

Value for Money & Collaboration

Agenda item 6 - Developing best practice value for money guidance

Discussion paper

This paper has been prepared in order for the sub-committee to consider the possible benefit of developing value for money guidance for LGPS pension funds, in particular with respect of procuring services and entering collaborations.

This discussion is borne out of a number of strands:

- the ongoing need to demonstrate that cost effectiveness is being achieved in the Scheme,
- developments such as of the publication of the LGPS scheme annual report which requires a level of consistency and comparability of LGPS data, and
- a desire to make the most of LGPS' size and buying power to achieve the best possible value for money for scheme members and employers.

Value for money guidance would seek to ensure that funds are obtaining the best possible level of service from service providers, such as actuarial advisers, administrators, custodians etc. The benefit of national guidance would be that it would seek to raise the bar for the services provided to all funds nationally and also contribute to a greater level of comparability and consistency between the Scheme's funds.

For example, in April 2014 following discussions at the sub-committee's March meeting, the Board Secretariat commenced a survey of pension funds in order to attempt to achieve a national dataset in respect of LGPS fund investment fees. This survey was subsequently significantly re-worked because many funds were unable to provide the required information due to the non-disclosure agreements they had signed with their investment managers. The much more limited survey subsequently issued was unable to provide the full data set of fees which would have allowed for full comparability to be achieved. It is unlikely that a consistent comparison of investment fees could be achieved in the LGPS without some consistency in what funds require from their investment managers.

In this case, best practice guidance could therefore seek to ensure that contracts between LGPS funds and their investment managers do not include non-disclosure agreements. This would aid transparency of fee data across the Scheme.

This guidance could also include, for example:

- More general guidance as to the matters which should be covered in the contract between funds and their service providers (for example, that funds specify in their contracts with their custodians that fee information must be provided in a certain way to allow transparent reporting of this).
- Suggestions as to the requirements employers should be requesting from their payroll service providers in order that these provide a cost effective service that meets the requirements of the LGPS.
- A list of value for money indicators for use by funds to self-assess the benefits of the collaborations they have entered into.

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In future years, the guidance could also be a test of LGPS funds under the Scheme Advisory Board (SAB) performance measurement framework to ensure that they are applying the best practice standards when tendering for contracts.

Next steps

The sub-committee is asked to consider:

- if there is benefit in the SAB proceeding to prepare this guidance, and
- what other matters could be covered in this guidance to ensure that it is of most benefit to pension funds.

It is proposed that a small working group be established in order that the topics to be included in this guidance be finalised and that the guidance be drafted for subsequent review by the sub-committee.

Board secretariat,
09/12/2014