

LOCAL GOVERNMENT PENSION SCHEME SCOTLAND

SCHEME ADVISORY BOARD MEETING

23rd February 2022

LGPS SCOTLAND STRUCTURE REVIEW:

EVIDENCE BASELINE: GAP ANALYSIS

1. Summary

The gap analysis for the evidence required to produce the business cases for each of the 4 SLGPS Scheme structure options has been undertaken by the focus group, as well as identification of work required to address the gaps.

Due to resource restraints across funds and importance of impartiality for the SAB, no dedicated internal SLGPS resource can be dedicated to undertake this work and the project will therefore need to procure external suppliers to deliver most of this.

2. Actions Requested

The SAB is requested to agree the gap analysis outputs.

3. Background & Context:

The initial evidence baseline (based on previous work commissioned or undertaken by, or presented to the SAB) was agreed by the SAB on 24th November 2021 (an extract of this paper outlining the evidence baseline sources is attached at Annex 1).

It was agreed a detailed gap analysis would be undertaken by the focus group, to ensure the evidence would be as comprehensive as possible. This has now been completed.

The Evidence Gaps & Work to Address Them

A table detailing the gap analysis and work requirements for each option is detailed in Annex 2.

In addition to focus group input and as an additional check on evidence sufficiency/relevance, this work has also been reviewed by David Robertson, Director of Finance and Corporate Governance and Kirsty Robb, Pension Fund Manager, for Scottish Borders Council. They have confirmed '*it is a very comprehensive piece of work which should provide a sound evidence base for the consistent objective evaluation of the 4 options you have been asked to consider by the SAB*'.

The gap analysis for option 1 (current structure) is inevitably more detailed at this point, than for alternative options. This is due to the availability of actual data and reference material from the funds; other options will require modelling of assumptions and development of possible structural and operational scenarios.

The needs for these other options will be constantly reviewed/revised as work progresses and needs become clearer. The experience/expertise of external supplier resources will also contribute to this check and review process (e.g. experience of investment pooling/mergers etc.).

Once all the evidence is obtained, collated and analysed this will be used to develop each of the business cases and undertake the cost/benefit analysis.

Freedom of Information

This paper is closed due to commercial sensitivity.

Annex 1:

Extract from SAB Paper 'LGPS Scotland Structure Review: Existing Evidence Review & Gap Analysis Process' 24th November 2021

"5. Review of Existing Evidence & Gap Analysis

5.1 Review of the Evidence Materials:

There was a high level of consensus across the group on what evidence was sufficiently rigorous and reliable to constitute part of the ongoing evidence baseline.

The various evidence sources were fully discussed:

Exclusion from Baseline:

There was agreement that several pieces are: too out of date to be sufficiently useful or relevant; were too narrow in focus or too short a period of time was analyzed; that evidence had been superseded and/or well referenced in subsequent work.

For these reasons, it was agreed the following sources should be **excluded** from the ongoing review. These are:

- Audit Scotland – Public Sector Pensions Costs – out of date & superseded by other evidence
- Audit Scotland – 2018/19 Supplement – out of date and lacks sufficient detail
- APG Comparison with Deloitte – data used and analysis done (for both reports) is now 10+ years out of date and investment strategies across funds have changed - neither data set provides a sufficiently strong or relevant data base to use. The APG/Deloitte comparison is also adequately referenced and contextualized by Pension Institute reports
- FCA Asset Management Marketing Study – predominantly retail industry focused and relevant conclusions well covered by the Pensions Institute. The recommendations are also covered by the Cost Transparency project.
- Chris Sier Presentation – insufficient data/detail in the presentation - this area is also being progressed with the Cost Transparency template & project

Useful Reference Points:

Other evidence sources, whilst out of date, were thought to offer some relevant and useful perspective or analysis, it was agreed they could present useful reference points for informing further work.

These are:

- APG UK LGPS Analysis – out of date – data and analysis is 10+ years old (the data used dated from 2001-2009) and fund asset mixes have changed over time. However, the report provides useful breadth of analysis and insight into a 'wider universe' of UK LGPS fund data (it includes 100+ funds). It was thought that some of this could be refreshed/replicated.

- Deloitte Pathfinder II – out of date - data and analysis is 10+ years old – and, as above, asset mixes have changed, so there is an insufficiently sound base to build on. However, the report is comprehensive and includes analysis on structures and costs for other areas that are not covered to the same level of detail (or at all) elsewhere. This includes work on pensions administration structures and costs, ICT costs etc. which could usefully and more easily be refreshed. It also offers analysis and insight on areas such as governance structures and asset allocation, not covered to the same extent elsewhere, that can also be refreshed.

It was agreed that some of these areas would be useful to update and that the time series should be extended to 10 years of data.

Primary Evidence Sources:

Three primary sources of evidence were agreed as providing the most relevant and rigorous evidence. These are:

- SAB Working Group Report & Annexes – It was agreed that this represents a good exploration and initial positioning of the key questions to be addressed, clarifying options, and detailing some of the pros/cons of each well.

The ‘All Funds Accounts’ and ‘Funds by Mandate’ data, compiled from fund data by the Working Group for the Mercer report, provide a very good starting point for data analysis. It was agreed these should be updated and the time series extended from 5 to 10 years.

Working Group Report Annexes - External Reports:

Mercer: whilst the data sample was limited (5 years) and the report’s initial analysis viewed as weak, it was agreed the report surfaces a range of important questions and issues which continue to be relevant to this project (ESG implications on investment strategy, governance, skills and expertise for decision making etc.).

Prof. Clacher’s paper ‘Understanding Scale’: it was agreed Sections 2 & 3 provide a useful exploration on the benefits of scale, the international research informing this and some insightful case studies. It was noted that some of the assertions on merger and pooling appear to be based on assumptions of what structures would prevail and that these would need to be evidenced.

- The Pension Institute Reports – it was agreed that this provides a useful and comprehensive synopsis of all prior evidence, as well as referencing more recent developments and research (up to 2018). The reports clearly summarize and articulate the arguments for/against and the pros and cons of each option. There was consensus on the overall quality of discussion and analysis, based on information available (e.g., pooling was still at a nascent stage). It was agreed that this series of reports provide a sound starting point for more detailed analysis.

The summary of key arguments/themes from the stakeholder consultation (and the actual consultation responses) represents extremely valuable insight into the various stakeholder views and positions.

- KPMG Governance Report – this was generally accepted as useful and relevant on Board composition and responsibilities, but that it lacked analysis and could be extended further.”

Annex 2: Evidence Gaps Across the 4 Options

| Evidence Gaps | Action/Evidence Needed | Additional Sources/ Input Needed |
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| <p>Option 1: Status Quo</p> <p>Scheme Costs How much does it cost to run the current Scheme structure?</p> | <p>Develop comprehensive understanding of total cost-base for current 11 fund scheme structure, how the cost structure has changed over time (higher/lower costs) and why,- across primary areas identified in SAB Project Work Specification, building on/updating existing evidence where available:</p> <ul style="list-style-type: none"> ○ investment management - costs of internal provision (staff/ICT etc), investment management fees ideally at asset class level and other externally provided service costs; ○ pension administration; ○ oversight/governance; ○ any portion of central costs allocated to the fund. <p>Update tables of Fund data produced by SAB Working Group for Mercer paper, with data from Funds/Annual Reports.</p> <p>Build on/refresh data already held on pension admin & governance arrangements.</p> <p>Assess sensitivity of the non-investment management costs to current levels of assets/structure and administration requirements.</p> | <p>Fund data on costs taken from Annual Reports with additional detail (where required) provided by the funds.</p> <p>Updated Fund data tables (SAB WG) Pathfinder (Admin/ICT/Governance – approach on costs).</p> <p>Check alternative data sources for a comparative cost base information on investment costs for better consistency of data formats and CEM for benchmarking costs.</p> |

| Option 1: Status Quo | | |
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| <p>Return on Investment Investment strategies and asset allocations for all 11 funds including information on benchmarks and performance objectives.</p> <p>Investment Performance at fund level, along with benchmark returns and details of any performance target.</p> | <p>Collate annual asset allocation (both actual and benchmark) along with fund and benchmark return data (10 years, with individual returns per year) to allow comparison and calculation/assessment of risk (on a consistent basis) across the funds.</p> <p>Update/analyse Fund data produced in 'all funds account' and 'fund data by mandate' data files (SAB WG) Obtain Rol/performance benchmarking data from CEM/PIRC and the funds.</p> <p>Collect information on manager mandates including details of performance targets and benchmarks.</p> | <p>Fund data – updated SAB Working Group files ('all funds account/fund data by mandate).</p> <p>CEM PIRC</p> |
| <p>Governance: Understanding of current governance arrangements across each of the funds and the relationship between the fund and the Administering Authority, along with information on policies and procedures.</p> <p>Build on evidence baseline sources (Pensions Institute & Pathfinder reports and KPMG survey) to augment/illustrate pros & cons of existing structure, including:</p> | <p>Undertake survey of the 11 funds to determine existing governance structures/policies & how these work in practice (decision making, employer/member representation, relevant skills & knowledge of committee/board members, training provision etc), information on in-house resource and extent to which outsourcing or external advisors are used or considered (and in what capacity).</p> <p>Survey will require quantitative and qualitative assessment, with anecdotal evidence from representative range of pension committee & board members, fund officials, stakeholders (employers, members) and Council Officials in Administering Authorities etc.</p> | <p>Annual Reports and policy documents from funds to provide baseline of practice.</p> <p>Governance structures and information on Committee/Board member training etc. – provided by funds.</p> <p>Meetings/call with representative number of Committee/Board members, officials, stakeholders etc., (as part of survey).</p> |

| Option 1: Status Quo | | |
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| <ul style="list-style-type: none"> • Extent to which existing governance structure has kept pace with changing needs, investment portfolio complexity and increasing regulation. • What is recognized best practice for pension fund governance structures • Requisite skills, knowledge & experience on pension committees & boards. • How is the potential for conflicts of interest across funds & administering authorities currently managed (as per Good Governance Project recommendations/ guidance)? • Evidencing resilience of existing governance structure | <p>Work should look at how existing governance structure/s and arrangements across SLGPS Scheme have evolved to take account of changes in regulation, increasing asset mix complexity and wider external pressures/trends (such as ESG/climate change).</p> <p>Identify key differences across fund governance structures and why these exist.</p> <p>Look for/consider research on best practice in public and private sector fund governance looking at TPR guidance, UK/international academic research and UK industry benchmarks where relevant.</p> <p>Identify any areas of potential conflicts of interest and how this could be addressed/mitigated through changes in governance structure. Assess how outcomes of Good Governance Project in E&W & Hyman Robertson report have been implemented in E&W. Assess potential implications for Scottish LGPS.</p> | <p>Obtain feedback from LGA/E&W SAB/ representative number of funds on Good Governance Project.</p> |
| <p>Funding: - Current (and past) funding levels Fund membership trends (employer and employee) Contribution & benefits levels</p> <p>How is affordability factored into the valuation process?</p> | <p>Collate information on funding levels, contribution rates (actual paid and required) and actuarial assumptions to produce trend analysis for the last 10 years. Information should also look at/consider cashflow position of the funds (i.e., extent to which there is a requirement for cashflows to drawdown from investments to meet pension payments).</p> | <p>Actuarial valuation reports along with Funding Strategy Statements/deficit repair plans from funds.</p> |

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| <p>Option 1: Status Quo</p> | | |
| <p>To what extent are guarantees required to cover risk exposure of employers with weak covenants?</p> <p>What are the key assumptions that influence funding positions and to what extent do these differ across funds?</p> <p>How do contribution levels differ according to differing funding strategies? What is the impact on affordability for employers?</p> | <p>Identify differences in key assumptions used in valuations.</p> <p>Consider information from GAD or other bodies where work has been done to “standardize” valuation metrics across the funds (ensuring that recognize the limitations of GAD analysis).</p> | |
| <p>Operating Risk/Pension Administration</p> <p>Comprehensive details on current administration functions across 11 funds, including resources and any significant capital expenditure incurred, along with any outsourcing carried out or considered.</p> <p>Pension Administration service quality and extent to which it is comparable across funds. What are the relevant benchmarks?</p> <p>Implications on staff capacity of increased work demands/ volume due to factors like ESG/climate change reporting & other regulatory changes etc.</p> | <p>Assessment of staff resource levels vs work demands/volume – how this has changed e.g. due to changes in regulations/scheme structure, increase in fund sizes/change in liability profile etc.</p> <p>Collect/collate data on pension admin. KPIs and benchmarks (e.g. TPR, CEM, CIPFA etc.)/service standards & satisfaction rates, transaction volumes and turn-around etc., across funds. Assess extent to which these are comparable across funds.</p> <p>Identify what is valued and if any issues exist with current service.</p> <p>Collect/Collate information on systems used (looking at consistency of usage across funds). Identify current/future scope offered by Heywood system.</p> | <p>Information provided by funds and/or Admin. Authorities’ HR (ICT?) depts.</p> <p>Refer to approach used in Pathfinder analysis to update Pension Office structures, staff job roles & resources (split roles etc.) IT/systems set-up and running costs and trends in costs over time.</p> <p>Use anecdotal feedback/evidence from Pension Fund Managers, Pension Admin staff to augment information on structures etc.</p> <p>Satisfaction surveys.</p> |

| Option 1: Status Quo | | |
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| <p>Employer / Member experience - how are current services viewed in relation to service quality, contact, timeliness of service.</p> <p>ICT – systems used for investment and administration of funds, degree of system dependency and existing contractual arrangements (opportunity/barrier for change) across the funds.</p> <p>Important to understand implications on operational and admin functions if status quo was to change, under other options.</p> | <p>Identify dependence/availability funds have on resources of Admin. Authorities (legal, procurement, HR, Finance etc.), also the proportion of budget that Admin. Authorities attribute to support wider needs of the funds</p> | <p>Update ICT cost baseline</p> <p>Information provided by funds and Admin. Authorities FDs/Finance Depts.</p> |

| Option 2: Increase Collaboration Across Existing Funds | | |
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| <p>Probably the option where there has been least analysis.</p> <p>Need information/data on:</p> <ul style="list-style-type: none"> • Drivers/incentives/motivation for collaboration – what makes some successful/others not? • What relevant areas have been successfully collaborated (investment expertise/resource, procurement, ESG etc.)? evidenced examples. • What are the barriers/limitations to collaboration (resource, scalability, regulations/legislation, governance, politics etc.)? • Evidence on sustainability of collaboration and whether benefits are scalable across wider activities/number of funds? • Clarity on what has potential to change and what remains unchanged with collaboration (e.g control/decision making) • Why doesn't it happen? | <p>Survey Scottish funds for examples of previous/current collaborations, covering both investment and administration, with description of benefits and what problems/ disadvantages/limitations have been identified? Consider how collaboration has worked in the past, what worked, what didn't and why? What were the drivers for it to happen?</p> <p>Consider extent to which scope for greater/further collaboration and extent to which benefits achieved are scalable.</p> <p>Identify and research relevant examples across E&W LGPS?</p> <p>Research E&W Northern Pool from perspective of why collaborating rather than pooling and how (why) they do it/ how collaboration is structured etc.?</p> | <p>Research current/recent case studies to illustrate:</p> <p><u>Scotland LGPS</u>: Lothian, Falkirk & Fife/Borders collaborations - research other examples</p> <p><u>England & Wales LGPS</u>: Northumberland & South Tyneside (pension administration); Cumbria & Lancashire (administration); Northampton & Cambridge; London boroughs pre-London CIV pooling.</p> <p>E&W Northern pool</p> <p>Information Service - relevant resources/case studies?</p> |

| Option 2: Increase Collaboration Across Existing Funds | | |
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| <p>Costs/Rol Costs of collaboration across both/all parties?</p> <p>Quantifiable benefits to all parties (savings, access to expert resources, alleviates key person risks? Etc.)</p> <p>Return on Investment Investment collaboration – what models/options exist & pros/cons Is there evidence that collaborations have improved investment performance?</p> | <p>Collect evidence on scalability of collaborations. Consider resource implications (for all parties involved) from greater/further collaboration.</p> <p>Case studies, as above? Research other relevant/comparable examples in local government & public sector?</p> | <p>Fund estimates</p> |
| <p>Governance Implications for governance decision making on pension committees and boards across both/all partner funds and how this has worked in practice (e.g. joint governance structures, where control sits etc.)</p> <p>Examples of how governance has helped/hindered potential collaboration.</p> <p>Potential restrictions/impediments due to existing regulation?</p> | <p>Identify examples of how governance structures/policies have changed to accommodate collaboration & how control/decision making determined and what steps taken to limit/manage potential liability issues.</p> | <p>Data/input from funds with experience of relevant collaboration.</p> <p>SPPA input on regulatory framework requirements/scope/limitations</p> |

| Option 2: Increase Collaboration Across Existing Funds | | |
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| <p>Funding</p> <p>Is there evidence that collaborations have improved funding levels and as a result enabled reduction of employer contribution?</p> | <p>Identify examples</p> | <p>Valuation reports and funding strategies of case studies</p> |
| <p>Operating Risk/Pensions Administration</p> <p>Resource implications across funds (e.g. to mitigate key person risks) but also who bears biggest burden of resource contribution?</p> <p>ICT implications – systems conformity across funds?</p> <p>Requirements to change policies & processes?</p> | <p>Existing /previous collaboration across funds on pension administration in Scotland and E&W (e.g. South Tyneside & Northumberland, Cumbria & Lancashire, others?). Review what leverage/limitations exist due to current ICT arrangements.</p> <p>Getting understanding of the contractual arrangements and processes leading up to the implementation.</p> | <p>Input from funds with experience of relevant collaboration (SLGPS and LGPS).</p> <p>Potential insight from LGA, COSLA, SPPA?</p> |
| <p>Risk Management</p> <p>Ongoing operational risks/exposure?</p> <p>Evidence of collaboration having demonstrably improved fund sustainability and resilience in the long term.</p> <p>Is there evidence of any additional risks / risk reductions associated with collaboration?</p> | <p>Review of perceived/demonstrable benefits achieved (and shortfalls encountered) for collaborating funds. Did collaboration fully address the initial ‘needs’ for all parties? Does it best meet needs in longer term?</p> <p>Analysis of collaborative cases in relation to investment returns, funding & contribution.</p> | |

| Option 3: Investment Pooling | | |
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| <p>Costs Costs of set-up and initial/ongoing running costs against time taken/costs to transition assets (to include costs across whole pipeline, including those incurred by funds).</p> <p>Evidence of cost/fees reduction & transparency across investments & investment service provision, in E&W pools (to include perspectives of pooled funds and other key stakeholders, as well as the pools).</p> <p>To what extent are benefits/cost savings related to benefits of scale?</p> <p>Impacts & costs for funds (loss of key staff, oversight costs, clarity for decision making?).</p> <p>What pooling models & structures for Investment Pooling have been adopted in E&W and internationally - including regulated/unregulated status and internal/external investment management?</p> <p>Transition costs/tax charges (and process) of moving assets to pools – implications across asset classes, moving out of existing mandates, funding the pool structure during asset transition etc.</p> | <p>Initial set-up/running cost information should be available from the pools – determine extent to which costbase initially reflects existing (status quo) cost arrangements and for how long?</p> <p>Look at a sample of the funds that have pooled to see the extent to which their costs have changed/reduced.</p> <p>Consideration of benefits/issues from more than one pool.</p> <p>Analysis of what asset classes only available to larger funds and what benefits these have added to funds? Drawing on analysis from Option 1, extent to which funds suffered/benefited from inability/ability to access investment opportunities or sectors of the market (e.g. co-investments). Are there capacity constraints with larger mandate sizes? This is likely to require academic analysis to provide sufficiently long-term/large number of data sets.</p> <p>Collect information on the alternative pooling models adopted in E&W and relevant international examples, along with comments on pros/cons - including looking at extent to which taking investment management in house could reduce costs.</p> <p>Consider potential benefits from pooling administration and other services (e.g. custody, actuarial arrangements). Cost/service comparison of administration for the Scottish schemes alongside where admin pooled in E&W.</p> | <p>Information sourced from ‘Pool’ CEOs/COOs/CIOs, a representative number of their ‘partner’ funds and others closely involved with pooling process and new arrangements (officials, elected representatives, employee representatives etc.).</p> <p>Cost/fee reduction/procurement benefits should be available from pools/funds.</p> <p>International survey on pooling (NMG’s ‘LGPS in the UK: Learnings from International Pooling), commissioned by UK pools, and/or LGA/E&W SAB). International research not previously covered in evidence baseline sources</p> <p>PWC survey of E&W funds on pooling experience (‘Local Government Pension Scheme Fund Views on Pooling’).</p> <p>CEM benchmarking data.</p> <p>Potential need for specialist legal/tax input?</p> |

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| Option 3: Investment Pooling | | |
| <p>Return on Investment: Aligning different fund investment strategies and asset mixes within pool – how has this been achieved/stakeholder expectations managed?</p> <p>Is there evidence on effect of pooling on performance? Has there been improvement or decline?</p> | <p>Obtain information on approaches taken by representative number of ‘pools’ and their funds, identifying requirements & challenges/how this was (is being) resolved.</p> | |
| <p>Governance: What governance structures do pools have and how do they work? To what extent do different pool models impact on their ‘client’ funds’ governance structures?</p> <p>What are the pros/cons of pools on governance complexity, good governance practice & increasing regulation?</p> <p>Regulatory requirements for the different models. Legislative challenges presented by pooling & changes required (still required) to enable pooling to work – learn from E&W process.</p> | <p>Collect information on the various pool governance structures and how these operate alongside funds governance structures. Is a ‘good practice’ model/approach beginning to emerge in E&W, or internationally (international question may require access to existing - or to commission - academic research)?</p> <p>Assess how the additional governance layer in E&W pools work in practice? How does the interface between pool structure & pension funds work in practice?</p> <p>Explore what regulatory issues/challenges pools in E&W encountered (expected & unexpected) and how were these addressed/resolved. What was the role & requirements of Government and FCA in facilitating this?</p> | <p>Input from pools, funds (including from representative number of Chairs/Vice Chairs of Committees & Boards if possible?). Also, possible input from LGA, FCA (and possibly legal advisers with practical experience of pool set-ups).</p> <p>Clarify with SPPA what would be required of Scottish Ministers specifically.</p> |

| Option 3: Investment Pooling | | |
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| <p>Funding:</p> <p>Is there evidence that pooling has improved funding levels and as a result enabled reduction of employer contribution?</p> | | <p>Actuarial valuation reports along with Funding Strategy Statements.</p> |
| <p>Operating Risks/Pensions Administration</p> <p>Organizational risks of pooling</p> <p>Impacts of pooling structures on fund resilience (pool resources for support on ESG/upskilling, or de-skilling of funds to recruit to pools?). Is long term resilience any stronger for funds?</p> <p>Potential impacts of pooling on pension administration service delivery?</p> <p>Recruitment & retention challenges for pools – attracting appropriate expertise/skills, pay rates etc.</p> | <p>look at E&W pooling journey for both establishing pool structures and for ‘partner’ funds in E&W. What organizational risks were identified and how were these addressed/ mitigated? What (if any) are still outstanding issues?</p> <p>Has pooling led to changes in admin. structures/service delivery (e.g. collaborations, shared services, increase in digitalization of services etc.).</p> | <p>E&W pools and sample of respective “partner funds”.</p> |
| <p>Risk Management</p> <p>Evidence of pooling having demonstrably improved fund sustainability and resilience in the long term.</p> <p>Are there any additional risks / risk reductions associated with pooling?</p> <p>How have risk profiles changed since pooling?</p> | <p>Review of perceived/demonstrable benefits achieved (and shortfalls encountered) for collaborating funds. Did pooling fully address the initial ‘needs’ for all parties? Does it best meet needs in longer term?</p> <p>Analysis of pooling cases in relation to investment returns, funding & contribution.</p> | |

| Option 4: Full Merger - One or More Funds | | |
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| <p>Costs What are the potential models for merger? - Pros & cons of each within SLGPS context</p> <p>Quantitative evidence (UK & international) and examples on how fund mergers have reduced investment and other costs through benefits of scale. Have savings been sustained over time?</p> <p>Potential set-up costs for new merged structure/s, including asset transition costs/tax charges, organizational transfer costs and the challenges/disruption of merger? Need to explore for each potential merger model.</p> <p>Implications of merging different investment strategies/asset portfolios?</p> | <p>Identify and consider the alternative models for merging, in particular around the issue of what happens to the liabilities if the assets are merged.</p> <p>Focus for both pooling and merger should look beyond investment – with consideration given to other areas (e.g. administration functions) that could be merged and/or additional cost & efficiency benefits gained. Likely benefits/issues, including potential impacts on staffing/resource requirements, needs to be assessed.</p> <p>Assess internal vs external investment management team options (UK and international examples?) and pros/cons, cost/benefits, RoI impacts etc.</p> <p>Merger examples/experiences – SLGPS and LGPS in E&W, other relevant UK public and private sector examples and international (not already well referenced). What’s worked, what hasn’t? Any academic research not already reviewed as part of evidence baseline?</p> <p>Consider extent to which cost-base will initially reflect existing cost arrangements and for how long this realistically continues?</p> | <p>Look for examples/analysis from Academic research.</p> <p>Case studies on LGPS mergers? Relevant UK/International examples – academic research not otherwise included in Evidence Baseline?</p> |

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| <p>Option 4: Full Merger – One or More Funds</p> | | |
| <p>Are there examples that contradict the ‘benefits of scale’ evidence and how sustainable they are?</p> | <p>More generally (and qualitatively), research the key factors that have been identified as supporting successful organizational mergers in local government/ public sector.</p> <p>Identify any examples within SLGPS/LGPS and beyond which appear to consistently and over time, contradict ‘benefit of scale’ evidence. Analyse how this has been achieved and any pros/cons.</p> | <p>Seek input from Improvement Service on public sector mergers and evidenced success criteria?</p> <p>Relevant examples from SLGPS, LGPS and, relevant, international examples.</p> |
| <p>Return on Investment</p> <p>Is there evidence on effect of merger on performance? Has there been improvement or decline?</p> | | |
| <p>Governance:</p> <p>Potential governance models for a merged fund/funds?</p> <p>What can be learned from how other merged local government funds have structured governance?</p> | <p>Review features of best practice governance models</p> | <p>Local government fund merger examples</p> |

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| <p>Option 4 – Full Merger – One or More Funds</p> | | |
| <p>Can other governance models for UK merged/large public sector funds provide insight/direction on options?</p> <p>Models for representation of employers & members and other key stakeholders.</p> <p>Regulatory implications/requirements and costs.</p> | <p>Explore what regulatory issues/challenges have been encountered (expected & unexpected) for fund mergers and how were these addressed/resolved. What was the role & requirements of Government/TPR in facilitating this? Input required from merged funds and/Government, external advisers/legal advisers on the mergers.</p> <p>Political considerations and potential conflicts/benefits.</p> | <p>Possible examples of governance models include Railpen, USS, CERN, Hermes and the Pension Protection Fund?</p> <p>Can some of these be used as case studies on models for merger?</p> <p>Regulatory input – provided by SPPA? TPR? FCA?</p> <p>Clarify with SPPA what would be required by Scottish Ministers and Scottish Government/SPPA specifically.</p> |
| <p>Funding</p> <p>What happens to inherited fund employer liabilities?</p> <p>How merge different sets of assumptions that inform contribution levels/different sets of actuarial approaches and assumptions?</p> <p>Evidence of improved / declined funding levels and resultant impact on employer affordability due to increase or reduction in employer contribution rates.</p> | <p>Consider alternative models/approaches for treatment of the liabilities and the associated implications/issues. Explore how segregation of funds will operate/how employer contribution rates maintained</p> <p>Research how liabilities have been treated in other fund mergers and whether this provides insight to how liabilities might be treated in a merger of Scottish LGPS funds.</p> | |

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| <p>Option 4: Full Merger – One of More Funds</p> | | |
| <p>Operating Risks/Pension Administration</p> <p>Organizational risks of merger- process, disruption and timeline</p> <p>Models for structure & delivery of pension administration – pros/cons of local vs centralized service delivery, impacts on service quality etc.</p> | <p>Assess impacts on fund/s resources due to merger and the process of merger</p> <p>Implications of internal/external investment team to be considered – pros & cons etc.</p> | |
| <p>Customer Experience:</p> <p>What do members & employers value from a pension administration service? How are merged services viewed in relation to service quality, contact, timeliness of service.</p> | <p>Identify what impact the change in service delivery has had on employers and members.</p> | <p>Satisfaction surveys / questionnaires?</p> |
| <p>Risk Management</p> <p>Evidence of merger having demonstrably improved fund sustainability and resilience in the long term.</p> <p>Are there any additional risks / risk reductions associated with merger case studies / examples?</p> | <p>Review of perceived/demonstrable benefits achieved (and shortfalls encountered) for collaborating funds. Did collaboration fully address the initial ‘needs’ for all parties? Does it best meet needs in longer term?</p> <p>Analysis of collaborative cases in relation to investment returns, funding & contribution. A detailed risk assessment will be required as well as comprehensive project plan to evidence risk mitigation.</p> | |