## 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](mailto: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 organisation participating in this response. | **Organisation type** Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation. |
| Unite the union Scotland | Trade union |
| **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. |
| Liz Cairns, Research Officer, Unite the union | consents |
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| **Date** Please date the response. | 6th December 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. |
| **Unite the Union Scotland represents more than 140,000 working people and their families throughout Scotland. Unite is the UK’s largest trade union with 1.4 million members in a range of industries including transport, construction, financial services, manufacturing, print and media, energy, the voluntary and non-profit sectors, education, creative industries, local government and the NHS.**  **Introduction**  Unite represents thousands of members in a number of organisations that contribute to the SLGPS including those employed in Local Authorities, Lothian Buses, Charities and Housing Associations. We therefore welcome the opportunity to respond to this review.  Unite recognises the need to reduce costs associated with the management of the SLGPS and is therefore supportive of looking at alternative arrangements that will reduce the cost burden to the scheme.  The present model is opaque with a lack of accountability and a lack of clarity about the day to day running costs of the fund. Any future model must therefore be more transparent and retain trade union representation at Board level and where possible at all appropriate stages of the process.  While academics consider different models for the SGLPS using a consultation process and the pension funds are managed by fund managers with responsibility for deciding the best way to increase or maintain the fund, we must not lose sight of the fact that the pension fund belongs to it’s members. It is their deferred pay.  Many of the members of the scheme have faced wage stagnation over the past decade and it is therefore important that the arrangements for their deferred pay is properly managed, scrutinised and where appropriate, altered in order to protect the future pension income of our members.  One of the benefits, and possibly the main reason for altering the structure would be reduced running costs. Presently the management and administration of 11 separate schemes is an extremely costly exercise. Pulling the assets for investment into fewer schemes, with increased value will allow for reduced management costs, greater influence and deliver benefits from economies of scale.  There must also be improved transparency in the new schemes. Unite would want to see a system of reporting and monitoring of the costs associated with all aspects of managing the schemes. We would like to see a full breakdown of costs, prior to any alterations together with details of ongoing costs going forward to identify actual cost savings. |

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. |
| Unite has ruled out Options 1 completely following discussions with our members. |

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| Question 2: Promote cooperation in investing and administration between the 11 funds The text can wrap onto additional pages. |
| Unite has ruled out Options 2 completely following discussions with our members. |

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| Question 3: Pool investments between the 11 funds The text can wrap onto additional pages. |
| *Option 3 - Recommend*  Unite would support Option 3 which will pool investments between the 11 funds creating a fund with assets of around £42 billion. The scheme would operate by pooling the assets into 3 or 4 separate funds, thereby spreading the risk. Each of the 11 funds will remain open for basic local administration purposes. It is only the assets that are pooled. Unite does not see a benefit in merging the liabilities within each fund. These should remain with the local council and could be reduced through any cost savings obtained.  Option 3 also retains the strategic input at a local level, returning local governance to the scheme back to members.  Option 3 allows for:  **Retaining jobs** – With the assets pooled, there will be a reduction in the high management costs of administering all 11 funds. However the admin for all 11 funds will be retained locally with back-office and admin functions, as well as the in-house expertise, remaining.  Funds can be grouped into distinct projects i.e. infrastructure, housing, building schools/hospitals etc. **spreading any risk**;  Economies of scale will allow for **improved purchasing power** at both micro and macro level;  **Increase investment bargaining power** at a macro level. With increased wealth of assets this would command greater leverage.  The retention of local oversight and strategy decisions will **bring governance closer to members**. It is important that decisions on pensions have some degree of ‘subsidiarity’ where the two-way flow of decisions and information can allow for member input. This will also increase transparency as decisions about the funds can be cascaded more easily to those that the decisions will affect most, its members.  **Reduce costs** – administering just 3 or 4 funds, as opposed to 11, will reduce investment management functions which will reduce running costs.  There are huge savings potential in pooling assets. This is borne out in the consultation paper Appendix 1 reference to the APG Report commissioned by UNISON which found that investment expenses and administration costs decline when the size of the fund increases and that larger funds consistently achieved higher investment returns. APG identified savings in investment management of £7m and that an improved investment performance could have let to £772 m of additional assets for Scottish funds.  While supporting Option 3, lessons must be learned from the failings in the model in England and Wales where the pooling of funds has not delivered a reduction in costs at a level thought possible. There are also issues around a lack of oversight and control in governance in some funds and we need to ensure we do not emulate these concerns. Therefore, Option 3 should include an in-house investment team to over-see investment decisions and scrutinise running costs bringing increased transparency and oversight.  We must be mindful however that we don’t then create a bureaucratic burden that costs as much to administer than is saved by altering the scheme.  Do you have any additional comments about this option?  **Social Responsibility**  With the impetus nationally and globally on sustainable development goals, responsible investment must now take account of investment such as those that lead to carbon reduction; that avoid investment in the arms industry and protects wildlife. Unite believes it is important that pension fund investments take account of wider concerns about such issues. Changes to the scheme must ensure more socially responsible decisions in pension fund investment.  However, while a responsible investment philosophy may be admirable and is certainly a desire, the fund is required to make money. Therefore Unite recognise that while the move to socially responsible investment may not be done over-night it should certainly be a route that influences decisions going forward.  Unite is aware that some decisions to invest in less socially responsible projects are made by fund managers for specific financial reasons. Going forward such decision should be scrutinised by trade union representatives in order to provide the opportunity to influence the decision before a final resolution to invest is made. There must be strict risk-based parameters put in place on investment decisions. All decisions should be made on a unanimous basis. It is not acceptable for a fund manager to have a controlling influence.  Only recently it was uncovered that a number of Scottish based pension funds had investments in companies linked to the detention of immigrants at US border camps. Unite was asked by the media to comment. The uncovering of this type of unsavoury investment and the media interest it attracted was unwelcome. Unite nevertheless believes it is possible to invest in a way that takes account of corporate social responsibility, and remains profitable.  The consultation paper places significant importance on the potential for investment in infrastructure. While Unite would have no specific issue with the pension fund investing in communities and other infrastructure projects locally, we would require guarantees be put in place in terms of wider construction projects to ensure the projects abide by the Unite Construction Charter, i.e. ensure direct employment, no bogus self-employment or umbrella companies, payment of the living wage etc where SGLPS has been used to fund it.  **Transition**  Unite recognise that the transition to a new scheme will require time and that initial set up costs will be required. However we believe in the long run this option will deliver savings to the scheme.  **Political**  The political desire to use pension funds for investment in infrastructure projects must be carefully considered. We would not wish to see our member’s pension funds used in such a way as to provide a back-stop loan scheme for the Scottish Government. Decisions to use funds in this way must come with an absolute guarantee that pensions will be protected and underwritten by the Scottish Government.  We only have to look at the fiasco of recent building and infrastructure projects in Scotland which have fallen behind schedule, delivered buildings that are unfit for purpose and in some cases proved to be dangerous. Therefore the distance between SLGPS investment funding a project, and the infrastructure project itself, must be sufficient as to guarantee that the fund itself will not face litigation.  Furthermore, the collapse of Carillion highlighted the lack of accountability and scrutiny of one of the UK’s largest infrastructure providers and what followed was excessive executive pay and dividends to shareholders were prioritised above jobs, workers and their pensions.  We therefore need to ensure complete transparency and accountability in investments to avoid putting control of funds into the hands of unaccountable company directors or non-elected quango’s. Presently the Scottish Futures Trust has significant control over public procurement contracts. However Unite believes there is a lack of transparency and accountability around the projects they are involved with.  If, going forward, the SLGPS fund managers are seeking to utilise its assets in infrastructure including procurement projects, Unite would support the feasibility of setting up of an independent, publicly owned company which would oversee public procurement and infrastructure contracts; making it fully accountability and wholly transparent. There could also be opportunities to make links with the Scottish Investment Bank. |

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| Question 4: Merge the funds into one or more new funds The text can wrap onto additional pages. |
| *Option 4*  We do not consider Option 4 to be a viable choice as we believe that this model is unlikely to deliver the best for our members and the wider workforce.  Unite believes Option 4 carries a heavier risk to the scheme and while it may create jobs at executive level it is likely to result in job losses in back office and administration functions at a local level where many of our members are found. Any option that would threaten the jobs of our members is not acceptable to us.  We also see issues with merging all 11 schemes into one large pension scheme, not only through an increase in risk but also with issues of accountability and transparency. It would appear that decisions will be made far from the funds members, by a select group of fund managers with little opportunity to influence that group. |

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| Question 5: Preferred and additional options The text can wrap onto additional pages. |
| Which option does your organisation prefer? Please explain your preference.  Option 3. (See above)  What other options should be considered for the future structure of the LGPS?  What would be the advantages and disadvantages of these other option for funds’ investment costs, governance, operating risks and ability to invest in infrastructure?  Are there any other comments you would like to make? |

The consultation questions end.