

This matter is being dealt with by:
Simon Cunningham
Reference:
T 0115 977 2581
E simon.cunnington@nottsccl.gov.uk
W nottinghamshire.gov.uk



Victoria Edwards
LGPS Reform
Communities & Local Government

24 September 2013

Call for evidence on the future structure of the Local Government Pension Scheme Response from Nottinghamshire County Council Pension Fund

The call for evidence issued by the Department for Communities & Local Government and the Local Government Association posed five questions seeking to gain views on accountability, deficits and investment returns within the Local Government Pension Scheme (LGPS). The full response to the call for evidence as approved by the Nottinghamshire Pension Fund Committee is attached and key points are highlighted below.

Accountability to local taxpayers and other interested parties

The LGPS already has a very high level of accountability to local taxpayers, fund employers and member representatives and this will be increased further by the governance changes being introduced by the Public Service Pensions Act 2013. Merging funds will inevitably reduce accountability as governance is removed from the communities in which the fund operates.

The Nottinghamshire fund, in common with many, already publishes a whole range of documentation and data. This should be collated centrally and presented in one place and the new Scheme Advisory Board should play a key role in collating and analysing this data across the LGPS. Comparability between funds could be improved by better pension fund specific accounting guidance but, as each fund has to interpret the guidance to meet its own particular circumstances, full comparability will never be achieved (even with merged funds).

Investment performance and deficits

The current focus on fund deficits is fundamentally flawed and is not helpful to the long term sustainability of pensions. Deficits are estimated and the biggest impact comes from the discount rate used by the actuaries. A movement of just 0.1% in the discount rate changes the Nottinghamshire fund's liabilities by over £125 million. Across the LGPS as a whole, such movements in liabilities would far outweigh any cost savings that can be achieved through merged funds.

Reform should focus on finding a better way to assess the financial position of funds and their ability to pay future pensions.

Investment performance will be volatile so should be viewed over a long term horizon (eg 10, 20 or more years). A sensible investment strategy, simply executed is more likely to out-perform over the long term than a complex strategy. The main change needed is to encourage the focus of reporting and decision-making to be far less on short term returns and more on the medium to long term, both by funds themselves and by asset managers. The evidence of the benefits of in-house management should be discussed more widely.

Simpler investment strategies will inevitably mean lower fees. Collaboration between funds is already providing savings on many services and may also act to reduce investment fees. This would be improved further with central assistance from the Government Procurement Service (GPS). Closer liaison with actuaries and fund employers to manage risks will help to maximise contribution income and this will potentially far outweigh the cost of additional resources to be able to do this effectively. Merging funds will not reduce the number of employers and will make close liaison more difficult.

Next Steps

The call for evidence acknowledges the need to provide robust evidence to support options for change. Before considering merging funds proper evidence should be collated to determine whether 'bigger means better' in terms of investment returns. Analysis should also be carried out of the correlation of returns by manager to assess the risk of all funds underperforming at the same time. Having locally administered funds has the benefit of diversification of investment risk which may protect the LGPS as a whole compared to super-funds.

The new Scheme Advisory Board should play a key role in collating and analysing data in order to report openly about the advantages **and** disadvantages of any proposals for change before any decision is made on the future structure of the LGPS.

Yours faithfully,

Cllr Stella Smedley MBE JP
Chair – Nottinghamshire Pension Fund Committee