

Scheme Advisory Board

MEETING HELD ON 7th MARCH 2022

ITEM 4 PAPER B

LEVELLING UP WHITE PAPER

What is 'Levelling Up'

1. At its simplest, levelling up could be described as tackling inequality between places, not by redistributing existing advantage but by reducing disadvantage. As the prime minister put it, "[you can't] make the poor parts of the country richer by making the rich parts poorer".
2. Therefore, levelling up appears to be about reducing inequality between places ('levelling') whilst also about maintaining outcomes in all places ('levelling up'). This concept of improvement not redistribution may well be important when considering how levelling up could be effectively translated into a plan for the LGPS.
3. The Foreword to the White Paper describes levelling up as:
"... an ambitious set of missions, galvanising action across sectors to improve jobs, incomes, health, skills, transport, pride in place, safety and well-being across the UK."

What the White Paper says about the LGPS

4. The White Paper includes the following references to the LGPS:
*...It is also why the Prime Minister and Chancellor have called on the UK's institutional investors to seize the moment for an "Investment Big Bang" to boost Britain's long-term growth. **The UK Government will go further and work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.** "*
Exec Summary

".. There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to

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local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn new investment”

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*“Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise, and ensure that all LGPS funds play their full part, the UK Government is asking **LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment**, including setting an ambition of up to 5% of assets invested in projects which support local areas. “*

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Further clarification

5. On the day of the publication of the White Paper members of the secretariat met with DLUHC officials to seek to clarify the White Paper’s aims.
6. Officials made clear that the up to 5% quoted was an ambition and was neither mandatory in scale nor a ceiling not to be breached. It will however be mandatory to have a levelling up plan to achieve that ambition.
7. It was further clarified that “local” in this context is not restricted to the backyard of the fund. Therefore, investments anywhere in the UK could be included in a levelling up plan.
8. The White Paper makes references to ‘increasing investment’. It would appear that government is not looking for LGPS funds to count existing investments in this area. The plan should rather set out how new investments will seek to achieve the ambition in this area.
9. In the matter of fiduciary duty there does not appear to be any expectation that LGPS funds should put intervention outcomes above those of return. Instead, the intention would seem to be for funds to actively seek opportunities in this space which contribute to the levelling up agenda while at the same time providing expected levels of return.

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10. We are informed that a consultation in the summer will cover this, the outstanding climate risk and reporting regulations, pooling guidance and incorporation of the 2019 CMA order requirement to set objectives for consultants.

Next steps

11. The department will enter into discussions with the Board and directly with LGPS funds and pools in the run up to the summer in order to inform the consultation.
12. In particular, it would be useful to discuss the following areas to ensure an effective consultation process:
- Confirmation of the expectations to be placed on LGPS funds regarding the balance between return and levelling up outcomes.
 - Clarification of the relationship between the 5% ambition in this space and the ceiling of 5% of local investments able to be made outside of pools as set out in the aborted 2019 informal consultation on pooling guidance.
 - How the barriers to investment in this space, with regard to scale and availability of opportunities and the resources required for due diligence, could best be overcome both within and outside of LGPS asset pools.
13. In order to ensure the Board is best placed to contribute to these discussions it is proposed that the secretariat, together with the RIAG, investigate and recommend appropriate educational opportunities for board and committee members in this space.

A Board response

14. The Board are invited to discuss a brief response to the White Paper for the secretariat to draft which includes the following matters which were raised at the last Investment Governance and Engagement Committee:
- Expectations around the return/outcome balance

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- The barriers in respect of scale and pipeline of suitable opportunities The ability of funds and/or pools to perform the necessary due diligence of opportunities
- A clear and consistent message around the meaning of 'Local' in this context
- The need for clear guidance on which investments would be included in a Levelling Up plan
- Clarity on the timescales for the requirement to have a plan
- Concerns that funds which already invest in this area are not put in an unequitable position compared to funds who do not.

Recommendation – that the Board agree to the drafting a response which includes the matters listed plus any further matters raised at the meeting. The Board further agrees that the response may be cleared for submission to DLUHC by the Chair.