

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

16 SEPTEMBER 2013

<b>SUBJECT:</b>	<b>FUTURE STRUCTURE OF THE LGPS – CALL FOR EVIDENCE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION</b>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members with the latest developments relating to the proposed changes to the structure of the Local Government Pension Scheme (LGPS) and seeks approval for a proposed response to the DCLG's call for evidence.

#### 2.0 BACKGROUND AND KEY ISSUES

##### **Call for evidence on the future structure of the LGPS**

- 2.1 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011. Among its recommendations, the report made clear that the benefits of co-operative working between local government pension scheme funds and achieving administration efficiencies more generally should be investigated further. The Local Government Pension Scheme currently costs local taxpayers £6billion a year in employer contributions.
- 2.2 On 16 May 2013, the LGA and DCLG held a roundtable event on the potential for increased co-operation within the Local Government Pension Scheme, including the possibility of structural change to the current 89 funds. 25 attendees represented administering authorities, employers, trade unions, the actuarial profession and academia.

The roundtable aimed to bring objectivity and transparency to the subject through open debate. There was a full discussion of the possible aims of reform and the potential benefits of structural change, together with the further work needed to provide robust evidence to support emerging options. The meeting focused on the issues to be addressed by reform rather than the detailed arguments for any of the potential ways forward that have been proposed.

The roundtable heard about the projects being undertaken to look at the options for structural reform of the Scheme in London and Wales and considered the range and relative priorities of the desired outcomes of reform, the data requirements for determining a start point and target and the next steps for delivering those outcomes.

- 2.3 On 22 May at the National Association of Pension Funds' local authority conference, the Local Government Minister Brandon Lewis said:

*I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.*

*The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.*

*I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.*

## 2.4 **The call for evidence**

At the roundtable, the following high level and secondary objectives for structural reform were proposed:

### **High level objectives**

1. Dealing with deficits
2. Improving investment returns

### **Secondary objectives**

1. To reduce investment fees
2. To improve the flexibility of investment strategies
3. To provide for greater investment in infrastructure
4. To improve the cost effectiveness of administration
5. To provide access to higher quality staffing resources
6. To provide more in-house investment resource

- 2.5 The Fund's response to this call for evidence is attached at appendix 1. The response addresses the five questions incorporated in the the DCLG's paper.

The response highlights the following considerations:

- The current governance arrangements within the LGPS where Pensions Committees are principally comprised of locally elected councillors already provide a high level of accountability to local tax payers and interested parties.
- The Fund believes that the great majority of efficiencies and cost savings sought will be realised through collaboration and joint working without the need for the formal merger of local government pension schemes.
- With regard to investment performance, there is little evidence to suggest that a larger fund size corresponds to better performance.
- Existing data suggests that pension funds need a minimum critical mass for a specialist, in-house investment resource to be viable.
- Larger funds have more cost effective administration but focusing purely on costs, risks overlooking some aspects of quality that are less obvious but valuable.
- Investments rather than administration is far more significant in terms of overall impact on cost. A specialist, in-house resource provides for flexibility of investment strategies and access to higher quality staffing resources.
- Larger funds will generally pay lower investment fees but the rate of reduction in fees decreases relative to increasing scale.
- A focus on investment fees in absolute terms is misguided. Investment fees should be assessed relative to the outperformance achieved.
- For there to be confidence in the conclusions drawn from any analysis of cost and performance data, it is imperative that the basis of the preparation of that data is more prescriptive than at present, and audited, to avoid ambiguities and ensure objectivity.

2.6 The closing date for this consultation is 27 September 2013.

### **3.0 RELEVANT RISKS**

3.1 With pension funds working to implement the 2014 Scheme, there is a risk that this initiative will put further strain on already limited resources.

3.2 The analysis and assessment is undertaken on incomplete and misleading information leading to unnecessary reforms.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 No other options have been considered.

### **5.0 CONSULTATION**

5.1 The Fund has liaised with other local authority funds in the preparation and compilation of data for this report.

## **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising from this report.

## **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 There are none arising directly from this report. Any reform of the LGPS has potentially significant financial implications.

## **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising from this report.

## **9.0 EQUALITIES IMPLICATIONS**

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The reforms to the LGPS have already been assessed by Government with regard to equality.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 None arising from this report

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 None arising from this report

## **12.0 RECOMMENDATION/S**

12.1 That Members note the report and approve the response to the call for evidence.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

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## **APPENDICES**

**1 Draft MPF submission to DCLG call for evidence on reform of the LGPS.**

## **REFERENCE MATERIAL**

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>None</b>	