Delivery of Value for Money in the Management of the Fund

Introduction

This report provides a summary for the Committee of the progress made over the last two financial years, and built into future plans in delivering reductions in the cost of running the Lancashire County Pension Fund.

The savings that have been made have been driven from two different processes:

- Firstly, through the re-examination, renegotiation and re-tendering of existing contracts and relationships. This element of the work includes a more commercial approach to new arrangements, and
- Secondly through the adoption of new less costly techniques, where justified by the impact on the Fund's risk profile

In the context of the Pension Fund there is a balance to be struck between cost, performance and risk. For example, pursuing a saving of 1 basis point in management fees that resulted in a fall off in investment performance would in reality result in a disbenefit to the Fund. Therefore in addressing cost and value for money issues officers have been careful to have regard to this balance.

Delivering Savings

The table below illustrates the savings that have already been delivered, or are in progress, through the approaches identified above.

	One Off Saving £000	Recurrent Saving £000 pa
Renegotiation of elements of the Property Management Contract resulting in a backdated rebate and ongoing savings	85	58
Negotiated cap to annual property revaluation fee, saving compared with previous percentage rate	36	
Cancellation of unnecessary IPD property report		18
Rebate from KPMG for poor service delivery	6	
Introduction of foreign currency accounts to hold Private Equity cash-flows saving on foreign exchange costs		10
Reduced costs arising from new Custody Contract	78	48
Reduced fund management costs from transferring L&G 2 Portfolio to the transition bench.		325
Transfer to transition bench out of pooled fund allows stock to enter stock lending programme		75

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Renegotiation of L&G 1 portfolio fees. Refund of L&G fees for rebalancing not in accordance with instructions	106	50
Savings from new contract for actuarial services		102
Reduction in cost of administration from £22 per member to £21.50 per member following introduction of the new pensions payroll system, bringing the charge further below the lower quartile.		65
Total	**311**	**751**

In renegotiating elements of the property management contract, public liability insurance cover was also moved from Lancashire County Council where it represented an unrewarded risk, to a property owners' policy with the premium recharged to tenants.

With the appointment of the new custodian, the Fund also expects to make considerable officer time savings, as a result of the custodian taking full responsibility for fund manager reconciliations and National Statistics returns.

 The collection of contributions from Employers by direct debit has also been implemented. This process simplifies the collection of contributions with one direct debit collection replacing over 100 cheques and transfers received each month.

In addition to these savings the various procurement exercises for which approval is sought elsewhere on the agenda should deliver further savings. In particular the early market soundings exercise in relation to Governance and Voting services indicates that with a more targeted service savings of £15,500 (45%) should be achievable.

As previously discussed by the Committee, all future fund management contracts will include an element of performance related fees with the performance hurdles linked to the achievement of the Fund's investment objectives. Ultimately the level of fees and the degree to which this sort of performance structure can be achieved will be a result of what the market will provide through the procurement process. However, by entering into the procurement process with a clear view explicitly stated regarding this, and by taking the stance that it will actively manage the relationship with external managers, the Fund is putting itself in a better position to deliver value for money.