

Croydon Council

REPORT TO:	Pension Board 27 July 2023
SUBJECT:	Mansion House Speech by Chancellor of the Exchequer and “Next steps on investments”
LEAD OFFICER:	Matthew Hallett – Acting Head of Pensions and Treasury

1. RECOMMENDATION

The Board are:

- asked to note the summarised contents of the annual “Mansion House Speech” made by the Chancellor of the Exchequer, in particular, its implications for defined benefits schemes in general and the Local Government Pension Scheme in particular; and
- invited to comment on and note the consultation launched by the Department for Levelling Up, Housing & Communities entitled “Local Government Pension Scheme (England and Wales): Next steps on investments.”

2. EXECUTIVE SUMMARY

- 2.1 This report summarises the contents of the annual “Mansion House Speech” made by the Chancellor of the Exchequer and invites the Board to note its implications for defined benefits schemes in general and the Local Government Pension Scheme in particular. It also advises the Board of the consultation launched by the Department for Levelling Up, Housing & Communities entitled “Local Government Pension Scheme (England and Wales): Next steps on investments.”

3. DETAIL

Mansion House Speech

- 3.1 In his annual “Mansion House Speech” delivered on 10 July, the Chancellor of the Exchequer made wide-ranging comments and announced various initiatives in respect of:
- National competitiveness;
 - Tackling inflation;
 - Cost-of-living crisis;
 - Increasing returns for pensioners;
 - improving outcomes for investors; and

- unlocking capital for growth businesses.

3.2 The Chancellor spent a high proportion of his Speech on pensions matters, putting the size of the pension market into context and covering both defined contribution and defined benefits schemes. He highlighted his view that “UK institutional investors are not investing as much in UK high growth companies as their international counterparts” and his concerns over returns in both types of schemes.

3.3 The Chancellor then moved onto his proposed “Mansion House Reforms” in which he said that he would be guided by “three golden rules” as follows:

- Everything we do we will seek to secure the best possible outcomes for pension savers, with any changes to investment structures putting their needs first and foremost;
- We will always prioritise a strong and diversified gilt market. It will be an evolutionary not revolutionary change to our pensions market. Those who invest in our gilts are helping to fund vital public services and any changes must recognise the important role they play; and.
- Decisions we take must always strengthen the UK’s competitive position as a leading financial centre able to fund, through the wealth it creates, our precious public services.

3.4 As regards defined benefits schemes in general the Chancellor stated:

- I recognise the important role played by insurers offering buy-out schemes, which will continue to be an essential part of the way we improve security for pension members in this market;
- But in addition, we will set out our plans on introducing a permanent superfund regulatory regime to provide sponsoring employers and trustees with a new scaled-up way of managing defined benefits liabilities;
- Having engaged closely with a range of experts, we will launch a call for evidence tomorrow on the role of the Pension Protection Fund and the part defined benefits schemes play in productive investment - whilst always being mindful of the second golden rule to protect the sound functioning and effectiveness of the gilt market; and
- We will look at the culture of investment decisions and improve the understanding of pension trustees’ fiduciary duty across both defined benefits and defined contribution schemes. Department for Work and Pensions and HM Treasury will jointly launch a call for evidence to explore how we can overcome barriers and ensure a focus on good saver outcomes.

3.5 Specifically as regards the Local Government Pension Scheme, the Chancellor announced:

- And finally, government must lead by example, so we will consult on accelerating the consolidation of Local Government Pension Scheme assets, with a deadline of March 2025 for all LGPS funds to transfer their assets into local government pension pools and ensure greater transparency on investments;
- To make sure we are delivering the maximum benefits of scale, we will invite views on barriers to achieving better investment returns across the LGPS as well as setting a direction that each asset pool should exceed £50 billion of assets; and
- We will also consult on an ambition to double the existing local government pension scheme allocations in private equity to 10%, which could unlock a further £25 billion by 2030.

Consultation

3.6 Directly following the Mansion House Speech the Department for Levelling Up, Housing & Communities issued a consultation document the “Topic” of which is:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

The consultation period lasts until 2 October 2023 and the document can be accessed at:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments>

3.7 This consultation seeks views on proposals in 5 areas:

- *First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.*
- *Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the [Levelling Up White Paper \(LUWP\)](#). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.*

- *Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.*
- *Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.*
- *Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.*

3.8 To assist the consultation process, at the end of the document the Government summarises the proposals as follows:

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- *assets which are pooled, under pool management and not pooled, and*
- *to provide a rationale, value for money and date for review for assets which are under pool management or not pooled*

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

3.9 The questions being asked are as follows:

Chapter 2: Asset pooling in the LGPS

Question 1: *Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?*

Question 2: *Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?*

Question 3: *Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?*

Question 4: *Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?*

Question 5: *Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?*

Question 6: *Do you agree with the proposals for the Scheme Annual Report?*

Chapter 3: LGPS investments and levelling up

Question 7: *Do you agree with the proposed definition of levelling up investments?*

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: 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.

- 3.10 Attached as Appendix A is a short summary/commentary on the consultation as provided by Hymans Robertson.
- 3.11 The implications on the Fund of the Chancellor's announcements and the proposals in the consultation could be very significant. Officers will be consulting with the Committee and the Board along with advisers and organisations to which it belongs to decide on its response.
- 3.12 At this stage, the Board are invited to comment as they wish and to note this Report.

4. DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Matthew Hallett on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

CONTACT OFFICER:

Matthew Hallett – Acting Head of Pensions and Treasury.

BACKGROUND DOCUMENTS:

None.

APPENDIX:

Government consultation – LGPS (England & Wales): next steps on investments
[Hymans Robertson]