## 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. |
| full names of responding organisations**East Ayrshire Council** | **Scheme 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. |
| **Paul McGowan, Head of Human Resources**  | **confirm** |
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| **Date**Please date the response. | 6/12/2018 |
| **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. |
| **East Ayrshire Council is an employer member of the Strathclyde Pension Fund.** |

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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?

**Strathclyde Pension Fund (SPF) fully complies with the CIPFA guidance (Accounting for Local Government Pension Scheme Management Expenses). All investment management costs are recognised, measured and disclosed in the Fund Account in line with the guidance. Disclosed expenses for SPF include management fees, management fees in pooled funds, performance fees, and transaction costs.*** How well does the current system manage investment costs?

**Local Government Pension Scheme (LGPS) funds are all large investors and as a large institutional investors SPF is able to negotiate very effectively and get good value for money. SPF also benefits from public sector disciplines including open competitive tendering, a value for money ethos, and high levels of scrutiny and transparency in comparison to corporate funds. In this context SPF effectively manages investment costs on behalf of its members*** How would you improve the measurement and management of investment costs in the current system?

**Standardised disclosure of costs and charges to institutional investors, and proposals to improve the effectiveness of intermediaries may improve the measurement and management of investment costs in the current system as would consideration of the mandatory application of the CIPFA guidance on Accounting for Local Government Pension Scheme Management Expenses.** 1. Governance:
* How well informed do you feel about the governance of your fund? What information do you rely on to measure this?

**As an employer we are well informed about the governance of our fund. SPF has a dedicated Governance area on its website, a Governance section in its Annual Report, and Governance is a standing item at the SPF AGM.** **As an employer we actively participate in these governance arrangements and attend the fund AGM.*** How well is the current system governed?

**In 2016, the Scottish Public Pensions Agency (SPPA) commissioned a review of the SPF governance arrangements. Findings overall were positive and no fundamental weaknesses were identified, though KPMG made a number of recommendations addressed at helping the new Boards establish their purpose. From an employer perspective effective governance arrangements are in place with SPF.*** How would you improve governance of the current system?

**Governance reviews should be commissioned and findings actioned on a regular basis.*** How important is it to maintain a local connection with respect to oversight and strategy?

**A local connection is essential to ensure that both employers and members can exercise meaningful oversight, and that strategy development is fully aligned to their interests.** * How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?

**Given that the strong local connection represents the status quo for the LGPS in Scotland it would be necessary instead to determine that greater benefits of scale would outweigh the benefits of the local connection. There is little evidence to suggest that the current model is fundamentally flawed and that economies of scale would be beneficial in relation to SPF.** 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?

**We are well informed of the operating risks of SPF through the published Risk Policy and Strategy Statement. A summary Risk Register is reviewed each quarter by the SPF Committee and Board. The detailed Risk Register is reviewed and published annually.*** How well are operating risks managed in the current system?

**SPF has significant internal resource and expertise, and a robust regime of internal controls to ensure that funding and investment strategies are firmly risk-based and all operational risks are closely managed. The internal resource is supported and enhanced by a framework of external monitoring and advice including actuarial and investment consultants, auditors, and independent expert advisers.*** How would you improve the measurement and management of operating risks in the current system?

**By simplifying scheme regulations and associated legislation.** 1. Infrastructure:
* How well informed do you feel about your fund’s investments in infrastructure? What information do you rely on?

**As an Employer we are well informed on our funds infrastructure investments. Detailed proposals for infrastructure investments are published in the committee papers area of the SPFO website:****A complete list of Direct Investment Portfolio (DIP) investments is published in the quarterly investment performance report and in the investments section of the SPF Annual Report.*** How do you rate the current system’s ability to invest in infrastructure?

**We are reassured that the funds ability to invest in infrastructure is based on a sound understanding of risk, return and governance characteristics.** * How would you increase investment in infrastructure in the current system?

**Increased investment in infrastructure would be dependent on suitable investment opportunities becoming available that would provide attractive risk/return.** * Do you have any additional comments about this option?

**No.**  |

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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?

**There could be some saving from promoting agreements between funds particularly where duplication of activity already exists e.g. procurement activity.** * What would be the positive impacts?

**Cost savings could be made in areas where agreements and sharing/joint practice could be accommodated. Due to size of SPO these would not be significant.*** What would be the negative impacts?

**No negative impacts identified.**1. Governance:
* What impact do you think promoting agreements between funds would have on governance?

**No significant impact on individual governance arrangements.*** What would be the positive impacts?

**Promoting agreements between funds may reduce duplication of governance effort and improved collective governance. It may however add another layer to administer and monitor new arrangements.*** What would be the negative impacts?

**No significant negative impacts, but the need to co-ordinate activity and decision-making would be a complication.**1. Operating risks:
* What impact do you think promoting agreements between funds would have on operating risks?

**No significant impact identified in operating risks if robust monitoring arrangements are put in place.*** What would be the positive impacts?

**Could improve risk management and support for smaller funds.*** What would be the negative impacts?

**No significant negative impacts identified at this time.**1. Infrastructure:
* What impact do you think promoting agreements between funds would have on funds’ ability to invest in infrastructure?

**This may benefit smaller funds to share the knowledge and expertise of those already investing in large infrastructure projects. From an SPO perspective there would be little impact aside utilizing a potentially larger knowledge base. .** * What would be the positive impacts?

**There may be marginal benefit to larger funds and may support barriers for smaller funds to consider infrastructure investments.** * What would be the negative impacts?

**No significant negative impacts identified.**1. Do you have any additional comments about this option?

**Significant co-operation between SPFO, other Scottish funds and the wider LGPS network already exists.** |

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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?

**As a large fund SPF already enjoys considerable benefits of scale and would not benefit significantly from pooling of investments.*** What would be the positive impacts?

**From a SPF perspective there would be limited positive cost impacts from pooling of investments.*** What would be the negative impacts?

**Pooling of investments may reduce flexibility and potential access to limited investment opportunities.*** If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?

**Following cost benefit analysis relating to the merits of joining an asset pool and how this would fit with wider investments decisions.** * Under which circumstances should the SLGPS consider directing funds to pool?

**This would be part of wider governance arrangements.**1. Governance:
* What impact do you think pooling investments between funds would have on governance?

**It is likely to reduce transparency and complicate governance.*** What would be the positive impacts?

**Cannot see any significant positive governance impacts from pooling investments from an employer’s perspective in relating to SPF*** What would be the negative impacts?

**Pooling investments may be resource intensive and add further layers of management and bureaucracy.**1. Operating risks:
* What impact do you think pooling investments between funds would have on operating risks?

**Operating risks would be unlikely to be impacted adversely as risk management strategies would continue to be required.** * What would be the positive impacts?

**As above.*** What would be the negative impacts?

**Additional resource to establish and maintain the pools. Pooling investments may to involve some concentration of risk.**1. Infrastructure:
* What impact do you think pooling investments between funds would have on funds’ ability to invest in infrastructure?

**SPF as a large fund already invests in infrastructure projects. It is unlikely that from a SPF perspective there would be any great impact in pooling of investments.*** What would be the positive impacts?

**A combined initiative by the Scottish funds to invest in infrastructure could have some merit.** * What would be the negative impacts?

Pooling may generate large initial transitional, administrative and set up costs,1. Do you have any additional comments about this option?

No  |

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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?

**May have some positive impact with regards to economies of scale in relation to smaller funds. Little impact or benefit identifiable from a SPF perspective.*** What would be the positive impacts?

**Answer as above**.* What would be the negative impacts?

**Transitional costs would be much greater.*** If merging were possible, under what circumstances should a fund consider a merger?

**A merger should only proceed if it was mutually beneficial to all funds and subject to appropriate governance arrangements.*** Under what circumstances should the SLGPS consider directing funds to merge?

**Where funds were not performing.**1. Governance:
* What impact do you think mergers between funds would have on governance?

**Merger of funds would remove/dilute local involvement and accountability in pension fund governance.** * What would be the positive impacts?

**Can’t see any identifiable benefit from EAC perspective in relation to economies of scale currently being enjoyed from SPF. Smaller funds and their associated employers may benefit.*** What would be the negative impacts?

 **May impact on local accountability and a reliance on a small number of key individuals.** 1. Operating risks:
* What impact do you think mergers between funds would have on operating risks?

 Merging funds and investments is may result in a concentration of risk. No optimum size of fund identified that would deliver improved performance.A full merger of Scottish funds might have slightly increased probability of success. But size is no guarantee of success, and the impact of failure would be very significant.* What would be the positive impacts?

**Pooling of current knowledge**.* What would be the negative impacts?

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

**A full merger of Scottish funds may increase investment in infrastructure in relation to smaller funds currently not investing in infrastructure. From a larger fund perspective these opportunities already exist. Primary concern from an employer perspective is stability and investment return.*** What would be the positive impacts?

**A merged fund or funds could potentially make larger individual investments.*** What would be the negative impacts?

 **Greater concentration of risk if concentration in infrastructure investments.**1. Do you have any additional comments about this option?

No  |

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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.

**East Ayrshire Council as an Employer with SPF is satisfied with the governance structure and risk processes currently in place. SPF currently enjoys economies of scale and is delivering for its members.** **From an employer perspective with SPF, it is not clear what would be gained by its members from adoption of any of the proposed alternative models.** **There are potential significant associated costs that would result from restructuring and at this time this financial burden should not impact on scheme members.** **In summary we would prefer option 1. Retaining current structure.**1. What other options should be considered for the future structure of the LGPS?

**Within the current structure there currently exists collaboration between funds. This should be explored further and encouraged within existing structures. Whilst the other** **The creation of a pooled investment vehicle for Scottish real assets currently being developed by SFT would be worth exploring in relation to infrastructure investments.****These are all recent developments which have occurred organically within the existing LGPS structure rather than by any form of enforced direction or change of structure.** **Consideration of further mechanisms for information sharing may be of benefit**.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?

**Advantages of greater collaboration and sharing of knowledge may result in improved performance without the disruption and considerable costs involved in altering current structure.**1. Are there any other comments you would like to make?

**From an employer perspective primary concern is to maintain/improve current levels of fund performance which can be achieved in existing setup.** |

The consultation questions end.