

Open consultation

Local Government Pension Scheme (England and Wales): Fit for the future

January 2025

BACKGROUND

The consultation seeks views on proposals relating to the investments of the Local Government Pensions Scheme (LGPS). It covers the areas of asset pooling, UK and local investment and governance.

The Ministry of Housing, Communities and Local Government (MHCLG) is consulting on proposals for new requirements on LGPS administering authorities.

The full consultation text can be found [here](#).

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WPF Response to Consultation Questions

LGPS Pooling

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

It is important to ensure that all pools carry out their functions and duties on a “level playing field”, particularly where government envisages a landscape of inter-pool collaboration. Key benefits include:

- Establishing minimum standards ensures all pools operate at a baseline level of capability, governance, and performance, reducing variability and promoting equity among partner administering authorities.
- Standardised requirements can drive operational efficiencies, reduce duplication of efforts, and create a more competitive environment that could benefit authorities.
- Pools meeting uniform standards are more likely to employ effective risk management frameworks, ensuring better protection of assets.

Therefore, to ensure effective engagement on investment strategy and implementation, the Fund believes that the minimum standards are essential to collaborative working, especially where Administering Authorities retain their fiduciary duty.

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?

The ISS is a key document. Investment objectives within it should reflect a pension fund’s risk tolerance, funding needs, and long-term goals. It should also incorporate environmental, social, and governance (ESG) principles and other responsible investment considerations. It is essential that this responsibility remains with the Administering Authority. As fiduciaries, they are primarily responsible for setting the overarching investment objectives to align with their liabilities, funding requirements, and risk tolerance.

Including a high-level SAA in the strategy should be considered as essential rather than optional. It would provide a framework for the pool’s activities while offering flexibility for nuanced implementation. It would assist the pool to understand the authority’s desired asset mix and risk-return profile.

It is of vital importance that the Fund’s beliefs such as those relating to ethical and geopolitical governance issues are taken into account before any investment implementation is undertaken.

In passing implementation activity to the pool, it is essential that there are clear accountability mechanisms to ensure that the pool’s implementation aligns with the authority’s investment strategy. Consequently, regular reporting and transparent performance reviews are essential to maintain oversight.

For implementation in the proposed manner to be successful, it is essential that the pools have sufficient internal capacity and sufficient embedded internal

expertise to deliver the requirements of Administering Authorities in a timely manner. It could be argued that this is not currently in place and therefore will require significant investment. This will represent a significant recurrent cost burden upon those Authorities.

Operationally, delegation should not dilute the authority's responsibility for understanding and managing overall fund risks. Furthermore, it is important that the pool accommodate specific requirements of an authority where possible, such as ethical investment policies or liability-driven strategies.

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 that includes high-level investment objectives which is accompanied by a high-level strategic asset allocation is an important element of an authority's fiduciary responsibility. However, it is not the sole component of its duty in this respect. It is important to consider an authority's responsibilities to manage liabilities too. Whilst the Fund considers itself to be ideally placed to fulfil those responsibilities through its considered implementation of investment activities, delegation of those activities depends on ensuring robust governance, oversight, and alignment with the authority's responsibilities.

The administering authority must establish clear lines of accountability and oversight, specifying roles and responsibilities between itself and the pool. Consequently, the pool must provide regular, transparent reporting on performance, risk, and costs to enable the authority to assess whether the strategy is being implemented effectively. The authority must regularly review its investment strategy and objectives to ensure they remain appropriate given changes in liabilities, funding levels, or market conditions. This therefore requires the pool to have the flexibility to customize its implementation approach to meet the specific needs and objectives of the authority, ensuring alignment with fiduciary responsibilities.

The Fund is currently unclear as to how an Administering Authority would address circumstances where there is a conflict of opinion between it and the pool both relating to investment and operational underperformance. It is essential to formulate a prescriptive mechanism in advance of the establishment of these proposals.

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

The proposed template for a Strategic Asset Allocation in the ISS is a helpful tool that can promote consistency, clarity, and comparability across administering authorities. However, its effectiveness depends on its design, flexibility, and ability to align with the unique circumstances of each authority. Administering authorities have diverse liability profiles, funding levels, and risk tolerances. The template must allow sufficient flexibility to reflect these differences. A rigid or overly simplified template may fail to capture the nuances of complex strategies, particularly for funds with diverse or illiquid investments.

Question 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?

The idea of pools providing investment advice to their partner administering authorities is logical and potentially beneficial. However, there are important considerations and additional requirements to ensure the advice is both effective and appropriately evaluated. There is a risk that the pool might prioritise advice that aligns with its own operational capabilities over the specific needs of individual authorities. Furthermore, they may become overly reliant on the pool, reducing their ability to critically evaluate investment strategies or maintain independent oversight. Authorities should be allowed to engage independent investment consultants to validate or challenge the advice provided by the pool to ensure that the advice aligns with their specific goals and fiduciary responsibilities. As a consequence, it is vital that administering authorities maintain in-house investment expertise or advisory committees capable of critically assessing the pool's recommendations. They will also need to engage actuarial advisers or risk specialists might be needed to assess the long-term impact of strategies, particularly for pension fund liabilities. While pools are well-positioned to provide investment advice, additional input mechanisms, such as independent validation, internal expertise, and enhanced collaboration, are critical to maintain oversight, mitigate conflicts of interest, and tailor strategies effectively.

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?

The Fund is part of the Central pool and was instrumental in the pooling company's achievement of FCA regulated status. As a result, it is supportive of the benefits. However, there are challenges and considerations to be mindful of. The process involves significant setup and ongoing costs, including compliance, reporting, and governance requirements. Where not achieved, its lengthy and complexity could potentially delay progress in managing assets effectively. Finally, expanding into advisory services may divert resources and attention from the core objective of asset management.

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

This requirement has potential benefits, primarily driven by the potential reduction in investment management costs, such as transaction fees and manager fees, by leveraging scale. In addition, pool companies often have access to specialised resources, expertise, and technology for managing listed assets.

However, the decision should consider practical, financial, and strategic implications. There is currently significant variation in pool performance. Not all pools may have established a strong track record or demonstrate consistent outperformance in managing listed assets. Given that government does not

seek to replicate identical offerings across the eight pool companies, does it envisage the ability for administrative authorities to select an alternative pooling company, based on performance metrics, to transfer its listed portfolios to?

Transferring all listed assets may incur significant one-time costs, including transaction fees, rebalancing costs, and potential tax implications. Furthermore, managing the transfer requires robust systems, clear processes, and sufficient operational capacity within the pool company.

The Fund has always strongly supported the concept of **value for money**. After all, that concept was at the heart of the original pooling raison-d'être. The implementation of proposals which expose it to significant additional expense, driven by the desire for unnecessary institutional change rather than a drive for investment return cannot be in the best interest of its scheme membership.

Administering authorities will lose flexibility in tailoring their investment strategies to their specific objectives and liabilities. Some listed assets may be tied to specific mandates, benchmarks, or strategies that could be disrupted by the transfer. For example, the Fund has taken a regional, rather than global approach to its strategic investment in listed assets.

If the transfer of this asset class is mandated, government should ensure that:

- Pool companies have the necessary infrastructure, expertise, and governance to manage a wide range of listed assets effectively.
- A thorough analysis to ensure the benefits of transferring outweigh the associated costs.
- There is flexibility for administering authorities to retain certain listed assets under specific conditions, such as illiquid securities or assets with contractual restrictions.
- There is periodical review of the performance of pooled vehicles and adjust strategies as necessary to optimise outcomes.
- Open communication with administering authorities is maintained to address concerns and ensure alignment with their strategic objectives.

It is of significant concern to the Fund that any potential subsequent amendment to existing pooling structures such as rationalisation and/or amalgamation could exacerbate the dilution of oversight and flexibility highlighted above.

<p>Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?</p>

The decision to require administering authorities to transfer legacy illiquid investments to pool management should be weighed very carefully. These legacy investments often have specific terms, conditions, and relationships that could complicate their transfer. Furthermore, some may include restrictions on transferability or require counterparty consent. Administering authorities will be concerned about losing influence over investments with specific local or strategic significance. This is particularly significant when they are being asked to work more closely with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities.

There is also a significant cost burden to consider. Transferring illiquid investments would involve administrative, legal, and operational costs, which could offset short-term benefits and erode the savings already achieved through pooling strategies to date.

The transfer of certain illiquid investments may present ownership complexities. For example, assets directly owned by Administrating Authorities, for example allocations to direct property, need to be considered.

This requirement relies on the readiness and expertise within pools. Not all pools may currently have the necessary expertise or infrastructure to manage complex legacy assets effectively, especially at the pace required by these proposals.

In these proposals, government have made the intended direction of travel very clear. However, there appears to be unbalanced prescription between assets and liabilities. Whilst providing for the transfer of asset management, there does not seem to sufficient detail concerning the corresponding liabilities that Administrating Authorities are responsible for in relation to their members. Potential conflicts could arise where responsibility for assets and corresponding liabilities sit with different bodies. The Fund is already establishing a collaborative oversight framework between its legacy fund managers and its Pooling company however, it is important to understand that a one size fits all approach is neither appropriate nor possible. A phased, collaborative approach, with exemptions for specific cases, could balance the efficiency gains with the need for flexibility and local considerations.

<p>Question 9: <u>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?</u></p>
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Taking on the management of legacy assets from partner funds is a complex step. For pools to successfully manage legacy assets, they must develop the appropriate capacity, expertise, and infrastructure while considering the unique characteristics and challenges of these assets. A realistic timeline for this transition depends on the starting point of each pool and the resources available. It is already expected that pools have investment expertise, however, they would need to demonstrate:

- Deep knowledge of the specific asset classes, structures, and risks within legacy portfolios, including illiquid assets like private equity, infrastructure, and real estate, specialised mandates such as impact investments or bespoke equity strategies.
- Capability to manage transition risks, especially for complex or illiquid holdings.
- Expertise in evaluating and managing legacy external investment managers or transitioning those mandates to pool-level managers.

Pools would also need to develop their technical capacity to:

- Accommodate data transfer and integration from partner funds, ensuring accurate, timely information about legacy assets.

- Value and report on illiquid or hard-to-value assets with consistency and transparency.
- Introduce tools for monitoring and analysing legacy asset performance and risk exposure, ensuring alignment with pool-wide strategies.

A key requirement of the transfer of legacy assets to pools is legal expertise. In this respect Pools must demonstrate the ability to review and manage legacy contractual arrangements, including exit clauses, fee structures, and compliance requirements and ensure all actions related to managing legacy assets align with existing legal frameworks and fiduciary duties.

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?

Whilst The Fund acknowledges that the defined timeline creates a sense of urgency and ensures that all stakeholders remain focused on achieving the objectives of pooling, it has significant concerns. Some pools and administering authorities may require significant structural changes, such as adapting governance frameworks or adapting systems. The capacity to implement changes may vary across pools and administering authorities. In addition to these logistical concerns, achieving consensus among administering authorities within pools and ensuring all stakeholders understand and support the changes could be time-consuming. Furthermore, some pools will need to ensure compliance with new standards, which could involve developing or enhancing their capabilities.

The pace of transition is of significant concern to the Fund. Put simply, these proposals represent revolution rather than an orderly evolution to an already successful LGPS regime. Revolution driven by pace and scale has resulted in both macroeconomic financial inefficiency and lost performance.

It is of vital importance that government recognise the inherent complexities and costs of transferring the legacy investments of partner funds. Some of these investments are governed by long-term contractual agreements and therefore expose them to potentially significant financial penalties for amendments such as liquidation or transfer. The Fund believes that a phased approach may be more pragmatic, particularly in relation to private market investments such as property and infrastructure, allowing for legacy investments to “run-off” before transferring to the pool. The Fund also believes that during that phased approach, Partner Funds may collaborate with their pool, the latter operating in an oversight role effectively introducing pool stewardship.

Introducing a degree of flexibility to the March 2026 deadline would enhance the proposals by:

- Establishing a central oversight body or working group to monitor progress, address challenges, and ensure accountability across pools.
- Providing additional support to pools or administering authorities that may face challenges due to resource constraints or complexity of transition.

- Considering flexibility for pools facing unforeseen challenges, particularly in areas requiring extensive restructuring.
- Providing clear guidance and tools to help stakeholders understand their roles and responsibilities during the transition.
- Identifying areas where quick progress can be made (e.g., developing shared training programs) to demonstrate momentum and build confidence in the process.

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?

The Fund has always advocated the concept of inter-pool collaboration both from investment offering and governance perspectives. It firmly believes that presents significant opportunities to enhance efficiency, reduce costs, and leverage specialised expertise. Pools develop unique strengths and resources based on their membership, geographic focus, or strategic priorities. By sharing these specialisms and local expertise, pools can mutually benefit without duplicating efforts, leading to improved outcomes.

Pools with expertise in specific asset classes (e.g., infrastructure, private equity, renewable energy) can offer advisory or co-investment opportunities to others. They could collaborate on significant investment opportunities (e.g., large-scale infrastructure projects) that may be too substantial for a single pool to handle.

Collaboration could involve conducting peer reviews of governance frameworks and decision-making processes to identify areas for improvement and adopt best practices.

However, each pool operates independently, with its own governance structure and strategic priorities, which can make collaboration complex. It is important to avoid pools seeing each other as competitors, particularly when vying for the same investment opportunities or members. Some pools may lack the resources or expertise to participate fully in collaborative efforts, creating an imbalance whilst disparity in organisational culture and operational approaches can complicate joint efforts.

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?

Collaboration among partner funds within the same pool may offer opportunities to enhance efficiency, reduce costs, and improve outcomes in areas such as administration and training through the standardisation of administration systems and potentially the joint procurement of services leveraging collective bargaining power to negotiate better terms. Centralised training plans for officers, Board and Committee members on governance, investment principles, and emerging issues delivered through periodical workshops and online tools would ensure consistent knowledge levels across partner funds.

Possible extensions for a collaborative approach could be governance & oversight and technology. Partner funds could exchange knowledge and experiences to adopt best practices in governance to ensure consistency while reducing administrative burden. They could also invest in pooled technology solutions, such as performance analytics, risk management platforms, or member portals whilst exploring and implementing new technologies, such as artificial intelligence.

Whilst collaboration may result in economies of scale, consistency and enhanced capability, it is important to recognise that Partner Funds may have divergent priorities and differing capacities leading to potentially unequal contributions to shared projects, causing tension. There are also significant risks involved in sharing systems and data which raises privacy and security concerns.

Local Investment

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

Defining "local investment" appropriately for reporting purposes is crucial to ensure clarity, consistency, and meaningful comparisons across administering authorities. The primary basis for defining "local" is often geographic proximity such as administrative boundaries for example a local council area, regional boundaries such as a group of nearby authorities or a defined economic development zone. However, for smaller authorities such as Worcestershire County Council, "local" could extend to a broader national context if the investments benefit the fund's members across various locations. However, in addition to geography, investments that demonstrably contribute to the economic growth, infrastructure, or wellbeing of the local population, regardless of geographic location (e.g., investing in a renewable energy project supplying energy to the region) should be included in that definition. In addition, investments that align with the authority's stated responsible investment policies or community development goals merit inclusion within the concept of "local". It is therefore essential that there is flexibility to include investments physically located in or serving the immediate area as well as those outside the immediate area but providing significant benefits to the local population. Potential challenges in formulating a narrow definition could be that:

- Multiple administering authorities may claim the same investments as local, especially in pooled arrangements.
- Investment opportunities could be limited therefore impacting on returns.

Administering authorities should aim for a definition that aligns with their strategic objectives, community needs, and fiduciary duties, enabling transparent and meaningful reporting.

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?

Yes, but it is of paramount importance that Administering Authorities carefully manage the potential conflict between the required performance of an investment and other considerations, particularly politically driven ones. If that relationship can be navigated soundly, such partnerships could ensure that investments are strategically aligned with regional economic, social, and environmental objectives while meeting the fiduciary duties of the pension fund. Collaboration could help identify investments that not only deliver competitive returns but also contribute to local economic development, job creation, and infrastructure improvements. Regional bodies can provide valuable insights into local opportunities, risks, and long-term benefits that may not be immediately apparent to administering authorities. However, there are several challenges to this approach. Local projects may not always meet the required financial returns or risk tolerance. Engaging with multiple regional stakeholders can be complex and time-consuming preventing agile investing. Depending on both geography and macroeconomic factors, there may be limited availability of viable local projects. There are cost, value for money considerations to be taken into account.

Pools seeking to achieve this must:

- Establish clear communication channels to enable robust discussion and therefore adequate inclusion and engagement with local stakeholders.
- Align investment strategies with regional plans by incorporating objectives into their own investment policies.
- Develop tailored investment products specifically targeted at regional opportunities. It should be noted that origination requires a specific skill set and can be a significantly difficult and time-consuming process and therefore pools will need to ensure that they have the capacity and capability to deliver those services.
- Provide transparent reporting on the outcomes of local investments, including financial performance and local impact metrics, to demonstrate alignment with growth priorities.

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, Administering Authorities should explicitly set out their objectives on local investment in their ISS. Doing so ensures transparency, accountability, and alignment with both financial and non-financial objectives. It also provides a clear framework for decision-making and facilitates the monitoring and reporting of local investment outcomes. However, the inclusion of a target range must not fetter future investment decision-making and must not impose the potential operational burden of periodical re-balancing of portfolios required to remain within that range. The availability of suitable local investments may vary by region. Issues concerning the balancing of financial returns with local impact and concerns about quantifying the social and economic benefits of local investments could all impact on the ability to stay within a target range.

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?

There are several considerations here. First, there must be careful consideration of the potential conflict of interest between being responsible for carrying out the investment due diligence of a potential investment and, if approved, managing that investment. At the Fund, due diligence is administered by a combination of officers, an Independent Advisor and an external legal team. The management of investments is carried out by Fund officers in collaboration with the fund manager and/or the pool where appropriate. Pressure to prioritise local projects could lead to suboptimal investment decisions. There is a danger of the pool “marking its own homework” in this respect.

Notwithstanding the lack of separation of duties, the eventual definition of “local” may have an impact on the due diligence and management of local investment opportunities. The proposal to require administering authorities to work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities, above, seeks to leverage the “local” expertise and relationships that they have with those bodies. Unless the definition of “local” is very broad, that benefit would be diminished or extinguished. Due diligence for local investments often involves assessing unique risks and opportunities, such as regional economic conditions, project-specific challenges, or stakeholder alignment. Dedicated expertise ensures these factors are evaluated thoroughly.

To date, pools have fared better, both in public and private markets, in developing investment products with a global rather than regional or more localised basis. Local projects may carry unique risks or lower returns compared to global opportunities. Consequently, it could be argued that the capability to assess such opportunities already exists with the Administrative Authority. Developing pool expertise for due diligence in this respect may be costly.

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?

Yes, Administering Authorities should report on their local investments and their impact in their annual reports. Such reporting ensures transparency, accountability, and alignment with the broader objectives of public sector governance, including fostering economic and social development within their regions. It also demonstrates the tangible benefits that pension investments bring to local communities. The Fund is extremely proud to report that approx. 32% of its net assets at 31 March 2024 were invested in UK investments and has included that information in its FY 2023/24 Annual Report. Such reporting should include:

- A breakdown of the portfolio categorised by asset class, geography.
- Financial performance of “local” investments vs non-local allocations.

- A summary of the economic impact of local investments on the regional economy such as job creation, infrastructure development and support of local businesses.
- A summary of the social impact of local investments, such as community development projects and public services.
- A summary of the environmental impact such as biodiversity achievements.

It is important that disclosures demonstrate how local investments align with the authority's responsible investment policy and. The Fund seeks to invest in the UK and more locally provided that it can uphold its fiduciary duty to achieve the best investment outcomes for its pensioners. It is therefore important to demonstrate that local investments deserve their place within a portfolio based on investment performance.

Governance of Funds and Pools

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

Yes, WPF agree with the overall approach to governance and building on SAB's Good Governance recommendations, WPF has been actively using, and implementing, the Good Governance recommendations, and includes progress against the recommendations as part of Governance updates to both the Local Pension Board and Pension Committee.

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, for some time now, WPF has embraced the importance of ensuring that both Pension Board, Pension Committee and Pensions Investments Sub-Committee receive and undertake appropriate training to ensure the effective discharge of their duties. The Fund has a [Governance Policy Statement](#) which includes the Governance Compliance statement. The Fund also produces and maintains a [Training Policy & Programme Strategy](#) and a published [Policy on Conflicts of Interest](#). All documents are annually reviewed, approved by the Pensions Committee and published on the Fund website. The creation of a combined governance and training strategy, by incorporating elements of the documents in existence, would be welcomed.

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

Yes, WPF established the role of Senior LGPS Officer within its governance structure some time ago. The postholder is a key member of the WPF pension fund team and regularly attends Board and Committee meetings. The inclusion of the Senior Officer within WPF follows the recommendations set out within the Good Governance project.

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

Yes, for some time now, WPF has already embraced the importance of constructing and publishing an administration strategy. The Fund's [Pension Administration Strategy](#) is published on its [website](#). The Pensions Administration strategy is issued to relevant stakeholders for consultation on before approval is sought at Pensions Committee annually.

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, WPF operate in a transparent way in which we publish, review and maintain our strategies in relation to governance and training, funding, administration and investments. Based on information currently provided, the fund agrees with the proposals put forward.

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

WPF welcomes the introduction of a periodical independent governance review including the right for MHCLG to reserve the right to commission a review of the Fund should it feel necessary. However, the Fund strongly believes that such reviews should be conducted on a triennial basis, coinciding with the existing triennial valuation processes followed by LGPS funds. That would avoid unnecessary additional administrative and financial burden.

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

Yes, for some time now, WPF has embraced the importance of ensuring that both Pension Board, Pension Committee and Pensions Investments Sub-Committee receive and undertake appropriate training to ensure the effective discharge of their duties. The Fund's [Training Policy & Program Strategy](#) is published on its website. However, the Fund does not believe that a "one size fits all" approach would be suitable. Training requirements must be tailored appropriately based upon factors such as the number of members and the turnover ratio of members in order to avoid unnecessary duplication of resources and ensure that delivery of training is efficiently aligned to need.

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, WPF already assesses the knowledge of its Board and Committee members and monitors the training undertaken and progress made on a quarterly basis, reporting to both Pension Board and Pensions Committee at each quarterly meeting.

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?

A good Independent Advisor (IA) can bring significant benefits to a Pensions Committee such as enhanced governance through objectivity, specialist expertise, greater member confidence and aligns with the Pensions Regulator's governance framework. WPF has always recognised the importance an IA who truly understands its investment beliefs and its approach to investment and risk strategy. The Fund believes that this is best achieved through a commercial contractual approach rather than appointment to its Pensions Committee. This has been achieved without administrative or financial burden. The Fund has always been careful to balance the risk of over-reliance on its IA and monitor potential for misalignment of investment philosophies which it considers are potential outcomes of a mandated appointment.

The Fund is currently unclear as to how an Administering Authority would address circumstances where there is a conflict between advice received from its IA and that received from the pool. It is essential to formulate a prescriptive mechanism in advance of the establishment of these proposals.

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

The inclusion of shareholder representatives on pool company boards can be a sound governance practice, as it aligns with principles of accountability, transparency, and representation. However, the appropriateness of this approach depends on the specific context and objectives of the pool company. They might prioritise the interests of their specific authority over the collective goals of the pool, creating tension or conflict within the board. Shareholder representatives may inadvertently blur the lines between the board's operational focus and shareholder oversight roles, complicating governance. A possible solution to mitigate these concerns could be to implement a system where representatives rotate among shareholders, ensuring broader representation over time while limiting individual authorities' dominance. An alternative would be to consider establishing an advisory committee composed of shareholder representatives to inform and guide board decisions.

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

Members are the ultimate stakeholders in pension schemes, so their interests must be at the forefront of decision-making. Possible solutions to ensure prominence could be to:

- Establish dedicated member advisory committees comprising of scheme members or their representatives. These committees can provide input on key decisions, ensuring the pool's actions align with member priorities.
- Create transparent communication channels through regular reporting, periodical forums such as town hall meetings and obtain regular feedback through digital platforms.
- Embed members' interests in pool strategy through explicit inclusion in key pool strategic and operational documentation.
- Appoint an independent member ombudsman to review and address member concerns related to the pool's operations whilst conducting periodic external independent reviews of the pool's performance, governance, and alignment with member interests.

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?

Consistent and transparent reporting by pools is essential. It enhances trust, enables stakeholders to assess performance effectively, and ensures accountability. Clear reporting also helps to demonstrate the value of pooling, particularly regarding cost savings and investment outcomes. It is important that Administering Authorities have a significant role in designing the reporting environment to ensure that both the mechanisms and the content are appropriate to enhance the knowledge and understanding of its members.

Key metrics to include could be:

- Financial performance, including net returns, performance vs benchmark and risk-adjusted performance. It should be noted that members' approaches to benchmarking can be varied in practice and therefore applying appropriate benchmarking may not be a straightforward process. The Fund, along with its other seven counterparts, is currently negotiating the establishment of a benchmarking framework at pool level. It regards this as a key component of the collaboration between Administering Authorities and their pools.
- Costs and savings, including investment management costs, transaction costs and administration expenses. It would be helpful to illustrate with a comparison with pre-pooling costs and savings achieved to demonstrate value for money.
- Portfolio metrics such as asset allocation, liquidity profile and ESG related allocations.

- Risk management metrics such as portfolio volatility and compliance with investment guidelines and regulatory requirements.
- ESG metrics such as carbon footprint, Paris alignment, impact investment reporting and details of voting activity
- Governance metrics such as Board & Committee activities and compliance with both internal and external audits.
- Member engagement metrics such as feedback survey results.

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 Fund does not consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged directly by any of the proposals.

List of Consultation Proposals

LGPS Pooling

Proposal 1: Requirement on AAs to fully delegate the implementation of their investment strategy to their pool.

Proposal 2: Requirement on AAs to take their principal investment advice from the pool.

Proposal 3: Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

Proposal 4: Requirement for AAs to transfer legacy assets to the management of their pool.

Local Investment

Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.

Proposal 6: Requirement on AAs to work with CAs, MCAs, CCAs, and local authorities in other areas to identify suitable local investment opportunities.

Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.

Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

Governance of Funds and Pools

Proposal 9: Requirement to prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy.

Proposal 10: Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.

Proposal 11: Requirement to prepare and publish an administration strategy.

Proposal 12: Changes to the way in which strategies on governance and training, funding, administration and investments are published.

Proposal 13: Requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

Proposal 14: Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

Proposal 15: Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.

Proposal 16: Requirement for pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

Proposal 17: Requirement for boards to include one or two representatives of shareholder AAs, such as the chair of the shareholder committee or equivalent.

Proposal 18: Requirement for pools to publish asset performance and transaction costs.

Worcestershire County Council Pension Fund

The Worcestershire County Council Pension Fund administers the Worcestershire Pension Fund LGPS, managing approx. £4.0 billion in assets across 200 employers and serving approximately 69,000 members.

The Fund's top priority is ensuring that pensions are paid on time, supported by a robust investment strategy to meet liabilities and enhance long-term sustainability. Key governance for the fund includes the Pensions Committee and its Pension Investment Sub-Committee, which oversee investment strategies and the performance of fund managers. Members of these committees undergo regular training to stay informed on financial and regulatory matters.

The Fund's Pension Board Chairman, Councillor Roger Philips, is also Chair of the Scheme Advisory Board. Consequently, the Fund is constantly focussed on the importance of governance and stewardship and has successfully maintained its annual signatory status to the FRC's UK Stewardship Code 2020 for the last three years.

Both the Committee and Investment Sub-Committee are chaired by very skilled elected Councillors, with significant investment experience and the Fund engages an Independent Advisor at insignificant cost, to provide investment and governance support to officers and members.

The Fund has invested approx. a third of its portfolio in the UK with a significant commitment of £175m supporting the UK forestry, and therefore housebuilding, industry, an implementation that preceded current topical trend of discussions concerning "natural capital".

Where investment credentials are sound, The Fund has always been supportive of impact investing and already have non-pooled investments in social and affordable housing, energy from waste and biodiversity assets.