Division(s): N/A

PENSION FUND COMMITTEE – 14 MARCH 2014

POTENTIAL SCHEME MERGER

Joint Report by the Chief Financial Officer and County Solicitor

Introduction

1. This report updates the Committee on the progress in exploring the potential merger of the Oxfordshire Pension Fund with the Buckinghamshire and Berkshire Funds.

National Picture

2. As discussed in the update report to the December meeting, the Government had issued both a Call for Evidence and a contract with Hymans to undertake a specific review of options on the future structure of the LGPS. The Call for Evidence was jointly published by the Department for Communities and Local Government (DCLG) and the Local Government Association, whereas the Hymans work was jointly commissioned by DCLG and the Cabinet Office.

3. At the time of writing this report, there has been no formal response from the Government to either the Call for Evidence or the Hymans report. The LGPS Shadow Scheme Advisory Board has published its analysis of the Call for Evidence and its recommendations to the Minister.

4. The Board's analysis suggested a strong consensus on a need for some reform, but a divergence of views on the shape that reform should take. There was strong argument against a "big bang" approach or forced mergers. There was though acceptance of the benefits of:

    - Greater collaboration
    - Increased use of Passive Mandates
    - Use of Collective Investment Vehicles
    - Development of structures to allow increased use of in-house investment

5. The majority of responses argued that there was a clear lack of consistent data against which to make decisions, and supported a call for the collection of a national consistent data set. In commenting on current data, the consensus was that there whilst there was evidence of indirect benefits of larger fund sizes, there was no conclusive evidence of a direct link between fund size and investment returns in the LGPS.

6. The Board report highlighted that a large number of respondents referred to the importance of retaining local political accountability, and the direct link between investment decisions and council tax payers. However the report went on to state that there was little, if any, empirical evidence to support this position. As previously noted, these views are strongest in London where each Borough Council is responsible for its own fund, whereas outside London, there is no such one to one relationship between Council and Fund.

7. There was also an argument that a greater degree of separation between scheme manager and lead authority may lead to an improvement in governance, through a reduction in the potential conflicts of interest.

8. The report draws 7 recommendations which cover:

    - The need for the Government to consult on options as soon as possible
    - The need by the end of this summer for the Government to set out a realistic timescale for implementing reforms
    - The development of a national Scheme Annual Report by the Board setting out an agreed base line of data and measurement
    - The need for the Government to find time to introduce proportionate and appropriate legislation to support reform
    - In issuing its consultation, the Government should consider alternative methods for managing deficits, and analyse the costs/benefits and barriers to greater passive management, collective investment vehicles and in-house investment strategies
    - The support of the Board in developing feasible options for managing deficits and conducting further research on the options for reform
    - The need for the Government to ensure consistency with the other strands of LGPS policy work including the new governance regulations and any reform of the investment regulations.

Local Issues

9. In our most recent meeting with officials from DCLG and the Local Government Association, there was a strong view that, without prejudging the views of ministers, it was unlikely that statutory mergers of administering authorities would be supported in the short term given the costs and time associated with the need to produce primary legislation.

10. However, it was felt by all parties that a similar result could be achieved through the development of a Joint Committee, to whom all three Administering Authorities delegate their responsibilities in respect of the LGPS. Such a model would still involve a single governance arrangement for the current three funds, and increase the size of the Fund so increasing the potential for in-house investment management and the scope for investing in alternatives. The model should therefore be capable of delivering the savings/increased returns initially envisaged (c£2.5m).

11. A key issue to resolve would be how to ensure the sustainability of the new arrangement, if the change is no longer underwritten on a statutory basis.

This is critical as any benefits will only be achievable over the long term. (Our concern over the alternative option of a collective investment vehicle is that each fund retains its own governance arrangements and as such multiple investment strategies are likely to be retained, and be subject to regular change, so defeating many of the benefits of economies of scale).

12. A second key issue is the management of the transition under the Joint Committee option, as the initial intention was that issues of concern (e.g. the novation of all current contracts to the new fund) would have been dealt with through the supporting statutory provisions.

13. The other key issues to determine in respect of the Joint Committee will revolve around membership and the relationship with the new Pension Boards as required under the Public Services Pensions Act 2013.

14. The second main strand of work is to develop the options by which the Joint Committee would be supported. These include appointing a lead authority, establishing a new wholly owned company or looking to appoint a third party.

15. It is our current intention to develop a full business case covering all the above points, to be presented to the June meeting of this Committee. The development of the business case will be supported by the Local Government Association and external advisers as required. We will also continue to work with the officials from DCLG to ensure the project remains consistent with the likely overall policy direction to be determined by Government, and to access other support as appropriate.

RECOMMENDATION

16. The Committee is RECOMMENDED to note the report, and the current position on the project, and identify any additional issues they wish to see in the business case to be presented to the 6 June 2014 meeting.

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Background papers:

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