



PENSIONS COMMITTEE

30 JULY 2024

REPORT TITLE:	LETTER FROM MINISTER
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with a copy of the letter received from the former Minister of the Department for Levelling Up, Housing and Communities in relation to efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds and the Fund's response.

RECOMMENDATION/S

That the Pensions Committee be recommended to consider and note the letter and the Fund's response.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 It is important that the Fund operates efficiently and effectively. In 2015, government introduced pooling with the intention of delivering significantly reduced investment costs within the LGPS while maintaining overall investment performance. This letter extends beyond investment matters to include the administration of pension fund services. It is important that Members are informed of all developments affecting the Fund.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other suitable options. In view of the relevance of the subject, it is appropriate that Pensions Committee is informed of this development.

3.0 BACKGROUND INFORMATION

- 3.1 On 15 May 2024, before the General Election was called, the then Minister for Local Government, wrote to all chief executives and administering authority section 151 officers in England asking that they respond by 19th July 2024 setting out their responses to a number of questions he posed. The letter is attached as appendix 1. Although there has been a change of government, the LGPS Scheme Advisory Board (SAB) is encouraging administering authorities to respond to the letter on the basis that any new Minister will want to assure themselves that the Scheme is being efficiently run and will be interested in funds' views on this.
- 3.2 In a statement on its website, the Scheme Advisory Board indicates it would welcome an opportunity to discuss with the new Government how the management, governance and administration of the LGPS can be improved. To underline that message and show the shared intent that exists, the following text has been prepared by the Secretariat, with approval from the Board Chair, which SAB suggests, administering authorities may wish to insert to their response:
- 3.3 "The most impactful thing that the Department could do to improve the efficient and effective managing of the scheme would be to continue, without delay, the implementation of the Scheme Advisory Board's Good Governance recommendations. The necessary policy discussions have already taken place and this could be implemented within a matter of months of a new government being established.
- 3.4 The Board's Code of Transparency project has transformed the transparency around investment costs and we can now have much greater confidence in the figures reported. The 2022/23 Scheme Annual Report shows that total administration and governance costs have increased; however we know that LGPS membership continues to grow and that there are more costly private markets/unlisted assets under management. Implementing the changes needed for McCloud remedy has proved financially costly for funds, even if the impact on liabilities has not been significant. Administering an increasingly complex scheme will remain a challenge for funds.

- 3.5 Any ambition for the achievement of long-term savings and efficiencies through consolidation does not come without significant operational risks, particularly affecting scheme members but also employers. These risks need to be properly understood and appropriately managed. We would welcome an open discussion about the possible benefits – and limitations – of scale, and the role of local accountability in the management of the scheme.”
- 3.6 A response to the letter has been prepared and is attached at appendix 2. It was requested that responses be limited to two sides; hence the brevity of the letter. The letter has sought to address the questions raised in relation to both pensions’ investment and administration. As one of the larger funds in the LGPS, benefits of scale are more limited for MPF but it is right that efficiencies are identified and implemented wherever economically feasible. As set out in the letter, cost savings arising from investments are far more significant than for administration and we believe that the pooling arrangements into which we have entered are the most effective way of delivering them.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are none arising directly from this report. The operating costs of the Pool are reported annually and shared equitably between the participating funds.

5.0 LEGAL IMPLICATIONS

- 5.1 LGPS funds are required to pool their assets in order to comply with Regulation 7(2)(d) of the 2016 Investment Regulations. The regulation requires administering authorities to set out their ‘approach to pooling investments, including the use of collective investment vehicles and shared services’ in their Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising directly from this report. The Joint Committee provides monitoring and oversight of the operations of the Northern LGPS Investment Pool.

7.0 RELEVANT RISKS

- 7.1 As set out in the accompanying appendix, there are potentially significant operational risks should there be the combination of pensions administration services.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 In preparing this report, the views of the Northern LGPS partner funds and the independent Chair of the Local Pension Board were sought.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no environment and climate implications arising from this report. The NLGPS has a Responsible Investment policy explicitly addresses environment and climate implications as financially material to long-term performance of investments.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 None arising from this report.

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APPENDICES

Appendix 1 Letter from Minister
Appendix 2 Reply from MPF

BACKGROUND PAPERS

Local Government Pension Scheme: Investment Reform, Criteria & Guidance

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section A of its Terms of Reference:

(a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date