

<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/outcome/local-government-pension-scheme-england-and-wales-fit-for-the-future-government-response>



Ministry of Housing,  
Communities &  
Local Government

Consultation outcome

# Local Government Pension Scheme (England and Wales): Fit for the future – government response

Updated 29 May 2025

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## 1. Summary and introduction

1. The Local Government Pension Scheme in England and Wales (LGPS) is set to grow to £1 trillion by 2040. It is critical that strong and sustainable foundations are embedded, and assets invested effectively to deliver a sustainable scheme in the best interest of scheme members, employers and local taxpayers. Pension funds are also critical as a major source of domestic investment, and the local nature of the LGPS means that the scheme has a unique role to play in supporting the economic development of local communities.

2. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution pensions schemes and the LGPS. The Pensions Review's objectives for the LGPS are to consider how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through asset consolidation and enhanced governance, while strengthening the focus on local investment.

3. On 14 November 2024 the government launched its consultation on proposals to reform the LGPS and put it on a clearer, firmer trajectory to scale and consolidation. The consultation included proposals in three areas:

- **reforming asset pooling** by mandating certain minimum standards deemed necessary to strengthen the foundations of the scheme in line with international best practice. These minimum standards are:
  - a requirement on administering authorities (AAs) to delegate the implementation of their investment strategy to their asset pool
  - a requirement for AAs to take their principal advice on their investment strategy from their pool
  - a requirement on asset pools to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA) with the expertise and capacity to implement investment strategies
  - a requirement for all AAs to transfer all investments to the management of their pool
  - a requirement for pools to develop the capability to carry out due diligence on local investments and to manage such investments
- **boosting investment in local areas and regions** of the UK by requiring that:
  - AAs set out their approach to local investment in their investment strategy including a target range for the allocation, and to have regard to local growth plans and priorities in developing their investment strategy
  - AAs work with strategic authorities (Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority), or in areas where there are none of the above another designated authority, to identify local investment opportunities. In Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities

- pools conduct appropriate due diligence on potential local investments and make the final decision on whether to invest
- AAs set out their local investment and its impact in their annual reports
- **strengthening the governance of LGPS AAs and LGPS pools** in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:
  - committee members would be required to have the appropriate knowledge and skills
  - AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities
  - pool boards would be required to include representatives of their shareholders and to improve transparency. The consultation also asked for views on how best to ensure the views of scheme members are taken into account by the pools

4. A total of 220 responses were received, including from all 86 AAs and 8 pools, as well as scheme members, trade unions, advisors, industry representatives, and campaign groups. The government is grateful for all the responses received and has considered these carefully in arriving at the conclusions set out in this document.

5. The government notes that many of the scheme members who responded to the consultation were concerned about the security of their pensions. For the avoidance of doubt and to reassure members, LGPS members' benefits and pensions are guaranteed in law and will not be affected by these policy measures.

6. Responses to the proposals on pooling were varied. Many were supportive of the government's vision for pooling, but responses ranged from significant concern over the direction of travel to those who felt the proposals did not go far enough. Particular areas of concern were loss of local autonomy on investments, the requirement for AAs to take their principal investment advice from their pool, a perceived lack of ways for AAs to hold an underperforming pool to account, and transition costs. Among respondents who did not agree with the direction of travel there was

nonetheless general agreement that the minimum standards proposed are an appropriate way of delivering the government's vision.

7. There was strong support for the proposals on local investment. Most respondents felt that local investment was an important part of the LGPS's role and were supportive of protecting it, though there were some concerns raised regarding conflicts of interest and fiduciary duty. In the context of the reforms to pooling, there was a broad acceptance that pools should have the ability to make such investments and to carry out due diligence on such projects. Some were concerned that the pools may be less likely to take account of the non-financial benefits of local investment than AAs when making allocations. Most responses were supportive of active collaboration between the LGPS and strategic authorities.

8. The proposals on fund governance were welcomed. Respondents generally supported the move to bring the governance standards of the whole scheme up to a common baseline and were pleased that government had listened to the recommendations of the SAB. Similarly, respondents agreed that asset pools should report consistently and transparently on performance and costs, and shareholders should be appropriately represented in pool governance.

### **Final policy measures**

9. Following consideration of the consultation responses and engagement with stakeholders during the course of consultation, the government will implement the proposals as set out below.

#### **Pooling**

10. The following proposals will be implemented as consulted upon:

- Requirement on AAs to delegate the implementation of their investment strategy to their pool in line with the illustration at Figure 1. The investment strategy set by AAs may include a high-level strategic asset allocation (SAA) that is no more detailed than the template in Figure 3, which government intends to publish in guidance.
- Requirement on AAs to take their principal investment advice from the pool.
- Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

- Requirement for AAs to transfer all assets to the management of their pool.

11. Following consideration of consultation responses the government will not now require that listed assets are managed through collective investment vehicles. Instead, it will require that all LGPS investments, listed and unlisted, are transferred to the management of the pool. This means that the pool has full oversight of the assets and will make all investment decisions including on whether to buy, hold or sell. It will be the responsibility of the pool to determine how the investment strategies of its partner AAs are implemented, including consideration of whether assets are managed via pooled vehicles or otherwise. The government's strong expectation is that the default position will be management through pooled or collective investment vehicles.

12. The minimum standards for pooling will be introduced in the Pension Schemes Bill. Subsequent regulations and statutory guidance will provide further detail on implementation.

### **Local investment**

13. The following proposals will be implemented as consulted upon:

- Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.
- Requirement on AAs to work with relevant Strategic Authorities (Combined Authorities, Mayoral Combined Authorities, Combined County Authorities, and the Greater London Authority) or Corporate Joint Committees to identify suitable local investment opportunities.
- Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities, take the final decision on whether to invest and manage those investments.
- Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

14. Following consideration of the consultation responses pools will now be required to report annually on total local investments made on behalf of their AAs and their impact. This will simplify reporting for AAs, who will not need to undertake or commission their own report on their local investments but can draw on the pool's report.

### **Fund governance**

15. The following proposals will be implemented as consulted upon:

- Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.
- Requirement to prepare and publish an administration strategy.
- Changes to the way in which strategies on governance and training, funding, administration and investments are published.
- Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.
- Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.
- Requirement for AAs to participate in an independent governance review and, if applicable, produce an improvement plan to address any issues identified.

16. Following consideration of consultation responses, the government has decided to:

- require an independent governance review to take place once in every three-year period rather than every two years. This will align the reviews with the valuation cycle
- require AAs to have an independent advisor without voting rights, rather than an independent member of the committee
- require AAs to prepare strategies on governance, knowledge and training (replacing the governance compliance statement), and administration, and publish these either as separate strategies or as a single document. The knowledge and training strategy will be required to include a conflicts of interest policy

17. The Pension Schemes Bill will include provision for the independent governance review. The other governance policy measures will be dealt with under existing powers. Subsequent regulations and statutory guidance will provide further detail on implementation of all the new requirements.

#### **Pool governance**

18. The government intends to proceed with the requirement for pools to publish performance and transaction costs and will work with the SAB, the

Government Actuary's Department (GAD) and others to explore ways to deliver this.

19. On the question of how pool shareholders are represented in pool governance the government will not require a specific number or model for shareholder representation on pool boards. This is in recognition of concerns raised that the different composition of the various asset pools means that a single model for how shareholders are represented in the governance of their pool is not in the scheme's best interest. Instead, pools will be required to establish a governance model that works for their shareholders and any clients, with flexibility in how this is delivered. Government has received requests from AAs for greater clarity on how to hold their pools to account as shareholders in a pool company, and will work with the SAB, pools and AAs to develop guidance.

20. The government has also considered the responses it received on the issue of member representation on pool boards. The government does not intend to introduce requirements for scheme members to be represented on pool boards and agrees that it is for pools and AAs to work together to ensure member views are taken into account by pools.

## **Implementation**

21. The forthcoming Pension Schemes Bill will put asset pooling on a statutory basis, and will mandate the minimum standards for pooling whilst providing for the detail to be set out in regulations. Those powers will enable regulations to be made requiring all AAs to participate in an asset pool either as a shareholder or as a client, and for AAs to delegate the implementation of their investment strategy to the asset pool.

22. The requirement for AAs to work with relevant strategic authorities, local authorities, or Corporate Joint Committees will be implemented through regulations made under new, mandatory powers in the Pension Schemes Bill, while a reciprocal duty on strategic authorities will be delivered under the English Devolution Bill. The Pension Schemes Bill will also include powers for regulations to make provision about triennial independent governance reviews of AAs. Regulations will put the detail of the proposals into legislation and we will consult on draft regulations in due course.

23. Respondents to the consultation flagged two potential barriers to maximising the benefits of scale through asset pooling and collaboration across pools. Firstly, that Stamp Duty Land Tax (SDLT) has implications for transferring property investments from an AA to a pool investment vehicle where the seeding relief period for that vehicle has closed. The government

acknowledges the concerns regarding SDLT and tax officials will engage with pools shortly to discuss this in further detail.

24. Secondly, that the Procurement Act 2023 prevents pools from collaborating to their full potential by requiring demonstration that a significant majority of a single pool's activity is in the interest of its own partner Authorities only. Government legislation should not act as a barrier to pool collaboration especially where it can benefit multiple groups of AAs. As such, the Pension Schemes Bill will include provision such that the relevant procurement exemptions are satisfied as long as a pool is acting in the interests of any LGPS AA. This means that a pool will no longer be limited when investing through another pool, thereby harnessing even greater benefits of scale.

25. Finally, 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 will ensure there are sufficient powers in place to facilitate the merger of pension funds if needed, for example any mergers that are needed as a consequence of local government reorganisation. The government's strong preference is that mergers take place by agreement between AAs, but the power to merge pension funds will allow government to intervene in the event that local decision making is not effective in bringing about satisfactory arrangements.

26. The government's intention is to lay regulations and guidance to come into force at the same time as the powers in the Pensions Scheme Bill. We will consult on draft regulations in due course.

#### **Progress on pooling proposals**

27. Alongside the consultation process asset pools were invited to submit transition proposals setting out how they would seek to meet the proposed minimum standards. The government recognises that this was a significant undertaking and thanks all the pools and their partner AAs for their extensive engagement.

28. The proposals were assessed against a set of clear criteria including the benefits of scale, resilience, value for money, viability of meeting the proposed implementation deadline, and an options analysis of different means of meeting the minimum standards. Delivering the benefits of scale is not simply about the size of assets under management but includes accessing a wider range of asset classes including private markets, the ability to bring investment capacity in-house and make investments directly rather than via an intermediary, and the opportunity to negotiate lower management and performance fees.

29. Following this assessment the government has expressed support for the proposals from six pools and has invited the AAs of two pools to engage with other pools to determine which they wish to form a new partnership with. The government stands ready to support these decisions and will help to facilitate as required. The decision on which pool to work with is for each affected AA to make individually. The government recognises that AAs may wish to move to a new pool together with their existing pool partners, or may wish to move to different pools, and this is a decision for each AA.

30. The government recognises the significant upheaval and resource involved in moving pools. The current reforms are intended to shape the scheme for the long term and the government has no plans to intervene to reduce the number of pools further.

31. Government has asked the affected AAs to provide an in-principle decision between themselves and the pool they wish to work with by 30 September 2025. Government will continue to engage with AAs and all the pools over the coming months to discuss progress. The government's firm preference is for pool membership to be determined on a voluntary basis at a local level. In order to ensure the process of moving from eight LGPS pools to six does not result in any AA being left without a pool, and to protect the scheme in the long term, the government will take a power in the Pension Schemes Bill to direct an AA to participate in a specific pool.

### **Timing**

32. The Pension Schemes Bill will be introduced during this parliamentary session, and secondary legislation will follow in due course. The government's expectation is that, for all asset pools that are continuing with their existing partner AAs, the minimum standards and all other requirements will be met by the end of March 2026. The government will be in touch with each pool to commission data on progress against this deadline.

33. For those AAs seeking a new asset pool and for pools taking on new partner AAs, the government expects the deadline to be adhered to as closely as possible, with new partnerships to aim to have shareholder or client agreements in place by March 2026. The government recognises that the process of developing new pool arrangements will take time and may allow some limited flexibility on this deadline for those AAs and pools affected, if required. However, decisions on timing will be balanced with the need to keep the period of disruption across the LGPS to a minimum.

34. The government is grateful for the ongoing input and expertise of the SAB in developing proposals. The government will continue to engage with

the SAB and wider LGPS stakeholders as it implements the consultation proposals.

## 2. Pooling

35. The government believes that to deliver successfully for members and employers, LGPS asset pools will need to develop further as powerful global and local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals in this chapter drew on the evidence and experience of the benefits and drawbacks of the differing models of pooling developed in the LGPS to date, as well as international best practice.

36. This chapter considers the responses to those proposals, taking each consultation question in turn.

### **Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?**

37. The consultation proposed that all AAs and pools should be required to adopt an operating model that meets the following minimum standards:

- AAs would remain responsible for setting an investment strategy for their fund and would be required to delegate the implementation of that strategy to the pool.
- AAs would be required to take principal advice on their investment strategy from the pool.
- Pools would be required to be established as investment management companies, authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies.
- AAs would be required to transfer legacy assets to the management of the pool.
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

### **Summary of responses**

38. There were 197 responses to this question, of which 42% were supportive of the proposal and 35% were opposed.

39. Responses to this question were varied, with some being supportive of the proposals, some believing they should go further, and others being opposed to the government's proposed vision for pooling. Nonetheless,

even among respondents who opposed the pooling model put forward by government there was often an acceptance of the direction of travel expressed and a willingness to comply with policy direction.

40. A number of AAs welcomed the clarity and supported the direction of travel, but often with caveats on particular proposals. The standard most opposed by respondents was the proposal for AAs to be required to take principal advice on their investment strategy from their pool, citing conflict of interest concerns. Many responses noted that overhauls to fund and pool governance would be crucial to the success of the new model, with those opposed often pointing to a lack of recourse options in the event of pool underperformance.

41. While the delegation of investment strategy implementation was mostly supported, some were concerned that the proposal would result in a loss of local control and would undermine democratic accountability for the performance of investments. Some respondents felt the investment strategy and SAA template should be more granular: in particular, many wanted decisions on the use of passive or active management to remain with AAs. Some respondents, especially campaign groups, also questioned how pools would be able to effectively deliver varied environmental, social and governance (ESG) or responsible investment (RI) strategies set by their partner AAs if these diverged significantly within a pool.

42. The proposal for legacy illiquid investments to be under the management of the pool was unpopular, with many struggling to see the benefits and expressing doubt that pools would be able to deliver the capacity and capability needed to manage all these investments. Some external advisors and pressure groups also raised concerns that greater scale could reduce local investment, and expressed doubt that pools would be able to deliver local investment as effectively as AAs.

43. The deliverability of the timeline was another key concern of respondents, especially those in non-FCA regulated pools. Some suggested a staged approach to implementation.

#### **Our response**

44. The government recognises that the proposed reforms represent a significant cultural shift for some in the LGPS, and that delegating the implementation of the investment strategy to pools will markedly change the focus of many local pension committees. Nonetheless, the government does not agree that this undermines democratic accountability or diminishes local control. Instead, it frees up the capacity of pension committees to focus on the overarching objectives for their funds, rather than implementation decisions to achieve their aims.

45. These reforms are necessary to build on the success of pooling in the LGPS to date, and to strengthen its foundations to enable the scheme to reach its full potential as an institutional investor globally, domestically, and in local communities. The government acknowledges that for some pools and their AAs meeting the proposed minimum standards will require significant upheaval and additional transition costs in the short-term but believes that this is justified by the longer-term benefits of increased scale and greater efficiency.

46. Detailed responses to concerns raised in response to this question can be found in response to the following questions below, including Questions 2 and 4 on the investment strategy and SAA, Question 5 on advice, Questions 7 and 8 on the requirement for investments to be managed by the pool, and Question 10 on the implementation timeline.

47. The government intends to legislate to enact the proposals as consulted on, with the exception that it will be for the asset pool to decide the best way of implementing an AA's investment strategy. The pool will decide for both listed and unlisted assets whether to invest through collective investment vehicles, or through other arrangements. The government expects that the default investment type will be collective investment vehicles.

**Question 2: Do you agree that the investment strategy set by the AA should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?**

48. The consultation proposed that AAs delegate investment implementation activity to the pool, and retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
  - funding, for example target funding level, return and risk objectives, income requirements and stability of contributions
  - ESG matters and RI
  - local investments, with a target range

49. In addition, this could include a high-level SAA – although the government believes that expertise in the pools makes them best placed to set the SAA and that funds may wish to delegate this to the pool.

50. The division of responsibilities proposed is illustrated in figure 1:

**Figure 1: The division of responsibilities between administering authority and pool**

**Figure 1: The division of responsibilities between administering authority and pool - accessible version**

<b>Task</b>	<b>Strategy or Implementation</b>	<b>Impact on overall investment outcome of the Fund</b>	<b>Administering Authority role</b>	<b>Pool role</b>	<b>Definitions</b>
Investment objectives	Strategy	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
Strategic asset allocation	Strategy	High	Decide or Monitor	Advise or Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Tactical asset allocation	Implementation	Med	Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.

<b>Task</b>	<b>Strategy or Implementation</b>	<b>Impact on overall investment outcome of the Fund</b>	<b>Administering Authority role</b>	<b>Pool role</b>	<b>Definitions</b>
Investment manager selection	Implementation	Med	Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
Stock selection	Implementation	Med	Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
Investment stewardship	Implementation	Low	Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
Cashflow management	Implementation	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

### **Summary of responses**

51. There were 194 responses to this question, of which 41% were supportive of the proposal and 39% were opposed.

52. It was widely agreed that setting investment objectives, including the overall return target and risk appetite/budget, and SAA are the most

impactful decisions affecting overall investment outcomes and should remain with the AA. However, views varied on delegating the implementation of the investment strategy to the pool. Some respondents supported full delegation of all investment strategy implementation decisions beyond this, while others, typically the AAs, believed AAs need to retain greater control over strategy implementation. These respondents often argued that investment strategy implementation reflects the ultimate accountability resting with the pension committee or equivalent decision-makers, and felt that it was necessary for pension committees to be taking these decisions directly.

53. Some respondents considered that fund decision-makers would need the ability to control or influence investment management style (i.e. active management styles and index-tracking decisions) and the implementation of RI and ESG preferences and constraints. Some respondents felt control over these factors was necessary for effective risk management and alignment with the fund's unique objectives.

54. Some respondents also raised concerns with delegating cashflow management to the pool, observing that AAs would need oversight in order to ensure that they can pay pensions on time. It was noted that pools would need to be able to respond quickly to AAs changing cashflow needs, and that cashflow management was an area that would require regular engagement between pool and AA.

55. A minority of respondents acknowledged the potential role of effective and consistent delegation in reducing fragmentation across the 86 authorities and creating favourable outcomes for the scheme as a whole.

#### **Our response**

56. The government has considered responses to this question carefully and agrees with respondents that the high-level investment objectives, including the overall return and risk appetite, and the SAA are the most impactful decisions for a pension fund because they have the greatest bearing on the investment return achieved by the fund overall. By clearly defining the financial goals and long-term asset mix these decisions ensure that the portfolio is aligned with fund objectives, ultimately driving its sustainability and stability.

57. The government has considered representations on the issue of whether decisions on investment management style (for example the split between passive and active management) should sit with the AA or with the pool. It remains the view of the government that choices of investment management style, including active or passive, are a function of the required rates of return and risk appetite, and are therefore an

implementation rather than strategic decision. For these reasons decisions on investment management style, including decisions on active or passive management, should be the responsibility of the pool rather than the AA.

58. On the topic of cashflow management, the government wishes to clarify that what it intends to be delegated to the pool is the consideration of income from investments and whether this is sufficient to meet the cashflow requirements of the funds. It is for the funds to set their cashflow requirements in the income section of their investment strategy and to manage the income from contributions and investment income received via the pool.

59. The government intends to legislate to require AAs to set an investment strategy in accordance with the model consulted on, and to delegate the implementation of that strategy to the pool. AAs will be required to include a SAA in their investment strategy statement in line with the template provided. AAs may choose to complete the SAA themselves or delegate this responsibility to their pool to set allocations in line with their investment strategy (see also Question 4). This is in keeping with the delegation model illustrated in the above table.

**Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the AA's fiduciary duty?**

60. This question asked whether the AA's fiduciary duty would be met by retaining responsibility for an investment strategy, including the high-level objectives on:

- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment (RI)
- local investments, with a target range (further discussed in chapter 3)
- optionally, a high-level SAA

**Summary of responses**

61. There were 182 responses to this question, of which 29% were supportive of the proposal and 51% were opposed.

62. Some respondents agreed with the model proposed and observed that it is widely used in the private pensions sector in the UK and globally, as well as within some parts of the LGPS.

63. Many respondents raised concerns that AAs had limited ability to hold the pools to account for their performance, and that their options were limited if the performance of the pool meant they were not able to discharge their fiduciary duty. Pool partnerships were perceived by some as fixed and inflexible compared to private sector equivalents who can more easily end contracts with their investment managers.

64. A number of respondents felt that the investment strategy and SAA framework proposed were too high-level, and that to be able to satisfy their fiduciary duty AAs needed to be able to decide additional details. These included cashflow and liquidity requirements, investment style choices, whether index-tracking investments should be “conventional” or “ESG enhanced”, whether to set “red lines” on investment types that the AA did not want held in its name, and a position on RI and net zero.

65. Some respondents were concerned that there was a potential tension between AAs having differing or contradictory ESG and RI policies and pools seeking to minimise the number of products they offered. Proposed solutions to this included allowing AAs to allocate to sub-funds with specific ESG profiles, by the pool balancing investments between sub-funds with different ESG profiles in order to meet each AAs specific stance on average (e.g. on net zero), or by the pools explicitly meeting divergent ESG stances by tailoring products to groups of partner AAs with similar stances.

66. Some respondents believed that AAs needed to be free to seek external advice on their investment strategy as they saw necessary in order to satisfy their fiduciary duty, and others raised concerns about reliance on advice provided by the pool before the pools had developed experience in providing this service.

67. A number of respondents felt they needed to consider legal advice on the issue of fiduciary duty in order to be reassured and noted that the SAB had sought such advice on behalf of the scheme.

### **Our response**

68. The government notes the concerns raised in responses to this question, but remains of the opinion that the proposals are sufficiently flexible to allow AAs to meet their fiduciary duty to scheme members and employers.

69. Many of the additional factors that respondents told us they would need to be able to include in the investment strategy in order to satisfy their fiduciary duty already form part of the proposed investment strategy (e.g. cashflow and liquidity requirements, which form a part of the high-level objectives on funding, and a position on ESG matters, RI and net zero).

Other factors derive directly from the investment strategy (e.g. the decision on whether index-linked investments should be conventional or modified to take account of ESG considerations derives from the ESG stance in the investment strategy).

70. As outlined in response to Question 2, the government has considered the question of whether the investment style (active, style of active management, index-tracking, what index to track etc) should form part of the investment strategy set by AAs. The government remains of the opinion that the investment style is an implementation decision that derives from the investment strategy and that pools are best placed to consider alongside other implementation decisions. The government is therefore of the opinion that the high-level stance set out in the investment strategy is sufficient for an AA to satisfy its fiduciary duty to scheme members and employers.

71. In order to enable the pool to invest at scale it is important that pools are not expected to create bespoke arrangements for each AA's ESG and RI requirements. This is in the interest of AAs, who should endeavour to work with their pool to reach a common approach and thereby maximise the benefits of scale. Government expects each pool will facilitate discussions among their partner AAs to establish a common approach. However, the government recognises that this will not always be possible, for example where there are particularly divergent or conflicting stances between AAs in a pool. In these cases pools may need to consider alternative options such as offering more than one ESG standard. The appropriate solution may depend on the number of AAs in a pool and the degree of divergence between ESG and RI stances. The government does not intend to proscribe a single solution, but does not expect to see bespoke arrangements for each AA.

72. The government has considered the point that AAs feel they have limited recourse options if their pool fails to implement their investment strategy effectively. AA shareholder and client groups have a much greater influence on their pools than private sector schemes have on their fiduciary managers. Indeed, as pools are not profit generating organisations, their interests are much better aligned with their shareholders and clients than their private sector counterparts. It is for pool shareholders to ensure that their governance arrangements are sufficiently robust to enable them to adequately hold their pool to account, noting that pool shareholders have previously been able to effect leadership changes in LGPS pools. A fiduciary oversight service may provide additional assurance to AAs – government would expect that where shareholder/client groups are interested in procuring an oversight service that they do so collectively as a group of partner AAs and in conversation with their pool to ensure the

service provided meets the needs of the group and avoid unnecessary duplication of costs and effort.

73. In response to concerns that the proposed requirement for AAs to take principal advice on their investment strategy from their pool would be insufficient for AAs to satisfy their fiduciary duty, the government notes that the proposals do not preclude AAs from taking advice from external sources 'in exceptional circumstances', nor does it prevent pools from considering or procuring advice from other sources if they wish to rather than solely providing it using an internal function. This could include situations where the pool may wish to seek specialist advice on a specific asset class or a pool wishes to seek a second opinion. The key point is that the government believes that these situations should be the exception, rather than the norm, given that pools are set-up to meet their shareholder's needs and do not stand to benefit financially from poor quality advice. The government is therefore satisfied that AAs will have access to the 'proper advice' needed to satisfy their fiduciary duty. More detailed discussion of the proposed requirement for AAs to take principal advice on their investment strategy from their pool can be found in the response to Question 5 below.

74. The government notes that many respondents said that they wanted to consider legal advice on the issue of fiduciary duty and suggested that this should be sought on behalf of the scheme. The LGA sought advice on this issue which was published on the SAB website on 15 January 2025: [LGPS Scheme Advisory Board - Legal Opinions](#). The SAB have also published a [document summarising their understanding of the advice](#).

**Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?**

75. The question asked for views on the following template for SAA which would be used in the investment strategy statement:

**Figure 2: Proposed SAA template in consultation**

<b>Asset class</b>	<b>Strategic asset allocation (%)</b>	<b>Tolerance range (±%)</b>
Listed equity		
Private equity		

<b>Asset class</b>	<b>Strategic asset allocation (%)</b>	<b>Tolerance range (±%)</b>
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Private credit

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Property / Real estate

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Infrastructure

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Other alternatives

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Credit (i)

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UK Government bonds

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Cash (ii)

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(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

(ii) For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

76. AAs would have the option of completing the template themselves or delegating to the pool to choose an appropriate allocation in line with their investment strategy.

### **Summary of responses**

77. There were 165 responses that expressed a view on the template for SAA.

78. Many were supportive of the template, arguing that high-level asset classes were adequate to fulfil AA needs while enabling pools to develop scale, and that further granularity would be an unhelpful distraction. Many

respondents also agreed with the approach of allowing tolerance ranges alongside each, as this allows pools to take advantage of short-term, tactical investment opportunities and mitigate the risk of excessive trading to stick closely to the long-term SAA.

79. Some respondents argued that AAs should not set allocations to specific asset classes but instead wanted a template that would allow the AA to set objectives around categories such as growth, income and diversification. It was argued that this would allow the AA to more accurately express its objectives to the pool without being overly prescriptive on asset allocations.

80. Most responses requested additional granularity to the SAA, with some arguing that the high-level approach was incompatible with an AA's ability to discharge its fiduciary duty and would not accommodate different responsible investment policies. Some respondents requested the flexibility to set more detailed categories, though some of the suggested categories already form part of the proposed investment strategy, such as ESG policies and local investment. Other respondents proposed including active and passive equity allocations; geographical allocations including UK, global, and regional allocations; liability related investments such as buy-in policies; and more detailed breakdowns of private credit, private equity, alternatives, property, and UK government bonds categories. Many responses also set out their view that cash is not a strategic allocation and should not be included in the table.

81. A small number of respondents were concerned that the table may have an unintended consequence on the calculation of the discount rate used for funding purposes, which could lead to increased contributions. Some responses observed that fostering meaningful collaboration between partner AAs was the most important factor to make pooling work, and that a strict table would not be a shortcut to this end.

82. Some respondents requested that the government should set out its approach towards reviewing the table.

### **Our response**

83. As set out in response to Question 2, the government intends to proceed with its proposal to require AAs to include a SAA in their investment strategy statement. AAs would be able to set this themselves or delegate to their pool to choose an appropriate allocation based on their investment strategy.

84. The government has carefully considered views on whether the proposed template is appropriate and will bring forward guidance to

establish an SAA template in line with Figure 3. This breakdown of asset classes is a clear and recognisable set of categories, which provides a common vocabulary for AAs and pools to use when considering their investment strategy. However, if there is collective agreement between a pool and their AAs, it will also be permitted to use a less granular asset allocation such as allocations to growth and matching assets only. The government agrees that AAs will need to foster strong working relationships with their pool in order to make a success of pooling. The government does not see the SAA template as an alternative to this and expects that AAs and their pool will work closely in the development of each SAA.

85. The government notes the feedback about cash and intends to describe this category as 'investment cash' to be clear that this refers to cash for investment purposes which the pool requires to meet portfolio demands. This is different to operational cash for paying pensions which remains within the purview of the AA.

86. In terms of the additional detail requested in the template, the government is of the view that everything requested either already forms part of the proposed investment strategy, or represents investment strategy implementation decisions which should be the remit of the pool rather than the AA. This includes decisions on geographic allocation within each asset class including global and UK exposure. As outlined in the response to Question 3 above, the government does not believe it is necessary for AAs to have decision making power at this more granular level in order to satisfy its fiduciary duty to its members. Therefore, the government will be requiring the SAA agreed between AAs and pools to be no more granular than that in the template at Figure 3 below.

87. The government does not agree that the template needs to impact the discount rate. The funding strategy should reflect the investment strategy, and these should be considered together in calculation of the discount rate. The government also wishes to emphasise that pool investment vehicles or sub funds do not need to map to the template SAA; these can be created, continued and closed as the pool considers necessary to deliver on the investment objectives and SAAs set by the partner AAs.

88. The government will publish guidance on the SAA that will include the following template:

**Figure 3: Template SAA to be published in guidance**

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
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Listed equity

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Private equity

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Private credit

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Property / Real estate

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Infrastructure

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Other alternatives

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Credit (i)

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UK Government bonds

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Investment cash

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(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

**Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?**

89. The consultation proposed that pools should be required to provide advice on investment strategies of their partner AAs, and asked whether

AAs may wish to seek additional advice, and what form this might take. The consultation proposed that AAs take the principal advice on investment strategy from their pool, although they could seek additional advice from external investment advisors in exceptional circumstances to help them consider the advice given to them by the pool.

### **Summary of responses**

90. There were 185 responses to the first part of this question, of which 30% were supportive of the proposal and 54% were opposed. 155 respondents commented on whether it would be necessary to take further advice or input, of which 87% of responses were in favour of further advice. Many respondents were concerned that the proposed changes could create an unmanageable conflict of interest, potentially disincentivising pools from acting in the best interests of partner funds.

91. Many respondents emphasised the importance of pension committees having the necessary ability, knowledge, and information to effectively hold their investment managers, and therefore the pool, accountable. It was noted that independent investment consultants and advisors currently play a crucial role in this function. The majority saw this as a vital measure to provide checks and balances if the pool were to become the principal advisor. Some respondents also highlighted the success of the current investment consulting framework, citing its modest costs and long track record of delivering results. They expressed concerns about the risks of adopting an untested model, given that capability and capacity are not yet well established across the current pools.

92. A minority of respondents held a contrary view, believing that conflicts of interest could be effectively managed. They pointed to examples from UK corporate defined benefit schemes and international cases where such models are operating successfully.

### **Our response**

93. The government remains of the view that there is no conflict of interest in the pools advising on the investment strategies of partner AAs, because the pools are solely owned by LGPS AAs, exist to provide services in their interest, and do not stand to gain financially from the partner funds taking their advice nor from providing poor quality advice.

94. The government agrees that it is important for Pension Committee members to have appropriate ability and knowledge to effectively hold their pools to account for their advice. It is envisaged that it will be part of the role of the independent advisor to the pensions committee (see response to Question 26) to support pension committees in challenging and testing the advice from the pool. The government recognise that there will be

situations where AAs may feel that the advice of the pools needs supplementing with or testing against advice from other sources, however the government is clear that these cases should be exceptional rather than routine. In the vast majority of circumstances the pool should be the sole source of the AA's investment advice.

95. Pools will have the option of procuring investment advice if they wish to, but the government expects that most will wish to establish their own advisory services. Advisory services are one area where pools may wish to collaborate or procure from each other, as noted in response to Question 11.

**Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?**

96. The consultation proposed 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 SAA
- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

97. All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

**Summary of responses**

98. There were 186 responses to this question, of which 59% were supportive of the proposal and 26% were opposed.

99. There were a wide range of responses to this question. Support was stronger on the general issue of pools being FCA-regulated than it was on the specific issue of pools being authorised to provide relevant advice.

100. Some respondents thought FCA regulation was a positive move that would align standards across the LGPS, and that it would provide reassurance of the quality of services provided to partner AAs. Many,

whether or not they agreed with the government's wider proposals on pooling, felt that FCA regulation was a necessary and appropriate step to facilitate those aims effectively.

101. Conversely, a small number of respondents felt that it was possible for the pools to achieve the government's minimum standards without FCA regulation, and believed the government should focus on the wider objectives of pooling rather than the models through which they are achieved. It was also suggested by a small number of respondents that FCA regulation would inhibit local investment.

102. On the question of whether pools should be authorised to provide advice, some respondents commented that pools should be able to provide advice, but that it should be for AAs to decide where they take advice from. Others felt that pools should not provide advice at all.

103. Many respondents were concerned about the timetable for the pools to achieve FCA authorisation and for them to develop capability to provide advice. Respondents felt a March 2026 deadline would be unachievable, and that attempting to achieve authorisation within this timeframe would lead to poorly thought through decisions and increased costs.

#### **Our response**

104. The government notes the majority support for the pools to be authorised by the FCA, and intends to legislate to require this in order to support the wider pooling proposals. Government is of the view that FCA authorisation provides a robust platform for managing the growing volume of assets in the LGPS. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed.

105. The government notes that most of the opposition to the pools being authorised to provide advice is grounded in opposition to the general principle of pools providing advice, rather than whether FCA regulation is appropriate. As set out in the response to Question 5 above, the government intends to implement the requirement for AAs to take their principal advice on their investment strategy from their pool, and as such intends to require that the pools are authorised to provide this advice. AAs will not be prohibited from seeking supplementary advice from other sources in exceptional circumstances where there is an appropriate justification for doing so, but the pools should be the default source of advice.

106. The government rejects the suggestion that FCA-regulation will prevent the LGPS from investing locally. This is evidenced by the existing

FCA-regulated pools successfully investing locally. FCA regulation does not prevent the pools from considering the non-financial benefits of investment nor from accepting lower returns in order to invest in projects with a local impact, provided the investment is in line with the investment strategy of the AA. As set out in response to question 15, AAs will be responsible for setting their objectives on local investment, including a target range, in their investment strategy, which pools will then be required to implement.

107. The government notes the concerns over timing. The government has sought assurance from the FCA and is confident that pools will be able to achieve authorisation within the required timeframe. Each pool seeking authorisation is in touch with the relevant FCA team for pre-application discussions.

**Question 7: Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?**

108. The consultation proposed that AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles (collective investment vehicles with assets from multiple AAs in a pool) managed by their pool. This follows on from an expectation set out by the previous government in November 2023, that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis.

**Summary of responses**

109. There were 177 responses to this question, of which 36% were supportive of the proposal and 50% were opposed.

110. Most respondents were supportive of the idea of AAs investing listed assets via their pool. Many noted the benefits that could be derived from the pools, including economies of scale leading to reduced fees. Some were supportive of government compulsion for listed assets to be transferred, as this would drive quicker change towards establishing investment at the appropriate scale for the LGPS.

111. Some were concerned that the compulsion to pool listed assets would be incompatible with an AA's fiduciary duty, as pool products may perform worse than their existing products after costs. More broadly, some felt that requiring assets to be pooled amounted to government mandating investment decisions, which was considered inappropriate since it because it would undermine local democratic accountability for paying benefits.

112. Many were concerned that this proposal could compromise the RI policies of AAs. They argued that to achieve scale, AAs would have to

meet common agreement on RI, which may in practice lead to a lowest common denominator solution, inhibiting the AAs with the most ambitious targets. There were concerns that it might not always be possible to accommodate AA-specific requirements on responsible investment in a pooled vehicle.

113. Many respondents were broadly supportive of the policy intent, but were concerned that pools do not have suitable products or operational readiness to be able to take on all listed assets, especially given the March 2026 deadline. Respondents argued that being required to invest all listed assets in pooled vehicles could lead to the forced liquidation or sale of assets without corresponding benefits to justify the costs incurred. A common concern was the treatment of index-tracking equity funds, where costs are already very low outside the pool. Some respondents noted that in some cases there are small-scale local investments that are listed.

#### **Our response**

114. The government's view is that it is preferable for listed assets to be invested in pooled investment vehicles, that is collective investment vehicles with assets from more than one investor.

115. The government does not agree this is incompatible with the AA holding fiduciary duty or that it undermines local democratic accountability. As outlined in response to Question 3, the government considers that setting the parameters in the high-level investment strategy is sufficient for AAs to satisfy their fiduciary duty to scheme members and employers. Deciding how the investment mandate should be delivered is an implementation decision rather than a strategic one and should sit with the pool. AAs remain responsible for their investment strategy and for their role as a pool shareholder or client, and therefore remain accountable for the management of their pension fund.

116. The government also recognises that balancing individual AAs' responsible investment positions, and particularly specific exclusions, can present challenges when seeking to invest at scale. However, the government does not believe these challenges are insurmountable, or should be a barrier to investing via the pool, or require investments to be held outside the pool. Indeed, existing pools are already achieving an effective balance between scale and delivering differing ESG/RI objectives through pragmatic discussions with their partner AAs.

117. During the course of the consultation further evidence from stakeholders indicated that there are some exceptional circumstances in addition to those noted above where it is not value for money for listed assets to be transitioned into pooled vehicles. This includes where

transition costs are sufficiently high to erode savings in the longer term, where pooled vehicles cannot achieve the same risk-adjusted return as could be achieved through an alternative implementation route, or where transitioning assets by the March 2026 deadline would require multiple sales in a short period of time.

118. The government therefore no longer intends to require that all listed assets are invested in pooled investment vehicles. Instead it will require that all LGPS investments, listed and unlisted, are transferred to the management of the pool. This means that the pool has full oversight of the assets and will make all investment decisions including on whether to buy, hold or sell. It will be the responsibility of the pool to determine how the investment strategies of its partner AAs are implemented in their collective best interests, including consideration of whether assets are managed via pooled vehicles or otherwise. The government's strong expectation is that the default position will be management through pooled or collective investment vehicles, with the vast majority of assets managed in this way. However, the government believes it is appropriate for the pool to have responsibility for determining the best implementation route in the interests of its partner AAs, and for making changes to implementation over time if needed. The March 2026 deadline for all assets to be under the management of the pool will still apply.

**Question 8: Do you agree that AAs should be required to transfer legacy illiquid investments to the management of the pool?**

119. This consultation proposed that funds transfer legacy illiquid investments to the management of their pool, but not necessarily into pooled vehicles managed by the pool.

**Summary of responses**

120. There were 177 responses to this question, of which 25% were supportive of the proposal and 54% were opposed.

121. The majority of respondents to this question disagreed with transferring the management of legacy illiquid assets to the pool or argued that certain assets should be excluded from pool management. Suggestions included assets that do not meet a minimum size threshold and assets that have a specific link to fund liabilities such as assets in runoff and direct property investments. One respondent also raised the issue of investments where the pension fund is not the outright owner of the investment, and therefore not able to legally transfer the management of the investment to the pool.

122. It was frequently commented that these are a diverse range of niche investments that would take the pools significant resource and expertise to manage, but which are a small proportion of total LGPS assets, many of which are in run-off. It was argued that there would not be cost savings from the pools managing these assets, and that transition costs could be high. There were some concerns raised about the potential SDLT implications of transferring property investments to the pool following the close of seeding relief windows in pool real estate sub-funds.

123. Some respondents were concerned that having the pools manage these assets would lead to a loss of asset diversification within the LGPS as pools would seek to simplify their portfolios and make them more efficient over time. There were also concerns raised about a loss of local accountability for these assets, and the ability of AAs to exercise their fiduciary duty due to a perceived lack of recourse options should the pools fail to manage these assets in the interest of the fund. Some were concerned that pools may underperform relative to existing arrangements. Some respondents were concerned that the loss of autonomy could inhibit a fund's ability to implement their responsible investment policies.

#### **Our response**

124. The government recognises the difficulties highlighted by responses to this question. The government wishes to clarify that it does not intend to mandate that legacy illiquid assets should be sold and transferred to pool ownership, but rather that they should be managed by the pool. This means that the pool has full oversight of the asset and is responsible for making the decision on whether to buy, sell or reinvest. This should create efficiencies at the pool level as all of the AAs' illiquid assets can be managed by the pool, instead of each illiquid investment being managed by individuals at the AAs.

125. Some of the concerns raised were to do with the pool selling an asset when it was not in the AA's interest to do so. The government does not recognise this concern; pools are acting in the sole interest of their shareholders and clients and it is difficult to see what the pool would gain from selling an asset when it was not in the AA's best interest to do so.

126. The government does not agree with the concern of respondents around a lack of asset diversification if the investments are to be managed by the pool. The pools will seek sufficient diversification within their illiquid investments to meet their risk tolerances as they do for liquid investments. Indeed, by virtue of the pool having larger mandates than the individual AAs, more diversification of illiquid investments may be possible.

127. As with the response to Question 7 above, the government does not agree that the requirement for investments to be managed by the fund will undermine local accountability or an AA's fiduciary duty. AAs will retain responsibility for their investment strategy and will be responsible for their role as shareholder or client of their pool, giving sufficient flexibility for them to satisfy their fiduciary duty and to be democratically accountable for the management of their fund.

128. The government recognises that transferring the management of niche illiquid investments is not straightforward, and that there may not always be an immediate cost efficiency from doing so. However, the government believes that while managing assets in the pool might incur initial costs, continuing to manage them outside the pool will limit efficiency in the long term by reducing scale and limiting the pool's comprehensive oversight of a fund's assets. The costs of management would also still be incurred, but by the AAs instead of the investment experts at the pool. Some increase in costs may be due to managing assets within an FCA-regulated environment but the government's view is that this is justifiable to ensure appropriate standards and assurance.

129. The government acknowledges the concerns regarding SDLT in the context of real estate asset pooling. Tax officials will engage with pools shortly to discuss this matter in further detail.

**Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?**

130. This question asked what capacity and expertise the pools would need to develop to take on management of legacy assets from the partner funds, and asked about timelines for delivery recognising that pools vary in the capacity and expertise that they currently have to take on this role. As set out in response to Question 8, the government's requirement is that the pool will be responsible for managing all assets which includes being responsible for decisions on whether to buy, sell or reinvest legacy illiquid assets.

**Summary of responses**

131. The majority of respondents said that pools would need to develop additional capabilities, although a minority felt that their pool already had the capability and expertise but would have to increase capacity. The additional capabilities required included specialist expertise in diverse illiquid asset classes and the processes for managing them, including significant relationship management capabilities. Other issues raised included the ability to manage cashflow requirements and to be able to

handle cash calls on legacy investments, the need to upgrade or enhance IT systems to manage these assets, the need to improve data sharing, and the need to develop legal agreements between the pools and AAs that clearly set out roles and responsibilities of each in managing legacy investments. Many respondents also flagged that historic knowledge of specific investments would be required to manage these asset classes well.

132. A number of respondents raised concerns that developing appropriate capabilities and capacity would incur substantial additional costs but that there was little benefit to the AA of transferring management of these assets to the pool. Concerns were also raised that insufficient understanding of legacy assets would increase risk.

133. Some respondents were concerned that the pools would be in competition with each other for appropriately skilled staff, which could both drive up salaries and leave pools unable to recruit in time. Conversely, others were confident there were sufficient appropriately skilled individuals in the pensions sector. Many respondents also suggested the most workable solution would be for the pools to outsource management of niche asset classes to specialist investment management companies, at least in the short-term, rather than attempting to develop these capabilities in house.

134. A number of respondents proposed a model in which legacy assets would remain allocated to the individual AA until such a time as they mature and are transferred to pooled solutions. The pool would appoint a pool officer with responsibility for legacy assets, who would decide on the appropriate timing and means of disposal in consultation with the asset owner, specialist consultants, and the pool's investment managers.

135. Some respondents felt the timeline for implementation should be extended to allow the AAs more time to ensure that they had appropriate expertise and capability before taking on the management of assets, to avoid competition in recruiting, and to stagger the administrative demands on AAs so that it does not coincide with the valuation. Some felt that government should not set a deadline and allow AAs and pools to agree a date for transition, whilst others suggested dates in 2027.

#### **Our response**

136. The government recognises that managing legacy illiquid assets will require pools to develop new capacity and capabilities, however, as set out in response to Question 8 it believes that achieving the broader benefits of pooling requires that legacy assets are managed by the pool. The government encourages the pools to consider whether this is a potential

area where they can collaborate with each other, with different pools establishing specialisms on different types of illiquid asset and offering management services to each other. Alternatively, pools may wish to procure services for the management of some illiquid asset types to specialist investment management companies. This enables flexibility in how this requirement is delivered to ensure these investments are managed with sufficient expertise.

**Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?**

137. The consultation proposed an indicative timeline to become compliant with all the minimum standards by March 2026. The government requested each pool to consider the viability of meeting this timescale in their pooling proposal. The timescale is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 fund valuations. It also takes account of the timescale over which the FCA may consider applications for investment management companies and authorisation to provide investment advice.

**Summary of responses**

138. There were 175 responses to this question, of which 5% were supportive of the proposal and 65% were opposed.

139. The significant majority of respondents to this question disagreed with the implementation timeline and expressed concerns about the proposed pace of transition, commenting that there were additional costs and risks associated with it. They argued that the substantial governance and resource demands on AAs of delivering this transition alongside other projects like the 2025 fund valuation risks rendering the proposal unrealistic.

140. Many respondents commented that typical timeframes required for FCA authorisation were longer than the proposed implementation deadline allowed for, which would impact the plans for non-FCA authorised asset pools to develop the necessary capabilities.

141. Alternative implementation timelines proposed by respondents included modifying the proposal to allow the new capabilities to be phased in over several years or adopting a “comply or explain” approach for the March 2026 deadline.

**Our response**

142. The government has carefully considered the proposed implementation timeline in the light of responses but has concluded that meeting this the March 2026 deadline is critical to drive progress in the scheme, and to minimise the period of disruption. Government believes the deadline should be achievable given that it has previously communicated its expectations on asset pooling and stated that it would consider legislating if insufficient progress was made by March 2025 ([Chancellor vows 'big bang on growth' to boost investment and savings](#)).

143. The government recognises that it may take time for those pools that do not already have an advisory capability to develop it in order to be able to advise on investment strategy. As set out in the response to Question 5, pools may procure advisory capacity in the immediate term if necessary to meet this requirement.

144. In terms of the timeline for achieving FCA authorisation, the government is liaising with the FCA and is confident that authorisation can be achieved by March 2026 for the pools seeking to apply.

145. Following receipt of the pooling proposals requested alongside the consultation the government has expressed support for the proposals from six pools and has invited the AAs of two pools to engage with other pools to determine which they wish to form a new partnership with. The government stands ready to support these decisions and will help to facilitate as required. The decision on which pool to work with is for each affected AA to make individually. The government recognises that the AAs may wish to move to a new pool together with their existing pool partners, or may wish to move to different pools, and this is a decision for each AA.

146. The government's expectation is that, for all asset pools that are continuing with their existing partner AAs, the minimum standards and all other requirements will be met by the end of March 2026. The government will be in touch with each pool to commission data on progress against this deadline.

147. For those AAs seeking a new asset pool and for pools taking on new partner AAs, the government expects the deadline to be adhered to as closely as possible, with new partnerships aiming to have shareholder or client agreements in place by March 2026. The government recognises that the process of developing new pool arrangements will take time and may allow some limited flexibility on this deadline - for those AAs and pools affected - if required. However, decisions on timing will be balanced with the need to keep the period of disruption across the LGPS to a minimum.

148. Failure to comply with legal requirements by the deadline and subsequently on an ongoing basis, could lead to AAs being directed by the Secretary of State to undertake a governance review with immediate effect. In cases where the governance review process and any peer support are not successful at delivering change, 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.

**Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?**

149. This question asked about the scope to increase collaboration between pools, and about potential barriers. Areas where specialisation or collaboration may be particularly attractive include in specialist assets such as private equity, private debt and venture capital, as well as infrastructure and specific local or regional investments.

**Summary of responses**

150. The majority of respondents who answered this question were enthusiastic about increasing collaboration between pools and felt it would benefit the scheme as a whole. The main areas flagged for potential collaboration were developing “centres of excellence” in specialist asset classes such as private equity and infrastructure, particularly where it would be detrimental to the scheme as a whole for pools to develop separate capabilities. Some respondents also suggested there could be pool-led centres of excellence on local investment, so that non-regional pools could benefit from the local knowledge of regional pools, or a single local investment capability jointly owned by all pools. The sharing of advice capabilities was another area of potential collaboration raised.

151. Potential barriers to collaboration raised included both structural and cultural factors. Some respondents flagged that the governance arrangements of a cross-pool investment vehicle need to be carefully considered and noted that the perceived increased distance between AAs and fund managers could make it harder to hold managers to account for performance. Respondents had differing views as to whether AAs of a pool investing in the vehicle of another pool should be treated equally to those of the ‘lead’ pool, for example in terms of fees. They commented that pools were setup in the long-term interests of shareholders, and that it could be detrimental to the lead pool’s partner AAs if the partner AAs of another pool influenced mandates in the interest of their short-term objectives.

152. Some respondents were concerned that the Procurement Act 2023 could be a barrier to pool collaboration. Respondents were concerned that a pool they own investing in a vehicle owned by a different pool could potentially contravene the Act, and some respondents raised questions around how pools and AAs should interpret the Act's joint control test when considering their governance structures.

153. Some respondents raised concerns that the government's focus on pooling standards risked slowing or disincentivising collaboration. It was suggested that the focus on pooling standards had introduced a sense of competitiveness between pools, and that pools may be concerned that investing in the vehicle of another pool could be perceived as them being a weaker pool, or that it could result in them being targeted for a merger into another pool. It was also suggested that timelines meant pools were focussed on meeting the minimum pooling standards by the deadline rather than considering collaboration options which were harder to deliver.

#### **Our response**

154. The government welcomes the interest and enthusiasm from respondents for collaboration between pools. The government agrees that each pool developing as a centre of excellence in particular specialist asset classes would be beneficial to the scheme as a whole, and that further joint ventures such as for example GLIL and the London Fund could help unleash the full potential of the scheme to invest in UK assets.

155. The government agrees that the Procurement Act 2023 should not be a barrier to collaboration between pools. The existing FCA-regulated pools were all established under the Teckal exemption (set out in the Public Contracts Regulations 2015 and relevant to the "vertical arrangements exemption" within the 2023 Procurement Act), which allows public authorities to award contracts to entities they control without going through full procurement procedures. The vertical arrangements exemption currently allows AAs to procure contracts from their pool without going through full procurement exercises, provided that the contract satisfies a number of tests. To meet the vertical arrangements exemption's activities test LGPS pools must demonstrate that 80% of their activity is undertaken for the benefit of their own partner AAs only (as per paragraph 2(2)(c) of Schedule 2 to the Procurement Act 2023). Government recognises this may prevent pools from collaborating to their full potential especially where it can benefit multiple groups of AAs.

156. The Pension Schemes Bill will therefore include measures to modify the Procurement Act 2023 for the LGPS, so that the vertical arrangements exemption is satisfied as long as 80% of the pool's activity is undertaken for the benefit of any LGPS Authority (rather than solely their partner

Authorities). This means that a pool will no longer be limited when investing through other pools' investment vehicles, to the benefit of both groups of AAs. This change further enables close collaboration between pools and possible specialisation by pools in certain asset classes, thereby harnessing even greater benefits of scale. Government will also provide guidance in due course to support interpretation of the vertical arrangements exemption's joint control test, as outlined in paragraph 2(2)(d) of Schedule 2 to the Procurement Act 2023.

157. It is understood that the deadline for meeting the minimum standards of March 2026 may be the focus over collaborating in the short term, but over the medium term putting pools on a consistent footing should make collaboration easier. The government is clear that that pools should be working together wherever this can improve outcomes for scheme members, employers, and the taxpayer.

**Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?**

158. This question asked for views on whether there potential for collaboration between partner AAs in the same pool in the administration of the LGPS, or whether there could be greater collaboration and cooperation between AAs on any other issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

#### **Summary of responses**

159. There were 151 responses to this question, of which 83% were supportive of the proposal and 7% were opposed.

160. The majority of respondents who answered this question were supportive of the benefits of collaboration between partner funds in the same pool on issues such as administration and training. Many also considered that there was potential for collaboration in shared back-office services and other areas such as governance, investment strategy, environmental, social and governance matters and actuarial services. Others flagged that integrating technology and artificial intelligence (AI) tools into these systems had the potential to enhance data analysis and improve decision-making processes.

161. Many respondents highlighted the potential benefits of collaboration between funds including the potential for improved service quality, shared

expertise, the potential for cost savings and for better collective negotiating capability.

162. Many highlighted existing collaborations between funds that are already delivering cost savings and efficiencies beneficial to both funds and their pools. These included collaboration models such as the “Tri-Borough” arrangement in London, and outsourced administration services provided by West Yorkshire Pension Fund. Others commented that there is already considerable informal collaboration within local pension officer groups where administration issues are discussed and good practice shared. In addition, collaboration occurs through membership of the Local Government Association and the Pensions and Lifetime Savings Association (PLSA), and briefings organised by the SAB.

163. A minority of respondents commented that there were barriers locally to further cooperation and integration of shared services and resources. These could occur where there were differing governance arrangements or differing local priorities and objectives.

#### **Our response**

164. The government was pleased to see the level of support for collaboration between AAs and believes that this is a valuable tool for reducing duplication, sharing best practice, and fostering innovation across the scheme. The government wishes to encourage and support collaboration initiatives across the scheme wherever possible.

165. It is anticipated that standardising the model of pooling and governance across the scheme will help to remove some local barriers to collaboration. However, government will remain alert to any remaining barriers and will seek to identify what action can be taken to remove them.

166. The government is looking at ways to make it easier to setup standalone pensions authorities, which it anticipates may be useful in cases of Local Government Reorganisation where new authorities do not map straightforwardly to underlying AAs.

### **3. Local investment**

167. 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 what matters to local communities. The LGPS can play an important role in providing anchor investment in

local and regional projects, which can make them more attractive to private sector investors including pension schemes. This includes affordable housing, clean energy, physical and digital infrastructure, and support for new and established local enterprises, which can deliver positive local impacts, as well as financial return. 'Local investment' has been used throughout this chapter to refer to both local and regional investment.

168. Many AAs have already deeply embedded these wider considerations into their investments. They recognise that it is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did throughout their working lives.

169. This consultation focussed on local investment by LGPS funds, but there are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance issues. These may contribute to the government's key missions including making Britain a clean energy superpower and accelerating to net zero.

### **Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?**

170. This question invited views on the appropriate definition of 'local investment', for the purposes of reporting by AAs in their annual report on the extent and impact of their local investments.

#### **Summary of responses**

171. There were a range of views from respondents on the appropriate definition of 'local investment' for reporting purposes. A number of respondents considered that 'local investment' should be defined geographically as investment within an administering authority area or region. Others considered that the definition should be set at a UK-wide scale that includes investments that benefit local economies regardless of geographic location.

172. A number of respondents said that a broad and flexible definition could enable AAs to maximise investment opportunities and avoid limiting returns. Other respondents felt that the definition should not be based on pool areas, as defining local as the pool area could potentially restrict opportunities. They also noted that a wider definition could be helpful as AAs may wish to invest in projects in a neighbouring authority area which is outside the pool area. Some respondents also considered that the definition should accommodate investments outside pool areas which have

a clear economic, environmental or social impact on the region by delivering regeneration, employment or supply chain benefits.

### **Our response**

173. The government has considered the responses and believes that local investment should be defined as broadly local or regional to the AA or pool. It should have some quantifiable external benefits to the area in question, including economic growth, environmental benefits or positive social impacts. Such investment may include investment in affordable housing, small and medium size enterprises, clean energy investment, local infrastructure, and physical regeneration. AA should work with their pool to agree any specific requirements in order to ensure their strategy can be implemented effectively.

174. The government expects most local investments will be made through private markets, although the use of external fund managers specialising in local or regional investments may be appropriate in some cases. The government will work with the SAB to develop guidance.

**Question 14: Do you agree that AAs should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?**

175. The consultation proposed that AAs work with Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) or the Greater London Authority (GLA), or local authorities in other areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities.

### **Summary of responses**

176. There were 177 responses to this question, of which 56% were supportive of the proposal and 26% were opposed.

177. Many responses pointed to existing joint work on investment opportunities. Examples given included the South Yorkshire Pensions Authority, Durham, Tyne and Wear, and Greater Manchester, who work closely with CAs in those areas. Respondents were generally supportive as the new requirement would establish an important route for AAs to connect

with opportunities which are the most beneficial to their region. Some respondents argued that pools, rather than AAs, should be working with strategic authorities to identify investment opportunities. Many argued that a clear and consistent process for pools to evaluate such proposals would be important.

178. Some respondents were concerned about resource pressures and argued that pools and AAs should be allowed to decide where to focus resource rather than being compelled to work with strategic authorities. Some were concerned that this proposal could lead to the LGPS investing in projects which have failed to raise finance from private sector investors and might be unsuitable, or considered that local growth is not a relevant consideration for a pension fund. Some were concerned that pools would be less able to take account of non-financial factors than their AAs.

### **Our response**

179. Government has considered responses to this question, noting that there was broad support overall mixed with some concerns. The government's view is that the new requirement will be important in building collaboration between strategic authorities and AAs and pools across the scheme to deliver local and regional investment which aligns with local growth plans and local priorities growth.

180. The government agrees that pools may be well placed to work with strategic authorities on behalf of their AAs to identify investment opportunities. It will be for pools and their partners AAs to decide whether AAs will approach strategic authorities directly or work through their pool.

181. With regard to the pool conducting due diligence on local opportunities, government recognises that each pool will wish to consider the process with their partner AAs. In particular, in order to ensure the pool's resources are deployed effectively, AAs should work with their pool to agree criteria for determining which local investment opportunities will be prioritised for due diligence.

### **Question 15: Do you agree that AAs should set out their objectives on local investment, including a target range in their investment strategy statement?**

182. The consultation proposed that AAs should be required by regulations to set out their high-level objective on local investment in their investment strategy statement, including a target range for local investment as a proportion of the fund.

### **Summary of responses**

183. There were 171 responses to this question, of which 66% were supportive of the proposal and 24% were opposed.

184. The majority of respondents were supportive of the proposals, and noted that it was a sensible approach for AAs to ensure their local investment objectives are incorporated into their strategy and delegated to the pool. Many responses agreed that AAs should not be required to set a minimum or target level of investment in local projects. Others proposed that AAs should be able to set a minimum level of local investment, or an interim or indicative target range of 0%, pending identification of suitable local investments. A number of responses suggested that asset pools should take on the role of setting objectives and targets.

185. A number of respondents raised concerns about fiduciary duty, suggesting that setting target ranges could potentially lead to undue pressure to prioritise local investments over other opportunities with higher returns or lower risk. They argued that AAs have had mixed levels of success investing locally, and that local investment was not appropriate for all AAs. There were also comments that where AAs cover multiple local authorities, there is the potential for differing local and economic growth priorities for local investment.

#### **Our response**

186. The government has considered the points raised and notes that the proposal was broadly supported. The purpose of this proposal and the others on local investment is not to direct investments, but to ensure that local investment continues and is strengthened under the new minimum standards for pooling. The government will require AAs to set a target range for local investment, but will not restrict the ability of AAs to set a target of their choice.

#### **Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?**

187. The consultation proposed that pools be required to build capability to assess the suitability of local investments, as well as to manage such assets.

#### **Summary of responses**

188. There were 181 responses to this question, of which 62% were supportive of the proposal and 22% were opposed.

189. Most responses agreed that it would be important for the pools to develop capability to carry out due diligence on local investments. Many

responses said that this capability could be outsourced to fund managers with expertise in local investments, or that a clear, standardised process at the pool level would be important for greater efficiency. Some argued that collaboration between pools would be beneficial. Many were concerned that AAs should still have a role in recommending local projects to their pool.

190. Some were concerned that this would be highly resource intensive for pools to carry out, and that imposing this requirement would divert capacity away from more important pool functions. They argued that it should be up to pools and AAs to allocate resources.

191. Some argued that this function should be at AA level, given they are the ultimate risk-taker and bear fiduciary responsibility. They were concerned that pools could invest in local assets against the AA's wishes, or that pools would be less able to take account of non-financial benefits of local investment, particularly given the proposed requirement for pools to be FCA regulated.

#### **Our response**

192. The government has noted the points raised by respondents, and that the proposal was broadly supported. The government's view is that it is essential for all pools to have the capacity to conduct due diligence on local projects to enable the LGPS to deliver on its potential to contribute to local growth. Pools may use external managers, where appropriate, to assist, but in the long run value will be added by using internal management. AAs should leverage their local knowledge and networks by passing on potential investment opportunities to their pool.

193. The government does not consider FCA regulation as an obstacle to pools making decisions to invest in local assets with benefits for the local area. Impact investing is an established practice among regulated investors, including existing LGPS asset pools, and pools exist to deliver the investment strategy of their partner AAs, including in relation to local investment, which may include lower requirements on risk and return. Pools will need to ensure they deliver the outcomes set by their partner AAs on local investment.

#### **Question 17: Do you agree that AAs should report on their local investments and their impact in their annual reports? What should be included in this reporting?**

194. The consultation proposed that AAs include in their annual report, as part of the report on the fund's investments, the extent and impact of their local investments and asked what should be included in this reporting. The

government intends to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports.

### **Summary of responses**

195. There were 165 responses to this question, of which 76% were supportive of the proposal and 19% were opposed.

196. The majority of respondents were supportive of proposals that AAs should report on their local investments and their impact in annual reports. Respondents considered that the proposal could provide greater consistency, transparency and accountability across the scheme. They also provided a range of views on what should be included in reports.

197. Some respondents considered that AAs could report on key local metrics on economic impact of local investments such as the numbers of affordable homes provided, number of local jobs created, new businesses set up, and the units of renewable electricity generated. Some respondents pointed to examples of impact metrics already in use, such as the Good Economy's annual assessment of the place-based impact of Greater Manchester Pension Fund's local investment portfolio. Some respondents were concerned that imposing a requirement to report against metrics would be unnecessarily costly, and asked that any additional reporting should be for a clear audience, a specific purpose, and with adequate funding. A number of respondents suggested that AAs could publish qualitative case studies as part of their reporting on local investment.

198. Other respondents raised concerns on local variation in reporting by AAs and suggested that this reporting should be done by the pools. They suggested that it may be more appropriate for pools to produce a single report for all their constituent funds, as pools may be better placed to develop and apply a standardised methodology.

### **Our response**

199. The government will require AAs to report on their local investments, including the total in relation to their target range, and on their impact in their annual reports, as proposed. However, following consideration of responses, pools will now be required to report annually on total local investments made on behalf of their AAs and their impact. The government does not intend to prescribe metrics or other methods for assessing and reporting local impact by either pools or AAs. This will simplify reporting for AAs, who will not need to undertake or commission their own report on their local investments but can draw on the pool's report. It will also enable costs associated with impact reporting to be shared.

## **4. Governance of funds and pools**

## **Fund governance**

### **Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?**

200. This question asked for views on the government's overall approach to governance, which aims to ensure that the LGPS has robust and resilient governance appropriate to its scale and continues to deliver to a high standard for members and employers in every AA. It builds on the recommendations of the SAB's 2021 Good Governance Review.

#### **Summary of responses**

201. There were 159 responses to this question, of which 86% were supportive of the proposal and 12% were opposed. The majority of respondents who answered this question supported the overall approach to governance building on the SAB's 2021 Good Governance review.

202. The main request was for more detail about the proposals. In particular, respondents asked for detailed guidance and for that guidance to be developed in collaboration with the SAB and the sector. A minority of respondents asked for further proposals to reflect the new pooling landscape. There were also questions about when the new requirements would come into force, and some made points about the additional resources that would be required to meet new governance standards.

#### **Our response**

203. The government welcomes the broad support for the governance proposals and intends to proceed, with adjustments to the governance and training strategy (Question 19), the independent governance review (Question 23) and the independent member proposal (Question 26).

204. The government understands the call for more detail and will collaborate with the SAB and the Pensions Regulator as appropriate to develop and publish statutory guidance, covering many of the points raised at consultation. In particular, the government believes that the proposals take account of the new pooling landscape, but recognises that there are further specific governance issues, such as how AAs hold their pools to account in the new arrangement, where additional guidance would be helpful. We intend to provide further clarity on those points through guidance, working with the SAB.

205. On timing, our ambition is put the new framework in place as soon as possible so that new requirements are in place for the 2026-27 scheme year. We aim to introduce legislation on the independent governance

review later this year, followed by regulations and guidance on all of the proposals that are being implemented.

206. On the cost of the governance proposals, the government's view is that good governance has financial and wider benefits through a governance premium for well governed pension schemes, which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the [Pensions Policy Institute](#) suggests that this premium could be as high as 2% greater returns a year.

**Question 19: Do you agree that AAs should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?**

207. The government proposed that AAs should be required to prepare and publish a governance and training strategy, to replace the governance compliance statement. This new strategy would set out the AAs' approach to governance, knowledge and training, member representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period.

**Summary of responses**

208. There were 170 responses to this question, of which 94% were supportive of the proposal and 4% were opposed. Many respondents said that the proposals were best practice, and many AAs have already started to implement them. The conflict of interest policy was highlighted as being particularly important. Some respondents asked how governance and training strategies would be monitored and how AAs would report against them.

209. Some respondents were concerned about the administrative burden of creating a strategy, and many thought that a single document would be too long and unwieldy. Most respondents agreed with the proposal that the strategy must be updated at least once in every valuation period, although many said that it should not clash with the triennial revaluation. Opinion was divided between requests for a central template or guidance and the desire for local flexibility on format. Respondents requested that new strategies align with current reporting requirements where possible.

210. Many respondents said that the training strategy should cover both Local Pension Boards and pension committees. Some also asked for the requirement to extend to pools, particularly the conflict of interest policy.

Some individuals and campaign groups asked for a focus on climate issues and ESG in training.

### **Our response**

211. The government welcomes the broad support for this proposal and intends to proceed. Recognising the concerns about the potential length of a single document, the government will require a strategy for governance (including member representation), a training strategy, and a conflicts of interest policy, which may be combined. We recognise that AAs will want to carry out the review of strategies at a different time to the triennial revaluation and will not prescribe when reviews should happen during a valuation cycle.

212. As to extending the requirements to pools, the government does not believe this is necessary. Pool governance is a matter for partner AAs subject to the framework set by government. All LGPS pools will be established as investment management companies, regulated and authorised by the FCA. FCA regulation already requires pools to consider conflicts of interest and disclose these to their partner AAs.

### **Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?**

213. The government proposed 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. The role of the senior officer would be set out in the AA's governance and training strategy, and would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, including through the administering authority's budget-setting process.

### **Summary of responses**

214. There were 157 responses to this question, of which 92% were supportive of the proposal and 6% were opposed. Many respondents asked for more detail, in particular about the responsibilities of the senior officer role, as well as how the role would fit into existing structures. Questions were also asked about how the new role would interact with the statutory role of the section 151 (s151) officer, as well as how the new role would interact with the pool.

215. Several respondents were concerned about the statement in the consultation that the senior LGPS officer should be involved in the AA's budget-setting process, given the separation between the pension fund's budget and the AA's budget. There were also concerns about the time and

cost of creating and appointing to these roles. This was a particular concern for smaller authorities.

### **Our response**

216. Considering the broad support, the government intends to proceed with this proposal, through an update to the 2013 LGPS Regulations, with accompanying statutory guidance. This will include guidance on the responsibilities of the role in relation to the s151 officer and the pool.

217. The government's view is 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 government intends to set this out in the guidance.

218. The government recognises the resource impacts of creating and appointing to the senior LGPS officer role. These are high profile roles with overall responsibility for the management, business planning, strategy and administration of the fund. That will require a robust appointment process and adequate remuneration, but as set out in the consultation, we consider the potential benefits to be much greater than the cost of investing in better governance.

### **Question 21: Do you agree that AAs should be required to prepare and publish an administration strategy?**

219. The government proposed that AAs should be required to prepare and publish an administration strategy, reviewing it at least every three years (once in every valuation period), in line with the requirement for other strategies.

### **Summary of responses**

220. There were 154 responses to this question, of which 82% were supportive of the proposal and 11% were opposed. The proposals were largely welcomed, with responses highlighting the importance of transparency and a focus on member experience. Most respondents said that their fund already had an administration strategy.

221. There was a mix of views on how prescriptive guidance should be. Many respondents called for consistency across the scheme, but some asked for flexibility to reflect that each fund has its own portfolio of employers and members. Several respondents called for the administration strategy to set out how employers would be held to account for their role in providing good quality data on time.

222. There was also a mix of views on the proposal for the administration strategy to be reviewed at least once every three years. Most respondents supported this, but some were concerned about the cost and time required.

#### **Our response**

223. The government intends to proceed with this proposal, through an update to the 2013 LGPS Regulations. As with the governance and training strategy, we will not prescribe when a review of the administration strategy must happen in a valuation cycle. The government intends to work with the SAB to develop accompanying guidance, taking account of points made in consultation.

#### **Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?**

224. The government proposed that, in line with the LGPS in Scotland, AAs should no longer be required to include the full texts of any strategy, including the governance and administration strategies proposed in the consultation, in their annual reports, but should ensure accessibility.

#### **Summary of responses**

225. There were 149 responses to this question, of which 87% were supportive of the proposal and 11% were opposed. Respondents were supportive of this proposal to improve accessibility and reduce the complexity of annual reports. Some AAs are already using hyperlinks and have already removed the requirement for policies and strategies to be included in full within the annual report.

226. Some respondents requested a single set of guidance on reporting, noting existing guidance from both The Pension Regulator and the SAB. Some respondents went further, requesting a further review by the Department and SAB of the contents of annual reports, with a view to providing guidance on a summary or streamlined annual report with the metrics of most interest to members. The removal of pension fund accounts from main local authority accounts was also mentioned as a means to improve the accessibility of information to members. Respondents who were opposed suggested that there is no issue with the current publications, or that the changes would be unlikely to lead to improved readability or transparency.

#### **Our response**

227. The government intends to proceed with this proposal, and will continue to work with the SAB to provide and maintain guidance.

**Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?**

228. The government proposed that each AA should participate in an independent governance review every two years, carried out by independent experts with a good understanding of the LGPS. The consultation proposed that the draft report would go to the senior LGPS officer, pensions committee and local pension board. The pension committee would be required to add commentary and an action plan in the final report. AAs would be required to publish a summary of the final report and submit it to MHCLG.

**Summary of responses**

229. There were 159 responses to this question, of which 76% were supportive of the proposal and 19% were opposed. The consensus was that a review every two years was unrealistic. Most respondents asked for a three-year cycle in line with the valuation cycle, whilst a few asked for a three or five-year cycle.

230. Several respondents commented on the burden of such a review, both in terms of cost and time. There was a strong desire for the review to be peer-led, rather than by consultants. Many respondents asked for more detail of what the reviews would include, as well as an agreed template. There were also some concerns on the possible use of the Secretary of State's powers to issue directions following a review. A minority of respondents thought that the review might duplicate work already undertaken, or clash with the role of the local pension board.

**Our response**

231. The government welcomes the strong support for the proposal and intends to proceed. However, the government recognises the strength of feeling about the interval between reviews and intends to require the reviews to take place on a three-year cycle, rather than every two years. AAs will have the flexibility to carry out the review at any point during each valuation period, unless subject to a new power that the government will take, which allows for the Secretary of State to direct that a governance review is carried out of an AA at a specific time. This power will be exercised if there is concern that an AA has significant weaknesses in governance or is not in compliance with scheme regulations.

232. The government accepts that such a review requires time and money, but, as with all the governance proposals, believes the investment in better governance is in the best interest of the scheme and its stakeholders. We

are aware that some AAs already carry out governance reviews and intend to ensure consistency across the scheme.

233. After the reviews are completed and submitted to MHCLG, the government envisages that for most AAs, the review will have identified recommendations to be taken forward locally. For some, the LGA's peer support offer, which is currently being developed, may be appropriate. If government has concerns about certain cases, they may bring them to the attention of TPR, who will consider the information in line with their usual approach. For the most serious cases, intervention may come through direction by the Secretary of State under the Public Service Pensions Act 2013, including the power clarified in the Pensions Bill to allow for compulsory merger.

234. The government intends to take a new power in the Pension Schemes Bill to make regulations relating to the independent governance review. The government intends to publish statutory guidance to accompany regulations, including on the points raised in consultation. The government will work with the SAB, the Pensions Regulator and AAs as appropriate to design the review process in detail.

**Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?**

235. The government proposed to require that pension committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned.

**Summary of responses**

236. There were 172 responses to this question, of which 95% were supportive of the proposal and 5% were opposed. Many respondents had views on what training would be included, and who would provide it. As with other governance proposals, there was a mix of views between a desire for local flexibility and a desire for a standardised programme. Specific skill gaps were raised – climate risks in particular – and many respondents highlighted existing resources, most notably the Pensions Regulator toolkit.

237. Respondents agreed that the requirement on knowledge and understanding should apply after a reasonable period of time, such as six months. Many respondents said that the turnover of members was a

particular problem and suggested any knowledge requirement be based on the committee as a whole rather than individual members.

238. More detail was requested on what a minimum standard of knowledge would be, to ensure consistency between AAs, and there were questions about how 'appropriate' would be defined. Some respondents wanted more clarity about what level of training substitute members would require before being allowed to take part in decision making.

239. Some respondents said that the training requirement should only apply to s.151 officers and the senior LGPS officer, with the senior LGPS officer responsible for setting the training requirement for other officers. Some of those opposed to the proposal were concerned that the requirements might be too onerous and discourage councillors from serving on pensions committees.

240. Many respondents wanted more detail on how members would be held accountable and what action would be taken if a committee member failed to gain or maintain a level of knowledge and understanding. Some suggested that the training undertaken by members should be published each year.

#### **Our response**

241. Considering the broad support, the government intends to proceed with this proposal but recognises that there are a range of views on implementation.

242. Government considers that it is important that all members of the pension committee are held to account and have a high level of knowledge and understanding to contribute to the decision making of the committee. Therefore, we will continue with a knowledge and training requirement that applies to individuals, rather than the committee as a whole. We will consider further how this will apply to substitute members, and how members can be held to account for non-compliance. We intend to work with the SAB on guidance, which will address the points raised at consultation.

#### **Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?**

243. The government proposed to require AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge and understanding requirements.

### **Summary of responses**

244. There were 161 responses to this question, of which 95% were supportive of the proposal and 4% were opposed. The overall response was very supportive of this proposal, especially welcoming improved accountability for AAs through a published strategy, although similar concerns were raised to those in response to question 24.

### **Our response**

245. Considering the broad support, the government intends to implement this proposal, through an update to the 2013 LGPS Regulations. The government's response to the concerns raised is covered in the response to Question 24. The government will work with the SAB to develop guidance.

### **Question 26: What are your views on whether to require AAs to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?**

246. The government invited views on securing professional and independent expertise for AAs and pension committees, including through requiring AAs 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.

### **Summary of responses**

247. There were 157 responses to this question, of which 71% were supportive of the proposal and 18% were opposed. Almost all respondents saw the value of independent expertise, but for most of those opposed to the proposal, their view was that it should be for AAs to decide themselves what expertise they require.

248. There was also significant concern about the suggestion in the consultation that an independent person could be appointed as a voting member. Many respondents thought that having an independent person as a voting member on a pension committee would undermine the principle of democratic accountability in the LGPS. Opinion was divided on whether an adviser would have little or no influence on the voting members of the committee, or too much. Others felt that there was an inconsistency in approach with the proposals to increase knowledge and understanding for members of pension committees.

249. Several respondents said that they were not sure if there were enough qualified people to be independent members, or expressed the view that the market for professional trustees in private sector schemes was much

more developed. If there were a lack of available talent, some respondents made the point that funds would have to pay a premium to retain an independent member. Some also asked for more detail about the criteria for people to qualify as independent members.

### **Our response**

250. The government recognises that, of the governance proposals, this proposal received the least support, although the majority of those who responded were supportive. In particular, the point about voting rights was raised by almost all respondents.

251. The government has concluded that AAs should be required to have an independent adviser without voting rights rather than an independent member, as some funds already do. This advisor would be required to have one or more of the following qualifications and experience: qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustee; member of, and accredited by, the Association of Professional Pension Trustees (APPT); and significant experience of pensions and/or investments.

252. Noting the perceived clash between this requirement and that on knowledge and understanding of committee members, the government's view is that the adviser as a qualified pensions professional would have a different role to the members of the committee.

### **Pool governance**

#### **Question 27: Do you agree that pool company boards should include one or two shareholder representatives?**

253. The government proposed that in addition to meeting the requirements of the FCA, boards should also include one or two representatives of the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

### **Summary of responses**

254. There were 156 responses to this question, of which 68% were supportive of the proposal and 12% were opposed. There was a strong consensus on the necessity of partner AA representation on pool boards to ensure accountability and alignment of interests. While many agreed that shareholder representatives could fulfil this role, opinions varied on whether shareholder representatives should be nominated as external non-executive directors or should be councillors and officers from the partner

AAs. Several responses noted the requirement for executive directors to comply with the FCA's Senior Managers and Certification Regime.

255. Concerns were primarily focused on whether shareholder representation alone might be insufficient to hold pools accountable to partner AAs. Respondents suggested that additional measures would be needed to enhance transparency and build trust among stakeholders, including the government and scheme members. Responses indicated that different solutions might be appropriate for different pools, particularly where the number of partner AAs varies significantly (e.g., London CIV with 33 funds, LPP with 3).

#### **Our response**

256. The government has concluded that it is not necessary to impose a single model for how pool shareholders should be represented on the board, recognising that different models will work for different pools and partner AAs. In particular, variation in the number of partner AAs in each pool may require that pools adopt differing governance models to ensure that AA views are adequately represented. Further, while the government believes that in the majority of cases AAs will want to be shareholders of a pool, there may be situations where it is preferable for an AA to participate in a pool as a client. In these cases governance arrangements will need to ensure both shareholder and client views are adequately represented.

257. The government notes that in many cases a valid governance arrangement will be to have non-executive directors with appropriate professional expertise on the pool board who have responsibility for representing shareholder interests, as such professionals can bring considerable expertise and experience to the benefit of all AAs. This may be preferable to having AA pensions committee members from a couple of shareholder AAs to represent the full body of partner AAs.

258. The government will not therefore require a specific model of pool governance, but will work with the SAB, pools and AAs to develop guidance on ensuring that governance works for pool shareholders and clients.

#### **Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?**

259. The government sought views on the best way of ensuring that scheme members' views and interests are properly understood and taken into account by the pools. Scheme members must be represented on the local pension boards, and in many cases they also participate in decision

making through the pension committee or sub-committees, but this is not mandatory.

### **Summary of responses**

260. There were 141 responses to this question. There was a split between those who believed that this should be achieved at least in part by scheme member representation at the pool (45%) and those who explicitly stated that member representation at the participating AAs was sufficient (34%).

261. Among those who believed scheme members should be involved in pool governance, views differed on how this should be achieved. Although some respondents felt that scheme members or trade union representatives should have a place on the board with full voting rights, this was not the majority view. The SAB and others suggested that member representation would be more appropriate in the oversight of the pool, rather than the board itself.

262. Some responses from pools described how scheme members are part of their existing governance structures. This includes through oversight boards which have non-voting member representatives, pension committee members attending some pool meetings as observers, or the pool holding public meetings that scheme members can attend. Other suggestions from respondents included establishing a pool advisory body with member representatives or having a representative of the local pensions boards of partner AAs as a voting or non-voting member of the pool board. Some respondents raised the issue of how to ensure that any decision making body – even if it does not have direct member representation – reflects the diversity of the scheme membership.

263. Many of those who did not agree with members being part of the pool governance or decision making felt that the appropriate place for scheme member and trade union representation was at the local pension board and pension committee level in the partner AAs, because these are the bodies responsible for holding the pool to account and for setting the investment strategy. Some respondents also requested that the government implement a recommendation from the SAB Good Governance Review to require AAs to publish a policy setting out how scheme members and employers are represented.

264. The importance of good communication between pools and AAs was raised by many respondents. Pools actively engaging with AAs by attending committee meetings was highlighted as a good example. Many scheme members who responded said that active engagement by the pools with members was important to them, both so they could offer their

views to the pools, and to understand what the pools were delivering. It was noted that it requires work and resource to do this well.

265. Most responses from AAs suggested that members would predominantly continue to communicate with the AA rather than the pool, although some said that questions on investment implementation should be addressed to and answered directly by the pool. There were concerns from some respondents that the extension of pooling arrangements would distance scheme members further from decision making and could weaken the relationship between members and the AAs.

266. A number of responses expressed disappointment that there was not a question that explicitly asked about how scheme employer views and interest should be accounted for given that, unlike the benefits received by members, their contribution rates would be sensitive to the investment decisions of the pool. Similarly, some responses noted that the ultimate owner of the assets remains the AAs.

#### **Our response**

267. The government notes that member representation in the governance of AAs provides an important route for scheme member views to be part of the process of developing investment strategies, and that AAs will continue to hold their pool to account for the implementation of investment strategies. The government has concluded pools and AAs should work together to ensure that scheme members' views are understood and taken into account by the pools, and should publish their policy on how this is done. We will work with the SAB to highlight good practice and provide guidance.

#### **Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?**

268. The government proposed to introduce new requirements for pool transparency and reporting, including publication of performance and costs. This question also asked for views on other data which could be included in this reporting requirement.

#### **Summary of responses**

269. There were 171 responses to this question, of which 95% were supportive of the proposal and 5% were opposed.

270. There was strong support for enhanced transparency and consistency to facilitate effective oversight of asset pools. Many highlighted the importance of clarity and the ability to compare like-for-like performance

and costs across pools as crucial, allowing AAs to monitor the performance of their pool compared to others. Some respondents also said that the pools collaborating in achieving consistency would be a good outcome.

271. In terms of the standards and content of reports, some respondents pointed to existing reporting frameworks such as the SAB Cost Transparency Initiative. Many suggested reporting total fees as a proportion of assets under management, including internal and external management fees and transaction costs, along with administration costs. They also emphasised the need for performance reporting over various time horizons, both net and gross of fees. A significant minority also called for reporting against climate targets, for example by making disclosures compliant with the Taskforce on Climate-related Financial Disclosures guidance.

### **Our response**

272. The government notes the strong support for consistent and transparent reporting by pools and is grateful for the suggestions received as to what should be included in reporting requirements.

273. The government will work with the SAB to develop guidance on pool reporting to support transparency and accountability to scheme members, employers and others, including on cost and performance metrics. The government will continue to engage with the pools, AAs, and other users of these metrics in the development of this guidance.

274. The government is also considering formalising its existing voluntary data collection from asset pools, with the intention that this will include performance data. This will not be implemented for the 2024/25 reporting year, and MHCLG intends to collect data on a voluntary basis as usual this year.

## **5. Equality impacts**

**Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.**

275. The government invited views on the impact of the proposals on people who share a protected characteristic.

**Summary of responses**

276. The majority of respondents considered that no particular groups with protected characteristics would either benefit or be disadvantaged by any of the proposals.

277. Some responses pointed out the impact of climate change on protected groups, which may be affected by pensions investments. Others noted that the proposals could impact on intergenerational equity within the pension system. Some respondents commented that the government should take account of the interests of Welsh speakers when considering its response.

**Our response**

278. The government considers that the package of reforms will not affect any particular group with protected characteristics adversely. It has considered carefully all of the responses and the specific concerns raised. There will be no change to member contributions or benefits as a result of the proposals in the consultation.