

Report to: Pension Committee

Date of meeting: 25 September 2025

By: Chief Finance Officer

Title: Governance Report

Purpose: To provide an update on governance workstreams and changes affecting Local Government Pension Schemes and the East Sussex Pension Fund

RECOMMENDATION:

The Pension Committee is recommended to:

- 1) Note the legal and regulatory changes together as set out in this report; and
 - 2) Approve the updated Governance and Compliance Statement as set out in Appendix 2 of this report.
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1 Background

1.1 This report is presented to the Pension Committee to provide an update on the steps being taken to adopt good practice and ensure compliance with regulatory requirements for the East Sussex Pension Fund (the Fund or ESPF).

2 Legal and regulatory changes

2.1 On 29 May 2025, the Government published its [response to the 'Local Government Pension Scheme \(England and Wales\): Fit for the future' consultation](#). The response sets out the core proposals that will be taken forward. A more comprehensive review of the investment and pooling reforms is provided at agenda item 6. However, a summary of the confirmed changes relating to investment pooling are:

- All assets to be managed by the new pool from April 2026.
- The Administering Authority will retain control of strategic asset allocation though advice should be provided by the pool and not from investment consultancy firms.
- Pools must be registered with the Financial Conduct Authority.
- Funds will need to set out their aspiration for local investments and work with local authorities and, in particular, with Mayoral Combined County Authorities to identify opportunities. It would be then up to the pool to assess and implement local investments.

The primary governance reforms that will be taking include:

1. **appointing a senior Local Government Pension Scheme (LGPS) officer with overall delegated responsibility for the management and administration of the Scheme.** – *ESPF will await clarity in the legislation that will follow on this point, specifically around the definition of a 'Senior LGPS Officer'. However, it is expected that such a role could be filled by either the Section 151 Officer or Head of Pensions.*
2. **a requirement to prepare strategies on governance, knowledge and training (replacing the governance compliance statement), and administration.** – *Again, similar to all provisions at this stage, ESPF will await further details in the legislation but at present officers believe this does not represent a requirement for extensive work in creating new*

fund policies, but instead the reformatting and in some areas consolidation of existing fund documentation.

3. **the knowledge and training strategy will be required to include a conflicts of interest policy.** – *Similar to the above, it is anticipated that this will simply require the consolidation of existing Fund policies.*
4. **a requirement to take part in an independent governance review (IGR) every 3 years.** – *This was extended from an initially proposed biennial review. ESPF welcomed this proposal in its consultation response on the basis that such a review would provide a structured mechanism for identifying strengths, addressing weaknesses, and promoting best practices. Officers also accept that the extension of the required frequency from 2 to 3 years also has merit in alleviating the demands on cost and resources generated by such an exercise. There will be a requirement to submit Independent Governance Reports to the Ministry of Housing, Communities and Local Government (MHCLG), and administering authorities will be expected to progress recommendations made in the reports. Where Government have concerns, they may bring the issue to the attention of The Pensions Regulator and in extreme cases may directly intervene.*
5. **ensuring pension committee members meet new knowledge and understanding standards.** – *This was a provision also welcomed by ESPF in its response to the consultation. Requiring Pension Committee members to have appropriate knowledge and understanding is critical and ESPF have the same requirements on Pension Committee members to those required under the Pensions Act for Local Pension Board members. Effective decision-making in the LGPS context requires committee members to navigate complex investment, governance and funding challenges confidently. Aligning knowledge requirements with those of local pension boards will enhance overall governance consistency and ensure that all decision-makers operate with a baseline level of competency. However, officers have remaining concerns regarding how this may impact the use of substitutes and the issue of non-compliance but anticipate both to be addressed in the legislation.*
6. **appointing an independent adviser (non-voting) to the Pension Committee.** – *Government have clarified that such an independent adviser, when appointed would not have voting rights on the Committee. Officers welcome the additional scrutiny such an appointment would bring, and the expert advice that can be offered in aiding Committee members to make better informed decisions. Again, officer are awaiting clarity in the legislation before actioning this.*

2.2 The Pensions Scheme Bill was introduced in Parliament and given its first reading in the House of Commons on 5 June 2025. The Bill will provide powers to the Secretary of State to:

- direct LGPS funds to join or leave a pool company;
- provide guidance to pool companies;
- direct a pool company in 'prescribed circumstances' on how it manages its activities or the decisions it makes or to follow guidance.

2.3 Included within the Autumn Budget 2024, the Government announced that for deaths occurring after April 2027:

- the majority of unused pension funds and death benefits will be included in assessing the value of a deceased person's estate for inheritance tax purposes.
- Pension scheme administrators will be responsible for reporting and paying any inheritance tax due on pensions to HM Revenue and Customs (HMRC).

2.4 This was followed by the launch of a consultation from HM Treasury titled [‘Inheritance Tax on Pensions: liability, reporting and payment’](#). At the February 2025 meeting of the Pension Committee, officers provided members with a copy of the Fund’s response.

2.5 On 21 July 2025, HM Treasury published a [response to the consultation](#), and confirmed the following key amendments to the proposals made:

- All death-in-service benefits from the LGPS will be excluded from the value of an individual’s estate for inheritance tax purposes.
- It will be the responsibility of the personal representative to the estate to report and pay any inheritance tax liability to HMRC and not that of pension scheme administrators. However, pension scheme administrators will have a duty to support personal representatives in doing so.
- To support personal representatives and beneficiaries unable to pay inheritance tax on pensions, the Government will provide a range of payment options, including an option for pension beneficiaries to instruct pension scheme administrators to pay inheritance tax in respect of pensions on their behalf. Albeit that the liability for the inheritance tax remains with the beneficiaries.

2.6 HM Treasury has now published [draft clauses for inclusion in the Finance Bill 2025-26](#). These are open for technical consultation until 15 September 2025. These clauses will amend the Inheritance Tax Act 1984. Officers do not propose to respond to the consultation.

2.7 As reported to the Pension Committee at its meeting on 5 June 2025, on 15 May 2025 Government launched a consultation titled [‘Local Government Pension Scheme in England and Wales: Access and fairness’](#). The consultation relates to a range of proposals including the gender pensions gap, forfeiture concerns, and opt out rates. Having consulted with Chairs of both the Pension Committee and Pension Board, officers submitted a response to the consultation on 1 August 2025, a copy of which is provided at Appendix 1 to this report.

3 Governance and Compliance Statement

3.1 Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and keep under review a Governance Compliance Statement. The Pension Committee last approved a statement in June 2024, and this was due for review in June 2025. However, officers recommended that such a review be delayed given the significantly changing environment as a consequence of proposals stemming from the ‘Fit for the Future’ consultation.

3.2 However, given that further legislation and detail is to date unavailable, in order to meet with both the regulatory requirement and that of the Fund’s policy itself requiring an annual review, Officers have updated the existing policy without making any substantive amendments, reflecting the arrangements as they stand. The Governance and Compliance Statement will undergo a full review incorporating both investment pooling reforms following their conclusion.

3.3 The Governance and Compliance Statement will require a full overhaul, not only in relation to the requirements of the ‘Fit for the Future consultation’, but also in relation to the references to the powers of the Pension Committee in relation to pooling and the ACCESS pool, as the Fund will cease to be a member of the ACCESS investment pool in 2026. Officers are fully cognisant of the need to update this document in its current or revised form in due course once officers have the required detail and guidance.

3.4 The updated Governance and Compliance Statement is provided at Appendix 2.

4 Conclusion

4.1 The Committee is recommended to note the legal and regulatory changes detailed within this report and approve the updated Governance and Compliance Statement.

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