

Response to Minister letter dated 15th May 2024.

1. How your fund will complete the process of pension asset pooling to deliver the benefits of scale.

- What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?

Shropshire County Pension Fund (SCPF) has pooled 41% of assets with LGPS Central (plus further undrawn commitments which would increase this figure to 47%) and a further 31% in passive equities invested through a joint procurement exercise which was a precursor to pooling.

This latter arrangement is extremely low cost and efficient, operating at a scale no pool company could achieve. The advantages to managing passive funds at scale are overwhelming and this is clearly the most efficient way to manage our market cap passive investments. Shropshire County Pension Fund considers these assets as pooled.

The Fund has other specialist funds, currently 10% of Assets Under Management (AUM), that the pool does not currently provide these include a Hedge Fund, Insurance Linked Securities and a Dynamic Global Bond Fund. These investments provide diversification for the Fund given the high level of public equity investments. LGPS Central does not currently offer similar products after progress on an absolute return fund of alternative strategies was pulled due to lack of commitment from other partner funds within LGPS Central. These allocations will be reduced to 7.5% of the Fund's AUM as part of our latest strategic allocation, as assets are redeemed to meet private market commitments with LGPS Central. We will continue to work with LGPS Central on these alternative strategies, however given the complexity of setting up new funds and asset transitions it is unlikely this will be complete by 31 March 2025.

- Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pensions investment strategy? What is your expenditure on pensions investment consultancy?

LGPS Central (LGPSC) was created to manage investments and has recruited appropriate investment expertise accordingly. SCPF already seek their advice on investment issues, for example a discussion around an absolute return Fund or in respect of our legacy private market assets so that we can transition private market assets into the pool as existing investments mature. However, LGPSC does not have knowledge of our Pension liabilities or future pension cashflows and is not resourced for this purpose. As such they are not in a position to advise on our Strategic Asset Allocation. SCPF has appointed both a Pension investment Consultant and an Independent Adviser for this purpose, who work closely with our Actuary in this respect. We do not incur any other costs on pension investment consultancy.

- Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight? If not, what steps are you taking to make your pool's governance more effective?

LGPS Central was created with an effective modern governance structure. The operation of a regulated company with eight shareholders and customers is a complex process and governance is subject to ongoing review and improvement. The Pool's governance structure is effective and largely able to deliver timely decisions and ensure proper oversight.

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

- Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?

SCPF is fortunate to have a relatively stable Pension Fund Committee who are committed to the management of the Fund and invest time and effort in initial and ongoing training.

Training is provided in person to both Board and Committee and supplemented by online resources to ensure that all those charged with governance have the appropriate skills. The most impactful thing that the Department could do to improve the efficient and effective management of the scheme would be to continue, without delay, the implementation of the Scheme Advisory Board's Good Governance recommendations. The necessary policy discussions have already taken place and this could be implemented within a matter of months of a new government being established.

- Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority.

SCPF measures its cost per member through benchmarking on a regular basis and is already a very low-cost fund. Continual improvement is sought through efficiency measures and through digitisation. This is supported by the digital solutions adopted by the Fund in recent years to improve efficiency and customer service and the further digital developments planned.

Significant collaboration already takes place between LGPS funds with regard to fund administration as well as investment, including via the National LGPS Frameworks, WMPOG (West Midlands Pension Officers Group), the LGPS Joint Communications Working Group & the LGPS Central Strategic Admin Group.

The reduced potential for cost savings on administration and governance costs (which account for around 15% of LGPS funds' total costs) compared to potential savings on investment management costs (which account for around 85% of LGPS funds' total costs) alongside consideration of the potential execution risks of fund mergers mean it is unlikely that sufficient savings could be generated to offset the costs of any fund merger.

Administration systems are often tailored to individual Fund requirements and subject to long term contracts which could significantly increase the costs of any potential merger making the time frame for achieving potential cost savings uncertain. No breakeven analysis has been seen to evidence efficiencies or savings and past experiments in this field have not always been successful.

The Scheme Advisory Board's Code of Transparency project has transformed the transparency around investment costs and we can now have much greater confidence in the figures reported. The 2022/23 Scheme Annual Report shows that total administration and governance costs have increased; however we know that LGPS membership continues to grow and that there are more costly private markets/unlisted assets under management. Implementing the changes needed for the McCloud remedy has proved financially costly for funds, even if the impact on liabilities has not been significant. Administering an increasingly complex scheme will remain a challenge for funds. Any ambition for the achievement of long-term savings and efficiencies through consolidation does

not come without significant operational risks, particularly affecting scheme members but also employers. These risks need to be properly understood and appropriately managed. We would welcome an open discussion about the possible benefits and limitations of scale, and the role of local accountability in the management of the scheme.