60-second summary

Results of the consultation on LGPS investments: next steps

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The government has published the results of its consultation on LGPS investments, confirming its vision for the future on a range of important issues. A vast array of guidance will now be drafted. This short note provides a summary of the government's response to the feedback.

For background on the consultation launch, see our 60-second summary, a longer briefing note, our webinar and our own response.

Pooling

Fewer pools of at least £50bn in size, with scale achieved by pool merger where required – the government has confirmed its intention to proceed with this but has stated there's no intention to force any mergers in the medium term. It also mentions the potential for pools to have £200bn of assets by 2040, when it's been forecast that the LGPS will have total assets of £950bn.

Requirement to pool listed assets by 31 March 2025 – this has also been confirmed; however, it will be on a "comply or explain" basis, with any explanation taking into account value-for-money considerations.

Delegation of manager selection and strategy implementation – the government will produce strengthened guidance on increased levels of delegation to pools in these areas.

Pools providing investment advice to funds – despite the majority of feedback being negative, the government remains in favour of this proposal.

Preferred model of pooling – feedback for the government's specification of a single model of pooling was largely negative. Guidance will, therefore, be provided, focusing on "characteristics and outcomes" rather than specifying a single structure.

Passive assets – these will fall within the "comply or explain" requirement and so may remain outside pools. However, funds must report the nature of the arrangement, the value-for-money case for holding the assets outside the pool, and the date when the arrangement will be reviewed. For any passive assets under the oversight of pools, funds must set out how that is exercised, and report these assets as "under pool management".

Investing in other pools, through your own pool – the government will set out under what circumstances it will be appropriate to invest through your own pool in another pool's product. Funds will not be permitted to invest in other pools' products directly, as the government wishes to prevent competition between pools.

Levelling Up

Definition of Levelling Up investments – the broad definition suggested in the consultation will remain to provide flexibility for funds in finding investments that meet this definition. The government states that investments are "generally expected to provide good returns" but lower-returning investments can also be made under existing guidance on non-financial factors. The guidance will be to increase investment into private markets – public-market investments in providers such as housebuilders will generally not count.

Issues of scale – much of the feedback noted the potential for Levelling Up investments to be too small in scale to access, particularly for pools. The government acknowledges that funds may choose to invest in these opportunities outside of the pool, but encourages as much pool involvement as possible, such as in conducting due diligence and to help manage conflicts of interest.

Up to 5%, or more if you like – the government has confirmed that "an ambition" of 5% is not a limit. Similarly, funds can invest less if they don't find sufficient investment opportunities.

Fiduciary duty – it's made clear that the government doesn't see these requirements as going against fiduciary duty, and that funds should consider investments in Levelling Up projects as they do any other investment.

Private equity

"Allocation ambition" – despite noting the largely negative feedback, the government will push ahead with encouraging funds to invest 10% of assets in private equity. This will not be forced, but funds will be set an allocation ambition.

UK or not? – it's made clear that the purpose of this measure is to encourage investment in the UK; however, this will not be mandated.

Private equity or private markets? – the government recognises that private equity isn't the only asset class that can help boost economic growth in the UK while providing strong returns. Funds can decide where they wish to invest.

British Business Bank (BBB) – pools will be encouraged to work with the BBB to explore investment opportunities in venture and growth capital. A government-led investment vehicle to support pension fund investment in these areas is being explored.

Other issues

There are also requirements placed on funds in relation to committee training and increased reporting, including:

- All funds to publish formal training policies for their committees and report on the training undertaken.
- The government will work with the Scheme Advisory Board to create more transparent and consistent reporting on fund asset allocation and returns. The use of single standardised benchmarks for asset classes has been dropped.
- Funds must also provide an annual update on pooling progress in their annual reports.
- In their investment strategy statements, funds will need to set out a plan for investing up to 5% of assets in Levelling Up projects. And in annual reports they must report on their progress.

Summary

While it's helpful to have some clarity around this wide range of important matters, it appears that, despite noting major concerns put forward by respondents, the government is proceeding with all of the issues set out in the original consultation. Some are softened by taking the form of "comply or explain" or voluntary measures, but a number of key challenges have not been addressed. It remains to be seen what form the guidance will take.

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