Appendix D

Warwickshire Pension Fund Productivity Plan

Warwickshire Local Pension Fund (WPF) has £2.9bn of assets under management, with 58,034 members. Warwickshire County Council administers the fund on behalf of 236 employers.

WPF is a client and shareholder in Border to Coast Pensions Partnership (BTCPP), one of eight pension pools created since 2015, which managed around £60bn in assets at the end of March 2023. Border to Coast has submitted its own response to the productivity plan, with the support of its member funds.

We strongly believe that WPF's sole responsibilities are, and must continue to be, the administration and payment of pensions to its members, whilst ensuring contribution rates for employers are kept as cost effective as possible. This requires WPF to deliver those objectives as efficiently as we can whilst delivering a quality service to its members.

How we will complete the process of pension asset pooling to deliver scale benefits

In line with Government policy, WPF has embraced pooling to increase efficiency, productivity and impact, and reduce costs. At the end of 2022/23, 77% of WPF's assets were considered to benefit from pooling, including both funds managed by BTCPP and passive funds managed by LGIM. The remaining assets were invested in sector specific funds for which there was no equivalent opportunity to invest within the pool.

Our advisers' most recent estimate is that pooling has saved WPF £4.8m in costs to date. However, cost is only one part of the value for money equation, and investment performance is arguably a more important factor in the net cost and benefit of WPF's investment strategy.

The Fund will not have pooled all investments by March 2025. The reasons for this include:

- Where WPF can get lower costs outside of the pool, for example passive tracker funds which are effectively pooled but there is no cost saving from using the Pool.

- Where the pool does not have a product that adequately meets the investment requirements of the Fund. The additional scale of pooled funds provides various benefits, but scale requires enough partner funds to require a given investment product. If a product does not meet the strategic investment needs of a Fund then the fact that it is low cost may not be adequate compensation. LGPS Funds can (and do) compromise on their requirements to access the benefits of pooling but only where this aligns sufficiently with the investment strategy of the Fund.

- Where the cost of transitioning assets by 2025 would be prohibitively expensive and the Fund could achieve better value for money by transitioning over a longer timescale, for example in respect of more illiquid assets.

The objective of pooling is to promote efficiency; in general it is achieving this but there may be specific circumstances where pooling does not provide a better outcome for an LGPS Fund. In such situations WPF has a fiduciary duty to make the right decision for its members and employers, but at the same time we are also working together with BTCPP and our partner funds to develop long term products and solutions that will be able to meet all of the needs of WPF that the pooling agenda is expected to deliver.

The Pension Fund Investment Sub-Committee takes its fiduciary duty to the WPF members and employers extremely seriously and will take all investment decisions in the long-term interests of the Fund, employers and members. We are committed to pooling our remaining assets, when appropriate and economically efficient, and will conclude this process as quickly as possible, taking account of the three factors in the bullet points above0.

We are working with BTCPP and partner funds to develop further pooled service offers that may offer benefits such as reduced costs and increased resilience, including support for member funds in developing their investment strategies. WPF is broadly supportive of this offering which could reduce our current spend on external advisers, but WPF will always need some advice from other sources, for example if we were concerned about conflicts of interest, or performance/value for money. Our spend on advisers is volatile and in the short-term has fluctuated because of the due diligence work needed ahead of transitioning assets into pools, averaging £237k over the last two financial years.

While it is taking time to see consistent investment performance against both benchmark and target across some BTCPP asset categories, the establishment of BTCPP as a pool has been a success. BTCPP has an effective governance structure in place, and partner funds are well-engaged. The Pool has won the LAPF Investment Award for Pool of the Year on three occasions, most recently in 2022/23. BTCPP also won the Pensions Expert and DG Publishing's Innovation Awards in the Innovation and Audience categories.

How we ensure our LGPS fund is efficiently run

WPF has a well-established committee structure and mature, independently chaired Local Pension Board, with knowledgeable and confident members who offer constructive challenge to officers regarding performance and efficiency.

The Fund openly shares performance insights and invites the Board's input on all matters of administration and governance and Committee and Board members contribute freely to these discussions.

We conduct a regular training needs analysis and have an agreed training plan for committee and board members, designed to ensure they have the skills they need for effective governance.

Our view is that the key strength of the administration of WPF is its close knowledge of its 58,034 members and 236 employers. From a customer perspective, our members value dealing with a Fund that has strong local understanding and effective relationships with employers. These allow us to work successfully with employers in order to resolve key issues quickly and efficiently, minimising the number of employer breaches. This helps us meet the Fund's core objectives in a sustainable way – that benefits are paid to members accurately and on time, funds are available to pay benefits when they fall due, and that employer contributions are kept stable and low.

We understand the potential efficiencies and long-term savings from larger pools and are supportive in principle of larger pools as long as the cost/benefit case is evidenced and that this can be shown to be consistent with the Fund's fiduciary duties.

There may be opportunities for some Funds of merger, where this is appropriate, in relation to governance costs, for example supporting committees and boards, IT licence costs, consolidation of policies and review processes. However, we do not believe there would be any significant savings for casework as the number of members and employers will continue to grow and there are few efficiencies in dealing with the casework in a larger fund, and risks of losing local focus and local relationships, potentially generating more queries, complaints, and overheads, the costs of which would swallow up, and potentially exceed, any capacity savings that might be generated.

As a result, we are sceptical that larger funds would automatically generate long-term efficiencies. It is also important that Government does not mandate mergers which could create winners and losers in the consolidation of assets and liabilities and creates significant risk to employer contributions and additional transitional costs, as well as risking uncertainty from fluctuations in contributions levels for employers. In our view it is more appropriate for Government to focus on delivering the pooling agenda and moving to fewer, larger pools, as set out in the Autumn Statement 2023, allowing consolidation of funds to emerge organically and voluntarily.

As well as challenging LGPS funds' efficiency, it is equally important to have appropriate arrangements and scrutiny in place to assess the value for money being provided by LGPS pools in terms of performance net of fees, alignment of products to investment strategies, and cost savings.

The most impactful thing that the Department could do to improve the efficient and effective managing 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.

The 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 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.

Minister of State DATE
LGpensions@levellingup.gov.uk

Dear Minister

Efficiencies in the LGPS

We are writing on behalf of our partnership, constituted of 11 Local Government Pension Schemes (LGPS) Administering Authorities ('Partner Funds'). We are responsible for over £64bn of investments on behalf of over 1.1 million members, employed at over 2,800 participating employers.

We welcome your letter of 15 May and share a common vision of ensuring we have a strong and resilient framework in which we can continue to deliver the pensions of our members in a cost effective and sustainable manner.

While each Partner Fund will respond individually, we thought it might be helpful to outline our collective thoughts on three areas which we know are of particular interest to you. We would be happy to engage further on the points raised in this letter.

Completing the pooling journey

Since 2015 the policy intent on pooling has been clear: to develop pools to drive down investment costs and to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy. We have delivered against this policy intent. In total, we have pooled over 80% of investments with clear plans to increase this in the years to come. Border to Coast is now the largest asset manager outside London or Edinburgh.

This has not occurred naturally or easily. It has required commitment, dedication, and compromise across our partnership to achieve this. We also recognise this is an ongoing journey. Indeed, this year we refreshed our partnership principles which guide how we work together (attached) and this reflects the common commitment of each Fund as equal shareholders. This guides how we work and hold each other to account. But, while working with a common vision, it is the heterogeneity of views from 11 sovereign Funds that has contributed to our success – debate and diversity delivers improved decision making. In the spirit of partnership, we recognise that progress on pooling can most quickly be delivered when there is a presumption to pool – and all parties (whether the pool, Funds, or external parties such as consultants) work on this basis.

Part of our journey is ensuring decisions are made at the appropriate place. It is recognised that 80- 90% of investment returns can be attributed to asset allocation. As such, our Funds focus their energies on areas of Strategic Asset Allocation with investment implementation being delivered through Border to Coast.

Ensuring the sustainability of the Funds

We share your desire to ensure individual funds have the capacity and resilience to deliver their role in an effective and efficient manner. The LGPS delivers significant value – the typical member is a 47-year-old woman earning c.£18k a year. It's also incredibly efficient – it costs around half that of the unfunded public sector DB schemes[1] and lifts many recipients out of scope for means-tested benefits. And it delivers each £1 of retirement income 50% cheaper than DC schemes[2]. We are therefore mindful on what we can do to ensure its long-term good health. It is our belief that good governance is the most effective solution to achieving this.

We regularly review our individual and collective governance arrangements to ensure they remain optimal and seek to reflect the recommendations of the final Good Governance Report. We note the final draft of Good Governance provisions (Feb 2021, but never formally published) set out a mechanism for assessing individual funds on a range of factors through a biennial Independent Governance Review (IGR). The introduction of an IGR can enable the identification of poorly governed Funds. Indeed, these provisions could be enhanced (e.g. by including a requirement for a pooling transition plan, and assessment of its credibility / progress). Those Funds that fail to meet the high standards expected would be expected to find a solution (whether through enhanced Governance or, where this is likely to deliver improved outcomes, via Fund consolidation). That said, any potential change needs to be considered in detail against the potential for it creating additional management layers and thus diseconomies.

We recognise the benefit pooling is delivering for the collective capacity, capability, and resilience for our partnership. Whether it is providing more effective access to Private Markets, our role as active stewards, or meeting reporting requirements, pooling is strengthening our individual and collective sustainability.

Investing in the UK

While Border to Coast was established as a global investor, supporting UK based pension funds, we recognise the benefits of investing domestically. Indeed, our 11 Partner Funds have within them some of the most deprived areas in the UK. We therefore welcome the opportunity to make investments in the UK that have the potential to create growth; including creation of jobs, drive productivity, improve people's quality of life and better health and wellbeing outcomes – but this should only be delivered if there is no adverse impact on the delivery of pension fund objectives.

Whilst asset allocation is a decision for each Fund, of the c.£45bn of investments directly pooled, c.£10bn is currently invested in the UK, and we anticipate this will increase with the launch of our UK Real Estate fund, which has the potential to grow to over £4bn.

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[1] The average employer rate for the LGPS is 21.1%; in the unfunded public sector DB schemes rates vary from 23.7% (NHS), 28.6% (Teachers), 36.2% (Fire), and 38.7% (Police).

[2] The report, "A Better Bang for the Buck 3.0: Post-Retirement Experience Drives Pension Cost Advantage," says a typical DB plan has a 49% cost advantage compared to a typical DC plan account, due to higher investment returns, optimally balanced investment portfolios, and longevity risk pooling.

We are also driving innovation on how we can deliver investment in the UK. This year we launched an innovative £0.5bn ‘UK Opportunities’ strategy. It is designed to direct long-term high-quality investment into ‘productive finance’, investing in areas such as new-build housing, transport, energy and growth finance, supporting new building and development across the UK.

We are happy to discuss any element of this and look forward to working with the Government on how we can collectively deliver for the 6.1m members of the LGPS.

OUR PARTNERSHIP PRINCIPLES

*“**As a group of equal partners, we commit our assets and collective efforts alongside Border to Coast to responsibly deliver better outcomes for our stakeholders**.”*

This will be achieved by all parties involved committing to the following:

1. Deliver central government’s objectives for pooling while seeking to create a future of our own that benefits scheme members and employers.
2. Work together openly as equal partners with a one-team ethos, focused on delivering mutual benefit.
3. Invest responsibly.
4. Respect the sovereignty of individual Partner Funds over strategic asset allocation and deliver effective oversight of the operation of the Company and the wider partnership.
5. Work collaboratively with each other and the Company to achieve the best possible sustainable risk adjusted returns and ensure payment of pension benefits as they fall due.
6. Improve resilience and capacity for partners both through the Company and through our own collective efforts to exploit opportunities to both improve efficiency and effectiveness and learn from each other, sharing good practice nationally and internationally.
7. Deliver investment choices for partners through maintaining and developing the Company’s capacity to manage money internally, through the procurement of external managers, or hybrid solutions.
8. Maintain a shared team with a common culture.
9. Use our collective voice to support both the achievement of our responsible investing goals and to advocate for the positive benefits of collaboration and pooling within the Local Government Pension Scheme.