

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 19 September 2023

Subject: Next Steps on Investments Government Consultation

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Responsible Director: Phil Triggs, Tri-Borough Director of Treasury and Pensions

SUMMARY

This report presents a brief summary of the background to the consultation and an overview of the consultation response included in Appendix 1.

RECOMMENDATIONS

The committee is invited to review and comment on the draft consultation response.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	The consultation gives the Pension Fund the opportunity to feed into the regulatory environment it operates within.

Financial Impact

None.

Legal Implications

None.

DETAILED ANALYSIS

Background

The consultation is asking for opinions on suggestions relating to the investments of the Local Government Pension Scheme (LGPS). It comprises the topics of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

The full consultation can be found here [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-next-steps-on-investments)

Consultation Response

1. Pooling

The LBHF agrees that pooling is an appropriate strategy to realise economies of scale and value for money. There is also further scope for increased pooling of assets, collaboration between pools and sharing of skills and knowledge.

However, the Fund also notes within its response that there are challenges within pooling that impact the LGPS's ability to fully transition assets into the pool companies. LGPS Funds invest in a large range of assets, some of which are extremely specialised, and others are particularly long term focused.

Thus, pool companies may not always be able to offer appropriate investment solutions and so degrees of flexibility need to be considered when setting deadlines to transition.

2. Reporting

The LBHF Fund disagrees with the proposals regarding reporting. LGPS Pension Funds are already under significant pressure with existing reporting requirements, and it is anticipated this will increase further due to the introduction of climate risk reporting in 2024/25. Current reporting requirements within the pension fund annual reports include a section on pool companies which incorporates performance, returns, costs and net savings.

It should be recognised that there are already substantial time constraints in this area and additional reporting requirements could delay the sign off of the pension fund annual pension fund report and accounts by external auditors.

However, if this reporting requirement were to be implemented, an accompanying guidance note from the SAB would be necessary.

3. Investments

The LBHF Fund disagrees with the government's ambitions for a 10% allocation to private equity, 5% to infrastructure and 5% in levelling up investments because the proposal contradicts the LGPS schemes' autonomy to make their own investment decisions.

While a 10% allocation to private equity may be suitable for some funds, it will not fit all investment strategies, future funding profiles and pensions outflow obligations.

It is critical to stress that the LGPS's principal duty is to pay pensions in full and on time, and no action that could jeopardise the Fund's ability to do so should be taken.

LIST OF APPENDICES

Appendix 1: LBHF Next Steps on Investment Consultation Response