

The Minister For Local Government
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Dear Minister

Thank you for the letter of 15 May requesting us to set out our approach to achieving efficiencies in the management, governance and administration of the Somerset Council Pension Fund (SCPF) and Brunel, our investment pool. We have set out the response under the headings included in your letter, and this response has been formally adopted by the Pensions Committee at their meeting of 14th June.

Before addressing your specific questions we would like to make a general point. Since the 1st April 2014 the Somerset fund has introduced the new scheme benefits as required by the 2013 regulations, merged its member administration team with that of the Devon Fund to form Peninsula Pensions, created a local Pension Board, created Brunel Pension Partnership Ltd along with 9 other LGPS Funds to manage our investments more efficiently and transferred 95% of our assets to Brunel. In addition to this we are already working on implementing the LGPS' McCloud solution, Pension Dashboards and The Pensions Regulator's new general code. Promised from Government are further changes when they implement the LGPS Scheme Advisory Board's recommendations coming from their Good Governance Review, the LGPS equivalent of the TCFD reporting and a steady stream of evolving direction on how we should invest our assets. In this period the Somerset Fund's annual report has more than doubled in length from 118 pages to 251 pages.

This is a monumental level of change and what the LGPS needs more than anything is a period of stability to further digest these changes and drive efficiencies from the current model rather than impose further change, which on each occasion comes with up-front costs.

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

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

The SCPF completed the transition of its listed assets to Brunel a full 3 years ago in June 2021. Brunel now manages in excess of 95% of our assets. The remaining assets are our pre-pooling private equity portfolio, which we expect to naturally mature and return all capital by 2029, and the SCPF's cash holdings, which is managed at minimal cost by Somerset officers.

b. 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 pension investment strategy? What is your expenditure on pensions investment consultancy?

SCPF is content that it already makes use of Brunel's offering wherever it is most efficient and cost effective to do so but feels that it is critical to balance this with high quality internal officer resources to provide advice without any conflicts of interest. This officer expertise is also critical in our role of holding our pool to account. The SCPF is proud to say that due to the quality of its officers it has not spent a single pound on investment consultancy services in 15 years. We do supplement the officer advice with an independent investment advisor to the Pension Fund Committee at a very modest salary.

c. 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?

When safeguarding our members' pensions and public funds more widely the need for an efficient governance structure has to be balanced with democratic oversight and transparency. Getting this balance correct is always a challenge. We believe that within the Brunel pool we do have an effective and modern governance structure but that doesn't mean it cannot be improved further. We are continually working within the Brunel pool on this and have just completed a thorough governance review which has resulted in fewer decisions being subject to formal approval by the member Funds and therefore streamlining decision making. This is an on-going process, and we fully expect to make further adjustments as the pool and its role evolves going forward.

2. How do you ensure your LGPS Fund is effectively run, including consideration of governance and the benefits of greater scale?

a. 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?

In a Government setting, where Councillors change at each election, it is a challenge to retain knowledge and skills, however we feel we are meeting this challenge. Within the last year we have undertaken an audit of our committee's knowledge and skills and are committed to providing training as necessary through an agreed policy, to ensure all decisions are taken with an appropriate level of expertise. SCPF believes these arrangements could be enhanced by the formal adoption by the minister of the recommendations of the Scheme Advisory Board's Good Governance Review.

b. 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?

The largest costs met by SCPF are with respect to investment management and our pool costs, these are already remarkably low and on the presumption that fund mergers were within the pool, would not be impacted. The next most significant cost is servicing the membership and employers, we have already created a significant sized shared service with the Devon fund in this area and believe that costs are broadly a ratio of the number of members and employers and as such further mergers would have a minimal impact. It is possible that some savings in other areas might be achieved but these would not be significant and would need to be balanced by the explicit transition costs and inevitable initial loss of efficiency we have witnessed in creating both Peninsula Pensions and Brunel. For SCPF we have yet to cover the costs of our transition to Brunel through fee savings and feel a further round of expensive consolidation would not be optimal at this stage.

For and on Behalf of the Somerset Council Pension Fund.

Jason Vaughan - Executive Director – Resources and Corporate Services (Section 151 Officer)