



**DWP/HMT Policy Teams**

5 September 2023

**RE: Pension trustee skills, capability and culture: a call for evidence**

I am pleased to enclose our response to the joint HMT/DWP call for evidence on pension trustee skills, capability and culture.

Border to Coast Pensions Partnership was established in 2018 to pool the investments of 11 like-minded Local Government Pension Scheme (LGPS) funds – our ‘Partner Funds’. With c.£60bn of assets, collectively they represent more than 1.1 million LGPS members, over 2,800 employers, and the millions of taxpayers associated with our Partner Funds.

We note that this call of evidence is one of a number of consultations addressing the pensions sector following the Chancellor’s Mansion House speech in July and that they explore common themes around governance, the role of advice and investment in illiquid assets.

While there are LGPS-specific considerations in relation to these issues, which we will address in detail in our response to DLUHC’s *LGPS: Next steps on investments* consultation, there are points we would wish to make that have sector-wide application.

- Governance that supports the right people with the right level of knowledge at the right time is essential to delivering the best outcomes.
- External advice can provide additional resource and insight that helps trustees navigate an increasingly complex investment environment but must be tailored to specific schemes and subject to robust challenge.
- Investment decisions are, and should be, made to meet strategic objectives in line with fiduciary duty. Policy levers available to Government are the most effective way to encourage long-term UK investment.

We expand on these points in our submission below and we would also like to draw your attention to the response to this call for evidence you have received from the Investment Association.

Yours sincerely

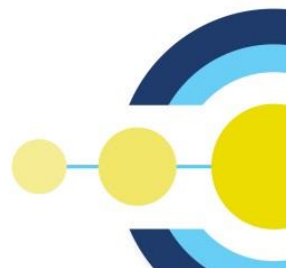
Rachel Elwell

**Chief Executive Officer**

**Border to Coast Pensions Partnership Limited**

A Company limited by shares and registered in England and Wales with Registration Number **10795539** and whose registered office is at **5<sup>th</sup> Floor Toronto Square, Toronto Street, Leeds, LS1 2HJ**

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## Submission

1. Border to Coast Pensions Partnership was established in 2018 to pool the investments of 11 like-minded Local Government Pension Scheme (LGPS) funds – our ‘Partner Funds’. With c.£60bn of assets, collectively they represent more than 1.1 million LGPS members, over 2,800 employers, and the millions of taxpayers associated with our Partner Funds.
2. Trustees, or their equivalents, are accountable for ensuring pensions schemes are well run and that the money, to pay savers’ benefits, is appropriately invested. Good governance is essential in their work, where the four pillars of accountability, transparency, fairness and responsibility are appropriately balanced. Quite simply, decisions need to be made by the right people, with the right level of knowledge, at the right time, to deliver the best outcomes for pension scheme members. As such we welcome the opportunity to respond to this consultation.
3. In the Local Government Pension Scheme (LGPS), the role of a trustee is performed by elected Pension Committee members, and their role and responsibilities are overseen by the Department for Levelling Up, Housing and Communities (DLUHC). This department is currently consulting on ‘LGPS: Next Steps on investments’; there is a common theme explored by both consultations on skills and training (particularly understanding across the breadth of investment opportunities) and the role of advice. Given the potential read across of the two systems, we wanted to provide some high level comments on this consultation.

## The local government context

4. The LGPS is a public service pension scheme, and its rules are made with the approval of Parliament. The Scheme is administered locally by 86 ‘Administering Authorities’ (pension funds). These pension funds are managed through Pension Committees comprised of elected councillors, supported by Officers. Local Pension Boards help each pension fund administer the LGPS and comply with the Scheme rules.

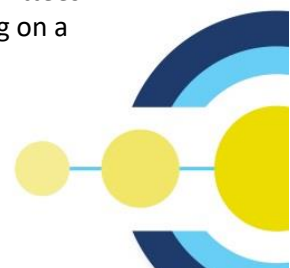
## Chapter 1: Trustee skills and capability

5. The role of a Trustee Board or Pension Committee includes the review and approval of the investment strategy of their Pension Fund, and to provide oversight and scrutiny on how effectively this is being executed.
6. To be effective in this role a committee should consider the appropriate delegation of those investment functions which are not central to the setting of strategy to Officers with sufficient experience and knowledge to support their Committee. In turn, Officers (and Committees) should receive support and advice from investment experts.
7. For Pension Committees a key component of a well governed system is an effective training approach, which reflects their responsibilities, whether decision-making or oversight of delegated matters. This should be reported against as part of the clear delegation of functions between Committee and Officers. This is something our Partner Funds manage in a structured way.
8. We recognise the difference in the current training requirements between Pension Committees and Local Pension Boards. We consider that it is appropriate that the condition for sitting on a

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Pension Committee should match that of membership of a Local Pension Board (which is structured through The Pension Regulator).

9. The Government's proposals in relation to the interaction of pools and funds, and the training of pension committee members, should be addressed as part of a holistic response to the Good Governance Project report completed by the Scheme Advisory Board to ensure changes take place within a framework focused on delivering the best outcomes for LGPS members. It is essential that the Good Governance Project is finalised and progressed as soon as possible.

## **Chapter 2: The role of advice**

10. Advice has an important role to play in providing additional capacity and independent or specialist insight given the increasingly complex investment and regulatory environment in which pension schemes operate and the range of strategies and products available to meet investment objectives.
11. It is important the requirement to take advice does not translate into a power imbalance between advisors and decision-makers. It is not the role of trustees to be investment experts, but they should be sufficiently trained and supported to ensure the relationship between advisors and decision-makers is appropriately balanced and advice is subject to robust challenge.
12. In the pooling context, the DLUHC consultation outlines the potential to revise pooling guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
13. There remains a role for independent advisors who can play a key role in supporting the Committee in their responsibilities in setting strategy and the oversight and scrutiny of the implementation of investment strategy by the pool.
14. Noting the Investment Association's representations on the regulatory environment around advice provided by consultants, it is important that advice is appropriately tailored to the specifics of each scheme. In terms of the LGPS and pooling, we have seen greatest success when there is a positive presumption towards pooling. In this situation, Partner Fund advisors consider the benefits that come from pooling (in both investment outcomes and reduced ongoing governance / advisory / reporting costs). We believe, therefore, that decision-making should consider implementation advice alongside model-based investment strategy advice.

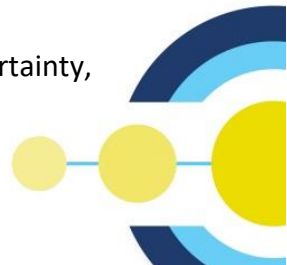
## **Chapter 3: Barriers to trustee effectiveness**

15. The consultation raises the issue of developing appropriate long term investment strategies.
16. Administering Authorities remain responsible for investment strategy. As open DB pension schemes, it is essential that they develop appropriate diverse investment strategies designed to balance risk and return to ensure the LGPS remains affordable, with stable employer contributions.
17. As part of this approach, private markets can play an important role. The creation of Border to Coast has significantly enhanced Partner Funds ability to access this asset class – and this has led to a £12bn programme to date (c. 20% of Partner Funds' total assets).
18. The most effective way for Government to encourage increased UK investment is through the provision of a stable investing environment underpinned by policy certainty,

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appropriate guarantees commensurate with long-term capital investments and a planning regime that supports positive and timely decision-making.

**Other issues**

19. For the reasons set out above we ask the Government to continue to recognise the important differences in the operation and regulation of the LGPS and private DB and DC schemes, and to be cautious about applying uniform reforms across the board. The Good Governance Project report completed by the LGPS Scheme Advisory Board provides a good framework to address governance reform in the LGPS, including around training.

