

Agenda Item	4
Report No	PC/20/24

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 6 December 2024

Report Title: Mansion House reforms

Report By: Chief Officer, Corporate Finance

1 Purpose/Executive Summary

- 1.1 The purpose of this report is to provide Pensions Committee with an update on the pension reform proposals set out in the Mansion House speech which apply to the Local Government Pension Scheme (LGPS) in England and Wales. The report also contains information from the most recent Scottish Scheme Advisory Board meeting.

2 Recommendations

- 2.1 Members are asked to note the contents of this report regarding Pensions reform proposed in England and Wales.

3 Implications

- 3.1 There are no resource implications at this current time though the potential impact of any proposed changes will be assessed.

- 3.2 In terms of legal implications, the governance of the Fund must comply with all Local Government Pension Scheme (LGPS) legislation and regulations and The Pensions Regulator (TPR) requirements, or the Fund could be non-compliant and in breach of pensions legislation and/or TPR requirements. Fund officers will monitor any proposed changes in legislation to assess the implications of these and set up processes to ensure that the Fund complies with legal requirements.
- 3.3 The risk management framework is an integral part of governance and there is a risk in the Fund's risk register of the potential for future regulatory and policy changes. This risk is managed by Members and Officers keeping up to date with regulatory and policy changes through various sources.
- 3.4 There are no Health and Safety (risks arising from changes to plant, equipment, or people) or Gaelic implications arising as a direct result of this report.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 An initial impact assessment has been completed for this report, with no further full impact assessment being required.

5. Introduction

- 5.1 On 13 November 2024, the Chancellor Rachel Reeves delivered her Mansion House speech setting out detail of the UK Government's plans for reform of the Local Government Pension Schemes ("LGPS"). Following the Mansion House speech there was the release of the Interim Report of the Pensions Investment Review and two consultations on workplace defined contribution ("DC") and LGPS schemes which will close on 16 January 2025
- 5.2 This report sets out what is currently known about the proposed pension reforms which will apply to England and Wales and work that the Scottish SAB is undertaking.

6. Mansion House reforms

- 6.1 The Interim Report of the Pensions Investment Review was published following the Mansion House speech
https://assets.publishing.service.gov.uk/media/6736181254652d03d5161199/Pensions_Investment_Review_interim_report.pdf

- 6.2 This report set out three key aims of the Government being to develop the following in the LGPS in England and Wales:
- consistent approach to asset pooling
 - local investment
 - strengthening governance
- 6.3 Alongside the interim report the consultation for the Local Government Scheme in England and Wales was issued
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future>
- 6.4 Based on the Mansion House speech, the Consultation published shortly afterwards and the Government's associated [press release](#), some key points have been highlighted by the Fund's Investment Advisor which are as follows:
- While the Government recognises some of the key successes in pooling to date, their research suggests they believe the assets under management need to be larger than the potential size of some of the 8 existing pools in order to deliver the "megafund" outcomes they are seeking. It may evolve that the 8 in existence currently will reduce in number through pool mergers, an idea which is mentioned in the Consultation but by no means mandated. At this stage the Consultation focuses on the ways in which the pools are set up and managed rather than reducing the number of pools.
 - The Consultation proposes that the pools would need to be regulated by the Financial Conduct Authority (FCA) going forward. This is set out in the Consultation along with a number of other proposed mandated minimum standards. Currently three of the pools are not set up this way (Wales Pension Partnership, Northern and ACCESS). Clearly this has potential to create some significant challenges for those pools.
 - The speech and Consultation proposes that LGPS funds will be required to pool **all** their assets into these pools, and make the other required pooling changes, all by 31 March 2026. This is a stronger stance than has previously been in place
 - Whilst Administering Authorities would remain responsible for setting an investment strategy for their fund, they would be required to fully delegate the implementation of that strategy to the pool, and to take their principal advice on their investment strategy from the pool.
 - For now at least, merger of individual LGPS funds does not appear to be a focus for the government and there are no specific questions on this in the Consultation. However, in the Introduction section of the Consultation the government recognises "friendly" mergers have had good outcomes and encourages funds to consider if this could benefit them.
 - It would appear that the actions from the Scheme Advisory Board's "Good Governance" review will be progressing in 2025, with a key focus to improve investment outcomes, although the proposals set out in the Consultation cover all areas of governance and we provide a brief summary of this below.

6.5 The proposals in the consultation are summarised below:

- Setting minimum standards for investment pools, including:
 - Full delegation of implementation of strategy to the pool
 - Pools providing strategy advice to the administering authorities
 - Pools required to be authorised and regulated by the FCA

- Setting requirements for local investment, including:
 - Setting a target range for local investment
 - Working with relevant authorities to identify local opportunities
 - Pools to carry out due diligence and make decisions on whether to invest in those opportunities

- Improving governance
 - Minimum requirements for Committee member knowledge and skills
 - Implement other recommendations from the Good Governance Review, including requirement to appoint a senior LGPS officer and carry out an independent governance review every two years
 - Requirements around representation and transparency of pools

6.6 Officers will keep informed and engaged in developments and report back relevant points to this Committee. Our professional advisors also provide bulletins and updates on current developments and officers will monitor these. The Fund's Advisor and Fund's Actuary will both be responding to the English and Welsh LGPS consultation.

7. Scottish Scheme Advisory Board

7.1 In terms of the Scottish SAB, on 13 November 2024 at a meeting of the Scottish Scheme Advisor Board, the Scottish Public Pensions Agency (SPPA) asked for advice from the Scottish SAB as soon as possible (item 6 <https://lgpsab.scot/papers-13-november-2024/>). The following background was provided to this request.

- In February 2024 Mr Arthur who at that time was Minister for Public Finance, Planning and Community Wealth wrote to the Scottish Scheme Advisory Board to ask for their views on the intentions of the UK Government and their 'pooling agenda', as set out in "Next steps on investments", in the Chancellor's Autumn Statement in 2023 (item 6b <https://lgpsab.scot/papers-13-november-2024/>).
- The Chancellor set a deadline of March 2025 for the accelerated consolidation of Local Government Pension Scheme (England and Wales) assets, setting a direction towards fewer pools exceeding £50 billion Assets Under Management, and implementing a 10% allocation ambition for investments in private equity.
- Mr Arthur also asked the SAB to investigate and provide a report on how much each of the funds currently invests in Scottish infrastructure projects and Scottish Equities.
- The deadline for funds in E&W to transfer assets to the 'pools' is intended to be 31 March 2025.

7.2 On 14 November following the Mansion House reforms, there was an email sent out by the COSLA advisor to the Scottish SAB, to all Scottish Directors of Finance that

highlighted the discussions between the Scottish SAB and the SPPA as set out in paragraph 7.1 above. This correspondence also clarified that the Mansion House pension reform proposals were in respect of the 86 LGPS funds in England and Wales and there would likely need to be separate consideration of the outcome for Scottish Funds. At this stage it is unclear what, if any, implications the English and Wales proposed changes and consultations may have for Scotland LGPS Funds.

Designation: Chief Officer, Corporate Finance

Date: 15 November 2024

Author: Catriona Stachan, Pension Fund Manager

Background Papers: LGPS regulations, Hymans Funding risk report