Merseyside Pension Fund
Castle Chambers
43 Castle Street
Liverpool L2 9SH

Email mpfadmin@wirral.gov.uk
Web https://mpfmembers.org.uk

Ms Teresa Clay
Local Government Pensions
Department for Levelling Up, Housing & Communities
Local Government Finance

Our Ref: MPF/PJW

Your Ref:

Direct Line: 01512421309

Please ask for: Peter Wallach

Date: 18 July 2024

Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds

I write on behalf of Wirral Council as administering authority of Merseyside Pension Fund ('MPF') in response to the letter of 15th May 2024 received from Simon Hoare MP. At 31 March 2024 MPF had assets of nearly £11bn, over 300 participating employers and around 150,000 scheme members.

MPF is part of the Northern LGPS Pool ('NLGPS') alongside Greater Manchester Pension Fund and West Yorkshire Pension Fund. The NLGPS governance model reflects the scale of the individual underlying partner funds and the sizeable and experienced internal investment teams at each of the funds. The Pool shares the combined resources of the funds to research and monitor investments, whilst investing collectively in asset classes where there is clear overlap using pool vehicles such as GLIL (a c£4bn open ended fund investing in direct UK Infrastructure, which has been developed collaboratively with the LPP pool) and NPEP – a company created by the NLGPS to make collective private equity investments, including lower-cost co-investments. GLIL alone has generated savings for the NLGPS of around £100m since inception. Based on the recently issued pooling guidance, all of MPF's assets are deemed to be pooled or under pool management.

Cost efficiency

Both MPF and the NLGPS obtain annual reports from CEM Benchmarking for investment and MPF also uses CEM for benchmarking its pension administration services. Our investment costs and value-added are compared against a global peer group which enables less efficient areas of operation to be identified and addressed. MPF's investment management costs in the year to 2023 were 55.2bps, compared to a global peer average of 77.5bps when adjusted to reflect differences in asset allocation. The NLGPS pool's costs were lower than its global peer average.

MPF has been working hard to manage costs principally through the pool vehicles mentioned and by increasing the proportion of internally managed assets. This is illustrated by CEM's benchmarking which shows that costs fell from 65.9bps in 2019 to 55.2 bps in 2023. The availability of an experienced internal investment team helps to ameliorate expenditure on investment consultancy services. We recognise that there is further to go and are confident that further efficiencies will be delivered over the next few years along similar lines.

Continued...

The benchmarking analysis relating to MPF's administration indicates that costs are already low with service standards rated as high. It may be assumed that long term savings could be potentially realised through a reduction in staffing or system costs although it is not clear that a merger would reduce the costs of either and, in the short term, would increase substantially in respect of project costs.

Governance

The NLGPS Pool adopts a joint committee structure, with the committee meeting on a quarterly basis to consider high-level strategic matters. The performance of the Pool as a whole and each of the individual funds is considered at each joint-committee meeting. Amongst other things the committee also receives reports on stewardship and engagement activity from the Pool's proxy voting advisor and operational performance from the Pool custodian. Decisions reserved to the Pool include the appointment of investment managers, service providers and representation in the governance structures of GLIL and NPEP.

MPF's pensions committee is supported by independent advisors and experienced officers. Additionally, the membership of MPF's local pension board is fully independent of the scheme manager and demonstrably effective in holding officers, service providers and the pool to account on performance and efficiency.

Benefits of greater scale

We would not demur from the proposition that, in general, there are benefits of greater scale in relation to the management of investments. These go beyond cost and include, among other things, access to investment product and resilience. In public markets, cost savings are somewhat limited beyond a certain level of AUM. However, we believe there are further economies of scale to derive in private markets, particularly where increased scale allows a more direct investment approach (in a similar manner to what GLIL has achieved for investment in infrastructure), or access to 'bigger ticket' assets in areas such as direct property. This is being achieved via our current pooling arrangements and working collaboratively with other LGPS pools, the pensions sector more widely (noting NEST is an investor in GLIL) and potential future initiatives such as a National Wealth Fund.

Looking at administration aspects, we have a good understanding of the benefits of scale and there are undoubtedly cost savings from increasing the number of members under administration in terms of resilience and consistency of service and communication, although caution should be exercised in creating additional management layers and thus potential diseconomies of scale.

Service to members of the fund is a very important consideration and this is enhanced where the service is delivered locally. As savings are relatively small when compared to overall investment costs the disruption and risk of merging pensions administration services should be balanced carefully. There is a real likelihood that industry partners and suppliers may be unable to resource a change of any scale, due to the limited number of advisers within the market. Consideration should also be given to the potential dilution of funding strategies in respect of actuarial assumptions which may fail to acknowledge all the local budgetary pressures for merged entities. Given the high business as usual workloads that the LGPS is experiencing, any significant change in this area would likely impact service standards and risk creating substantial failure demand. There is considerable risk in undertaking pensioner payroll transfers including increased overpayments where pay dates change.

The most immediate thing that the Department could do to improve the efficient and effective management of the scheme would be to continue the implementation of the Scheme

Continued…

Advisory Board's Good Governance recommendations. I am told the necessary policy discussions have already taken place and this could be implemented within a matter of months. The 2022/23 Scheme Annual Report shows that total administration and governance costs have increased, LGPS membership continues to grow and administering an increasingly complex scheme will remain a challenge for funds.

As outlined above, 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.

Please let me know if you require any clarification or would like to discuss any aspects of this response.

Yours sincerely

Peter Wallach
Director of Pensions