

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

22 MAY 2014

## CONSULTATION ON STRUCTURAL REFORM OF THE LGPS

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To inform Members of the latest consultation on structural reform of the LGPS.

**2.0 THE CONSULTATION**

- 2.1 On 1 May 2014 the Government published a consultation “Local Government Pension Scheme: opportunities for collaboration, cost saving and efficiencies”. This consultation represents the next step in reform of the LGPS, building on the responses to the Call for Evidence and the analysis of the shadow scheme Advisory Board.
- 2.2 An introduction to the consultation, the consultation document itself, and the report by Hymans Robertson which provides the evidence base for the proposals within the consultation document are all available through <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>.
- 2.3 The focus of the Call for Evidence, which took place in the summer of 2013 appeared to be aimed at making a case for fund mergers. However the consultation document makes it clear that mergers are not being pursued at this time. Instead, the proposals are for increased collaborative investments and for investments to be managed passively.
- 2.4 Although the Government believes savings are achievable on fund administration through greater collaboration it has decided to allow the 2014 scheme to mature before considering any further reform. Administrative arrangements are therefore not part of this consultation.
- 2.5 The stated primary aim of the Call for Evidence was to address deficits and improve investment returns, however specific questions relating to these issues do not feature in the consultation proposals. Instead, the first request for a response in the document is worded as if an extension to the information gathering process of the Call for Evidence:

**Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.**

- 2.6 Section 2 of the consultation document starting on page 7 provides the rationale for the consultation itself. Section 3 on page 11 summarises the case for change, including picking out some of the key elements of the Hymans Robertson report.
- 2.7 One of the secondary objectives of the Call for Evidence, reducing the cost of investment, has become the focus of this consultation and is the basis of the two proposals for reform.

### **3.0 PROPOSAL 1: COMMON INVESTMENT VEHICLES**

- 3.1 The case for change refers to liquid investments such as equities and illiquid investments such as alternatives and proposes that significant savings could be achieved through the use of common investment vehicles in both cases. Members' views are sought on this proposal generally, and specifically in relation to the questions posed in the consultation document.

**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?**

- 3.2 In paragraph 4.13 the Government recognises the need for changes to the investment regulations particularly in relation to common investment vehicles. A further consultation is planned, and to help prepare for this the document says:

**Any initial thoughts would be welcome in response to this consultation.**

### **4.0 PROPOSAL 2: PASSIVE FUND MANAGEMENT OF LISTED ASSETS**

- 4.1 The justification for this proposal is based on analysis by Hymans Robertson showing that, in aggregate, the net return after fees for active management is lower than the net return for passively managed funds. However four approaches aimed at delivering improved performance net of fees are described:

1. Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme

2. Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments
3. Fund authorities could be required to manage listed assets passively on a “comply or explain” basis
4. 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

4.2 The consultation asks:

**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?**

## **5.0 NEXT STEPS**

5.1 It is intended that Members’ views will be sought at the meeting and used as the basis of a draft response to the consultation. The final date for the consultation then allows the Committee to approve a final response at its meeting on 10 July 2014.

## **6.0 RECOMMENDATIONS**

6.1 Members are asked to comment on the consultation generally, and in particular on the questions in **paragraphs 3.1 and 4.2** with a view to shaping the response to the Consultation.

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Treasurer  
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Northallerton

13 May 2014