

CAROLYN THOMAS

MS FOR NORTH WALES / AS DROS GOGLEDD CYMRU

Eluned Morgan
First Minister of Wales

Friday 28th February 2025

Re: Risks of Local Government Pension Scheme (LGPS) Pooling

Dear First Minister,

I write to express my concerns regarding the current proposals for LGPS consolidation and the broader implications for responsible investment in Wales.

Risks of the Current Proposals

The UK Government's approach, as outlined in recent consultations, poses significant risks. A consolidation model that does not fully incorporate robust, democratic oversight risks diluting the unique needs of Welsh pension fund members. The narrow interpretation of fiduciary duty—focusing solely on short-term financial returns—could lead to underinvestment in sustainable initiatives, particularly in our local communities. Such an approach neglects the growing consensus among LGPS members that environmental, social, and governance considerations must be integral to investment decision-making.

Moreover, the rapid pace at which these proposals are being introduced represents a critical risk. An accelerated timeline can force the adoption of minimum standards, rather than allowing sufficient time for thorough, well-considered policy development. This speed to action may result in a framework that fails to adequately safeguard the long-term interests of Welsh pension fund members and our broader sustainability objectives.

Opportunities Through a Wales-Specific Governance Mechanism

I firmly believe that establishing a governance mechanism dedicated to responsible investment for Wales presents a unique opportunity. By preserving a Wales-only pool and instituting a structure that guarantees strong Welsh representation, we can:

- Ensure that investment decisions reflect the long-term interests of our communities by integrating environmental sustainability and social responsibility into our fiduciary framework.
- Promote community-led renewable energy and local growth projects, thereby directing significant capital into initiatives that offer both robust financial returns and tangible benefits for our local economy.
- Enhance democratic accountability by involving local authorities and stakeholders directly in the governance process, ensuring that pension fund members have a clear voice in how their contributions are invested.

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A tailored approach that redefines fiduciary duty to include environmental and societal considerations would not only protect members' interests but also position Wales as a leader in responsible investment, and encourage decision makers to appropriately and democratically consider the long-term interests of their clients when making investment decisions. This aligns closely with our national objectives—driving sustainable economic growth while addressing the urgent challenges posed by climate change.

Conclusion

In conclusion, First Minister, while acknowledging the potential risks posed by the UK Government's direction, I believe that through proactive, strategic, and collaborative governance, focused firmly on responsible investments, Wales can not only mitigate these risks but also seize significant opportunities.

We can build a more resilient, sustainable, and prosperous future for Wales, demonstrating a clear and distinct Welsh path forward.

In response, I would be grateful if you could set out the Welsh Government's view on pension pooling, and clarify whether any discussions have taken place between the UK Government and the Welsh Government in relation to the future of the Welsh local government pension schemes?

Yours sincerely,



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