

# 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-institute.org](mailto:consultation@pensions-institute.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](mailto: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.

Audit Scotland	Employer
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#### 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.

Caroline Gardner, Accountable Officer – Audit Scotland	Confirm
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#### Date

Please date the response.

7 December 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.

Audit Scotland is an independent public body with 287 members of the LGPS.

Audit Scotland is also the auditor of six of the funds.

We are replying only to section 5 of the consultation.

This consultation response is written only from our perspective as an employer which invests in the funds to provide the best occupational pension provision for our employees.

We have no comment to make on the policy matters covered in the consultation, because our role as auditors requires us to remain independent.

Responding in our role as an employer, Audit Scotland wishes to contribute to the review of the structure of the Scottish Local Government Pension Scheme by means of the points we have made in answer to question 5(d). We are not expressing a preference for any of the four options contained within this consultation exercise due to the important principle of the independence of the auditor of pension funds across the SLGPS.

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?*

No comment

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

No comment

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

No comment

#### b) Governance:

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

No comment

- *How well is the current system governed?*

No comment

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

No comment

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

No comment

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

#### 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?*

No comment

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

No comment

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

No comment

**Infrastructure:**

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

No comment

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

No comment

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

No comment

**Do you have any additional comments about this option?**

No comment

**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?*

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**b) Governance:**

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**c) Operating risks:**

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**d) Infrastructure:**

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

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

No comment

### 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?*

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

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

No comment

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

No comment

#### b) Governance:

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

#### c) Operating risks:

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**d) Infrastructure:**

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**Do you have any additional comments about this option?**

No comment

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

The text can wrap onto additional pages.

### Cost of investing:

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

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

No comment

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

No comment

### Governance:

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

### Operating risks:

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*



No comment

**Infrastructure:**

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

No comment

- *What would be the positive impacts?*

No comment

- *What would be the negative impacts?*

No comment

**Do you have any additional comments about this option?**

No comment

## Question 5: Preferred and additional options

The text can wrap onto additional pages.

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

No comment

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

No comment

**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?**

No comment

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

Audit Scotland has chosen to provide a limited response in its role as an employer by which we offer our employees access to the Scottish Local Government Pension Scheme (SLGPS).

Audit Scotland is an independent public body with 287 members of the LGPS.

Audit Scotland is also the auditor of six of the funds.

We are replying only to section 5 of the consultation.

This consultation response is written only from our perspective as an employer which invests in the funds to provide the best occupational pension provision for our employees.

We have no comment to make on the policy matters covered in the consultation, because our role as auditors requires us to remain independent.

In our role as an employer, we consider the following aspects of the SLGPS as key elements of pension fund operation - irrespective of the future structure of the scheme(s):

1. Funding
2. Investment
3. Governance
4. Administration

- The funding of pensions across the SLGPS needs to be affordable, sustainable and fair for employers and employees. The funding strategy, coupled with the investment strategy, needs to ensure that risk is managed so that the SLGPS is resilient.

- The principle of value for money applies to all aspects of SLGPS operation, including the considerable cost of investment management and administration. The cost of investment management needs to be balanced with the potential for investment fund returns which, when taken together, provide evidence of value for money. The investment element is a significant factor in both cost and investment returns, with a corresponding impact upon future funding strategy.
- Effective governance includes the principle of clear accountability between the SLGPS fund(s), employers and members. Accountability was strengthened as part of the SLGPS 2015 scheme. The capacity and capability of key personnel and specialists within each SLGPS fund ensures operational and professional resilience – including the ability to effectively procure, monitor and manage external suppliers such as investment management firms.
- Governance also includes the important matter of fiduciary responsibilities to scheme members, including important safeguards in this area extending to investment asset class choices, risk management strategy, transparency and trust.
- Employers and members rightly expect a consistent, effective and efficient level of service from pension fund administrators which are accessible for all stakeholders. SLGPS administrators should seek to deliver this however they choose to organise themselves.

Responding in our role as an employer, Audit Scotland wishes to contribute to the review of the structure of the Scottish Local Government Pension Scheme by means of the points we have made in answer to question 5(d). We are not expressing a preference for any of the four options contained within this consultation exercise due to the important principle of the independence of the auditor of pension funds across the SLGPS.

The consultation questions end.