## Review of the Structure of the Scottish Local Government Pension Scheme

**CONSULTATION RESPONSE FORM**

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| **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-intitute.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**

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| **Name of responding organisation(s)**Please list the full name of each organisationparticipating in this response. | **Organisation type**Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation. |
| **CIPFA Scottish Local Authority Directors of Finance Section** | **Employer Professional Advisor Body** |
| **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. |
| David Robertson, Chair CIPFA Directors of Finance Section on behalf of 32 Scottish Local Authority Directors of Finance | confirm |
| **Date**Please date the response. | 9/11/18 |

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| **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. |
| The LGPS is one of the major success stories associated with Local Government in Scotland. The current arrangements are well established, having been in place with Administering Authorities since 1995. There is therefore a significant track record of delivery which is supported by often long established relationships with a range of respected fund managers. All 11 administering authorities demonstrate high levels of compliance with good governance standards as exemplified by the Myners Principles. All funds have delivered positive net investment returns over time and the recent 2017 triennial valuation demonstrates that funding levels in all 11 funds were very high, with most funds exceeding, and all funds almost meeting, their primary objective i.e. to have a fund of assets that is sufficient to meet pension fund liabilities as they fall due. Currently the LGPS Scotland has over £44b of assets under management.The Funds have not stood still over time however and recent initiatives such as the LGPS transparency code, the advent of pension boards, with strong employee representation, improving levels of collaboration between Councils and the sharing of benchmarking data all need to be given time to bed in and be properly evaluated before any more radical changes are considered and, if appropriate after proper evaluation, implemented. Employee participation rates in the LGPS are high and stable. No fund has seen significant withdrawals of assets by members following the implementation of recent pension freedoms. The advent of auto enrolment has seen an increase in membership. This broadly stable membership position indicates members value their pension benefits and trust that they are being well managed. The de-stabilising effect on the membership of any large scale reform needs to be carefully considered before any changes are made. The costs of administering the scheme in Scotland are relatively low and stable. There is some variation in the level of administration cost between funds which may be a result of different level of fee disclosure. The consultation on the future structure of the LPGS in Scotland is being undertaken against the background of reform in England and Wales where there is as yet no strong evidence of the effect that pooling has actually had. Against this background it is very important that any changes to the LGPS improve the current situation, deliver demonstrably lower costs, higher funding levels and better governance than are being delivered at present and that these can be evidenced. The Directors of Finance section recognises that the 11 fund current structure is not one that would be implemented were a new system being designed afresh from scratch. The Section is however also of the view that the current system is working well, has significant strengths and the importance of the scheme to its thousands of members is such that reform should only be undertaken with extreme care. Any changes must be based on sound empirical data not based on hoped for advantages, ideology, or any preconceived notions that changes will deliver improvement in the current position. Any changes must therefore be based on the evaluation of statistically sound and compelling empirical evidence.In this regard it is worth noting that much store has been placed by other commentators on limited published data concerning investment published by APG and covering a single time period (2001-2009). This is a short period in the history of the LGPS when investment returns delivered were relatively low. This should be viewed with caution. It would be more appropriate if the performance of the LGPS in Scotland is to be scrutinised that this be undertaken using multiple rolling time periods when a very different picture of performance will emerge.A view has also been promulgated using analysis prepared by APG on behalf of UNISON that based on this one time period (2001 -2009) the four largest UK LGPS funds performed better than average. It should be noted however that there are over 100 funds in the LGPS and the limited analysis undertaken by APG over this single period should be treated with extreme caution. It is equally valid to say for example that some of the smallest funds in the UK have performed equally well, if not better, over the long period, and there is no evidence to suggest that the merger of funds to create larger bodies or pools will deliver better investment returns simply by virtue of their enhanced scale. It is also possible, if selective time periods are used, to draw entirely different conclusions. For example an analysis of the study performed by Mercers for the Scheme Advisory Board using more recent Scottish 5 year data covering the period 2010 - 2015 indicates that there is no positive correlation between fund size and investment return. Pension fund investment is a long term business and the only truly useful time period horizon over which to assess performance is over the long term. With over 20 years experience in its current form, the LPGS in Scotland has performed well for its members over this long period. Turning to the question of cost savings which may be delivered by fewer larger funds the Directors of Finance section is of the view that while economies of scale may be possible there will be costs associated with re-organisation of the LGPS which will offset these benefits, at least during the transition phase. These costs are likely to be significant and cannot be ignored. They will arise through the transition to new mandates, the need for additional governance and oversight costs and through the need to recruit and retain appropriate expertise to manage new larger funds. The impact on capacity to support council functions in those councils which are currently managing pension funds should not be ignored if reform requiring TUPE transfer of finance staff is required.There is not yet a strong evidence base highlighting the benefits and disadvantages which may have emerged following reform in England and Wales. It would seem imprudent to pursue any such similar course of reform at least until the results of pooling are available for proper analysis.Following reform in England and Wales, the Scottish LGPS is already benefitting from lower fees on passive mandates and from more consistent pricing structures for LGPS client mandates across the UK. Many of the benefits being sought by the reforms in England and Wales are already being delivered without the need for costly structural reform. The primary fiduciary duty of the LGPS is to take decisions which are in the best interests of its members. There is a yet no evidence that the Pooling process in England and Wales has, or will, deliver its stated aims and time is required to ascertain the true position with any certainty. Turning to the question of investment in infrastructure which features heavily in the consultation, it must be remembered that the principal objective of a pension fund is to build up a fund of assets sufficient to meet future pension fund liabilities not to fund public infrastructure projects. There is an inherent tension between optimising risk and return for pension funds and delivering public investment in infrastructure at the lowest possible cost to the taxpayer. Infrastructure does have a role to play in delivering investment returns as part of a diversified portfolio of assets where the risks and returns are fully understood. The delivery of Investment in infrastructure per se should not however be seen as a primary objective of the LGPS.There are excellent examples of the LGPS investing in infrastructure which is increasing featuring as part of the Asset Allocation Strategy of LGPS funds. The Scottish Futures trust has recently examined this issue. The structures to easily enable large scale investment in infrastructure, which balances suitable returns within an optimized risk profile, with low cost project funding which can match PWLB costs, are not yet suitably developed. Development of such a model would help to facilitate infrastructure investment.It is the view of the Directors of Finance Section that any changes to the structure of the LGPS in Scotland must place the interests of the scheme members at the forefront of decision making. In considering any change a balance needs to be struck between cost reductions, the need to deliver sound investment returns from scheme assets to meet scheme liabilities, the ongoing affordability of the scheme to employers and the aspiration to invest in public infrastructure through appropriate vehicles.  |

The consultation questions follow.

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| **CONSULTATION QUESTIONS**Question 1: Retain the current structure with 11 fundsThe text can wrap onto additional pages. |
| 1. 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?

All 11 administering funds have access to detailed information with regards to investment costs of their pension fund.All Administering funds in Scotland comply with the Accounting arrangements set out in CIPFA’s Guidance on Accounting for Local Governance Pension Schemes. Pension funds and their pension managers have signed up to the LGPS fee transparency code and disclose both internal and external management fees within their annual accounts.* How well does the current system manage investment costs?

Fee levels are important to all pension funds. Understanding costs is an essential element of evaluating whether good value for money is being delivered by fund managers. The absolute level of cost is not however necessarily the most important factor. Limiting fees is an important consideration in improving investment performance, however paying additional fees to deliver out performance through active management of pension fund investment is an equally important consideration. * How would you improve the measurement and management of investment costs in the current system?

All fund managers employed by the LGPS should be required to disclose their full fee structure in line with the fee transparency code as part of the pension fund annual accounts process.1. Governance:

How well informed do you feel about the governance of your fund? What information do you rely on to measure this? This is a question for individual funds to answer. How well is the current system governed?In 2016 KPMG undertook a review of the governance of the LGPS. The outcome of that review was very positive. The study outlined that effective compliance with the principles of good governance is largely already in place across the LGPS in Scotland. The present arrangements with regard to Pension Fund Boards are relatively recent having only been in place since 2015. These arrangements were enacted following the introduction of legislation by the UK government and the resulting changes have brought a new focus to the governance arrangements of pension funds. These arrangements need to be given time to bed in although they have improved employee representation and would appear to be to be working effectively. It would seem too early to consider making further changes to the current arrangements without the necessary data to understand how effective still relatively new governance changes have been.Statutory external Audit of the LGPS funds is undertaken annually. These do not highlight any concerns with the current governance arrangements in place across funds.All funds are required to comply with the requirement of MIFID 2 * How would you improve governance of the current system?

The KPMG review of the system outlined no fundamental weaknesses in the LGPS governance model in Scotland. It is not possible to highlight major areas where effective governance arrangements are not in place, and consequently therefore it is very difficult to identify what substantive improvements could be made. One way in which the standards of governance could potentially be improved could be to require mandatory completion of the FCA Trustees toolkit by a board members within a specified period e.g. three months of joining a pension fund committee or board in a decision making capacity.The key documents associated with the governance process i.e. the accounts; statement of investment principles; the asset allocation strategy and policies regarding issues such as ESG should be made publically available. * How important is it to maintain a local connection with respect to oversight and strategy?

The LGPS is a fundamental component of local government in Scotland. Thousands of employees, deferred pensioners, pensioners and their dependents rely on the continued success of the LGPS for their future prosperity and financial security. It is therefore very important that the decisions taken with regard to the LGPS are transparent and open as possible. One of the most fundamental decisions taken by a pension fund is with regard to the Asset Allocation strategy and this is informed by the view of the Fund Actuary, the risk appetite of the committee and its investment policies - for example with regards to environmental considerations. It is important that these decisions are kept as local as possible so that elected representative on decision making bodies can be held accountable to their members and the local electorate for their decisions with regard to oversight and strategy of the pension fund. A less local more aggregated model will only require local decision making structures to be put in place to scrutinise the decisions of the new body.The local nature of decision making guarantees an effective voice for employee representatives on pension fund boards. This local voice may be lost under aggregated less local models of governance.The LGPS represents a significant cost to local employers and decisions taken with regards to investments and retirals have a fundamental bearing on local council budgets. It is important that local decision makers understand how their decisions with regard to the workforce, e.g. the pay structure or decisions with regards to early retiral of employees, will affect both the pension fund and council budgets. A close connection between local decision makers, administering funds, employers and members is very important in fostering a sense of responsibility for the sustainability of the pension fund this regard.How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?The propensity to good governance in any organisation bears little, if any, relationship to scale. It is not possible to provide a coherent answer to this question. There is no evidence that larger size equates to better governance as exemplified by recent problems in some of the UK largest pension funds e.g. the Universities Superannuation Fund. One way a view could be reached on this question would be a review of pension fund accounts which already highlight the extent to which funds deliver compliance with good governance in line with the Myners principles. 1. 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?

All pension funds hold regular meetings with their fund managers to assess and understand the risks associated with their investments.All funds have opted up to professional status under MIFID 2 which requires funds to have access to appropriate professionally qualified advice to ensure they can manage risks effectively.Pension funds operate robust risk management approaches based on detailed risk registers in line with good governance requirements.* How well are operating risks managed in the current system?

The performance of the LGPS in Scotland and the content of external audit reports indicate these risks are being managed effectively. * How would you improve the measurement and management of operating risks in the current system?

By requiring each fund to publish a comprehensive risk register for the fund which is subject to regular review.1. Infrastructure:
* How well informed do you feel about your fund’s investments in infrastructure? What information do you rely on?

This is a question for each fund to answer. The principal of investment in infrastructure is well established where this offers comparative advantage over other asset classes, for example diversification benefits or index linked annual income. It must be remembered however that the principal objective of a pension fund is to build up a fund of assets sufficient to meet future pension fund liabilities not to fund public infrastructure projects. There is an inherent tension between optimising risk and return for pension funds and delivering public investment in infrastructure at the lowest possible cost to the taxpayer.Infrastructure does have a role to play in delivering investment returns as part of a diversified portfolio of assets where the risks and returns are fully understood. The delivery of Investment in infrastructure per se should not however be seen as a primary objective of the LGPS.* How do you rate the current system’s ability to invest in infrastructure?

There are excellent examples of the LGPS investing in infrastructure which is increasing featuring as part of the Asset Allocation Strategy of LGPS funds for example Strathclyde has now allocated over £330m in this asset class and Lothian, Falkirk and Scottish Borders are currently collaborating on a range of infrastructure investments.* How would you increase investment in infrastructure in the current system?

The Scottish Futures trust has recently examined this issue and while an undoubted political desire to see greater investment in public infrastructure exists, the structures to easy enable such large scale investment in infrastructure, which balances suitable returns within an optimized risk profile, with low cost project funding which can match PWLB costs, are not yet suitably developed. Development of such a model would help to facilitate infrastructure investment.One practical solution could be to allow pension fund to tender for the provision of senior debt finance to schools projects when these are being developed.1. Do you have any additional comments about this option?

No |

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| Question 2: Promote cooperation in investing and administration between the 11 fundsThe text can wrap onto additional pages. |
| 1. Cost of investing:
* What impact do you think promoting agreements between funds would have on investment costs?

Promoting joint agreements relating to collaborative investments could have some positive impacts in terms of fees. This is particularly the case with regard to the cost of investing in alternative asset classes such as infrastructure. * What would be the positive impacts?

Economies of scale could possibly be delivered to some of the smaller funds through greater purchasing power. Collaboration and cooperation may give smaller funds the confidence to invest in a wider range of diversified assets.*Cooperation would allow best practice using existing structures and systems to develop over time.**Risk to current funding levels would be minimized.**The sound investment returns delivered by funds over many years would not be compromised.* *Nor would any differences which currently exist between funds, for example funding levels and rates of employer contribution require to be addressed. (This could of course be avoided through segregation of funds but would require enhanced levels of administration and reconciliation.)*Collaboration can give access to a wider breadth of expertise.* What would be the negative impacts?

May place undue reliance on the others to do necessary due diligence 1. Governance:
* What impact do you think promoting agreements between funds would have on governance?

Sharing of best practice and closer cooperation on co investment should have a positive impact* What would be the positive impacts?

Links to local accountability would be maintained and the recent development to establish Pension Fund Boards would be allowed to reach its full potential. Collaboration will allow the retention of local expertise in the Finance and HR functions providing depth and resilience across Scotland, particularly in smaller authorities, which would otherwise be lost. It should be recognized that expertise in pensions and investment, an understanding of financial markets and pension benefits provides significant advantages and support to the wider local authority. This would be lost under a formal restructuring proposal but could be retained under a collaboration model. This point is linked strongly to concerns over key person risk should restructuring occur and would allow the retention of local experience to advise local councillors and board members appropriately.Ensures that value would not be lost through adverse timing of sales and the repurchase of assets as funds restructure. Risk under this option is therefore avoided when compared to formal restructuring.A wider range of individuals scrutinizing and challenging investment decision should lead to better outcomesExisting governance arrangements would not be compromised. * What would be the negative impacts?

May be a perceived loss of influence by Councillors in favour of delegation to officers.The difficulty of coordinating investment decisions, often to tight market driven timescales could be a potential disadvantage.1. Operating risks:
* What impact do you think promoting agreements between funds would have on operating risks?

There would be no need to develop new asset allocation strategies for segregated funds linking risk appetite, required return and varying funding levels.Significant voluntary cooperation already exists between LGPS funds that share best practice and access a range of services through nationally agreed procurement frameworks. * What would be the positive impacts?

There could be potential benefits through economies of scale.Collaboration would allow the continued diversification of funds and would ensure that strategic asset allocations remained aligned to funding levels reflecting the different positions across 11 funds, none of which are currently in an adverse funding position. Further enhances current models of collaboration. This could however be delivered in a more structured and consistent manner if the benefits of collaboration were to be accepted and promoted.* What would be the negative impacts?

Formal agreements need to be documented leading to additional legal costs. There is the potential for disagreement and challenge arising from service failure or adverse investment returns. This could increase the risk of legal challenge and require formal dispute resolution procedures. Need to ensure there is not an increased administrative under this option, e.g. reporting what collaboration has actually been undertaken.Risk that under a collaborative investment model inappropriate resilience is placed upon the work of others and the necessary diligence on behalf of individual funds does not take place with sufficient rigor. The effectiveness of any diligence process is reliant upon funds having a clear understanding of the key features and risks associated with investment products.1. 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?

Smaller funds would have access to a wider range of investment opportunities on a cost effective basis. A recent good example is the benefits that have been gained by Falkirk and Scottish Borders Council through collaboration with Lothian Pension Fund in a range of infrastructure based investments.Co investment provides the opportunity to share legal, technical due diligence costs * What would be the negative impacts?

While not a negative impact the complicated nature of these investment has required Lothian Pension Fund to set up an FCA registered company which manages the co investment process.1. Do you have any additional comments about this option?

No. |
| Question 3: Pool investments between the 11 fundsThe text can wrap onto additional pages. |
| 1. Cost of investing:
* What impact do you think pooling investments between funds would have on the cost of investing?

Pooling of investments would require significant restructuring of LGPS investment mandates at significant cost. It is interesting to note that the study undertaken by Mercers does not support the view that larger fund always have lower costs and perform better based on their snapshot analysis of the LGPS 2015 accounts. * What would be the positive impacts?

There could be a positive impact on some of the smaller funds fee costs from investment pooling. The larger funds e.g. Strathclyde are unlikely to see much if any benefit due to their existing scale. * What would be the negative impacts?

The drive to reduce costs may lead to a reduction in the number of fund managers willing and able to engage with the LPGS. One effect of pooling on passive investments in E&W is that fees have been reduced to the level where there are now fewer larger players left in the market. Pooling may therefore provide fee costs advantages in the short term but these are also likely to be offset over the same time horizon by transition and reorganization costs. Gains made may be eroded over time by the oligopoly power enjoyed by the few remaining big players. While only time will tell, there is at least the theoretical risk that any short term fee gains made through market competition may not be sustained in the longer term - which could see reversal of the current position and fees increasing.The LGPS in Scotland is already able to access comparatively low investment fees when compared to England and Wales as set out in Mercers structure review paper. It should also be noted that fees have been reduced on the back of pooling in England and WalesBoth investment advisors and investment managers have noted that the effects of pooling in England and Wales are already providing benefits for the Scottish LGPS through lower fees while to date the costs of restructure have been avoided.* If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?

This is a decision for each individual fund but pooling should only be undertaken if it provides significant advantages to the fund. These advantages will differ depending on the circumstances of each fund.* Under which circumstances should the SLGPS consider directing funds to pool?

The only circumstances where this should be considered is if there was sustained evidence of governance failures at a local level or evidence that funds were completely unable to meet their long term liabilities on an actuarial basis Governance: * What impact do you think pooling investments between funds would have on governance?

Pooling is likely to a require additional governance and administrative structures to be established * What would be the positive impacts?

Current governance structures would remain in places avoiding costly restructuring and preserving recent changes made to enhance governance through the establishment of Boards.Perception that pooling would save costs with regard to manager fees.Would retain local expertise and staff to assist.Would allow funds to maintain their current asset allocation strategies in response to current funding position and risk appetite* What would be the negative impacts?

Added layer of bureaucracy would be required under this option. Staff would be required to run the new pools at potentially significant cost if staffing arrangements and grades sit out with LGPS pay structures.Pooling would result in a dilution of local expertise and knowledge potentially increasing risk to the smaller councils where staff often performs a wider role with respect to the financial management of the authority. Pooling may thereby reduce opportunities for elected members to access financial advice and reduce expertise at a local level. Pooling will not promote collaboration and expertise across the wider funds’ activities.Pooling will offer no advantages for pension fund administration.This option will make decision making more remote.1. 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?

There is no evidence that the pooling arrangements in England and Wales have delivered any cost benefits or improvements in governance.Tangible evidence is scarce however anecdotal evidence of pooling so far seems to indicate that the process has been problematic with concerns over loss of local accountability and governance resulting in disagreement e.g. the London CIVThe costs of pooling may be significant and will require substantial professional advice from pension fund managers, investment consultants and actuaries.The drive to establish larger pools may perversely have the effect of increasing fee costs in the longer term as fewer remaining providers are able to exercise their market dominance to increase fees with little risk of losing business.The timing of the financial transitions required to establish pools may be problematic if disinvestments are executed at a time when markets are volatile. This will introduce risk and unnecessary cost.Increasing cost may perversely cause pools to invest in higher risk, higher yield assets to recover the ground lost through timing losses and to recover reorg/ transition costs.1. 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?

Larger pools may be unwilling or unable due to scale to access smaller niche investment opportunities.Do you have any additional comments about this option? No |

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| Question 4: Merge the funds into one or more new fundsThe text can wrap onto additional pages. |
| Cost of investing: * What impact do you think mergers between funds would have on the cost of investing?

Merger would require significant restructuring of LGPS investment mandates at significant cost.* What would be the positive impacts?

See advantages below* What would be the negative impacts?

The consultation document notes significant cost savings as a potential advantage of this option. There is however as yet little UK, and clearly no Scottish, evidence to support this assertion.Proposal is untried and the risks of merger are not fully understood. This feels like a step in the dark for unquantified benefits.It is not clear what effect this option would have on funding levels, which could potentially change for individual employers under a fully merged structure.Merger would require a new asset allocation strategy for the new funds linked to funding levels and a new combined actuarial valuation. It is unclear how merger would assist with the process of investment in infrastructure. If such investment is identified as being the correct course of action for funds as part of their strategy this should be pursued. Collaboration without restructure provides an equally valid route to access infrastructure at potentially much lower cost.The effect on funds contribution is not known. It should be noted however that some of the smaller funds have the lowest contribution rates at present indicating a high degree of efficiency in terms of cost and investment returns. The funds in rural areas also have the some of the highest longevity for fund members. The effect of any merger on Fund diversification is not known. There is a risk that investment in assets with higher risk profiles over many years may be required to compensate for the costs of merger. * If merging were possible, under what circumstances should a fund consider a merger?

This is a decision for each individual fund based on their individual circumstances* Under what circumstances should the SLGPS consider directing funds to merge?

Significant evidence of governance failures or inability to meet future liabilities.Governance: * What impact do you think mergers between funds would have on governance?

It would have a significant impact on local governance for those councils who currently operate a fund. * What would be the positive impacts?

This option would eliminate key person risk for smaller pension funds. Could be savings from back office functions. This may however have an adverse impact on council’s where staff resources are currently shared between the Fund and the Council* What would be the negative impacts?

New governance arrangements would be required and this would incur additional costs to transition to the new arrangements.TUPE transfer would apply to staff who spend a significant element of their time on pensions matters. There are potential redundancy costs to be met by pension funds.The move to formal restructure would sever links to local decision making with regard to investment strategy and asset allocation removing a key role for elected members in the governance of pension funds.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?

Appropriate expertise will be lost from individual councils with a knock on effect on the wider financial expertise available to the council with a potentially detrimental impact. Full Merger is likely to require expensive restructuring. There is no evidence that restructuring in the form of pooling in England and Wales has, or will, deliver any tangible benefits when compared to previous arrangements.It is concerning that the evidence base used for pooling in England and Wales is so patchy, old and unrelated to UK LGPS funds. Any move to restructure the current LGPS in Scotland must be based on sound empirical evidence and must deliver tangible improvement for both large and smaller funds when compared to the current structure.One disadvantage of fewer larger funds may be an inability or unwillingness to access investment opportunities which would be of interest to smaller funds or pools. The process of transition may unsettle the membership encouraging transfers out of the fund and discourage new entrants.Infrastructure:* What impact do you think mergers between funds would have on funds’ ability to invest in infrastructure?

Lrger funds may have more appetite for alternative infrastructure investments Proposal is untried and the risks of merger are not fully understood. This feels like a step in the dark for unquantified benefitsIt is not clear what effect this option would have on funding levels, which could potentially change for individual employers under a fully merged structure.Merger would require a new asset allocation strategy for the new funds linked to funding levels and a new combined actuarial valuation. It is unclear how merger would assist with the process of investment in infrastructure. If such investment is identified as being the correct course of action for funds as part of their strategy this should be pursued. Collaboration without restructure provides an equally valid route to access infrastructure at potentially much lower cost.* What would be the positive impacts?
* What would be the negative impacts?

Do you have any additional comments about this option?No |

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| Question 5: Preferred and additional optionsThe text can wrap onto additional pages. |
| 1. **Which option does your organisation prefer? Please explain your preference**.

Given the diversity of views that may prevail between the different councils represented on the CIPFA Scottish Directors of Finance Section it is not considered appropriate for the Section itself to promote one preference over another. What is most important is that the advantages and disadvantages of each option must be carefully considered and that the recommendation finally made to ministers is based on the objective evaluation of sound empirical evidence and a full understanding of the risks associated with that decision. The views of individual funds will be crucial and the outcome of the consultation must be the solution which best protects the future of the LGPS in Scotland, and which best meets needs of its membership and all its employer bodies. |

The consultation questions end.