

The Minister for Local Government
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Dear Minister

I write on behalf of Leicestershire County Council who is the administering authority of the Leicestershire County Council Pension Fund (“the Fund” or “Fund”). The scheme acts on behalf of over 200 employers and over 100,000 members. We are an equal one-eighth shareholder of the LGPS Central limited pool (“the pool” or “pool”). The Fund as at 31 March 2024 is valued at £6.3bn.

The remainder of this letter is intended to respond to the questions posed in the letter dated 15 May 2024 sent to the Chief Executives and Section 151 officers of administering authorities in England.

1. How your fund will complete the process of pension asset pooling to deliver the benefits of scale.

Q: Proportion of assets pooled

57%

This includes Legal and General investment management (LGIM) low-cost passive equity investments that were procured via a competitive tender in 2015 alongside six other local authority members of the LGPS Central pool, prior to the commencement of pooling. The management fees paid are very competitive which has made consideration of moving these monies to LGPS Central cost prohibitive. We are however in conversation with the Pool on how to consolidate all passive equity investments in the most effective manner. This is an objective for the coming year.

For completeness, when excluding the LGIM passive equity investments the total value pooled directly with LGPS Central as at 31.03.2024 is 40.1% of total Fund assets. This 40.1% does not include the significant value of uncalled commitments to the Pools investment products which totals around £385m at 31.3.2024. The value of uncalled commitments if called today would add 6% to the pooled total.

Q: Is there scope for minimising waste and duplication by making use of your LGPS asset pool’s services and expertise in reporting and development of the pension investment strategy? What is your expenditure on pensions investment consultancy?

The Fund spends circa £200k p.a. on investment strategy related services. The administering authority also employs two FTE’s who manage the Funds investment and responsible investment strategies as well as preparing all pension committee (and investment sub committee) papers. The answer to the remainder of this question is complicated by a number of factors:

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- A conflict may exist if using Pool resource for investment strategy purposes and we feel this is best mitigated by use of an external advisor who is obligated to present the best investment proposals (strategy and investment recommendations) from the reviewing whole market that is in line with our fiduciary duty. Before adoption the Fund seeks the Pool's insight into proposals made by the investment advisor with regard to the annual strategic asset allocation review.
- Professional investment strategy and research capability at the Pool is limited given the cost efficiency focus on Pools. The main investment strategy firms servicing LGPS funds have larger, well resourced teams who provide services to a large range of clients not limited to LGPS funds.
- We believe there is more scope to use the Pool for reporting purposes, for example investment performance reporting where the Fund's largest manager (LGPS Central) could collate investment cash flows and performance from the Fund's other managers to produce performance reporting each quarter employing suitable performance reporting software to provide an effective and cost efficient service.

Q: Does your LGPS asset pool have effective, modern governance structure in place which is able to deliver timely decisions and ensure proper oversight. If not, what steps are you taking to make your pools governance more effective?

The Fund has an effective governance process which it has operated since the inception of the Pool. Officer involvement and interaction with senior managers at the Pool is via organised and long standing working groups chaired by the partner fund officers on an agreed rotation.

2. How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.

Q: Does your LGPS fund have effective and skilled governance in place which is able to hold officers, service providers and the pool to account on performance and efficiency?

We have skilled and effective governance in place. The Fund employs officers who have worked within the LGPS for significant number of years and have sufficient knowledge and experience which is adequate to hold the Pool to account. It is worth noting that all eight Partner Funds meet monthly to consider pooling related matters (investment and governance) and feedback to the Pool any actions or concerns who also attend part of the meeting.

The Fund's formal decision making and oversight bodies are well attended and the Fund has a training policy and member self evaluation process which is under continual review. Members of Committee's are required to be conversant with the relevant legislation and be knowledgeable to hold the Fund officers to account.

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In addition, like other administering authorities, we review the objectives of our external investment advisor annually and report amendments and proposals to the Pension Committee for formal approval.

The majority of our investment strategy proposals have been underpinned by external advice. We routinely invite investment managers to present at pension committee meetings in order provide committee members further insight into the mandates and the wider asset class. The Fund also operates up to four more investment sub committee meetings each year to review investment proposals which may require both the external investment manager and investment advisor to attend. LGPS Central is invited to present at Pension Committee meetings to discuss investment performance, responsible investment and developments at the company and also at monthly group meetings with officers which are minuted.

The efficiency of the Pool is formally reviewed annually via the business plan and budget setting exercise. This process requiring budgets and outcomes is presented to both officers and shareholders before a formal shareholder meeting usually held in February each year.

Q: Would you be likely to achieve long term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

The creation of a larger pensions authority (assuming merging of pools) is a far more complex situation requiring the various pooling models to be legally restructured.

There are several areas that need to be considered and resolved when Funds merge administration to enable greater efficiency. This is not an exhaustive list but highlights some key points.

- Administration system. There are several systems in use across LGPS Fund administration, with two main providers. Systems would need to align, workflows built to match between Funds, reporting facilities agreed and cross Fund training to ensure work was actioned and checked correctly.
- Pensioner payroll. Some funds use the pensioner payroll of their pension administration system, some funds use their local authority payroll, other funds use alternative payroll solutions. Pensioner payroll systems would need to align within a merged Fund.
- Actuarial services. There are four main Fund actuaries within the LGPS. Each Fund works with its own actuary to ensure its own funding requirements are best achieved. Aspects of actuarial work, including assumptions, would need to align to provide a consistent valuation of merged funds.
- Each Fund will have procured their system and actuarial provider, some with potentially several years to run. Could there be contractual costs if these were ended early or were amended?

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That said, we continue to look at making efficiency savings through greater digitisation, by enabling scheme members to do more themselves via online tools and member self-service.

Areas where larger merged funds may gain savings more quickly could include;

- Recruitment, retention and training. Funds do spend time and resource recruiting and training staff. Larger merged funds could lend themselves to better more robust training plans, which also helps with knowledge, reduces risk and improves succession planning, negating potential single points of failure.
- Each Fund has multiple policies and processes which could be streamlined under larger merged funds.
- There would be less need for managers, regulatory/compliance/governance, and system colleagues within larger merged Funds.
- Advisory costs likely to be lower if investment strategies and actuarial activity can be aligned.

Other areas for consideration include;

- Implementation and set-up costs for larger merged Funds, including training requirements
- Simplification of LGPS regulation to make administration easier. Rather than continuing to add greater complexity and risk (e.g. the McCloud remedy), pragmatic approaches to dealing with administrative burden could be considered, especially historic retrospective decisions.
- Consultation requirements for employers, scheme members, officers and others
- Which employer would act as the host authority, or would merge funds have their own independence away for the host authority?
- Valuation of private market legacy assets

Maybe a national exercise could be completed to understand where Fund mergers have already taken place and evaluate the pros, cons and lessons learned, to better understand the costs, timescale and efficiencies that may or may not be gained.

Yours faithfully



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