

WIRRAL COUNCIL

PENSIONS COMMITTEE

1 JULY 2014

SUBJECT:	LGPS CONSULTATION: COLLABORATION, COST SAVINGS & EFFICIENCIES
WARDS AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the latest DCLG consultation on ‘Opportunities for collaboration, cost savings and efficiencies’. This has been issued following the analysis of responses to the previous consultation, ‘Call for Evidence on the Future Structure of the Local Government Pension Scheme’.
- 1.2 In view of the tight timescales involved and need to collate information from external sources, approval is sought for officers to make a response to the consultation subject to the agreement of the Chair of Pensions Committee.

2.0 BACKGROUND AND KEY ISSUES

DCLG Consultation

- 2.1 The DCLG consultation “Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies”.was launched on 1 May 2014 and can be accessed from the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307923/Consultation_LGPS_structural_reform.pdf

The consultation draws on three sources of evidence:

- The LGA/DCLG call for evidence on the future structure of the LGPS
 - The analysis of responses to the call for evidence by the shadow Scheme Advisory Board.
 - The cost-benefit analysis of options for reform commissioned from Hymans Robertson.
- 2.2 The package of proposals includes:
- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.

- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

2.3 The consultation focuses on the conclusions of the Hymans Robertson report which suggests that there is the potential for significant cost savings in the LGPS. This is based on Funds investing more into passively managed funds and in use of collective investment vehicles for investments.

Brandon Lewis, issued a written Ministerial statement indicating the breakdown of potential saving amounting to £660 million per year across the LGPS from the following proposals;

Proposal	Estimated Annual saving
Moving to passive fund management of all listed assets, accessed through a common investment vehicle.	£420 million
Ending the use of “fund of funds” arrangements in favor of a common investment vehicle for alternative assets	£240 million

The saving of £420 million associated with moving to passive management of listed assets is comprised of two elements:

- Reduction in investment fees: £230 million
- Reduction in transaction costs: £190 million

2.4 The consultation invites responses to five questions under two key themes;

- The use of collective investment vehicles and
- Passive management.

The questions are:

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

2.5 DCLG wish to explore greater use of passive management, to the extent that this can be done without adversely affecting investment returns. The four options for passive investments are:

- a) Funds could be required to move all listed assets into passive management to maximise the savings achieved by the Scheme.
- b) Funds could be required to invest a specified percentage of their listed assets passively or to progressively increase their passive investments.
- c) Funds could be required to manage listed assets passively on a comply or explain basis.
- d) Funds could simply be expected to consider the benefits of passively managed listed assets, in light of the evidence provided in the consultation paper and the Hymans Robertson report.

2.5 A response on behalf of Merseyside Pension Fund will be submitted before the closing date of 11 July 2014.

3.0 RELEVANT RISKS

3.1 The outcome of this consultation could have far-reaching implications for the future investment strategies of LGPS funds and their implementation would be costly. It is essential that proposals and the data on which they are based are subject to testing and scrutiny, especially in relation to the management of alternatives.

3.2 A focus on investment costs rather than investment returns could have adverse effects on the performance of pension funds.

3.3 There is a growing body of academic evidence that market capitalisation indices are not always optimal for equities and flawed for bond portfolios.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken 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 no direct resource implications in this report other than officers' time in collating and assessing relevant data.

8.0 LEGAL IMPLICATIONS

8.1 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?

Not relevant.

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 a response to the Opportunities for Collaboration, Cost Saving and Efficiencies subject to the agreement of the Chair of Pensions Committee.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The outcome of this consultation could have far-reaching implications for the future investment strategies of LGPS funds and it is important that a considered response is prepared.

REPORT AUTHOR: Peter Wallach
Head of Pension Fund
Telephone: 0151 242 1309

email: peterwallach@wirral.gov.uk

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Future Structure of the LGPS	16 September 2013