

POLICY BRIEFING NOTE:

LGPS consultation – pooling, local investment, and good governance.



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The Mansion House speeches are becoming nerve racking occasions for the LGPS. This one particularly so, with government’s announcement of “megafunds” setting hares running late on Wednesday night. As was widely expected, last night’s speech saw the Chancellor, Rachel Reeves, deliver announcements impacting the LGPS, covering pooling, UK investment and good governance. They also released the interim Pension Investment Review report, providing support and evidence for their plans. A consultation has now launched, with a deadline of 16 January 2025.

How did we get here?

For many years, the government has been paying increasing amounts of attention to how the LGPS invests and what it invests in. Since George Osborne mentioned the potential for the LGPS to act as a sovereign wealth fund for the UK back in 2015, investing in UK infrastructure (the idea that eventually led to pooling), the concept has only grown.

The pools were formally set up in 2016-2018 and have since been gradually increasing the level of assets they manage on behalf of their funds and broadening their offerings to their participating funds.

The next major step was in 2022, when Michael Gove reignited Osborne’s ambitions and mentioned the potential for the LGPS to contribute to “Levelling Up” the UK in his white paper. This was followed up in 2023, when a government consultation on LGPS investments was launched, considering a wide range of issues, including a 5% target to invest in “Levelling Up projects”. This consultation also mentioned the need for a smaller number of larger pools, that make greater use of internal management and provide a greater array of services to their funds, including strategic asset allocation advice.

Around the same time in August 2023 the final report of the Scheme Advisory Board’s Good Governance Project was published: setting out a series of recommendations designed to improve the governance and administration of the scheme for consideration by MHCLG. Since publication funds have continued to implement some of the recommendations whilst awaiting launch of a consultation.

The last government did their best to progress this agenda in their final months, however the new Labour government has not only continued, but stepped on the accelerator. Within days of winning the election, they

had launched a Pension Investment Review. This quickly led to a Call for Evidence with a focus on the LGPS, again asking questions on scale and investing in the UK.

This new consultation appears to be another step along in that journey, rather than anything revolutionary.

What does this consultation cover?

This consultation sets out the government's intentions for the future path of the LGPS, which they invite your views on. It covers three main areas.

- 1. Pooling.** By 31 March 2026, the government require all pools to be FCA regulated investment management companies. All assets be invested through the pool with implementation of investment strategies fully delegated to pools. Funds maintain the decision regarding investment strategy, but this is to be limited to either high-level investment objectives, or a high-level asset allocation. Pools will advise on the setting of these.
- 2. Local investment.** Funds will be required to invest locally, setting out their approach to local investment, including a target range within their investment strategies. Funds will also be required to work with local combined authorities and mayors to achieve this investment. These investments, and their impact, will also be included in annual reports. Pools will be required to undertake the due diligence on potential investments and will decide whether to invest.
- 3. Good governance.** After four years, the government is acting on the recommendations of the Good Governance Review. This includes proposing : a requirement that committee members have the appropriate knowledge and skill, funds publish strategies on governance, training and administration (including conflicts of interest), and that a senior LGPS officer is appointed at each fund. A key inclusion is the proposal that funds will be required to participate in a biennial independent governance review to obtain assurance that they are meeting governance requirements. One new recommendation is the proposal that pension committees appoint an independent advisor to drive governance improvement, challenge and delivery. Similarly, Pool boards may also need to include representatives from their funds and improve transparency, including reporting investment performance and transaction costs.

How does this develop the issue?

Pooling

The government has stated a desire to finish what was started back in 2015. This provides a deadline for funds to transition their remaining assets into their pools and is somewhat of a step towards the Canadian pension model so often held up by government. It also represents a significant increase in the requirements placed on pools. They now potentially have 16 months to take on a large increase in assets, including the transfer of legacy illiquid holdings, and build out new capabilities in the very complex and impactful areas of strategic asset allocation advice and local investment. They must present a business plan to government by 1 March 2025 on how they will deliver this, with evidence that this is more cost effective than just merging with another pool.

Local investment

Local investment has emerged as the government's main agenda from this review. It has pinned its political ambitions on economic growth but need outside capital to invest to achieve that. It has focused on the LGPS and defined contribution pension schemes as the sources of that investment. It's notable that the government is asking the LGPS to focus on local investment, rather than the large-scale infrastructure projects often mentioned, something we called for in [our response](#) to the Call for Evidence. Whilst some meaningful economic impact could be achieved by these investments, the need to find suitable investments, offering appropriate

returns for a suitable level of risk, is extremely important. As is the need for strong governance and responsible management. Without these, harm could be done to local areas, rather than positive impact and growth.

Good Governance

We welcome inclusion of the recommendations of the Good Governance Review in this consultation. There are some details to consider in responding to the consultation, in particular around ensuring the role of the LGPS Senior Officer is clearly articulated and there is greater understanding of how Biennial Reviews and Independent Advisors will develop. However, given the extent of change anticipated within this consultation driving good governance will be key.

What's next?

First, the LGPS might need to collectively catch its breath. Time is needed to digest the huge amount of information and consider the implications on your fund. You now have nine weeks to respond to the consultation. Whilst it's often easy to decide that government has already made their minds up with regards to what will happen (with the results of the last consultation very much supporting that view), it's still extremely important to have your say. Therefore, we strongly encourage you to respond and share your views on these extremely important issues. We will be providing materials along the way to share views and support your own responses.

If you have any questions, or would like to discuss further, please [get in touch](#).

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