

17 June 2014**Agenda Item: 6****REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT****LGPS CONSULTATION****Purpose of the Report**

1. To inform members of the consultation issued by the Department for Communities and Local Government on *Opportunities for collaboration, cost savings and efficiencies* and seek members' views on the content of the Fund's response.

Information and Advice

2. In May 2013, the government launched a call for evidence into ways of significantly reducing the costs of the Local Government Pension Scheme (LGPS) by increasing fund co-operation, transparency and accountability to taxpayers. This committee approved the Fund's response to the call for evidence at its meeting on 25 September 2013. In total, 133 responses were received. These responses have been analysed by the government and also by the Shadow Scheme Advisory Board.
3. To support the call for evidence, the government also commissioned additional cost-benefit analysis from Hymans Robertson of three potential options for reform:
 - Establishing one common investment vehicle for all funds
 - Creating five to ten common investment vehicles for fund assets
 - Merging the existing structure into five to ten funds.
4. The government has now issued a consultation on *Opportunities for collaboration, cost savings and efficiencies* within the LGPS. The consultation document is attached. The report from Hymans Robertson is not attached due to its size but can be accessed online at <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>.
5. The deadline for submission of responses to the consultation is 11 July 2014. A seminar is being held by Hymans Robertson on 16 June 2014 to discuss the consultation and officers from the Fund will be attending. At this stage, therefore, no suggested response is attached.
6. The key questions from the consultation are shown in Appendix A. Views of Members are sought on these questions and any other matter relevant to the consultation. It is proposed to agree a response incorporating these views with

the Chair of the Nottinghamshire Pension Fund Committee for submission by the consultation deadline.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That a response to the consultation incorporating the views of Members is agreed with the Chair of the Nottinghamshire Pension Fund Committee for submission by the consultation deadline

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Constitutional Comments

1. To follow.

Financial Comments

2. To follow.

Background Papers

None

Key questions from the consultation
Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.
Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?
Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?
Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?
<p>The Government wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:</p> <ul style="list-style-type: none"> • Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme. • Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments. • Fund authorities could be required to manage listed assets passively on a “comply or explain” basis. • Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report. <p>Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson’s evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?</p>
Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.
The Government recognises that the investment regulations are in need of review. The Department will consult separately on reforms to these regulations, including any changes required to facilitate investment in common investment vehicles. However, any initial thoughts would be welcome in response to this consultation.