Division(s): All

PENSION FUND COMMITTEE – 5 SEPTEMBER 2014

OPTIONS FOR THE FUTURE ARRANGEMENTS FOR THE OXFORDSHIRE PENSION FUND

Report by the Chief Finance Officer

Introduction

1. Since June 2013, this Committee has received a number of reports on the future arrangements for the management of the Oxfordshire LGPS Fund. These reports were prompted by the need to identify means to reduce the deficit on the Fund and therefore the pressure on employers, Council Tax Payers, and Scheme Members, as well as an attempt to pre-empt any requirement by the Government for the merger of pension funds.

2. Whilst the Government have confirmed that they do not intend to take forward fund mergers at this time, they are still keen to explore means of improving the cost effectiveness of the management arrangements of the local government pension scheme, and to reduce the level of current deficits. The requirement to identify alternatives to the current arrangements therefore still remains.

3. The lead officers of the Buckinghamshire, Oxfordshire and Berkshire Pension Funds have developed the business proposal which reviews the options outlined in the initial report of June 2013 in light of the latest government thinking, including the role of common investment vehicles and passive investment mandates. Their report is included as annex 1 to this report.

Business Proposal

4. The options identified in the initial report looked at the extent of collaboration between the three funds. These ranged from option 1 which saw the full merger of the three existing funds into a single Fund, through option 2 which saw the merger of just the administration function, to option 3 which saw the three funds continue to operate with separate investment strategies and administration functions.

5. The initial Option 1 was revised following the advice of the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA). Merger would have required primary legislation and the creation of a new tax-raising body, and the Government were not prepared to prioritise this during the current parliament. The alternative of a Joint Committee which would allow for a single investment strategy and shared administration function was seen to deliver many of the same benefits as a full merger.

6. The increase in scale associated with this option was seen to lead to savings in a number of areas, being:

   - Reduced investment management fees of 6bps or £3m
   - Introduction of internal management bringing savings up to 13bps or £6.5m
   - Potential for better governance – savings potentially up to 1% or £50m
   - Reduction in staffing, consultancy support etc of £0.5m

7. The business proposal examines the scope for delivering similar savings under options 2 and 3. To achieve similar economies of scale the individual funds would need to look to join a common investment vehicle (CIV) or national procurement frameworks. Whilst a CIV could also include savings through internal management, neither model could deliver the governance savings within existing resources, and only option 2 would deliver savings through a reduction of senior management staff and administrative system support, but at a reduced level of £141,000

8. The ability to achieve the savings under option 1 are fully under the control of the current three administering authorities, as the legal framework for the model current exists. As no current suitable CIVs or procurement frameworks exist, nor could they be set up in the absence of wider support, delivery of the savings under the remaining options is not within the control of the three administering authorities and any timescales associated with delivering such changes is uncertain.

9. In light of the greater clarity of the delivery of savings under option 1, and the greater potential savings following from this option, this remains the preferred option of the three lead officers.

10. The business proposal therefore explores the options for the establishment of the support arrangements for a Joint Committee. A solution based on a private sector organisation is ruled out due to the significant VAT advantages of retaining the function within a local authority framework. Total reclaimable VAT is currently in the region of £1.8m per annum on fund management fees alone across the three funds.

11. This leaves the options of a lead authority or a wholly owned company. On balance, the three lead officers believe that the wholly owned company provides a more sustainable option, which would be better placed to grow new business and retain the work for the three authorities if they wished to revert to individual committees again in the future. This would also have the advantage of allowing a clean sheet in looking to harmonize the terms and conditions of the transferred staff (all three councils operate their own local terms and conditions).

12. The business proposal also contains more detailed information on the proposed new arrangements include draft staffing structures and some of the

steps required to deliver the new arrangements in accordance with a proposed timescale of 1 July 2015.

13. The section on investments and finance also contains further details of potential investment approaches which could be developed under the new arrangements which should contribute to improvements in net investment returns.

Next Steps

14. At this stage the Committee are not being asked for a final decision on the way forward. Instead the Committee are being recommended to initiate two consultation processes to establish the views of key stakeholders including scheme employers and scheme members and their representatives, and separately the views of current staff.

15. The business proposal envisages these consultation exercises being undertaken during October through to December 2014, allowing final Committee decisions on the future arrangements early in the new year, with recommendations to full Council as appropriate.

16. This timeline should also allow for any further discussions with DCLG and the LGA following the recent Call for Evidence and subsequent Government consultation. This can ensure that any final decision is consistent in respect of their intentions for any future regulations.

Other Issues

17. This report and the Business Proposal focus on the implications for this Pension Committee. There will be wider implications which will need to be considered by the Council.

18. The relationship between this programme and the programme to transfer finance and HR services to the Integrated Business Centre at Hampshire is being managed by the same officer programme board, and both are currently working to a July 2015 timescale.

19. There will also be potential implications dependent if the decision is to proceed with a new company or a lead authority, in respect of the provision of support services, including Committee and Legal Services, and the provision of finance and HR support.

RECOMMENDATIONS

20. The Committee is RECOMMENDED to:

(a) consider the detailed business proposal included at Annex 1 to this report;

(b) offer any comments and amendments on the key issues raised in the proposal and agree to consult key stakeholders and staff on the basis of the business proposal (including any proposed amendments); and

(c) determine any further issues they wish to see included in the final report early in 2015 when the Committee will be asked to make final recommendations to full Council.

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Background papers: None
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