



**GMB response to the Open Consultation: Local  
Government Pension Scheme (England and Wales): Fit  
for the future**

Published 14 November 2024

## **Consultation: Local Government Pension Scheme – (England and Wales): Fit for the Future**

Published 14th of November 2024

### **Topic, Scope, Timetable, Response**

The Ministry of Housing, Communities and Local Government (MHCLG) is seeking views on proposals for new requirements on Local Government Pension Scheme (LGPS) Administering Authorities (AAs) that relate to the investment of assets, asset pooling, UK and local investment, and governance. The proposals apply to England and Wales.

This consultation lasts for 9 weeks running from 14<sup>th</sup> November 2024 to 16<sup>th</sup> January 2025.

Parties can respond by completing an [online survey](#), by email to [LGPensions@communities.gov.uk](mailto:LGPensions@communities.gov.uk) or by post:

LGF Pensions Team  
Ministry of Housing, Communities and Local Government  
2nd Floor  
Fry Building  
2 Marsham Street  
London  
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Respondents should make clear their name, name, position, organisation and email address. As below.

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## **Preamble**

GMB is one of the largest Trade Unions in the UK representing 600,000 workers across the public and private sectors. We are actively involved in defending and improving the terms and conditions of employment of our members and we have a particular focus on enhancing their pension provision.

We sit on the LGPS Advisory Board, all its Sub-Committees and hold the Chair of its' Cost Management, Benefit Design and Administration Sub-Committee. The number of GMB members – active, deferred and pensioners – that rely on the LGPS for a pension in retirement is in the hundreds of thousands.

GMB is adamant that pensions are our members' pay when they retire. They form a key part of our members' employment package and are as important as the wages our members receive now. Financial security and dignity in retirement are key priorities for GMB members. Secure, high-level pensions benefit the individual, local economies, and society via the multiplier and are of benefit to the public purse.

We monitor any proposed changes to the statutory and regulatory framework of the pensions landscape in order to protect the structural integrity and financial security of schemes in which we have members and we seek to enhance the quantum and security of pensions likely paid to GMB members.

## Introduction

We are pleased to note at the outset that government holds the view that it is “crucial” that LGPS assets are invested effectively; GMB shares this view. We also agree that the pooling instigated in 2015<sup>1</sup> has not delivered to its full potential. In fact, since that date, returns have lowered and asset management costs have increased<sup>2</sup>

It is worth stating here that the GMB is not opposed to growth, local or national. Quite the reverse, we welcome it, and we work with the government to bring it about. Growth is good for GMB members, it creates, we hope, well paid, well defined secure employment, it provides tax receipts with which the government can fund public services. We recognise it as a central mission of the current government, and we want its benefits to be passed on to our members. We do not agree that pools have provided ‘a step change in expertise and capacity’ nor that “fragmentation and inefficiency” are particular problems in LGPS (the perceived issue of fragmentation was supposed to be addressed by pooling). Inefficiency (by which we assume is meant low returns) has not been created via a structural flaw in the scheme’s architecture but by investment decisions and activity.

Given that pooling has failed to deliver thus far it seems perverse to suggest ‘total’ pooling as a contributor to the desired redirection or refinement of investment. This serves as a point of mistrust as to the construction point of the consultation.

Moreover, it is extremely disappointing, disingenuous even, to assume the success of pools and give them more powers based on that assumption. GMB would have expected the evidence of pool success to be set out as a precondition of its assertion and on this basis (i.e. no evidence of the success referred to), and others highlighted below, we are sceptical of the proposed reforms.

GMB would want to see the promised greater returns, reduced costs, increased transparency and accountability and statutory member representation on Pool governance structures before aligning to the aims of the consultation. However, we are where we are, and we respond accordingly.

Most importantly there is only an understated mention in the consultation of the primary purpose of the LGPS: to ensure the assets of the fund meet its liabilities in order to ensure adequate pension provision for its active and deferred members and pensioners

## LGPS POOLING

**Question 1:** Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

The consultation sets out that the following minimum standards need to be met:

- Administrative Authorities (AAs) would remain responsible for setting an investment strategy for their fund and would be required to fully delegate the implementation of that strategy to the pool.
- AAs would be required to take principal advice on their investment strategy from the pool.
- Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.
- AAs would be required to transfer legacy assets to the management of the pool.
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

GMB does not agree that this is a sensible way forward. Primarily because, as stated in our introduction, there is no evidence that pooling is successful. The evidence suggests that pooling has not generated increased returns, nor lowered asset management costs nor have they all been welcoming of Trade Union/Member nominated participation in their governance structures. There is a folly in the expectation that transferring all AA assets to pools will make them work better than they currently do.

Secondly, although it is important that pools have minimum and uniform standards, asking a pool to operationalise a strategy set out by an AA creates a tension especially in the event of lower than expected returns. In such a scenario who would accept responsibility? The AA who created the strategy or the pool that implemented it? This proposal creates a blame game.

The proposal also

- transfers power to a pool that can already be exercised by AAs and thereby undermines their autonomy and diverts from their ability to make decisions that best suit their locality
- obviates the role of local pension boards, pensions committees, trustees and member nominated representatives thereby creating a deficit of openness and accountability (there seems to be no proposals to make pools more open nor any mention of to whom and via which structures they will be accountable?). This is an issue of great concern to the GMB.

Finally, requiring pools to be authorised investment management companies - although sound in principle - is an indication of their current ad hoc nature.

However, in saying the above, we agree that it is helpful to have clarity from government regarding the structure it would like to see for pools, and by when it expects those structures to be implemented.

We note the challenging timescales in this regard especially for some pools and we are extremely disappointed at the absence of a greater say for LGPS members and their representatives whom we believe should be central to directing fund investment and scheme management.

GMB member comment:

*“So what’s the point of us now, we might as well all pack up and go home”*

*“The pools are too distant from us, we never know what’s going on with them, this won’t make things any better for us”*

**Question 2:** Do you agree that the investment strategy set by the Administering Authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation with all implementation activities delegated to the pool?

At present, AAs set the investment strategy, the strategic asset allocation and the suitability of investments so as to ensure that the primary purpose of the fund is met. That purpose is to meet its liabilities; those liabilities are the pensions of GMB members.

Pools were introduced with a view to streamlining decision making, increasing returns and achieving economies of scale (they have not done so). Not all AAs have fully delegated their investment strategies to the pools - some have not delegated anything - but there is no evidence that this has harmed the investment returns of the AAs (although it has meant some duplication of function) nor is it an indication of a lack of skill, experience or professionalism on behalf of the AA.

We agree that full asset allocation to the pool may eliminate duplication, and we see this is the sole advantage of transferring implementation activity to the pool.

However, there seems to be no clear or consistent proposals around governance (including member representation) and transparency, and there is an absence of mechanism to resolve conflict between the pools and the AAs, which - given the variation in governance, geography, local needs, implementation, resourcing, liabilities, cashflow etc - is likely to happen.

GMB member comment:

*“What are we supposed to do now, our pool is rubbish, sits miles away and doesn’t listen to what we want down here, they pay themselves well enough though, with our money”*

**Question 3:** Do you agree that an investment strategy on this basis would be sufficient to meet the Administering Authority’s fiduciary duty?

Currently, LGPS Administering Authorities (AAs) need to invest the contributions they collect from employers and employees in the best [financial] interests of scheme members and employers. Value, risk and yield of investments therefore drive an AA’s decisions.

Also, under the LGPS Investment Regulations 2016, AAs are also required to include a policy on how ESG considerations are considered. The amount of weight (if any) attached to such factors is at the discretion of the administering authority.

The consultation is not explicit that these duties will apply to the pools although we assume they will be. If not, there may well be a legal challenge.

The consultation is also silent as to how flexibly funds may act in the event of changing circumstances.

To reiterate; the primary duty of the fund is to ensure pensions are paid in full and on time; this view must not be lost and remain central to all investment considerations.

GMB Member Comment:

*“Should not members of the pension fund be the ones to decide how the fund operates, which has proved, by its success so far to be the best way? It is our pension fund not the government’s.”*

**Question 4:** What are your views on the proposed template for strategic asset allocation and the investment strategy statement?

There seem to be clear differences between the proposed asset classes and those currently used by funds. GMB is aware that the LGPS SAB will be commenting on this in more detail.

Having such a proscribed and different list will create confusion and it should be subject to ongoing revision.

GMB Member Comment:

*“The pools have not delivered increased returns nor lowered costs - in fact they have delivered the opposite - so we are opposed to giving them more power and less accountability which is the essence of the proposal*

*Our view is that the reforms*

- Undermine the key role of the LGPS to provide pensions for its members, it is not a slush fund to be used to fund government policy*
- Ignore the evidence of pool failure*
- Are unnecessary as the pools and AAs already have the power to invest in GBUK (they don't because secure returns aren't out there)*
- Obviate the ability of AAs to invest in local and regional projects that boost local and regional economies*
- Create an unelected unaccountable tier of investment managers at the expense of the transparency and accountability of local pension committees, Member Nominated Trustees and Trade Union representation - many of the pools are hostile to Trade Union and member involvement”*

**Question 5:** Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool - if so what form do you envisage this taking?

Notwithstanding the poor performance of the pools so far, there will always be a requirement for tailored, bespoke advice for each AA as local needs and political imperatives come to the fore. It is sensible to allow for this and as far as GMB is concerned it can take whatever form is required by the AA. We are aware that some pools already provide this function.

However, mandating funds to take investment advice [solely] from the pool may be problematic unless it is part of a broad range of advice. Whilst the pool has a role, funds may wish to take advice from other sources in order to comply with Investment Regulations that state funds must consult with ‘persons it considers appropriate’ and must also take “proper” advice. Some investment decisions need to remain close to the fund, others may require specialist and/or independent advice.

As stated above, there is no mechanism to resolve conflicts of interest especially if the pool is the only source of advice.



GMB Member Comment:

*“Scotland is not affected in by the Govts new pension proposals - yet! You know our views on attempts to propose full merger of SLGPS Funds. Our concern is that new UK govt initiatives will renew drives to create Scottish mega funds again. SG are still consulting on reform, including "pooling" as an option for the future.*

*We decided to oppose merger as not being in the interests of members. We were advised about dire financial risks involved and the consequences of failure of mega-fund's structure and performance. This was widely recognised by many stakeholders and experts. Centralisation of power, control and authority in the hands of a few was contentious and created deep opposition to proposals that would eliminate devolved management and local accountability.*

*Our conclusions on full mergers and super funds were affected by the following views:*

- There is no empirical evidence or sound financial proposals to support the creation of super funds. Funded research into this produced nothing!*
- Pooling in England did not deliver the intended infrastructure investment and significantly increased financial fund management costs.*
- Infrastructure investments need to be consistent with Fiduciary Duties. Funds are not banks or charities and its members money.*
- There are no clear benefits to members pension futures and some examples of detriment due to mismanagement elsewhere.*
- Current Funds management is sound and has converted deficits into surpluses and protects members futures.*
- Centralisation and 'BIG' governance approaches has not worked in Scotland.*
- Change should be voluntary and clearly evidenced with success forecasts.*
- Deep scepticism of Govt infrastructure management!”*

**Question 6:** Do you agree that all pools should be established as investment management companies authorised by the FCA and authorised to provide relevant advice?

Again, notwithstanding the poor performance of pools so far, this proposal may make sense as it may provide assurance that funds will be effectively managed and fall under a statutory regime. We are very clear that the costs associated with this should be met by the government – who have instigated the change - not the AAs.

Additionally, we refer to the point we have made above about the lack of AA autonomy. Funds are free to and have established their LGPS pools in the way that works and delivers best for them. That may or may not involve FCA authorisation which, as we are aware, is costly and time consuming and provides significant

opportunity cost especially as the FCA officials have hitherto rarely, if at all, worked with pools.

And there is no evidence that FCA authorisation will lead to operational or investment performance or assist in directing investment towards GB UK.

GMB Member Comment:

*“The scheme already works well, there is no need for the government to take power away from scheme members”*

**Question 7:** Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company? and **Question 8:** Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

This marks the end of autonomous AAs and marks a step change towards mega-pools about which we have serious reservations around returns, resource, costs and accountability. None of these concerns have been addressed.

GMB Member Comment:

*“We have concerns on a number of areas, particularly in how we continue to exercise our fiduciary duty and invest in the sustainable investments that have been successful for us in the past.”*

**Question 9:** What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

The management of risk and asset valuations so that the assets of the scheme meet its liabilities and are reported as such to the bodies to whom it is accountable. To allow member representation at all levels. To ensure high returns and low asset management costs.

Additionally, there may be further administrative and IT requirements

GMB Member Comment:

*“I wanted to share some thoughts with you regarding the recent proposal related to the Local Government Pension Scheme (LGPS), as it directly impacts me and my pension.*

*As someone who has contributed to the LGPS over the years, I find the idea of centralizing decision-making and moving to a pooled model particularly concerning. Throughout my career, I have paid into the scheme with the understanding that my*

*contributions are being managed in a way that reflects the needs and priorities of my local authority, as well as my specific circumstances. This proposal, however, seems to undermine that approach.*

*The centralization of power could strip away the local oversight and bespoke management that have long been a hallmark of the LGPS. For someone like me, who has worked hard and paid into this scheme, it's essential that the focus remains on securing the best outcomes, rather than pursuing generalized, top-down strategies that might not align with the specific needs of local pension schemes.*

*Additionally, the idea that a centralized pool could take control of legacy assets is deeply concerning. If the pool has a poor track record or fails to account for the unique circumstances of individual schemes, it could undermine the value of those assets. This could lead to poorer returns for me as I have diligently contributed to the scheme over many years.*

*I'm deeply invested in ensuring that the interests of contributors like me are protected and that any changes to the scheme truly benefit its members. I hope we can continue to advocate for a system that respects the autonomy of local authorities and prioritizes the long-term security of those who rely on the LGPS.*

*Thank you for taking the time to consider my concerns.”*

**Question 10:** Do you have views on the indicative timeline for implementation with pools adopting the proposed characteristics and pooling being complete by March 2026?

This is a question for the pools and AA is to answer bearing in mind the forthcoming valuations and FCA application timetable and, as far as the GMB is concerned, contingent on adequate governance and representation proposals being outlined by each pool. We note that the timetable is already challengingly tight.

**Question 11:** What scope is there to increase collaboration between pools including the sharing of specialisms or specific local expertise? are there any barriers to such collaboration? and **Question 12:** What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Some pools already share expertise. We note that the consultation advises that the government encourages such collaboration between the pools. In principle collaboration is worthy, especially where best practise is copied, and may lead to reduced costs and the elimination of duplication. In particular, pools should be encouraged to develop models of training, openness, transparency, accountability and representation that are acceptable to members.

## **LOCAL INVESTMENT**

**Question 13:** What are your views on the appropriate definition of local investment for reporting purposes?

It seems fair but may require further definition as to what is meant by 'local' given the geographical spread of some pools. There should also be consideration of delivering social aims (consistent with the fund's financial aims) and allowing for investment to be made that brings about a positive social impact such as improving local economic performance, improving the environment, building homes, developing infrastructure or addressing regional disparity.

We consider this may assist in restoring economic stability and increasing investment with a view to improving living standards; and we are fully aware that AAs are already investors in projects that support their political and economic objectives (See Appendix 1).

**Question 14:** Do you agree that AAs should work with their combined authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist to identify suitable local investment opportunities? and to have regard to local growth plans and local growth priorities in setting an investment strategy? how would you envisage your pool would seek to achieve this?

This is a question for the pools to answer but it seems a very wide and likely onerous duty that would inevitably rely on political will.

**Question 15:** Do you agree that administering authorities have set up their objectives on local investment including a target range on their investment strategy statement?

If they desired to do so, yes, noting the desirability of local investment and growth but noting the possibility of differing approaches of differing AAs. How will the pool reconcile such differences without compromising the investment values of the AA? How will this sit with the fiduciary duty?

However we hold a natural trepidation about our members pensions. GMB members are, generally speaking, lower paid workers in the public services. All steps should be taken to protect their pensions at all costs. We are fearful of the risks to their pensions of this approach given the lack of evidence of pool success so far.

### **Question 16**

Do you agree the pool should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

AAs already carry out this function so there seems no need especially as they are best placed to identify such opportunities.

Where and how would the cost of this be borne?

And where will ultimate decision lie? With the pool or the fund? This is the dichotomy referred to earlier. Can the pool exercise a veto over the investment decisions of the funds? Or could a pool commit a fund to invest in something against a fund's wishes?

### **Question 17**

Do you agree that AAs should report on their local investments and their impact on the in their annual reports? What should be included in this reporting?

In the interests of transparency and accountability, yes. As much information as possible. And it should be regularly and uniformly presented.

## **FUND GOVERNANCE**

**Question 18:** Do you agree with the overall approach to governance which builds on the SAB's good governance recommendations? And **Question 19:** Do you agree that AAs should be required to prepare and publish a governance and training strategy, including a conflict of interest policy? And **Question 20:** Do you agree with the proposals regarding the appointment of a senior LGPS Officer? And **Question 21:** Do you agree that AAs should be required to prepare and publish an administration strategy? And **Question 22:** Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published? And **Question 23:** Do you agree with the proposals regarding biennial independent governance reviews. What are your views on the format and assessment criteria? And **Question 24:** Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding? And **Question 25:** Do you agree with the proposals to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

The size of LGPS alone demands effective governance and there is evidence to suggest that good governance also has a financial premium. As a member of the LGPS SAB the GMB can testify to its good governance procedures and we strive at all times to encourage continuous improvement. We note that the consultation bases its proposals on many of the recommendations the SAB submitted to MHCLG in 2021 following the conclusion of its' Good Governance project. We therefore support the proposals for AAs to:

- appoint a senior LGPS officer who has overall delegated responsibility for the management and administration of the fund. But it must not duplicate existing functions and the origin of their authority and legal and regulatory power must

be explicitly defined and contrasted with the bodies that currently hold such power

- participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified. However, triennial reviews may be less bureaucratically onerous
- prepare and publish governance and training strategies (replacing the governance compliance statement) and a conflicts of interest policy, and
- prepare and publish an administration strategy with the aim of improving member experience and committing resources to same as required
- improve accessibility of annual reports

We also support the proposals for new requirements on knowledge and training for those involved in the management of LGPS funds but not so that they deter representatives from active participation.

And of course, as stated throughout, and in accordance with the SABs Good Governance Action Plan, we consider it essential that pool must produce and publish a policy on the representation of scheme members on its committees which outlines and commits to their voting rights and the support that they will receive.

**Question 26:** What are your views on whether to require AAs to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

We are not sure what purpose this would serve and it seemingly duplicates the function to be carried out by the pools and the role of the senior LGPS Officer. It may also be the case that this expertise already exists within the committee. Consideration could be given to utilising such a role in an advisory capacity only

**Question 27:** Do you agree that pool company boards should include one or two shareholder representatives? And **Question 28:** What are your views on the best way to ensure that members views and interest are taken into account by the pools

We welcome the proposals to move to new minimum standards for pools especially so that AAs can see that the pool is effectively managed and that they are able to hold the pools to account. We agree that this can be done by requiring Boards to include representatives of the AAs, specifically including member representatives and publishing asset performance and transaction costs.

Pools should also be required to have member representatives on their governance structures.

No person or body is more invested in the success of the pools than its active, deferred and pensioner members and their views and interests must be welcomed, properly understood and considered.

We therefore demand, amongst other things,

- Adequate scheme representation at pool level enshrined in the governance strategy
- Regular reporting by the pools, opinion surveys, attendance at fund events and open communication channels in member documents

**Question 29;** Do you agree that pools should report consistently and with greater transparency including on performance and costs. What metrics do you think would be beneficial to include in this reporting?

Yes, obviously. Consideration should be given to policing and sanctions for non-compliance

**Question 30;** Do you consider that there any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals?

## **Conclusion**

We have responded to this consultation in good faith and we have voiced our concerns over the proposal to effectively render local funds useless. The evidence is not there to support this move and we believe it to be risky and unnecessary. Two words that do not sit comfortably in reference to pensions.

We have also been strongly critical of the absence of proposals for member involvement in the new structures and hope these concerns are addressed.

Finally, despite working closely with government prior and post the election, and being a member of the LGPS SAB, this proposal was never aired with us at any point. We believe we should have been consulted directly and members engaged more widely

## Appendix 1

Following the 2008 financial crash thousands of construction workers were laid off and housing completions halved. Whilst large developers halted building Manchester City Council sought to show it could deliver innovative development and struck a ground-breaking deal in 2012 with the [Greater Manchester Pension Fund](#) (GMPF) to build family homes for market rent and sale.

The council provided the land and GMPF funded the house building. This was the first time a council pension scheme had used its finances to support a key council aim of building homes and a string of other council pension funds – including Lancashire, Islington and the West Midlands – followed Manchester's lead.

This model puts the council staff's savings to work in their own communities, ensures a return in line with the fiduciary duty of the fund and boosts housing supply.

The regulations governing council pension funds changed in 2016, making it easier for the funds to support their own objectives as Trustees now have to consider environmental and social goals (ESG) when they draw up their investment strategies.

The regulations allow councils to invest more of their pension funds in partnership vehicles (which are traditionally used to deliver infrastructure projects) but pension fund trustees still have to make sure their investments generate good returns as they can accept lower rates for ESG projects (consistent with their overall investment strategy).

In addition, and fundamentally, the proposal assumes Pools to be drivers, rather than executors, of funds' investment decisions. Pools are employed by funds not vice versa.

It therefore seems pointless to answer the above as it assumes that pools are an arm of the state, that pools have sovereignty over funds and that pools have been successful. GMB does not consider that black is white.