

Scheme Advisory Board

HYBRID MEETING – 21 JULY 2025

ITEM 6 – PAPER D

FIT FOR THE FUTURE CONSULTATION OUTCOME

Background

1. On 29 May 2025 MHCLG published [its response](#) to the Fit For the Future consultation. The Board [issued a statement](#) in response which expressed welcome clarity on the direction of reform and the commitment to implementing the Good Governance recommendations made by the Board in 2021. However, the Board's response highlighted that the scale and pace of the proposed changes carry significant risks if not managed with *care*. Particularly there is concern about the risks inherent in both the winding up of the existing arrangements for Brunel and Access and the process of accommodating their partner funds in the other pools.

Investment pooling

2. The most pressing issue for the 21 funds who currently participate in the ACCESS and Brunel pools is to make a 'decision in principle' to join a new pool by the end of September 2025. MHCLG have stated that they believe this process is moving ahead well and the conversations so far have all been constructive. However, it is not clear yet whether all funds will be able to achieve the outcome which they desire, given that there are constraints on each existing pool's appetite for further expansion of their partner fund base. The Secretariat continue to maintain open channels of communication and a "watching brief" in relation to this.
3. The associated [Pension Schemes Bill](#) has also now been published and it takes broad powers for the Secretary of State to direct LGPS funds and pool companies as to the development and implementation of their investment strategies. There is very little detail in the Bill, or the associated [Explanatory Memorandum](#) or [Impact Assessment](#), as to how these powers are intended to be used. The SAB will work with the wider LGA pensions team to brief Parliamentarians and try to influence the Bill as it makes its way through Parliament.
4. There was some helpful clarification in the Fit for the Future response around Responsible Investment (RI) policies. This noted that pools would need to respect and accommodate the differing RI policies of its partner funds. A key issue will be managing the complexities between delivering value for money on investments and delivering on differing responsible investment policies. This task may be easier in relation to climate risk but more difficult in developing a defined stance on RI issues where the focus and concerns are more varied, such as biodiversity, human rights issues and war/conflict. Potentially further guidance will be needed on how pools should manage differing RI policies between their partner funds.

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Pool Governance

5. In relation to pool governance, the response 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.”

6. 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 (although we understand all pools will be established on a shareholder model). Guidance might therefore be helpful in offering an analysis of different approaches and identifying emerging best practice.
7. The Investment Committee also considered what guidance might usefully cover. Their view was that this should be best practice guidance around a range of governance issues and not limited to simple compliance with FCA requirements. The kinds of issues that it might usefully address include:
- How conflicts of interest should be identified and managed;
 - The process by which, individual pool company Board members, the pool Board as a whole and the pool Chief Executive can be held to account;
 - Whether it is necessary 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.
 - The 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
 - The changing role, and associated knowledge and skills required, for local pension committee members and advisers.
8. Given this work will need to reflect the perspectives of a range of fund and pool representatives, the Investment Committee has agreed to establish a mixed group (including pool, fund and member perspectives) to provide input to drafts as they are worked on with officials at MHCLG.

Local Investing

9. The Government response also confirmed that all funds need to set a strategy and investment target in relation to local investment. The Pensions Bill defines local investments as *“investments in, or for the benefit of persons living or working in the scheme manager’s area, or the areas of the other scheme managers participating in the same asset pool company as the scheme manager”*. However, the consultation response does say that *“It should have some quantifiable external benefits to the*

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area in question, including economic growth, environmental benefits or positive social impact”.

10. Funds will also need to report on levels of investment and the associated outcome, although funds will be given a choice of metrics which will make aggregation across the scheme challenging. The response sets out a role for the Board in offering guidance on the reporting duty but more information is needed on the intended reporting metrics and how best to obtain views on that.
11. The Government is also in the process of establishing strategic authorities across England under the Devolution agenda. There will be a duty to build collaboration between these authorities and LGPS funds (and pools), with a view to aligning with or helping to deliver local growth plans. Further guidance is expected on how this will be achieved in practice and in any case, time will need to be allowed to develop the kinds of effective regional relationships that have worked in more established areas.
12. Another function of local government reorganisation is potentially the establishment of single purpose authorities, on the existing county geographies or larger, which is something the Board has previously approved of.

Governance

13. Please refer to **Item 10 Paper H (the CRC report)** for detail of how the fund-level governance proposals are going to be taken forward.

Role for the Board

14. There will be various additional workstreams that the Secretariat will need to engage with MHCLG officials on or that we expect that MHCLG officials will take the lead on, in particular making the associated changes to the 2016 LGPS Investment Regulations and the accompanying statutory guidance. However, we expect to be asked to input to the drafting of these, with a target of initial guidance and draft regulations being consulted on in the Autumn of this year, with the Government's ambition to have these come into effect by 1 April 2026.
15. In doing so, the Secretariat will need to draw on the experience and knowledge of LGPS officers and members. This is at a challenging time given that those same individuals are likely to be deeply engaged in their own fund/pool response to the proposals and there may well be sensitivities and some conflicts of interest there which will need to be managed.

Recommendation – that the Board notes the above report and the challenges associated with the Board's role
