



Department for
Communities and
Local Government

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

I am writing to inform you that the Government has today launched a consultation in response to the call for evidence into the future structure of the Local Government Pension Scheme. The consultation is available to download from the Government's website at <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>.


The consultation is the culmination of three sources of evidence – the public call for evidence into the future structure of the Scheme; the recommendations of the Shadow Scheme Advisory Board, based on the responses to that call for evidence; and the detailed cost-benefit analysis provided by Hymans Robertson, who were appointed following a competitive tender using the Contestable Policy Fund.

Each of these sources of evidence has played a valuable role in the development of the consultation. The call for evidence emphasised the importance of local presence and accountability. The Shadow Board have highlighted further work and analysis that should be carried out in parallel to this consultation, including their continued efforts to improve the comparability and transparency of fund data and the development of feasible proposals to tackle fund deficits. Hymans Robertson's analysis, which has been published alongside the consultation, has enabled us to take a comprehensive view of the Scheme's performance in aggregate and helped to shed light on the true cost of investment by making use of more detailed and standardised data.

The consultation sets out how the Scheme could achieve significant savings of £660 million a year. It outlines proposals to use common investment vehicles for both listed and alternative asset classes, to help funds achieve economies of scale and deliver savings. Indeed, as the analysis in the consultation will show, using a common investment vehicle to access to alternative assets instead of using a fund of funds, has the potential to deliver savings of £240 million a year once all funds participate. These savings would build gradually, taking up to 10 years for the full annual savings to be realised as existing contracts come to an end.

The analysis will also demonstrate that making greater use of passive management for all listed assets, such as bonds and equities, can deliver savings of £420 million each year through lower investment fees and reduced transaction costs, without affecting overall fund performance. These savings can be achieved quickly, within one or two years.

The consultation outlines the Government's proposals and seeks views on the suggested reforms. It also asks respondents to consider how, if adopted, these proposals might be implemented most effectively. The consultation will remain open until 11 July, and I would ask that you also draw it to the attention of other Scheme employers within your fund. In the meantime, if you have any questions about the consultation or would like to submit a response, please email LGPSReform@communities.gsi.gov.uk.



Victoria Edwards