

<b>Essex Pension Fund Board</b>	<b>EPB/10/14</b>
date: 9 July 2014	

**Local Government Pension Scheme (LGPS) Reform  
DCLG consultation: “Opportunities for collaboration, cost saving and  
efficiencies”**

Report by the Director for Essex Pension Fund  
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**1. Purpose of the Report**

To allow the Board to:

- 1.1 be updated on the Consultation issued by DCLG;
- 1.2 agree the Fund’s response.

**2. Recommendations**

It is recommended that the Board:

- 2.1 agree, subject to any required amendments, the draft response included at Annex A to this report.

### **3. Background**

3.1 At its meeting on 18 September 2013, the Essex Pension Board agreed the basis of its response to the *Call for Evidence* on the future structure of the LGPS issued jointly by the Local Government Association (LGA) and the Department for Communities & Local Government (DCLG). The response as submitted is attached at annex B to this report.

3.2 Following receipt of responses to the call for evidence, DCLG commissioned analysis of structural reform options to be led by Hymans Robertson. These options covered:

- merging funds; and
- the use of Collective Investments Vehicles (CIVs).

### **4. DCLG's consultation: "Opportunities for collaboration, cost saving and efficiencies"**

4.1 On 1 May, DCLG published the consultation document "Opportunities for collaboration, cost saving and efficiencies" (annex C) along with the analysis undertaken by Hymans Robertson (annex D).

4.2 The Consultation asks a series of questions around the following proposals:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

4.3 The consultation's emphasis is on CIVs and passive management. Whilst the form of the CIVs has attracted some detailed technical discussion, arguably the most contentious aspect of the debate has centred on the extent of passive

management – and whether this ends the active fund management of equities and bonds within the LGPS.

- 4.4 The ten week deadline for responses ends on Friday 11 July 2014.
- 4.5 Officers and advisers have had a series of meetings on this matter. Officers have also maintained dialogue with other LGPS Funds on this matter.
- 4.6 Following discussion with Fund Chairman Cllr Rodney Bass, it was determined that this matter would be initially considered at the 18 June 2014 meeting of the Investment Steering Committee. Following this, a response would then be drafted, based on the points made at the ISC, for the Board's consideration.

## **5. The draft response**

- 5.1 The Consultation, supported by the commissioned research, observes that in aggregate, the 89 LGPS Funds in England & Wales pay active management fees but experience passive performance.
- 5.2 Since 1996, the Fund has outperformed its benchmark by 0.4% per annum, gross of fees. Taking fees into account reduces the outperformance to between 0.1%-0.2%.
- 5.3 Some of the proposals in the Consultation, if adopted, could result in:
  - the mandatory collectivisation of all investments; and
  - the end of active management in the LGPS for equities & bonds.
- 5.4 Requiring LGPS Funds to collectivise all investments and / or ending active management of equities and bonds are radical steps. Each would take time, cost money, introduce new risks and almost certainly provoke unintended consequences.
- 5.5 In the view officers and advisers
  - CIVs, where required, need to be fully understood and tested before wider implementation; and
  - Local pension committees should have the opportunity to employ both active and passive strategies.
- 5.6 Following discussion at the ISC on 18 June, it was agreed that the response should include the following:

- concerns over the operational aspects of CIVs
- opposition to enforced use of passive management and / or CIVs
- the approach that Essex adopts
- comments on the background to deficits

5.7 The draft response is attached at annex A.

5.8 **It is recommended** that subject to any required amendments the Board agree the draft response included at annex A to this report.

## 6. Link to Essex Pension Fund Objectives

6.1 Maintaining awareness of current issues with regard to LGPS reform will assist the Board in achieving the following Fund objectives:

- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- To ensure the Fund is properly managed

## 7. Risk Implications

7.1 Failure to maintain an awareness of current issues with regard to LGPS reform and respond to consultations would mean that the Fund's views were not taken into account when changes are proposed.

7.2 Failure to administer scheme in line with Regulations.

## 8. Communication Implications

8.1 When consultations on structural reform and revised governance requirements commence, responses will be produced for the Board to consider.

## 9. Finance and Resources Implications

9.1 Large scale changes to the investment structures of the LGPS will come at significant cost.

## 10. Background Papers

10.1 Fund response to the Call for Evidence, September 2013 (annex B)

10.2 Consultation & Hymans Robertson report (annex C & D)