



Ministry of Housing,  
Communities &  
Local Government

# Local Government Pension Scheme: Northumberland and Tyne and Wear Pension Fund merger

Government response to policy consultation



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# Contents

<b>Introduction</b>	<b>4</b>
<b>Merger of Northumberland and Tyne and Wear Pension Funds</b>	<b>5</b>
Background	5
Summary of responses	6
Government response	6

# Introduction

1. On 20 March 2020, the Secretary of State for Housing, Communities and Local Government opened a consultation<sup>1</sup> and published draft regulations to give effect to a proposed merger of the Local Government Pension Scheme (LGPS) funds maintained by the South Tyneside Council ('South Tyneside') and Northumberland County Council ('Northumberland').
2. This document summarises the responses received to that consultation and outlines the approach we are taking to the proposed merger.

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<sup>1</sup> <https://www.gov.uk/government/consultations/proposed-merger-of-the-northumberland-and-tyne-and-wear-pension-funds>

# Merger of Northumberland and Tyne and Wear Pension Funds

## Background

3. Northumberland and South Tyneside are administering authorities of the LGPS, in respect of the Northumberland and Tyne & Wear Pension Funds respectively. In December 2019, the two authorities submitted a joint application to the Secretary of State for a merger of the two pension funds, to be effective from 1<sup>st</sup> April 2020.

4. The December 2019 paper set out the applicants' case for the proposed merger:

- Northumberland is one of the smallest LGPS funds in England and Wales. The application noted that costs per LGPS member generally reduce as fund size increases because a significant proportion of the costs incurred in administration and governance are on a "per fund" basis. Following merger, the resultant, larger LGPS fund should, therefore, result in lower administration costs per member and participating employers paying lower employer contribution rates in the long term.
- The two authorities are 'next door neighbours' with very similar investment and funding strategies and have been collaborating for some time. For the last two years they have operated a successful shared pensions administration service. A full merger of the two funds was considered to be the next logical step and should further improve service delivery and provide for efficiencies and economies of scale.
- Changes affecting the LGPS in the last decade (including the introduction of the career average scheme in April 2014, oversight by the Pensions Regulator, the application of the Markets in Financial Instruments Directive II and the Data Protection Act 2018) have significantly increased the complexity of the LGPS, and therefore the specialisation, skills and volume of work required to administer it and provide a good service. It is a major challenge for LGPS funds, especially smaller ones, to provide a value for money service for their participating employers.

5. Whilst it was acknowledged that there would be implementation and transition costs for the merger, the applicants set out their view that these should be offset within 1-3 years, principally due to the expected efficiencies savings of running a merged fund. The authorities estimated that administration and governance savings would be around 10-12% per annum.

6. In relation to asset pooling, it was proposed that a merger of the two funds would enable Northumberland's assets to transfer to Borders to Coast Pensions Partnership (BCPP) at lower cost than would have been the case without merger. Under the proposal, the movement of Northumberland's assets into BCPP would be taken at the same time as aligning those assets with the Tyne and Wear fund's new target investment strategy.

7. On 20 March 2020, MHCLG commenced a formal consultation on the proposed merger and the terms of that merger. The consultation included draft regulations for the implementation of the merger. It was proposed that such regulations would be made under

powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013 (“the 2013 Act”). Under Section 3(5) of the 2013 Act, the regulations require the consent of HM Treasury before being made.

## Summary of responses

8. The consultation closed on 1 May 2020. The Government received three responses to the consultation, from South Tyneside and Northumberland, as well as from one of the other local authorities in the area, Gateshead Council. All responses reiterated the authorities’ support for the merger. The responses from South Tyneside and Northumberland confirmed their view that merging the funds will result in benefits for scheme members and employers.

9. No further comments were made on the consultation proposals by the respondents, nor on the draft regulations which were attached to the consultation as annex B.

## Government response

10. After careful consideration, the Government has decided to proceed with the merger of the two pension funds. The joint application which was submitted to the Secretary of State in December 2019 set out a strong case for the merger of the two funds and outlined the support from key parties including both local pensions committees, both local pension boards and the six principal local authorities in the area. The supportive responses to the consultation show there remains an appetite to proceed on the basis outlined.

11. A statutory instrument implementing the changes contained in the draft regulations which were consulted upon has been signed by the Minister and Lords Commissioners of Her Majesty’s Treasury. It will be laid before Parliament at the earliest opportunity, alongside an Explanatory Memorandum.