

Leaders Item 0xA Appendix

**Private and Confidential**

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

**COSLA Response**

1. COSLA welcomes the opportunity to respond to what we recognise is an important issue for employers and employees alike, with regard to the future of the Scottish Local Government Pension Scheme.
2. As the primary employers’ representative on the Scottish Local Government Pension Scheme Advisory Board, COSLA recognises the key role that Councils have in protecting their workforce including access to pensions. Councils views on the consultation are therefore of the utmost importance and should be considered carefully. The views of the 11 pension funds in Scotland are also important to consider. COSLA notes that individual councils and pension funds will have responded to the specific questions set out in the consultation. It is not therefore COSLA’s intention to repeat in detail what has been said in those responses.
3. Rather, COSLA would wish to respond around the key issues arising from our membership, the detail of which will be in their responses. COSLA’s response focuses on underlying principles and highlighting issues which the Scheme Advisory Board (SAB) should consider in any advice on progressing work in this area.

## Key principles for a structure review

1. COSLA believes that the position agreed by COSLA Leaders in 2014 at the time of the setup of the amended pension management arrangements, remains just as relevant at this time. COSLA Leaders agreed the following key principles which must underlie any review of the structure of the local government pension scheme:
2. Any decisions on the number and structure of the Funds are to be made in line with long term stability and sustainability of the Funds and not for short term political reasons.
3. Any review must take adequate cognisance of risk and cost/benefits of any change.
4. Any review must be based on solid and reliable empirical evidence and not supposition.
5. COSLA firmly believes that the SAB should take full and proper consideration of these key principles when considering and advice on further work in relation to structure review of the local government pension scheme.

**Key points to raise with the SAB**

1. At the time of the change in the Pensions Scheme management arrangements, alongside stating the key principles, a commitment was made by COSLA to undertake a review of the structure of the 11 Pension Funds in Scotland.
2. 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. There is no indication currently that the activities of the 11 Funds are failing to ensure sufficient income from investment to maintain pension benefits. As each Fund employs the services of an actuary, auditing of Funds’ activities is carried out annually to ensure that investment is generating the return needed to provide the necessary benefits to pensioners.
3. Taking into account the views of Councils, funds and professional associations on board, particularly those views coming from council Directors of Finance, there is little demand for change being suggested by COSLA’s membership at this point. Instead there is more interest in building on existing good practice and collaboration, where mutually agreed by funds with their Pension Committees.
4. COSLA suggests therefore that the SAB could usefully focus on building on existing mechanisms for sharing and promoting good practice and improved collaboration amongst the 11 pension funds. This could be done in a way that provides tangible benefits to all parties, whilst continuing to ensure the fiduciary duty of the 11 Funds is supported.

**Other important points for the SAB to consider**

**Accountability**

1. COSLA believes that local accountability and oversight carried out by local elected members in decisions relating to the pension funds should remain a matter for local determination and that this ‘local’ ownership is crucial to effective cost control and sustaining good governance. The local nature of decision making guarantees an effective voice for employee representatives on pension fund boards, as well as that of employers. This local voice may be lost under aggregated, less local models of governance.

**Costs**

1. COSLA would be concerned that the cost of re-structuring would outweigh as yet any unevidenced savings, particularly where any benefit may not be derived for many years to come. There is no evidence that cost savings will demonstrate fee reductions, as evidenced in the actions underway in England and Wales, which do not appear achievable without costly re-structuring.

**Pooling and Merger**

1. Much of the concerns around pooling of investment stem from the difficulties in arranging pooling and additional costs emerging from the pooling arrangements in England and Wales. There is no desire to see a merger of funds either, borne of a concern that this is not a tested model in Scotland This is an untested model in Scotland, as there are only 11 Funds, unlike in England and Wales. Administration would suffer as evidenced by the transfer to the SPPA of police/fire. As mentioned above, local involvement would cease.

There could be a potential risk of a single point of failure and there could be a risk of significant job losses with a consequential impact on Scotland’s economy. Finally, it is not clear what impact this would have on pension benefits.

1. In relative terms, the present arrangements regarding 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.
2. Current arrangements in place need to be given time to bed in, although they have improved employee representation and would appear 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.

**Conclusion**

1. As noted above, COSLA believes that the principles agreed in 2014 should be the fundamental basis upon which any recommendations are made to Scottish ministers. Furthermore, it is our understanding that the majority of local government employers favour retention of the current structure of 11 funds. The local connection for employers is an influencing factor. It remains unclear what the tangible benefits would be in recommending another option, however COSLA suggests that the review does offer opportunities to build on existing good practice and collaboration, where beneficial to all parties and continuing to support the fiduciary duty of the 11 Funds would be supported.

**COSLA**

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