



City of Westminster

Executive Summary and Recommendations

	Superannuation Committee
Date:	14 July 2014
Subject:	Local Government Pension Scheme Consultations

Summary

1. Following last summer's call for evidence regarding the future of the structure of the Local Government Pension Scheme (LGPS), the Department for Communities and Local Government has published a further LGPS consultation focused on Collective Investment Vehicles and the balance of active and passive management. A combined response has been sent by the three funds in the Tri-Borough as the closing date was 11 July 2014.
2. A further consultation from the Department of Communities and Local Government on the subject of LGPS governance is expected shortly.

Recommendations

1. The Committee note the contents of this paper.



Date:	14 July 2014
Classification:	Public
Title of Report:	Local Government Pension Scheme Consultations
Report of:	Director of Corporate Finance & Investments
Wards involved:	All
Policy context:	Effective control over Council activities
Financial summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
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1. PERFORMANCE OF THE FUND

- 1.1. In June 2013, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) asked for views and evidence on how and why the current structure of the Local Government Pension Scheme (LGPS), with 89 funds in England and Wales, might be made to work better through change.
- 1.2. In total DCLG received 133 responses to this call for evidence, many, including the tri-borough response, highlighting the importance of local accountability and the fact efficiencies could be made without the need to change the underlying structure of the LGPS. Asset allocation and the management of deficits are key issues, which directly impact on council tax and so local management of these matters is vital to ensure accountability and maintain local democracy.
- 1.3. To further assist with the consideration of options, DCLG commissioned a report from Hymans Robertson into the potential cost savings and practical implications of a number of options. This has informed a new consultation issued by DCLG in May 2014.
- 1.4. While this debate has been on-going at the national level, London Councils has been developing a Collective Investment Vehicle to enable London borough funds to invest collectively and get the benefits of economies of scale without losing local decision making about asset allocation. This is now at an advanced stage and the Cabinet has agreed to the Council being a shareholder in the vehicle being set up to facilitate this. The first investments are expected to be placed during 2015.
- 1.5. Alongside the consultation on cost savings and efficiencies, a further consultation on governance in the LGPS is expected shortly. This will outline the draft regulations to implement the governance requirements of Public Services Pensions Act 2013. A verbal update will be provided at the meeting of the Committee on this issue.

2. PROPOSAL AND ISSUES

- 2.1. In May 2014 DCLG published a consultation: Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies. This sought the views of LGPS funds and interested parties on two key issues – the use of collective investment vehicles and the value of active management. The consultation paper asserts that savings of £660m could be achieved nationally if all investments were made in collective investment vehicles and that all listed assets were invested on a passive basis. A copy of the consultation paper is attached at Appendix 1.
- 2.2. The consultation highlights Hymans Robertson's work which showed that at a national level, active management of listed assets net of fees performed no better than passive management. As a result, the consultation proposed a number of options from enforcing passive management across the board to a "comply or explain" option where Funds would be required to justify their use of active management. The Westminster fund has both passive investments and active investments and the current active investments have performed well.

- 2.3. The draft Tri-Borough response is attached at Appendix 2. Due to the timing of the closing date (11 July 2014), together with the distribution requirements of Committee papers, an oral update will be provided at the meeting of any material changes.
 - 2.4. As discussed in above, the development of a collective investment vehicle by London Councils is already at an advanced stage and each of the three Councils in Tri-Borough will be one of the shareholders. A diagram of the proposed London CIV and its related structures is attached at Appendix 3.
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BACKGROUND PAPERS

The background papers listed below are not for public inspection by virtue of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains exempt information, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. None

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jonathan Hunt on 020 7641 1804 or jonathanhunt@westminster.gov.uk.

Appendix 1

Department of Communities and Local Government – Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies

Appendix 2

Draft tri-borough response to consultation

Appendix 3

Structure diagrams for the proposed London Councils' CIV