Review of the Structure of the Scottish Local Government Pension Scheme

CONSULTATION RESPONSE FORM

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

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.
Comhairle nan Eilean Siar	Employing Authority

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.
Robert Emmott, Director for Assets and Resources Comhairle nan Eilean Siar	Confirm

Date Please date the response.	06/12/2018

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.

The Comhairle is in favour of retaining the current number of funds on the basis that there is no evidence to correlate fund size with return; there will be significant costs in merging funds; there should be local governance and control of pension funds; a number of funds reduces the risk of systemic failure and that the fund size is not a barrier to infrastructure investment. It should be a matter for administering authorities to determine whether to enter into joint working arrangements with other authorities to improve the efficiency of fund management.

The consultation questions follow.

CONSULTATION QUESTIONS

Question 1: Retain the current structure with 11 funds

The text can wrap onto additional pages.

a) 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?*

  All administering authorities comply with CIPFA's Guidance for the Governance of Pension Schemes.

- *How well does the current system manage investment costs?*

  Whilst transparency in reporting fees is important, the net return on the Fund is the most critical aspect of Fund performance. Additional fees associated with active Fund Management may deliver higher returns.

- *How would you improve the measurement and management of investment costs in the current system?*

  There are no significant weaknesses in the current arrangements.

b) Governance:

- *How well informed do you feel about the governance of your fund? What information do you rely on to measure this?*

  The Comhairle does not directly manage a Fund but has a member representative who sits on the Highland Council Pension Board.

- *How well is the current system governed?*

  The Funds are subject to statutory external audit which has not highlighted any areas of concern in relation to Board governance.

- *How would you improve governance of the current system?*

  There is no need for further improvements in this area.

- *How important is it to maintain a local connection with respect to oversight and strategy?*

  LGPS contributions are a significant part of the Comhairle's employee expenditure and it is important that there is a link between the policies of the employer and the impact these may have on the Fund. Maintaining local accountability is an essential element of this. It is unlikely that the Comhairle would have any voice should a Single Fund be established.

How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?

c) 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?*

  All Funds operate under MFID2 with access to professional advice to ensure risk is effectively managed.

- *How well are operating risks managed in the current system?*

  Evidence from audit is that the risks are being effectively managed.

- *How would you improve the measurement and management of operating risks in the current system?*

  Further controls are not considered necessary.

d) Infrastructure:

- *How well informed do you feel about your fund's investments in infrastructure? What information do you rely on?*

  There are no barriers to investment in infrastructure under the present system and where this offers an advantage over other asset classes funds will already invest.

- *How do you rate the current system's ability to invest in infrastructure?*

  There is inevitably a potential divergence between the objectives of the LGPS and any policy objective in respect of investment in infrastructure.

- *How would you increase investment in infrastructure in the current system?*

  The limiting factor on the Comhairle's investment in infrastructure is the availability of finance to fund investment rather than the accessibility of capital.

e) Do you have any additional comments about this option?

The LGPS Funds in Scotland are in a good position with high valuation levels, strong performance and relatively low costs. There is no evidence that bigger Funds necessarily perform better or cost less.

The current structure is not a barrier to infrastructure investment.

Any move to pool or merge Funds will have significant costs and risk associated with it.

Question 2: Promote cooperation in investing and administration between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think promoting agreements between funds would have on investment costs?*

  There could be some savings in fees through economies of scale though this must be considered in the context of the overall return on the Fund.

- *What would be the positive impacts?*

  Collaboration could provide greater staffing resilience and access to a wider spectrum of expertise.

- *What would be the negative impacts?*

  There could be tensions between investment strategies of different authorities.

b) Governance:

- *What impact do you think promoting agreements between funds would have on governance?*

  More complex arrangements will be required to ensure transparency where investment decisions may relate to more than one administering authority.

- *What would be the positive impacts?*

  Broader scrutiny by a wider range of individuals.

- *What would be the negative impacts?*

  Seeking agreement across more than one authority may slow down investment decisions.

c) Operating risks:

- *What impact do you think promoting agreements between funds would have on operating risks?*

  There is already voluntary co-operation between LGPS Funds in sharing best practice.

- *What would be the positive impacts?*

  There may be some advantages from increased economies of scale.

- *What would be the negative impacts?*

  There would need to be clear agreements about responsibilities and how any disputes about performance, or any service failure, would be addressed.

d) Infrastructure:

- *What impact do you think promoting agreements between funds would have on funds' ability to invest in infrastructure?*

  This should not have a significant impact on the existing ability of Funds to invest in infrastructure, except for small Funds.

- *What would be the positive impacts?*

  Collaboration between smaller Funds could open up opportunities in a wider range of asset classes.

- *What would be the negative impacts?*

e) Do you have any additional comments about this option?

There are already examples where administering authorities are collaborating and it should remain open to authorities to work together where there are tangible advantages in doing so.

Question 3: Pool investments between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think pooling investments between funds would have on the cost of investing?*

  Moving to pool investments would represent a significant change in the LGPS and come with a significant cost.

- *What would be the positive impacts?*

  It is difficult to see how there would be a net improvement in Fund performance without an assumption that bigger Funds perform better.

- *What would be the negative impacts?*

  There is no evidence that larger Funds necessarily achieve higher net returns and there is therefore a risk that the cost of any change will never be recouped.

- *If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?*

  Pooling is only justifiable where there is evidence it will lead to a net improvement in Fund performance and there will be no detriment to the Fund. Since the level of funding in each Fund varies, a mechanism would be required to ensure no individual authority was disadvantaged.

- *Under which circumstances should the SLGPS consider directing funds to pool?*

  This should only be considered where a Fund or Funds are demonstrably unsustainable.

b) Governance:

- *What impact do you think pooling investments between funds would have on governance?*

  Pooling would require additional governance administrative structures.

- *What would be the positive impacts?*

  Pooled Funds may have access to a greater spectrum of expertise.

- *What would be the negative impacts?*

  Pooling of Funds would reduce local connection and accountability.

c) Operating risks:

- *What impact do you think pooling investments between funds would have on* *operating risks?*

Any move to a new structure will carry risks including the potential diversion of focus from delivering Fund returns to implementing new arrangements.

Once established however, there are no additional operating risks for pooled Funds.

- *What would be the positive impacts?*

- *What would be the negative impacts?*

d) Infrastructure:

- *What impact do you think pooling investments between funds would have on funds' ability to invest in infrastructure?*

  The creation of pooled Funds will not impact on the existing ability of Funds to invest in infrastructure, except to the extent that small Funds may be able to invest in a wider range of asset classes.

- *What would be the positive impacts?*

- *What would be the negative impacts?*

Do you have any additional comments about this option?

Question 4: Merge the funds into one or more new funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think mergers between funds would have on the cost of investing?*

  The creation of one on one new Funds through merging are a significant change that will come at significant cost.

- *What would be the positive impacts?*

  It is difficult to see how there would be a net improvement in Fund performance without an assumption that bigger Funds perform better.

- *What would be the negative impacts?*

  There is no evidence that larger Funds necessarily achieve higher net returns and there is therefore a risk that the cost of any change will never be recouped.

- *If merging were possible, under what circumstances should a fund consider a merger?*

  Pooling is only justifiable where there is evidence it will lead to a net improvement in Fund performance and there will be no detriment to the Fund. Since the level of funding in each Fund varies, a mechanism would be required to ensure no individual authority was disadvantaged.

- *Under what circumstances should the SLGPS consider directing funds to merge?*

  This should only be considered where a Fund or Funds are demonstrably unsustainable.

b) Governance:

- *What impact do you think mergers between funds would have on governance?*

  New structures would be required to manage the Funds.

- *What would be the positive impacts?*

- *What would be the negative impacts?*

  There would be a reduction in local accountability.

c) Operating risks:

- *What impact do you think mergers between funds would have on operating risks?*

  Any move to a new structure will carry risks including the potential diversion of focus from delivering Fund returns to implementing new arrangements.

Once established however, there are no additional operating risks for merged Funds.

- *What would be the positive impacts?*
- *What would be the negative impacts?*

d) Infrastructure:

- *What impact do you think mergers between funds would have on funds' ability to invest in infrastructure?*
- *What would be the positive impacts?*
- *What would be the negative impacts?*

e) Do you have any additional comments about this option?

Question 5: Preferred and additional options

The text can wrap onto additional pages.

a) **Which option does your organisation prefer? Please explain your preference.**

The Comhairle supports option 2 with co-operation in investment and administration where this demonstrably adds value.

b) **What other options should be considered for the future structure of the LGPS?**

None.

c) **What would be the advantages and disadvantages of these other option for funds' investment costs, governance, operating risks and ability to invest in infrastructure?**

N/A

d) **Are there any other comments you would like to make?**

No.

The consultation questions end.