

DCLG RESPONSE RE LGPS REFORM – JULY 2014

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Dear Victoria

Consultation on the Local Government Pension Scheme : Opportunities for collaboration, cost savings and efficiencies

Further to the consultation issued on 1 May 2014 seeking feedback on the future of the Local Government Pension Scheme (LGPS), please find attached as requested, responses to the specific questions posed.

The attached response is on behalf of the West Midlands Pension Fund (WMPF), which provides pension services to over 260,000 current and former employees of the seven West Midlands district councils and over 400 participating employers. It is one of the largest LGPS funds in England and Wales, employing 115 FTE members of staff and as at 31 March 2014 had assets valued at £10.1 billion. WMPF has a substantial internal investment division, including a successful function dedicated to passive index tracking of developed listed equities markets, with some £2.6 billion under direct management.

Whilst the focus of the consultation is on the very important issues of collaboration, cost savings and efficiencies, it is essential not to lose sight of the primary objectives of last year's call for evidence on the structural reform of the LGPS, namely the reduction of fund deficits and the improvement of investment returns. The reduction of fund deficits in particular remains by far the most important issue facing the LGPS. In this context, the achievement of cost savings and efficiencies is just one of a number of components in addressing the primary objectives.

The WMPF Pensions Committee has endorsed the attached response. The Committee's view is that the WMPF would like to work with the government in LGPS collaboration and in the delivery of cost savings and efficiencies.

WMPF firmly believes that internal investment management arrangements deliver good investment performance cost effectively (as evidenced in Hymans Robertson's report). The deployment of passive investment in developed listed equities and gilts makes sense but WMPF does not favour its mandatory use, favouring instead a 'comply or explain' approach. WMPF is fully supportive of collaborative ventures involving LGPS funds and is open minded about the use of CIVs but would not support their mandatory use and would highlight the potential complexities in setting up such vehicles, particularly in alternative investments. We emphasise the attractions and advantages of other forms of collaboration, including National LGPS Frameworks, the Pensions Infrastructure Platform and Investing for Growth.

I hope that this response is a useful contribution to the consultation. Should you wish to discuss further any of the points covered in the attached response, please do not hesitate to contact me.

Yours sincerely

Geik Drever
Director of Pensions