

Spotlight: Good Governance



Commentary on proposed changes in draft regulations and statutory guidance

Key requirements

The eagerly awaited Ministry of Housing, Communities and Local Government (MHCLG) [draft regulations](#) and draft statutory guidance following the governance requirements outlined in the Governments' [LGPS: Fit for the Future consultation](#) are now out for consultation. The open consultation on the draft regulations closes on 2 January 2026 and officers' comments on the draft guidance are required by 12 January 2026.

The guidance sets out detail around how Administering Authorities (AAs) can meet the high-level requirements set out in the regulations.

In this Spotlight, we set out the key highlights, and our views on the areas that may be most challenging to implement. We also outline what AAs will need to do to achieve compliance with the regulations / guidance. This should help you in planning your consultation responses and in building a compliance action plan.

At a glance...

The new regulations / guidance cover the requirements for LGPS AAs to:

- Undertake an Independent Governance review (IGR) every three years
- Appoint a Senior LGPS Officer
- Appoint an Independent Person as a non-voting member on their Pensions Committee (or equivalent)
- Put in place key governance policies and strategies
- Implement key Knowledge and Understanding requirements

We discuss each of these in the following sections of this Spotlight.

Where relevant to governance, we have also commented on the requirements on investment pooling, which have also been released in draft by MHCLG.

Independent Governance Reviews (IGR)

LGPS AAs will need to carry out an independent review of their governance arrangements at least once in every three-year cycle. All AAs must arrange for their first review to be carried out between 1 April 2025 and 31 March 2028.

Who can carry out the review?

A 'suitable person' is defined as being a person who is independent of both the Secretary of State (SoS) and the AA, and, in the opinion of the AA, is suitably qualified or experienced to conduct the review.

Independent to the AA is defined as a "company or person who is not engaged with the AA in any capacity at the time of the review being undertaken".

But trying to ensure this is completely independent in this manner raises the question as to what should happen if an AA already has a trusted Governance advisor who carries out regular governance reviews and helps them implement any resulting actions? Asking AAs to carry out an additional procurement exercise to find another independent reviewer with less in-depth knowledge of the fund doesn't feel like the most efficient solution. Preventing an existing specialist governance advisor from carrying out the review seems counter-intuitive, and the comprehensive prescribed scope and need to publish the report should allay any concerns around "marking your own homework". We recommend clarity is sought on whether a separate IGR contract will be required in these circumstances.

The draft guidance states that it is expected that AAs will use the National LGPS Frameworks for appointments - but this is not mandated.

What needs to be included?

The guidance provides a minimum standard for the IGR and it is up to each Fund to consider anything else they wish to include. It is great to see that the vast majority of the IGR requirements are very similar to those on our long-established Aon Governance Framework (we have attached a summary of this at the end of this Spotlight) which we already measure against when undertaking existing governance reviews.

Our governance reviews typically also include assessing compliance with TPR's Code of Practice, observation of Committee / Board meetings, undertaking effectiveness surveys to better understand how the Committee and Board operate, and include views on decision making and unconscious bias (and other biases).

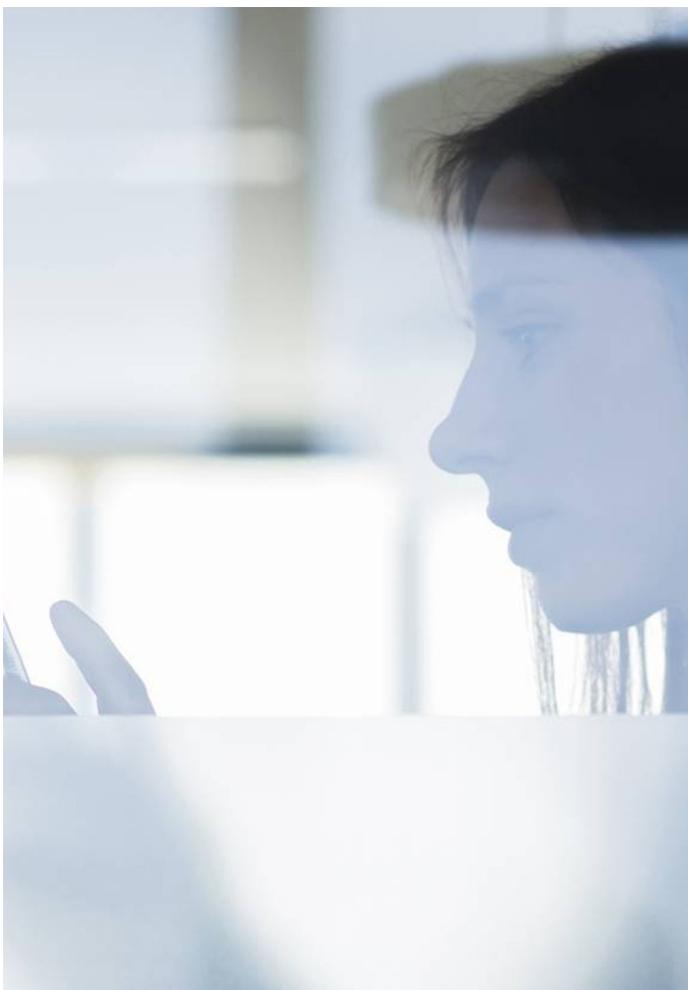
Effective System of Governance (ESOG)

The IGR requirements also include considering the Effective System of Governance (ESOG) which is a concept set out in the 2018 Governance Regulations (which are not currently a legal requirement for public sector pension funds to comply with as they have their own governance regulations).

The ESOG consists of the critical areas needed for managing a scheme. It includes:

- Governance structure and policies
- Knowledge and understanding
- Appropriate risk management
- Internal controls
- Transparency and reporting
- Regulatory compliance

Outcomes of the IGR should be considered by the Pensions Committee (or equivalent), and the Committee should develop and publish an action plan taking into account the recommendations. The final report will need to be submitted to MHCLG and made publicly available. The Committee should also review the implementation of the action plan within 12 months.



Potential impact

We are aware of many funds who already carry out comprehensive regular reviews of their governance arrangements (including compliance with the Pensions Regulator's Code of Practice) and in those cases, these new requirements should not create a significant amount of additional work (or cost).

For those who do not currently regularly review their governance arrangements, the new requirement to undertake an IGR will result in additional work and cost to find an appropriate provider, to provide them with the required evidence, for the provider to carry out the review, and then to put in place any new processes, policies and controls in line with any resulting recommendations.

How can we help?

We have significant experience of carrying out independent governance reviews, which are based on assessing the fund against each aspect of our framework. We can therefore support:

- If we meet the final criteria for independence, in carrying out your IGR in line with the required scope and, if required, covering additional areas which we consider best practice
- Even if we cannot carry out the IGR (i.e. due to providing other pensions services to the fund), we can help you prepare your governance arrangements to help you ensure as many green ratings as possible when you do carry out your IGR
- We can support in implementing your action plan to improve governance ahead of your next review.

You may be expecting to carry out your first IGR toward the end of the initial triennial cycle, for example after implementing some of the new requirements. If that's the case we can also carry out a higher-level "governance MOT" to determine what actions you are likely to need to take to comply with the new governance requirements and how these may be prioritised.



The Senior LGPS Officer

All AAs will need to have a single named Senior LGPS Officer with overall responsibility for their Fund's management, strategy and administration. The first appointment must be made by 1 October 2026.

The published draft guidance sets out that the Senior LGPS officer will need to be a visible, accountable leader. It is a statutory and senior role with significant responsibility and authority. They must spend the "overwhelming majority" of their time on their LGPS responsibilities.

The guidance suggests that the role should be undertaken by a Director, Assistant Director or Head of Service and should be at a pay grade that is part of the AA's senior management team. This required level of seniority could prove challenging for some AAs to implement based on their current structural arrangements.

Responsibilities of the role

The Senior LGPS Officer will have responsibility across all pension functions for ensuring that the fund is appropriately managed and resourced across all operational areas (administration, governance and investments).

The responsibilities of the role are outlined in the guidance as expected. The guidance sets out that the Pension Fund's budget should be entirely separate to the Local Authority's budget and should therefore not be subject to Local Authority resource or budget restrictions. We suggest officers respond to the consultation to request that this wording is extended to explicitly include pay and recruitment of pension fund officers to prevent (for example) Local Authority recruitment freezes from impacting on pension fund resourcing. Creating this separation may prove challenging for some LGPS funds based on their current structure.

Interaction with the S151 Officer role

The Senior LGPS officer cannot be the same individual as the S151 officer (or any other senior officer with responsibilities outside of pensions in the organisation).

The S151 officer's responsibilities are not otherwise amended by these changes. The S151 officer will continue to be responsible for administration of the Local Authority's financial affairs, and both the S151 officer and the senior LGPS officer should approve the pension fund accounts. Responsibilities for both roles in respect of risk management, management of service provider contracts and reporting to the Pensions Regulator should be set out in the Governance Strategy.

Appointments process and remuneration

The timescale for the first, and any subsequent appointment to, the Senior LGPS Officer role is six months. This will likely be very challenging where AAs will need to find the individual through an external appointment, given that appointing individuals of such seniority from other organisations will no doubt require a period of job specification, advertisement, assessment, and crucially, may involve appointing an individual with a notice period of several months. Officers may want to respond requesting clarity on whether the guidance envisages the appointment having been made within six months, or whether the Senior LGPS Officer should actually have started in their role by that time.

The decision regarding recruitment to the role is the responsibility of the Head of Paid Service. It is for each AA to determine whether the Pensions Committee (or equivalent) should comment on a proposed appointment. Remuneration of the role will be a local decision.

We expect that, even in AAs where there is already an individual carrying out the senior officer role, there will still need to be some formalisation of the role to demonstrate compliance with the Regulations.

Required knowledge and skills

There are no criteria specified for the professional competencies, and it will be for each AA to be satisfied that the appointed officer has the requisite knowledge and skills to deliver the statutory requirements. The role will be part of the AA's Senior Leadership Team so will need to be able to represent the fund's needs in this environment whilst not being required to get involved with non-pensions matters.

How can we help?

Based on individual AA structures there is likely to be a varying degree of work required from fund to fund. We have significant experience of conducting team structure reviews having supported a significant number of AAs with organisational structure and pay benchmarking reviews.

Our services include the following:

- Developing and providing feedback on the Senior LGPS Officer role profile and any other role profiles which may need to be redefined
- Carrying out full structure and organisational reviews which can include pay benchmarking
- Developing the results of our analyses into business cases for restructure and regrading
- Carrying out knowledge and skills gaps analyses to increase resilience and ensure effective succession planning.

Appointment of an Independent Person

AAs will need to appoint an Independent Person to sit on their Pension Committee (or equivalent), with non-voting rights. The first appointment must be made by 1 October 2026.

Requirements of the role

We note that the draft Regulations do not refer to statutory guidance in relation to this role, and the only requirements in the draft Regulations are that the independent person will “*advise on investment strategy, governance and administration.*”

The draft guidance (which then can be interpreted as considered best practice by MHCLG), states that alongside their role on the Pension Committee, the Independent Person (IP) should also have a direct relationship with the Senior LGPS Officer and should support the Chair of the Pension Board as part of the Board’s statutory role. Our view is that this will need to be carefully managed to avoid a situation of “marking your own homework”, given the IP will be a named member of the Pension Committee.

The IP’s main purpose is to provide additional independent and professional expertise, scrutiny and challenge. The IP does not need to have LGPS specific knowledge but the draft guidance suggests the IP should have key pensions management or trusteeship qualifications and/or ‘*significant experience of pensions*’ - though there is discretion/flexibility locally as to what counts as significant experience.

The guidance explains what independence means – the IP must be truly independent of the Fund, and

must not belong to any company or firm that provides other paid pensions advice to the AA or conducts the IGR or actuarial valuation. One person can fulfil the role for multiple authorities, but potential conflicts of interest and the ability to devote enough time to the role must be appropriately considered.

Taking into account the draft asset pooling guidance, a key practical issue is defining the role, contract and reporting lines clearly, including whether the IP (or their firm) is FCA-regulated, and therefore what type of advice they can appropriately provide, so that governance responsibilities and any regulated investment advice are clearly distinguished.

In summary, our reading of the requirements for the IP role is that it feels like an advisor role more than a typical committee member or trustee, but someone who is formally named on the Pension Committee. The government’s initial objective of this person having formal membership on the Committee was to use their skills to improve governance and the ability of the group to challenge advice and review performance, and for the IP’s own advice to support the decision-making process.

Some funds may have been hoping to formalise existing independent advisor roles into this new IP position. However, many of those existing advisors are specifically investment advisors, and the guidance states the IP is a different, wider role and that these advisors would as such not be appropriate.

Given it is implied that this IP role can only be carried out by one person, and it cannot be split or shared, it may prove a significant challenge to find individuals who have the right level of expertise across all the required subject areas, within the required timescales.



Appointments process and remuneration

Challenging timeframe?

We feel strongly that the six-month timeframe to appoint an IP is too ambitious. It aligns with the timeframe for appointment to the Senior LGPS Officer role, but given the emphasis on how closely the two will work together (and the fact that the Senior LGPS Officer may well be delegated responsibility for the appointment of the IP), we would have expected a longer timeframe for appointment of the IP, to allow the Senior LGPS Officer to be appointed themselves and then appropriately involved in the IP appointment process.

The guidance sets out that the Head of Paid Service should make the final decision on the appointment of the IP. However, we see this decision being purely a fund decision, and hence we think responsibility for this appointment would better sit with the Senior LGPS Officer.

There must be a contractual arrangement in place that should be reviewed at least every three years. This maximum tenure seems unnecessarily short and could result in time consuming and costly tender processes, so may be something to challenge as part of your response.

A National Framework for IPs may be a suitable way to ensure that individuals have the required expertise, to ensure remuneration is appropriate and not inconsistent with other funds, and to help make the appointment process more efficient. However, the timescales involved in setting up such a framework and then funds using it to call-off to find their own IP would make the 1 October 2026 deadline virtually impossible to achieve.

How can we help?

We can support you in updating your governance arrangements (e.g. Terms of Reference) to incorporate the IP, and in developing your appointment process, such as setting out suitable criteria for candidates to best meet your needs for the role.

We can also help by designing induction plans (for example, if the person has pensions experience but not in the LGPS).

Investment Strategy Statement guidance—Pension Board role

One related area we think could be clarified in the guidance relates to the role of the Pension Board in setting investment strategy, stating “*boards should be engaged during its formulation... ensuring that stakeholder interests are considered in **shaping the strategic approach**. This involvement should occur ahead of formal consultation.*”

Since inception, Pension Boards have been assisting the AA in matters of governance and administration (including governance of investments), including scrutinising decisions made and reasons for those decisions, including ensuring stakeholder voices are heard. This is quite different to being involved in setting investment strategy. We think it will be important to clarify that this is still the intention in the guidance wording i.e. the role of the Pension Board is not changing.



Governance strategy, training strategy and conflicts of interest policy

The requirement to produce an annual governance compliance statement has been replaced with the requirement for the AA to produce and publish a governance strategy, training strategy and conflicts of interest policy. Fund annual reports must link to these documents.

Potential impact

Detailed guidance on the conflicts of interest policy, and governance strategy have not yet been shared. However we expect many AAs already capture most of the required information on delegations and representation in their existing governance compliance statement so, while there will potentially be some work to reposition the information to follow the new requirements, this shouldn't be too onerous, given the removed need for the governance compliance statement.

AAs will now also be mandated to produce a **Pension Administration Strategy**. Almost all AAs already have an existing strategy, but they will now need to ensure it is in line with the new guidance (when that is issued).

All of these documents will need to be reviewed at least once in each three-year period, which may be more often than is currently being carried out where these policy documents already exist. This regular review will need to be built into your fund's workplan.

Aon research from earlier in 2025 found that more than a third of AAs had not published a **Conflicts of Interest policy** for the fund, instead likely relying on that of the local authority, and a further 14% had a policy that related only to Pension Board members. Clearly there will be work for all funds to ensure they have a policy which captures all the required elements, including potential conflicts relating to pooling, but for some funds there will be much more to do in this area.

How can we help?

We can support you in drafting the required **governance-related strategies and policies**. This support can range from reviewing your draft, to a full redesign of your strategy, including a review of the governance arrangements given upcoming developments and having regard to best practice.

We can also help you with considering **representation** on your Pension Committee and Pension Board, including:

- Considering the interests of all employers, members and beneficiaries, including the appropriate level of voting rights and quoracy levels
- Considering how members and employers' views are best represented with respect to investment strategies / asset pooling
- Ensuring the Fund's approach is correctly set out in the Fund's documentation, by helping with drafting / reviewing Terms of References, Schemes of Delegation, Constitutions
- Ensuring Equity, Diversity and Inclusion (EDI) considerations are appropriately considered in the Fund's representation, both in principle and in practice.



Knowledge and understanding (K&U) requirements

Each AA must develop a Training Strategy setting out how it will meet the requirements for all applicable parties. The guidance applies to Committee members, the Senior LGPS Officer, officers with delegated responsibilities, Pension Board members, the IP and any other individuals involved in management or decision-making.

Higher standards for decision-makers

The draft guidance emphasises the higher bar of knowledge now expected of Committee members and sets out a list of what is expected of them. It is also being made explicitly clear that this will be an individual legal requirement for Committee members, rather than the collective knowledge of the group being sufficient (e.g. which is implied in MiFID II which relates to investment requirements).

Contents of the new training strategy

The new strategy (which may be combined with the Governance Strategy and Conflicts of Interest policy) will need to set out how AAs will ensure the necessary resource is in place to ensure everyone acquires and retains the required level of knowledge. It also must cover objectives, delivery and reporting arrangements on how it plans to support individuals.

It is worth noting that the draft guidance may need to evolve as the guidance on Senior LGPS officer, Independent Person, investment pooling and other areas are finalised.

Potential impact

Some specific requirements in guidance that may be more challenging to implement in practice include:

- PC/PB reporting must demonstrate how K&U requirements have been considered and applied when decisions are being made in meetings. It would be helpful for guidance to set out how this can easily be 'demonstrated' in practice.
- New PC/PB members should have a comprehensive induction within three months of commencing their role or their first meeting (whichever is sooner)
- Two "new" competency areas (on top of the existing CIPFA framework) – "risk management" and "key skills and behaviours". While we are very supportive of these inclusions, AAs may need to put in place new training options to cover those for all individuals, and skills requirements for Chairs will likely need to be different to other members.

How can we help?

We have a wide range of experience supporting funds with their knowledge, skills and understanding requirements including:

- Carrying out training needs analyses to identify gaps
- Providing tools to monitor and report attendance
- Developing individual and group training plans for Committee and Board members and fund officers
- Conducting training sessions on all competencies and hot topics, including on key Committee/Board member skills
- Carrying out effectiveness surveys and reviews including on the approach to training and decision-making
- Developing equity, diversity and inclusion policies and principles and ensuring these are considered as part of knowledge and understanding.

Next steps

The regulations and new guidance will come into effect on 1 April 2026. It is therefore important to feed back any comments now to MHCLG, and to put in place a plan to resolve any gaps you may have against the new requirements.

Our Good Governance team are offering a free, no obligation initial exploratory meeting to discuss how your fund is doing against these new requirements, what needs to be improved and how we can potentially help you.

If you would like to get this booked in diaries then please get in touch with the team LGPS.Good.Governance@aon.com

Although business planning itself was not a particular focus of the current regulations / guidance, it does state that the AA should have a business plan approved by the Committee (or other body with delegated responsibility) and Senior LGPS officer, with associated budget, setting out required activities in the forthcoming period. Given this, it would be great to have a process set up for business planning before the new requirements / guidance are in place, which can then be updated each year. If you're interested in discussing how best to incorporate these new requirements into your business plan, please let us know.

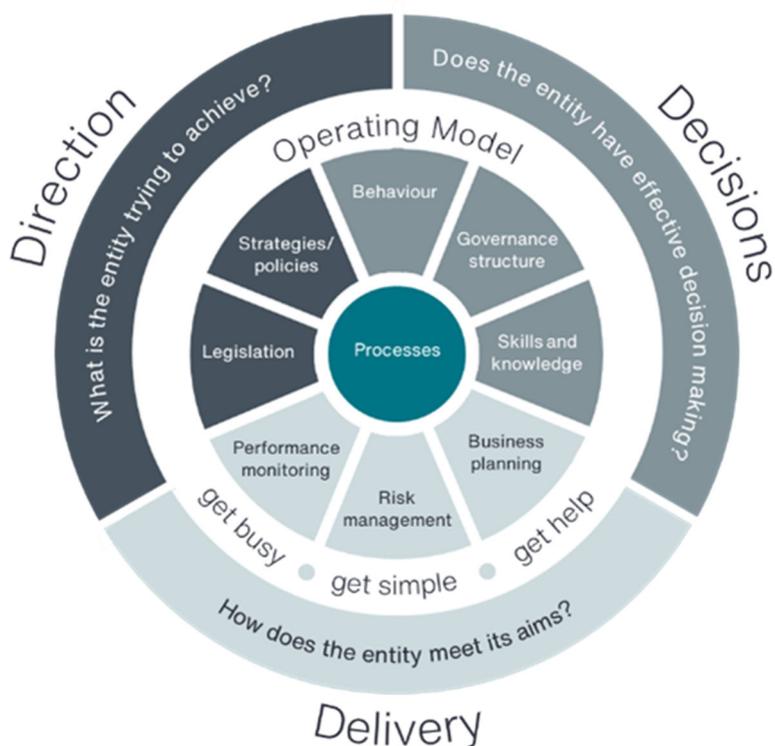
Interaction with the TPR Code of Practice

Aon's LGPS Governance experts have already commenced development work on updating our TPR Code compliance model to include these new requirements. If you have used our model previously, we will be in touch separately at a later date regarding this update.

If you are interested in using our TPR Code of Practice (and now Good Governance) compliance model, please contact one of the team.

Further information

As promised, our Governance Framework is set out in the diagram below:



Finally, stay tuned for our **Aon Retirement Podcast** episode on LGPS Good Governance, expected to take place in early 2026!



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