
PLSA policy board member, Neil Mason

View on the LGPS

It's not the messiah, but it's also not a naughty boy, argues PLSA policy board member, Neil Mason

There is a scene in Monty Python's *Life of Brian* in which Judith, of the People's Front of Judea, (note, definitely not the Judean People's Front) confronts their leader, Reg, with the news that Brian has been arrested by the Romans.

"Right! This calls for immediate discussion!
What?
Immediate!
Right. New motion?
Completely new motion. Uh, that, uh, that there be immediate action.
Once the vote has been taken.
Obviously once the vote's been taken.
You can't act on a resolution till you've voted on it."

And on, and on…

Reg's reaction is a hilarious parody of bureaucracy but does also draw some comparison with the response of the Local Government Pension Scheme (LGPS) to the challenge of government on the pace of pooling, consolidation and investing more in UK assets.

Almost a decade on from the launch of LGPS pooling and just prior to the 2024 election, the Conservative government gave more of a steer on its expectations. The LGPS would be left with two basic options. Be in control of its fate and adapt in a way that meets government policy. Or argue government is wrong – and in doing so, run the risk of something being imposed upon it.

Whether we like it or not, government policy on the LGPS and pooling is clear and has six asks:

- Consider how funds can deliver better governance and drive efficiencies in the running of the scheme.
- Funds are to transition assets to the pools by March 2025. If insufficient progress is made, the government will legislate to mandate it.
- While funds remain responsible for strategy, investment implementation is to be delegated to the pool.
- By 2040 for there to be fewer than eight pools.
- Pools to provide LGPS funds with advice on investments.
- As a publicly funded pension scheme, for the LGPS to play a part in investing in the UK to drive economic growth and improve local communities.

The new Labour government, at least ostensibly, has suggested it will go further than this. It has announced its intention to carry out a pension review, with the LGPS on the vanguard. The Canadian 'Maple Eight' super-pool has also been vaunted as a desirable model to allow bigger lumps of cash to be shovelled into the Shangri-La that is UK growth. This comes with an implied criticism of the LGPS as being some sort of inefficient plaything of 'town hall barons'. The truth is much more complex and nuanced.

The LGPS is an incredibly intricate scheme – 86 regional funds, managing a combination of three different benefit structures to provide pensions for c6.49 million members[1]. It is the dumping ground for pensions for those public servants who don't really fit anywhere else. Not the unfunded pension schemes for rarified professions of teachers, doctors, judges, civil servants or MPs. LGPS members are teaching assistants, lollypop people, after school workers, amongst others. Some of the lowest paid people in the UK and overwhelming part-time women workers. The LGPS provides dignity in retirement by providing a decent pension to some of the unsung heroes of UK society.

There are also around 13,802 employers[2] who make up the LGPS. These range from councils to academy schools, but also an array of private companies that now carry out council services for local residents. It also includes those who have a community of interest with local authorities. Charities, special schools, housing associations, as well as other government bodies like the Environment Agency.

Nobody in good conscience is against supporting UK growth, but is a mega fund the best way to achieve this?

Are we also ignoring three key factors? Firstly, the assets of LGPS funds are owned by its beneficiaries, the members. Secondly, the LGPS has a duty to protect the interests of the thousands of employers who pay into the scheme on behalf of their current and ex-employees (as Nigel Giffin KC opined, it is the employers and not the government who are responsible for guaranteeing member benefits[3]). And lastly, there is the fiduciary duty of trustees (pension committee members) to consider.

Is a Canadian style consolidation consistent with these three factors?

I think the answer is intrinsically linked. Yes, the LGPS is not as efficient as it could be. Eighty-six funds is probably too many and too many decisions are still made through sub-optimal governance structures. There is plenty of evidence that more delegation of investment implementation to fewer managers of assets with internal capability, coupled with good oversight by local funds, can produce savings. But equally, that doesn't mean throwing it all into one pot.

LGPS funds are by their nature local. They have close and intuitive links with the local members and employers they serve. While the LGPS may currently be well funded nationwide, there is a myriad of distinct local differences in funding levels and cashflow positions. This provides opportunities for local funds with unique characteristics to have open conversations with their employers. This could lead to reviewing contribution rates (the experience of the Strathclyde fund in the 2023 Scottish triennial valuation proves this). The prospect of renegotiating employer contributions as part of the 2025 triennial valuation in England and Wales could bring tangible value to public sector bodies and the delivery of vital local public services. This is in stark contrast to the employer contribution experience of the unfunded public sector pension schemes.

Also, local funds are well placed to harness local intelligence and specialism to understand local investment opportunities and be sufficiently nimble to exploit them; recent investments ranging across the north of England in Greater Manchester and South Yorkshire and the south in Devon and Wiltshire (to name but a few) are evidence of this. However, pooling expertise can aid and not hinder this.

This is in no way an argument for the status quo. We can and should do more.

The experience at the Local Pension Partnership, Wandsworth Shared Service and West Yorkshire, et al, has shown that consolidation of administration services can bring efficiencies. However, again, there is evidence that when an administration service becomes too large, it instead brings diseconomies. Also, my answer to the constant lament in the LGPS of resource pressure is for more collaboration, across a greater range of services. I refuse to accept that we need 86 separate production teams for LGPS annual reports, governance, training, risk management and consultancy. The collection of funds in pools provides a structure for these economies of scale to be delivered. But we have to actually embrace it!

But let's return to the six-point exam question set by the government.

Governance

For me, improved governance is the key. The idea of 86 funds with appropriate governance sovereignty from their administering authorities and containing adequate resources to manage a pension fund to the standards expected by The Pensions Regulator is for the birds. Senior LGPS officers should recognise this and seek collective solutions with peers. Not after waiting for regulations to compel them to, but now!

Pace of pooling

There really is no excuse for not pooling all listed assets by April next year. Appropriate pooled solutions are out there.

Implementation delegated to pools

Funds should set high level strategy and then leave pools to implement.

Fewer pools by 2040

There is clearly a model of pooling that the government supports. If this becomes the policy intent, then market forces will take over, whether we like it or not. As I've said earlier, it would be far preferable if we recognised this and sought to reform organically.

Pools taking a more active part in the investment process

There is much evidence to suggest that LGPS funds add most value at a strategic level. The interpretation of what this means is diverse, but for me it consists of funds setting the risk and return parameters, including any local or sustainability objectives, and then leaving pools to produce the building blocks to deliver it. There is an argument that this creates an insurmountable conflict of interest but, provided the relationship between funds and pools is accompanied by a robust oversight framework, potential conflicts can be managed.

The LGPS supporting UK growth

Ahh, the £354 billion[4] question. This returns us to the quandary of fiduciary duty. If the LGPS is being asked to invest in the UK just because the government tells it to, it does not meet the Nigel Giffin KC test[5]. However, if, as the government appears to believe, more investment in the UK can deliver enhanced investment outcomes, then it is entirely consistent with fiduciary obligations. In fact, it could offer a fantastic opportunity.

My answer is for the eight pools to come together, coalesce with government to truly understand its aims and then collectively build the solution. If the investment case does indeed stack up, then it will accord with the aims of all LGPS funds (to provide the best outcome for its members and employers) and capital should follow.

To close, a number of LGPS funds have made good progress in answering the exam question set by government. But is there enough urgency from the LGPS to control its own fate or have that decision taken away from it?

To return to Judith: *"It's happening, LGPS! Something's actually happening, LGPS! Can't you understand?"*

Written by PLSA policy board member and chair of its Local Authority Committee, Neil Mason

[1, 2, 4] The LGPS Scheme Annual Report 2023 *LGPS Scheme Advisory Board – Scheme Annual Report (2023)* https://lgpsboard.org

[3, 5] *Duties of Administering Authorities Under the LGPS: Opinion – Nigel Giffin KC (2014)* https://lgpsboard.org/images/PDF/Publications/QCOpinionApril2014.pdf