REPORT FOR: Pension Fund Committee

Date of Meeting:	25th June 2013
Subject:	London Pension Fund Collaboration
Responsible Officer:	Simon George, Director of Finance and Assurance
Exempt:	No.
Enclosures:	Local Government Ministers Speech Paper to the London Leaders' Committee

Section 1 – Summary and Recommendations

The Committee has previously expressed opposition to a forced merger of London pension funds. The Government will commence this year a consultation on views relating to collaboration and merger. Proposals to set up a voluntary collective investment vehicle (CIV) are being developed by the London Leaders.

Recommendation:

The Panel is invited to agree:

(a) to support the investigation and establishment of voluntary collaboration models for London pension funds, including a collective investment vehicle, and

(b) delegate authority to the Section 151 officer after consultation with the Chairman to approve expenditure relating to the investigation and set up costs of the CIV up to a limit of £50,000.

Section 2 – Report

1. The Committee has been informed of ongoing discussions on the merits of the London LGPS schemes joining together to reduce costs and improve performance. At the March meeting the Committee expressed opposition to a forced merger. Developments since then include a speech from the minister responsible for Local government and further investigation by a working group formed jointly by the London Leaders' Committee and the Society of London Treasurers. Developments and suggested actions are set out below.

Speech by Brandon Lewis, Local Government Minister

2. Mr Lewis announced to the NAPF Local Government conference that the Government will be consulting later in the year on the options for change to the LGPS. He clearly feels that the evidence suggests that too much collectively is being paid in fees and that "the scheme could benefit from a smaller number of optimal funds". He then added that "there is clear agreement that doing nothing was not an option". A copy of the speech is attached.

3. In terms of desired outcomes the minister said these were "more transparency, better data, fewer unnecessary overheads and stronger, more consistent investment performance." This chimes with earlier statements from the DCLG that called for the case for merger to be properly examined. London is still seen as a target for greater collaboration.

4. The Committee will be kept informed of developments in good time to allow an agreed response to the consultation.

London Leaders / SLT Working Group

5. The London Leaders and Society of London Treasurers have been comparing a range of options for closer pension fund collaboration in terms of impact and practicality. The preferred option is a collective investment fund (CIV) that operates on a voluntary basis. The proposal is that the CIV will be a bridge between individual schemes and fund managers. The CIV will identify and monitor one or more fund managers for each asset class, agreeing fees. Individual schemes such as Harrow will then be able to opt into those arrangements.

6. The advantage of a CIV compared with merger is that there will be no change to the Harrow fund structure, no merger and the Committee will remain responsible for the investment strategy. The additional available choice will be that when it came to manager selection, Harrow is able to use the managers selected by the CIV. This might be across the whole fund or for specific asset classes only. Monitoring of fund managers and decisions to de-select could continue to be undertaken by Harrow, although this would also be a responsibility of the CIV. With additional resources and a larger mandate, the hope is that a CIV will result in improved investment performance, which is debateable and lower fees, a more reasonable expectation.

7. Already one London borough, Wandsworth, has come forward to offer to host the CIV. A copy of the latest Leaders paper on the issue is attached. Change to scheme benefit administration functions has taken a back seat for the moment.

Other Research

8. London pension funds have collected information on individual fund performance compared with the larger county council and concluded that while there is a wide distribution of returns across London, which might indicate poor management by some councils, that on average the larger county council's generate returns that were no higher than the London average. The research did suggest that there is scope for fee savings, but not to the extent suggested by earlier commentators.

Conclusion

9. It is clear that Government seeks change, possibly by compulsion if not achieved voluntarily. The CIV route now being investigated addresses many of the concerns raised in previous discussions on compulsory merger and possibly also has advantages compared with the current status:

   a) It leaves unchanged the structure of the scheme, the setting of strategy and the determination of manager mandate (active v passive).
   b) By operating at asset class level, it allows choice as to which asset classes should be collectively managed and which excluded.
   c) There is no compulsion and decisions to use the CIV can be reversed with costs no higher than a normal manager change and nil if no manager change is involved.
   d) Although the CIV will have running costs (staff, accommodation and advisors) these should be wholly offset by reduced management fees through larger pools of assets. Also, individual schemes may save on advisor fees.
   e) Direct supervision of managers <u>can</u> be delegated to the CIV saving Committee time and fees.
   f) Perhaps most importantly, by acting to achieve the fee savings and improved performance the Government expect from pooling assets, we may avoid more drastic action being imposed.

10. It is suggested that the Committee support further investigation of the CIV option and remain open minded about using a CIV. It is possible that Harrow will be asked to contribute to the investigation and set up costs of the CIV, and it is suggested that authority be delegated to the Section 151 officer after consultation with the Chairman to approve such expenditure up to a limit of £50,000. It is considered that if London Councils refuse to explore the potential for a CIV that the Government is more likely to force change, such as merge.

Financial Implications

11. Merger or collaboration will have a significant impact on the way the fund operates and the ability of the Committee to take decisions. The Committee and Council needs to be fully involved.

Risk Management Implications

12. Risk included on Directorate risk register? No

13. Separate risk register in place? No

14. Setting risk tolerances and measuring outcomes is central to the strategy.

Equalities implications

15. Was an Equality Impact Assessment carried out? Yes

16. There are no direct equalities implications relating to the pension fund.

Corporate Priorities

17. Corporate Priorities are not applicable to the Pension Fund as it does not have a direct impact on Council resources.

Legal Implications

18. The report has been reviewed by Legal Department and comments received are incorporated into the report.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 10 June 2013	√	Chief Financial Officer
Name: Matthew Adams Date: 10 June 2013	√	Monitoring Officer

Section 4 - Contact Details / Background Papers

Contact: George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: Relevant press comments have been circulated.

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A