

Sent by email to Victoria Edwards at:
LGPSReform@communities.gsi.gov.uk

Oxfordshire County Council
Pension Services
Unipart House
Garsington Road
Cowley
Oxford
OX4 2GQ

Sean Collins
Services Manager (Pensions)

Please ask for Sean Collins
e-mail: sean.collins@oxfordshire.gov.uk

Direct Line: 01865 797190
Fax: 01865 783108

My Ref: SJC/September 13

Your Ref:

29 August 2013

Dear Victoria

Call for Evidence on the Future Structure of the Local Government Pension Scheme

This submission is in response to the recent call for evidence sent out by the Department for Communities & Local Government and the Local Government Association. The submission is on behalf of the Oxfordshire Pension Fund Committee who agreed the response at their meeting on 6 September 2013.

We have tailored the submission to fit in line with the five questions addressed in the call for evidence document, and have answered the questions in the order presented.

Q1. How can the Local Government Pension Scheme best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to become more efficient and to promote stronger investment performance?

In the current discussions on the future governance arrangements for the LGPS, there has been a lot said about the importance of retaining the democratic accountability provided by having local Pension Fund Committees comprising of locally elected Councillors. The argument is that where the Pension Committee makes decisions which lead to an increase in employer contributions and hence Council Tax, they will be answerable to their community through the next election.

Whilst the importance of the locally elected Councillors on the current Pension Committees should not be under-estimated, we do not believe that a locally elected Committee should be a key issue in the debate, and indeed may potentially hinder the move to more efficient delivery models.



Our position is based on a number of factors. Firstly, outside of London, there are significant parts of local government who do not have a voice on their local Pension Committee, even though the Pension Committee is responsible for decisions which impact on their level of Council Tax. In Oxfordshire, the Pension Committee has representatives from just two of the five District Councils. Similarly, Oxford Brookes University, the second largest employer in the Fund has no representation.

Secondly, the relationship between the decisions on the Pension Committee and the levels of local council tax are complex and not suitable to be simply judged as part of an election every four years, when many other local issues will be at the forefront of the political agenda. The costs of the LGPS are only in part determined by local decisions in respect of investment allocations. The main driver of costs is the level of pension fund liabilities which are determined under National Regulations controlled by DCLG. Any arrangement for ensuring accountability needs to ensure that those responsible for the key decisions are those held accountable, distinguishing between nationally and locally determined and elements.

Thirdly, the risk of promoting accountability around locally elected Committees creates the potential risk that decisions are taken for short term benefit and/or to promote the local economy, rather than for the long term interests of the beneficiaries of the Pension Fund.

The current arrangements for promoting accountability should remain as the basis going forward, focussing on the publication of key documents and performance data (to be further developed and improved as covered below) as well as the requirement to consult with key stakeholders before introducing significant changes to key policy documents (including the Funding Strategy Statement). By providing information about the performance of the Fund in a standard form, all stakeholders will be better placed to call the Scheme Manager to account, but in particular will allow the new Pension Boards to fulfil their role.

Key to promoting local accountability therefore will be the development of standardised key performance data, and the development of the new Pension Boards with appropriate representation from all key stakeholders, and the power to intervene when performance falls short.

Q2. Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

We do not believe the current split of two high level objectives covering investment returns and fund deficits, and the further six secondary objectives are the right way forward. The efficiency and effectiveness of the performance of a Pension Fund needs to be measured against its key objective which is the long term timely and accurate payment of pensions, whilst maintaining as near stable employer contribution rate as possible and managing the attendant risks.

The importance of increased investment returns and closing fund deficits will vary depending on the maturity of the Fund and the appropriate level of risk. For example, in a mature fund with negative cash flow, seeking improved investment returns is likely to create an inappropriate level of risk to the Fund and the stability of employer contribution rates. However where the fund is immature with a healthy positive cash flow, a longer term view

can be taken on reducing any deficit allowing an increased level of risk and targeting improved investment returns.

It is also true that the high level and secondary objectives are inter-related, and as such it would not be appropriate to focus on one objective at the expense of another. In particular, investment returns and investment fees will tend to be correlated. Placing investment returns as a higher level objective would suggest that in seeking increased return the cost of achieving this return is secondary, rather than ensuring any increased return is at a reasonable cost.

High level objectives therefore need to be more broadly set and as discussed below under question 5, there is a need to take a more balanced scorecard approach to individual performance areas. The high level objectives need to focus on the timely and accurate payment of pensions and near stable employer contribution rates, taking into account the local circumstances of each Fund. Measurement of the former will in part be subjective and rely on customer feedback.

Q3. What options for reform would best meet the high level objectives and why?

Given the fact that the circumstances facing each Fund will vary, it is likely that the options for reform will also need to vary, rather than identifying a single option to provide the best fit for all. The local options going forward will also need to build on the many local initiatives already in place, including procurement frameworks, shared administration centres, collective investment vehicles etc.

In Oxfordshire, we believe that the best way forward for our Fund is to explore a full merger with the neighbouring funds, starting initially with Buckinghamshire and Berkshire. Whilst our assumptions have not yet been fully tested through the development of a full business case, it felt that a merged fund provides greater potential to

- negotiate reduced investment management fees (or indeed to switch some fund management to an in-house team),
- take advantage of alternative investment strategies limited to larger funds as a consequence of the need for greater investment expertise to explore and develop the opportunities and the size of investment required to be effective,
- develop more sophisticated investment strategies to allow for the variation in funding position of employers within the Fund, and
- provide more cost effective services to employers and scheme members by reducing duplication across the funds, and creating greater resilience in key staff areas.

Whilst some of these benefits may be achievable through the development of super pools, collective investment vehicles and procurement frameworks, it is the view here in Oxfordshire is that such options would not maximise the benefits in our case. From our discussions with Buckinghamshire and Berkshire, and with our current Fund Managers it is clear that retaining separate investment strategies under the control of local committees, and requiring the Fund Manager to report separately back to each Committee does not offer up any real economies of scale compared to the current arrangements. Where the individual Committees retain the right to withdraw from individual investments the risk of diversifying into new alternative investment strategies which require an investment of a reasonable scale remains.

At the present time though it is not known the costs of developing the statutory measures necessary to merge the funds and undertaking the full transition, so it is unclear whether the costs of completing the merger will be justified by the perceived benefits.

Whether Oxfordshire proceeds with the merger, it is not clear that the model would be appropriate across all Funds. At the present time there is no clear evidence as to what size Fund is likely to be the most effective. As Funds become larger, the level of risk grows both in terms of reduced competition as fund managers are driven out of the market, particularly smaller specialist managers, and the extent that a single fund can impact the financial markets through their investment decisions.

We would therefore argue that further evidence needs to be collected on the costs and benefits of all the current collaboration options. Each Fund would then need to assess the suitability of each option against their circumstances to determine the model which best meets their objectives.

Q4. To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

As noted above, we do not believe that the proposed split of higher level and secondary objectives is appropriate given the inter-relationship between the objectives and the need to take into account the local circumstances each Fund is facing. Developing a greater evidence base of the costs and benefits of the various collaboration models should enable all Funds to assess their position to best meet the broader range of objectives they face.

We would agree that the high level and secondary objectives included in the discussion paper all have a place in developing a more efficient and cost effective model, with the exception of the objective to provide for greater investment in infrastructure. Increasing investment in infrastructure may well be an appropriate objective for the national economy, and one against which individual local Council's should be measured in their role of promoting local economic development. However investment decisions for each pension fund should be made on the basis of the Fund's Statement of Investment Principles and Funding Strategy Statement and reflect the key objective of ensuring timely and accurate pension payments whilst ensuring as near stable contribution rates as possible. Whether investment in infrastructure provides the right vehicle will clearly depend on the nature of the vehicle itself, current funding levels, cashflow etc. For some Funds, increasing investment in infrastructure will not be appropriate, and therefore this should not be identified as an objective against which any reforms are judged.

Q5. What data is required in order to better assess the current position of the Local Government Pension Scheme, the individual Scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

We fully support the need for a standardised data set to be developed to allow for the appropriate performance management of the LGPS and its individual funds. As stated above, we believe this requires a balanced scorecard approach, rather than placing undue emphasis on a few factors. In particular, the assessment should be against the key objective

of the timely and accurate payment of pension liabilities whilst maintaining as near stable employer contribution rates as possible, and managing the attendant risks.

We believe data on the following need to be included in any balanced scorecard:

- **Funding Level.** Key factor in determining how well placed the fund is to meet its liabilities in the long term and the level of risk it should be taking (and therefore the likely level of investment returns). Key is to ensure all Actuaries are consistent in their calculations – previous experience has suggested that the approach of the Actuary can have a direct impact on the funding level, with some producing more optimistic figures than others. It would be useful to also include the standard recovery period against any funding deficit as this indicates a level of risk the Fund is prepared to accept.
- **Cash Flow Forecasts.** Again key factor in determining the level of risk a fund should be taking, and the extent that the fund can seek to increase investment return. Key here is to see trends both in recent past, and assumed going forward.
- **Investment Performance.** This data needs to include investment returns, investment costs and information on risk levels given the inter-relation between the three. Given the difficulties of separately reporting fees on pooled funds, and the need to protect the commercial sensitivity around fund manager fees, it may be a requirement for investment returns and costs to be quoted as a single net figure. Data should be provided as a minimum over a three year period.
- **Administration Costs.** Whilst less significant than investment costs, the level of administration costs can be a significant factor in determining the timeliness and accuracy of pension payments. Clear definitions of costs need to be agreed to ensure figures provided on a like for like basis, ensuring all costs incurred by the host Council including payroll, property, ICT support etc. are properly included.
- **Fund Membership Profile.** Any analysis of administration costs needs to be in the context of the profile of Fund Membership including numbers and types of employers, the split between active, deferred and pensioner members, the split between part time and full time active members, the percentage of active members with multiple employments etc, all of which will directly impact level of costs.
- **Customer Satisfaction Scores.** Whilst the accurate payment of pensions is a key responsibility of the Pension Fund, it is difficult to measure as most members are not in a position to check on the accuracy of their payment. Any measure in this area is therefore likely to be the most subjective to collect and compare, but difficult to leave out when ultimately paying pensions to scheme members is what the Funds exist for. Numbers of IDRPs/Ombudsman complaints (split between those upheld and those dismissed) may act as a proxy in the absence of agreement on a standardised approach to collect such data.
- **Performance against Standard Timeframes.** Measurement of the timeliness of pension payments is more objective and performance should be reported against agreed standard timeframes (often 10 days from receipt of request). Performance measures should include percentage of requests met within the standard timeframe for payment of pensions and death grants, and the provision of data for pension estimates, transfers in and out and pension sharing orders.
- **Standard Contribution Rates.** As a key element of the overall objective of the Fund is to maintain as near stable employer contribution rates as possible, data does need to

be collected on the standard employer contribution rate for each Fund over a period to cover a minimum of three valuations.

- Compliance against Regulations etc. No assessment of performance would be complete without some form of assurance that the Fund is being run in accordance with relevant regulations etc. Any issues raised by the external Auditor, or going forward, by the Pensions Regulator, therefore needs to be recorded alongside the rest of the performance data.

We would suggest that this data should be included by each Fund as part of their Annual Report and Accounts, and the information made available through a standard electronic return to either DCLG or the LGA to be published through the internet. Information would therefore be available to be analysed by the Funds themselves, Pension Boards, and the Scheme Advisory Board amongst others.

We would not expect the data to be converted to league tables bearing in mind our previous comments that the performance of the Fund needs to be seen in the context of local circumstances, and the complex inter-relationship between the many issues.

At this time, we do not believe there is any significant amount of objective evidence on which to base significant proposals to change the structure of the LPGS, nor to support our position as outlined above. We would therefore be concerned about a rush to a further consultation in the Autumn. We would rather see some work undertaken to develop and collect the data identified in are response to Question 5 above, allowing more meaningful analysis of the current and planned collaborations. We would prefer a future based on voluntary decisions taken by local funds, based on clear objective evidence of the cost/benefits of the various potential models going forward, and the local circumstances facing each Fund.

We therefore hope these comments are helpful in planning for the longer term changes to ensure the on-going sustainability of an efficient and cost effective LGPS.

Yours sincerely

Sean Collins
Services Manager (Pensions)