

Date: 27.06.24
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Finance & Resources Directorate

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LGF Pensions Team
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Dear Sir/Madam,

Efficiencies in local government and the management of LGPS funds

Thank you for your letter of 15 May 2024 and for the opportunity for Cambridgeshire County Council to set out its approach to efficiencies in the management, governance and administration of the Cambridgeshire Pension Fund.

1. How the Cambridgeshire Fund will complete the process of pension asset pooling to deliver the benefits of scale.

The Cambridgeshire Fund, a member of the ACCESS asset pool, has already completed the pooling of 100% of its listed assets.

The Fund has also pooled or placed under pool governance certain non-listed assets including infrastructure and long-lease real estate. It has plans to transition its UK core real estate allocation to a UK direct real estate portfolio within ACCESS and will redirect new private equity commitments to the pool when this asset class is made available.

The total assets pooled or under pool governance as at 31st March 2024 is 74.8%.

The Fund has already/will shortly benefit from ACCESS reporting services including performance reporting for active listed sub-funds and passive mandates, performance reporting for pool aligned non-listed assets, ClearGlass cost savings analysis, and manager reporting and presentations. Responsible Investment reporting is under development alongside consideration of a Voting and Engagement adviser.

ACCESS does not advise the Fund on investment strategies, and such advice would raise concerns around conflicts of interest, priorities of advice and fiduciary responsibility. The Fund, like the majority of respondents to the 2023 consultation, opposed the proposal of Pools advising funds on investment strategies.

The Fund has spent £399.5k in 2023/24 on investment consultancy advice, representing under 1 bps of total Assets Under Management (AUM).

ACCESS has an effective, modern governance structure in place based around a third-party FCA regulated ACS operator at the heart of the pool, alongside a third-party Investment Manager for passive investments and a third-party implementation adviser for non-listed assets.

The use of third parties has distinct advantages over “built” pool models, including:

- The market can be retested at regular intervals ensuring service, performance, risk management, oversight etcetera remain best in class over time.
- This model avoids conflicts of interest inherent in the “built” pool model such as those related to the performance of in-house investment managers being assessed by the in-house operator function responsible for hiring and firing.

ACCESS has a cohesive structure for day-to-day activity with an efficient centralised support unit overseen by subject matter experts within an Officer Working Group, supplemented by a s151 Officers Group, and a Joint Committee who meet around six times a year or more frequently if required.

ACCESS has considered recommendations following an independent review of its governance arrangements and these recommendations are being implemented. The Fund expects this review exercise to be periodically repeated.

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

The management and governance of the Cambridgeshire Fund is undertaken in partnership with West Northamptonshire Council (WNC), administering authority to the Northamptonshire Pension Fund, under a lead authority shared service model.

This arrangement has provided strong governance arrangements which have been mirrored across the two funds. These arrangements are scrutinised by the Fund’s governance bodies by regular reporting on matters such as administration effectiveness, governance and compliance, business plan progress, risk management, and investment performance.

The service has been able to consistently recruit and retain skilled staff to deliver business as usual as well as an increasing volume of large-scale projects, such as the McCloud age discrimination remedy and Pension Dashboards, as well as projects relating to asset pooling.

The Fund has a strong relationship with the ACCESS asset pool and has a representative sitting on the ACCESS Joint Committee, an appropriate avenue for holding the pool to account.

Voluntarily operating the management and administration of the Fund on a shared service basis in partnership with WNC has led to long-term savings and efficiencies that did not require merger.

The Fund has been able to align business processes, policies, and strategies and will often align the timing of critical decisions between the respective Pension Committees and

Boards, for example bringing a newly developed strategy to the same Committee cycle for each fund.

Procurement activity has been undertaken to procure the same supplier for each fund, sometimes under a single contractual relationship. This has enabled the Fund to obtain both competitive fees due to scale and contractual fee reductions in situations where the same piece of work is undertaken for both funds at the same time.

However, there are limits to the impact of scale on supplier relationships, with local authority charges already significantly below that for the private sector in disciplines such as actuarial and investment consultancy, even prior to the reductions mentioned above. Development costs for the Fund's pensions administration system are already shared across the wider LGPS community – if there were less funds, charges per fund would be expected to go up proportionately.

Furthermore, if there was fund merger this could lead to a less competitive supplier marketplace than exists presently and associated performance concerns; any short-term fee reductions could be reversed as competitors fall away, with the Fund especially having concerns around the competitiveness of the critical administration software supplier marketplace.

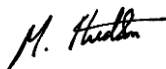
Whilst operating a shared service model has enabled some efficiencies due to the removal of duplicate roles, on the administration side it remains the case, irrespective of scale, that you need a certain number of junior officers to administer each 1,000 scheme members.

The loss of the most experienced officers can also be harmful to the Fund and the LGPS community, with the latter being a particular strength of the LGPS. Any period of uncertainty in advance of mergers could prove devastating to fund administration scheme-wide, which would adversely affect the ability to pay pensions to members as they fall due.

Smaller teams can deliver excellent fund administration, and when larger funds fail the impacts can be devastating e.g. the failed implementation of a software system at a large fund or a cyber breach impacting a large pension provider.

The main costs in the LGPS relate to investments, and these are already being materially reduced through the Government's existing asset pooling agenda, which the Cambridgeshire Fund has evidentially supported.

Yours sincerely



Michael Hudson
Executive Director for Finance and Resources
Cambridgeshire County Council