

COMMITTEE: PENSIONS COMMITTEE

DATE: 29 JUNE 2009

TITLE OF REPORT: MAKING THE CONNECTIONS; THE LOCAL GOVERNMENT PENSION SCHEME IN WALES

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1. Background

- 1.1 The Welsh Local Government Pension Funds (eight) currently operate within the framework of the national Local Government Pension Scheme and handle assets approaching £7bn, with over 200,000 members and annual expenditure on administration in the region of £7m and fund management costs of approximately £22m. Staff numbers are in excess of 120.
- 1.2 Within the context of the increasing cost of public sector pensions and the increasingly difficult financial environment for local councils, it is extremely likely that this area will come under further scrutiny in the coming years. Of course, in order to achieve savings in costs sufficient to stabilise or even reverse increasing employers' contributions some further measure of scheme reform will be necessary.
- 1.3 However there is a question as to whether the costs involved with pensions administration and investment could be reduced, thus releasing some financial benefits to authorities, by changing the structure of Funds in Wales. Any reduction in costs would of course have to be set against any investment risks and other relevant factors.
- 1.4 It is not clear whether closer working or the merger of funds would actually achieve these outcomes and in order to come to a rational and informed decision Pension Funds would need to examine the potential to achieve economies of scale and consider the scope for potential benefits.
- 1.5 Pension Fund Treasurers have begun to consider the merits or otherwise of this issue. However no detailed work has yet been undertaken and any departure from existing arrangements would require detailed consideration and assessment. The Welsh Pension Funds already exchange good practice, discuss the detail associated with regulatory changes and have worked jointly in producing all Wales newsletters and annual benefits statements. This is important work that should be given due recognition but consideration should be given to the question of whether more fundamental change would yield benefits.

2 Current Position

- 2.1 If we are to come to an informed decision on this issue careful consideration would need to be given to a wide range of issues but the ever increasing pressure on local government finance means that this is a

sensible opportunity to look at the issue.

2.2 The type of issue that may require consideration as part of an Outline Business Case might include:-

- Legal and constitutional issues given the LGPS regulations and designated authority status;
- Governance, accountability and organisational structure issues at both existing local levels and any proposed regional/principality level;
- Strategic Investment funding issues;
- Investment management aspects particularly as it affects people, IT, location, accommodation, cost and contractual issues;
- Service Efficiency;
- Location and Service access;
- Benefits Administration aspects particularly as it affects people, IT, location, accommodation and cost;
- Accounting and financial reporting aspects;
- Communication aspects;
- Timing issues; and
- The broader context and environment of LGPS changes.

2.3 Welsh Local Authority Pension Fund Treasurers have had some initial discussions around this broad issue and formed a view that:-

- Work should be undertaken to establish whether there would be merit or otherwise in considering some form of merger of funds.
- In order to examine the issues they would need to commission a piece of independent work to scope an outline business case and build an evidence base to enable sound consideration to be given to the matter. This would require a tender process to appoint independent external support who would then provide a clear method statement and what options might be worthy of further consideration.
- It was agreed that a totally open minded view was essential and that pre-conceived views in any direction would not be helpful given that options could range from existing or closer collaboration, to sharing some or all functions, to a single LGPS fund across Wales.
- Once external support is secured and, scoping and a method statement agreed, then the Outline Business Case would be progressed and provide a platform for consideration of any subsequent steps if there were a prima facie case that a change to the existing arrangements would prove beneficial.
- The Treasurers group agreed it should continue to act as a Project Board but that additional resource may be required within the project structure in due course if the process were to develop.

3. Next Steps

3.1 Each Fund has been asked to progress this issue within their own administering council so that members may consider the principle of the

Pension Fund joining in the commissioning this work and then subsequently to meeting any cost of the Outline Business Case production.

- 3.2 Only if this initial work is commissioned and carried out will we be in a position to form a view on the merits or otherwise that will either prove or disprove any proposition for change.
- 3.3 The Pension Fund Treasurers would act as a Project Board in commissioning this work and a suitable resource would be identified from one of the Councils to act in a project management role for this initial stage only.
- 3.4 The scope and a method statement would be agreed and then the Outline Business Case would be produced for consideration by all the individual funds.
- 3.5 It would be premature to plan any subsequent stage since any judgments on whether or not to progress beyond the initial stage would be dependent on the Outline Business Case conclusions and subsequent consultation with all stakeholders on that business case.

4. Recommendation

That members agree in principle to the Pension Fund taking part in this joint exercise to commission work and then subsequently to meeting a share of the cost of the Outline Business Case production jointly with the other eight funds.