

Press Release

12 February 2025

LGPS 'Fit for the future' proposal presents significant challenges says Quantum Advisory

Quantum Advisory, the leading independent financial services consultancy today emphasised that more work is needed before proposals on the Local Government Pension Scheme (LGPS) framework can move forward.

Last November, the UK Government put forward a package of ambitious proposals to reform the structure, investment and governance of the LGPS, followed by an industry-wide consultation, which closed last month.

The review focused on three key areas:

- **Asset Pooling:** Administering Authorities (AAs) will be required to fully delegate investment strategy to pools, which will develop internal investment management capabilities and become FCA-regulated. All AAs' assets must be transferred to pools.
- **Governance:** AAs will need to prepare governance strategies, designate a senior LGPS officer, and participate in biennial independent governance reviews.
- **Local Investment:** AAs will formalise objectives for local investments, with pools managing local investment opportunities.

Paul Francis, Principal, said; “While the goal of centralising decision-making to improve efficiency is a good one, the potential impact on AAs and scheme members could be significant. There is a real risk that the proposals could weaken AAs’ control, create conflicts of interest with pools providing principal investment advice, and complicate the balancing of local investment goals with fiduciary duties.”

The proposed shift towards centralised asset management and delegated investment strategy raises several important concerns:

- **Fiduciary Duties:** AAs are worried that by setting broad goals and handing over the implementation to pools, they may not fully meet their responsibilities. More clarity is needed to ensure AAs remain accountable.
- **Conflict of Interest:** With pools providing the main investment advice, the risk of conflicts of interest increases. AAs should have the ability to seek independent advice to make well-rounded decisions that are best for members.
- **Oversight and Accountability:** independent oversight is crucial to ensure accountability at both AAs and pool levels. Without clear and ongoing monitoring, the effectiveness of the changes could be compromised.

Stefano Carnevale, Senior Investment Consultant, continued; “In the coming months, pools will need significant transformation to meet the new requirements, such as gaining FCA authorisation and improving internal investment management and advisory capabilities. This process could involve substantial changes to personnel and investment processes. It is also crucial to understand how AAs will maintain accountability and ensure decisions align with members' best interests. Independent advice and oversight will be key to preventing conflicts of interest and ensuring transparency.

“While the UK Government’s proposals for LGPS overhaul present a forward-looking vision and could significantly reshape LGPS management, more work is needed before a final framework can be implemented. Ultimately, the framework must be manageable and serve the best interests of scheme members while promoting effective and sustainable governance.”

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NOTES TO EDITORS

About Quantum Advisory

Quantum Advisory is an independent financial services consultancy that provides solution-based pension and employee benefit services to employers, scheme trustees and members and with a focus on tailored and practical advice and support from experienced professionals.

We have offices in Cardiff, London, Birmingham, Bristol, and Amersham servicing schemes and employers across DB, DC, hybrid schemes and a variety of employee benefits arrangements.

Our core services include investment consultancy, administration, actuarial consultancy, secretarial services, employee benefits consultancy, communications and health and wellbeing. Across all services we provide pro-active, solution-based thinking by investing in talented people and innovative systems.

For more information on Quantum Advisory visit www.quantumadvisory.co.uk

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