## 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. |
| Abertay Housing Association Ltd | Employer |
| **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. |
| Marjorie Sloan, Corporate Services Director, Abertay Housing Association | confirm |
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| **Date**Please date the response. | 3/12/2018 |

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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. |
| Abertay Housing Association is a participating employer in the Tayside Pension Fund with membership as set out below as at 31 March 2017:

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|  | Number | Salaries / Pensions | Average Age |
| Actives | 43 | 1,894,459 | 47 |
| Deferred pensioners | 20 | 69,503 | 50 |
| Pensioners | 29 | 167,403 | 69 |

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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?

As an employer organisation we are invited to annual forums where investment costs are discussed.A method of assessing the costs incurred is the level of contribution we as employers are asked to pay. Where this is low, the reasonable assumption is that both returns are adequate and costs are controlled. The Tayside Pension Fund currently has the second lowest contribution rate within the Scottish LGPS at 17%.* How well does the current system manage investment costs?

All LGPS investment services are subject to tender and, as managed by a Local Authority, require to meet public sector procurement guidance. As a local employer we are able to attend the fund forums and question costs we fell are excessive.* How would you improve the measurement and management of investment costs in the current system?

We would support mandatory compliance with all relevant codes of practice and initiatives applicable to the asset classes held.1. Governance:
* How well informed do you feel about the governance of your fund? What information do you rely on to measure this?

The governance structure follows all the mandatory elements of the Public Service Pensions Act 2013. A Pensions Board has been set up to assist the Fund in complying with all legislative requirements while making sure that the scheme is being efficiently and effectively governed and managed. This Board consists of equal numbers of scheme member and scheme employer representatives. Governance statements and policies are in place and available in the Tayside Pension Fund website. Audit Scotland’s annual audit report states that the Tayside Pension Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Sub-committee. Committee papers and minutes of meetings are available on the Tayside Pension Fund website.* How well is the current system governed?

The current system of governance in the Scottish LGPS was introduced in 2015 following extensive review by a UK government commission. In 2016 the Scottish Public Pensions Agency commissioned KPMG to undertake a review of the arrangements. This found no fundamental weaknesses, but made a number of recommendations aimed at helping the new Boards establish their purpose.We believe that the Tayside Pension Fund has a strong governance structure which is not overly complex. The governance structure applies to both investment and scheme management. Specialist independent are also used.As an employer in one of the best performing schemes in Scotland, we are concerned that change in investment returns as a result of having a change in strategy or management imposed could lead to higher contribution rates, which ultimately could be unaffordable.* How would you improve governance of the current system?

The relatively recent governance changes should be given time to bed in and the recommendations from the KPMG review should continue to be worked through and implemented.* How important is it to maintain a local connection with respect to oversight and strategy?

As a relatively small employer, local connection is essential. Having fewer more centralised funds mean that employers’ forums are likely to be held further from our offices which impact on the ability to attend. How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?As a relatively large fund, we feel the Tayside Pension Fund already enjoys the benefits of scale. Investment management expenses and Admin and oversight costs as a proportion of net assets are both low compared with other Scottish LGPSs.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?

The Tayside Pension Fund publishes a risk register on its website and in its annual report.* How well are operating risks managed in the current system?

The Tayside Pension Fund has a strong focus on the identification, analysis and management of risk.* How would you improve the measurement and management of operating risks in the current system?

The regulations associated with scheme benefits are complex, and have become more so as changes have been introduced. This complexity increases the operating risks in relation to administering benefits.1. Infrastructure:
* How well informed do you feel about your fund’s investments in infrastructure? What information do you rely on?

Tayside Pension Fund’s investment strategy currently allows it to allocate 10% of the fund to local and alternative opportunities, of which infrastructure forms part.* How do you rate the current system’s ability to invest in infrastructure?

As infrastructure investment is relatively illiquid, supply-constrained and expensive, caution must be exercised and a sound understanding of the risk and return characteristics and governance required is essential.* How would you increase investment in infrastructure in the current system?

More simple investment structures with improved risk / return characteristics.1. Do you have any additional comments about this option?

The challenges identified in the Scheme Advisory Board report do not appear to stem from structure, so changing structure is not necessarily the answer. |

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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?

Increased co-operation between funds could deliver improvements in terms of cost and quality of performance.* What would be the positive impacts?
* Potential financial savings in terms of fees and services
* Improved information leading to better informed decisions
* Reduced resource requirements across all funds.
* What would be the negative impacts?

None identified.1. Governance:
* What impact do you think promoting agreements between funds would have on governance?

This should not lead to any significant impacts on individual governance structures, but could lead to better outcomes.* What would be the positive impacts?

A collaborative culture across funds would lead to a more structured sharing of knowledge and reduced duplication across funds.* What would be the negative impacts?

None identified.1. Operating risks:
* What impact do you think promoting agreements between funds would have on operating risks?

None identified* What would be the positive impacts?

Could reduce risks across funds.* What would be the negative impacts?

None identified.1. Infrastructure:
* What impact do you think promoting agreements between funds would have on funds’ ability to invest in infrastructure?
* Ability for funds to share experience in different asset classes.
* Potential for reduction in legal, consultancy and due diligence costs.
* Standardised information to facilitate better informed decision making.
* What would be the positive impacts?

Potential financial savings and wider diversification across asset classes.* What would be the negative impacts?

None identified.1. Do you have any additional comments about this option?

There is already significant co-operation between the Scottish funds, but there is scope and willingness to build further on this. |

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| 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?

As Tayside Pension Fund already enjoys benefits of scale and achieves low cost investment fees, further efficiencies in existing mandates are unlikely to be achieved. Pooling would limit the ability of the fund to meet investment objectives and therefore be detrimental. Pooling would result in an additional layer of bureaucracy and costs which could result in the employer contribution increasing, potentially making it unaffordable.Our understanding is that where pool structures have been set up in England and Wales, they are very complex.* What would be the positive impacts?

None identified, but costs of the structure are likely to be significant.* What would be the negative impacts?

Our understanding is that there is no evidence that costs have actually been reduced where pooling has taken place in England and Wales. We would therefore be risking a low cost well managed fund potentially pooling with funds which have higher investment and admin costs and are worse performing.* If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?

Where they believe the pooling arrangement is in the best interests of their members.* Under which circumstances should the SLGPS consider directing funds to pool?

Pooling should only be directed where there is clear evidence that funds were unable to manage and consistently fail to meet their investment objectives leading to potential for detrimental impact to members and employers.1. Governance:
* What impact do you think pooling investments between funds would have on governance?

There would be an additional layer of governance added which is likely to reduce transparency and complicate governance. We are also concerned that it could be overly complex.* What would be the positive impacts?

None identified.* What would be the negative impacts?
* Cost to set up and maintain
* Resource to set up and maintain
* Loss of flexibility could have a negative impact in meeting objectives and thus ultimately cost members more.
1. Operating risks:
* What impact do you think pooling investments between funds would have on operating risks?

New layers of risks on top of the current risks associated with the additional layers of managing the pool.* What would be the positive impacts?

None identified.* What would be the negative impacts?
* Financial cost
* Detrimental impact on resources
* Concentration of risk.
1. Infrastructure:
* What impact do you think pooling investments between funds would have on funds’ ability to invest in infrastructure?

Funds of varying sizes currently have the ability to invest in infrastructure. Pooling may facilitate infrastructure investment by funds which currently don’t, but this is likely to be minimal.* What would be the positive impacts?

A combined initiative by the Scottish pension funds to invest in infrastructure could have some merits. However, it would not be necessary to pool funds in their entirety to achieve this. A pooled investment vehicle for this purpose could achieve the benefits.* What would be the negative impacts?
* Set up costs
* Potential FCA authorization required.

Do you have any additional comments about this option?We believe that it is still too early to judge whether pooling initiatives have been effective in England and Wales. However, it has been a costly and time consuming exercise. The payback period is likely to span many years.The pooling in England and Wales has also pulled resources (staff) from administering authorities who will still require skills and resources. This potentially increases the risk of detrimental impact in the management of funds.Infrastructure investment is not the primary objective of the LGPS, and fiduciary duty must be considered if pooling of funds were proposed simply to achieve more investment in infrastructure. |

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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?

Answer as for pooling at 3a above* What would be the positive impacts?

Answer as for pooling at 3a above* What would be the negative impacts?

Answer as for pooling at 3a above, but the transactional costs would be greater.The Tayside Pension Fund currently has a low contribution rate and high funding level compared with most other Scottish LGPS funds. Any move which merged the fund with other funds is likely to result in worse performance and as a result an increased employer contribution rate. A 1% increase in employer contribution rates would lead to increased costs of £10k, which represents a 0.14% increase in rents for our tenants.* If merging were possible, under what circumstances should a fund consider a merger?

Only if 2 or more funds felt this was in the best interests of their members and employers.* Under what circumstances should the SLGPS consider directing funds to merge?

Answer as for pooling at 3a aboveGovernance: * What impact do you think mergers between funds would have on governance?

A merger would inevitably reduce or remove the opportunity for local involvement in pension fund governance.* What would be the positive impacts?

While it would require less governance resource than individual governance of funds, this is only an advantage if the merged fund is more effective.* What would be the negative impacts?

A merged model would increase reliance on a smaller number of individuals, so increase risk.Operating risks: * What impact do you think mergers between funds would have on operating risks?

A merger would result in concentration of risk and reduced diversification. We also consider that if there were to be a merger of all Scottish funds, the impact of failure could be catastrophic for the country.* What would be the positive impacts?

None identified.* What would be the negative impacts?
* Concentration of risk
* Impact of failure
* Loss of flexibility
* Reliance on fewer people.

Infrastructure:* What impact do you think mergers between funds would have on funds’ ability to invest in infrastructure?

A full merger of funds could increase investment in infrastructure, but this should only be done if the investment strategy required this. Investment strategies should be set to meet risk and return objectives, and not to facilitate an investment in a favoured asset class.* What would be the positive impacts?

Merged funds could potentially make larger infrastructure investments.* What would be the negative impacts?

Larger individual investments could represent a greater concentration of risk.Do you have any additional comments about this option? |

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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.

Abertay believes that the Tayside Pension Fund already enjoys considerable benefits of scale in terms of cost and has appropriate and effective governance structure and risk management processes in place.We do not believe it is clear what could be gained by members or employers in Tayside Pension Fund from the proposed pooled or merged models. However, it is clear that there would be additional costs and risks associated with any change. Pooling and merging should therefore only occur when individual funds are in agreement that this would be to the benefit of their members and employers. It should not be mandated.The Tayside Pension Fund has a low contribution rate based on the localised asset and liability profile of the fund, its underlying funding position and bespoke investment strategy. There is no guarantee that any future investment strategy determined at a larger scale would sustain this. The risk is that a change in structure could result in a rise in employer contributions which in the long term could result in reduced benefits for members. As pensions are a long-term undertaking, any structural development should be clearly focused on the long-term sustainability.Abertay’s preference is to develop a more collaborative structure (option 2) which could generate advantages across all funds without the disruption and transitional cost that merging or pooling would produce.The Scottish LGPS funds have established communications networks between funds (both investment and administration) but this is currently focussed largely on information sharing and problem solving. The opportunity to collaborate in other areas would be welcome.1. What other options should be considered for the future structure of the LGPS?

None identified.1. What would be the advantages and disadvantages of these other option for funds’ investment costs, governance, operating risks and ability to invest in infrastructure?

We believe that working on a more collaborative basis could generate many of the advantages of the individual options without the disruption and transitional costs that mandating one of theother options would produce.1. Are there any other comments you would like to make?
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The consultation questions end.