Appendix A

LONDON PENSION FUND FORUM – DISCUSSION DOCUMENT

Summary

This paper has been compiled by London Pension Fund Forum Officers for the London Borough Treasurers and London Pension Committees to introduce an element of balanced and objective analysis to recent discussions about merger and closer collaboration amongst the London Local Government Pension Scheme (LGPS) Funds. This paper sets out to examine, with an enquiring eye, some of the recent claims that have been made. It further suggests to the London Borough Treasurers further steps to drive forward collaboration between London LGPS Funds.

There have been a wide range of potential savings suggested as the dividend from merging pension funds; from £10 million for administration in London to in excess of £17 billion for national merger savings. This paper explains how some of the estimated savings must be questioned from existing evidence and the claims made for merger savings would appear to ignore the very significant financial costs which would arise as a result of trying to consolidate funds, to say nothing of the potential additional governance overhead. It is however, recognised that there is scope to increase efficiency and to make cost savings from greater collaboration and there are already a number of initiatives underway which are delivering some of those benefits. This paper seeks to highlight several issues that have been denied closer examination but are critical to this discussion. The question of evaluating the success of current initiatives is one such issue. Estimates of savings have been variously reported in the press; however accurate attribution for these sums is challenging.

Local Authorities have a long track record of addressing savings and those authorities that are also responsible for administering the LGPS are no exception. In brief some of the key achievements of recent years are:

- **Administration** – Estimated savings of £10 million are overstated and ignore the issues of the blurring of employer and administering authority costs. When the overall cost of administering the LGPS is compared to the earnings from LGPS investments one sees that there is a ratio of around 1:10, increasing to 1:20 in a buoyant market. There is a wide range of costs per member in London, with a number of administering authorities driving down the cost per member to levels comparable to those achieved outside of London. (London costs are influenced by the high rents for office space and the salaries required to attract capable staff. Differences between London authorities can be explained in part by decisions relating to the quality of service provided – this goes to the essence of localism.) There are already benefits being delivered by closer collaboration and sharing services between administering authorities. In short, some of the promised savings are unrealistic, but administering authorities are making huge strides towards cutting costs, which is also improving standards in some areas.

- **Fees** – The estimated savings, reported to be as much as £35 million, are overstated given the estimated fee basis that is assumed by PWC[1]. A number of funds are already being charged fees for the management of their investments at significantly lower levels than those assumed. Applying an actual average fee level that is in reality being charged to London administering authorities more than halves the level of fee savings assumed by the PWC report. There is substantial competition amongst Fund Managers to access and participate in the LGPS space and many of the ‘best in class managers’ are prepared to offer significantly reduced fees to retain existing or to attract new LGPS clients. Further there is realism within the fund manager community about the levels of fees that local authorities are prepared to contemplate. Funds are seeking to re-negotiate their own fees with managers and are also working closely together to apply pressure to achieve further fee savings.

- **Investment performance** – The estimated benefits of larger funds delivering superior performance are at best overstated, and more probably just plain wrong: research from WM StateStreet indicates that London funds perform in line with other LGPS funds including larger funds (with the exception of those who undertake in-house asset management). Empirical studies have shown the bulk of performance returns that a fund obtains can be directly attributable to its asset allocation (i.e. the type of assets that the Fund is invested in) as opposed to the managers selected. A manager outperforming a negatively performing benchmark, whilst limiting the downside, still delivers losses for the fund. Taking these factors into consideration it is clear that the argument that larger funds consistently perform better than smaller funds is not proven. This is supported by the ambiguity evident in the corpus of academic research.

- **Governance** – London Funds have received poor press for their governance arrangements. A survey of London funds covering key governance issues would indicate that this judgement is incorrect.

- **Frameworks** – The idea of groups of public sector bodies joining to procure more efficiently for the mutual benefit of all public authorities is well established. There are already a number of examples of such frameworks which have delivered and are continuing to deliver cost and efficiency savings from which funds can benefit. It is still relatively early stages for quantifying some of these benefits, but they are likely to lead to £millions of savings for funds over the medium to longer term. One example, the largest of its kind within the LGPS space, has delivered around £½ millions in savings for its members in its first two years.

To date the debate around the future possible shape of London funds has been characterised by inflated expectations of future savings that ignore the

[1] Reconfiguring the LGPS Funds, Evaluation of Options, PwC, October 2012

realities governing the administration of the Scheme. These claims, built as this paper will demonstrate, on fairly shaky foundations, do little to promote an agenda for a merger. There are clearly benefits from closer collaboration amongst funds which have been shown to deliver benefits in terms of costs, efficiency and quality of service, but these expectations of cost reductions need to be realistic.

Goals

This paper has been written with the intention of achieving a number of goals. These are:

- To ensure that London Borough Treasurers and London Pension Fund Pension Committees are aware of the issues and debate about the possible consolidation of pension funds and in particular the focus on London funds.
- To ensure that there is a better informed debate about the potential for cost savings.
- To recommend that London Boroughs continue to develop closer collaboration of funds both within London and outside in the wider LGPS family to deliver both cost and efficiency improvements.
- To raise the profile of the arguments both internally, within each administering authority and externally, across London LGPS Funds, to avoid a drift into merger as a result of inactivity.
- To investigate the possibility of funding additional research from WM StateStreet (the performance and benchmarking consultancy that advise c. 80% of administering authorities) on London funds performance.
- To debate and formulate a strategy for producing a regular, collective, public-facing communiqué of the key governance, cost and efficiency improvements being achieved across the LGPS.

Background

Lord Hutton's fundamental review of public service pensions[2] concluded that the LGPS could achieve efficiencies by continuing to forge closer/collaborative working, which he acknowledged was already underway. He recommended that close monitoring of cooperative projects be maintained to gauge efficiency gains. The responsibility for this was to be placed with both Central and Local Government.

Following the publication at the close of 2012 of draft regulations outlining changes to the Scheme further draft regulations are expected shortly. These may impose additional governance requirements for administering authorities to ensure that there is increased transparency and improved ways of working and efficiency.

Over recent months there has been a debate reported in the press about the possible merger of LGPS Funds. These press reports suggest that the

[2] Independent Public Service Pensions Commission: Final Report, recommendation 23.

government is considering what might be the optimal size for LGPS Funds; whether this should be one fund, five funds, etc. or whether to continue with the current separate 89 Funds for England and Wales. Focus has fallen on London Funds as possibly being the test bed for wider merger. There are 33 London Funds, each with their own distinct governance and funding arrangements.

There have already been collaborative projects in the LGPS space, with framework agreements in existence, including two administered by Croydon for actuarial/benefits consultancy and investment consultancy and a framework for third party administration run by Hammersmith & Fulham and Brent. In addition, Norfolk has been spearheading National LGPS Frameworks with an actuarial/benefits consultancy framework already in place and projects to establish an investment consultancy framework (expected Spring 2013) and a custodian framework (expected Summer/Autumn 2013). These will deliver significant financial and efficiency savings and have attracted a lot of interest from LGPS funds around the country. It is of course still early days in terms of assessing the financial impact of such collaborative work, although it is clear that in excess of £400,000 has been saved just from the early stages of the custody framework across 7 authorities.

The potential aggregation of the Scottish LGPS Funds under the ‘Pathfinder Project’ looked closely at the options for bringing the Scottish Funds together in order to assess the potential benefits, although the project was abandoned due to the complexities of merging funds and the potential costs involved in trying to put funds together. This is clearly an important piece of work and insufficient attention has been given to learning the lessons offered by this exercise.

The Welsh LGPS Funds have also been looking at the feasibility of closer collaboration and the possibility of joining funds together. As with the Pathfinder project in Scotland, the outcome is that there are clear benefits to be had from closer collaboration particularly on administration and some form of investment approaches. This exercise has also looked at the issue of performance and whether larger funds outperform smaller funds – one of the principal props underpinning the London proposal. Work has been carried out by WM StateStreet to investigate whether there is evidence to support this suggestion. It is understood that this work demonstrated that whilst larger funds had delivered better performance with lower risk over the longer term, once self-managed funds (i.e. those funds with in-house fund management) were removed from the equation; then the evidence did not support the hypothesis that larger funds outperform smaller ones. This is a key finding and has relevance to the current discussion.

PWC[3] issued a discussion paper looking at the options for London funds in terms of closer collaboration and included in the paper were a range of estimated savings, this discussion paper will now look at the detail behind some of these savings to see assess their relevance to this present discussion.

[3] Reconfiguring the London LGPS Funds – Evaluation of Options (PWC)

Potential Benefits of Closer Working – Administration (PWC)

The PWC report looks at proposed efficiency savings that could be achieved through combined administration services and suggests that if the administration costs could be brought down to the level of Metropolitan authorties (of which there are 5) at approximately £23 per member then there is scope to make £10 million of savings across London. Looking at the range of administration costs across London, these range from £32.77 per member to £93.23 with the average being £51.56 (London Funds survey). For comparison, the derived cost from the most recently available London Pension Fund Authority (LPFA) report and accounts indicates a cost per member of £81.11, significantly higher than this average and the cost calculated for most London funds.

The ‘London effect’ for both salary and accommodation costs has an impact on the costs for London funds with the average salary cost being 31% higher in London that the rest of the country and cost per desk being 41% higher than elsewhere. This is inevitable given that, to be able to deliver an effective service to staff and pensioners, administration has to be sited within ready access for these key stakeholders.

Table 1: Administration Costs for Different Categories of Administrating Authorities.

	Average costs £	**London Effect Costs £***
London Average	51.56	
Metropolitan Boroughs	23.00	31.00
Shire Funds	27.00	36.00

*Assumes 70% staff costs @31% higher and 30% accommodation cost @41% higher

Even taking into account the London effect, it is clear that for most funds the adminsitration costs are higher in London than for the larger Metropolitan funds or County funds, although the extent to which the full £10 million is achievable, after taking into account the London effect, must be open to question.

Furthermore, caution must be employed when considering the extent to which some employer costs are charged to the Pension Fund. London funds are predominantly responsible for scheme members relating to their own London Borough, whereas Metropolitan Boroughs and Shire funds tend to have a smaller proportion of scheme members from the administering authority council. As such, London Borough pension teams tend to carry out a greater range of responsibilities that actually belong to the 'employer' rather than the 'pension fund'. Further, where services such as payroll are provided by a third party provider it can be difficult to assess what constitutes an appropriate share relating to the pensions payroll. Likewise the recharge of functions such as human resources, IT support, legal costs and finance and accountancy can be recharged according to different bases. Individual authorities will calculate these charges, in line with accounting best practice, but different assumptions may result in some variance in the level of costs, skewing the figures and making meaningful comparisons difficult. Separating out these employer costs can be challenging and further research should be carried out to understand the impact on the figures quoted above.

Putting this aside, if the London effect is taken into account then the Metropolitan costs per member, as shown in table 1 above, would increase to around £31 per member or £36 if the London effect is applied to the average County costs of £27 per member. It is reasonable to assume therefore that the potential for savings is somewhat below those included within the PWC report. In addition as observed previously the administration cost per member for the LPFA is higher than most London funds, possibly re-inforcing the additional costs involved in managing administration in London. Therefore the estimated savings of £10 million from administration are questionable.

The benefits of working collaboratively are already being investigated in a number of areas; witness the beginnings of a shared service between Wandsworth and Camden Councils, where administration costs are now estimated to come in below £30 per member. The Croydon framework also provides funds with the opportunity to work collaboratively on communication materials, etc with tangible benefits of standardised communications, forms and so forth and lower costs. Some of these examples of collaboration have a greater benefit through the improvement in quality standards.

If, as indicated above, the costs of administration approach the ‘London effect’ costs, then the potential savings would fall to between £4-6 million which spread amongst the 33 funds would result in savings of between £120,000 to £182,000 per authority. When viewed in the light of a London wide deficit position of say £5 billion, or an average of £159 million per administrating authority, it is unlikely to move the needle in terms of actuarially assessing the cost to each authority’s treasury. Certainly when looked at in the light of a single equity holding’s daily movement having the same potential impact then it could be argued that the focus on modest administration savings is out of kilter with the potential to deliver value to Funds and their administering authorities.

Clearly Funds should not ignore opportunities to reduce costs and improve efficiency but a realistic approach needs to be taken as to the materiality of the financial impact that this would have. The Welsh funds reached a similar conclusion with regards to administration costs, particularly given the timing in relation to the introduction of the new LGPS 2014 which is likely to lead to additional resourcing requirements given the additional complexity. It is also worth noting that the Welsh funds received advice that administration costs at 0.12% of funds under management compares favourably with the private sector. This is also likely to hold true for the London funds at 0.13% of funds under management for adminstration costs.

The costs of transition are a significant factor in this consideration. The current proposal includes the suggestion that merger should be facilitated by selling out of positions to amalgamate investments. Experience shows that on a single fund level this equates to the loss of around one year’s performance, which in turn equates to a significant hit on any Borough’s Council Tax. This flies in the face of the governance reform proposals set out in strand two of the Scheme reforms.

It also contradicts the emphasis on the importance of having local experts to help the mulitple employers (and these are growing in number due to outsourcing arrangements and the drive to the adoption of academy status), scheme members and payroll providers to make the necessary changes. It is unlikely therefore that there would be the potential for significant numbers of staff reductions (also given the often multiple roles that officers within London fulfil). Further reason therefore to question the estimated £10 million savings within the PWC, particularly when redundancy/relocation costs are included which across London could amount to several million.

Fundamental to this debate is also the aspect of quality of service. The figures quoted above will also relate to services delivered to a wide range of service standards. For example:

- Some will provide basic black and white communications, whereas others will develop communications that have a greater level of design.
- Some will have short turn around times and be meeting high levels of service delivery, whereas others will have longer timescales.

Any move to greater collaboration or merger will result in a move towards more consistent services standards across the funds involved. Accordingly, the actual savings will be dependent on how much change will be required to existing practices to meet those standards, and generally this will result in a higher level of service and so less savings.

All of that being said, as you will see later in this paper, there are already a number of examples of London LGPS Funds working together collaboratively, resulting in some savings and improvements in service standards. It is considered that there could be more opportunities for collaborative working without the need for merger.

Potential Benefits of Collaboration – Investment Fees (PWC)

The PWC report examines the potential savings that could be made from working collectively to deliver fee savings. The report estimates that potential fee savings to be in the region of £35 million which could be delivered by using a lower fee basis that may be available exclusively to larger funds: the bulk purchasing argument. On reviewing the individual asset class fee basis used in this report with the fees paid by the London Boroughs, it is apparent that there is clearly a wide dispersion from the sample of funds where fee information was made available. This sample includes the majority of London pension funds.

As can be seen from the table below, in some cases the lowest and even in the case of passive management, the average fees actually paid are below what has been estimated by PWC. Certainly in the case of the estimated average fees that PWC believe are being paid, in all cases the average fee is some way below that of their estimate.

This absolutely negates the report's finding of an estimated £35 million of savings.

Based on the average fee costs from a sample of London funds, the saving is more likely to be in the region of £11.5 million. For some funds where fees have already been negotiated downwards, there would be no or very little savings.

Table 2: Comparison of Fund Management Fees (all figures are in basis points)

Indicative Investment Management Fees	Active UK Equities	Passive UK Equities	Active Global Equities	Global Equities (ex UK)	Active UK Bonds	Global Bonds	Property	Private Equity	Hedge Funds	Other
PWC - Avg Fee	46	15	51	45	22	27	86			
PWC - Est Fee	20	8	27	28	20	22	60			
Lowest	15.0	3.0	20.0	28.0	17.0	12.0	15.0	10.0	85.0	12.0
Highest	44.0	14.0	60.0	45.0	30.0	45.0	95.0	158.0	85.0	90.0
Average	32.1	5.8	38.2	35.5	21.0	21.2	36.8	69.7	86.5	55.6

Clearly there are some benefits to be gained if all funds could move nearer the average and achieve the fee levels obtained by other funds, but it has to be recognised that not all mandates are the same and higher fees may be being paid for higher targeted performance. Again, this goes to the heart of local governance: local scheme's investment strategies are guided by local circumstances and these might require the pursuit of riskier and therefore more expensive investment strategies.

Some of these fees savings may be achieved through a combination of improved negotiation on the part of individual funds or additional collective pressure from LGPS funds and this is an area which will be targeted successfully either by local or national fund collaboration going forwards.

Basing any analysis of fund manager costs on a simple assessment of those fees disclosed within an authority's annual report and accounts can be misleading for a number of reasons. For pooled funds, the fees paid are often excluded in the fee line because they are taken at the pooled fund level and are therefore not included within the investment management expenses line on the statement of accounts. Also fees will vary significantly between funds depending on the mix of asset classes held, with assets grouped as alternative assets having higher fees structures. These issues not withstanding and accepting that this is not a scientific examination of fees, the investment management costs as they appear in a survey of London funds' annual report and accounts are not significantly higher on average at 32bp for assets under management than a group of county funds which are showing 34bp and the LPFA which showed investment management fees at 49bp for assets under management (although this did include pooled fees).

Table 3: Survey of London Pension Funds' Annual Reports and Account

Investment Management Costs Drawn from the R&A				
	FUM £m	Fees % AUM	Cost per Member £	Total Costs £000
London Avg	636.1	0.32	128.03	
Lowest		0.17	43.70	
Highest		0.58	292.91	
Total London	20,992			66,475
LPFA	4,214	0.49	260.53	

It would certainly help transparency, if there was a standard approach to reporting fees going forwards.

Further, closer collaborative working among funds particularly where there are common managers, will help to ensure that funds are better informed and that a more standardised approach to fees may be achievable thereby delivering savings without the need for merger. In addition, consideration to other forms of collaborative working on investments such as a Collective Investment Fund, again may deliver the benefits, both in terms of fees and performance without the need for mergers, although a realistic approach needs to be taken in terms of the timescales for delivery of such a vehicle and the potential fees savings, which may not be as great as PWC indicate due to a significant number of funds already achieving lower fee scales.

Potential Benefits of Collaboration – Investment Performance (PWC)

The PWC report suggests that larger funds perform better than smaller ones. Looking at the annualised investment returns provided by the CIPFA benchmarking over the 10 years, to 31 March 2011, some of the largest funds dominate the higher returns. The best investment return in the LGPS top deciles over the three years ending 31st March 2011 was 7.2% per annum and the worst return from the bottom deciles was 2.7%. However within the top 3 deciles there were 17 LGPS Pension Funds, (7 of these being London funds) out of 30 funds that had assets under management (AUM) of less than £1 billion with the smallest fund of all being the best performer. Over the 10-year period to 31st March 2011, from the sample, the average London Fund delivered an annualised performance return of 4.87% compared to 5.73% for the 6 largest funds. The sample did exclude one large fund (which was probably due to their not participating in the CIPFA survey) which had a return in line with the average London fund, which would have resulted in a lower return for the larger funds. It should also be noted that a number of the largest funds also undertake in-house investment management and it could be that it is this factor rather than the size which has impacted on the better performances being achieved.

It could therefore be argued that using the data in the way that it has been presented could be misleading and that it would be more appropriate to look at performance of larger funds without the in-house capability to get a direct comparison of performance. As previously mentioned work undertaken by WM Performance Measurement would indicate that with the exception of self-managed funds, size wasn't not necessarily a good guide to performance. It is hoped that further work can be undertaken to get the additional evidence to clarify this point.

The performance evaluation work undertaken by the London Borough of Wandsworth[4], also took the performance of the London Funds and compared this against the returns achieved by the one large-scale fund in London, the LPFA, who also are not included within the PWC benchmarking exercise. This evaluation indicated that the LPFA performance was below that of the average London fund and in this case, if the larger fund were managing a merged London-wide fund, this would have had a detrimental impact on the performance of London funds resulting in potentially lower funding positions and potentially higher costs arising as funds seek to recover the deficit. In this scenario the underperformance would have far have exceeded the PWC estimated benefits of £85 million by leading to a £1 billion cost to performance over 3 years and £2 billion over 10 years.

It is recognised that performance returns vary significantly over time and are dependent on the assets classes held along with the managers chosen. What performance analysis does show from WM StateStreet is that London funds on average are no better or worse than most funds regardless of size, but that historically in-house management has added performance.

Without further analysis of the data on performance, it is difficult to say categorically that larger funds perform better than smaller ones, although there is some evidence to suggest that larger funds have better resources to spend the necessary time on the wider governance issues and to investigate more fully the options for a broader range of investments.

PWC's report suggests that if London funds were able to achieve a 0.35% p.a. improvement in investment returns, this would deliver £85 million of additional return. Closer collaboration and sharing of best ideas could also also deliver improvements to performance without the need for a merger which enables funds to retain the local governance and accountability.

Using the Welsh funds' data on working together and pooling of assets, quoted transition costs for the Welsh funds are given as being between £11 million and £46 million, based on assets under management of £8.9 billion to bring the funds together to a consistent investment approach. Applying this to London funds with £21 billion assets under management, the estimated transition costs could be between £26 million to £108.5 million, clearly a significant cost when the evidence of additional performance returns is questionable.

Potential Benefits of Collaboration – Governance

In November 2012, the Pensions Institute of Cass Business School issued an 'independent' discussion paper on governance of the London pension funds which raised concerns about the ability of London funds to properly manage the governance of their own pension funds. The paper sponsored by the LPFA "An Evaluation of Investment Governance in London Local Government

[4] Press release from Wandsworth Council, dated 19 March 2013.

Pension Schemes: A Discussion Paper for Stakeholders to the London Funds", was highly critical of governance in the Local Government pension funds run by London authorities. The document is available on their website at
http://www.pensions-institute.org/reports/LondonLGPS.pdf

The lack of proper referencing within this report means that it is unclear where some of the information contained in this report came from and it can appear as somewhat disingenuous given the hard work and dedication of both Committee Members and officers involved in the management of pension funds in London. The authors of this paper have undertaken a survey across London funds of key governance issues to which there was a 91% response rate from those funds. The key questions and survey results are set out in the table below:

Table 4: Summary of data gathered from London LGPS Administrating Authorities

Governance Data	
Meetings p.a.	3-6
Number of Cllrs	4-9
Employer Representative %	66.7
Scheme Member Representative %	73.3
Independent Adviser %	60.0
S151 Attendance at Committee %	86.7
Length of Meetings	2-3 hours avg
Members read papers in advance %	90.0
KSF Training undertaken %	86.7
Governance Review 5	36.7
Committee Apolitical	100.0
Chair of Committee over 5 years%	56.7
25% or less Committee time on Inv Managers %	66.7
Committee review of all pension related matters %	60.0
Pension Fund has a Business Plan %	70.0
Pension Fund holds employer meetings %	63.3
Pension Fund has a Risk Register %	60.0

Clearly not all funds cover all aspects that might be considered best practice in all areas but as can be seen from the table above, a high proportion do and whilst results for the rest of the country are not known, there are clearly pockets of excellent governance and not quite such good practice elsewhere amongst the funds outside of London. Again this is an area where greater collaboration, networking and sharing of information can deliver improvements without the need for a merger. Impending legislative reform of governance regulations are also likely to necessitate the move to improved governance nationwide.

Collaborative Working in Practice

There already exist examples of collaborative working and of the benefits that can be achieved from these. Croydon Council has undertaken useful work on Framework agreements within LGPS funds, establishing frameworks for actuarial and investment consultancy services. The Croydon actuarial framework already has 10 authorities within it, including 2 counties with resultant savings in actuarial fees for participating funds. The investment consultancy is also being developed, albeit more slowly and currently has 3 funds signed up. In addition there is also a framework agreement for third party administration, set up by Hammersmith and Fulham which currently has 3 funds signed up.

London also provides two examples of shared services, with the Tri-Borough arrangements of Westminster/Kensington & Chelsea/Hammersmith & Fulham and the more recent pension administration shared service between Wandsworth and Camden, with the latter already seeing cost savings being delivered to the authorities involved. Both the Tri-Borough and Pension Administration shared services have already seen the benefits of shared knowledge and adoption of best practices between the authorities.

More specifically in respect of the Tri-Borough pensions & treasury team, established in February 2012, which was established as a co-located team with an initial objective to form a single delivery service that provides a combined team leading to improvements in service resilience and mutual support and over the longer term to achieve cost and efficiency savings. The key element in the early phase of the Tri-Borough service is that it allows Pension Fund monies to be managed separately (not pooled) in accordance with the strategies agreed by the home boroughs. The funds remain clearly segregated and clear sovereignty agreements are in place for the three Councils and their respective Committees. However, the plan is to move over time to align service providers, (e.g. managers, actuaries, custodians, advisers, etc) where such alignment is agreed with each Committee and will over time lead to a focus on lower fees and costs and a better management understanding and streamlined relationships (e.g. single points of contact). The Tri-Borough approach could be a more seamless method with fewer legal, regulatory and governance issues (including each Council retaining sovereignty) to achieve nearly all the same ends as a proposed full-blown merger and that this is the optimum way to retain local accountability while benefiting from the economies of scale for pension fund members and respective councils. Over the longer term it is anticipated that the Tri-Borough might also be in a position to offer services to other local authorities thereby further enhancing the cost savings and efficiency from more collaborative working whilst delivering the benefits without the costs of mergers.

Other regional frameworks which have delivered savings include the South-West frameworks. The development of National Frameworks is currently underway with Norfolk County Council being the lead authority in the area.

The Norfolk sponsored actuarial framework is already operational and has seen 5 funds sign up to this with estimated savings from procurement per fund in the region of £30-40,000, plus actuarial rebates once the level of work increases. An investment consultancy framework has also just been completed and again, it is anticipated that funds are keen to make use of this framework, again with the potential to save individual funds the costs of the procurement process together with additional savings once work through the framework reaches trigger points for fees. This will result in benefits to all funds participating.

Progress on a custodial framework is also being advanced with a framework anticipated to be in place by the early Autumn. Even at this early stage, savings have been achieved of around £300-400,000 by the appointment of one custodial adviser to the framework rather than each fund having its own adviser to undertake a procurement process. A final example of framework development currently underway is the procurement of pension administration systems, again this has the potential to deliver further savings and efficiency for funds. Clearly it is relatively early stages for a number of these frameworks, but funds that use the frameworks benefit not just from lower costs, but also time savings making it easier to funds to undertake the procurements and comparison of costs and benefits as well as releasing more time for focus on governance issues.

National Advisory Board

Another angle that could directly impact how LGPS funds operate is the implementaiton of the Public Service Pensions Bill which includes the requirement for each Public Service Pension Scheme to have a National Advisory Board. For the LGPS a working group is currently underway with a Shadow National Advisory Board expected to be put in place for June. One of the key responsibilities that is likely to belong to this national Board is the development of Codes of Practice and Standards for LGPS funds. It is hoped that this will result in more national templates etc that will in turn reduce the times when LGPS funds are each reinventing the wheel.

Next Steps

It is expected that the debate around whether some or all LGPS funds should merge or be forced into greater collaboration will continue, with a particular focus on the London Boroughs. Indeed it is believed that Brandon Lewis MP (the Minister for Local Government) is expected to announce in May 2013 a formal consultation. Accordingly many working for or with LGPS funds believe that now is the time for the true facts to be presented to help mould the potential direction of that consultation. It is hoped that some of the information contained within this paper can be developed and **Treasurers are asked to consider whether they might wish to provide information to the Minister in the coming weeks**.

Further, the authors of this report would like to end with a plea: that rather than stoke an already over-heated discussion about merger of funds, for which there is little support and a huge potential for harm, there should be an opportunity for growth. There are established models that benefit local administering authorities, such as Frameworks. These should be assessed and lessons learned from their operation. Experiments in cross-borough co-operation should be examined. What has shown to work is pooling of resources: of skills, knowledge and experience and better ways of making this happen are what are needed. **It is therefore recommended to Treasurers that work should be undertaken to further consider how collaboration between London Funds could be extended with a clear project plan showing timescales and deliverables developed in the coming months.**

Treasurers are also asked to be mindful of the timing of these discussions. All LGPS Funds are currently in the midst of a number of resource intensive exercises including:

- Implementing the most radical change to the LGPS benefit structure in its history in half the time of other public sector schemes
- Expected fundamental changes to governance structures in LGPS funds; still unclear whether these will be required by April 2014 or April 2015
- The 2013 actuarial valuations
- Auto-enrollment

Thanks go to all the funds in London who were willing to share information for inclusion in this report and for the co-operation shown in pulling this report together.

Date – 11th April 2013

On behalf of the London Pension Fund Forum Officers