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|  |  | **Cambridgeshire**  Pension Fund |
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Dear Sir/Madam,

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

The Cambridgeshire Pension Fund welcomes the opportunity to respond to the Local Government Pension Scheme (England and Wales): Fit for the future consultation.

The Fund is a member of the ACCESS pool and has prepared this response alongside the Northamptonshire Pension Fund. Both funds have been managed and administered under a shared service partnership for over 12 years, with West Northamptonshire Council currently acting as a lead authority in partnership with Cambridgeshire County Council.

Fund officers are fully supporting the development of ACCESS’s plans to be submitted to Government by 1 March 2026 and we look forward to the evolution of the ACCESS pool.

We welcome the ongoing dialogue that has been held between ministers, civil servants, funds and pools on the subject of LGPS investments and governance during the pensions review and would wish this to continue as transition plans are finalised and progressed.

We set out below our responses to each question posed within the consultation. Whilst not agreeing to all the proposed changes, we understand the clear direction of travel Government has proposed to an FCA-regulated investment management company at the heart of the pool.

However, we have major reservations regarding the proposed advisory model set out in the consultation, with principal advice coming from the pool, as well as the proposed means by which investment strategy is conveyed to the pool. The deadline for transition to the proposed model is also tight, and unnecessarily so.

We would be happy to engage in further discussion over any of the points raised within this consultation response.

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

We agree with some aspects of the minimum standards of pooling set out in Paragraph 22 of the consultation. We accept that Government wishes pools to be established as investment management companies regulated by the FCA and are not adverse to such a requirement in principle; indeed ACCESS would have been established on such a basis if required at the inception of pooling.

We note that only 17% of respondents supported the mandating of a pooling approach in the earlier “Next steps on investments” consultation and that the current consultation does not evidence the success of different pooling models to date, including cost or performance analysis. A move to an FCA-regulated model or transition to another pool will incur costs for a fund and therefore scheme employers.

We have reservations around a number of the other minimum standards, including those relating to investment advice, transfer of legacy assets and due diligence on local investments. We expand on these points in our responses below.

## 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?

Providing administering authorities can adequately convey their investment requirements to the pool, we support implementation activity being delegated to the pool. We believe that administering authorities should retain the responsibility for setting investment objectives, investment beliefs and strategic asset allocation. We believe the current proposals are inconsistent with this aim and that administering authorities will need to provide more detailed information to the pool (see answers to questions 3 and 4 below).

Implementation can carry a significant cost for a fund, especially when transitioning assets – a consultative approach would be welcomed and administering authorities will need oversight of such arrangements to ensure they have been undertaken in a cost effective manner.

## Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?

When combined with the proposed template we do not believe the proposals enable an administering authority to be sure that its investment strategy is targeting an appropriate risk-adjusted return, and therefore meet its fiduciary duty. The administering authority will remain accountable for the fund but will not have the means of controlling outcomes.

An administering authority will have published investment objectives, including relating to responsible investment. Factors that may be relevant to investment strategy include:

* desired allocation to passive versus active management;
* cashflow/liquidity requirements;
* position regarding management of climate risk;
* investment exclusions; and
* attitude to sub-asset classes that may carry reputational risk.

Fiduciary duty is a critical consideration for the quasi-trustees involved in the governance of LGPS funds. We would suggest Government should seek King’s Counsel opinion on this matter, thus ensuring what it is proposing still enables quasi-trustees to comply with the responsibilities associated with their role.

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

The proposed template is too simplistic and doesn’t reflect the finer details that are key to ensuring the fund will be targeting an appropriate risk-adjusted return whilst taking account of its own investment objectives and beliefs. There may be sub-asset classes that are un-palatable to certain administering authorities and therefore we suggest broad categories such as “other alternatives” are not desirable. It is also unclear as to how a fund’s requirement for local investment would be met through the template as local investment is not an asset class in itself. We also believe any template would need to allow for passive versus active allocations.

As the relationship between each fund and its pool is critical, it would be more appropriate for a detailed conversation to take place between the parties over investment objectives, beliefs, local investment, and strategic asset allocation. The format of any template should be determined at a pool level and does not need to be prescribed by Government.

## 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?

We can see that consistent advice being received by administering authorities within a pool could enable a pool to operate more effectively with greater alignment of investment strategies across funds. However, we would be extremely concerned about the potential conflicts of interest that would arise from the pool providing this advice and do not support the proposal. We note the majority of respondents to the earlier “Next steps in investment” consultation did not support pools advising funds on investment strategy.

There is a clear conflict of interest where the pool is responsible for selection of investment managers, in-house management and full implementation whilst also advising funds. Administering authorities would need to still take local advice to challenge that provided by the pool and there would need to be rigorous oversight of the effectiveness of pool operations. Individual independent advisors may not have the research capabilities behind them to challenge pool advice in the manner set out within the proposals, and there may not be enough independent advisors in the sector, especially bearing in mind the wider non-investment expectations of these advisors (see response to question 26). As a result there is a danger that the Government’s proposals will lead to even greater duplication of advice as the ability for pool advice to be challenged by independent advisors may be more limited than envisaged by Government.

If advice is to be provided by the pool, that could be through a contractual relationship with a third-party adviser resulting in all administering authorities within a pool receiving advice from the same independent advisory firm, potentially at a lower cost than through existing contractual relationships as there will still be appropriate competitive tension, which the proposal lacks.

It is not clear what actions administering authorities can take is they are dissatisfied with the advice/service they are receiving from their pool.

## 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?

As stated in our response to question 1, whilst we believe a lack of evidence has been presented that this proposal will provide better outcomes for stakeholders, we recognise that an FCA-regulated investment management company is the clear direction of travel preferred by Government. The aggressive timescale proposed means it is difficult for our pool to undertake appropriate due diligence on the build/merge/client options before submitting plans by 1 March 2025, and the March 2026 deadline is equally tight. Staff may move between funds and the pool which may be destabilising to funds.

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

We have already transferred all listed assets to the pool and therefore support this proposal.

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

We are not in favour of this blanket proposal for all legacy assets. The proposal would work for more traditional legacy assets providing the fund has assurance that there is the capacity and skills to manage these assets from the date of transfer. However, some funds have more esoteric assets where specialist knowledge may rest with fund officers e.g. the Cambridgeshire Fund’s ownership of a bank requiring decisions of shareholders on reserved matters and specialist knowledge to inform those decisions. The timing of exit from certain investments may be a decision more suited to management by the fund, including the determination of an acceptable exit price.

## Question 9: 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?

Additional resource would be required to manage a wide variety of legacy assets. We would expect the pool response to cover this question, but recognise that pool resource would need to increase materially irrespective of its existing internal capabilities, as hundreds of additional legacy assets may need to be managed by each pool.

We would not be able to transfer legacy assets to the pool until it has the capability to manage these assets to the required standards.

## 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 timescale is extremely tight for those pools that are currently not FCA-regulated but has been helped by the regular dialogue between ministers, civil servants, funds and pools. We would expect a Day One solution compliant with the minimum standards set out within the proposals, with further evolution of pool capabilities over time.

The timeline does not factor in the fact that Government needs to respond to this consultation and therefore the target model may in theory change. There is also the process by which Government needs to review each pool’s evolution plans and respond to the submission.

Ongoing dialogue between Government and the pool will be critical and we would expect some latitude where a pool’s plans are progressing at an appropriate pace. Indeed, we would recommend that the target should be to demonstrate that progress is being made for any company set up to be regulated by 31 March 2026, thus evidencing commitment but enabling appropriate time and diligence for such an undertaking.

Should a pool not pursue a build/evolve proposal then there may be fragmentation of the funds within that pool. There may be a lengthy governance pathway for an administering authority to then undertake due diligence and agree a new pool to join – this will not impact any pool’s timeline, but may impact an administering authority’s plans with regards to the proposals within this consultation.

Any large-scale merger or consolidation activity may detract from even a currently FCA-regulated pool meeting Government’s March 2026 deadline.

## 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?

We would support collaboration between pools where that enables funds to invest in less accessible, more specialist asset classes e.g. UK infrastructure. We believe this should be accessed through a fund’s own pool, although careful consideration is required to avoid duplicate layers of fees.

We do not think there have been explicit barriers to collaboration to date; pools have been subject to a significant change agenda with timelines that first targeted listed equity, as well as delivering partner funds’ most urgent priorities, including sustainable/lower carbon/impact investment options.

## 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?

The Cambridgeshire Pension Fund and Northamptonshire Pension Fund have been managed and administered under a shared service partnership for over 12 years. It is important that such operations remain appropriately sized, particularly in light of the need to maintain strong relationships with the hundreds of scheme employers in each LGPS fund. We are aware of numerous other collaborative arrangements and would expect further collaborations over time. Wider collaboration across ACCESS partners is achieved through regular non-pooling related practitioner discussions. Administering authorities already use training platforms such as the LGPS Online Learning Academy (LOLA), supplied by Hymans Robertson, for efficient, effective and consistent training.

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

We are happy with a definition of local investment that includes anything within the geographical footprint of ACCESS, and such a footprint will enable risk and diversification to be better managed. However, funds on the borders of the ACCESS region may have other regional alliances that would reasonably be classed as local to them. Indeed, where combined authorities/mayoral boundaries encompass more than one pool region, local investment may span pool boundaries. For example, West Northamptonshire is considering whether to support proposals for a strategic mayoral authority with Bedford, Central Bedfordshire, Luton, Milton Keynes and North Northamptonshire, with only North Northamptonshire in the ACCESS footprint.

The definition of local investment should therefore not be too prescriptive, particularly as the definition of “local” to date may have been to include the whole of the UK, and long-term investment decisions have been made accordingly. We would suggest each administering authority therefore defines what it considers local for the benefit of any 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?

We are happy to work with such bodies to identify local investment opportunities and to undertake an initial assessment as to whether they should be passed to the pool to undertake due diligence. However, we do not believe formally ***having regard*** to local growth plans and local growth priorities is an appropriate consideration for an administering authority in setting its investment strategy. These plans and priorities are simply a mechanism by which administering authorities will be able to identify investible opportunities and of which they should have an awareness.

Following discussions with civil servants, we understand the intention is for Government to not prescribe the practicalities of the relationship between funds and their pool with regards to local investment, and support this stance. However, there are numerous matters that will need to be carefully considered and agreed between administering authorities and a pool to ensure the right opportunities are fed into the pool from across a given region, and funds receive an appropriately diversified mix of this local investment opportunity set.

For example, the following considerations may apply:

* some administering authorities may have difficulty in recruiting and retaining appropriately skilled staff to undertake an initial assessment of local investment opportunities;
* what form an initial fund-level initial assessment takes;
* how the pool decides how each opportunity is allocated to funds within the pool and the prioritisation that applies for each opportunity;
* how a fund can articulate to the pool sub-asset classes that it does not wish to invest in;
* administering authorities are effectively gatekeepers for local investment opportunities within their area – how does an opportunity reach the pool where it is unattractive to the administering authority that receives it but potentially of interest to other funds within the pool.

We believe that it is key that pools and funds work with combined authorities (and similar bodies) to increase their skills and awareness of opportunities, as well as how to structure proposals to attract inward investment from all sources.

## 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?

We have no objection to administering authorities needing to set out their objectives on local investment, including a target range, in their investment strategy statement. Criteria will need to be set at a pool level for each local investment and progress against these criteria monitored. As indicated in our response to question 4, administering authorities will need to be able to clearly communicate their local investment requirements to the pool in connection with their strategic asset allocation. This could be, for example, the percentage of each asset class that we wish to be local e.g. x% of private equity. We recognise that even an appropriately diversified local investment may include opportunities that are UK wide e.g. a private equity fund primarily focussed on a specific region will include opportunities from other areas of the UK.

## 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?

We believe that pools will ultimately have the scale and resources to undertake due diligence on local investment opportunities, and that such activity better sits with the pool. However, Government are proposing a significant change agenda for pools and this may have the unintended consequence of hindering the pace of local investment in the short-term due to competing resource pressures. Furthermore, investment in certain asset classes may be less viable through pooling due to the required ticket sizes being too great. It would need to be determined how due diligence is fairly funded where funds have varying local investment requirements, including target % and interest in different types of opportunity.

## 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?

We believe that if there is a requirement to set local investment objectives and a target %, there should also be a requirement to report on the local investments, including allocation and performance. As indicated in our response to question 13, we believe it should be up to each administering authority to define what is local means to them, and would suggest they report on this alongside their allocation to relevant UK investments (noting that certain investments may have a UK and regional sleeve).

Reporting on impact is less well developed. A range of metrics would need to be agreed, which may vary by investment type and, for example, within a UK private equity fund, from company to company. We would expect the asset pools to deliver appropriate reporting for any investments under pool management to enable administering authorities to fulfil their reporting obligations in this area.

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

We support the Government in taking forward the Good Governance proposals and have been awaiting developments in this area for a number of years. We respond on the individual proposals in our answers below, but would welcome the opportunity to provide feedback on further guidance once it has been developed in draft form.

## 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?

We agree that administering authority should have policies in these areas in place, but do not see that they all naturally sit in a single document, which may make them less practical to manage and less accessible to stakeholders.

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

We support the appointment of a senior LGPS officer. We do not support the requirement that such an officer should be involved in the local authority’s budget-setting process as this is unlikely to be the case for senior officers primarily dedicated to LGPS funds. Senior LGPS officers should instead be involved in the budget-setting process for the fund, thus ensuring it has adequate resources to deliver its business plan. There should be flexibility in any regulation or guidance for an individual to be a senior LGPS officer to multiple LGPS funds.

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

We support this proposal and have had an administration strategy in place for many years. We would expect any guidance to be consistent with established best practice in this area.

## 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?

We support these proposals.

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

We support the proposal in principal to have an independent governance review, but would question why this aspect of fund health needs to be every two year instead of triennial, particularly if there is an ability for MHCLG to commission an earlier review where needed.

A less frequent independent review would also ease the resourcing burden for those carrying out the reviews; resourcing also means that the reviews would need to occur throughout the scheme year and not be tied to a single fixed date for all funds. We are not sure whether the best way to achieve the desired outcome is through using “independent experts in the field” bearing in mind the resourcing issues this will create; the most important aspect is that the reviews are undertaken in a consistent manner and to a high standard. There is little detail in the consultation and we would welcome guidance in this area.

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

We support this proposal.

## 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?

We support this proposal.

## 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?

Having had an independent investment adviser for many years, we are generally supportive of such a requirement. However, the proposals appear to be for an adviser that is broader in scope, encompassing investment strategy, governance and administration. Such a skill set is rare, and the majority of current independent advisers tend to be appointed to provide independent investment advice. As mentioned above, should principal investment advice be provided by the pool, with potential conflicts of interest, it is questionable whether an individual adviser would have the capacity to fully support the fund in challenging that advice e.g. due to the varying research capabilities between a large asset pool and an individual.

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

We support the requirement for pool company boards to include one or two shareholder representatives. We would expect a pool such as ACCESS, with its eleven partner authorities, to have two representatives, to help represent the range of shareholder views and provide resilience.

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

ACCESS has facilitated strong member engagement by allowing scheme member representatives from each local pension board to observe Joint Committee meetings. 6 observers have been able to attend each meeting on a rotational basis across partner funds. The nature of the governance structure of any evolved ACCESS pool is still under development, but should enable an appropriate degree of member participation in the relevant aspect of its governance structure.

## 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?

We would support pools reporting consistently and with greater transparency on performance and costs. However, this should not be to the detriment of reporting that pools should provide to funds to enable them to meet their own reporting requirements, both statutory (e.g. scheme annual report) and voluntary (e.g. Stewardship Code and TCFD). We would also support pools being required to undertake regular client satisfaction surveys/temperature checks and report the outcome to their clients.

**Chapter 5: Equality impacts**

## 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.

We do not believe there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals.

Yours Faithfully,

Mark Whitby FPMI, CIPFA

Head of Pensions