

## Croydon Council

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> 14 May 2013
<b>AGENDA ITEM:</b>	10
<b>SUBJECT:</b>	CLG – Call for Evidence – LGPS Reform
<b>LEAD OFFICER:</b>	Director of Finance and Assets (Section 151 Officer)
<b>CABINET MEMBER</b>	Deputy Leader (Statutory) and Cabinet Member for Housing, Finance and Asset Management
<b>WARDS:</b>	All
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management.	
<b>FINANCIAL SUMMARY:</b> There are no direct financial implications to consider at this stage.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

For general release

1	<b>RECOMMENDATIONS</b>
1.1	That the Committee note the current position in respect of how LGPS administrating authorities are organised
1.2	Provide comments to help inform a future response to any call for evidence from government.

### 2. EXECUTIVE SUMMARY

- 2.1 This report outlines the current discussion around the future number of LGPS administering authorities and outlines the existing projects that are shaping this agenda. (please see Appendix A).

### 3. DETAIL

- 3.1 The current discussion around the best way for Local Government Pension Scheme administering authorities to deliver improved services and to drive out cash efficiencies dates from the recommendations put forward by Lord John Hutton's Independent Review of Public Service Pensions Provision (the Hutton Report). Recommendation 23 of that report is that:

*Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate,*

*across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*

These concepts, co-operative working, shared contracts, combining services and so forth have informed the development of working practices across the LGPS.

3.2 There are a number of examples of where administering authorities are trying to apply these ideas. These include:

- The South West Framework, based around the Environment Agency;
- The Welsh Local Government Pension Funds - Working Together review;
- The Pathfinder project to merge the 11 Scottish local government schemes;
- The tri-Borough and Wandsworth – Camden shared services projects;
- Other similar exercises in the Midlands and the North;
- The Pension Investment Platform; and
- The National LGPS Framework.

This authority is a Founder Member of the National LGPS Framework and has established single provider Frameworks for Actuarial Services, Benefits Consulting and Investment Consulting.

3.3 In recent months this strand of development has evolved into an increasingly polarised debate centred on the London Pension Fund Authority's (LPFA) proposal that all LGPS funds should merge under its administration to allow for investments in large-scale UK infrastructure projects. Bob Holloway, the Head of the Local Government Pension Scheme within the Department for Communities and Local Government (DCLG) has announced that discussions with the Local Government Association on how to make greater efficiencies will begin in May 2013. He is reported as saying: "that ministers want to see more and they do not rule out the idea of merging funds to achieve further efficiency and improve investment returns."

3.4 Croydon currently chairs the London Pension Fund Forum, an informal group of London LGPS administrators. This group has debated the LPFA proposals in the light of contributions from the LPFA itself, through the Cass Business School and PwC. Because of concerns that these proposals were being discussed in an environment where no factual evidence was being considered the group elected to set up a sub-group to draft a note. It should also be noted that London Councils Leaders Committee commissioned a report from the Society of London Treasurers on how joint working in London might work. Their most favoured option is a move towards a collective investment fund for London whereby participating authorities would retain local autonomy in asset allocation and funding strategy however there would be a central entity or oversight agent working within new governance arrangements that would establish a choice of funds within each asset class, selects fund managers and negotiates and monitors fee levels.

3.5 The note aimed to address a number of critical issues:

- To objectively assess the potential for driving out savings from the fees paid to fund managers;
- To consider whether there was a case to support the conjecture that larger schemes were associated with better returns; and
- To address the question around whether LGPS governance was adequate and satisfactory.

The group found that figures for potential savings both from paring back on administration costs and driving down fund manager fees, were exaggerated and thus undeliverable. No compelling evidence exists to suggest that for larger funds, size, in and of itself, is a factor in improving returns. However better resourced funds do appear to be able to improve returns. There are pockets of excellent governance and a high proportion of London funds' governance arrangements exemplify best practice.

3.6 It is widely expected that the Secretary of State will announce a call for evidence when he addresses the NAPF Local Government Pensions Conference in May 2013. The Committee is therefore invited to contribute by adopting this report as the foundation of a draft response and by suggesting any other comments it may feel adds to the discussion or shapes a potential outcome.

#### **4. CONSULTATION**

4.1 Officers have consulted with investment advisors and committee members.

#### **5. FINANCIAL CONSIDERATIONS**

5.1 There are no specific financial considerations within this report.

#### **6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

6.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

**(Approved by:** Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer)

#### **7. OTHER CONSIDERATIONS**

7.1 There are no Human Resources, Customer Focus, Equalities, Environment and Design, Crime and Disorder, Human Rights, Freedom of Information or Data Protection considerations arising from this report.

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#### **BACKGROUND DOCUMENTS:**

None