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Haringey Pension Fund

LGPS Consultation “Fit for the future” outcome and related matters

A paper by the Independent Advisor July 2025

Introduction

On 14 November 2024, the Government issued a major Consultation on the future of the LGPS “**Local Government Pension Scheme (England and Wales): Fit for the future**” This Consultation closed on 16 January 2025.

The Consultation made proposals relating to three major areas:

- Pooling
- Local Investment
- Governance of Funds and Pools

The Consultation proposed a major compulsory shift of investment function from LGPS Funds to the Pools and consequently a wholly new Pooling model. However, it also indicated an intention by Government to much more closely oversee, monitor, and scrutinise Pools going forward. The Consultation also clearly encouraged/suggested a reduction in the number of Pools from the existing eight to a lower number. In addition to considering the proposals in the Consultation Pools were invited to submit a separate proposal as to how they would deliver the proposed Pooling model. On 2 December 2024, a letter was issued to all Pools asking them to submit proposals for their future. All eight Pools responded with proposals that they continue in the context of implementing the proposed new Pooling model.

In respect of Local Investment there were proposals to boost LGPS investment in their localities and regions. These included requiring Administering Authorities to work with their relevant regional authority (the Greater London Authority in the case of London LGPS Funds) to identify local investment opportunities and for Pools to develop the capacity to carry out due diligence on local investments.

In respect of the Governance of Funds and Pools there were, in particular, notable proposals to strengthen the governance of LGPS Funds primarily derived from the recommendation of the Scheme Advisory Board Good Governance Review which concluded in 2021.

Fit for the Future – overview of the overall outcome and related matters.

On 29 May 2025, the Government announced the outcome of the Consultation when it issued “**Local Government Pension Scheme (England and Wales): Fit for the future government response.**” A total of 220 responses had been received from stakeholders including from all 86 Administering Authorities (LGPS Funds) and all 8 Pools. Overall “*Responses to the proposals on pooling were varied...There was strong support for the proposals on local investment...The proposals on fund governance were welcomed*” (See Government response/Consultation outcome Paragraphs 6, 7, 8).

In essence the Government announced that it intended to implement most of the proposals in the original Consultation with very limited change. Notably the proposals regarding the new Pooling regime were little altered despite some significant adverse responses from respondents to the November 2024 Consultation.

In connection with the Consultation the Government announced, in early April 2025, through individual letters to each of the eight existing Pools, that the number of LGPS Pools was to be reduced from eight to six. The ACCESS and Brunel Pools are to be abolished and the twenty one LGPS Funds who are members of these Pools will be required to join another Pool and have been asked to agree this in principle with a Pool by 30 September 2025.

Paragraph 12 of the Consultation response stated “*The minimum standards for pooling will be introduced in the Pension Schemes Bill. Subsequent regulations and statutory guidance will provide further detail on implementation.*” On 5 June 2025, the Government issued the Pension Schemes Bill which will in time become the Pension Schemes Act. This Bill proposes that the Secretary of State have wide ranging powers to issue regulations to clearly direct both Pools and LGPS Funds. For example Section 1(2)(c) provides for “*imposing requirements or prohibitions on asset pool companies*” while Section 1(2)(e)(iii) provides in (undefined) prescribed circumstances to give a direction to a Pool “*requiring it to take, or not to take, a specified decision in carrying out any specified investment management activities.*” Therefore, it is clearly not the case that the Government is simply transferring control over LGPS investments from the individual LGPS Funds to the Pools. Rather the Pools will ultimately make most LGPS investment decisions but only within whatever framework the Government may decide from time to time. Ultimately the Pension Schemes Act when passed will enable Government to easily change the arrangements relating to Pools/LGPS investment arrangements going forward. The Act will also give the Secretary of State broad powers relating to governance reviews of individual LGPS Funds and to require the “*merger (including compulsory merger) of two or more separate pension funds*” should he/she so decide. The provisions within the Bill if enacted will hugely reduce the chances of successful legal challenges against the consequent LGPS Regulations/Statutory Guidance going forward.

It must be stressed that with regard to the actual investment and governance frameworks of the LGPS absolutely nothing has yet actually changed and legally cannot until appropriate legislation has been passed (the Pension Schemes Bill becoming an Act and necessary accompanying Regulations/Statutory Guidance issued). However notwithstanding this (and the possibility of the House of Lords seeking to suggest some mitigation to the extensive powers of direction provided to the Secretary of State in the Pension Schemes Bill) there seems little doubt that the new investment and governance regime now proposed by the Government will come into effect. The Government's stated timescale for implementing the new Pooling arrangements remains March 2026. To facilitate the (quicker) implementation of the new arrangements *"The government's intention is to lay regulations and guidance to come into force at the same time as the powers in the Pension Schemes Bill. We will consult on draft regulations in due course."* (Paragraph 26 Consultation outcome).

Given both the proposed new investment arrangements relating to the LGPS and the powers that the Pension Schemes Bill proposes be given to the Secretary of State it is absolutely essential that **both** Pools and LGPS Funds work positively and constructively within a sound and robust overall Pool governance framework. It is therefore clearly noteworthy that Paragraph 258 of the Consultation outcome states *"The government will not ... 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."* In addition, individual LGPS Funds should positively implement the new Fund governance arrangements set out in the *Fit for the future* outcome. Only by adopting such approaches can the new (and significantly amended) LGPS arrangements potentially be successful for stakeholders and in particular Administering Authorities, Employers, and individual Scheme Members. A positive relationship between Pools and their member LGPS Funds (who also own the Pools) is now absolutely essential. This must be based on and supported by a sound Pool governance framework. As already implied the manner in which the London CIV works with, is overseen and held to account in the future is a matter which needs to be given extremely careful consideration and attention by the 32 London LGPS Funds. This should commence well before the transfer of investment responsibilities from the LGPS Funds to the Pool as proposed by the "Fit for the future" government response/outcome and the passing of the Pension Schemes Bill into law.

Fit for the Future Consultation – Pooling outcomes.

With regard to investment Pooling Paragraph 10 of the Consultation outcome states *"The following proposals will be implemented as consulted upon:"*

- Administering Authorities (AA) to delegate the implementation of their Investment Strategy to the Pool (in line with the illustration at Figure 1 of the response). The Investment Strategy as set by the AA may include a high-level strategic asset allocation (SAA) no more detailed than the template in Figure 3 of the response.

- Requirement for 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.

Despite significant concerns from respondents to the Consultation the Government has determined to implement almost all its Consultation proposals relating to Pooling as originally proposed. The only notable concession is that the Government will not now require all listed assets to be invested in pooled investments - *“The government therefore no longer intends to require that all 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...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...”* (Paragraph 118). This is however a concession that seems likely to have been made primarily to assist the Northern LGPS Pool (based on interpretation of Paragraph 117) as it transitions to become a FCA regulated and authorised Pool, but which likely has very limited application elsewhere.

Therefore, most responsibility for LGPS investment issues will pass from the individual LGPS Funds to their Pool. The SAA template which will be included in future Statutory Guidance is extremely high level giving only very limited discretion to the Administering Authority – for example the line for Listed equity is not at all further divided while the line for UK Government bonds does not distinguish between index linked and nominal gilts (see Paragraph 88 Figure 3). Tactical asset allocation, investment manager selection (and monitoring/dismissal), and investment stewardship will be wholly Pool decisions (see Paragraph 50 and Figure 1). Furthermore Paragraphs 57 and 70 make it clear that decisions regarding the use of active or passive investment and what index to track will also be Pool decisions. Paragraph 71 states *“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”* Paragraph 71 urges LGPS Funds and their Pool *“...to reach a common approach...”* But concedes *“this will not always be possible...In these cases pools may need to consider alternative options such as offering more than one ESG standard...”* However, Paragraph 71 concludes with the statement *“The government...does not expect to see bespoke arrangements for each AA.”*

Notwithstanding very significant opposition and strong arguments from respondents to the Consultation (see Paragraphs 90 and 91), going forward LGPS Funds will be required to take their principal investment advice from their Pool. Indeed Paragraph 94 of the Consultation outcome makes it absolutely clear

that the Government intends that Pools will be the principal source of investment advice for LGPS Funds and that this function will be transferred from any Investment Consultant presently appointed by an individual LGPS Fund (Mercer in the case of Haringey) to the relevant Pool (London CIV in the case of Haringey) Paragraph 94 states *“...The government recognises that there will be situations where AAs may feel that the advice of 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.”*

The Consultation of November 2024 proposed March 2026 as the indicative timeline for the implementation of the proposed new Pooling model. Paragraph 138 of the Consultation outcome states *“There were 175 responses to this question, of which 5% were supportive of the proposal and 65% were opposed.”* Notwithstanding these responses Paragraph 142 states *“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...”* It should also be noted that on 12 May 2025 the Chair (Cllr Roger Philips) and Vice Chair (Jon Richards, Unison Assistant General Secretary) signed a letter to the Treasury and MHCLG which made an *“urgent request”* for an extension of the March 2026 timescale which had been reiterated by the Government in the letters sent to the Pools in early April 2025.

Paragraph 145 confirms the decision notified to the eight existing Pools, in early April 2025, that only six Pools will continue and that the LGPS Funds in the other two Pools (ACCESS and Brunel) will need to join another Pool. These individual letters confirmed that Border to Coast, Local Pension Partnership (LPP), LGPS Central, London Collective Investment Vehicle will continue as FCA regulated entities. Northern LGPS and Wales Pension Partnership will continue on the basis that they become FCA regulated entities.

Paragraph 146 states *“The governments 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...”* Therefore given, (it is widely believed), the London CIV is not expected to increase its number of LGPS Funds March 2026 is the deadline that the London CIV and its 32 LGPS Funds (including Haringey) are expected to achieve. Paragraph 147 states that *“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...”* It is widely believed that the Local Pension Partnership, Border to Coast and LGPS Central are the Pools most likely to be joined by any of the twenty one LGPS Funds presently in the ACCESS and Brunel Pools.

Fit for the future Consultation – Local Investment outcomes.

The proposals on local investment were overall positively received by respondents and will be implemented almost as consulted upon. Based on Paragraph 13 of the Consultation outcome they may be summarised as:

- A requirement on AAs to set out their approach to local investment, including a target range in their Investment Strategy Statement (ISS) and to have regard to local growth plans and local economic priorities in setting their ISS.
- AAs to work with the relevant Strategic Authorities (which for London is the Greater London Authority) to identify suitable local investment opportunities.
- Pools to develop the capability to carry out due diligence on local investment opportunities and to take the final decision on whether to invest, and to manage those invested in.
- AAs to include commentary in their Annual Report on the extent and impact of local investments.

In addition (see Paragraph 14) following consideration of Consultation responses Pools will also be required to report on total local investments made and their impact.

Paragraph 173 of the Consultation outcome states that local investment *“...should be defined as broadly local or regional to the AA or pool...”* This is in line with the definition proposed in the November 2024 Consultation. For the Haringey Fund therefore local investment includes investments in the Greater London area.

Fit for the future Consultation – Fund governance outcomes.

With regard to the overall approach in the Consultation whereby the Government put forward measures building on the Scheme Advisory Board 2021 Good Governance Review 86% of respondents commented positively.

Paragraphs 15 and 16 of the Consultation outcome confirm that most of the original proposals will be implemented but that, taking account of Consultation responses received, there will be some changes including to the proposals on the independent governance review and independent advisor. The proposal to be implemented as originally proposed include

- *“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.”*
- *Requirement for pension committee members, the senior officer, and officers to have the appropriate knowledge and understanding for their roles...”*

- *Requirement for AAs to set out within their governance and training strategy how they will ensure that any committee...or officer will meet the new knowledge requirements within a reasonable period from appointment”*
- *Requirement for AAs to participate in an independence governance review and, if applicable, produce an improvement plan to address any issues identified.”*

However, in light of the Consultation responses Government has made some clear changes to the initial proposals including:

- *“...an independent governance review to take place once in every three-year period rather than every two years...”*
- *“require AAs to have an independent advisor without voting rights, rather than an independent member of the committee”*

A very clear statement is made regarding the Pension Fund Budget at Paragraph 217 which states *“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 guidance.”*

With regard to the proposed independent governance review the Consultation outcome states (see Paragraphs 229 and 231) that taking account of Consultation responses these will be required every three years rather than every two as originally proposed. Paragraph 234 states *“The government intends to take a new power in the Pension Schemes Bill to make regulations relating to the independent governance review.”* The Pension Schemes Bill as published on 5 June 2025 includes, at length, such powers in Section 4.

The November 2024 Consultation sought views on securing independent expertise through a person to provide support across investment strategy, governance, and administration. Having considered responses Paragraph 251 of the Consultation outcome states *“The Government has concluded that AAs should be required to have an independent advisor without voting rights rather than an independent member, as some funds already do...”*

Fit for the future Consultation – Pool governance outcomes.

The November 2024 Consultation proposed that Pool Boards *“include one or two representatives of shareholder AAs.”* In the light of responses Paragraph 256 of the Consultation outcome states *“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...”* and Paragraph 258 states *“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.”

While not requiring that individual Scheme Members are represented on Pool Boards the Government has stated at Paragraph 267 that “...*The government has concluded pools and AAs should work together to ensure 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.*”

With respect to reporting by Pools the Consultation outcome includes at Paragraph 273 the statement “*The government will work with the SAB to develop guidance on pool reporting to support transparency and accountability...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.*”

Conclusion

The Consultation outcome issued on 29 May 2025 together with the Pension Schemes Bill provide clarity regarding the Government’s intentions relating to the reform of the LGPS. This includes that the new Pooling standards be met by March 2026 including the transfer of investment responsibilities from the individual LGPS Funds to their Pool. The provisions within Pension Schemes Bill, however, provide a framework, which if enacted, will give the Secretary of State clear and extensive powers to direct both Pools and individual LGPS Funds going forward.

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