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POLICY BRIEFING NOTE:

The Government's response to the 'LGPS: Fit for the future' consultation

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The UK Government's much-awaited response to the feedback on its 'LGPS: Fit for the future' consultation was published on 29 May. As a reminder, you can find a summary of the proposals set out here. In its response, the Government confirmed its planned route forward for the range of proposals from last November, covering pooling, local investment and governance. We summarise their response below and now await legislation and guidance to provide greater detail.

Perhaps surprisingly, the consultation response noted that the Pension Schemes Bill will also clarify the existing provision in the Public Service Pensions Act 2013 to allow for the winding-up of pension funds so that it explicitly includes the merger, including compulsory merger, of pension funds. This is intended to provide Government with the power to force mergers if needed, with examples provided being as a consequence of local government reorganisation or 'in the event local decision making is not effective in bringing about satisfactory arrangements'.

Pooling

What was proposed?

Perhaps the most significant proposed changes were about pooling. FCA authorisation; pooling of all assets, including the oversight of assets that could not be transitioned; and pools taking on additional services, including providing investment strategy advice, were the key proposals. Alongside this, a transition of many aspects of decision-making from pension committees to pools was proposed. Committees remained responsible for high-level strategy, but all implementation below that was to be delegated to pools. Committees would set "high-level objectives", with an option to also set a target asset allocation. However, the options for asset classes that committees could select from were limited. It was proposed that all of this was delivered by 31 March 2026. Whilst already a tall order, this was further complicated in April by the Government instructing the ACCESS and Brunel pools to disband and their partner funds to find new pools to join by 30 September 2025.

What will go forward?

- The Government has confirmed it will move ahead with the core of its proposals, with only minimal amendments.
- Funds will continue to set their own investment strategies, but will be required to delegate the implementation of their investment strategy to their pool, as well as taking their "principal" investment strategy advice from the pool. Funds can procure their own supplementary advice, but only in "exceptional"

circumstances. It has been clarified that decisions on investment style, including the level of active and passive management, will be an implementation decision taken by the pool. Similarly, Government has confirmed that their proposed list of asset classes that funds can choose from will be used but have clarified that ‘cash’ refers to ‘investment cash’ and not the ‘operational cash’ that funds require for paying pensions.

- All assets, listed and unlisted, must also be transferred to the management of a fund’s pool. However, Government has stated that not all assets will need to be invested through a pool’s own funds. Instead, the pools will take a decision on all assets, inside or outside of the pool, of whether to buy, hold or sell. However, Government does note that they expect the default position to be investing through a pool’s own funds.
- Government stated that, to achieve scale, pools would not be expected to create a range of bespoke solutions to fit each fund’s ESG and RI requirements. Instead, funds should work together to reach a common approach. However, they acknowledge this will not always be possible, in which case more than one option can be offered.
- There was also acknowledgement that fiduciary oversight services could be used to help funds to oversee their pools, but that this should be procured as collective groups of funds, in conjunction with their pool.
- There is confirmation that the pools must be established as FCA-authorised and regulated investment management companies, affecting two of the remaining pools.
- The Government has confirmed the deadline of 31 March 2026 still stands for those funds whose pool remains. For those funds needing to find a new pool, government state that the deadline should “be adhered to as closely as possible with an aim to have shareholder agreements in place by 31 March 2026” but do acknowledge there may be challenges resulting in delays. They also state that there are no plans to reduce the number of pools to less than six.
- In finding a new pool, Government stated that it would prefer funds to join new pools on a voluntary basis but will create the power within the Pension Schemes Bill to direct funds into pools if needed, or even wind up/merge a fund.

Additionally, Government has stated it will work with pools to understand how Stamp Duty Land Tax might prevent property assets from being pooled. It also states that the Pension Schemes Bill will look for a solution to the Procurement Act 2023 that currently prevents pools from collaborating more fully.

Local investment

What was proposed?

After much discussion and commentary from the Government on the need for more UK pension assets to be invested in the UK, the focus for the LGPS was on investing locally. It was proposed that LGPS funds were required to set out their approach to local investment, with a target range for local opportunities in their investment strategies. The proposals stopped short of setting out a requirement for a minimum investment size. Government aimed to clarify what “local” means to the LGPS, with a proposed definition of being in a fund’s “region” or the area covered by their pooling partners. It was proposed that funds work with local entities, such as the mayoral authorities being set up as part of Local Government Reorganisation, to plug into local economic growth plans to find investment needs and opportunities. Aligned to the need to pool all assets, all local investments would be made through the pool. The pools were then required to develop the capacity for due diligence on these investment opportunities and would take the final decision on whether to invest. Finally, it was proposed that funds will have to report on their local investments, both the value and their impact, in their annual reports.

What will go forward?

- Again, the Government have confirmed they will move ahead with the core of their proposals, with only minimal amendments.
- The definition of 'local' has been set as 'broadly local or regional to the Administering Authority or pool'. They also state that the investment 'should have some quantifiable external benefits to the area', which they say include 'economic growth, environmental benefits or positive social impacts'.
- Each pool will be required to build the capability to enable local investment for their funds, including being able to carry out due diligence and manage these types of investments. They noted the potential initial challenges in this area and stated that external managers can be used at first, but eventually expect to see internal management of these investments.
- The proposals for funds to set out their approach to local investment and a target range within their Investment Strategy Statement have been confirmed.
- The Government also have confirmed a requirement for funds to work with local authorities, regional mayors and their strategic authorities, and Welsh Authorities to ensure collaboration on local growth plans. They have added the pools to this requirement. They also note that the National Wealth Fund will play a role in addressing access to "finance gaps".
- There was acknowledgement of the level of work and potential for replication involved in each fund reporting on the impact of their local investments. The Government has therefore stated that this reporting should be provided by the pools, which the funds can then draw from for their own reporting.

Governance

What was proposed?

After many calls from the industry, the Government put forward proposals to address the recommendations of the Scheme Advisory Board's (SAB's) Good Governance review. These included: a requirement that committee members have the appropriate knowledge and skills; funds publish strategies on governance, training and administration (including conflicts of interest); and that a senior LGPS officer is appointed at each fund. A key proposal was for funds to be required to participate in a biennial independent review to obtain assurance that they are meeting governance requirements. There was also a new proposal for pension committees to appoint an independent adviser to drive governance improvement, challenge and delivery. For pools, it was proposed that boards include one or two representatives from their partner funds and improve transparency, including reporting investment performance and transaction costs.

What will go forward?

The consultation proposals received general support from respondents, and most will be taken forward with minimal amendments. One theme that came through was call for more clarity. Government has stated that it will work with the SAB to produce statutory guidance in a number of these areas.

- Responding to fears that a single governance and training strategy, including a pension fund specific conflicts of interest policy, would prove unwieldy, the requirement will now be for separate polices in in these areas. They must be reviewed on a three yearly cycle but Government will not be prescriptive about when.
- A mandated administration strategy supported by additional guidance will be required.
- Administering authorities will be required to appoint a senior LGPS officer with overall responsibility for the management, business planning, strategy and administration of the fund. There will be guidance covering how the role will interact with the existing s151 officer's role and that of the pool. We welcome the

statement that "pension fund budget-setting should be seen as separate from that of the AA as a whole and should not be subject to resource restrictions which may apply across other functions".

- The biennial independent governance review will now be a triennial event, with flexibility to carry out the review at any point within that timeframe. Government will have the power to impose a review on any fund which it believes has substandard governance.
- The committee knowledge and understanding requirement will be taken forward. Knowledge will be an individual, not collective, responsibility and guidance will cover how members can be held account for non-compliance.
- The original requirement for every pension committee to appoint a pensions professional as an independent member, either with voting rights or as an adviser, has been watered down. Recognising the principle of democratic accountability, the requirement will now to be appoint such a professional purely in an advisory, non-voting, capacity. The individual will need to have pensions qualifications and experience but not necessarily specific to the LGPS.
- On the pooling front, the Government has pulled back from insisting that pool company boards include one or more representatives of partner administering authorities. There will now be more flexibility to consider the governance structure that best meets the needs of their shareholders and scheme members.

What's next?

This response from Government confirms their intentions for changes to the LGPS. However, key details of how this will be implemented remain to be seen, with further legislation and guidance to follow.

In the meantime, despite the generally negative feedback on the proposals and widespread concern on the implementation timeline, it's clear that the Government is intent on implementing these changes. Officers and Committees should now consider how to fulfil these new requirements in the best interests of their funds.

Areas we suggest funds should consider:

- Pool oversight – with the pools set to provide a significant range of services that will be incredibly impactful on your fund's returns, you will need the governance in place to ensure they're operating well and delivering on your requirements. Whilst arrangements are already in place across the pools, this has become especially important, particularly during the build – ensuring that pools develop this vast range of new services to a sufficient level, while still delivering on the "day job" of managing your current assets well. Funds should consider whether the current arrangements need strengthening to reflect the larger role.
- Local investment – funds should now work on setting out a strategy and policy to inform local investment activities. This will ensure you are a 'maker' rather than a 'taker' of your local investment work. Considerations such as your definition of 'local', the impacts you wish to target and asset classes you are willing to invest in will be key.
- Governance – Whilst we wait for further details, we recommend that you think about which role in your organisation will correspond to the senior LGPS officer post, or, if none currently exists, how will that be filled. How do you propose to provide committee members with the appropriate level of training they require and how will this be evidenced? Work could start on considering which policies will need developing/refreshing.

If you would like to discuss any of the topics covered in the briefing note, [please get in touch.]

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