

## Agenda Item

<b>Subject</b>	<b>“Fit for the Future” Consultation Outcome</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	5 <sup>th</sup> June 2025
<b>Report of</b>	Director		
<b>Equality Impact Assessment</b>	Not Required	Attached	No
<b>Contact Officer</b>	George Graham Director	<b>Phone</b>	01226 666439
<b>E Mail</b>	<a href="mailto:ggraham@sypa.org.uk">ggraham@sypa.org.uk</a>		

### **1 Purpose of the Report**

- 1.1 To make members aware of the content of the Government’s response to the “Fit for the Future” consultation published on 29<sup>th</sup> May 2025.
- 

### **2 Recommendations**

- 2.1 Members are recommended to:
- Note the Government’s final proposals for changes to pooling and governance within the Local Government Pension Scheme.**
  - Indicate whether there are any issues of concern at this stage which officers should factor into their work to address the Government’s proposals.**
- 

### **3 Link to Corporate Objectives**

- 3.1 This report links to the delivery of the following corporate objectives:

#### **Investment Returns**

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long-term liabilities.

#### **Responsible Investment**

To develop our investment options within the context of a sustainable and responsible investment strategy.

#### **Effective and Transparent Governance**

To uphold effective governance showing prudence and propriety at all times.

The implementation of the proposals set out in the Government’s response to “Fit for the Future” will fundamentally change the way in which the LGPS (Local Government Pension Scheme) invests and the way in which its governance arrangements operate for the long term and will therefore potentially have a significant impact on the way in which the Authority achieves its corporate objectives.

## **4     Implications for the Corporate Risk Register**

- 4.1     The Government's proposals directly impact the risks on the corporate risk register related to the Pensions Review and the delivery of the Border to Coast Strategic Plan. As the proposals have only just been published it is too early to say whether the risk scores will be fundamentally altered. However, once the implications have been fully assessed it will be possible to take a clearer view on the level of risk the Authority faces as a result of the proposals.

## **5     Background and Options**

- 5.1     The Government published its "LGPS – Fit for the Future" consultation in November 2024, with responses due in January 2025. The Authority's response is available on the website and a link is provided as a background paper. The Government published the consultation outcome on 29<sup>th</sup> April alongside the final conclusions of the Pensions Review in preparation for the publication of the Pension Schemes Bill which will be presented to parliament in the next month or so.
- 5.2     In addition to this consultation the Government asked the various pools to submit plans for their transition to the proposed new operating model by the end of February 2025. The Government provided feedback on these plans on 9<sup>th</sup> April and as a result the 21 funds which form two pools are being required to find new homes. The issues arising from this exercise are dealt with in a separate report on the confidential part of the agenda for this meeting.
- 5.3     There was a substantial response to the consultation including all 86 Administering Authorities (AA's) and all 8 pools. Responses were mixed with significant support for the governance proposals but significant opposition to a number of the proposals for the evolution of pooling. Having considered the responses the Government propose to implement their proposals with very minor amendments and will implement them through the Pension Schemes Bill and subsequent regulations and guidance. A significant amount of detail will be contained in the regulations and guidance so it may be some time before the full impacts and resource implications of the proposed changes become clear. The changes which will be implemented cover three areas:
- Pooling
  - Local investment
  - Governance of funds and pools

### *Pooling*

- 5.4     The Government proposes to implement their original proposals with only marginal changes. Thus there will be a move to pools becoming fiduciary managers acting both as the principal source of advice on investment strategy and asset allocation as well as being responsible for the execution and implementation of that strategy. The main changes to the proposals consulted on are:
- A degree of discretion reserved to the pools over the structuring of investments, although the default will remain collective investment vehicles. This is to address certain difficulties with the pooling of passively invested equities as well as some other more niche investments to which SYPA has no exposure.

- Some clarification of the Government's view on cashflow management which while helpful in providing clarity maintains an entirely artificial distinction within the Fund's cash holdings which will be difficult to manage and will require the creation of additional operational level systems and processes and the inclusion of additional forecasting within the strategy review.
- Acceptance that it may be necessary for a pool to provide more than one investment approach to meet a range of approaches to responsible investment across partner funds, although maintaining that bespoke arrangements for each partner fund would not be acceptable. This, to some extent, addresses one of the concerns raised in the SYPA response. The Government's view is that the best interests of the whole scheme are served by a degree of compromise between partner funds to minimise the number of different strategies adopted. The balance between pragmatism and principle could potentially become a bone of contention in seeking to resolve these differences.
- A minor amendment to the proposed asset allocation table to be included in the Investment Strategy Statement and acceptance of an alternative less detailed version categorised across growth and income assets.
- The Government has rejected the various arguments concerning conflict of interest in terms of the provision of advice by pools arguing that because pools are only providing advice to shareholders and are not constituted as profit making entities the interests of the company and the partner fund are aligned.
- The Government has accepted some relaxation of their initial timetable specifically for those funds required to seek a new pool, but not more generally. This will put some pressure on the development of the operating model for the management of legacy assets. The Government will take reserve powers to instruct a fund failing to comply with the legal deadlines to undertake a governance review, and where this is not successful would issue directions to wind up the relevant fund and pass responsibility for it to another AA.
- The Government has asked the tax authorities to engage with the pools to discuss issues relating to Stamp Duty Land Tax and the transition of real estate assets to pooled vehicles. This is a positive response to a specific ask from the sector, but does not address the differential treatment of properties in Scotland and Wales.
- The Government will also legislate so that limitations within the procurement regulations which affect how much work a pool can undertake for organisations other than its shareholders does not impact on the ability of pools to collaborate and undertake activity for each other.
- In relation to the winding up of two current pools the Government propose to take a reserve power to direct a fund to join a specific pool, should a fund not be making progress in line with the relevant timescales.
- Additionally in relation to the potential impacts of local government reorganisation and opportunities for collaboration on a wider range of issues the Government states (para 166) *"The government is looking at ways to make it easier to setup standalone pensions authorities, which it anticipates may be useful in cases of Local Government Reorganisation where new authorities do not map straightforwardly to underlying AAs."* This is a welcome development which supports the overall strength of the SYPA model of governance.

5.5 Given previous statements by the current and previous governments the fact that there has been no more than marginal change as a result of the consultation should be no surprise. SYPA's position has been more supportive of the direction of travel than the average across the LGPS looking to make whatever comes out of the process work.

As discussed elsewhere on the agenda good progress is being made with building the pool capabilities necessary to ensure that the relevant timelines can be met. We will also need as we carry out the Investment Strategy review which is about to commence framing the output so that it serves as a bridge to the requirements of the new model with the pool providing principal advice. The key to the success of the new approach will be how it is implemented by the pool, as opposed to the detail contained in further regulations and guidance. Given the collaborative and consensual approach which typifies the operation of Border to Coast the foundations for a positive outcome are in place.

#### *Local Investment*

- 5.6 This area was, perhaps, less controversial than pooling and the provision of advice by the pools. However, there were a number of concerns about Government mandating specific types of investment. Responses were broadly supportive of the policy aim with concerns being more about issues of detail. The main clarifications in the Government's response are:

- A clearer definition of local which is sufficiently broad to accommodate differential approaches between funds in a pool while emphasising the need for such investments to have positive impact in addition to the core financial return objective. This is fully supportive of SYPA's Place Based Impact Strategy.
- Clarity that it will be up to AA's to set their own targets for local investment.
- A change in emphasis in relation to reporting where pools will be expected to undertake all impact reporting on behalf of partner funds, with no centrally prescribed list of metrics. This should reduce the cost of such reporting and avoid duplication.

- 5.7 The approach supported in these final proposals is very much in line with SYPA's thinking, in particular the development of positive working relationships with SYMCA which respect each other's different roles. The work being done to develop an operating model for the pool to make investments in line with the locally determined strategy and priorities is clearly within the Government's parameters.

#### *Governance of funds and pools*

- 5.8 The Government's proposals in this area were almost universally welcomed given that they were largely derived from the Scheme Advisory Board's (SAB) 2021 Good Governance Review. Significantly more detail will be provided in subsequent regulations and guidance the production of which will involve the SAB which has a good record of involving practitioners in developing such guidance. Some responses drew attention to the potential costs of some proposals, however the Government's view is that the investment will be repaid in terms of improved performance derived from a "governance premium" the impact of which can according to academic research be up to 2%pa. Key points of note are:

- A revision to proposals about the Governance and Training Strategies and Conflicts of Interest policy accepting the preference for these to be separate documents, with three yearly reviews which need not coincide with the valuation process.
- Some clarification around the expectation that the setting of the budget for the pension fund should be separate from that for the host council in a traditional

AA, with further guidance to be provided. This is a welcome step to address issues where resourcing in funds is negatively impacted by the financial position of the host council.

- Some clearer language around the expectations of the LGPS Senior Officer role as follows. *“These are high profile roles with overall responsibility for the management, business planning, strategy and administration of the fund. That will require a robust appointment process and adequate remuneration, but as set out in the consultation, we consider the potential benefits to be much greater than the cost of investing in better governance.”* This is not an issue for SYPA given our separate legal status and the person specification for the role of Director already reflects the desired position. This may, however, be a challenge for some smaller funds.
- Specifying that independent governance reviews should be carried out once every three years rather than every two years. The Government makes clear that these reviews are intended to have teeth and will be submitted to the Department on completion who will exercise oversight over the way in which recommendations are being addressed including potentially involving the Pensions Regulator and the making of directions under the terms of the Public Service Pensions Act 2013.
- The proposed knowledge and understanding requirements will apply to individuals rather than to the Pensions Committee (in SYPA the Authority) as a whole. Further consideration will be given to how members will be held to account for non-compliance.
- AAs will be required to have an independent adviser covering the whole range of their activity and not just investments, but this adviser will not as be, as previously suggested, a voting member of the committee.
- The Government does not propose to prescribe a particular way in which shareholder representation on the boards of pool companies should be delivered or on how scheme members should be represented in pool governance.

- 5.9 Again there is nothing unexpected in this, and SYPA is well positioned in relation to the changes that will be required although it will be necessary to await further clarity on the detailed guidance before beginning any preparatory work with a view to bringing any necessary changes in at the earliest opportunity in line with previous practice.

#### *Conclusion*

- 5.10 The outcome of this consultation exercise is unsurprising and it continues the policy direction initially set out by the previous government. While SYPA will need to change processes and procedures and put in place arrangements to demonstrate compliance these things build on what has already been built and the pooling related changes will complete the journey which was started when the Authority first committed to Border to Coast. This is not to be complacent, much work will be required and some of it will not be easy, but SYPA does not start, as some others do, from a position of outright opposition to change.

## 6 **Implications**

6.1 The proposals outlined in this report have the following implications:

Financial	It is too early to make a precise assessment of the financial implications of these proposals. However, there will be some, such as the need to budget for regular independent governance reviews, and the costs of the new independent adviser role, although ideally this could largely be met by rejigging the current advisers and their roles. More detail is provided on the potential financial implications of the pooling changes in a report elsewhere on the agenda for this meeting.
Human Resources	The requirements for knowledge and understanding apply to officers as well as members and there will need to be work undertaken to ensure that the workforce plan and broader learning and development plan meet the requirements that will be set out in guidance in due course.
ICT	None
Legal	The Government's intention is clearly to develop a regulatory framework under which it is easier to monitor compliance and if necessary take enforcement action. The Authority will therefore need to take steps to ensure that it is able to demonstrate compliance at all times.
Procurement	The proposals will make it easier to demonstrate control of the pool company while allowing it to collaborate with other pools.

**George Graham**

**Director**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
Local Government Pension Scheme (England and Wales): Fit for the future – government response SYPA response to the Fit for the Future Consultation	<a href="#">Local Government Pension Scheme (England and Wales): Fit for the future – government response - GOV.UK</a> <a href="#">SYPA Consultation Response</a>
Local Government Pension Scheme (England and Wales): Fit for the future – Consultation	<a href="#">Local Government Pension Scheme (England and Wales): Fit for the future - GOV.UK</a>