

January 2025

**LGF Pensions Team
Ministry of Housing, Communities and Local Government
2 Marsham Street
London
SW1P 4DF**

Submitted via email to: LGpensions@communities.gov.uk

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

BlackRock¹ is pleased to have the opportunity to respond to the Ministry of Housing, Communities & Local Government (the 'MHCLG') consultation on the future of the LGPS.

BlackRock's purpose is to help more and more people experience financial well-being and we manage over £24 billion of assets for the LGPS, including on behalf of seven of the LGPS Pools. As a fiduciary to investors and a leading provider of financial technology, we help millions of people build savings that serve them throughout their lives by making investing easier and more affordable.

We are incredibly proud of the work we have done with the LGPS, having managed their assets for almost 50 years. Our LGPS clients have allocated their assets across BlackRock's index, active and alternative investment platforms in addition to leveraging our transition capabilities as they transfer their assets to their Pools.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the MHCLG on this and other topics.

While the structure of the LGPS is solely a matter for the schemes and Pools, as well as central and local governments, we are supportive of the emphasis that the consultation has placed on governance and investment oversight. As highlighted in our previous response to the Pensions Investment Review, we see these as the key drivers of delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes.

Beyond this, we have a number of thoughts on the proposals, which we go through in more detail below.

Asset pooling in the LGPS

Scale works when implemented in a way that facilitates strong investment governance and oversight; high standards of accountability; appropriate levels of investment expertise that covers knowledge of investment opportunities across the full range of asset classes and markets; and sophisticated investment procurement that considers where internal and external management can add value, as well as being able to identify and work with

¹ BlackRock is a leading provider of investment, advisory and risk management solutions, and has been active in the UK for over 50 years. Our purpose is to help more and more people experience financial well-being.

investment managers. These are the features through which LGPS Pools deliver value to their partner funds.

We are pleased to see recognition of these factors in the consultation document and welcome the emphasis on consistent standards of governance and ensuring accountability and strategic alignment with long-term goals.

However, while we are generally supportive of the direction of travel, we would urge MHCLG to avoid being overly prescriptive in regulation and instead opt for a more principles-based approach to allow the LGPS to evolve over time. Given the intention to have the FCA authorise and regulate the Pools, this should provide assurance that the Pools will be properly managed, without the need to set detailed expectations in regulation.

Index Investments

While we understand the impetus behind the requirement for further pooling and are generally supportive, we would suggest that consideration is given to the treatment of Index investments in terms of timelines.

It is worth noting some of the operational challenges that would be involved with the transition of index investments to a pooled platform. Index investments by LGPS are either made through Life Company or Authorised Contractual Scheme (“ACS”) Fund structures. While the investments through ACS could operationally transition relatively easily to a pooled platform, the Life Company Funds could not. This change would thus have implications for those using Life vehicles and would involve transition costs resulting from a change in legal entity for those schemes, especially significant within Emerging Markets investments. These transition costs could include stamp duty or equivalent foreign transfer taxes on the underlying portfolios.

More generally, the fact that Index investments are typically already procured in large, liquid and low-cost pools, means that there will likely be more general transition costs which will need to be factored in.

Given the operational challenges and transition costs involved, we believe that consideration should be given regarding timelines for this change and some flexibility around the March 2026 deadline may be needed.

Local investment

LGPS Funds have a long-standing relationship with their local community and, as the consultation document notes, the LGPS are significant investors in local projects across the UK. Indeed, the LGPS already invests approximately 30% of its assets in the UK and we see significant interest from the segment in UK opportunities.

In line with this, we believe that the LGPS should continue to have the freedom to make investment decisions based on the long-term interests of their members, rather than based on any form of hard mandate.

We are supportive of efforts to see greater collaboration between Administering Authorities (AAs), Pools and combined authorities of all types on local investment, for the long-term benefit of local areas. However, as it stands, we believe further consideration is needed of the consultation’s definition of ‘local investment’, which may inadvertently skew investment decisions. For example, an urban Pool may have more opportunities in private equity investment, but less impetus to invest in offshore wind projects.

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With this in mind, we suggest the Government define 'local' as being within the UK. It would then be up for the Pools and their partner AAs to decide on the balance of any allocation between UK-wide investments and investments within the locality their Pool.

We welcome the opportunity to continue our dialogue with you on the issues raised by this consultation and will continue to contribute to the thinking of the MHCLG on any issues that may assist in the outcome.

Yours faithfully,

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