



Department
for Work &
Pensions

Baroness Sherlock OBE and Lord Katz

Minister of State (DWP)

Lord in Waiting (Government Whip)

09th February 2026

Dear Viscount Younger, Baroness Stedman-Scott, Lord Fuller, Baroness Noakes,
Baroness Altmann,

PENSION SCHEMES BILL: LOCAL GOVERNMENT PENSION SCHEMES (LGPS)

We thank Noble Lords for their thorough and detailed debate on amendments to the LGPS clauses of the Pension Schemes Bill during the Committee Session on Monday 12 January. We committed to write to clarify some points raised during the debate and this is set out below.

We recognise that the LGPS is undergoing a period of significant change as a result of our reforms, with associated costs and upheaval, but this is essential for the LGPS to become fit for the future. It is our firm belief that the new LGPS asset pooling framework set out in the Pension Schemes Bill will see world-class investment management established across the LGPS, protect the long-term sustainability of the scheme, and deliver best value for members, employers and taxpayers.

Direction powers and fiduciary duty

Viscount Younger of Leckie asked a number of questions, particularly in respect of the direction powers in Clause 1 of the Bill.

Clause 1 includes provision for regulations to grant a number of direction-making powers to the Secretary of State, or in Scotland to Scottish Ministers. Those direction-making powers will allow the responsible authority to direct:

- an administering authority to join or leave a particular asset pool
- the relevant asset pools and their partner funds to facilitate an administering authority to comply with that direction
- an asset pool to comply with guidance
- an asset pool as to the manner in which it is to carry out any specified investment management activities.

We reiterate that all of these powers are intended as a backstop, to enable the Government to safeguard the scheme only if needed. There is no intention to undermine the fiduciary duty of administering authorities. The powers would be used in extreme circumstances, such as where needed to help protect administering

authorities where the behaviour of their pool or one or more of the other partner funds in their pool put them at risk.

The Bill includes safeguards on the use of these powers, by requiring the Secretary of State to consult relevant parties prior to the exercise of the powers. These consultation requirements are to ensure that the Secretary of State has a proper understanding of the expected impact of such a direction and whether there are any alternative routes to achieving the desired outcome.

Power to direct an asset pool as to the manner in which it carries out investment management activities

We would like to address concerns that the power to direct an asset pool as to the manner in which it carries out investment management activities could be used to allow the Government to mandate investment into specific assets or asset classes. That is not the case. The Bill originally contained a separate power which allowed the Secretary of State to direct asset pools to make specific investment decisions, but this was removed during passage of the Bill through the House of Commons, to provide reassurance that Government respects the independence of the LGPS and the fiduciary responsibilities of the funds and pool companies. Instead, the power in clause 1(2)(f)(ii) is designed to give the Government appropriate backstop powers to address situations where a pool's approach to decision making puts employers participating in its partner funds at risk, or where a pool is failing to achieve the benefits of scale, including by utilising more investment vehicles than are required to effectively implement the investment strategies of its partner funds, or using segregated mandates where collective investment vehicles would achieve greater benefits.

The Government has consulted on draft regulations that would only allow this power to be used where the Secretary of State is satisfied that the asset pool company is managing funds or assets of the Scheme for which an authority is responsible in a manner that is detrimental to one, or more, or all of its partner funds and their members or employers, or the Scheme as a whole. This is to ensure that the power cannot be used for political purposes, but only in the Secretary of State's role as steward of the scheme.

Power to direct the asset pool in which an administering authority participates

We would also like to provide additional clarification about the power to direct an administering authority to join or leave a particular asset pool company. The Government's strong preference is for decisions on pool membership to be made on a voluntary basis and at a local level. However, the Secretary of State, as responsible authority, needs to be able to safeguard the scheme in the unlikely event that satisfactory arrangements cannot be agreed at a local level, such as if an administering authority were to find itself without a pool willing to accept it.

We recognise that a move of an asset pool would have significant costs and risks for all those involved. This power is therefore intended to be a backstop power that would only be used in extreme circumstances, once other avenues have been exhausted. The required consultation before issuing the direction would give relevant parties the opportunity to set out the impact of a proposed direction, so that the Secretary of State can consider whether the disruption caused by a move is proportionate to the issue the direction is designed to mitigate.

The draft regulations include transitional provisions that would allow an administering authority moving pool to participate in more than one pool for a limited time period. The Government is currently considering responses on how long that transitional time period should be and will respond in due course. In terms of the overall timeframe for compliance with the direction once it has been issued, determining what is appropriate is expected to form a part of the consultation with relevant parties, including the affected administering authority, asset pool companies, and their other partner funds; prior to use of the direction power.

The Ministry of Housing, Communities and Local Government engages regularly with the asset pool companies and the direction powers have been covered in these conversations. In addition, the draft regulations that include the power provided for in this clause have been subject to public consultation, to which the asset pool companies have responded.

Collaboration with strategic authorities and how future legislation will remain aligned with the devolution landscape

Baroness Stedman-Scott asked about the requirement to collaborate with the strategic authorities and how future legislation would remain aligned with the changing devolution landscape.

The Bill, and the draft regulations that the Government has prepared, will ensure that the authorities that are treated as strategic authorities in England for the purpose of the English Devolution and Community Empowerment Bill are treated as such for the purpose of LGPS investments. If any new authorities become strategic authorities, the Government will use the power in paragraph (d) of the definition of “strategic authorities” in clause 2(5) to ensure that they will also be treated as such for the purpose of LGPS investments. If, in future, there are any further substantive changes to the definition of strategic authorities as set out in the English Devolution and Community Empowerment Bill, there will be the opportunity to make appropriate changes to the way that the definition is applied in the LGPS as part of any consequential amendments.

The Government agrees that transparency is the right approach to encouraging local investment – and it is the approach we have taken. The draft regulations we have consulted on require funds to set a high-level objective on local investment including a target range, which can be set to suit the fund’s needs, and to co-operate with

relevant strategic authorities to identify and develop appropriate investment opportunities. We are not setting any required or minimum level of local investment, nor do we encourage investments which would be unsuitable on investment grounds – “appropriate” investments in this context should be understood as meaning those that are appropriate for the needs of the fund. Pools will be expected to provide high level feedback on investment opportunities put forward to them and will make the decision on whether or not to invest. Funds will not make these decisions or be required to justify them. Nothing in the Bill will require any pool to invest in an asset which does not meet the fund’s needs. The requirements in no way, therefore, usurp the fiduciary duty of pension funds. We will be setting out reporting requirements in guidance on the annual reports published by funds, separately to this Bill.

In terms of the impact of local government reorganisation and devolution, we are working with authorities to ensure that the implications for LGPS funds are properly considered in proposals. If the current administering authority will no longer exist, a new administering authority will need to be designated but, in most cases, there will be no need to carve up assets or liabilities. The Department will work with authorities to ensure the implications for Funds are considered and understood and will provide guidance to authorities. In these cases, the responsibility to manage the assets and liabilities of the Fund will be transferred to the new administering authority.

Where more than one new unitary authority is established, which replaces an administering authority, the assets and liabilities of the old authorities, as employers in the scheme, will need to be allocated between the new authorities. If there is only one unitary authority, the assets and liabilities will all transfer to the new authority. Administering authorities will work with their fund actuary to ensure that this is done fairly and will need to consult the affected authorities. This is an established part of the local government reorganisation process, with precedent from earlier reorganisations.

Moving from eight pools to six

Lord Fuller asked for further clarification on the disbanding of ACCESS and the moves to new pools.

As part of the Pensions Investment Review, the Government consulted on reforms to investment management in the LGPS, including minimum standards for pools, and wrote to each pool asking for proposals setting out how they would achieve the new requirements.

All eight pools in England and Wales were assessed by the same criteria to make the scheme fit for the future. These criteria included the benefits of scale, resilience, value for money, viability against the deadline, and an options analysis of different means of meeting the minimum standards.

Following careful assessment of the proposals, the Minister for Pensions and the previous Minister for Local Government and English Devolution did not support the

proposals received from two of the pools as they did not meet the Government's vision for the future of the LGPS. The Ministers asked all the partner administering authorities of the ACCESS and Brunel pools to identify a new pool partnership to join.

In principle, decisions about which of the six continuing asset pools the affected LGPS funds wish to work with have been made on a voluntary basis, at a local level, by individual administering authorities. Final decisions are expected to be made by the funds in line with the deadline the Government has set of end March. The Government is grateful to all the authorities and pools involved for the work they are doing to complete the formation of the new pool partnerships.

Advice on the investment strategy

Baroness Noakes asked a number of questions including why the Government needs a power to specify acceptable sources of advice, and whether this would create a closed list of advisers.

As outlined in the Government's response to the Fit for the Future consultation, under the pooling reforms, administering authorities will be required to take their principal advice on their investment strategy from their asset pool company. Integrated models in which strategic advice and investment management are both delivered by the same fiduciary manager are commonly used both in private sector schemes and internationally. These models can deliver greater value for money and economies of scale and can reduce conflicts of interest. Asset pools will need to be able to advise on all areas of the investment strategy, including responsible investment and local investment. Asset pools may provide advice in-house or procure it from external sources if required. In exceptional circumstances, administering authorities will be able to take supplementary advice from sources outside the pool, but the Government is clear that this should not be done on a routine basis.

The purpose of the power in clause 2(3)(a) of the Bill is therefore to allow the Government to lay regulations requiring that administering authorities take their principal advice from their asset pool company. There is no intention to limit where pools can procure advice from or where administering authorities can procure supplementary advice, provided that this meets the standard of being "proper advice", i.e. the advice of a person whom the authority reasonably considers to be qualified by their ability in, and practical experience of, financial matters.

We hope that this will provide reassurance that there is sufficient flexibility in the proposed advisory model to allow administering authorities to meet their fiduciary duty, and that the Government in no way intends to control funds by introducing a closed list of advisors.

What must, or may, be covered by an investment strategy

Baroness Altmann raised a question about the intention behind clause 2(4)(c) and whether this would be used by the Government to direct investments.

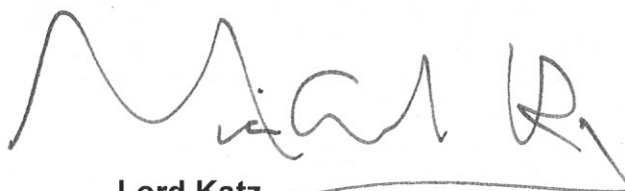
Following the debate, we would like to clarify the intention behind the powers in clause 2 to make regulations about the contents of an investment strategy. Clause 2(3) of the Bill gives the Government power to specify in regulations what must, or may, be covered by an investment strategy. Clause 2(4) further sets out particular matters that may be included.

The purpose of this power is to allow the Government to set out in regulations and guidance the areas that must or may be addressed by an administering authority's investment strategy. As detailed in the Government's response to the Fit for the Future consultation, the Government intends to require investment strategies to include high-level objectives on funding, environmental, social and governance considerations and responsible investment, local investments including a target range, and a strategic asset allocation in accordance with a template published in guidance. The power allows the Government to make regulations to require administering authorities to include these matters in their investment strategies, but not to require authorities to invest in specific projects, sectors or asset classes, and there is no intention to use it in this way.

We hope this will provide reassurance that each LGPS fund will continue to be responsible for setting its own investment strategy and that the powers in this Bill do not allow the Government to direct investment into specific projects or asset classes.

A copy of this letter has been placed in the House library.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Mark', with a long horizontal line extending from the end of the signature.

Lord Katz

Lord in Waiting (Government Whip)

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Baroness Sherlock

Minister of State, Department for Work and Pensions