



South Tyneside Council

Local Pension Board

Date: 28 March 2025

LGPS and Industry Developments (for information and discussion)

Report of the Head of Pensions

Purpose of Report

1. This report provides the Board with an update on recent industry developments and regulatory changes to the Local Government Pension Scheme (LGPS).
2. The Board is asked to note the report.

Contact Officer:

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Background

3. This report will provide an update to the Board on a number of industry developments and scheme changes during the last quarter, specifically:
 - LGPS Fit for the Future Consultation.
 - Fiduciary Duty – updated KC advice.
 - Funding Strategy Statement (FSS) Guidance.
 - Local Audit Changes.
4. An appendix to this report setting out further areas where there are ongoing developments worth noting is available on the TWPF secure extranet.

LGPS Fit for the Future Consultation

5. On 14 November 2024, the Government set out its vision for the future of the LGPS. Details of the proposed future for the LGPS can be found in the Chancellor's [Mansion House speech](#). The Mansion House speech was very quickly followed by the [Pensions Investment Review Interim Report](#) and a [LGPS Consultation \(Fit for the Future\)](#).
6. Most of the directly relevant information is set out in the LGPS consultation document. A summary of the main proposals is as follows:

LGPS Pooling

Setting minimum standards for investment pools, including:

- Requirement to pool all assets by March 2026 (this includes legacy private markets).
- Full delegation of investment implementation of strategy to the pool.
- Pools providing strategy advice to the administering authorities.
- Pools required to be authorised and regulated by the FCA.

Local Investment

Setting requirements for local investment, including:

- Setting a target range for local investment.
- Working with relevant authorities to identify local opportunities.
- Pools to carry out due diligence and make decisions on whether to invest in those opportunities.

Governance of Funds and Pools

Improving governance, including:

- Minimum requirements for Committee member knowledge and skills.
 - Implement other recommendations from the Good Governance Review, including requirement to appoint a Senior LGPS Officer and carry out an independent governance review every two years.
 - Requirements around representation and transparency of pools.
 - Requirement for funds to appoint independent advisors to the Committee.
7. The deadline for responding to the consultation was 16 January 2025. Officers shared a copy of the [Fund's consultation response](#) with Committee and Board members by email.
8. In addition to the consultation, Central Government asked each of the LGPS asset pools to submit a Transition Proposal by 1 March 2025. The Transition Proposal was required to provide details of how the asset pools will implement the Government's proposals insofar as they relate to asset pooling. The Chair of TWPF Pensions Committee, the Vice Chair of the TWPF Local Pension Board (in his capacity as a Scheme Member representative of the Border to Coast Joint Committee) and the Head of Pensions were all involved in the process for preparing the Border to Coast Transition Proposal which was submitted ahead of the deadline.

Fiduciary Duty

9. On 15 January 2025, the Scheme Advisory Board for the LGPS (SAB) published a legal opinion from Nigel Giffen KC on fiduciary duty in the LGPS. This is an update on the legal advice published in 2014, the key aspects of which were outlined at the last committee meeting.
10. The new legal opinion can be found on the SAB website at [Updated legal opinion on fiduciary duty in the LGPS Jan 2025](#). A summary of the advice is as follows:
- Counsel has reaffirmed that a fiduciary duty is owed to Scheme members and Scheme employers.
 - Financial considerations are again stated as the primary consideration when making investment decisions. Non-financial factors (such as ESG factors) should only be taken into consideration where:
 - It is believed the majority of Scheme members would support a decision; and

- The decision would not involve significant risk of financial detriment.

This simply reaffirms the position of the [2014 Law Commission Report](#) and the [Supreme Court judgement in the Palestine Solidarity Campaign case](#). The opinion provides some narrative around process and threshold for member support and the risk of financial detriment.

- Pensions Committee members should be careful not to fall into the trap of giving effect to their own views about what is morally or socially right.
 - Depending on the circumstances, climate change is capable of being a financial and / or non-financial consideration.
11. Counsel's opinion largely confirms the previously understood position on the fiduciary duty. Helpful guidance is also provided on non-financial considerations and the criteria to be met when introducing such considerations into investment strategy.
12. It should be noted that the Fund's investment strategy is primarily based on financial considerations.

Funding Strategy Statement Guidance

13. On 15 January 2025, SAB issued updated guidance on funding strategy statements. The full guidance can be found at: [FSS guidance Final January 2025.pdf](#). The new guidance replaced 2016 guidance issued by CIPFA.
14. The FSS guidance sets out a common structure for funds to follow, along with a helpful checklist. Its goal is to ensure that users of the FSS (principally, participating employers) understand exactly how funding strategy applies to them. The FSS guidance is intended to help administering authorities create their own funding strategy statement, covering all the necessary topic areas but without being prescriptive in the policy approach to take. The updated guidance aims to improve the coverage of the below topics:
- Roles and responsibilities of key parties.
 - Engagement with employers and other key stakeholders.
 - Funding deficits, surpluses and de-risking policies.
 - Risk management.
 - Good practice in setting out the fund's policy on funding decisions.
 - Links with other fund policies and strategies.

15. Fund Officers are currently working through the guidance alongside the actuary to make the necessary changes to the FSS.

Local Audit Changes

16. The government launched a consultation setting out proposals for overhauling the local audit system in England. The consultation was called “Local audit reform: a strategy for overhauling the local audit system in England” and closed for responses on 29 January 2025.
17. The consultation set out a strategy to improve the local audit system and included a proposal for a decoupling of the pension fund accounts from the main accounts of the administering authority – something which the LGPS Scheme Advisory Board has recommended for some time.
18. Other proposals included setting up a new Local Audit Office (LAO) to oversee the local audit system and contract arrangements along with some other measures to increase capacity and capability to help resolve the audit backlog issues which have had such an impact on current local audit arrangements.

Recommendation

19. The Board is recommended to note the report.

LGPS and Industry Developments

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
LGPS Consultations File	N/A	Pensions Office Town Hall and Civic Offices