



## **PENSIONS COMMITTEE**

**18 MARCH 2025**

<b>REPORT TITLE:</b>	<b>LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION: FIT FOR THE FUTURE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

### **REPORT SUMMARY**

This report provides Members with Merseyside Pension Fund's (MPF) response to the consultation 'LGPS fit for the future'. In addition, as invited in the consultation, the Northern LGPS (NLGPS) with its partner administering authorities has prepared a separate proposal setting out how it will deliver the proposed pooling model and complete the transfer of all assets including legacy assets. The proposal is attached at appendix 2.

This report appendices contain exempt information. This by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. information relating to the financial or business affairs of any person, including the authority holding that information.

### **RECOMMENDATION/S**

That the Pensions Committee be recommended to:

1. note the response to the consultation.
2. consider the NLGPS proposal and authorise the Director of Pensions, in consultation with party spokespersons, to work with the NLGPS partner funds and incur the costs necessary to deliver the requirement for an FCA regulated investment manager.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 At December's Committee meeting, the Director of Pensions was authorised to prepare a response to the consultation and to work with the Northern LGPS and with its partner administering authorities to prepare a separate proposal setting out how it will deliver the proposed pooling model.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 This is the most appropriate option for informing Pensions Committee of legislative developments and obtaining authorisation to pursue the establishment of an FCA authorised investment manager.

### **3.0 BACKGROUND INFORMATION**

- 3.1 At this Committee in September, the Director of Pensions tabled a report informing Members of the landmark pensions review launched by the Chancellor on 4 September 2024.
- 3.2 Following the Chancellor's Mansion House speech, an interim report of the Pensions Investment Review was issued together with consultations on proposals for changes within Defined Contribution pensions and the Local Government Pension Scheme (LGPS). A summary of the proposals contained in the 'Fit for the future' consultation were set out.
- 3.3 The consultation sought views on proposals to strengthen the management of LGPS investments in three areas:
- 3.4 First, reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:
- Administering Authorities (AA) would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;
  - Pools would be required to be 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.
- 3.5 Second, boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:
- Set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities:

- To work with local authorities, Combine Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities;
  - To set out their local investment and its impact in their annual reports.
- 3.6 Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.
- 3.7 Third, strengthening the governance of both 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 appropriate knowledge and skills;
  - AAs would be required to publish a governance and training policy (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.
- 3.8 In addition to considering the reforms proposed in the consultation, asset pools, working with their partner AAs, were invited to submit a separate proposal, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals needed to include their view of costs, timeline and potential barriers and solutions. Government would continue to work closely with pools ahead of proposals being submitted. Government is proposing an indicative timeline, to move to the new model, of March 2026.
- 3.9 Each pool was invited to demonstrate a clear path to meeting the requirements outlined in the consultation document. In their reports, pools are expected to provide clear evidence that they are able to capture the advantages of managing assets at a very large scale. Proposals are expected to be submitted by 1 March 2025.
- 3.10 Members attending events such as the Annual Employers Conference and the Northern LGPS stakeholder day have received presentations on the consultation and an opportunity to consider and discuss the potential implications. The NLGPS joint committee considered the NLGPS proposal at a meeting on 27 February 2025 ahead of its submission on 28 February.
- 3.11 The timelines the establishment of a new pooling model are very stretching. The proposal found in appendix 2 sets out the progress made by officers in developing and evaluating options in order for Members to assess the most appropriate course of action for MPF and for the Northern LGPS. Government will be reviewing all proposals submitted by LGPS funds and pools and, ultimately, the course of action taken by NLGPS will be subject to government approval and shaped by the form of legislation in the Pensions Bill.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 Until a course of action is approved by Committee, the financial implications are uncertain. However, indicative costs of establishing and maintaining an FCA regulated entity are set out in the proposal. Additionally, the considerable costs of transitioning assets to pooled funds within an FCA regulated entity are also set out. Government has indicated that these requirements will be legislated for and therefore MPF will need to realign its arrangements accordingly.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 The administering authority's solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.
- 5.2 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.
- 5.3 Government has indicated that, subject to the outcomes of the consultation, it will consider legislating to require in law the pool minimum standards including transition or management of all assets.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 None arising directly from this report. The pool changes will have a direct effect on the Fund's internal investment team. Subject to the pooling arrangements finally entered into, the Fund will need to recruit to some posts that may move to the pool.

## **7.0 RELEVANT RISKS**

- 7.1 There are none arising directly from this report. Further consolidation of LGPS funds and pools may materially increase operational and governance demands across the scheme.
- 7.2 The proposals will require all pools to increase the range and extent of services provided which is leading to a demand for individuals with investment and LGPS experience. The present uncertainty about outcomes is also unsettling for the staff affected.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 The terms of reference of the Government's pension review confirms the intent to "consult widely" and will seek views from "employers, trade unions, the pensions industry, financial services, local government and consumer voices".

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpqualitystatement>

9.3 MHCLG and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

## **10.0 ENVIRONMENT, BIODIVERSITY AND CLIMATE IMPLICATIONS**

10.1 There are none arising directly from this report. The consultation indicates that responsible investment policy will remain with LGPS funds but investment stewardship will be a pool responsibility.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 There are none directly arising from this report.

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## **APPENDIX**

The PDF file below may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact [emmalittler@wirral.gov.uk](mailto:emmalittler@wirral.gov.uk) if you would like this document in an accessible format.

Appendix 1. EXEMPT. MPF's response to the fit for the future consultation

Appendix 2. EXEMPT. Northern LGPS response to the fit for the future consultation

**BACKGROUND PAPERS** LGPS consultation: Fit for the future:

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

HM Treasury, DWP and MHCLG

<https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence/>

<https://www.gov.uk/government/publications/pensions-investment-review-interim-report>

## **TERMS OF REFERENCE**

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

(d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

**Subject History (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>