

Report to: Pension Committee

Date of meeting: 27 February 2025

By: Chief Finance Officer

Title: Proposed Pension Reform and Consultation

Purpose: To provide an update on changes effecting Local Government Pension Schemes and the East Sussex Pension Fund and an assessment of the Fund's compliance and recommended changes.

RECOMMENDATIONS

The Pension Committee is recommended to note this report.

1 Background

- 1.1 The report has been prepared to update the Committee on the government's proposed changes to pension fund pooling, highlighting the key proposals and the response to the consultation that has been prepared on behalf of East Sussex Pension Fund (the Fund). Please note that the response from ACCESS to the government's requirements for investment pools will be set out under agenda item 17 in the exempt section.
- 1.2 In July 2024, the new Chancellor of the Exchequer Rachel Reeves, announced a pensions' review to boost investment and tackle waste in the pensions system, stating that action will be taken to unleash the full investment might of the c£360bn Local Government Pension Scheme (LGPS) to make it an engine for growth and tackle the £2bn that is being spent on fees. The work announced, focusing on investments, was stated to be the first phase in reviewing the pensions landscape.
- 1.3 Following further liaison with LGPS funds, pools and officers the Chancellor announced in her 'Mansion House' speech on 14 November 2024 that the government would launch a consultation to ensure that the LGPS was "Fit for the Future" with a view to accelerating pooling of assets by March 2026 and supporting the Chancellor's aims of accelerating growth and investment in the UK.
- 1.4 The consultation has thirty questions and is focussed on three key areas:
 - Reforming the LGPS asset pools: with a single model, whereby LGPS Administering Authorities (AAs) will delegate investment strategy implementation to the pool; Financial Conduct Authority (FCA) registration of pools;
 - Boosting LGPS investment in their localities and regions in the UK: by having a target allocation to local investment that supports local economic priorities; working with local authorities.
 - Strengthening the governance of both AAs and LGPS pools: building on the 2021 Good Governance review.

The Fund has prepared an extensive response to this lengthy consultation: Appendix 1 contains the Government's Consultation Document, Appendix 2 contains The Fund's response, Appendix 3 the ACCESS Pool response and Appendix 4 the Consultation Checklist.

2 Key Consultation Areas and Fund's Current Position

We have set out below key areas of governance reform highlighted in the consultation paper at section 4 of Appendix 1 and an assessment of the Fund's current compliance:

2.1 Senior LGPS Officer:

- Status: The Fund has already appointed a Senior LGPS Officer in the "Head of Pensions" role. This position has delegated responsibilities for overseeing the management and administration of the Fund, ensuring compliance with regulations and supporting effective governance.
- Enhancement Needed: The Governance Strategy should be updated to include a detailed sub-section explicitly defining the Head of Pensions' responsibilities, with clarity on oversight across financial, legal and operational aspects.

2.2 Biennial Independent Governance Reviews:

- Status: This requirement is not yet mandated but is anticipated in the consultation proposals. The Fund's governance framework is robust, with periodic internal reviews already conducted, but an external review mechanism is not yet formalised.
- Actions: The Governance Strategy should outline the Fund's commitment to independent reviews, defining strategic objectives to align with potential criteria, including governance structures, training, risk management and compliance effectiveness.

2.3 Independent Advisor:

- Status: The Fund has an investment-focused independent adviser who provides strategic guidance. This role ensures fiduciary responsibilities are upheld in investment decisions.
- Gap: The independent adviser's remit should be expanded to include governance and administration expertise if the proposals are implemented. This would provide comprehensive oversight across all Fund operations.

2.4 Governance and Training Strategy:

- Status: Partially in place through the current Governance and Compliance Statement, Training Strategy and Conflicts of Interest Policy. These documents collectively address governance and training but are not consolidated.
- Enhancement Needed: These documents should be integrated into a single, comprehensive Governance and Training Strategy, with clear objectives, planned actions and timelines for implementation.

2.5 Administration Strategy:

- Status: Fully in place and published. The Administration Strategy ensures effective management of member communications, employer engagement and benefits administration.
- Clarification: Guidance is awaited on whether the existing Communication Strategy should be merged into the Administration Strategy to streamline reporting.

2.6 Investment Strategy:

- Status: The Fund has a robust Investment Strategy that is reviewed annually, ensuring compliance with fiduciary and Environmental, Social and Governance (ESG) responsibilities.
- Concerns: Proposals to delegate implementation entirely to LGPS pools may limit the Fund's direct influence on ESG alignment and fiduciary oversight.

- Action Needed: Evaluate the implications of pool delegation, particularly regarding stewardship obligations and develop a framework to maintain ESG compliance.

2.7 Engagement with Local Authorities on Investment:

- Status: While there is informal engagement with local authorities, a formalised strategy to align investment with local growth priorities is not yet in place.
- Actions: Develop strategies to engage local authorities, aligning investment decisions with regional priorities. Assess the feasibility of setting specific target ranges for local investments.

2.8 Local Investment Impact Reporting:

- Status: The Fund has agreed in principle to enhance its annual reporting by including local investment impacts. This ensures transparency and demonstrates accountability.
- Enhancement Needed: Establish standardised guidelines for consistent reporting across funds to ensure comparability and clarity.

2.9 Member Input into Investment Decisions:

- Status: The Fund ensures member representation through training and participation structures already in place. This approach supports informed decision-making and robust governance.
- Actions: Ensure future pool board representatives meet requisite skills and training standards, maintaining the integrity of decision-making processes.

2.10 Consolidation of Policies:

- Status: Accessibility efforts are strong, with key policies available on the website. This supports transparency and member engagement.
- Enhancement Needed: Develop summary documents and create a centralised online repository to enhance accessibility and usability for stakeholders.

6. Conclusion

6.1 The Committee is recommended to note this report.

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