WRITTEN MINISTERIAL STATEMENT

DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT

Local government pension scheme

The Parliamentary Under-Secretary of State for Communities and Local Government (Brandon Lewis): Under the last Administration, the cost of the Local Government Pension Scheme in England to employers (which is ultimately paid for by taxpayers), almost quadrupled from £1.5 billion a year in 1997-98 to £5.9 billion in 2010-11. This reflects the failure of the last Government to reform public sector pensions.

This Government has taken a series of steps to protect taxpayers' interests and ensure the long-term sustainability of public sector pensions. The cost of the Local Government Pension Scheme to taxpayers has fallen in the last two years, but the cost to households of town hall pensions is still very high – the equivalent of around £250 per tax paying household. To illustrate this, I have placed in the Library a table showing the cost of employer contributions to each pension fund authority in the last year.

Council pension funds spent £374 million on investment management costs in 2012-13. There is massive variation in fees. The quarter of funds with the most expensive fees paid more than four times as much as the quarter of funds with the cheapest (*research by Investor Data Services*, May 2013). This illustrates the scope for administrative savings that could be made from greater joint working. In addition, there is also potential to increase investment returns.

The Government has today launched a consultation that sets out how fund authorities in the Local Government Pension Scheme can deliver significant savings of up to £660 million a year, by adopting a more collaborative and efficient approach to investment. The consultation, which has been developed closely with the Cabinet Office, also provides a response to the call for evidence into the future structure of the Scheme which closed at the end of September.

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 detailed cost-benefit analysis provided by Hymans Robertson, who were appointed following a competitive tender process using the Contestable Policy Fund.

Having considered these sources of evidence, it is clear that using common investment vehicles for both listed and alternative asset classes can help the funds achieve economies of scale and deliver savings. Indeed, as the analysis in the consultation demonstrates, using common investment vehicles to access alternative assets instead of investing in fund of funds has the potential to achieve significant savings, rising to £240 million a year after ten years, if all funds participate.

The evidence also shows how making use of passive fund management for all listed assets, such as bonds and equities, can deliver substantial savings. Adopting passive management for listed assets would achieve savings of £230 million each year through reduced investment fees and a further £190 million in lower transaction costs, without affecting overall fund performance; these savings can be achieved quickly, within one or two years.

The consultation, which will remain open until 11 July, outlines the Government's proposals and seeks views on the proposed reforms. It also asks respondents to consider how, if adopted, these proposals might be implemented most effectively. I will update the House in due course.

I have placed copies of the associated documents in the Library of the House