LOCAL PENSION COMMITTEE - 11 SEPTMEBER 2026

FIT FOR THE FUTURE UPDATE

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with an update on progress on regulatory change in the Local Government Pension Scheme (LGPS), as well as an update on LGPS Central's governance arrangements in the context of the Fit for the Future reforms

Policy Framework and Previous Decisions

2. The Leicestershire County Council Pension Fund (the Fund) is an equal owner of LGPS Central (Central), which is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. The Fund is an equal shareholder of Central alongside Cheshire Pension Fund, Derbyshire Pension Fund, Gloucestershire Pension Fund, Hampshire Pension Fund, Norfolk Pension Fund, Nottinghamshire Pension Fund, Oxfordshire Pension Fund, Shropshire County Pension Fund, Staffordshire Pension Fund, Suffolk County Council, West Midlands Pension Fund, Wiltshire Pension Fund and Worcestershire Pension Fund.

Background

3. 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 the other seven co-owners helped develop LGPS Central Limited, which they each jointly own. In March 2026 ownership of the pool expanded in response to the 'Fit for the Future' proposals which saw some pooling companies cease to exist.

4. 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.

5. The Fund is a stakeholder in 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)

6. These interests are currently managed through the Shareholders' Forum and the Joint Committee as well as Leicestershire Pension Fund's Funding Strategy Statement (FSS), Investment Statement Strategy (ISS) and Conflict of Interest Policy, as well as legal documents such as a fiduciary management agreement, shareholder agreement and cost sharing agreements among others.

Fit for the Future Regulations and Guidance

7. Over the past year significant legislative and regulatory changes to the Local Government Pension Scheme (LGPS) have been under consultation and review, which were due to take effect from 1 April 2026, subject to the passage of the Pension Schemes Bill through Parliament.

8. Government issued the final guidance to the regulations at the end of June, with the regulations coming into force on the 1 July 2026. Key requirements from the three statutory guidance are set out below:

   Fund Governance

   a. Enhanced knowledge and understanding requirements for members of pensions committees.
   b. The mandatory appointment of an LGPS Senior Officer.
   c. The mandatory appointment of an Independent Person to support the LGPS Senior Officer and those responsible for pension fund governance and decision-making.
   d. Arrangements for mandatory Independent Governance Reviews every 3 years.

   Asset Pooling

   a. Pool companies must be FCA authorised.
   b. All LGPS assets transition to being managed by asset pool companies
   c. Asset pools to implement investment strategies and provide principal advice to funds.
   d. The roles of the Pool, administering authorities and strategic authorities with local investment.

e. Reporting requirements, considerations for pool governance and the circumstances which the secretary of state may wish to direct a pool or fund.

Preparing and Maintaining an Investment Strategy Statement

Requirements regarding the formulation, content, publication, implementation and review of investment strategies. Including:

a. Setting high-level investment objectives in relation to returns, risk, cash flow and local investment.
b. Setting a Strategic Asset Allocation in line with Government's template of 9 asset classes.
c. Considerations for setting out the Fund's approach to responsible investment and alignment with its pool.
d. Setting preferences on local investment.

9. Officers have been working through the requirements of the above, key updates are set out below:

Enhanced knowledge and understanding requirements for members of pensions committees.

10. The Fund already has a Training Strategy in place that applies to the Local Pension Committee, Board and officers involved in the Fund. The Strategy requires members to be inducted before sitting on the committee, as well as completion of the Hymans Aspire training programme within six months of appointment, and within six months of any programme refresh.

11. Hymans has recently updated its online training offer, introducing a series of updated bite-sized modules that can be completed at members' convenience. To support ongoing learning and ensure training remains relevant, email reminders are regularly circulated highlighting the most appropriate modules in advance of upcoming agenda items.

12. The Fund also has an Annual Training Plan which sets out Joint Board and Committee training areas. Based on the annual training needs assessment.

13. The new regulations place greater emphasis on knowledge and skills requirements of Committee and Board members so there will need to be enhanced monitoring of the training strategy above to ensure that it meets the needs of the Fund and is being adhered to.

Senior LGPS Officer

14. The regulations require every administering authority appoint a Senior LGPS Officer by 31 December 2026. The role is required to have responsibility across all of the Fund's functions, and provide strategic leadership across administration, investment management, governance and compliance alongside resourcing and operational effectiveness. The guidance includes the following key responsibilities:

    - Ensuring compliance with scheme regulations and statutory guidance
    - Monitoring Key Performance Indicators
    - Ensuring key fund policies and strategies are in place and adhered to
    - Robust monitoring and review of employer risk and clear and timely communications with employers
    - Ensuring adequate resources and training is in place, and that appropriate professional advice is in place
    - Ensuring Independent Governance Reviews are carried out
    - Monitoring the performance of the pool and participating in the governance structures of the pool

15. The role is intended to be a senior leadership position within the administering authority, Leicestershire County Council. It is also clear that the Senior LGPS Officer cannot be the Council's S151 Officer, Monitoring Officer or Head of Paid Service, alongside dedicating the overwhelming majority of their time and capacity to their LGPS responsibilities. The regulations also mandate that the Senior LGPS Officer role cannot be split between officers of the Fund in normal circumstances.

16. The responsibilities outlined above are largely provided for already in the job descriptions of two senior roles within the Council, but the current structure makes it difficult to allocate the role without requiring more fundamental changes.

17. The future structure and requirements of the role may also be impacted by Local Government Reorganisation and the decision-making process required to determine the administering authority from April 2028. It is therefore proposed that interim arrangements are put in place to meet the deadline of 31st December 2026 whilst the future Fund administration arrangements are confirmed. The Strategic Finance Manager – Investments will be designated the Senior LGPS officer, with any temporary amendments made to the job description to ensure it can fulfil the requirements of the regulations.

18. Long term arrangements will be considered further in 2027 once the administering authority has been confirmed.

Independent Person

19. The regulations require that the Fund appoints an Independent Person by the 31 December 2026.

20. The role is intended to provide objective, independent support to the LPC and Senior LGPS Officer and enhance governance effectiveness across the Fund.

21. Guidance on the role describes the role as a source of independent expertise, challenge and support which is not a decision-making role. This must be across investment, administration and governance areas.

22. The advert for the role closed on 21 August 2026 and attracted a strong field of applicants. The appointment will be made in line with the process agreed by LPC in July 2026 whereby a recommendation will be made to the Director of Corporate Resources following an interview process and a decision will be made in consultation with the Chairman of the LPC. There will also be appropriate engagement from LPC members that have expressed interest in being involved in the process.

Independent Governance Review

23. The regulations and guidance also require funds to undertake an independent governance review triennially, the first must be completed and submitted to Government by 31 March 2028.

24. The purpose of the review is to provide an objective assessment of whether the Fund’s governance arrangements are operating effectively and in accordance with the legislative and regulatory requirements. This includes ensuring an administering authority has policies required by all relevant legislation, regulations and statutory guidance.

25. This will include reviewing the requirement for the Fund to maintain and publish a Governance Strategy, setting out the Fund’s governance framework and decision-making arrangements.

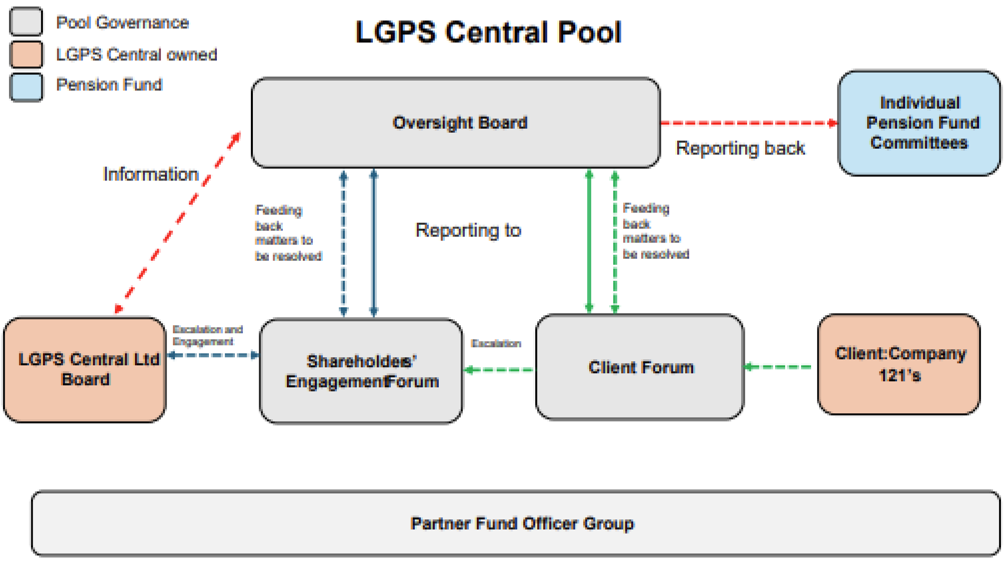
26. The review must be undertaken by a suitably qualified, independent person or organisation that can provide objective assurance on the Fund’s governance arrangements. This will be selected using an appropriate procurement process which will take place in 2027.

27. The Fund will look to ensure appropriate policies, including the Investment Strategy Statement against the new guidance are updated and approved by March 2027 in line with the Fund's annual policy review process.

<u>LGPS Central Governance Arrangements</u>

28. The LGPS Central Pool's governance arrangements and agreements have been reviewed and updated to reflect the 'Fit for the Future' changes to the governance of the LGPS and to the management of LGPS investment assets arising from the Pension Schemes Act 2026 and associated regulations and guidance, and to reflect the inclusion of a further six Partner Funds within the LGPS Central Pool.

29. In anticipation of the Fit for the Future reforms, a review of the Pool's governance was undertaken externally which focused on the following three areas of governance: client; shareholder; and company. The new governance arrangements for the Pool, which were developed following consideration of the recommendations, are set out in the chart below



30. The arrangements are designed to make pooling governance more efficient which clear accountability, stronger client engagement and governance arrangements that can support the continued development of pooling.

31. **Oversight Board -** The Oversight Board has been established to provide strategic oversight, challenge and assurance of the delivery of investment pooling activities, with one representative from each partner fund and membership generally expected to be made up of pension committee chairs. Membership will also include scheme member representatives, with a policy

for appointment expected to be agreed at the first meeting of the Oversight Board in November.

32. The Board will have a responsibility to consider client delivery, innovation, performance and client servicing and to report back annually to the individual Authorities Pension Committees within the Pool on its activities.

33. **Shareholder Representative/Shareholders Engagement Forum -** Each LGPS Central Limited shareholder is required to appoint a Shareholder Representative with the delegation to decide and vote on its behalf in relation to all shareholder matters. Shareholder representatives are expected to possess sufficient and relevant knowledge, skills and expertise relating to corporate governance, finance, risk and strategy at a level commensurate with the scope and complexity of Central's activities.

34. The role of the Shareholder Representatives is to contribute to the development and growth o LGPS Central and provide effective oversight and challenge of the Company's delivery of shareholder objectives. Reserved matters that are subject to shareholder approval include: approval of the Company's business plan and budget; the appointment of Directors of LGPSC; approval of the admittance of new shareholders of the company or the admittance of a pooling client; and the approval of the Directors' remuneration packages. The Shareholder Representatives will collectively form the Shareholders' Engagement Forum. The role of this forum is to facilitate engagement, discussion and information-sharing between the shareholding Partner Funds of the LGPS Central Pool and between LGPS Central Limited and the Partner Funds collectively.

35. In line with the delegation in July 2026 the Director of Corporate Resources is the current Shareholder Representative (with approved deputies) and will report back to the Local Pension Committee accordingly.

36. **Client Forum** - The Client Forum provides a structured forum for clients of LGPS Central Limited to engage with the Company on the delivery of delegated investment management and services and exercise client oversight, challenge and feedback in respect of how those delegated functions are performing.

37. Membership of this forum will consist of up to three nominated client representatives from each partner fund with members expected to have sufficient seniority, knowledge and capacity to represent their fund effectively on client matters. Senior partner fund officers are expected to form the membership of this forum. For Leicestershire, this is expected to be the

existing officers who have already represented the Fund under the previous governance format and are familiar with the working practices.

38. **Partner Fund Officer Group -** An informal Partner Fund Officer Group has been established to operate alongside the formal governance arrangements of the Pool to provide a structured forum for engagement between partner Funds at officer level and between partner funds and the Company collectively.

39. An update on LGPS Central's progress with transition and reporting arrangements is included elsewhere on this agenda.

Resource Implications

40. It is noted that while pooling has delivered substantial benefits so far, these the new regulations and guidance have accelerated the transfer of assets and oversight responsibilities to Pools. Officers will address potential resource implications as part of working through the guidance to consider how this may impact Fund resources.

Recommendations

41. It is recommended that the Local Pension Committee note the report.

Background papers

31 January 2025 Local Pension Committee: Fit for the Future Consultation response

https://democracy.leics.gov.uk/ieListDocuments.aspx?MId=7986 241

Equality Implications

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

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.

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