



## **Pension Schemes Bill: A response to the call for evidence by the Public Bill Committee from Border to Coast Pensions Partnership**

### **Contents**

About Border to Coast Pensions Partnership and the LGPS .....	1
1. Governance and scale in the LGPS system .....	2
2. Encouraging local investment .....	3
3. Proposed power to direct investment management activities of LGPS pools .....	3
4. Proposed powers on mandation of investment .....	4
5. Contact details .....	4

### **About Border to Coast Pensions Partnership and the LGPS**

Border to Coast Pensions Partnership is a Local Government Pension Scheme Pool constituted of 11 Local Government Pension Schemes (LGPS) Administering Authorities ('Partner Funds') which are responsible for over £65bn of investments on behalf of over 1.1 million members, employed at over 2,900 participating employers. A further seven LGPS funds, representing 900,000 members employed at 2,500 participating employers and with £45bn of investments, have indicated their intention to join Border to Coast from April 2026.

As a defined-benefit scheme, the benefits to members are guaranteed. Border to Coast's role is to provide cost-effective investment opportunities that deliver returns over the long-term and, in doing so, support the affordability and sustainability of the LGPS for local authorities, local taxpayers and employers. The LGPS is an important source of retirement income for lower paid public service workers. The typical member of the LGPS is a 47-year-old woman earning c. £18,000 a year. The average pension is £5,400 a year. It is our view that the regulatory system for the LGPS should build on the successes of recent reforms in the sector and continue to drive the scale, professionalism and investment capacity needed to ensure that the pensions of members are delivered cost-effectively and sustainably.

While making a difference for the LGPS is our primary purpose, we recognise the important role pensions investment plays in supporting UK economic growth which benefits LGPS members and employers. Border to Coast currently has £12bn invested in the UK. Our investments range from supporting significant UK public companies creating thousands of jobs to helping young firms with the capital they need to grow. We invest in corporate bonds helping to reduce the cost of capital for UK businesses, and invest in major infrastructure projects such as wind farms and electric vehicle charging networks. We invest across public and private markets, supporting life sciences, transport, affordable housing, and care homes, among many others. The Bill is an opportunity to provide a framework supporting further LGPS investment in the UK.

#### **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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We welcome the opportunity to provide evidence to the Committee on the Pension Schemes Bill in respect of its provisions relating to the LGPS and the wider ecosystem in which we operate on behalf of Partner Funds.

### **Summary: The Pension Schemes Bill and the LGPS**

- 1.1. The Pension Schemes Bill makes a number of significant changes to the way in which the LGPS system operates, building on the Government's proposals in its recent consultation *Local Government Pensions Scheme: Fit for the Future*.
- 1.2. These include powers for the Government to require the merger of LGPS pools; changes to pool and scheme governance; and requirements around how assets in pools should be managed.
- 1.3. Border to Coast is of the view that there is much to commend in the Bill. In particular, provisions in Part 1, Chapter 1, Clause 1; and Part 1, Chapter 1, Clause 4; to ensure that pools have the scale and investment capacity required to deliver secure retirements to scheme members are to be welcomed in line with [our response to the Fit for the Future consultation](#).
- 1.4. However we invite the Committee to consider whether the Bill as passed at Second Reading would benefit from amendment, particularly in respect of the way it addresses local investment by the LGPS and the powers it would confer on Government to direct pension scheme investment.

### **1. Governance and scale in the LGPS system**

- 1.1. The Bill would create a number of new requirements around how asset pool companies are governed. It does this by empowering the Secretary of State to make scheme regulations setting out the roles and responsibilities of administering authorities and asset pool companies. This includes a requirement that asset pool companies should be authorised by the FCA.
- 1.2. We believe FCA regulation is important in ensuring asset pool companies operate with professionalism and integrity, and provides assurance to administering authorities. Establishing Border to Coast as a regulated entity was a key decision in the creation of our partnership. Our Partner Funds recognise the benefits the clear governance and a strong control environment provided through FCA regulation.
- 1.3. The Bill is also helpful in setting out a clear framework of the roles and responsibilities of LGPS fund administering authorities and asset pool companies within the LGPS system. Under the proposals administering authorities remain responsible for setting the most important strategic elements, while the asset pool company is responsible for implementing that strategy. It also recognises the importance of strategy and implementation being part of a coherent whole. This benefit of this model is widely recognised<sup>1</sup>.

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<sup>1</sup> <https://documents1.worldbank.org/curated/en/780721510639698502/pdf/121375-The-Evolution-of-the-Canadian-Pension-Model-All-Pages-Final-Low-Res-9-10-2018.pdf>





- 1.4. The Bill also mandates periodic governance reviews to assess how administering authorities' governance of schemes and performance and allows the Secretary of State to make guidance in respect of these. We are supportive of these governance reviews. Several of the Funds within our partnership already carry out regular reviews, albeit a triennial period may be more appropriate than biennial (as suggested in the *Fit for the Future* consultation) to align with the valuation frequency.

## **2. Encouraging local investment**

- 2.1. Measures set out in the Bill will collectively contribute to a new framework for guiding and supporting 'local' investment by the LGPS. As set out above, we are already a significant investor in the UK. Several Border to Coast Partner Funds have a long history of successfully delivering local investments and work closely with both their Local and Combined Authorities. We are building on this experience as we develop our capabilities to support local investment on behalf of and with our Partner Funds.
- 2.2. Part 1, Chapter 1, Clause 2 makes provision for regulations that require LGPS scheme managers to publish an investment strategy which includes its approach to local investment. Further clarification would be welcome in two respects:
  - 2.2.1. The Bill seeks to define what constitutes local investment by an LGPS fund. While broadly supportive of the definition, as a matter of principle we believe LGPS funds should have the freedom to define the term as part of their investment strategy. To the extent that Government wishes to define local investment, it might be more appropriate for the definition to be contained in regulation that can more easily adapt to changing economic contexts and the continued evolution of the LGPS over time.
  - 2.2.2. There is a well-established culture of collaboration in the LGPS and local government which is extending to strategic authorities as they are established. This collaboration is central to any approach to local investment. The Bill proposes a requirement on scheme managers to "co-operate with the strategic authorities to identify and develop appropriate investment opportunities". To the extent that it is felt necessary to have a legal requirement to underpin that existing collaboration, we agree with Pensions UK that the Bill should be clear that local investment will only be made by a pool in line with fiduciary duties.
- 2.3. The recently published [guidance for Mayoral Strategic Authorities on developing Local Growth Plans](#) demonstrates Government has the means to encourage partnership working in respect of local growth, notwithstanding the inherent shared interest local authorities and strategic authorities have in growing the regional economy.

## **3. Proposed power to direct investment management activities of LGPS pools**

- 3.1. Part 1, Chapter 1, Clause 1, Subsection 2 make it possible for the Secretary of State to direct an LGPS asset pool company's investment management activities.

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- 3.2. We recognise the need for Government to have a backstop position to intervene in a pool failing to meet its obligations to its partner funds, given the potential consequences for local authorities and, ultimately, taxpayers.
- 3.3. However, we share the concerns of Pensions UK that the current framing provides for a broad power for Government to mandate investment by pools, potentially in conflict with the intent elsewhere in the Bill to require all pools to be FCA-regulated. As set out at 2.2, we are strongly supportive of the FCA regulation of pools to provide confidence they are operating professionally, with integrity and in the interests of their partner funds.
- 3.4. We agree that the Bill should ensure that the exercise of such a power does not place the pool into conflict with fiduciary duty or its regulatory requirements and is only used as a last resort to intervene in a pool that is demonstrably failing to meet its obligations to its Partner Funds.

#### **4. Proposed powers on mandation of investment**

- 4.1. Through Part 2, Chapter 3, Clause 38, the Bill would grant a reserve power to the Secretary of State to effectively mandate defined contribution schemes to invest in certain types of assets, notably private market assets and UK assets.
- 4.2. Although not directly impacting the LGPS, we share the concerns of the wider pensions and investment industries that this represents an unwelcome precedent in respect of Government intervention in the investment of assets on behalf of pension scheme members who would bear the downside risk.
- 4.3. Mandating asset allocation would not deliver UK investment absent of appropriate investment opportunities. Government has acknowledged this in the Mansion House Accord which sets voluntary ambitions for pension scheme investment in UK private markets and does so conditional on the availability of a pipeline of UK investment opportunities and meeting fiduciary duties.
- 4.4. Mandating investment in the context of a limited pool of suitable opportunities would artificially inflate asset prices with consequences for all investors, including the LGPS, as well as risking overexposure to systemic risks and damaging confidence in pensions as a mechanism for saving.

#### **5. Contact details**

For more information contact:

Ewan McCulloch  
Chief Stakeholder Officer  
[ewan.mcculloch@bordertocoast.org.uk](mailto:ewan.mcculloch@bordertocoast.org.uk)

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