

To: Finance, Resources and Customer Services Policy Board

On: 14 November 2018

Report by: Director of Finance and Resources

Heading: Consultation Response – Review of the Structure of the Scottish Local Government Pension Fund

1. **Summary**

1.1 A review of the structure of the Scottish Local Government Pension Scheme was launched in June 2018 at the request of the Cabinet Secretary for Finance and the Constitution to establish views on whether outcomes for members could be improved by altering the structure of the scheme.

1.2 The consultation closes on 7 December 2018, and a response has been compiled on behalf of the Council which is attached to this report.

2. **Recommendations**

2.1 Agree the draft response attached at Appendix 1 to the report.

3. Background

- 3.1 A review of the structure of the Scottish Local Government Pension Scheme was launched in June 2018 at the request of the Cabinet Secretary for Finance and the Constitution to establish views on whether outcomes for members could be improved by altering the structure of the scheme.
- 3.2 The consultation is being carried out by the Scheme Advisory Board, who have commissioned the Pensions Institute to undertake the consultation. The consultation was launched during June 2018 with the publication of a report. The report and response form are available from: <http://lgpsab.scot/consultation2018/> .
- 3.3 The consultation seeks to establish the views of employers and employee representative groups on whether outcomes for the members and sponsors of the Scottish Local Government Pension Scheme (SLGPS) can be improved by altering the structure of the scheme. The consultation asks these stakeholders to compare the advantages and disadvantages of the current scheme structure against three options that, by differing degrees, consolidate the functions of the scheme's 11 constituent funds by collaboration, pooling and merger.
- 3.4 The 4 options identified in the Consultation Report are:
- retain the current structure with 11 funds
 - promote cooperation in investing and administration between the 11 funds
 - pool investments between the 11 funds
 - merge the 11 funds into one or more funds.
- 3.5 Employer and employee representative organisations are asked to respond to the questions in the form accompanying the report and return it via email to the Pensions Institute no later than **Friday 7th December 2018**. A response has been developed by Council officers which is attached for members approval.

Implications of the Report

1. **Financial** – the SPF funding position is currently 118%, which means there is no need for an increase for all local government members of the Fund in the current triennial valuation period to 2021. Any underperformance in the investment management of the Fund could result in increased levels of employer contributions moving forward.
2. **HR & Organisational Development** - none
3. **Community/Council Planning** – none
4. **Legal** - none
5. **Property/Assets** - none
6. **Information Technology** - none
7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** - none
9. **Procurement** – none
10. **Risk** – any changes to the structure of the Funds would require to be based on sound evidence and analysis of the risks involved; including any possible mitigation measures.
11. **Privacy Impact** - none
12. **Cosla Policy Position** – not applicable

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Review of the Structure of the Scottish Local Government Pension Scheme

CONSULTATION RESPONSE FORM

Instructions

Responses in this form should be drafted in conjunction with the accompanying consultation report. To respond, please complete the **respondent details** and as many of the **consultation questions** your organisation wishes to complete and return the form via email to the Pensions Institute at consultation@pensions-institute.org no later than **Friday, 7 December 2018**.

This consultation is being conducted in electronic form only, so **responses must be emailed**; hard copy posted or delivered responses cannot be received. Any queries about the consultation should be addressed to Matthew Roy, Fellow, Pensions Institute at matthew.roy@pensions-institute.org.

RESPONDENT DETAILS

Name of responding organisation(s)

Please list the full name of each organisation participating in this response.

Organisation type

Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation.

Renfrewshire Council

Employer (Local Authority)

Authors

Please list any people that wish to be recorded as authors of this response, including name, job title and organisation.

Consent

Please confirm each author consents to their information being retained for analysing the consultation responses by writing 'confirm' by their name.

Alastair MacArthur, Head of Finance

Confirm

Date

Please date the response.

14 November 2018

Covering information

If you wish to include covering information with your response, please include the text here. The text can wrap onto additional pages if needed.

We have contained our comments to the final general comment section in each question as opposed to answering each specific sub-question.

This response was approved by the Renfrewshire Council Finance, Resources and Customer Services Policy Board on 14 November 2018.

The consultation questions follow.

CONSULTATION QUESTIONS

Question 1: Retain the current structure with 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *How well informed do you feel about the investment costs in your fund? What information do you rely on to specify and measure these?*
- *How well does the current system manage investment costs?*
- *How would you improve the measurement and management of investment costs in the current system?*

b) Governance:

- *How well informed do you feel about the governance of your fund? What information do you rely on to measure this?*
- *How well is the current system governed?*
- *How would you improve governance of the current system?*
- *How important is it to maintain a local connection with respect to oversight and strategy?*

How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?

c) Operating risks:

- *How well informed do feel about the operating risks of your fund? What information do you rely on to specify and measure these?*
- *How well are operating risks managed in the current system?*
- *How would you improve the measurement and management of operating risks in the current system?*

d) Infrastructure:

- *How well informed do you feel about your fund's investments in infrastructure? What information do you rely on?*
- *How do you rate the current system's ability to invest in infrastructure?*
- *How would you increase investment in infrastructure in the current system?*

e) Do you have any additional comments about this option?

[The Council believes that engagement with our local Fund \(Strathclyde Pension Fund - SPF\) continues to be satisfactory and that information we require to judge performance](#)

is available as required. The governance structure of the Fund works well and as an employer member we are actively engaged and consulted with regards the operation, performance and development of the Fund. A review of LGPS governance in 2016 undertaken by KPMG outlined that many elements of good governance are largely in place across Scotland.

The Council is supportive of the approach SPF has taken with regards infrastructure investment – balancing risk and return in members' best interests.

The Council participates in the SPF AGM at which information is provided with regards investment performance, risks and investment strategy; in addition to key areas of investment benchmarking and governance.

The Council has active involvement in investment strategy, governance and stakeholder engagement through elected member representation on the Pension Fund Board.

In terms of investment management costs, care needs to be taken in ensuring that costs are evaluated on the basis that good value for money is being delivered – absolute costs are not necessarily the most important factor. Paying higher fees in order to deliver better overall active investment performance can also deliver best value.

Question 2: Promote cooperation in investing and administration between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think promoting agreements between funds would have on investment costs?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

b) Governance:

- *What impact do you think promoting agreements between funds would have on governance?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

c) Operating risks:

- *What impact do you think promoting agreements between funds would have on operating risks?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

d) Infrastructure:

- *What impact do you think promoting agreements between funds would have on funds' ability to invest in infrastructure?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

e) Do you have any additional comments about this option?

The Council understands there is already joint working between the 11 Funds, including procurement framework agreements, member communications and due diligence on investments. The Council is supportive of further joint working where possible and where this would achieve greater efficiency, improved costs or potential improved performance within the existing governance structures.

Given the size of the Strathclyde Fund there is potentially limited if any further economies of scale which would secure further savings in terms of fees, however this

may not be the case for other smaller funds, where greater opportunities for cost savings in terms of investment management fees may potentially exist.

In terms of investing in infrastructure there may be benefits if an approach could be adopted which shared risk across several pension funds.

Question 3: Pool investments between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think pooling investments between funds would have on the cost of investing?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*
- *If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?*
- *Under which circumstances should the SLGPS consider directing funds to pool?*

b) Governance:

- *What impact do you think pooling investments between funds would have on governance?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

c) Operating risks:

- *What impact do you think pooling investments between funds would have on operating risks?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

d) Infrastructure:

- *What impact do you think pooling investments between funds would have on funds' ability to invest in infrastructure?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

Do you have any additional comments about this option?

The pooling of funds would need to be prefaced by strong evidence that current arrangements are sub-optimal and/or underperforming which would justify the potential start-up costs, local governance dilution and potential changes in investment strategy which would follow. The Council would be cautious of a drive to implement wholesale pooling based on the assumption that "bigger is better"; or as a route to increased infrastructure investment – fund reorganisation would need to

be based on demonstrable benefits to members; not driven by wider public policy intentions.

Strathclyde Pension Fund has recently confirmed there is no need to increase employer contributions following the recent triennial revaluation as the Fund is 105% funded. In addition, the Fund has secured numerous national awards relating to scheme management and overall performance.

While the Council would agree continuous improvement now and in the future is desirable, current performance suggests there is no immediate requirement to address performance or governance issues, therefore any step to direct Funds to pool should be taken extremely seriously and would need to be based on sustained evidence of governance or performance deficits existing in current arrangements.

Question 4: Merge the funds into one or more new funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think mergers between funds would have on the cost of investing?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*
- *If merging were possible, under what circumstances should a fund consider a merger?*
- *Under what circumstances should the SLGPS consider directing funds to merge?*

b) Governance:

- *What impact do you think mergers between funds would have on governance?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

c) Operating risks:

- *What impact do you think mergers between funds would have on operating risks?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

d) Infrastructure:

- *What impact do you think mergers between funds would have on funds' ability to invest in infrastructure?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

e) Do you have any additional comments about this option?

The Council would again be cautious of such a move, which would risk undermining the link between fund control and local governance. There may be benefits in terms of expertise available for fund management; but again, a move to a larger national fund would not necessarily guarantee improved performance – we are not aware of any evidence to support such an assertion. In addition, there could be significant costs involved in merging funds. As mentioned in the response to Question 3, there would need to be a sound evidence base before such a move could be considered.

Again, the position could be different for smaller funds than Strathclyde, however the Council's view is that there would likely be limited advantages, possibly outweighed by disadvantages of a move to a national fund eg diminished local influence and involvement.

It is not clear how any such move would necessarily assist with infrastructure investment levels and as referred to above, such investment decisions require to be driven primarily by delivering positive outcomes for the interests of Scheme Members.

Question 5: Preferred and additional options

The text can wrap onto additional pages.

- a) Which option does your organisation prefer? Please explain your preference.**

The Council believes that Option 2 in effect represents the status quo and is the most suitable option; and would encourage Funds to work cooperatively on a voluntary basis in addressing specific issues which affect all Funds.

- b) What other options should be considered for the future structure of the LGPS?**

None other than those outlined.

- c) What would be the advantages and disadvantages of these other option for funds' investment costs, governance, operating risks and ability to invest in infrastructure?**

N/A

- d) Are there any other comments you would like to make?**

No

The consultation questions end.