



Minister of State
LGpensions@levellingup.gov.uk

15 July 2024

Dear Minister

Efficiencies in the LGPS

Please accept our congratulations on your appointment.

We are writing on behalf of our partnership, constituted of 11 Local Government Pension Schemes (LGPS) Administering Authorities ('Partner Funds'). We are responsible for over £64bn of investments on behalf of over 1.1 million members, employed at over 2,800 participating employers.

As I am sure your officials will have advised, your predecessor wrote to LGPS Funds on 15 May 2024. We shared his vision of ensuring the LGPS has a strong and resilient framework in which we can continue to deliver the pensions of our members in a cost effective and sustainable manner.

While each Partner Fund will respond individually, we thought it might be helpful to outline our collective thoughts on three areas which we know are of particular interest to you. We would be happy to engage further on the points raised in this letter.

Completing the pooling journey

Since 2015 the policy intent on pooling has been clear: to develop pools to drive down investment costs and to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy. We have delivered against this policy intent. In total, we have pooled over 80% of investments with clear plans to increase this in the years to come. Border to Coast is now the largest asset manager outside London or Edinburgh.

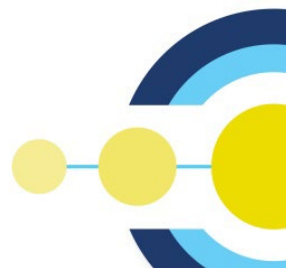
This has not occurred naturally or easily. It has required commitment, dedication, and compromise across our partnership to achieve this. We also recognise this is an ongoing journey. Indeed, this year we refreshed our partnership principles which guide how we work together (attached) and this reflects the common commitment of each Fund as equal shareholders. This guides how we work and hold each other to account. But, while working with a common vision, it is the heterogeneity of views from 11 sovereign Funds that has contributed to our success – debate and diversity delivers improved decision making. In the spirit of partnership, we recognise that progress on pooling can most quickly be delivered when there is a presumption to pool – and all parties (whether the pool, Funds, or external parties such as consultants) work on this basis.

Part of our journey is ensuring decisions are made at the appropriate place. It is recognised that 80-90% of investment returns can be attributed to asset allocation. As such, our Funds focus their energies on areas of Strategic Asset Allocation with investment implementation being delivered through Border to Coast.

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 **5th Floor Toronto Square, Toronto Street, Leeds, LS1 2HJ**

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Ensuring the sustainability of the Funds

It is our belief that individual funds should have the capacity and resilience to deliver their role in an effective and efficient manner. The LGPS delivers significant value – the typical member is a 47-year-old woman earning c.£18k a year. It's also incredibly efficient – it costs around half that of the unfunded public sector DB schemes¹ and lifts many recipients out of scope for means-tested benefits. And it delivers each £1 of retirement income 50% cheaper than DC schemes². We are therefore mindful on what we can do to ensure its long-term good health. It is our belief that good governance is the most effective solution to achieving this.

We regularly review our individual and collective governance arrangements to ensure they remain optimal and seek to reflect the recommendations of the final Good Governance Report. We note the final draft of Good Governance provisions (Feb 2021, but never formally published) set out a mechanism for assessing individual funds on a range of factors through a biennial Independent Governance Review (IGR). The introduction of an IGR can enable the identification of poorly governed Funds. Indeed, these provisions could be enhanced (e.g. by including a requirement for a pooling transition plan, and assessment of its credibility / progress). Those Funds that fail to meet the high standards expected would be expected to find a solution (whether through enhanced Governance or, where this is likely to deliver improved outcomes, via Fund consolidation). That said, any potential change needs to be considered in detail against the potential for it creating additional management layers and thus diseconomies.

We recognise the benefit pooling is delivering for the collective capacity, capability, and resilience for our partnership. Whether it is providing more effective access to Private Markets, our role as active stewards, or meeting reporting requirements, pooling is strengthening our individual and collective sustainability.

Investing in the UK

While Border to Coast was established as a global investor, supporting UK based pension funds, we recognise the benefits of investing domestically. Indeed, our 11 Partner Funds have within them some of the most deprived areas in the UK. We therefore welcome the opportunity to make investments in the UK that have the potential to create growth; including creation of jobs, drive productivity, improve people's quality of life and better health and wellbeing outcomes – but this should only be delivered if there is no adverse impact on the delivery of pension fund objectives.

Whilst asset allocation is a decision for each Fund, of the c.£45bn of investments directly pooled, c.£10bn is currently invested in the UK, and we anticipate this will increase with the launch of our UK Real Estate fund, which has the potential to grow to over £4bn.

¹ The average employer rate for the LGPS is 21.1%; in the unfunded public sector DB schemes rates vary from 23.7% (NHS), 28.6% (Teachers), 36.2% (Fire), and 38.7% (Police).

² The report, "A Better Bang for the Buck 3.0: Post-Retirement Experience Drives Pension Cost Advantage," says a typical DB plan has a 49% cost advantage compared to a typical DC plan account, due to higher investment returns, optimally balanced investment portfolios, and longevity risk pooling.

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We are also driving innovation on how we can deliver investment in the UK. This year we launched an innovative £0.5bn 'UK Opportunities' strategy. It is designed to direct long-term high-quality investment into 'productive finance', investing in areas such as new-build housing, transport, energy and growth finance, supporting new building and development across the UK.

We would note that despite a desire to invest in the UK, any investment is dependent on there being suitable investment opportunities. As such, we believe that Government has a fundamental role in setting the right policy framework to deliver this. This may include public investment to "de-risk" otherwise non-viable projects, thereby enabling private sector investment. However, a more fundamental issue may be how Government can stimulate markets / investment in the UK – for example, stimulating demand for Green Hydrogen. The right policy avoids the need for public money. We would be happy to engage with you (and your officials) to discuss how this can be achieved.

A true partnership

While the pooling of investments has clearly delivered value, our partnership is more than this. The close relationship created through pooling has enabled us to discuss individual challenges, share best practice, and to work in partnership. The value this has delivered should not be underestimated.

We are happy to discuss any element of our response and look forward to working with the Government on how we can collectively deliver for the 6.1m members of the LGPS.

Your sincerely

Rachel Elwell

CEO, Border to Coast

Gary Fielding

Chair, Border to Coast Senior Officer Group

Chris Hitchen

Chair, Border to Coast

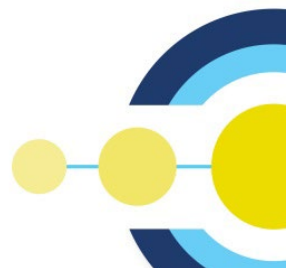
Cllr Doug McMurdo

Chair, Border to Coast Joint Committee

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OUR PARTNERSHIP PRINCIPLES

“As a group of equal partners, we commit our assets and collective efforts alongside Border to Coast to responsibly deliver better outcomes for our stakeholders.”

This will be achieved by all parties involved committing to the following:

1. Deliver central government’s objectives for pooling while seeking to create a future of our own that benefits scheme members and employers.
2. Work together openly as equal partners with a one-team ethos, focused on delivering mutual benefit.
3. Invest responsibly.
4. Respect the sovereignty of individual Partner Funds over strategic asset allocation and deliver effective oversight of the operation of the Company and the wider partnership.
5. Work collaboratively with each other and the Company to achieve the best possible sustainable risk adjusted returns and ensure payment of pension benefits as they fall due.
6. Improve resilience and capacity for partners both through the Company and through our own collective efforts to exploit opportunities to both improve efficiency and effectiveness and learn from each other, sharing good practice nationally and internationally.
7. Deliver investment choices for partners through maintaining and developing the Company’s capacity to manage money internally, through the procurement of external managers, or hybrid solutions.
8. Maintain a shared team with a common culture.
9. Use our collective voice to support both the achievement of our responsible investing goals and to advocate for the positive benefits of collaboration and pooling within the Local Government Pension Scheme.

