



LOCAL PENSION COMMITTEE – 27 JUNE 2025
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES AND
THE DIRECTOR OF LAW AND GOVERNANCE
FIT FOR THE FUTURE AND LGPS CENTRAL UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with an update on the outcome of the fit for the future consultation and pooling matters with LGPS Central, including a PowerPoint presentation (Appendix B) which will be delivered at the meeting by representatives from LGPS Central.
2. The report also seeks approval of the revised Terms of Reference for the Local Pension Committee (Appendix A).

Policy Framework and Previous Decisions

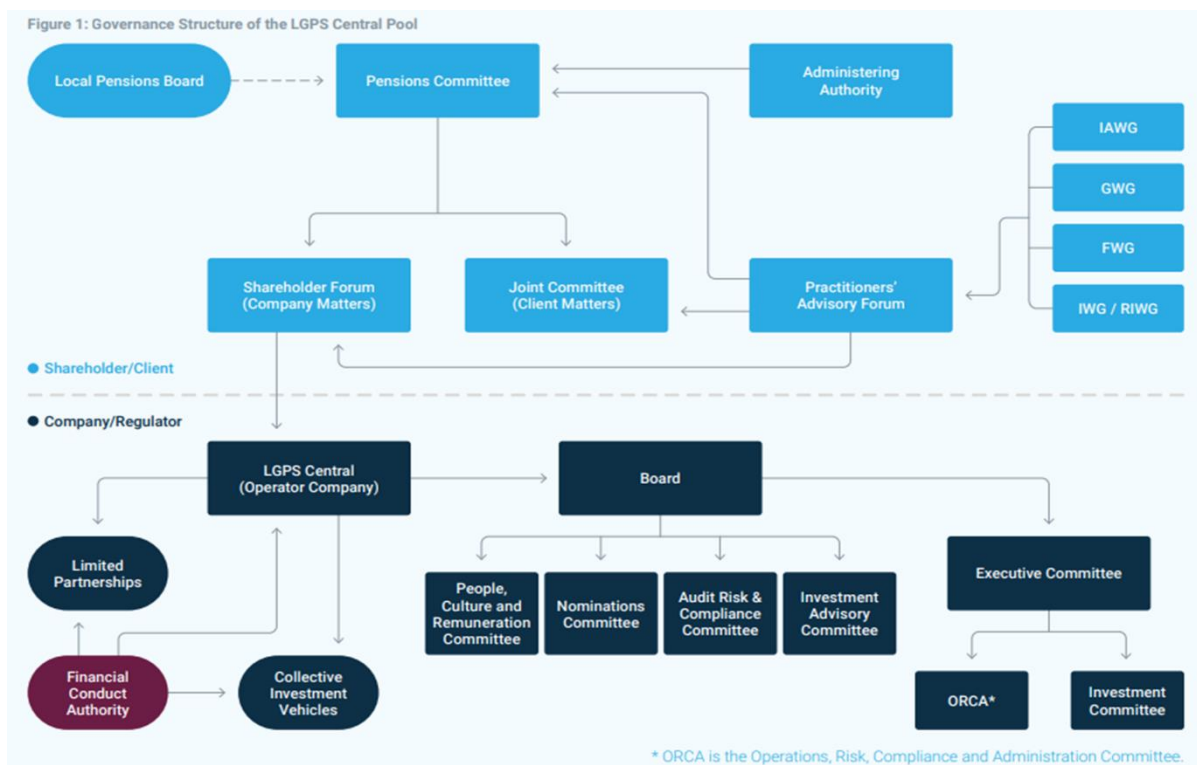
3. The Leicestershire County Council Pension Fund (the Fund) is an equal owner of LGPS Central Limited (Central) which is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. The Fund owns Central alongside Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. As set out in the Investment Strategy Statement it is the Fund's intention to invest its assets through Central as and when suitable pool investment solutions become available.
4. Central has been in operation since 1 April 2018. As of 31 March 2025, Leicestershire County Council Pension Fund (the Fund) has circa £3.8bn invested in Central, as well as over £650m in uncalled commitments which will increase its overall pooled exposure.

Background

5. Leicestershire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Leicestershire and Rutland. Leicestershire County Council has a statutory obligation, as defined under the

Public Service Pensions Act 2013, to administer a Pension Fund for eligible employees of all local authorities within the County boundary and also the employees of certain other scheduled and admitted bodies.

6. In accordance with Section 101 of the Local Government Act 1972 the County Council has delegated the responsibility for decisions relating to investment of the Fund's assets to the Local Pension Committee.
7. In 2016 the Local Government Pension Scheme Regulations 2016 came into force. These regulations mandate that the separate LGPS funds in England and Wales combine their assets into a small number of investment pools. To meet the requirements of these regulations Leicestershire County Council, alongside Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, Worcestershire helped develop LGPS Central Limited, which they each jointly own.
8. By leveraging the scale of the underlying partner funds Central aims to reduce costs, enhance investment returns, and expand the range of available asset classes, all for the benefit of local government pensioners, employees and employers.
9. The Fund is a stakeholder in LGPS Central from two different perspectives:
 - a. A co-owner of the company (shareholder) alongside the other owners, and;
 - b. As a recipient of investment services (client)
10. These interests are managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement, Investment Statement Strategy and Conflict of Interest Policy. The figure below illustrates the relationships between the various bodies.



11. In November 2024 Government initiated the 'Local Government Pension Scheme (England and Wales): Fit for the Future' consultation. The focus of which was to look at how tackling 'fragmentation and inefficiency' can unlock the investment potential of the scheme, including through asset pooling and enhanced governance, while strengthening the focus on local investment. On 29 November 2025 the Local Pension Committee considered key themes and initial views and authorised the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee to prepare a detailed response.

'Fit for the Future' Consultation Outcome

12. Alongside the 'Fit for the Future' consultation, each LGPS pool was invited to submit a transition proposal on how they would seem to meet the minimum standards by the proposed deadline. Following Government's assessment, support was expressed for six (including Central) out of eight pools on 11 April 2025. Government invited the remaining two pools to engage with pools to determine which they wish to form a new partnership with. For affected funds they have been asked to provide an in-principle decision between themselves and the pool they wish to work with by 30 September 2025, with shareholder or client agreements in place by March 2026.

13. On 29 May 2025 Government published the final report of the Pensions Investment review and 'Fit for the Future' consultation outcome, which confirmed all core proposals are to be implemented. In summary these are as follows.

14. **Reforming the LGPS asset pools** by mandating certain minimum standards which were:

- All Administering Authorities will be required to delegate investment strategy implementation and take their principal investment advice from their pool.
- Pools must become Financial Conduct Authority (FCA)-regulated investment management companies. This is already the case for LGPS Central.
- A March 2026 deadline for Funds and pools to meet these minimum requirements, including transferring all assets to pool management, where Funds are continuing with their existing partner funds, like Leicestershire.

15. **Local and Regional Investment** - Fund's will be required to set target ranges for local investment in their Investment Strategy Statements and be required to collaborate with local authorities, regional mayors and pools. Pools will conduct due diligence on local investment opportunities, including the final decision whether to invest and be responsible for impact reporting.

16. Local investment is defined as broadly local or regional to the Fund or pool. It will be for the Fund to work with the pool and other partner funds on any appropriate framework and collaborate as necessary.

17. **Governance** – The government will work with the Scheme Advisory Board to produce statutory guidance to implement the 2021 Good Governance Review recommendations, this will include areas such as training, governance, and triennial independent governance reviews. This will include appointment of Senior LGPS Officer with delegated responsibility for fund management and budget-setting, separate from the administering authority. Government is expected to clarify how the role relates to the s151 officer and pools in guidance.

18. Funds must also appoint a non-voting independent pension advisor for investment strategy oversight and governance support to the Local Pension Committee.

19. Partner Funds and Pools will be able to agree appropriate governance structures for Pool Company Boards.

20. The government intends to establish statutory asset pooling requirements for the LGPS through the Pension Schemes Bill. Accompanying regulations and

guidance are expected to come into force at the same time as the bill's powers. Government have said they will consult on draft regulations in due course.

21. Where Funds do not comply with aforementioned requirements the Pensions Bill is also looking to clarify the existing provision in the Public Service Pensions Act 2013 to allow for the winding-up of pension funds (for example where Funds may need to merge as a result of local government reorganisation) as well as compulsory mergers to enable government to intervene in the event that local decision making is not effective in bringing about satisfactory arrangements.
22. At a high level there are plenty of positives to be taken in continuing the Fund's trajectory towards pooling which will continue the good practice already achieved with Central and partner funds. It will be important as part of the implementation that partner funds and pools continue to work closely to ensure changes are enacted appropriately so as not to lose sight of the schemes primary purpose.
23. These proposals will mean significant changes to how Fund's and their Committees and Pools interact as are highlighted below but also provide opportunities for pools and partner funds to develop their own best practices for developing pooling moving forward.
24. These changes will require significant governance reviews at pool, and Fund level to ensure existing structures are appropriately set up for the new roles and responsibilities, this will include legal, financial and many other considerations ahead of the 31 March 2026 transition for all assets.
25. Some of the implications of these considerations mean from April 2026 the Committee will be required to use the following Strategic Asset Allocation template, as well as follow any other guidance that has yet to be published.

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Credit (i)		
UK Government bonds		
Investment cash		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

26. Government set out it is important for Funds and the pool to work closely in the development of each SAA given it will be for pools to provide principal advice to funds, instead of existing investment advisors. It will then be for pools to make all investment and implementation decisions to fulfil the set Strategic Asset Allocations for funds.

27. Committee's role and the Investment Subcommittee will need to adjust to these changes and include, for example, more focused agendas with scrutiny on Central's performance rather than individual managers which will be supported by the new role of independent person highlighted in paragraph 30. The Board and Committee will be updated as matters progress as further guidance is expected on many of these considerations which will help shape how Committee will function in future.

LGPS Central Presentation

28. Representatives from LGPS Central will be in attendance to present to Committee, attached as Appendix B. This provides highlights of Central's work, their approach to investment and developments in relation to Fit for the Future.

Terms of Reference Review

29. The Terms of Reference for the Committee were reviewed in November 2020. This was in light of the expectations of the Pensions Regulator and the emerging themes from the Scheme Advisory Board's Good Governance Review. As part of that review, it was agreed that the Terms of Reference would thereafter be reviewed at least once every three years or following any significant change in law or guidance and was last updated in March 2024 by the Local Pension Committee.

30. This review has been undertaken in light of significant changes to the Local Government Pension Scheme following the Fit for the Future consultation

outcome, as set out in this report, to support efficient and effective governance, as follows:

- A. The Fit for the Future consultation outcome notes that “Administering Authorities will be required to have a qualified pensions professional appointed as independent person and adviser to the Committee, as a non-voting member.”

It is Government’s view that the role of independent advisor will be able to support the Committee to effectively hold their pools to account for their advice, and support Committee in challenging and testing the advice from the pool. It is also set out that the advisor would be required to have one or more of the following qualifications and experience:

- qualifications from Pensions Management Institute (PMI) - the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustee;
- member of, and accredited by, the Association of Professional Pension Trustees (APPT);
- and significant experience of pensions and/or investments.

In line with this proposed requirement the Terms of Reference have been reviewed to facilitate the ability to appoint to this role at an appropriate time, noting that the majority of LGPS funds will need to appoint to a similar role around the same time. Roles and appointments are expected to be made over 2025-2026 and will be developed and reviewed in context of pooling developments and any further government guidance. .

The Administering Authority will approve and manage a transparent recruitment process.

- B. To enable the Fund to efficiently engage with LGPS Central on developments over the next year it is further proposed that modification be made to allow flexibility in who can act as the Fund’s Shareholder Representative on LGPS Central. This will be agreed by the Chairman of the Local Pension Committee in conjunction with the Section 151 Officer, and any decisions reported back to the Local Pension Committee.

31. It is expected that the Terms of Reference will need to be revisited following further progress of the relevant guidance and legislation relating to the Fit for the Future consultation. The Committee will continue to be kept updated on these matters.

Resource Implications

32. It is noted that while pooling has delivered substantial benefits so far these proposals will accelerate the transfer of assets and responsibilities to pools.
33. Officers will address potential resource implications as part of working through the outcome of the consultation and further awaited guidance to consider how this may impact Fund resources.

Recommendations

34. It is recommended that the Local Pension Committee:
- i. note the report and presentation.
 - ii. approve the revised Terms of Reference.

Background papers

31 January 2025 Local Pension Committee: Fit for the Future Consultation response
<https://democracy.leics.gov.uk/ieListDocuments.aspx?MId=7986>

Equality Implications

35. There are no direct implications arising from the recommendations in this report. The Fund and LGPS Central incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty.

Human Rights Implications

36. There are no direct implications arising from the recommendations in this report. The Fund and LGPS Central incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty.

Appendices

Appendix A: Terms of Reference Review
 Appendix B: LGPS Central Presentation

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