SCOTTISH LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

2026-05
ITEM 07

Fit for the Future Workshop findings and recommendation

Introduction

Following a resolution of the Board to hold a workshop to consider the impact of the English and Welsh LGPS "Fit for the Future" reforms the workshop was held at Edinburgh City Chambers on the 17th of April 2026 with the following objective:

To identify points of consensus among the Board's membership in relation to the various aspects of the UK Government's "Fit for the Future" proposals for the LGPS in England and Wales in order to provide advice to Scottish Ministers on whether and how specific proposals should be taken forward in Scotland

The workshop was facilitated by George Graham, former Director of the South Yorkshire Pensions Authority and formerly the practitioner member of the England and Wales Scheme Advisory Board. He was assisted by Joanna Nunn and Jane Fleming from ACAS.

Attendance encompassed more than half the voting members of the Board plus various advisers. The workshop consisted of three sessions with participants in groups looking at specific questions within the three main aspects of "Fit for the Future":

- Governance
- Local Investment
- Pooling

These table discussions were followed by feedback sessions to draw out the main conclusions and issues of contention. This report summarises the conclusions reached in relation to each of the main "Fit for the Future" proposals.

This is not a verbatim recounting of the workshop feedback, it simply a high-level summary of the tenor of the discussion, which should allow the Scheme Advisory Board to provide some feedback to Scottish Ministers. Further notes on the discussion by each question area are included in appendix 1.

Recommendation

The board is asked to note and agree the conclusions and recommendation listed in the next page.

Conclusion

The broad conclusion that can be drawn from the views of workshop attendees is that there would be support for measures that build on existing good practice in governance and make it the standard across the scheme.

There is less support for prescription around organisational structures and indeed a view that it is not clear what problem some of the English and Welsh proposals are intended to fix.

While there was support for investment in Scotland, this could not be at the expense of delivering the required risk and return profile.

In terms of investment the clear flavour of the debate was that successful collaboration would be most likely achieved bottom up rather than top down.

Recommendations

1. Recommend that Pension Boards and committees adopt minimum training standards for members, with proportionate compliance assurance and follow up where gaps persist, to demonstrate and maintain sufficient knowledge and understanding. Ask Scottish Ministers to adopt a similar regulatory approach as take in licensing in Scotland regarding knowledge and understanding for members of pensions committees.
2. Recommend that Pension boards should encourage independent advice where helpful and SAB should promote IPO as good practice
3. Recommend that any local investment approach from LGPS funds, should not be at the expense of delivering the required risk and return profile, and noting that a flexible definition of 'local investment' and encouraging bottom-up collaboration via 'coalitions of the willing' has the potential for more success.
4. Recommend that Scottish Ministers should support greater collaboration by asking SAB to work with Funds to identify initial asset classes where collaboration would be beneficial and produce recommendations for funds to take this forward.

5. Recommend that Funds should be encouraged to build on existing good practice in governance and make it the standard across the scheme. The SAB should receive an annual update, different from the annual report, on the number of funds that comply with KPI, disclosure requirements from the annual report guidance, and other relevant statutory requirements.

Appendix 1: Further detailed note on the three main discussion areas

Governance

The workshop groups looked at five specific proposals contained in "Fit for the Future"

1. ***The LGPS Senior Officer***

This is a proposal for a statutory role (which could not be held by the statutory finance officer) with responsibility for managing all aspects of the running of the Pension Fund and in effect being the principal officer observer to the Pensions Committee.

The broad conclusion here was that existing safeguards such as the role of the actuary prevented the conflicts of interest this proposal addresses from being of significance. It was however, accepted that creating such a role might assist in protecting and securing sufficient resources for the running of the Fund.

A point was made that the costs of such a role in smaller funds might be disproportionate and could be out of kilter with existing organisational designs.

2. ***Duty for Members and Officers to demonstrate sufficient Knowledge and Understanding***

This was broadly supported and a parallel was drawn with the position in relation to members serving on licensing committees in Scotland.

Opportunities were identified for more standardisation of approaches and the opportunity for joint work in this area. Practical issues around the monitoring of compliance and enforcement were highlighted.

3. ***Adding an Independent Person to the Pensions Committee***

This proposal creates a new role of Independent Person who will act as an observer to the Committee and officers. There are some parallels with the role of professional trustees in the private sector though there is not a precise read across.

It was felt that it was unnecessary to prescribe such a role and that it could result in muddled relationships particularly if there were strong disagreements between the Independent Person and officers. However, some participants expressed support for the Independent Professional Observer role that some Scottish Funds have developed.

SCOTTISH LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

4. Introducing new statutory policies

This proposal replaces the existing Governance Compliance Statement with a more broadly drawn Governance Strategy and accompanying fund specific conflicts of interest policy. In addition, Training Strategies covering members and officers and the Pensions Administration Strategy on a statutory basis rather than being good practice.

It was recognised that many funds already have some of these in place and there would be benefit in ensuring that all funds meet the same good practice standards.

5. Introducing 3 Yearly Independent Governance Reviews

This proposal requires funds to be independently assessed on the effectiveness of their governance every three years, using a framework to be provided by the Secretary of State. The results of the assessment could lead to the Secretary of State issuing directions which might include a direction to merge a fund.

The general feeling was that this proposal was unnecessary in Scotland as the existing regulatory and audit framework (such as separate annual governance statements for the Fund) was felt to ensure that standards were maintained.

Local Investment

The proposals in England and Wales require Funds to state a policy on local investment and to co-operate with Strategic Authorities (the tier of sub-regional Mayors which is currently being rolled out) in developing pipelines of investable schemes. The workshop looked at three specific questions

1. ***Should Funds state a policy on local investment in the SIP?***

All participants emphasised that any investment by a pension fund must meet the relevant risk and return parameters. However, that said there was support for including a policy in the SIP.

2. ***How should "local" be defined?***

In England and Wales "local" is defined as the area of the Fund or of its pool.

There was some feeling that prescriptive definitions would actually be unhelpful in this context. A formulation along the lines of "the UK with a priority towards Scotland" had some support.

3. ***Should there be a requirement to cooperate with relevant local institutions?***

Mandatory co-operation was felt to not be an appropriate model, and indeed something of a contradiction in terms. However, clearly co-operation is desirable. Practitioners pointed to the fact that constrained local authority resources make it difficult for this to be effective, with previous attempts having failed to achieve much.

<u>Pooling</u>

Pooling of Fund investments has been an ongoing process in England and Wales since 2015 and the “Fit for the Future” proposals now set out a single model of pooling with an FCA registered entity and pooled investment vehicles at its core. There is no clear consensus on the principle of pooling at this time. Therefore, the consideration in this area focussed on aspects of investment collaboration rather than specifically on pooling.

1. ***What would greater collaboration on investment look like?***

It was noted that there are a lot of existing discussions between funds around opportunities for collaboration. Success is likely to be in focussed areas or specific projects with clearly defined boundaries and goals.

2. ***Should there be a uniform approach or are coalitions of the willing more likely to achieve benefits in the first instance?***

The universal view was that coalitions of the willing was more likely to achieve success.

3. ***What are the pros and cons of fund consolidation versus pooling?***

This question was added at the request of the Joint Secretaries.

In general the pro’s were felt to be variations on the theme of economy of scale, and the benefits of having larger and more robust organisations.

The con’s were felt to be in the areas of loss of local democratic control and accountability, potentially the loss of local service (and jobs).

It was also noted that larger funds would look to deploy capital in larger lot sizes. This might make the role that some Scottish funds have played in nurturing smaller Scottish fund managers more difficult to fulfil.

4. ***Are there constraints which mean that something will need to change to deliver greater investment collaboration sustainably?***

Any constraints will tend to be case specific but there is an overriding capacity constraint which exists in all public services.