## 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. |
| Scottish Children’s Reporter Administration (SCRA) | 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. |
| Ed Morrison, Head of Finance & Resources, SCRASusan Deery, Head of Human Resources, SCRA | ConfirmConfirm |
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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. |
| SCRA is a scheduled body member of the Falkirk Council LGPS.At March 2017 SCRA had the following membership:Actives 458, average age 50.5 yearsDeferred pensioners 191, average age 50.0 yearsPensioners 242, average age 64.5 yearsSCRA’s funding level at 31/3/17 was 90% with an estimated deficit of £11m.The agreed employer’s contribution rates for 2018/19, 2019/20 and 2020/21 are 19.6%, 20.1% and 20.6%. |

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?

There is visibility of costs in the Falkirk Fund’s accounts however more information could be provided on the breakdown of costs into fixed/variable, dealing charges, admin costs. * How well does the current system manage investment costs?

Competitive tendering requirements and active contract management should ensure transparency and best value. * How would you improve the measurement and management of investment costs in the current system?

An agreed, standardized approach to disclosure of costs.1. Governance:
* How well informed do you feel about the governance of your fund? What information do you rely on to measure this?

There is information on governance on the Falkirk Pension Fund (FPF) website and regular reports on governance are presented at the quarterly Pension Committee/Board meetings. Reports from internal and external auditors provide assurance on governance matters. Committee/Board members training covers governance. * How well is the current system governed?

The establishment of the Pension Committee/Board has improved the system of governance and oversight although it can be difficult for members to spend sufficient time to keep on top of complex pension issues and attend training and development. * How would you improve governance of the current system?

Continue to develop training and guidance for Committee/Board members. Widen pensioner’s representation on Committees and include an independent adviser on Committees.How important is it to maintain a local connection with respect to oversight and strategy?A local connection is important and brings a number of benefits to scheme members and employers, particularly easy and quick access to information and advice. It helps to ensure strategies, policies and processes are developed in line with the needs of members and other stakeholders. How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?The aim should be to secure the benefits of scale in terms of cost reductions and increased returns whilst preserving the benefits of a local connection in the governance of funds.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?

FPF has a risk register which is presented to regularly to the Pensions Committee/Board and changes in risks are flagged to members.* How well are operating risks managed in the current system?

FPF has a robust approach to risk management. The systems of internal control are continuously reviewed by Council officers, internal and external audit with oversight provided by Pensions Committee/Board members.* How would you improve the measurement and management of operating risks in the current system?

By simplifying scheme regulations and benefits structure which are becoming increasingly complex. 1. Infrastructure:
* How well informed do you feel about your fund’s investments in infrastructure? What information do you rely on?

There is information on the fund’s investments in infrastructure on the Fund website and the Committee/Board receive regular reports on the performance of infrastructure investments. The creation of a Joint Investment Strategy Panel with the Lothian Fund and Independent advisers allows more time to be spent analyzing infrastructure investments. * How do you rate the current system’s ability to invest in infrastructure?

The current system provides the ability to invest in infrastructure as long as Funds Investment Strategies identify infrastructure as suitable investments. * How would you increase investment in infrastructure in the current system?

This should only be an objective if it is in line with the Fund’s Investment Strategy and investment returns support the Fund’s objectives to pay benefits and minimize employer costs. 1. Do you have any additional comments about this option?

The current structure generally supports Fund to meet their objectives and remain well funded compared to equivalent funds in England. Any change to the current structure will carry risks; however it is likely that greater collaboration or mergers will help the LGPS to meet the considerable challenges it faces particularly in terms of generating returns and ensuring affordability. |

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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?

Potential to secure some savings through joint procurement of investment managers and other services.* What would be the positive impacts?

Apart from savings on investment costs smaller funds would benefit in terms of access to shared resources to deliver better management of investment managers, better performance analysis and understanding of risk.* What would be the negative impacts?

No negative impacts for funds but benefits more likely for smaller funds. 1. Governance:
* What impact do you think promoting agreements between funds would have on governance?

Collaboration will be easier to achieve where underlying governance structures are similar and it can be demonstrated that all Funds involved in the collaborations will secure benefits. * What would be the positive impacts?

Sharing of resources, experience, expertise leading to better outcomes. * What would be the negative impacts?

There could be negative impacts in terms of lack of co-ordination, delays in decision-making if underlying governance structures are not aligned or there are too many collaborative partners.1. Operating risks:
* What impact do you think promoting agreements between funds would have on operating risks?

There would likely be a positive impact on both the risk management process (more skilled resources) and control of risks e.g. key person risks and improved resilience.* What would be the positive impacts?

See above. * What would be the negative impacts?

There would still be some duplication across the 11 funds and there may be little impetus to collaborate.1. Infrastructure:
* What impact do you think promoting agreements between funds would have on funds’ ability to invest in infrastructure?

May make it easier for smaller funds to invest in infrastructure projects.* What would be the positive impacts?

Potential for reduced costs, greater scale of investment.* What would be the negative impacts?

No negative impacts, so long as all investments are assessed on their merits.1. Do you have any additional comments about this option?

There would appear to be scope for collaboration to be increased. The benefits of existing collaborations, including the Falkirk, Lothian and Fife collaboration, could be evaluated to provide evidence to support further change. |

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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?

Could result in some savings in the cost of investing for smaller to medium size funds but likely to be offset initially by additional set up costs. * What would be the positive impacts?

For smaller funds the potential for cost savings and the chance to invest in a broader range of asset classes. * What would be the negative impacts?

A period of uncertainty as proof of concept does not yet seem to have emerged in England and Wales. Cost savings could be a negative if it leads to a restricted choice of investment options, and reduced returns or increased risk.* If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?

Each fund should assess the costs and benefits of joining an asset pool.* Under which circumstances should the SLGPS consider directing funds to pool?

Only if the business case can be clearly established or if individual funds are failing to achieve their targets.1. Governance:
* What impact do you think pooling investments between funds would have on governance?

Potential for additional bureaucracy and disagreements between pools and funds e.g. investment principles.* What would be the positive impacts?

Potential to recruit more skilled, dedicated staff to manage the pools. * What would be the negative impacts?

Potential for long transition process diverting resources from fund management.1. Operating risks:
* What impact do you think pooling investments between funds would have on operating risks?

May reduce risks in manager selection process and key person risk.* What would be the positive impacts?

Linked to recruitment of skilled, dedicated staff, better oversight of investment managers.* What would be the negative impacts?

Fund Committees more distant from their underlying investments.1. Infrastructure:
* What impact do you think pooling investments between funds would have on funds’ ability to invest in infrastructure?

May have limited impact as this option is already available to Funds and decisions should always be made on the basis of the fund’s investment strategy.* What would be the positive impacts?

There exists the opportunity for funds to collaborate on infrastructure investment. This could be extended to a wider initiative for Scottish funds.* What would be the negative impacts?

Transition period may slow down progress being made through collaborative approaches.Do you have any additional comments about this option? |

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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?

Potential for cost savings over the longer term.* What would be the positive impacts?

Skilled, dedicated staff would positively impact on decision making and governance.* What would be the negative impacts?

Could be significant costs associated with the transition. Funds may become too big to be managed effectively.* If merging were possible, under what circumstances should a fund consider a merger?

Clear business case setting out the benefits for fund members. * Under what circumstances should the SLGPS consider directing funds to merge?

Only where it is clear this is the best structure to deliver benefits to fund members and employers.Governance: * What impact do you think mergers between funds would have on governance?

Would depend on the scale of merger with larger scale mergers reducing local involvement in fund governance. * What would be the positive impacts?

Streamlined governance arrangements with skilled, dedicated resources concentrated in fewer Pension Committees/Boards.* What would be the negative impacts?

Increased reliance on fewer individuals looking after the interests of a much greater number of stakeholders could stretch oversight resources.Operating risks: * What impact do you think mergers between funds would have on operating risks?

Could reduce some of the operating risks faced by smaller Funds. * What would be the positive impacts?

Greater concentration of specialist, skilled roles could lead to better control and management of risks.* What would be the negative impacts?

Could be a greater concentration of investment risk and scheme members feel more remote from decision making.Infrastructure:* What impact do you think mergers between funds would have on funds’ ability to invest in infrastructure?

Potential to invest in larger scale infrastructure projects if this is in line with the merged funds investment strategy.* What would be the positive impacts?

Potential for increased investment. * What would be the negative impacts?

Larger investments may result in more concentrated risk.Do you have any additional comments about this option?Modelling of this option should include impact on the affordability of the LGPS in the medium and long term. This option requires a lot more detailed consideration of the technical aspects than the others. Consideration would need to be given to the funding levels of the schemes, the actuarial basis on which this is calculated, their demographic profiles, and other factors.  |

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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.

Subject to development of a business case for change, with the appropriate consideration of members interests, SCRA would support the creation of a structure that created a smaller number of merged funds in Scotland that could deliver the benefits of scale enjoyed by Strathclyde Pension Fund. Any revised structure should secure the benefits of concentrating and developing skilled resources in fund management and oversight and enable effective engagement by members and employers. 1. What other options should be considered for the future structure of the LGPS?

Short of creating a smaller number of merged funds structural change that facilitated greater collaboration between funds would be supported by SCRA where it could be demonstrated that it would deliver benefits for scheme members and employers.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?

Subject to development of a business case, collaboration may deliver sooner on benefits for scheme members and employers than some of the larger, wholesale scheme changes.1. Are there any other comments you would like to make?

Security of the members benefits should be paramount throughout.  |

The consultation questions end.