategies.
- The Fund disagrees with assertions that there is a need for Pension Funds to be aligning their investment strategies, but agrees that implementation should be fully delegated to the pool, for example if there is a concern on an underlying manager the pool should be able to move quickly and decisively.
- The Fund has a training policy and reports against the policy within the annual report. The Fund would be supportive of training being delivered on a national basis to reduce cost and improve consistency across the LGPS.
- The Fund is always supportive of transparency, and would comply with reporting requirements, however, the Fund would find a net savings report difficult to deliver, and does not see the value for the Fund in comparing against a national standard benchmark.
- Regarding the proposals for the Scheme Annual Report, the Fund would be supportive of an approach similar to that of the private sector, whereby a scheme return would be provided to SAB to meet regulations while allow funds to produce the annual report with fewer restrictions.
- The Fund believes the definition of levelling up investments is restrictive. For example, the missions appear to exclude renewable and clean energy, which the Fund views as a key part of levelling up. Rather than reporting against the 12 missions which are restrictive, the Fund prefers alignments with the Sustainable Development Goals (SDGs).
- In respect of the ambition to invest 10% into private equity, the Fund believes investment strategy decisions shouldn't be mandated centrally. As previously stated, the Fund supports local control and accountability. However, the Fund notes that its current strategy already complies with the ambition.
- The Fund would prefer that the definition be changed from private equity to private markets. For example, 40% of the Fund's private market holdings are sterling-based investments, and 77% of its impact/ place-based investments are based in the UK.
- Regarding the implementation of the Order through amendments to 2016 regulations and guidance, the Fund agrees with the proposal and is already in compliance with the order.

The Fund's draft of the main points can be found within the attached appendix.

1.03	<p>The deadline for submission is 2 October 2023. Officers welcome any comments from Committee on the draft, which can be included in the final version.</p> <p>A full response to the consultation will be made which will incorporate details from the WPP and the Committee is asked to delegate responsibility for approval of the final consultation response to the Head of Clwyd Pension Fund.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> • Funding and Investment risks: F6

5.00	APPENDICES
5.01	Appendix 1 – Draft DLUHC Consultation Response

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>1. The full DLUHC consultation can be accessed in the following link: Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)</p> <p>Contact Officer: Philip Latham, Head of the Clwyd Pension Fund Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) Administering authority or scheme manager – Flintshire County</p>

Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

(b) Clwyd Pension Fund (the “Fund”) – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.

(c) Clwyd Pension Fund Committee (the “Committee”) – the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.

(d) Department for Levelling Up, Housing and Communities (DLUHC) – supports communities across the UK to thrive, making them great places to live and work.

(e) Levelling Up – the government's aim to reduce regional inequalities within the UK. This will be done by spreading investment across the UK in areas such as education, skills, business, town regeneration, transport, cultural and heritage sites.

(f) Local Government Pension Scheme (LGPS) – the national scheme, which Clwyd Pension Fund is part of.

(g) Stewardship – the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

(h) Wales Pension Partnership (WPP) – a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of the eight national Local Government Pension pools. WPP was established in 2017.

A comprehensive list of investment terms can be found via the following link:

<https://www.schroders.com/en/uk/adviser/tools/glossary/>