Navigating the changing tide

LGPS funds have been busy working to make the government's fit for the future policy a success, but with looming deadlines and growing scrutiny facing the scheme as a whole, is this work still achievable? Sophie Smith reports

Summary

• The rejection of Access and Brunel has prompted more than 20 Local Government Pension Scheme (LGPS) funds to choose new pooling partners ahead of the 30 September deadline, putting significant pressure on some.

• Despite the tight turnaround, many funds have now made their selection and work to complete this transition is underway.

• But there is still work to be done to ensure that the government's ultimate March 2026 deadline remains achievable; the government should engage with industry to ensure it has realistic expectations.

• The LGPS is also facing growing pressure from political parties, which could risk undermining trust in the scheme.

It's been a turbulent few months for the Local Government Pension Scheme (LGPS) as funds adjusted their plans following the government's latest decisions on pooling. With the rejection of both Brunel and Access, many have had to chart a new course, balancing the pressures of tight deadlines with the broader demands of the government's push for consolidation. The move has already brought both challenges and opportunities, but there is still much more work to do.

Rejection ripples

Pensions UK policy lead, Maria Espadinha, points out that the eight existing LGPS pools themselves are products of prior consolidation, merging the assets of 86 local authority funds in England and Wales. But this number has now been cut to six following the rejection of Brunel and Access.

The decision to reject plans from these two pools was questioned by some at the time, particularly by the two pools involved.

The future for these two is still unclear, although Brunel has made a number of recent announcements suggesting that, despite its forced wind up as an LGPS pool, it has no plans on leaving the industry.

In particular, the group has appointed a new chair to "lead the partnership through this time of negotiation and major structural change", as well as renewing its status as a signatory to the UK Stewardship Code.

But it was not just the two pools impacted, as for the 21 funds within Access and Brunel, the rejection was not just a procedural hurdle, it was a call to re-examine their approach to pooling, as the 30 September partner selection deadline left them with limited time.

Racing against the deadline

This deadline has been one of the most pressing challenges for LGPS funds. While designed to keep consolidation on track, the timeline has proved both a motivator and a source of stress. Espadinha admits that the short timeframe "posed significant pressure for the Access and Brunel funds, who had to undergo a vast due diligence process to ensure their choice of pool would be right for them and their members".

However, she says that "whilst questions have been raised around the decisions involving Access and Brunel, the LGPS is now working extremely hard to make the next steps a success... It seems LGPS funds rose to the challenge and transition work can now begin".

Indeed, at the time of writing, nearly all of the 21 funds in need of a new pooling partner had confirmed their selection, with the majority split between LGPS Central and Border to Coast.

For now, Espadinha says that the priority for funds that have had to select new pools will be the transition of assets, "which should be done is a way that is favourable for funds, and savers and not to obey an arbitrary timeline".

"Partner funds of the pools that will accommodate new entrants should ensure cooperation and collaboration between them continues to run smoothly," she adds.

But the work behind this is also a big ask, as Hymans Robertson head of LGPS client consulting, Robert McInroy, raised further concerns at the Pension Schemes Bill Committee hearing, warning that "LGPS funds and the pools already have a very full to-do list, and they have stretched resources".

"They are asked to deliver an awful lot in a short period of time. They are transferring all of the remaining assets from the funds to the pools, and there is still about 30 per cent of those assets to come in a short period of time," he adds.

However, McInroy admitted that the shorter timeline may be needed, noting that the planned consolidation had already caused a degree of inertia, as some put off new investments if unsure how they would fit with their new pool.

However, it is not just the practicalities of transitioning assets themselves, as Redington investment consulting director, Sam Yeandle, points out that time will also need to be spent strengthening the relationship, better understanding their chosen pool's way of working and connecting/collaborating with other partner funds.

In particular, he encourages funds to formulate a clear set of objectives and investment beliefs to facilitate a more collegiate and transparent relationship with the pool, warning that those who don't risk losing a "significant amount of their autonomy" post transfer.

"We are still concerned with the overall timeline for delivering the changes, especially given administrative challenges"

National scale, local investment?

Alongside timing concerns, a recurring theme in the transition so far has been the tension between local investment ambitions and the drive for pooled efficiency. Yeandle admits that these changes could have implications for regional investment strategies, noting that the Brunel funds, for instance, had several examples of collaborative local/regional projects, the Wessex Gardens Fund being perhaps the most notable.

"Going forward, where pools' partner funds cover a more significant but disparate portion of the country, pools may struggle to replicate this more 'regional' approach. Instead, being forced to invest either very locally or nationwide," he warns.

Yet, both Espadinha and Yeandle are optimistic that careful policy design and cooperation can mitigate these risks.

"If the approach to local investment is undertaken successfully, there is no reason why geographical ties could not ultimately be strengthened," Yeandle says.

"It also helps that the government has defined local investment to be considered broadly as local or regional to the fund or pool, which means that funds will be able to invest in local assets of their pool partner funds," Espadinha adds, arguing that, more important than geographical unity is culture and cooperation between partner funds.

Consolidation in context

But it's important to remember that this is just one piece of work on the LGPS's already very long to-do list, as the pooling changes and push for consolidation make up just one element of the 'Fit for the Future' policy.

And despite the level of optimism surrounding the work, concerns remain, with the government's March 2026 LGPS pooling deadline looming large.

A spokesperson for Border to Coast says that it is is on track for this, explaining that its previous plans to build up its capacity and capability laid the foundations to enable the pool to deliver by the March 2026 deadline.

"This is a time of transition for the LGPS," they stated. "Our partnership believes that by working together we can build on the collective experience and capabilities of all funds to strengthen our collective voice and enhance our combined ability to deliver robust, sustainable, and cost-effective outcomes."

However, Espadinha cautions that while funds have made significant progress, the overall timeline may be overly ambitious, particularly given the broader LGPS workload.

"We are still concerned with the overall timeline for delivering and implementing the changes, especially in the context of administrative challenges such as McCloud or dashboards, other legislative changes expected for the year,

Local Government Reorganisation, and considerable change in council administration," she says.

This is echoed by Yeandle, who highlights the ongoing pressure that fund officers are under, as well as the limited time available to pensions committees. "It is inevitable that while this work is ongoing, other activities will face some disruption, and these challenges will need to be carefully managed," he says.

Such concerns were also prevalent at the recent Pension Schemes Bill hearing, as McInroy argued that "there is a huge magnitude of change in these reforms".

"Every pool has been asked to build advisory functions, that is all from scratch, apart from one," he continued.

"They have been asked to build local investment capabilities as well, which is of paramount importance to be able to kick-start and contribute to the UK economy, and to implement some of these governance reforms.

"That is a huge amount to do under any timescale. Some of what is envisaged in the consultation is that this would be completed in a little over six months' time. That puts risk on some of these reforms, and I think that should be recognised."

This is arguably particularly concerning when considering that much of the broader work that could be sidelined is highly emotive for members, with delays around the McCloud remedy, for instance, already making headlines for other public sector schemes.

And the LGPS is likely keen to protect its reputation at the moment, with Reform UK placing renewed focus on the scheme after recently accusing local pension committees of being "negligent", by overpaying on fees and underperforming on returns.

Speaking at a party press conference, Reform UK Deputy Leader, Richard Tice, argued, currently, there is "no accountability – no responsibility", warning that there is a "gravy train culture" in the LGPS.

And whilst work is underway to cut the level of pools, Reform UK has instead suggested that it would look to launch its own 'Reform UK' pool. The realities of this may be unlikely, but it is a sign that politics could be at risk of creeping even more into local government pensions, at a time when the LGPS is already facing growing pressure over its future investments.

Indeed, whilst much of the broader mandating concerns focused on the government's broader reserve power, there are emerging concerns around the inclusion of broad powers for the government to set criteria for how LGPS pools operate, with some worried this could be 'mandating by another name'.

During the latest Pension Schemes Bill hearing, Border to Coast CEO, Rachel Elwell, said that "it is important that any use of mandation is very carefully considered, and that the laws of unintended consequences are really thought through".

"I can understand why government would want a backstop power to direct pools, because the LGPS is significant," she said. "But it is important that we clear the scenarios in which it is envisaged that it might be used."

Navigating uncharted waters

Further engagement with the industry is clearly needed, but with much of the bill reliant on secondary legislation, there is still time for this much-needed clarity to be given.

"Pensions UK encourages the government to continue engaging with funds and pools to develop a roadmap for delivery that is more practical and realistic," Espadinha says.

For now, the LGPS continues to pool its resources, both literally and figuratively, in order to continue navigating a sea of change.

Written by Sophie Smith