

Investment Committee

Hybrid Meeting – 7 July 2025

Item 5 – Paper B

Fit for the Future: pooling governance guidance

Background

1. [The Government's response to the Fit for the Future consultation](#) said:

“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.”

2. The response also recognised that there were good reasons for some differences in governance, for example in how partner funds are represented on the board of a pool company and that there may also be differences based on whether the fund was participating as a shareholder or a client. Guidance might therefore be helpful in offering an analysis of different models and identifying emerging best practice.
3. The response noted that there could be a role for non-executive directors (NED) with appropriate professional expertise on the pool board to represent shareholder interests. Such NEDs may be preferable to having pensions committee members from a subset of shareholder funds as they could be charged with representing the partner funds collectively. This wasn't an idea that was referred to in the original consultation but fits with the Board's view that a broader approach to considering governance was needed.
4. In its response, SAB asked MHCLG to provide greater clarity on:
 - How conflicts of interest should be identified and managed;
 - The circumstances and process by which, individual pool company Board members, the pool Board as a whole and the pool Chief Executive could be held to account (and if necessary replaced);
 - Whether it is possible to design “exit strategies” in the event of pool failure or a breakdown in relationships between funds;
 - How the interests of members and other employers are factored into the governance structure.
5. These issues haven't been addressed in the government response, but they are all matters that we believe could usefully be addressed in the guidance envisaged.
6. The [Pension Services Bill](#) has now been published and it takes broad powers for the Secretary of State to direct LGPS funds and pool companies as to what they should and should not do. There is very little

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detail in the Bill, or the associated [Explanatory Memorandum](#) or [Impact Assessment](#), as to how these powers are intended to be used and this is something that the Board will no doubt wish to explore by working with Parliamentarians as the Bill makes its way through Parliament.

Considerations

7. At the March meeting, the Board agreed to commission legal advice on how practically funds could go about conforming with the Government's preferred model whilst addressing widespread concerns about conflicts of interest. This advice has now been procured from Burges Salmon and has been shared as a confidential annex.
8. This advice acknowledges that there is scope for conflicts to arise with the preferred pooling model and that there are particular risks associated with funds also getting their principal investment advice from the pool. While MHCLG tends not to recognise that there are any conflicts of interest, partner funds have been careful to build some mitigation into the already existing LGPS pool structures. Neither are they unusual in trust-based multi-employer DB schemes, which Burges Salmon have also considered as comparators.
9. Together with existing best practice, the guidance should be helpful in drawing up the anticipated guidance from MHCLG to funds and pools on governance. Key issues highlighted in Burges Salmon's advice include the need for:
 - Clarity of roles within pool governing documents
 - Full transparency between all the parties
 - Identification of which matters will require unanimity or a "super-majority" in order to over-rule individual fund preferences
 - Creation and maintenance of a conflicts of interest policy, which sets out how these will be declared and managed
 - Monitoring of performance against appropriate goals and targets
 - Training and knowledge
10. There is also growing debate about a potential role for oversight services which would be contracted by partner funds (either individually or collectively) to provide assurance that the pool is effectively delivering the funds' investment strategy. Role of senior LGPS officer. Audit separation, would it look at participation in the pool?
11. Given this work will need to reflect the perspectives of a range of fund and pool representatives, the Secretariat would recommend the formation of a mixed group (giving pool, fund and member perspectives) to provide input to drafts as they are worked on with officials at MHCLG. Nominations are

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therefore requested from this group (which may include others not on the group but who might be approached to participate).

Recommendation: That the Committee note this report and consider nominations to support the Secretariat in the development of pooling governance guidance.