



ESSEX PENSION FUND

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

Background

As at 31 March 2012, the Essex Pension Fund was the tenth largest of the eighty nine LGPS funds within England and Wales. It currently has around five hundred separate employers, including well over one hundred Academies.

The Essex Pension Fund Board operates as the s101 Committee (under the terms of the 1972 Local Government Act). The DCLG/LGA Call for Evidence was an agenda item for the Board at its meeting on 18 September 2013, and the following observations and evidence are based on the Board's consideration of this matter.

RESPONSE

- Accountability within the LGPS to local taxpayers is fundamental. Elected Members of Local Authorities, combined with representatives of other key stakeholders offer the best means of ensuring such accountability.
- Combining or merging existing Funds has the potential for unintended consequences:
 - I. Altering the structure of LGPS Funds in a manner that diminishes the input and role of Elected Members of Local Authorities, dilutes the fundamental relationship with the local tax payer.
 - II. There are 89 LGPS Funds in England & Wales, each with a separate investment strategy, asset allocation, liability profile and funding level. The combination or merger of one or all of these aspects will invariably give rise to a scenario of “winners and losers”. Managing such a legacy should not be underestimated.
 - III. Local Funds make local decisions. For example, the Essex Fund’s, direct property portfolio has been established on the agreed principle that no direct investment is made within the County of Essex (including Southend and Thurrock) . The rationale is to avoid any potential conflict between the role of the respective administering and planning authorities. There will be numerous other examples throughout the LGPS. Combining or merging investment portfolios could undermine the decisions and principles on which they were established.
 - IV. Unwinding such principles/investment decisions highlighted at III above needs careful consideration. Any action that leads to a fire sale of assets is contrary to the interests of the LGPS. In the case of so called “Super Funds” there are real possibilities that both transition trading and on-going trading could have significant market impact.

- In the debate since the launch of this call for evidence, some supporters of the move to a very small number of Funds appear to claim that bigger Funds mean lower investment fees. This premise relies on no changes in the market behaviour of the investment management houses that LGPS Funds choose to utilise. It is not unreasonable to assume that wholesale change (for example the move to five “Super Funds”) will have considerable impact on the supply side, and fee charging structures would – in such a scenario – be unlikely to remain intact. Banking estimated savings in advance is unwise.
- Informal surveys between Funds have revealed different approaches adopted in the treatment of investment expenses. Some funds disclose both invoiced and non-invoiced (often pooled fund) investment expenses, others only disclose invoiced expenses. As a consequence, comparisons of investment fees paid between Funds are not on a like for like basis. A greater degree of certainty in this area is required before proper comparisons are possible and long term conclusions are drawn.
- One of the stated objectives of the call for evidence is “improving investment returns”. The WM Local Authority universe compiles the investment returns of around 100 LGPS Funds. Many commentators have already highlighted that repeated WM results demonstrate that there is no correlation between size of Fund and investment returns.
- Around 60 of the 89 LGPS Funds in England and Wales participate in the CIPFA benchmarking club. These costs of in house administration per scheme member for both the club average and the Essex Fund are set out below

| CIPFA Benchmarking | | |
|---|--------------|--------------------|
| In house administration cost per scheme member | | |
| | Club average | Essex Pension Fund |
| 2009/10 | £22.72 | £20.35 |
| 2010/11 | £22.14 | £19.05 |
| 2011/12 | £21.54 | £18.57 |
| 2012/13 | £20.87 | £17.80 |

- These figures highlight that since the run up to the 2010 Actuarial Valuation, the average LGPS Fund has reduced its

costs. Furthermore, the figures demonstrate that the Essex Fund remain below average.

- The club average is around 50% of cost for private sector pension administration based on available data (Capita Hartshead Annual Pension Scheme Administration Survey 2009/10 and Capita survey of 2011/12).
- The absence of some LGPS funds from benchmarking data clubs, and the lack of certainty over the basis for disclosing investment expenses make the case for universal transparent data to be supplied on a consistent basis. The Essex Fund supports the calls for the newly formed shadow national Scheme Advisory Board to address this matter.
- The last few years have been characterised by significant changes in the way many LGPS Funds approach procurement. Frameworks have been established for actuarial services, investment consultancy and custody. The benefits, including savings in procurement costs and timescales, have been well documented. The Essex Pension Fund is one of the members of the framework for the procurement of administration software. The Essex Pension Board has recently agreed to explore a framework for the procurement of Governance Services. Fund officers are liaising with colleagues at Norfolk Pension Fund on this matter.
- The effort on cross Fund collaboration, led by the Norfolk Pension Fund, amongst others, was recognised recently at the *Professional Pensions* Scheme of the Year Awards as the prize for Best Innovation went to National LGPS Frameworks. Further development of this initiative has considerable potential within existing structures.

KEY CONCLUSION

- Determinations on structural reform of the LGPS must take into account the full costs of transition to new arrangements. To properly address this matter a full and open review process is necessary before change to the statutory basis of the LGPS is embarked upon. The benefits of change are currently unclear, but the associated costs will be real.