

## **Pension Fund Committee**

Meeting to be held on 6 September 2013

Electoral Division affected: None
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### **Consultation on the Future Structure of the Local Government Pension Scheme**

(Appendices 'A' and 'B' refer)

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#### **Executive Summary**

The Minister responsible for the Local Government Pension Scheme (LGPS) together with the Local Government Association have launched a consultation process aiming to identify options for changes in the way the LGPS is run which could have the potential to reduce the costs of running the scheme and therefore contribute to the longer term sustainability of LGPS.

Central to this consultation, is the belief set out in a number of speeches by the minister that there are currently too many LGPS funds and that fewer larger funds will be more efficient and effective in a range of ways.

Set out at Appendix 'B' is a proposed response to the consultation on behalf of the Fund.

#### **Recommendation**

The Committee is asked to approve the draft response to the consultation on structural reform of the LGPS set out in Appendix 'B'.

#### **Background and Advice**

In May this year Brandon Lewis MP the minister responsible for the Local Government Pension scheme made a speech setting out his view that in addition to the various reforms being made to the scheme itself there is a need to undertake structural reforms to change the way in which the LGPS is run.

The Minister is coming at this very strongly from the view that there are too many small funds within LGPS which therefore creates an unnecessarily high cost base with insufficient skill and critical mass. This is a debate which has been alive in London for some considerable time as each London Borough has its own fund and there is a view that some form of merger would create the opportunity to both reduce costs and improve returns.

Following this speech during July the Government and LGA have launched a consultation seeking views on how the structure of LGPS might be reformed. A copy of the consultation document is attached at Appendix 'A'.

Appendix 'B' sets out a draft response to this consultation on behalf of the Fund. The basic line taken is in favour of increasing collaboration, an area where the Lancashire fund already has strong credentials and against forced mergers. There are a number of reasons for this. Firstly forcing mergers is likely to create some significant issues around accountability to stakeholders in the new much larger funds. Secondly a belief that while funds can be too small the converse is also true and funds can be too big and that therefore LGPS should be aiming for the right size funds, although there is no evidence to indicate that larger funds necessarily perform better than smaller ones.

The key factor which is emphasised in the draft response is that all moves which aim to professionalise the way in which LGPS funds are run are supported as this in itself has the potential to drive both performance and bring out areas where costs can be reduced. Again this is an area where the Fund has significant and useful recent experience.

The consultation closes around the end of September and it is expected that the Government's proposals, if any, will be announced around the beginning of the new calendar year. Depending upon the nature of these proposals primary legislation may be required which would mean that any implementation could be a reasonable time in the future.

## **Consultations**

No specific consultations have been undertaken, although discussions about the issues raised in this consultation, although a informal discussions have taken place between North West LGPS funds whose responses are along similar lines to the proposed Lancashire County Pension Fund response.

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

As referred to in the draft response any structural changes to LGPS funds would create a range of new risks which will need to be managed, the principal one being a loss of focus during the period of change. The consultation process itself and the uncertainty which it causes also creates risks, for example in some cases around staff recruitment and retention which funds will need to address over the coming months.

**Local Government (Access to Information) Act 1985  
List of Background Papers**

None

Reason for inclusion in Part II, if appropriate

N/A