



The Society of London Treasurers

To whom it may concern,

I am writing on behalf of the Society of London Treasurers (SLT) in response to the letter dated 15th May 2024 from the then Minister for Local Government, Simon Hoare, on the topic of efficiencies in the management of Local Government Pension Scheme (LGPS) funds.

As the group representing Section 151 officers across London, with a keen interest in protecting the strength and sustainability of the LGPS in London, we are pleased to report on our ongoing self-improvement efforts, highlight several key issues critical to the continued strength of the LGPS, and outline our critical concerns on more radical harmonization efforts like pension merging.

Consolidation ambitions should be tempered with an understanding of the significant operational risks involved, particularly for scheme members and employers. We welcome open discussions on the benefits of scale while maintaining local accountability in scheme management. The starting point is one of significant variation in the relative strength of funds and then the potential costs associated with any merging of those funds. Ultimately, the local fiduciary responsibility to members of pension schemes must be paramount. Excessive pension consolidation that does not fully take these responsibilities into account could increase the longer-term risk to the sustainability of the LGPS system, threatening local control and reducing diversification.

With this in mind, next year marks the 10-year anniversary of the London Collective Investment Vehicle (LCIV). To date, the LCIV has:

- achieved over £70 million of savings within the London pension system
- over 60% of clients' funds pooled (including passive arrangements)
- worked closely with member funds to create and provide a more diversified suite of investment opportunities than other Pools.

Through the LCIV, London continues to make significant progress realising the substantial benefits of pooled assets (see appendix). The LCIV has proven to be an effective pooling mechanism, enabling funds to benefit from economies of scale, reduced fees and improved access to investment opportunities. However, local authorities have been clear that, given the complexities involved, the 31 March 2025 deadline was not a realistic target for pooling liquid assets and it is therefore not surprising that just under one half of boroughs aim to have achieved this milestone by that date, whereas 31 March 2026 would provide a more realistic and pragmatic target.

The recent regulatory permissions obtained by the LCIV provide substantial opportunities to further reduce waste and duplication by expanding services for reporting and investment strategy development. The LCIV's strong governance model allows for the streamlining of operations and enhance overall efficiency while maintaining crucial local control. The LCIV has established a modern governance structure that supports timely decisions and robust oversight. This includes experienced board members, ongoing training and regular performance audits. A member of SLT (i.e. a s151 officer) is also appointed to the LCIV Board as an observer, providing further oversight.

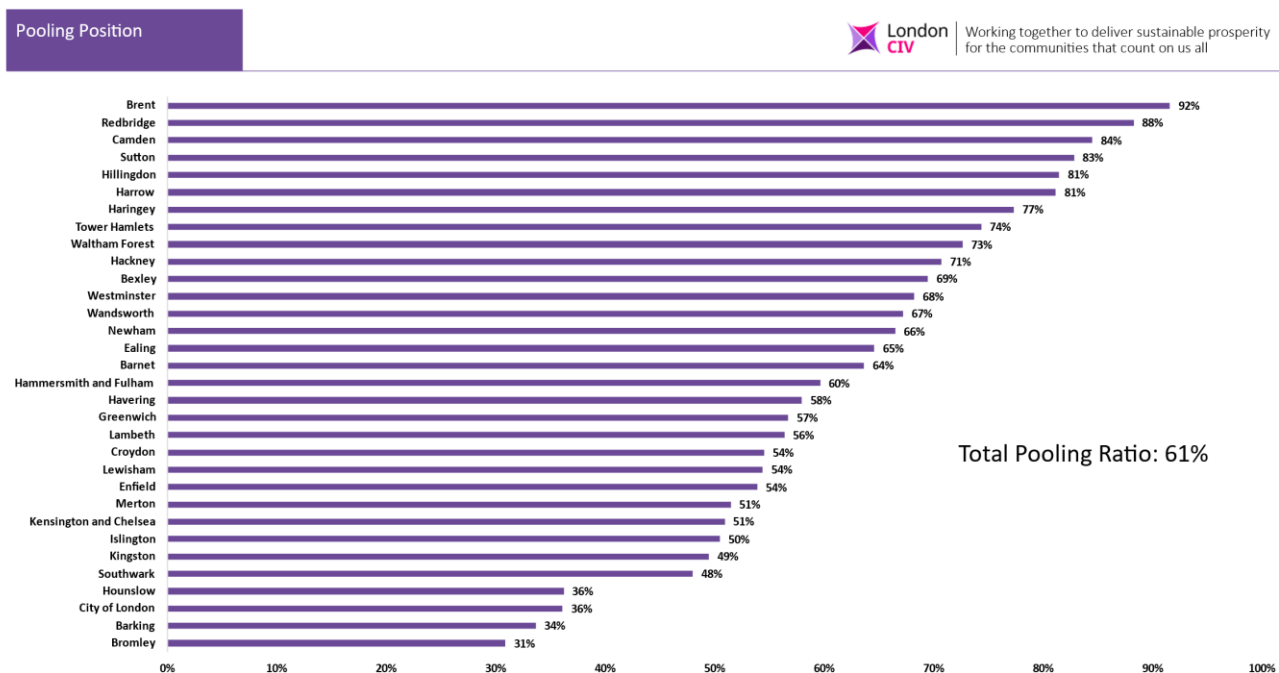
Pension administration is another area of growth where London can build on the work of the LCIV and other existing joint delivery models like the Tri-Borough Treasury and Pensions Team, Wandsworth-led Pensions Admin Shared Service and other models. Roughly half of London boroughs are already utilising one of these models, with the remaining half providing their own in house administration solutions - in an increasingly specialised environment, succession planning and resilience are key risks. By enhancing collaboration and harmonisation across boroughs, improvement to the services offered to pension members can be made. Joint delivery models enable standardisation of processes, share best practices and leverage technology to provide more efficient and higher quality service. This approach ensures that we not only meet the current demands but also adapt to future challenges effectively. The answer here is not necessarily a move to a single function, but instead may be a small number of arrangements, which, as highlighted above, many boroughs are already part of. This allows freedom of competition amongst providers (and subsequently benchmarking and Value for Money for funds), rather than a monopolistic solution.

SLT is committed to optimising asset pooling, maintaining robust governance and exploring efficiency opportunities while carefully managing risks. We look forward to engaging with the new government to improve the management, governance and administration of the LGPS for all stakeholders.

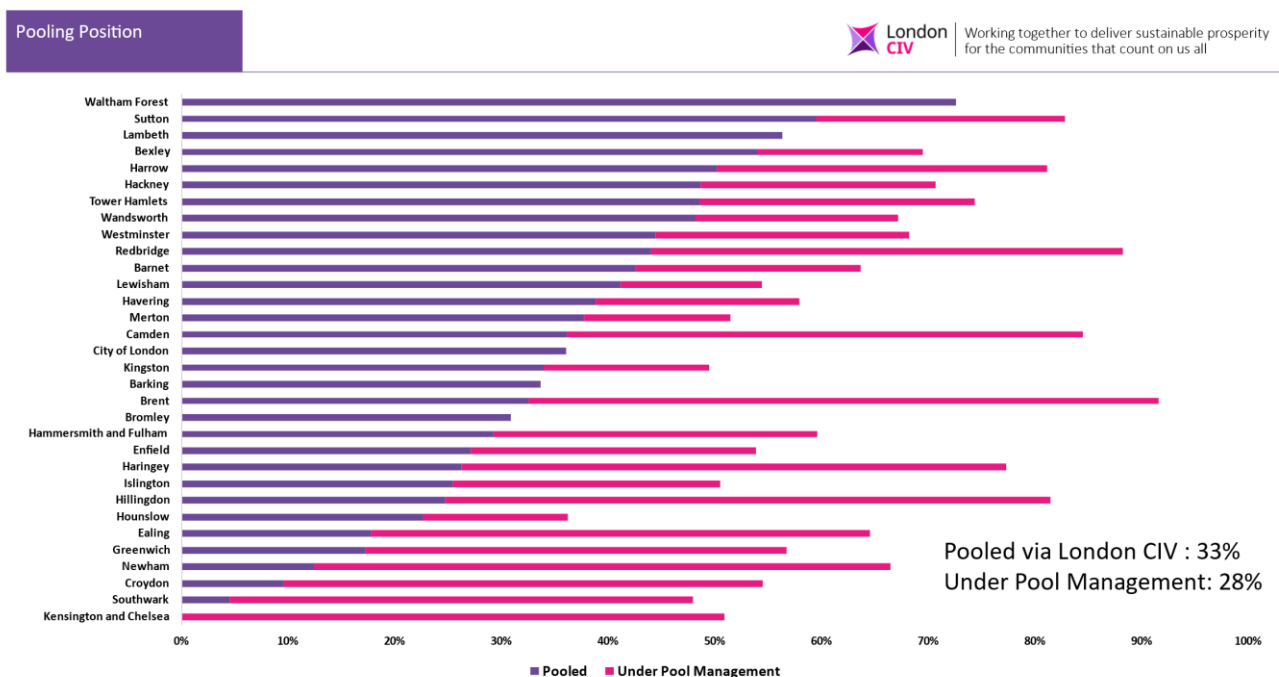
Yours sincerely,

Appendix – London LGPS - Progress on Asset Pooling

Source: London CIV – as of March 31st, 2024



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