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Executive Summary

We welcome the opportunity to provide our comments on the Ministry of Housing, Communities and Local Government's ("MHCLG") consultation "Local Government Pension Scheme (England and Wales): Fit for the future".

As a firm of Professional Independent Trustees, we have appointments which span single employer trust arrangements, master trusts, governance committees (on behalf of employers utilising both master trusts and GPP arrangements for their employees) and Independent Governance Committees (IGCs). As a firm, we also provide governance support to pension schemes through our pensions executive team who provide (amongst other services) outsourced pensions management and project governance oversight. We have extensive experience and a very clear remit: to act in the best interest of those members and savers whom we represent, and to challenge providers and advisers where appropriate. We are well placed to understand how the proposals outlined in the consultation will impact the administration and governance of the LGPS.

Overall, we agree that the proposals will result in better governance for funds and improve overall consistency, transparency, and accountability and the management of conflicts. The MHCLG's proposals align well with our experience of broader pensions industry best practices and direction of travel. In some respects MHCLG's proposals would seek to formalise existing discretionary practices, which we agree would ensure consistency of approach across funds.

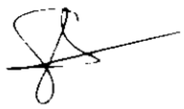
However, we are conscious that practical challenges will need to be addressed in order to successfully implement the overall proposals and attain the desired outcomes. For example budgets and resources within AAs are already in some instances constrained and the additional capacity needed meet the new proposed requirements, including appointing a senior LGPS officer, could prove challenging.

Nevertheless, an increase in expertise and oversight of LGPS funds, in the form of senior LGPS officers and independent persons would, in our view, be beneficial to Administering Authorities ("AAs"), pension committees, members and funds in seeking to ensure that funds are managed efficiently and to a high standard. Our experience as professional pension trustees leads us to believe that the appointment of independent persons would enhance governance by providing impartial expertise and in strengthening decision-making. Independent advisers or trustees would in our view be particularly effective in managing issues with the potential for conflicts including in respect of local investments and in ensuring decisions align with fiduciary responsibilities. An independent adviser could also strengthen the knowledge and understanding of pension committees and provide embedded continuity of that knowledge.

Whilst we think that it may be helpful for AAs and pension committees to have the ability to adopt and tailor the proposed requirements to their individual circumstances, we also think that there are benefits to a consistent approach across all funds to ensure best practice. It will be important to ensure that the final requirements, and any accompanying guidance, strike the balance between consistency and flexibility.

We hope our response to this consultation provides useful insight from the trustee perspective. We would welcome the opportunity to work with our partners in the pensions industry and regulatory bodies to discuss and further refine and develop the proposals if that would be helpful.

SANKAR MAHALINGHAM



Managing Director, Law Debenture

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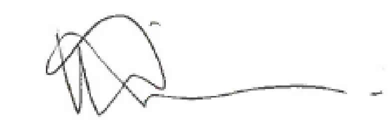

Professional Trustee, Law Debenture

Questions 1 – 17

We do not have any material comments in relation to these questions.

Question 18:

Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Overall, we agree with the proposed approach to the governance of funds. The SAB's Good Governance recommendations provided a strong foundation for improving consistency, transparency, and accountability across LGPS governance. The MHCLG's proposals align well with our experience of broader pensions industry direction of travel and in some instances best practice.

However, practical challenges will need to be addressed in order to successfully implement the proposals and attain the desired outcomes, such as resource constraints within the industry and at individual AA level. Some AAs are already constrained in terms of budget and capacity and we recognise that the proposed requirements would represent additional demands on limited resources.

In order for consistency in application across AAs to be effective, the new proposed requirements will need to be easily understandable. The example, the governance compliance checklist in SAB's Good Governance recommendation is a useful resource which could be incorporated into future guidance in order to facilitate a consistent level of governance within the time and resource constraints faced by funds.

In our view, flexibility within the implemented proposals, particularly in the short to medium term will be critical to account for high turnover among councillors, varying levels of pensions expertise, and diverse local authority structures.

Question 19:

Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

We agree that formalising the requirement to produce and prepare governance and training strategies will help to ensure consistency and clarity of approach across funds.

In particular, including a robust conflict of interest policy is crucial, recognising the issues identified by the SAB Good Governance Report and in particular in respect of the dual role of local authorities as both employers and administering authorities.

We agree with SAB's recommendations that the conflicts policy should be expected to directly address the potential for conflicts that may arise in respect of local investments. We note that 'local' has not yet been defined and would suggest that it should be broad to avoid narrow geographic conflicts.

It will also be important that each AA's conflicts policy should be transparent in identifying, managing, and resolving conflicts of interest, especially where councillors and officers may have competing priorities. We would envisage that each AA's annual governance compliance statement would report in respect of the identification and management of conflicts.

Question 20:

Do you agree with the proposals regarding the appointment of a senior LGPS officer?

We recognise that the appointment of a senior LGPS office has the potential to increase governance and accountability however we would note that it will be important that the selected individual recognises their own potential for conflicts and is able to act impartially, by not being subject to political influence or overriding local authority priorities. The proposed biennial governance review should incorporate within its scope the identification and management of conflicts at fund level and also in respect of the AA's LGPS senior officer.

We note SAB's recommendations in respect of the personal competencies of LGPS senior officers and the extensive scope of the 'core requirements' expected of such an officer. We are concerned that each AA recruiting a suitably qualified individual with the required expertise may prove difficult given the competition for talent in the pensions market and the role's breadth of responsibilities. We would suggest that collaboration between LGPS senior officers should be encouraged for efficiency and knowledge sharing. This could extend as far as LGPS senior offices operating across multiple AAs (either individually or as a pool), however that would introduce separate challenges in respect of understanding the unique dynamics of individual AAs and in integrating with and liaising with each AA's senior leadership team.

We agree with SAB's recommendations that the LGPS senior officer's responsibilities should be clearly defined to avoid duplication or conflict with existing roles, such as the Section 151 officer or pensions managers.

Question 21:

Do you agree that administering authorities should be required to prepare and publish an administration strategy?

We recognise that many administering authorities already prepare administration strategies and agree with the proposal to formalises existing good practice. Regular updates to the strategy and statutory guidance will ensure consistency and drive improvements in areas such as employer engagement, performance monitoring, and member communications. In our view encouraging digital transformation within administration strategies would also enhance efficiency and accessibility for scheme members.

Question 22:

Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

We agree that simplifying the presentation of strategies in annual reports by including summaries rather than full texts could enhance accessibility and transparency for stakeholders. We suggest that the annual reports could also be used to highlight any changes in strategy since the previously published report.

In order to drive increased member engagement it will be important that annual reports are drafted in as 'plain English' as possible. We think that the underlying detailed strategies should be available separately to ensure transparency without overloading AA's annual reports with excessive detail. Updated guidance from SAB will be essential to maintain consistency and ensure summaries remain informative and aligned with best practices.

Question 23:

Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

We agree that biennial independent governance reviews should enhance governance by providing external assurance, identifying improvement areas, and promoting best practices. Such a review could assess:

- Compliance with statutory requirements.
- Effectiveness of governance structures and decision-making processes.

- Risk management and training frameworks.
- Stakeholder engagement, including member communications.

We think that it is equally important that the final report includes an action plan which should result in a clearly deliverable and measurable action plans to ensure that recommendations are implemented. We agree that a summary of the final report should be sent to MHCLG in order to ensure oversight. Whilst we understand the intentions behind a requirement to publish that summary in the public domain, we would flag that this could result in the summary being drafted in a less open and constructive way than if it were sent only to the MHCLG.

We note that SAB is underway with identifying experts already associated with the LGPS to be available to conduct the independent governance review and to assess report and action plans. We agree that the use of a panel of experts that include those with LGPS-specific experience would improve the credibility and impact of reviews, provided that those persons are also able to demonstrate sufficient expertise in oversight. To the extent that other reviews may be undertaken by different third parties, we would note that a skeleton framework published by SAB could be helpful in ensuring the consistency and quality of external reviews. We think that it would be helpful for the individuals undertaking the independent governance reviews to share experience and best practice for the benefit of all AAs and this should be explicitly permitted by the final requirements.

Question 24:

Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

We agree that committee members being required to meet minimum knowledge and understanding standards is essential for effective governance and decision-making. The knowledge and experience of an independent person sitting on pension committees, such as a professional trustee, would further enhance governance by sharing experience and aiding other committee members in identify gaps in their knowledge.

We recognise that a regular turnover among councillors could present challenges to achieving that aim. We would suggest that structured induction programmes should be mandatory for new members and that ongoing training plans should cover key governance, funding, and investment topics. In order to address the potential for continuous lost knowledge committee members should commit to serving a full term to allow time for knowledge-building and ensure governance continuity. We also refer to the potential to mitigate the risks of lost knowledge in our response to question 26. We think that the same 6 month TKU timeframe that applies to new private sector trustees should also apply to committee members.

Question 25:

Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

We agree that embedding knowledge and understanding requirements within governance and training strategies ensures a structured approach to addressing skill gaps, provided that such a plan is accompanied by an implementation plan that implements any gaps that are identified. Training strategies should, in our view, include:

- Induction programmes for new committee members;
- Ongoing development plans tailored to members' varied experience levels.
- Use of independent professionals or external advisers to assess training needs and deliver tailored programmes.
- Knowledge retention mechanisms, such as detailed handovers and mentorship systems, are vital to mitigate the impact of turnover among councillors.

Question 26:

What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

We agree that the appointment of an independent person on pension committees would enhance governance by providing impartial expertise and strengthening decision-making, as well as providing continuity of support. We are conscious that committee members may not be re-elected and may therefore not be able to continue with their role in the medium to long term. Having an independent person would embed knowledge of the fund and AA and provide long term support for the fund.

Independent advisers or trustees would be particularly effective in managing issues with the potential for conflicts including in respect of local investments and in ensuring decisions align with fiduciary responsibilities. An independent adviser could also strengthen the knowledge and understanding of pension committees and provide embedded continuity of that knowledge.

We think that it would be preferable for the independent person to serve as a voting member, rather than an adviser, to ensure that their input directly influences outcomes. However, we recognise that flexibility is essential to allow AAs to adapt this requirement to their structures, whether by appointing voting members, advisers, or forming governance boards, provided that an advisor is not expected to both lead decision making and provide advice

We think that professional trustees are particularly suited to this role, bringing fiduciary experience, conflict management skills, strength of governance and pensions expertise, alongside experience of sitting in a decision making capacity on trustee boards.

We suggest that the independent person could also serve on a governance board, supporting broader oversight, sharing experience between AAs and providing resilience in decision-making.

Questions 27 – 29:

We have no material comments in relation to these questions.