East Sussex Pension Fund

This response is made on behalf of East Sussex Pension Fund (ESPF, the Fund) in its capacity as scheme manager of an LGPS Fund. ESPF is part of the ACCESS Pool.

Our response to the call for evidence is set out below and we would be pleased to expand, clarify or discuss any of the comments made.

Where this response uses the term LGPS fund the term should be taken to refer to the administering authority (scheme manager) as set out in the Local Government Pension Regulations 2013.

Question 1

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

ESPF agree that there should be minimum standards of pooling to ensure that the Funds can deliver their investment strategies through well managed well governed pools to benefit from economies of scale and protect the scheme members pensions.

We understand that the minimum standards of pooling set out in the consultation referenced in this question to be:

- *AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;*
- *AAs would be required to take principal advice on their investment strategy from the pool;*
- *Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;*
- *AAs would be required to transfer legacy assets to the management of the pool;*

Although ESPF agrees there should be minimum standards the Fund does not think these should be the four key principles as minimum standards of pooling. The ESPF believes that the minimum standards for the operating model of the pools put forward are not of a high enough quality to ensure that its fiduciary responsibility would be met.

These standards mostly refer to Administration Authorities (AA) actions rather than standards for Pools. It does not set out what AA's should expect from the pools in terms of their implementation of our strategy, reporting and required levels of transparency. It does not ensure there is sufficient accountability to Funds, Employers or Members. We would expect if a pool poorly implemented the ESPF Investment Strategy, particularly around our Responsible Investing beliefs, that ESPF would have some recourse against the Pool or in the extreme be allowed to change LGPS Pool. To enable us to fulfil our fiduciary duty.

We refer to each of the minimum standards below in turn below.

AAs would remain responsible for setting an investment strategy for their fund

The consultation sets out that setting the investment strategy remains with the AA's which the ESPF supports. Specific aspects of this are addressed in response to Question 2 and 4.

Requirement that implementation of the investment strategy is fully delegated to the pool.

The rationale for this standard is based on the belief that limited delegation has been given to pools to date and this is preventing the delivery of the full benefits of scale and resulted in continuing duplication of effort across funds in the same pool.

As pools are still in their formative stage and are still developing their offerings to funds it is not unsurprising that the full benefits from pooling has yet to be achieved. This is not to say that if pools were given the time to fully set out their investment options in full that these would not be achieved by any of the pooling solutions that have been developed to date.

It is the view of the ESPF that the hindrance to a more streamlined implementation is around transition costs rather than a limited delegation of implementation. By forcing an increase in speed to changes of investments will result in large transition costs which will not be spread evenly across Funds and destroy value.

By fully delegating implementation to Pools this does not impact on the large transition costs that will be incurred if implementation is forced through. The ESPF's belief is that implementation of an investment strategy needs to be evolved over a long time to minimise the transaction costs. This was starting to be enacted through the ACCESS Pool with allocations moving into established sub funds and the closure of 2 sub funds as they became unviable with the assets moved to other ACCESS offerings.

Taking responsibility away from AAs for any aspect of implementation does not remove accountability. There is no description within the standard that would require the pools to provide a minimum service level to AA.

AAs would be required to take principal advice on their investment strategy from the pool;

ESPF perceives that there could be a conflict of interest in the Pool being the principal source of investment advice, whilst also being responsible for implementation of the strategy. To ensure that good governance principles are being upheld where the LGPS Pool is directly managing assets (via an in house team) independent advice should be provided so that the AA can appropriately challenge the Pool on the actions taken. The AA should be able to obtain independent oversight of the Pool's investment advice and be appropriately advised to be able to challenge the Pool's assumptions. This could be facilitated by peer review or by other FCA approved individuals or companies. We would expect if the oversight identified that the Pool was not providing appropriate advice, that the role of principal advice should be provided by another organisation.

It is the ESPF view that the Pool should not be setting the Strategic Asset Allocation but should be telling us how we will get these exposures through the Pool.

ACCESS is currently providing some investment advice on the implementation of our investment strategy through the outsourced illiquid implementation adviser Apex, and was in the process of developing this further prior to this consultation.

If ESPF was to take principal advice on their investment strategy from the Pool as well as the Pool providing implementation up to and including strategic asset allocation from the Pool, ESPF would view this as a fiduciary manager arrangement.

The competition and markets authority (CMA) undertook an investment consultants market investigation which covered fiduciary managers and concluded that "there are features of the fiduciary management market which, individually and in any combination, prevent, restrict or distort competition in connection with the supply and acquisition of fiduciary management services in the UK to and by pension scheme trustees and thereby have an adverse effect on competition (AEC) in respect of fiduciary management services" and determined that "the CMA should take action to remedy, mitigate or prevent each AEC and the detrimental effect on customers that may be expected to result from each AEC"

The remedies that the CMA required was in place for fiduciary advice was as follows:

- *a prohibition on pension scheme trustees from receiving, and fiduciary management providers from providing, fiduciary management services in certain cases, unless the pension scheme trustees have carried out a competitive tender process; (AAs are not able to switch Pools in the minimum standards for AAs restricting the ability to get the best for our members)*
- *a prohibition on the provision by IC-FM firms of advice and marketing material to pension scheme trustee clients within the same document and the setting of mandatory wording that must be used in all marketing material provided to pension scheme trustee clients; (separation of advice and fiduciary management documentation a requirement not set out within the minimum standards)*
- *a requirement that fiduciary management providers should provide to existing pension scheme trustee clients disaggregated fiduciary management fees and the setting of minimum requirements to be met by fiduciary management providers regarding disclosure of costs and charges when selling fiduciary management services; (the minimum standards does not have minimum requirements regarding disclosure of costs)*
- *a requirement for the use of a standardised methodology and template for providing information on past performance of fiduciary management services to potential pension scheme trustee clients; (the minimum standards does not set out that a standardised methodology or template for providing information should be use, however there is a consultation question looking into this separately).*
- *a requirement that investment consultancy providers and fiduciary management providers adhere to basic requirements when providing information to potential pension scheme trustee clients on the past performance of their recommended asset management or in-house funds or investment products (financial instruments): the minimum standard does not set out that Pools should adhere to basic requirements when providing information)*

Whilst these may not be directly applicable to not for profit Pools and we recognise there are fundamental differences from the private sector, the CMA identified areas to improve governance in the wider fiduciary management market. ESPF believes that the minimum standards for pooling should be looking to be market leading and driving forward good practice. Minimum standards should reflect best practice in investment advice and fiduciary manager practices. This becomes even more critical if AAs are to be required to source these activities *from pools and have no power to change them. It is the view of the ESPF that it is not in the best interest of the 6.7 million hard-working LGPS members that LGPS investments were subject to a lower standard of fiduciary management or investment advice than that provided to the wider market.*

Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;

ESPF completely agrees that Pools should have all the expertise and capacity to implement investment strategies and provide appropriate advice to AAs. This is not however the sole province of investment management companies and can be delivered in different ways.

As a constituent member of an outsourced model for pooling, ESPF does not agree that Pools need to be established as investment management companies authorised and regulated by the FCA. *The outsourced model provides a competitive pressure on the providers to perform which also allows for an ability to change provider if needed. Where there is underperformance from an in-house team this can take a long time to rectify if not spotted and addressed early. In the past ESPF terminated service providers where there is a fundamental issue of concern as this was not deemed to be in the best interests of members. In the outsourced model underperformance of any aspect of the delivery can addressed and contracts terminated where this is required. This can also provide more transparency to underlying AAs around activities within the Pool.*

AAs would be required to transfer legacy assets to the management of the pool;

ESPF does not see the need to transfer the management of all legacy assets to the pool. The premise put forward for the transfer of legacy assets is set out below and ESPF will respond to these points:

- *staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;*
- *reporting across an AA's entire portfolio can be consolidated;*
- *pools can assess the merits and risks of all investments, with AAs able to hold them to account for all outcomes; and*
- *decisions on whether to hold to investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA's investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.*

Staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;

The people with the appropriate specialist skill sets to monitor specialist illiquid investments are not currently employed by the AA's as this is generally an outsourced function to investment consultants and independent advisers. Here their expertise can be shared across all their clients, public and private, not just a pool's investor base. This will actually be a concentration of key person risk as there will be less resilience in the specialist area within pools. Along with this the pools will be competing for these skilled staff against private sector companies not from Funds.

Therefore, capacity will not be freed up at the AA. All that is being done is replacing one outsourced provider for another with whom we have no service level agreement and are less resilient. The activities AA's undertake with these investments is cashflow related as the cashflow management of the Fund is becoming more stringent with the Fund's maturing nature and negative cashflow characteristics. Will Pool's be able to adequately understand and monitor the cashflow requirements of multiple partner AAs.

Reporting across an AA's entire portfolio can be consolidated

Reporting is already consolidated across an AA's entire portfolio.

Pools can assess the merits and risks of all investments, with AA's able to hold them to account for all outcomes

It is not clear how an AA can hold a pool to account for an investment implementation decision made at pool level. Moreover there is no mechanism set out within the minimum standards of pooling that provides the AA an ability to hold a pool to account on any activity.

Pools can assess the merits and risks of all investments without having management of the legacy assets, as this function is currently performed by investment consultants. There are clear accountability measures in place with investment consultants and if they are not providing suitable advice on the merits and risks they can be replaced - this is not the situation AAs have with pools.

In fact the CMA also required pension funds to set out clear objectives for our investment consultants. The consultation does not include this as a minimum standard requirement for pools providing investment advice to AAs.

Decisions on whether to hold investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA's investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.

Decisions to hold investments to maturity would only be taken after receiving proper advice, typically from the Fund's investment consultant, who do not manage assets on behalf of the AA. AAs do not rollover long-term contracts as they are subject to public procurement rules. Decisions on investments elsewhere would only be taken after receiving proper advice as required in regulations. The proper advice that AA's receive always takes into account the AA's investment strategy.

It is not clear to ESPF why an AA should not be influenced by its investment consultant for providing proper advice which they are paid to provide. The consultant's role is to provide proper advice and ESPF would expect this to influence the investment decisions of the AA.

ESPF has seen no evidence that AA are being influenced by legacy investment managers and have never been influenced by a legacy investment manager to make investment decisions.

It is not clear to the ESPF how the minimum standards of pooling makes it clear how pools must always act in the best interests of the AAs.

Question 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? -

ESPF believes that setting the investment objectives and determining the strategic asset allocation are the most impactful investment decisions for a pension fund.

Therefore it is the ESPF's view that AAs should retain responsibility for setting their investment strategy for their fund along with a Strategic Asset Allocation. These would need to be created by the AA's after taking proper advice which could come from the LGPS Pool or other appropriate advice.

The implementation of the strategy can be provided by pools and can provide a clear distinction between the AA's roles and those of the pool. This will enable the AAs to demonstrate their fiduciary responsibilities on the investment returns received.

Whilst acknowledging that a number of conflicts already exist, ESPF believes there is a conflict of interest that arises if the pool is to determine a strategic asset allocation for the AAs, along with providing the primary investment advice and implementation. If the pool was to take on all the responsibilities for the investments, ESPF would require that independent oversight of this is provided, to ensure that appropriate challenge and is able to take place and be assured that all risks are being appropriately considered. ESPF thinks that where oversight and challenge is not provided these responsibilities should be split to ensure that governance and responsibility can be clearly identified. At a minimum there should be a mechanism in place for independent peer review and challenge.

The consultation advised that the investment strategy to be created would consist of:

- *the high-level investment objectives including on:*
    - *funding, for example funding level,*
    - *return,*
    - *risk,*
    - *income and*
    - *stability of contributions*
- *environmental, social and governance (ESG) matters and responsible investment*
- *local investments, with a target range*
- *If the AA wishes to do so, a high-level strategic asset allocation – although the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.*

There are some parts of the suggested investment strategy set out above that do not sit well with the delegation to the pools for implementation, particularly environmental, social and governance (ESG) matters and responsible investment. To be an active steward of assets as set out in the stewardship code:

- *Asset owners and asset managers cannot delegate their responsibility and are accountable for effective stewardship. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities.*

It appears that the suggested level of delegation to the pool is in conflict with ESPF's ability to act as an active and engaged steward of assets. ESG reporting would also not provide any reassurance to members of the Funds if they are not able to influence the implementation of ESG or responsible investment mandates. This would be at the LGPS Pool's discretion.

Question 3

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

An investment strategy designed on this basis has the potential to support the AA's fiduciary obligations, subject to some important considerations (which we have noted above and continue our observations below). Retaining responsibility for setting high-level investment objectives, including funding goals, risk tolerances, ESG priorities and local investment aspirations, ensures that strategic decisions remain aligned with the unique characteristics and responsibilities of the pension fund. However, it is important to ensure appropriate balance and checks are in place to manage the conflict that arises from the Pools providing investment advice as well as investing of behalf of the funds.

We suggest some points to maximise the benefits of this approach:

Governance and Accountability*: Clear mechanisms for the AA to monitor, review and challenge the pool's performance are critical. This includes regular reporting, defined benchmarks, and transparent communication about how investment decisions align with strategic goals.*

Alignment of Values and Priorities*: The strategy must ensure that the pool's implementation consistently reflects the AA's priorities, particularly around ESG considerations and local investment.*

Adaptability to Fund-Specific Needs*: While standardisation across the LGPS brings benefits, flexibility is required to account for the varying profiles and needs of individual funds, such as maturity, cash flow requirements, and employer participation.*

Question 4

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

The ESPF view is that the proposed template is not fully suitable for a strategic asset allocation for the LGPS as a whole. We are supportive of a common strategic asset allocation template that can be used across AA's within a Pool. ESPF believes that the pool should devise this template so that it is able to ascertain the information it needs to effectively implement the investment strategies of all participating AAs in a clear and transparent way. This will allow the LGPS pool to determine the difference of approach needed by each AAs to provide the maximum benefit for its own Pool.

In addition to the current high-level template, areas that ESPF believe there should be scope within a strategic asset allocation to set a preference between are:

- *Active and Passive investment (as this is a big determinator between risk and return),*
- *ESG requirements (this will allow the ESG aspects of the strategy to be reported against clearly),*
- *Local Growth (this would enable AA to determine ranges within asset classes as to how much should be UK Growth and assist with discussing these with its local government partners).*

Question 5

Do you agree that the pool should provide principal 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?

It is reasonable to receive investment advice from LGPS pools but it should be at the discretion of an AA as to whether this is their principal advice or not. If an LGPS Pool provides poor advice it should be within an AA authority to replace them as the principal investment adviser to their Fund.

Any advice must be provided in a manner that is consistent with fiduciary duty and avoid any conflicts of interest that may arise between the Pool being the investment provider and investment adviser. An area where ESPF sees a requirement for alternative advice would be where investment decisions have been taken solely by the LGPS pool (in house managed investments).

The Pool must have sufficient depth and breadth of resource to provide the expertise in this area (for comparison our current investment consultants have £200bn of assets under advice and a team of more than 150 people). There must be clearly set out policies that Pool advisors adhere to in order to manage any conflicts of interest and ensure the individual requirements of the Administering Authorities are met. This will require FCA approved investment adviser staff by all Pools.

ESPF would want there to be a peer review of advice services provided to the AAs from their LGPS pools set up to ensure quality of advice. This could be provided by external investment consultants or by suitably qualified staff at other LGPS Pools.

Question 6

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

Whilst we take no particular issue with the FCA approved model, as a member of a LGPS Pool established without an investment management company, we do not believe that this is a requirement to achieve the benefits of pooling. It is frustrating that this consultation has come out at a time when multiple LGPS pools are still establishing themselves. We feel that Pools have not been allowed the time to fully develop a comprehensive investment offering or been able to start rationalisation programs.

The ACCESS model was periodically reviewing whether the time was right to establish an investment management company regulated by the FCA, but by forcing this approach in a restrictive timeframe has significantly increased the risks and has increased a less than optimal outcome for all AA and LGPS pools. ACCESS has highlighted evidence of delivering value for money for partner funds and scheme members through its approach. The pool's active listed assets have recorded a five-year return of just over 9%, compared to a benchmark of 7.8%. The pool also cited a cost assessment carried out by ClearGlass that it said demonstrated ACCESS was delivering economies of scale across active and passive listed mandates. ClearGlass stated that the pool has shown the effectiveness of its procurement model by achieving over £49 million of fee savings (17 basis points or c27% reduction compared to market fees) for its partner funds listed assets.

Question 7

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

ESPF is happy to transfer all listed assets into pooled vehicles where there are investments which meet the strategic needs of the Fund. There are some practical issues around access to capacity constrained investments which makes pooling of liquid assets difficult. This is generally where there is not the ability for managers to take on a large LGPS pool mandate. This will restrict the investable universe of the LGPS and will prevent the LGPS from supporting new and innovative UK investment managers and stifle the LGPS support on sustainable and impact investing.

The Fund, therefore, believes there is a benefit of having the ability to invest a small amount of the Fund in liquid investments outside the Pooled vehicles set up by the pools. These would however be within the oversight of the LGPS Pool and be in innovative UK based managers to help them grow into mainstream offerings.

Question 8

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

AAs should only transfer legacy illiquid investments to the management of the pool where there are additional benefits to the members of the Fund to do so. As set out in detail in response to Question 1 the rationale set forth in the consultation for transferring assets to the management of the Pool is not needed to achieve all the reasons set out.

*It is extremely important to consider the practical realities of implementing this change. Illiquid assets such as property, infrastructure and private equity are designed to be very long-term investments and can be very expensive to transact. We assume that the nature of the move would be re-registration and would **not** require the sale of existing illiquid assets. Even under this approach there may be lengthy due diligence and legal work required and may require the co-operation of third party investment managers and administrators.*

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

The pools would require a specialist teams across several asset classes with the ability to not only source such investments and possibly, in time, manage them. This requires specialist knowledge in a vast range of areas and often requires a level of knowledge and experience that gives individuals the gravitas to sit on the boards of large companies with regard to private equity and potentially legacy infrastructure investments.

Pools would require experts in property and financial transactions, valuers, surveyors, experts in both residential and commercial property and teams of in-house lawyers and compliance focused staff. Back office capability is essential to good governance of investments and financial transactions. The Pools need staff that can identify investment opportunities, manage them both from an investment and regulatory perspective and assess when to exit investments.

The market for staff with the requisite skills is competitive and will push up staffing costs at the pools substantially over time. There is also a risk that it is extremely challenging to get the right staff in the right posts in the suggested timescale. We see no explicit cost and risk assessment being carried out in relation to these substantially and wide ranging changes.

Question 10

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

*The ESPF believe that the timeline set out is **not** appropriate for the changes required for all LGPS Pools to reach the minimum standards of pooling set out in the consultation. The deadline is of great concern to ESPF. We do not believe it is responsible to rush recruitment, construction of new operating models, transition of legacy assets and gain authorisation from the FCA (particularly those who are considered some distance from minimum standards set out in the consultation). It is the view of ESPF that the minimum timeline for pooling to be complete should* *be extended to March 2027. Rushing through these changes creates substantial risks to LGPS Pools, AAs and most importantly members of the Funds. Again the speed of the suggested changes increase the risk to members of the LGPS and we see no scope for a full cost benefit assessment being carried out in relation to the costs that will be incurred by member funds to cover the substantial increase to costs of staffing the pools.*

There are similar concerns that would also apply to potential pool mergers. ESPF views potential mergers of pools to be as challenging as building an investment management company. If an LGPS pools plans are not considered to be acceptable, the ability for AA to have time to consider the best way forward would make any move to another LGPS pool considered viable not practicable by March 2026.

ESPF would not be looking to review the ISS until September 2026 so this would align more with a March 2027 implementation being undertaken by the Pool.

Question 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?

Given the minimum standards set out in this consultation, the LGPS Pools will be required to build significant expertise with regard to a wide range of investments and advice. Knowledge sharing between LGPS has been a cornerstone to its success to date. AA would expect the LGPS Pools to also collaborate but there could be valid commercial reasons why this might not be practicable, for example if skills or knowledge are related to third party mangers or investors.

Cross-pool client boards already exist so there is no reason why these could not be built upon to create a cross-pool committee of senior staff from the pools. Working to collaborate, where possible, subject to some potential conflicts of interest or commercial sensitivity (all pools are seeking to generate good returns for clients and early access to good investment ideas usually results in the best returns). It would also be important for communication between pools so that the LGPS Pools do not compete with each other over the same investments as this could damage the returns of these investments.

Other areas where collaboration could take place could be around operator activities for different investment structures being run via different LGPS pools. There are also areas where sharing experience and ideas on a non-investment items such as around governance, oversight and implementation could provide benefits.

Question 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?

It is important to highlight significant collaboration already in place both at a pool level and wider LGPS level. The LGPS frameworks enable significant efficiency in LGPS Funds access to contract providers such as Fund Actuary and Pensions Administration systems among many other areas. There are a number of collaborative working groups and practitioner groups to share information, provide training and enable best practice across the sector.

Collaboration among partner funds within the same pool does hold potential for efficiencies, enhancing knowledge sharing and reducing duplication. Key areas include:

1. *Training:*
    - *Unified training programs for pension boards, committees and officers could promote best practices in governance, investment decision-making, and compliance.*
    - *Collaborative platforms could support onboarding for new staff, addressing the high turnover rates in some authorities.*

2. *Other Collaborative Opportunities:*
    - *Risk Management: Partner funds can co-develop frameworks to address emerging risks, such as market volatility or ESG considerations.*
    - *Member Engagement: Joint initiatives to enhance member communication and transparency could strengthen trust and understanding of fund activities. There is already an LGPS Communications working group, but further initiatives could improve transparency and reduce duplication within Funds.*

Such collaborations align with the government's goals for pooling and may enable funds to deliver greater value to members. However, we feel it is important to note that whilst harmony services may offer potential benefits and cost savings the experience of ESPF with regard to shared administration services was not favourable.

Question 13

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

The definition of "local investment" should be broad enough to capture the diverse geographic and strategic priorities of the AAs within each pool while providing clarity and consistency for reporting. To address this, "local investment" could be defined as investments that contribute to economic or social development within the areas covered by any of the partner authorities within a pool, recognising that LGPS pools often have geographically dispersed AAs.

However, this raises an important question about the fairness and relevance of "local" investments. For example, if a pool invests in projects within the jurisdiction of one member authority, it may have no tangible connection or benefit for other authorities in the same pool, particularly if those authorities are located far away. This could lead to perceptions of imbalance in how local investment benefits are distributed.

To address this, the definition should consider:

1. *Inclusivity of All AAs: Local investment should account for the collective interests of all partner authorities within a pool. Reporting could specify which partner authorities are directly benefiting, providing transparency about the distribution of investments.*
2. *Balanced Portfolio Approach: Pools should strive for a geographic and sectoral balance, ensuring that investments serve a broader regional or national purpose while still aligning with local growth plans where feasible. For example, infrastructure investments in one area could generate indirect benefits, such as job creation or economic stimulation, across the broader region.*
3. *Collaborative Decision-Making: Investment decisions should involve input from all partner authorities to ensure alignment with shared objectives and equitable consideration of all members' interests. This collaborative approach can mitigate potential concerns over perceived regional favouritism.*

Reporting Framework:
For clarity and accountability, local investment should be reported with details on:

- *The geographic location of the investment.*
- *The specific partner authorities or regions benefiting directly.*
- *How the investment aligns with broader pool and local growth objectives.*

In conclusion, "local investment" should not be restricted to the immediate vicinity of a single authority within a pool but rather encompass investments that deliver broader benefits across the pool's partner authorities. This balanced and inclusive approach ensures that all members feel their priorities are reflected, promoting fairness and unity within the pooling structure.

Whilst our response has focussed on the geographical element of the question, value for money and risk and return metrics should always be foremost when assessing any investment.

Question 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?

ESPF would be happy to work with the local authorities within its area to provide a list of suitable local investment opportunities to its LGPS Pool. This would need to be set against the fiduciary duty the Fund has to the members and indeed the employers who sponsor the Fund.

Having regard to local growth plans and local growth priorities in setting investment strategy is acceptable but any investment opportunity provided to the Pool must stand up to scrutiny on its own merits from a simple risk and return perspective. Investing simply because an opportunity is 'local' (a term that may require some consideration given the geographical reach of Pool clients) is not sufficient to meet the fiduciary standard.

The assets are there to pay members future pensions and this should always be first and foremost in the minds of asset allocators. Further it is the employers who bear the cost of any shortfall in funds via increased contribution rates.

ESPF envisages once it has obtained the potential local investments its pool will set up a process to assess and conduct a full due diligence undertaking on all prospective investments and that these would be assessed on a first come first served basis. This would need to consist of non-financial factors and financial factors and a complete understanding of all risks presented by the investment. This would then be assessed against a portfolio risk basis so that there is diversification within the pooled local investments based on asset type, location, and size.

Question 15

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

Yes this is the correct policy document to record this information it should also be reflected within the Strategic Asset Allocation.

Question 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?

"Local" elected Officials may be able to identify opportunities that they wish to receive pension fund backing from, but any "local" investment will also fall into an asset class – social housing, commercial property, infrastructure etc. Related to our answers above, investors should be experts in these assets classes and able to assess any investment on its relative merits. There is no such thing as a "local investment expert".

Question 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?

This should be included in the annual report but should be required at a high level as the ability for the AA to report on impact will depend on how the LGPS Pool manages local investments. There is also a dependency on how the LGPS pool will manage these investments for the AA. If it is over the whole LGPS Pool area, which would likely be made up of 1000's of individual investments, providing detail would make the Annual Report less useful for readers.

The reporting should be in line with any other reporting for asset classes in which the Fund is invested, regardless of geographic location. As noted above, any investment must be scrutinised and the rationale for investing have justification on a risk and return economic basis.

Reporting should include asset size, returns, fees, benchmarking. The local investments can be labelled as such for asset allocation purposes but need to be subjected to same level of scrutiny as all other asset classes.

Question 18

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

Yes, the overall approach strengthens the governance framework by prioritising transparency, accountability, and expertise. The recommendations ensure that funds are well-equipped to manage the growing complexity of LGPS operations and investments.

Question 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?

Yes, a governance and training strategy formalises the administering authority's commitment to robust oversight and capacity building. Including a conflict-of-interest policy is particularly critical in the LGPS context, where local authorities often have dual roles as employers and fund administrators.

By setting clear objectives and actions, the strategy ensures:

- *Improved representation and decision-making.*
- *Proactive management of potential conflicts, reducing reputational risks.*
- *Transparency in addressing knowledge gaps among committee members.*

This requirement promotes a systematic approach to achieving high governance standards

Question 20

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

Yes this is a non-contentious proposal and in keeping with the recommendations in the SAB Good Governance Review. Such appointments are key to the efficient governance and implementation of a pension fund.

Question 21

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

Yes, requiring an administration strategy provides a structured framework for managing key operational areas such as member communication, employer liaison and benefit administration. ESPF have had one in place for a number of years.

The strategy ensures consistency and sets clear performance benchmarks, enhancing the fund's ability to:

- *Maintain accurate data and timely benefit payments.*
- *Support employers in meeting their obligations.*
- *Drive continuous improvement through periodic reviews.*

It also aligns with broader goals of improving transparency and member outcomes and sets expectations for all stakeholders involved in administering pension benefits.

Question 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, consolidating and streamlining the publication of strategies will improve accessibility and transparency for stakeholders. Simplified and coherent documentation reduces the complexity of engaging with fund information for members, employers and other interested parties.

Key recommendations:

- *Develop an online repository for all strategies, allowing real-time access and updates.*

- *Use summary documents to highlight key points, supported by detailed appendices for those seeking deeper insights.*

This change will enhance the public's ability to understand and engage with LGPS operations.

Question 23

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

Yes, the proposal for biennial independent governance reviews is a positive step toward enhancing consistency and accountability across LGPS funds. These reviews would provide a structured mechanism for identifying strengths, addressing weaknesses, and promoting best practices.

Format and Assessment Criteria Recommendations:

- *Reviewer Expertise: Independent reviews should be conducted by professionals with LGPS-specific expertise, ensuring relevant and actionable insights.*
- *Assessment scope could include:*
    - *Effectiveness of governance structures and compliance with statutory requirements.*
    - *Knowledge and training standards of decision-makers.*
    - *Risk management effectiveness and achievement of strategic objectives.*
- *Actionable Outputs: Reviews should result in a formalised improvement plan with clear timelines, ensuring that identified gaps are addressed.*

This structured approach could drive continuous improvement, safeguard member interests and maintain confidence in fund governance.

Question 24

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

Yes, requiring pension committee members to have appropriate knowledge and understanding is critical and ESPF have the same requirements on Pension Committee members to those required under the Pensions Act for Local Pension Board members. Effective decision-making in the LGPS context requires committee members to navigate complex investment, governance and funding challenges confidently. Without adequate knowledge, they risk being overly reliant on advice without the ability to critically evaluate it.

Aligning knowledge requirements with those of local pension boards will enhance overall governance consistency and ensure that all decision-makers operate with a baseline level of competency. This proposal also addresses the high turnover of committee members by emphasising structured, ongoing training programs. ESPF however, would like consideration of *how training requirements can be enforced, with the allocation of elected members to these committees by political parties, rather than membership based on merit, knowledge and skills.*

Question 25

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

Yes, this requirement is essential for embedding accountability and fostering a culture of continuous learning within administering authorities.

A governance and training strategy should outline:

- *Comprehensive initial training for new members.*
- *Ongoing development opportunities to address emerging issues and evolving responsibilities.*
- *Clear mechanisms to evaluate whether members meet knowledge standards.*

By formalising these practices, administering authorities can ensure that knowledge and understanding requirements are met consistently and transparently.

Question 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?

We support this view. It is important the advice provided from the Pools receive oversight and challenge. We agree that an independent consultant should form part of the Committee. Professional trustees or potentially senior officers from other funds could fulfil this role.

Question 27

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

Yes this is essential for good governance to maintain the democratic structure upon which LGPS operates. Democratic representation should be combined with the professional expertise required to run, invest and administer the funds.

Question 28

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

Further to the detail outlined above, we have made extensive comment in relation to the minimum standards for pooling and the balance between fiduciary duty and effective *stewardship of assets. Members' views and interests must be incorporated into the operations of pools in order to maintain trust and ensure alignment with the scheme's objectives.*

The best ways to achieve this include:

1. *Representation on Governance Structures:*
    - *Include member representatives, such as union-nominated individuals, in pool advisory committees or governance boards.*
2. *Regular Engagement Mechanisms:*
    - *Conduct periodic consultations or surveys to gather input on key priorities like ESG investments or local projects.*
3. *Transparent Reporting:*
    - *Pools should provide accessible updates on how member priorities are reflected in investment decisions, with clear reporting on outcomes.*

These steps ensure that members feel represented and informed, fostering greater engagement and confidence in the pooling process.

Question 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?

Generally, having a consistent approach is useful with minimum reporting standards, however it is important that there is enough scope to recognise that there may be nuances between approaches and not always ' a one size fits all approach'. It is likely to be useful to stipulate the basis (net/ gross), timeframes and level of detail of performance reporting shown but not particular benchmarks for example.

Question 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 do not appear to disadvantage any particular groups with protected characteristics under the Equality Act 2010. However, they may indirectly benefit some groups.