

### **Opportunities for Co-Operation with Other Funds Within the Local Government Pension Scheme (LGPS)**

The Committee will be aware that the LGPS has been subject to a number of calls for evidence and consultations recently; and that there seems to be an impetus from central government to impose various co-investment structures on the scheme with a primary motive of reducing costs.

In its response to this consultation, whilst accepting that reform and co-investment could deliver some benefits, Lancashire County Pension Fund rejected the notion that a focus on cost reduction should be the primary driver of reform, and that instead the focus should be on improving investment performance and focussing on deficit reduction.

In addition, new regulations come into force from April 2015 that will require certain changes to the fund's current governance arrangements.

The Investment Panel believe that professional governance arrangements are a vital contributor to investment performance, a view supported by independent research and the experience of large funds globally. The Committee have endorsed this view through their support for the professionalisation of the management of the Fund.

The current environment provides a clear opportunity to work with other like minded funds within the LGPS to create voluntary, collaborative arrangements that achieve the multiple challenges currently facing local government schemes:

- reducing fund costs through shared services and joint investments;
- addressing issues of deficit reduction and impacts on employers;
- implementing best practice governance arrangements and complying with new regulations;
- considering the benefits of external regulation;
- attracting and retaining professional investment staff; and
- the risk of having unpalatable solutions enforced by central government.

The LCPF is in regular informal dialogue with local north-west authority funds in Cheshire, Greater Manchester, Merseyside and Cumbria. Lancashire already provides fund administration services to Cumbria. Initial approaches about collaborative working have also been received from other Funds.

This note serves to inform the Pension Fund Committee of this opportunity and seeks a mandate for officers to enter into more formal dialogue with other funds with the intention of bringing a more formal proposal for investment and administrative co-operation. Note that it is NOT the intention to discuss the possibility of any sort of fund merger.

The terms of reference for such dialogue should include development of a formal proposal to be presented to a future Pension Fund Committee that includes, inter alia:

- A formal structure through which joint investment could be made;
- Governance arrangements that take into account new regulations and industry best practice;
- Shared services for scheme administration and other functions;
- Mechanisms for retaining local accountability and more particularly employment; and
- Protocols for dealing with local scheme employers.