LONDON BOROUGH OF CAMDEN	**WARD:** All
REPORT TITLE: MHCLG Consultation Update	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 10 March 2025

SUMMARY OF REPORT:

This report provides Camden Pension Committee with an update on the Government's consultation on the Local Government Pension Scheme (LGPS) entitled "Fit for the Future." The consultation, initiated by the Department for Levelling Up, Housing and Communities (DLUHC), aims to strengthen LGPS investment management by addressing issues of fragmentation and efficiency. This report summarises the key proposals and Camden's response.

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

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RECOMMENDATIONS:

The Committee is requested to note the contents of this report.

Signed by

Director of Finance ………………**Agreed**…………………………………...

Date ………………**26/02/2025**……………………………….

1. INTRODUCTION

This report provides Camden Pension Committee with an update on the Government's consultation on the Local Government Pension Scheme (LGPS) entitled "Fit for the Future." The consultation, initiated by the Department for Levelling Up, Housing and Communities (DLUHC), aims to strengthen LGPS investment management by addressing issues of fragmentation and efficiency. This report summarises the key proposals and Camden's response.

2. BACKGROUND

In July 2024, the Government launched a review of the LGPS, focusing on three key areas:

- Reforming LGPS asset pools
- Encouraging investment in local economies
- Strengthening governance and oversight

The consultation proposes that all LGPS funds delegate full investment implementation to their respective asset pools, aligning their structures more closely with models observed internationally. Camden, as a key stakeholder in the London Collective Investment Vehicle (LCIV), has responded to the consultation, advocating for measured reforms that align with our strategic objectives.

3. Key Proposals and Camden's Response

3.1. Reforming LGPS Asset Pools

The Government proposes that all administering authorities (AAs) fully delegate the implementation of their investment strategies to the asset pools.

AAs would retain the responsibility for setting high-level investment objectives but would be required to obtain primary investment advice from the pool.

Pools must be established as FCA-authorised investment management companies.

All legacy assets, including private market investments, must be transitioned to pools by March 2026.

Camden's Response:

Camden supports the principle of pooling but advocates for the retention of certain strategic controls at the fund level. Specifically, we propose that the decision on the split between active and passive equity investments should remain with individual AAs due to the significant impact this has on risk management and cost structures.

We also seek assurances that London CIV has the capacity to effectively manage legacy private market investments, given the operational complexities involved.

3.2. **Adjusted Roles in Investment Management** The proposed changes redefine how investment management responsibilities are distributed between the AAs (Administering Authorities) and pools:

- **Investment Objectives**: AAs retain authority over defining broad investment goals and risk tolerance.
- **Strategic Asset Allocation**: The pool provides advisory input, but AAs can maintain some discretion over fundamental strategic allocations.
- **Tactical Asset Allocation**: Pools take a leading role in adjusting allocations based on market conditions.
- **Investment Manager Selection**: The pool is responsible for appointing managers, with AAs maintaining oversight.

- **Stock Selection & Stewardship**: The pool assumes full responsibility for day-to-day management and company engagement.
- **Cash Flow Management**: AAs oversee high-level cash flow policies, but pools handle implementation.

Camden recognises the potential benefits of this structured division but remains cautious about potential inefficiencies arising from an overly rigid framework.

3.3. **Boosting Local Investment**

The consultation suggests that LGPS should target increased investment in local projects and infrastructure, aligning with Government growth priorities.

AAs would be required to set out objectives and target ranges for local investment in their Investment Strategy Statements (ISS).

Camden's Response:

Camden agrees that investment in UK projects can provide economic benefits but urges flexibility in defining "local investment" to ensure funds are not pressured into suboptimal investments.

We support a UK-wide definition of "local investment" rather than a rigid geographical approach.

Any local investment initiatives must align with risk-adjusted return expectations and fiduciary responsibilities.

3.4. **Strengthening Governance**

The proposals include the requirement for each LGPS fund to appoint a designated senior LGPS officer responsible for overall management.

AAs would be required to conduct biennial independent governance reviews.

A new requirement would mandate pension committee members to maintain a minimum level of knowledge and understanding.

Camden's Response:

Camden supports these governance improvements in principle but recommends a three-year review cycle for independent governance assessments to align with actuarial valuations.

We agree that pension committee members should be well-trained and endorse further collaboration between partner funds on training initiatives.

3.5. **Next Steps**

The deadline for consultation responses was **16 January 2025**. Camden has submitted its response, emphasising the importance of retaining strategic decision-making powers over key asset allocation decisions.

We will continue to work closely with LCIV and other London boroughs to ensure that the transition to an enhanced pooling model is effective and beneficial for the fund.

Updates on the Government's final decision and any required implementation steps will be brought to future committee meetings.

3.6. **Recommendations** The Committee is invited to:

i) **Note** the Government's proposals outlined in this report.

ii) **Acknowledge** Camden's response to the consultation.

iii) **Request** officers to monitor developments and report back on any regulatory changes arising from the consultation outcome.

4. **FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

The finance comments of the Executive Director Corporate Services are contained within the report.

5. **LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

This report provides an update on the Camden Pension Fund's response to the Department for Levelling Up, Housing and Communities (DLUHC) "Local Government Pension Scheme: Next Steps on Investments" consultation, commonly referred to as the Fit for the Future consultation. The response aligns with the Fund's obligations under the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

6. **APPENDICES**

APPENDIX A – Copy of Camden's response to MHCLG's Fit for the Future Consultation

APPENDIX A

LGPS: Fit for the Future consultation paper – London Borough of Camden response

The London Borough of Camden broadly supports the direction of travel as set out in the consultation and is committed to continuing the journey. A strong LGPS community has been built in London, which sees Chief Officers, pension officers and the pool working closely together in order to innovate, improve, widen investment opportunities and drive down costs.

As a leading investor and shareholder in the London CIV (our Pension Committee chair also chairs the LCIV Shareholder Committee) Camden supports the direction of travel outlined in the consultation and is committed to continuing the journey.

The key to success here will be:

- clarity on roles and responsibilities
- pragmatic timescales
- robust pool implementation plans.

In answering the questions below, we ask that the three points above are also borne in mind, such that the first two are within the government's control and on the third, we shall continue to work with and influence the London Collective Investment Vehicle (LCIV) in its development of the pooling implementation plan, to ensure that it is both robust and appropriate for our size and complexity of need.

1. Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Yes.

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2. Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

As part of the ongoing consultation process, we acknowledge the general principle of delegating the implementation of high-level strategies to LGPS pools. However, we strongly propose retaining authority over certain areas in the implementation of those strategic aims – these are set out below:

Rationale for Retaining Authority on Active / Passive Equity Split
Significant Impact on Outcomes
The dispersion of outcomes between active and passive equity strategies is significant. Variations in fee structures, performance variability and risk exposures necessitate that funds maintain control over this decision to ensure alignment with their specific investment objectives.

Strategic Importance
Decisions regarding the active / passive equity split are integral to the fund's strategic allocation due to their profound impact on risk-adjusted returns and long-term performance. This is about retaining control over a critical element of a fund's investment strategy.

Conflict of Interest
Retaining at fund level removes the potential for conflicts of interest to arise, when pools are selecting between an active and a passive solution, where there is a natural revenue differential between the two.

Risk Mitigation
Asset allocation must reflect the fund's specific risk management framework. A generalised, one size fits all approach from pools could undermine the nuanced risk management required for individual funds, particularly in dynamic market environments.

Responsible Investment Policy & TCFD

Pools should also be responsible for helping AAs' meet their reporting obligations such as TCFD compliance and supporting funds in achieving net-zero goals.

However, an aligned net-zero target should be agreed collaboratively by partner funds at pool level to ensure consistency and feasibility.

A lack of broad alignment across multiple RI funds will make the role of the pool more difficult to implement a wide range of objectives and potentially frustrate efficient pooling. Camden would ask that government re-examines this area and clarifies arrangements in order to ensure fund pooling is efficient. We are also concerned that pooling could result in weaker responsible investment outcomes if we moved to lowest common denominator.

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3. Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Further to the response to Q2 above, we do not agree with this statement.

Whilst we support delegating the majority of implementation responsibilities to LGPS pools, we advocate for retaining authority over the active / passive equity split as this is a strategic decision and the ability to direct our responsible investment ambitions and ensure provision of Sustainable/ESG-aligned fund options, as a fiduciary decision.

These decisions are strategic in nature and should not be delegated. We propose a collaborative framework in which pools implement funds' directives within these defined parameters, ensuring alignment with funds' objectives while leveraging the efficiencies and expertise provided by pooling.

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4. What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

The need to address the active / passive equity split should be reiterated as a vital component of strategic decision-making. Authorities should be able to determine their own arrangements for Strategic Asset Allocation on a very high level to be determined by them and their pool.

Furthermore, this active / passive equity split should form part of the template.

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5. Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

On the basis that effective conflict management exists, then the pool can provide advice, and we acknowledge that this is already in place elsewhere. Guidance could be issued which states that funds “shall have regard to” the pool’s [investment strategy] advice. This does not obviate the possibility of a fund receiving advice from another professional and it would be for the fund to demonstrate that in commissioning that other advice:

- why it is appropriate to do so
- it secures Value for Money in doing so
- where that advice leads to a course of action materially different to that received from the pool, that it publishes its reasons.

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6. Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Yes

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7. Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

The term “transfer” requires clear and precise definition. In this context, "transfer" should (in at least the near term) refer to oversight of assets rather than the immediate sale or liquidation of existing holdings. This distinction is critical to avoid unnecessary disruptions and associated costs.

<u>Costs and Implications of Transfers</u>
Even transferring oversight, as opposed to selling assets, incurs additional costs such as legal fees, administrative expenses and reorganisation charges. If these costs are borne by the pool, they will ultimately flow back to the funds. Transparency around these costs and their funding is essential to maintain accountability and fairness.

<u>Risks of Hard Deadlines</u>

- Operational Readiness - setting a rigid deadline without exceptions risks forcing funds into suboptimal arrangements, particularly if the pool lacks suitable investment options aligned with the fund’s strategy at the time of transfer.

- Market Timing - enforcing a strict deadline could result in asset sales at unfavourable market conditions, eroding fund value and increasing exposure to market volatility.

- Implementation Overload - pools are already managing a significant workload in establishing infrastructure and operational capabilities. Imposing inflexible deadlines could compromise their ability to deliver robust, tailored solutions, undermining the effectiveness of pooling arrangements.

Collaborative and Phased Approach
Funds and pools should collaborate to determine the most effective pathway to achieve pooling objectives. In cases where no suitable pooled vehicle is available initially, oversight could serve as an interim position, allowing for a phased and orderly transition to a pooled vehicle in the long term. This approach balances the strategic goals of pooling with risk management and operational feasibility.

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8. Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

As with Q7 above, clarification is required as to whether this is transferring the asset or oversight (in the near term).

Legacy illiquid investments present unique challenges. On the basis of on over-riding Value for Money consideration, there may be a case for certain exclusions to apply for run-off investments and small existing mandates.

Logistics

The proposals bring with them a potential increase in oversight costs for areas such as direct property holdings and we would want to see how this can be mitigated.

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9. What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

The key requirements are:

- Relationship Management
- Enhanced IT Systems
- Expertise in Legacy Asset Classes

Much of this will need to be grown – pool implementation plans are key to understanding the practicalities and timelines.

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10. Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

If the proposed March 2026 timeline is actually “oversight” then, subject to pools’ implementation plans, this is more likely possible.

If the proposed March 2026 timeline is “transferring the asset”, then this requires flexibility to account for the complexities of transitioning assets. A phased approach, where new investments are pooled while existing legacy assets are allowed to run off naturally with or without pool oversight, would be more effective and practical than enforcing a rigid deadline.

11. What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Currently, funds are restricted to investing in a single pool. If pools were able to collaborate more effectively, they could provide a broader opportunity set to implement partner funds investment strategies. Greater collaboration would allow pools to leverage shared expertise and resources, improving outcomes for all.

There is a clear need to facilitate better cooperation between pools. Pools should work together to establish centres of excellence in specific asset classes, such as infrastructure, to help meet the government's objectives more efficiently. Collaboration in specialised areas would enable pools to achieve better investment outcomes while avoiding duplication of effort and resources.

The only barrier to consider in further collaboration and cooperation is how to ensure proper scrutiny and oversight can continue over work done at other pools.

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12. What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Partner funds within a pool could work together on training initiatives, ensuring that all stakeholders are better equipped to meet their responsibilities. Funds need the knowledge and skills to oversee pools effectively, ensuring accountability and alignment with their strategic objectives.

Joint training programmes could focus on governance, investment strategy and ESG integration, benefiting both the funds and the pools. Additionally, collaborating on administrative functions, such as standardised reporting or shared systems, could reduce duplication and cut costs.

Equally, the pool could look to provide some of these elements directly in the future and we shall work with them on this.

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13. What are your views on the appropriate definition of 'local investment' for reporting purposes?

Local investment should be defined as UK wide to maximise opportunities and optimise returns for funds. Restricting local investments to specific regions risks limiting the range of viable investments and could result in suboptimal allocation of resources.

Regions such as the Southeast may have higher costs and fewer suitable opportunities for attractive risk adjusted returns. Defining local investments as UK wide would ensure investments are directed to areas with the greatest need or potential for economic growth, supporting national priorities. Flexibility is crucial, allowing investments to focus on examples such as infrastructure, housing and green energy initiatives across all regions rather than adhering to overly restrictive geographical boundaries.

LCIV currently reports at both London and UK level, and this should continue (as a memorandum line), but for formal purposes, UK would be appropriate both for the reasons above but also when looking across the pools / funds nationally.

14. Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Councils in London have experience in working together to formulate growth ideas. We began pooling our business rates in the last decade and for some of that time, a proportion of growth was earmarked as a "Strategic Investment Pot". Four sub regional groups were created from groups of boroughs (e.g. 9 boroughs to the east make up "Local London") whose aim was to promote growth (e.g. transport, digital connectivity etc). Each group was responsible for allocating funding across its constituent boroughs. Going forward, we anticipate boroughs working in sub regional groups as well as with the GLA on some of the truly strategic initiatives that the capital needs. Those needs may be met in a number of ways such a private partnership or as an investible product for the pool, with an appropriate return.

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15. Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Whilst return is key, setting rigid objectives or targets could reduce flexibility and risk misalignment with changing market conditions or investment opportunities.

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16. Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Pools should develop robust capabilities to conduct due diligence on local investments, which is essential to ensure these investments are commercially viable, align with risk-adjusted return expectations and support broader economic objectives. This due diligence would be best supported by collaborating with relevant local government/mayors' offices.

Collaboration between pools could enhance this capability, allowing them to share expertise and conduct more efficient evaluations of complex or specialised opportunities.

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17. Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Local investment takes a number of forms for Camden, be it Camden, London/South-east, or UK, and the form of that investment even more. Camden therefore requests that further guidance is issued in this area, to determine who will be responsible for producing "data sheets" and in turn who reports on the investment.

18. Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Yes.

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19. Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict-of-interest policy?

Most AAs already maintain governance and training strategies as part of their standard operations, along with conflict-of-interest policies. Formalising this requirement across all AAs would ensure consistency and enhance transparency. However, the burden on AAs to create additional documentation should be minimised by aligning these strategies with existing reporting requirements.

The pools will need to adapt their existing conflicts of interest policies, as they face more potential conflicts under the new arrangements.

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20. Do you agree with the proposals regarding the appointment of a senior LGPS officer?

The term "Senior LGPS Officer" needs clarification, as the appropriate level of seniority may vary across AAs depending on their internal structures.

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21. Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Yes.

This is already common practice among many AAs, and formalising it ensures alignment and consistency across the LGPS. However, care must be taken to avoid duplication of effort or unnecessary additional administrative burdens.

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22. Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Yes.

Provided that the changes streamline rather than complicate reporting requirements. Many elements of these strategies are already covered under existing guidance (e.g. The Pension Regulator, SAB's Good Governance Review). Any new requirements should be incorporated within a unified reporting framework to ensure efficiency.

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23. Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

A three-year review cycle, aligned with actuarial valuations, would be more appropriate than the proposed two-year cycle. Conducting reviews every two years risks becoming administratively burdensome and misaligned with other key planning cycles. Reviews should focus on meaningful assessments against agreed benchmarks and criteria, ideally involving independent experts or peer reviews. Costs, independence, and the qualifications of reviewers need careful consideration to avoid undue financial and administrative strain on AAs. Overall, to avoid unnecessary costs, wherever possible this should be on a cost-neutral, peer-to-peer basis.

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24. Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Yes.

Pension committee members play a critical role in LGPS governance, and ensuring appropriate knowledge and understanding is vital. Regulatory support could help ensure compliance, while tailored and flexible training programmes should be developed to meet members' varying and evolving needs.

Requirements for Pension Board members could be used as a basis for this to be applied to Pension Committee members – this is the practice at Camden.

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25. Do you agree with the proposal to require AAs to set out in their governance and training s*strategy how they will ensure that the new requirements on knowledge and understanding are met?*

Yes.

This would enhance transparency and accountability, ensuring all members have access to the necessary resources to develop their knowledge. The strategy should include clear plans for induction and ongoing training, recognising the diverse backgrounds and expertise of committee members.

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26. What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Providers of strategic and independent advice should remain the choice of the local authority, allowing AAs to determine the best approach for their circumstances. Here at Camden, we value how an independent adviser can provide valuable external scrutiny and act as a critical friend, especially when challenging pool decisions. However, this should not lead to duplicative costs, particularly where existing consultants are already engaged. We should also recognise the capacity of the current independent advisor marketplace to meet such a demand should it become a mandatory requirement.

27. Do you agree that pool company boards should include one or two shareholder representatives?

Yes.

As an active participant in the governance of the London CIV, Camden believes that representation of shareholders on pool company boards is essential to ensure accountability and alignment with AAs' interests. Representation must be meaningful, with clear mechanisms for these representatives to communicate the broader perspectives of all partner AAs.

More than one officeholder is desirable and could be drawn from senior councillors and / or Chief Officers, as is done by LCIV currently. The Councillors should have experience or understanding of LGPS pensions and those with Pensions committee experience/understanding would be preferred.

As a matter of course, there should be strong SLA arrangements, with fund practitioners involved.

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28. What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Members' views should be incorporated through robust contract management structures and governance processes. Clear escalation pathways should be established to allow member concerns to be raised and addressed effectively.

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29. Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Yes.

Consistent reporting across pools is vital to enable meaningful comparisons and improve transparency. Metrics should include:

- Investment performance relative to benchmarks.
- Total fees as a % of AUM.
- Fee structures and cost efficiency (e.g., management fees, transaction costs).
- Administrative costs standardised across pools to avoid inconsistencies.
- Savings – but only if a standardised and agreeable methodology can be found, in order that over the longer term, these proposals can be evaluated
- Decarbonisation – progress against Net Zero Strategies.

30. 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.

The proposals are unlikely to disproportionately impact groups with protected characteristics directly.