ROYAL BOROUGH OF KENSINGTON AND CHELSEA

INVESTMENT COMMITTEE 10 SEPTEMBER 2013

REPORT OF THE TOWN CLERK AND EXECUTIVE DIRECTOR OF FINANCE

CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

The Department for Communities and Local Government (DCLG) has issued a call for evidence on the future structure of the LGPS. This paper outlines a proposed Tri-Borough response and asks for members' comments.

FOR DISCUSSION

1. Introduction

1.1 In following up the Hutton report on public sector pensions, DCLG has asked for views and evidence on how and why the current structure, with 89 funds in England and Wales might be made to work better through change. The Minister (Brandon Lewis) has indicated that "If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal". The complete call for evidence is attached at Annex A.

1.2 The proposed Tri-Borough response will argue that the Royal Borough's Fund, in common with the other two boroughs, has dealt effectively with the high level objectives of the call (Dealing with deficits and improving investment returns) through its restructuring and maintenance of sustainable contribution rates.

1.3 The DCLG's secondary objectives are:

- To reduce investment fees;
- To improve the flexibility of investment strategies;
- To provide for greater investment in infrastructure;
- To improve the cost effectiveness of administration;
- To provide access to higher quality staffing resources;
- To provide more in-house investment resource.

1.4 The Tri-Borough arrangement between the Royal Borough's Fund and those of Hammersmith and Fulham and the City of Westminster along with the initiative for a London "Common Investment Vehicle" and a number of national framework agreements are all intended to address these issues, without compromising local accountability.

1.5 As far as infrastructure is concerned, there is considerable appetite amongst pension funds, should a suitable vehicle become available. What funds are not happy to do is risk their reputations for fiduciary responsibility in over-risky projects.

1.6 We will also make the point that higher-performing funds, such as those run by Longview and Baillie Gifford generally close to new business when they reach a size beyond which they cannot remain anonymous in the market: there is a capacity issue in good fund management companies.

1.7 However, while there is scope for reducing fees by pooling across funds: in Tri Borough we can ask for a rate based on the combined value of the three funds (about £2.3 billion) thereby seeking a more competitive arrangement and reduced management fees .

1.8 The DCLG paper does not acknowledge that most funds have been responsibly managed, or the unfairness of penalising taxpayers in an authority whose Fund has been well managed to pay for deficits elsewhere.

1.9 By working together, the pension funds of the Tri-Borough councils have managed to address the procurement issue while improving resilience and developing staff expertise in the area. Importantly for the three Councils themselves, there has been no merging of responsibility or loss of local control.

1.10 The tri-borough set-up across pension investments has so far worked very well for us and may well be something which colleagues in other boroughs and DCLG may wish to consider going forward.

2. Comments

2.1 Members are asked whether they generally support the outlined Tri-Borough response and for any other comments they may have on this, or the DCLG's papers.

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