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LGPS Update – Consultation “Fit for the future”

A paper by the Advisor to the Pension Board December 2024

Introduction

This paper informs the Nottinghamshire Local Pensions Board of the Consultation “**Local Government Pension Scheme (England and Wales): Fit for the future**” which was issued by the Ministry of Housing Communities & Local Government (MHCLG) on 14 November 2024. The Consultation may be accessed at [Local Government Pension Scheme \(England and Wales\): Fit for the future - GOV.UK](#) The Consultation, which is open for 9 weeks, until 16 January 2025, covers three main areas:

1. LGPS Pooling.
2. Local Investment.
3. Governance of LGPS Funds and Pools.

The Consultation includes proposals, in relation to Pooling, which if enacted would constitute a fundamental change to the Governance of the LGPS in England and Wales. These would reduce to an absolute minimum the role of LGPS Funds in Investment issues and hugely increase the role and responsibilities of the Pools.

The proposals on Local Investment include that LGPS Funds, Pools and (the various types of) Combined authority work together to identify local investment opportunities. However, the Pools (not LGPS Funds) would conduct due diligence and make decisions regarding local investment for the LGPS.

Fundamentally increasing the role of Pools in the LGPS is the headline from the Consultation proposals. However, from reading of the Consultation as a whole and the “**Pensions Investment Review Interim Report**” which was issued by the Government at the same time as the Consultation it is clear that a primary purpose of the Consultation is to support the Government’s “*growth*” agenda.

The majority of the proposals relating to Governance are based on the Scheme Advisory Board **Good Governance Project**. The proposed implementation of important recommendations from this project will likely be widely welcomed by most LGPS Funds. However, the proposals elsewhere in the Consultation to virtually remove the Investment decision making role of LGPS Funds clearly and substantially mitigates their potentially very positive effects.

The LGPS Update to the 31 October 2024 meeting of the Board included coverage the new Government's **Pensions Review** launched in August 2024 and the **Call for Evidence** of September 2024. Both of these have informed the Consultation of November 2024.

Background

The proposals in the Consultation ***“Local Government Pension Scheme (England and Wales): Fit for the future”*** of November 2024 relating to the role of the LGPS Funds and Pools, and Local Investment are clearly derived from and build upon the work of the (previous) Government from 2015 to 2024. The proposals on Pooling and Local Investment further develop those in the 2023 Consultation ***“Local Government Pension Scheme (England and Wales): Next steps on investments”*** issued in July 2023 and the ***“government response”*** to this Consultation issued on 22 November 2023. However, the present 2024 Consultation proposes a clearly more directive approach to that previously proposed. Indeed, the approach of the present Consultation may be reasonably described as mandatory in nature. The present Consultation (Paragraph 5) refers to the 2023 Consultation and states *“The responses to that consultation, along with responses to the recent Pensions Review Call for Evidence and engagement undertaken with LGPS stakeholders have informed the proposals in this consultation.”* Notwithstanding this statement the proposals relating to Pooling and Local Investment in this November 2024 Consultation will if enacted minimise the future role of LGPS Funds in Investment issues.

The Consultation ***“Local Government Pension Scheme (England and Wales): Fit for the future”*** of November 2024 clearly acknowledges the importance of Investment returns to provide Pensions (see Paragraph 1). However from examination of the Consultation (for example Paragraphs 1, 2, 4, 65, 66, 68) and also the ***“Pensions Investment Review Interim Report”*** which was issued at the same time as the Consultation it is clear that a primary purpose of the Consultation is to support the Government's *“growth”* agenda. This report may be accessed at [Pensions Investment Review: interim report - GOV.UK](#)

The Ministerial Foreword (page 6) of the ***“Pensions Investment Review Interim Report”*** by Emma Reynolds MP, the Minister for Pensions (in the Treasury and DWP) acknowledges that the *“foremost purpose”* of Pensions investments *“is and always will be to provide security in retirement”* but goes on to say that *“Our Manifesto set out that we will adopt reforms to ensure that workplace pension schemes take advantage of scale and consolidation, to deliver greater investment in UK productive assets...”* and *“The same approach applies to the £392bn Local Government Pension Scheme in England and Wales (LGPS)...”*

On page 7 of the Ministerial Foreword Jim McMahon MP, Minister for Local Government states *“The Local Government Pension Scheme exists to provide financial security and dignity in retirement for its 6.7 million members...and then that “The Pensions Review has been looking at how we can strengthen the LGPS to harness its full investment potential as an engine of UK and local growth...”*

Then also (on page 7 of the Ministerial Foreword) Jim McMahon MP makes the very clear statement that *“My vision for the LGPS is that it plays a significant part of the government’s growth mission, sitting alongside our major programmes to rebuild Britain’s infrastructure and boost the supply of investible opportunities in the UK. In particular, we want to see the LGPS working closely with Mayoral Combined Authorities alongside Local Authorities to identify and develop investable opportunities appropriate for pensions investment.”*

This LGPS Update will now examine the proposals in the Consultation under the headings LGPS Pooling, Local Investment, Governance of Funds and Pools.

LGPS Pooling

LGPS Pooling is covered in Paragraphs 12 to 64 of the Consultation. There are 4 Proposals and 12 Questions relating to LGPS Pooling.

In the Background section (Paragraphs 12 to 21) the MHCLG sets out what it considers to have been the benefits of Pooling so far, why scale is beneficial, the progress (as judged by MHCLG) of the 8 individual Pools to date, and the Government’s overall vision for Pools going forward. Paragraph 22 then sets out Proposals for *“Optimising pooling for the future”* which are then developed in the later Paragraphs of the LGPS Pooling section of the Consultation. In summary these proposals would introduce (what Paragraph 29 of the Consultation rightly describes as) *“fiduciary management”* where the Pools would make all decisions relating to the implementation of Investment Strategy and almost all decisions relating to Investment Strategy itself. However the type of fiduciary management proposed for the LGPS in this Consultation should not be confused with that used by some private sector Defined Benefit Pension Schemes whereby the Pension Scheme can put in place robust monitoring of the fiduciary manager and dismiss them if they do not perform to an appropriate standard. Under the proposals in this Consultation there are no suggestions for robust monitoring of Pools and no means to dismiss them.

The proposals regarding Investment responsibilities would almost entirely remove the existing Investment related roles of LGPS Funds and place Pools in a position where they have huge power and little real accountability to the LGPS Funds. It would represent a huge transfer of decision making from LGPS Pension Fund Committees to the Pools. Indeed, there is a clear question as to whether the proposals for the transfer of powers/responsibilities from LGPS Funds to Pools relating to Investment Strategy would mean that LGPS Funds were unable to exercise their **fiduciary duty** to Employers and individual scheme members.

However, the proposals are not a simple transfer of power from the LGPS Funds to the Pools. The Pools would be subject to genuine Government overview as is clear from the proposals in Paragraphs 55, 57, 58, 122, and 123.

Proposal 1: ***“Requirement that implementation of the investment strategy is fully delegated to the pool”*** (Paragraphs 24-37).

Paragraph 25 states that since 2016 *“guidance has set out that the selection of external fund managers and the implementation of the investment strategy should be delegated to the pool, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.”* But in practice, LGPS Funds *“have adopted a range of approaches... ranging from full delegation to no or very limited delegation, and from significant alignment of investment strategies to no alignment”* and that many LGPS Funds *“continue to set tactical asset allocation and select investment managers.”*

The Consultation states (Paragraphs 26 and 27) that so far *“Limited delegation to the pool has prevented the delivery of the full benefits of scale...the government’s view is that full, effective and consistent delegation of strategy implementation is needed...”* Figure 1 at Paragraph 32 confirms the Proposal is for the complete delegation of investment strategy implementation to the Pool including Tactical Asset Allocation, Investment Manager Selection, Stock Selection, and Investment Stewardship.

Paragraph 31 states that the implementation of *“high-level investment strategy would be fully delegated to the pool to ensure that decisions are made by experienced investment professionals...”* This is another important but unevicenced assumption. While there are clearly some *“experienced investment professionals”* working in the Pools the level of investment expertise required for the Pools to undertake all the investment strategy implementation activities proposed in the Consultation will require significant further recruitment – and again the question must be whether it is at all realistic to anticipate that the Pools can recruit (and retain) sufficient numbers of truly talented and experienced staff?

However, this proposal covers far more than the implementation of investment strategy. The Proposal goes on to state that with regard to Strategic Asset Allocation (the proportion of assets to be allocated to each asset class) that the role of LGPS Funds is also proposed to be severely limited. This is crucial because as Paragraph 24 of the Consultation correctly acknowledges Strategic Asset Allocation is *“the key factor”* in determining net returns *“while implementation decisions such as manager selection play a much smaller role.”*

Paragraph 28 (and the following paragraphs to paragraph 37) clearly indicate that the Government’s preference is now that LGPS Funds have virtually no role in Investment Strategy itself suggesting that if a LGPS Fund *“wishes to do so”* it could continue to set *“a high-level strategic asset allocation”* but that *“the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.”* This would represent a fundamental shift in responsibility from the democratically led LGPS Funds to the Pools who under the proposals in this Consultation as a whole are not properly accountable to the LGPS Funds. This is in total contrast to the 2015 Pooling Guidance which stated that *“...high-level*

decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements.” The LGPS Funds advised, in most cases, by major international/national Investment Consultant firms, have the knowledge and understanding of their own circumstances – the Pools, in contrast, do not have this.

Paragraph 33 concedes that if a LGPS Fund wishes to continue to set a strategic asset allocation it would be allowed to do so but that *“the government’s view is that this should be limited to either setting target ranges either for growth and income assets, or for a small number of broad asset classes.”* However, the next Proposal in the Consultation (Paragraphs 38 to 40) in effect renders this “concession” worthless. This is because the Consultation proposes that the Pools should also be the providers of Investment Strategy Advice.

Proposal 2: “Requirement for principal advice on investment strategy to be taken from or through the pool” (Paragraphs 38 to 40).

At present under Regulation 7 of ***The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*** each LGPS Fund is required to *“formulate an investment strategy”* after taking *“proper advice.”* The term *“proper advice”* is defined at Regulation 2 as *“the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters”* In the case of the majority of the 86 LGPS Funds in England and Wales this advice is taken from one of the major international or national Investment Consultancy companies who have long experience, major expertise and extensive resources dedicated to the area of investment strategy. A minority of Funds retain small Investment Consultants. A very few LGPS Funds utilise their Pool for this purpose. There is therefore genuine choice in the market and periodic retendering for services by most LGPS Funds. However, Paragraphs 38 and 39 propose that this longstanding arrangement involving choice, competition, and the utilisation of well respected Investment Consultants be ended in favour of the Pools who lack both the experience and capacity to undertake this crucial role across the LGPS.

It is worth quoting from Paragraphs 38 and 39 of the Consultation. In these paragraphs AA means Administering Authority/LGPS Fund. Paragraph 38 states *“...At present investment advice may be sought from investment consultants, with each AA using their own. Whilst it is recognised advice needs to be bespoke, there may be duplication and inefficiency across a pool and AAs may receive divergent advice from the same providers without clear justification, which inhibits asset pooling.* Paragraph 38 rightly states that *“advice needs to be bespoke”* but then continues with assertions which seek to undermine the role of the present highly experienced providers of such advice.

Paragraph 39 then states *“The government proposes that AAs should be required to take principal advice on their investment strategy from their pool. This would ensure that advice is provided on a consistent basis, tailored to individual AA’s requirements, and free from competing interests given that the pools exist*

solely to serve the AAs. The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances, however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool."

In the first two sentences of Paragraph 39 the Consultation asserts that the LGPS Funds should utilise their Pool as their primary provider of strategic investment advice and asserts this will meet the needs of individual LGPS Funds. Therefore in place of well resourced and highly experienced investment consultancy firms who additionally have worked for many years with LGPS Funds the Consultation suggests, without providing any real evidence, that Pools which in the main have little or no experience and expertise in this area can effectively undertake this highly skilled, specialised and vitally important role. Furthermore, it is not credible that all Pools could recruit sufficient suitable staff to provide quality and individually appropriate investment strategy input on an ongoing basis to LGPS Funds? Would many staff leave international or even national investment consultants which offer broad opportunities and experience to join a LGPS Pool? The answer is surely almost certainly no. Paragraphs 38 and 39 propose a huge concentration of power to the Pools.

Paragraph 39 goes on to state *"The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances"* This statement is surely incorrect. Support from Independent Advisors will not enable Pools to be properly held to account in terms of either the implementation of investment strategy or its development. Individuals cannot have the access to the extensive research and resources required to provide oversight and challenge to a Pool. Paragraph 39 does also go on to state *"however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool."* However clearly the expectation is that significant Investment Consultancies will only be used very rarely and that in effect they are to be removed from providing LGPS Investment advice directly to LGPS Funds on anything but an *"exceptional"* basis.

In Paragraph 40 the Consultation somewhat undermines the statements regarding the provision of Investment Strategy advice by Pools as opposed to Investment Consultants made in Paragraphs 38 and 39. Paragraph 40 states *"Not all pools have the existing capability to provide advice to the AAs. Full advisory capability, or the means to share advisory capability across pools, would need to be developed over time. In the meantime, the government expects that pools would seek to procure advice on behalf of their partner funds. The government's intention would be to set out a timeline for this, subject to the outcome of this consultation."* However, this should not be seen as a mitigation of the proposal that Pools provide Investment Strategy Advice. It is simply a recognition that in the main they cannot do so at present and therefore the Consultation suggests that the Pools rather than the LGPS Funds would procure support from the Investment Consultants until such time as they can provide Investment Strategy advice. However, while the Investment Consultants would

now be commissioned by and answerable to the Pools the LGPS Funds would still have to pay their fees either directly or indirectly (plus a commission to cover Pool expenses) as the Pools have no funding of their own.

It would appear clear that the MHCLG (rightly have) concerns regarding the legality of their overall proposals relating to the setting of investment strategy as Question 3 of the Consultation asks, *“Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?”*

Proposal 3: **“Requirement that LGPS pools are established as investment management companies, regulated and authorised by the FCA”** (Paragraphs 41-46)

The 2015 Pooling Guidance did not set out a specific governance model for Pools. At present 5 of the 8 Pools are FCA investment management companies and 3 are not. This 2024 Consultation argues in Paragraph 41 that the FCA regulated model is the most appropriate and therefore at Paragraph 42 states *“The government therefore proposes that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:”*

- *Implementation of the investment strategies of their partner AAs, including any strategic asset allocation;*
- *Provision of advice on investment strategies;*
- *Management of legacy assets;*
- *Due diligence on local opportunities and management of such investments.”*

Paragraph 43 states *“Government’s expectation is that pools will develop capabilities to deliver the implementation of investment strategies through in-house investment management in time...”*

In Paragraphs 45 and 46 the future of Pools is covered with reference to *“...establishing a new pool company, merging with another pool, or becoming a client of another pool company for some or all services required...”* (Para 45). But Para 46 states *“The government encourages pool mergers...”* and sets a clear test for any potential new FCA regulated Pool. This clearly suggests that there may be a reduction in the number of Pools from the present 8.

“Requirement to transfer legacy assets to the management of the pool” (Paragraphs 47-52).

The Consultation is clear that LGPS Funds should not appoint new investment managers and also that all assets should be Pooled by *“an indicative timeline”* of March 2026. Paragraph 49 therefore states *“The government’s view remains that in order to deliver the full benefits of scale AAs would need to transfer 100% of their invested assets to their pool with no new investments being made outside*

the pool, including local assets...” Paragraph 51 consequently states “The government therefore proposes that, in line with previous communications, AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer legacy illiquid investments to the management of their pool.”

The proposals regarding the transfer of legacy assets to Pools are extremely challenging particularly in the context of an indicative timeline of March 2026. For example, there is a whole range of specialist illiquid assets held outside Pools and the Pools would quickly need to secure resources to effectively manage/monitor these. For illiquid private legacy assets in drawdown what is the advantage of Pool involvement with such assets, apart from generating a (unnecessary) fee for the Pool payable by the LGPS Fund?

The **Implementation** of the Proposals relating to Pooling is covered in Paragraphs 53 to 58.

In Paragraphs 53 and 54 the Government demonstrate their determination to implement a more robust Pooling regime as set out in the Consultation by stating that *“Subject to the outcomes of this consultation, the government will consider legislating to require in law the pool minimum standards set out above, including transition or management of all assets”* and referring to the planned Pension Schemes Bill as the mechanism.

While the Consultation proposes a major compulsory shift of investment function from LGPS Funds to the Pools with the LGPS Funds having little genuine ability to scrutinise the Pools Paragraphs 55, 57 and 58 demonstrates that the Government intends that it will clearly oversee, monitor and scrutinise the Pools going forward. Paragraph 55 states *“...asset pools, working with their partner AAs, are invited to submit a separate proposal, in addition to their response to this consultation, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of the costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted...”* Paragraph 57 further states that *“Each pool is invited to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity.”* Paragraph 58 requires proposals to be submitted by 1 March 2025.

Other developments relating to pooling are covered in Paragraphs 59 to 64. These include collaboration between Pools, regional alignment, and the possibility of a future *“role for the pools in the administration of the LGPS...”*

Local Investment

Local Investment is covered in Paragraphs 65 to 84 of the Consultation. There are 4 Proposals and 5 Questions relating to Local Investment.

The proposals relating to Local Investment build upon the ideas of the previous Government in relation to investment in the United Kingdom. However, the proposals in this Consultation are more locally targeted and seek to bring together LGPS Funds, Pools, and the various types of Combined Authority to work together to develop local investment. The proposals also place the Pools not the LGPS Funds at the centre of LGPS local investment decision making.

As stated in the **Background** section of this paper it is clear that a primary purpose of the Consultation is to support the Government's "growth" agenda. Indeed, the section on Local Investment (at Paragraph 65) begins with the statement "*Growth is the number one mission of this government...*" The Consultation also states at Paragraph 68 "*The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities...LGPS investments can both pay pensions and unlock growth in local communities.*"

The Consultation emphasises that Government envisages the Pools, not the LGPS Funds playing the central role for the LGPS in local investment and provides its narrative for this in Paragraphs 71 and 72. Paragraph 71 states "*The pools can address many of the specific factors which make local investment harder for AAs to consider. Pools are in a position to provide central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflict of interests, as their role is serving the AAs. Pools create a degree of separation between AAs and their investments, reducing any reputational risk... The government recognises that pools currently have different approaches to local investment and vary in the extent to which they have the capability to assess and manage local investments, but it is the government's view that it is the pool which is in the best position to provide the central capability to carry out due diligence and manage local investments.*"

Paragraph 72 goes on to state "*In addition, pools invest over a wider geographical area than AAs, reducing risks from under performing assets.*" However, this is followed by the statement "*But pools and AAs may both lack a comprehensive view of investment requirements and opportunities across a wider regional area, as set out in local growth plans...*"

Therefore, at paragraph 73 the Consultation states "*With these considerations in mind, Government's view is that the right approach to increasing local investment*

brings together the distinctive strengths of AAs and pools and takes account of the role of Combined Authorities (CAs), Mayoral Combined Authorities (MCAs),

Combined County Authorities (CCAs) and the Greater London Authority (GLA) in regional growth and development. The government wishes to see greater collaboration between AAs, pools and combined authorities of all types on local investment, for the long-term benefit of local areas...

Interestingly at Paragraph 74 the definition of local investment is suggested as *“investments local to any of a pool’s partner”* LGPS Funds *“or investments in their region”* This definition is in contrast to the broad UK wide definition of local investment in the July 2023 Consultation. This new more specific suggested definition of local investment together with the idea that LGPS Funds, Pools and Combined Authorities work together indicates that the Government is clearly seeking to utilise the LGPS to deliver “growth” at a local level and to put in place a mechanism to encourage and facilitate this. The Consultation then includes three Proposals to put this approach into effect.

Paragraphs 75 to 77 cover a **Requirement** [for LGPS Funds] **to set out** [their] **approach to local investment in their Investment Strategy Statement** which includes having to *“take account of local growth plans...in setting their investment strategies...”* Paragraphs 78 to 81 cover a **Requirement** [for LGPS Funds] **to work with combined authorities and similar bodies** to identify potential local investment for consideration by their Pool. The Pools would conduct due diligence on local investment proposals and make the final decision on whether to invest, and to manage all assets. Paragraphs 82 and 83 cover a **Requirement** [for LGPS Funds] **to report annually on local investment.**

The proposals on local investment by linking LGPS Funds and Pools with combined authorities to take account of local growth plans may potentially assist the Government in progressing their “growth” agenda. However, the proposals give LGPS Funds no role in actually determining which local investment proposals are invested in – that is to lie with the Pools. However, the approach outlined in the Consultation could fail to deliver significant suitable investments as it assumes that Pools will be able to *“...develop the capacity to carry out due diligence on local investment opportunities...”* (Paragraph 81). There must be a question as to the ability of Pools to recruit and retain staff capable of effectively assessing and then monitoring local investments. If a Pool did succeed in recruiting appropriate staff the costs of these would ultimately be met by the LGPS Funds in the Pool.

Governance of LGPS Funds and Pools

Governance of LGPS Funds and Pools is covered in Paragraphs 85 to 124 of the Consultation. There are 10 Proposals and 12 Questions relating to the Governance of LGPS Funds and Pools. The Consultation (Paragraph 87) states the Proposals *“...aim to enhance the capability of the LGPS as a well-governed institutional investor...”*. The Proposals in respect of Governance are primarily concerned with implementing proposals from the LGPS Scheme Advisory Board (SAB) **“Good Governance Project”** of 2018-2021.

The LGPS Scheme Advisory Board (SAB) Good Governance Project sought to fundamentally enhance and strengthen the governance of the individual LGPS Funds across England and Wales (86 in total). The project which began in 2018 resulted in three Phases and reports culminating in the SAB issuing, in February 2021, an Action Plan which was a formal request to the Government to implement the final proposals of the Good Governance Project. These included significant proposals in relation to Conflicts of Interest, Knowledge and Understanding, Service Delivery of the LGPS Function and the appointment of a Senior Officer specifically responsible for each LGPS Fund. The final (Phase 3) report may be accessed at [Good Governance Final Report February 2021.pdf](#) and the Action Plan may be accessed at [Annex to Good Governance letter 110221.pdf](#)

No Consultation to implement the important reforms proposed by the project was issued by Government following the submission of the Action Plan in February 2021. The present Consultation of November 2024, however, includes 6 Proposals and 8 Questions related to the implementation of the **Good Governance Project**. These Proposals are as follows:

“Requirement [for LGPS Funds] to prepare a governance and training strategy” (Paragraphs 91-94). This is based both on the Good Governance Project recommendation for an Annual Governance Compliance Statement (see Recommendation A.3) and its Recommendation (B.1) relating to a Conflicts of Interest Policy (specifically including potential conflicts between a LGPS Fund and its Administering Authority). The Consultation also states that the new Governance and Training Strategy would also set out the approach of each LGPS Fund to knowledge and training and representation – these were also themes of the SAB Good Governance Project (see Action Plan Recommendations C.1 and D).

“Requirement [for LGPS Funds] to identify a senior LGPS officer” (Paragraphs 95-97). This was one of the most important Recommendations of the Good Governance Project (see Action Plan A.2 and pages 4 to 6 of the Phase 3 Report) and one which could fundamentally strengthen the Governance of individual LGPS Funds. The Consultation (as was the Good Governance Project) is clear as to the importance of the LGPS Senior Officer role stating at Paragraph 95 *“The government’s proposal is that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund...”* Paragraph 96 further states that *“The senior officer would be a substantial role that will require significant time and energy. The expectation would be that the LGPS role would be the main priority for the senior officer. Senior officers should have authority and be able to set strategic direction. Officers reporting to the senior officer should be responsible for all LGPS functions.”* Paragraph 95, 96 and 97 supports the role and status of the LGPS Senior Officer as envisaged in the Phase 3 Good Governance Report and the SAB Action Plan of February 2021. This Proposal if

enacted will further (and rightly) emphasise the separateness of an LGPS Fund from all the other activities of its Administering Authority. It will also require Funds where the Investment and Administration functions report to separate senior officers to report to one senior officer only.

Paragraph 95 also includes the statement *“The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties.”* This supports Recommendation E.4 of the SAB Action Plan and the statement in the Phase 3 Report (page 17) that *“Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers.”*

“Requirement [for LGPS Funds] to prepare an administration strategy” (Paragraphs 98-100). Although many LGPS Funds now prepare a Pensions Administration Strategy this is not presently a requirement of the LGPS Regulations. In line with Recommendation E.2 of the SAB Action Plan the Consultation proposes this become a requirement for all LGPS Funds.

“Requirement [for LGPS Funds] to participate in a biennial independent governance review” (Paragraphs 104-107). The SAB Action Plan stated at Recommendation F.1 *“Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.”* The Consultation proposes to put this into effect. Paragraph 104 states that each LGPS Fund would be required to *“...participate in an independent governance review every 2 years...”* Ultimately in the case of LGPS Funds which were found incapable of realistically achieving appropriate standards Paragraph 106 states that *“...it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.”*

“Requirements on knowledge and skills for those involved in the management of LGPS funds” (Paragraphs 108-112). This includes two Proposals – Firstly that Pension Committee Members, the Senior Officer, and Officers have the appropriate level of knowledge and understanding for their roles, with requirements for Pension Committee Members and Local Pension Board Members aligned. Secondly, that within the (new) Governance and Training Strategy LGPS Funds set out how they will ensure Members and Officers will meet the new knowledge requirements *“within a reasonable period from taking up the role or appointment.”* These proposals particularly draw upon Recommendations D.1 and D.3 of the SAB Action Plan.

The above Proposals seek to set requirements to further and significantly enhance the standards of Governance across all LGPS Funds. However, the proposals elsewhere in the Consultation to virtually remove the Investment decision making role of LGPS Funds (including in respect of Local Investment) clearly mitigate the potentially very positive effects of the Proposals to implement the core Recommendations of the SAB Good Governance Project.

The Consultation also includes 4 further Proposals and 4 further Questions relating to Governance. At Paragraphs 101-103 there is a Requirement for LGPS Funds in respect of ***“Improving readability of annual reports.”*** This proposes that the requirement to include Fund Strategies with the Fund Annual report be removed.

Paragraphs 113-116 cover the ***“Role of independent adviser.”*** In these paragraphs the Government sets out possible approaches to the role of Independent Advisor to a LGPS Fund. At Paragraph 113 it is stated *“...the government is also considering how best to bring professional and independent expertise to pension committees to improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements.”* Paragraph 114 states *“One way in which this could be achieved would be to require pension committees to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration. Those who were or might be involved in recommending specific investment products to the committee would not be eligible.”* An Independent Advisor whose remit covers all of Investment Strategy, Governance, and Administration would in itself provide an additional source of support to most LGPS Funds as very few have an Independent Advisor whose remit covers Governance and Administration in addition to Investment. However, such an Independent Advisor would only add to Fund Governance if they were in addition to and not instead of the present arrangements where LGPS Funds have a dedicated organisation specifically providing Investment Strategy advice (whether an international, national, or smaller specialist organisation). To substitute an Independent Advisor who covers all of Investment Strategy, Governance and Administration in place of (rather than in addition to) the existing arrangements across the LGPS for Investment Strategy support will be clearly detrimental to LGPS Funds holding their Pool to account for its provision of Investment services.

The two final Proposals relate to Pools. Paragraphs 119-121 cover ***“Requirements on pool company board membership”*** including *“independent directors”* as required by the FCA and (at Paragraph 120) that *“boards should also include one or two representatives for the group of shareholder”* LGPS Funds. This wording clearly suggests that the Government believes that the LGPS Funds who own the Pools (which only exist to provide Investment services to the LGPS Funds) should have little direct say in their Governance and operation.

With regard to representation for the (over) 6 million individual Scheme Members the Consultation makes no firm proposals but merely states at Paragraph 121 *“It will also be important to ensure that scheme members’ views and interests are properly understood and taken into account by the pools. The government therefore invites views on the best way to achieve this.”*

The final Proposal of the Consultation at Paragraphs 122-123 covers a ***“Requirement [for Pools] to meet transparency and reporting standards”*** Paragraph 122 states *“The government also wishes to introduce a greater level of consistency and transparency through reporting standards for pools...”* Paragraph 123 states *“The government is exploring what this could look like for pools, and welcome views on what data and reporting would be most useful for increasing transparency...”* In standardising reporting by Pools, the Government will be more able to monitor and ultimately control the Pools which exist following the outcome of this Consultation.

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John Raisin Financial Services Limited
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Registered Office Market House, 10 Market Walk, Saffron Walden, Essex, CB10 1JZ
VAT Registration Number 990 8211 06