

**SURREY COUNTY COUNCIL**

**PENSION FUND BOARD**

**DATE: 15 MAY 2014**

**LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER**

**SUBJECT: LGPS REFORM: OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES**



#### **SUMMARY OF ISSUE:**

On 21 June 2013, the Department for Communities and Local Government (DCLG) issued a call for evidence on the future structure of the Local Government Pension Scheme. A document was submitted on behalf of the Pension Fund Board, in consultation with the Chairman of the Pension Fund Board. On 1 May 2014, the Government published a further consultation document, which acknowledges the initiatives put in place by many administering authorities with regard to collaboration and the set up of collective investment vehicles.

#### **RECOMMENDATIONS:**

It is recommended that the Pension Fund Board:

- 1 Note the report.
- 2 Authorise officers to respond to the consultation with views expressed within the forum of the Board meeting.

#### **REASON FOR RECOMMENDATIONS:**

The Pension Fund Board must be aware of all prospects for collaborative working surrounding the investment of the Pension Fund.

#### **DETAILS:**

##### **Background**

- 1 Following the call for evidence, the DCLG consulted on fundamental changes to the 89 Local Government pension schemes funds in England and Wales. Further consultation by the Government was announced and published on 1 May 2014.
- 2 The consultation is shown as Annex 1.

##### **Summary of Document**

- 3 The document can be summarised as follows:
  - It points to increasing costs of employer contributions, administration and investment in the LGPS.

- It acknowledges the Shadow Board's comments on the need to look at both costs and deficits and points to the fact that the Board is looking at options for managing deficits and will be developing a short list of options.
- It acknowledges the value of achieving scale and points to work already being done in the LGPS: frameworks, mergers, the London Collective Investment Vehicle.
- It acknowledges that safeguarding local accountability is important.

### **Proposals Made in the Document**

4 The proposals can be summarised as follows:

- To move to using collective investment vehicles (CIVs). The Hymans analysis showed potential cost savings from moving to CIVs, but these savings would take a decade to realise. Within the report, there is little by way of detail on how the CIVs will work and there will be questions about what kind of CIV, how many, which asset classes and the level of the mandatory nature (if any). The document does acknowledge that the current investment regulations will need changing.
- To move to greater use of passive management for listed assets. The Hymans analysis shows the LGPS scheme as a whole has not outperformed the benchmark, so there is little risk to performance and savings could be made quickly. Again, it asks how this could be done: compulsorily or through a minimum percentage held in passive. A comply or explain approach is also possible.

### **What the Document does not say**

5 The document does not mention the following points.

- There is nothing mentioned regarding timescales, although the document indicates 'momentum'.
- There is nothing on legislation required to make these changes. It would appear that DCLG lawyers have advised that all of the proposals require only secondary legislation. Surprise has been expressed at this, not from a legality point of view, but rather the idea that such radical changes would be made by way of secondary regulations.

### **South East 7**

6 The Pension Fund authorities within the South East 7 (Surrey, East Sussex, West Sussex, Hampshire and Kent) have assessed options to collaborate together with regard to asset and liability management. A separate paper on this initiative is included in the 15 May Board agenda.

## **Consultation**

- 7 The consultation will last for ten weeks, opening on 1 May 2014 and closing on 11 July 2014. Board members are requested to offer their views at the Board meeting, given there will not be another meeting before the deadline date.

### **CONSULTATION:**

- 8 The Chairman of the Pension Fund Board has been consulted on the report.

### **RISK MANAGEMENT AND IMPLICATIONS:**

- 9 Risk related issues are contained within the report, most notably the lack of any definite timescale and no clear view on the legislative process to be employed.

### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

- 10 Financial and value for money implications will be discussed in future reports once a clear direction ahead has been established.

### **CHIEF FINANCE OFFICER COMMENTARY**

- 11 The Chief Finance Officer will ensure that all material, financial and business issues and possibility of risks will be considered and addressed in responding to this consultation and, in particular, the option of collaboration and collective investment vehicles will be subject to further investigation and reports to the Board.

### **LEGAL IMPLICATIONS – MONITORING OFFICER**

- 12 Legal implications or legislative requirements associated with this initiative will be addressed in future reports.

### **EQUALITIES AND DIVERSITY**

- 13 Equalities and diversity implications associated with this initiative will be addressed in future reports.

### **OTHER IMPLICATIONS**

- 14 There are no potential implications for council priorities and policy areas.

### **WHAT HAPPENS NEXT**

- 15 The following next steps are planned:
- Officers to respond to the consultation process
  - Future reports to the Pension Fund Board

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**Contact Officer:**

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

**Consulted:**

Pension Fund Board Chairman

**Annexes:**

Consultation document:

LGPS reform: opportunities for collaboration, cost savings and efficiencies

**Sources/background papers:**

None

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