## 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. |
| North Ayrshire Council | 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. |
| Mark Boyd, Head of Finance, North Ayrshire Council | confirm |
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| **Date**Please date the response. | 5/10/2018 |

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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. |
| covering text |

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?

The Strathclyde Pension Fund (SPF) complies with the CIPFA guidance on “Accounting for Local Government Pension Scheme Management Expenses”. The guidance was issued in 2014 and adherence to this ensures the appropriate disclosure in the Pension Fund account for management fees and transaction costs.* How well does the current system manage investment costs?

It is recognised that as Local Government Pension schemes are administered through local authorities then there is arguably a greater level of transparency and scrutiny than what would be the case in other corporate funds. Further, through this current administration structure, the principles of Best Value are adhered to. Finally, the scale of SPF is such that it is a large investor and currently benefits from economies of scale. * How would you improve the measurement and management of investment costs in the current system?

As noted above the SPF complies with the CIPFA guidance on “Accounting for Local Government Pension Scheme Management Expenses”. However, it should be noted that it applies this because it is Best Practice. An improvement would be to make compliance mandatory. 1. **Governance:**
* How well informed do you feel about the governance of your fund? What information do you rely on to measure this?

The relevant information around governance is published on the SPF website and contained within the Annual Report. It appears clear and transparent.* How well is the current system governed?

I am not aware of any negative reports around governance of the SPF. * How would you improve governance of the current system?

There are no obvious improvements to recommend. * How important is it to maintain a local connection with respect to oversight and strategy?

North Ayrshire Council (NAC) currently receives a very professional and responsive service from SPF. The local connection is very important to our employees who are members of SPF and to our HR, Payroll and Finance staff in the course of administering the appropriate transactions and receiving key advice and guidance. It is essential that oversight and strategy continues to be serve the interests of the members and staff of NAC.* How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?

From a NAC perspective the current structure is such that the SPF is a large fund with assets in excess of £21billion. Even with this scale a local connection and service is achieved to a professional standard. Therefore, there is a risk that any increase in scale could be to the detriment of this local connection. 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?

A Risk Register is published annually by the SPF and made available to all stakeholders. In addition the SPO has a published Risk Policy and Strategy statement which is available on the SPO website. * How well are operating risks managed in the current system?

With the current governance arrangements in SPF there is confidence that the Investment strategies are arranged through a risk based approach that uses the appropriate professional expertise and advice in the course of its investment decisions. * How would you improve the measurement and management of operating risks in the current system?

There are no obvious areas of improvement that I am aware of. 1. **Infrastructure:**
* How well informed do you feel about your fund’s investments in infrastructure? What information do you rely on?

The Investments section of the SPF Annual Report includes the list of investments. Specific proposals for investments are made available through committee papers accessible through the SPF website. * How do you rate the current system’s ability to invest in infrastructure?

Investment in all asset classes should be considered on a risk based approach and taking the expert advice from the relevant professionals. It is difficult to provide a rating regarding specific investments in infrastructure, however, on a more general point, the relative financial health of the SPF, in terms of its funding position, is an indication of a positive investment strategy. * How would you increase investment in infrastructure in the current system?

This should be considered within the context of all asset classes and supported through expert professional advice. 1. **Do you have any additional comments about this option?**

No further comments. |
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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?

You would expect to see financial efficiencies through this collaboration through reduced duplication of activity in the investment process across the funds. * What would be the positive impacts?

Financial savings through reduced fees, however, difficult to determine at this stage whether this is likely to be material. * What would be the negative impacts?

Not aware of any negative impacts.1. **Governance:**
* What impact do you think promoting agreements between funds would have on governance?

Would probably not have a material impact on the current governance structures. * What would be the positive impacts?

Again, duplication of effort could be reduced compared to the current structure. * What would be the negative impacts?

The governance, accountabilities and decision making framework would have to be made clear at the offset.1. **Operating risks:**
* What impact do you think promoting agreements between funds would have on operating risks?

No material impact is anticipated. * What would be the positive impacts?

No material impact is anticipated. * What would be the negative impacts?

No material impact is anticipated.1. **Infrastructure:**
* What impact do you think promoting agreements between funds would have on funds’ ability to invest in infrastructure?

Again, reduced duplication of effort and reduced costs would be anticipated. * What would be the positive impacts?

Possibility of reduced costs. * What would be the negative impacts?

No material impact is anticipated.1. **Do you have any additional comments about this option?**

A greater level of co-operation and collaboration across the 11 funds for Investing and administration can only be a positive step. The consideration is whether this happens organically to build upon the co-operation that already occurs or whether more formal arrangements should be put in place.  |

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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?

*It is difficult to determine whether pooling of investments would have an impact on the cost of investment. The SPF is already a very large undertaking that benefits from its current scale within the context of investment costs.* The ultimate test of success would be if the pooling of investments improves the net returns* What would be the positive impacts?

There is a possibility of further reductions in investment costs, however, due to the current scale of the SPF it is uncertain whether in fact this would be realised. * What would be the negative impacts?

There is a possibility that through the pooling of investments, access to certain markets may be limited.* If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?

Ideally we would want to see an evidence base of investment pools of a similar scale to what we would be moving to and the level of investment returns and costs achieved. * Under which circumstances should the SLGPS consider directing funds to pool?

Same response as above i.e. we would want to see an evidence base of investment pools of a similar scale to what we would be moving to and the level of investment returns and costs achieved. 1. **Governance:**
* What impact do you think pooling investments between funds would have on governance?

There is the potential for added layers of governance.* What would be the positive impacts?

Due to added layers of governance it is unlikely there would be any positive benefits. * What would be the negative impacts?

Added governance would add complexity to the arrangements.1. **Operating risks:**
* What impact do you think pooling investments between funds would have on operating risks?

The main risk is around ensuring that the appropriate risk management approach is adopted in the management of the funds. * What would be the positive impacts?

It is difficult to identify positive impacts around operating risk. * What would be the negative impacts?

Changing approach to pooling investments is likely to increase operational risk at least in the short term.1. **Infrastructure:**
* What impact do you think pooling investments between funds would have on funds’ ability to invest in infrastructure?

Due to the current scale of the SPF it already invests in infrastructure and there are already vehicles in place to pool investments for certain infrastructure projects. * What would be the positive impacts?

There are already vehicles in place for pooling infrastructure investments. * What would be the negative impacts?

If there are already vehicles in place to pool investments for infrastructure projects then it would likely be a costly and time consuming exercise to go through without necessarily any additional benefit to what is there currently. 1. **Do you have any additional comments about this option?**

No additional comments. |

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| Question 4: Merge the funds into one or more new fundsThe text can wrap onto additional pages. |
| 1. **Cost of investing**:
* What impact do you think mergers between funds would have on the cost of investing?

It is difficult to determine whether merging of investments would have an impact on the cost of investment. The SPF is already a very large undertaking that benefits from its current scale within the context of investment costs. The ultimate test of success would be if the merging of investments improves the net returns* What would be the positive impacts?

There is a possibility of further reductions in investment costs, however, due to the current scale of the SPF it is uncertain whether in fact this would be realised.* What would be the negative impacts?

There is a possibility that through the merging of investments, access to certain markets may be limited.* If merging were possible, under what circumstances should a fund consider a merger?

Ideally we would want to see an evidence base of investment pools of a similar scale to what we would be moving to and the level of investment returns and costs achieved.* Under what circumstances should the SLGPS consider directing funds to merge?

Same response as above i.e. we would want to see an evidence base of investment pools of a similar scale to what we would be moving to and the level of investment returns and costs achieved.1. **Governance:**
* What impact do you think mergers between funds would have on governance?

This would likely impact on the local connection.This is very important as NAC currently receives a very professional and responsive service from SPF. * What would be the positive impacts?

This would inevitably require less governance and there is the potential for administration savings with merged funds. * What would be the negative impacts?

Risk of negative impact on service received by NAC.1. **Operating risks:**
* What impact do you think mergers between funds would have on operating risks?

It is likely that there is a greater concentration of risk through mergers between funds. * What would be the positive impacts?

Greater asset and investment base to draw from. * What would be the negative impacts?

Greater concentration of risk if funds are merged.1. **Infrastructure:**
* What impact do you think mergers between funds would have on funds’ ability to invest in infrastructure?

There would likely be even more opportunity for infrastructure investment. * What would be the positive impacts?

Greater opportunity through the scale of the merged funds, however, as stated previously, the SPF already invests in infrastructure projects and vehicles are already in place to pool funds for investment. * What would be the negative impacts?

The possibility of a greater concentration of risk if very large infrastructure investments are made.1. **Do you have any additional comments about this option?**

No further comment. |

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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.**

The preferred option is to retain the current structure with 11 funds. The local connection and professional and responsive service that NAC receives from SPF is an influencing factor. It is also recognised that SPF is already of significant scale with £21.5billion of assets. It clearly has influence and access to investment markets has a healthy funding level of 112% (Assets/Liabilities) when compared with over funds.It is still unclear as to what the tangible benefits would be in recommending another option. In the absence of this clear evidence base, maintaining the status quo would be preferred.1. **What other options should be considered for the future structure of the LGPS**?

No other option is recommended.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?**

Not applicable.1. **Are there any other comments you would like to make?**

No further comment. |

The consultation questions end.