

## Letter from SAB to Tom Arthur, Minister for Public Finance, Planning and Community Wealth – Structure Review

Dear Tom,

I am writing to provide you with an update on the work of the Scottish LGPS Scheme Advisory Board (SAB) on the structures of the LGPS Funds in Scotland. The SAB agreed it would write to you as the Minister who holds the Pensions portfolio. You may be aware that, following a request by the then Cabinet Secretary for Finance, Derek Mackay, the SAB commissioned a [Report](#) by the Pensions Institute during 2018, which provided conclusions on a consultation with relevant stakeholders on the future structure of the Scottish Local Government Pension Funds. The report concluded that, whilst the majority of respondents supported the retention of the current status quo, with the option for closer collaboration if Funds so wished, nevertheless, the Pensions Institute considered "that the case for merger of SLGPS funds should be evaluated".

Subsequently, the SAB proposed to commission further work on a possible future structure for Scottish LGPS Funds, including a fuller comparison of the status quo/collaboration and merger options, investigating how costs of change compare with potential organisational, operational and investment benefits, potential drawbacks and what different governance arrangements would be required under a merger scenario. The SAB wrote to Derek Mackay, and in his reply, he noted the work to be commissioned by the SAB and asked that the SAB also continued "to monitor the impact that Pooling was having on the LGPS in England and Wales". The SAB therefore expanded the proposal for commissioned work to develop more detailed business cases for scheme merger, pooling of investments, and enhanced co-operation, baselined against the status quo (so essentially exploring four options).

Subsequently the Minister for Public Finance and Migration at the time, Ben Macpherson, wrote to the SAB in June 2020, in reply to receiving the SAB's Annual Report for 2018/19 (Mr Macpherson's reply to the SAB of 9th June refers). In the reply, Mr Macpherson offered his appreciation for the work undertaken so far on the review and noted that the SAB intended to commission further work to evaluate the options identified for a structure review, these being closer collaboration between funds, pooling or possible merger. Mr Macpherson was keen to understand the timescales for this work and that this remained of critical interest to Scottish Ministers.

The SAB subsequently commissioned a project manager and a focus group of technical experts to undertake this work during 2021 and early 2022. They have undertaken a detailed review and analysis of existing research to develop a gap analysis of necessary work to form business cases for the four options outlined above, and I attach a copy of their report for your information. I am aware that this has taken some time, due in part to COVID, but the SAB believes that this has been a worthwhile exercise which has provided a solid grounding for production of the necessary business cases.

I should add that we need not lose sight of why this is such an important matter. The Scottish LGP Funds are responsible for £46bn of assets with a scheme membership of some 600,000 including pensioners. In turn this investment provides a significant contribution to the Scottish economy. The SAB has agreed throughout the course of its work on Fund structures that whatever emerges from the work would need to be for the benefit of the Funds and their members.

The SAB is now carefully considering the next steps in this process but to complete the full gap analysis and produce the four business cases would involve a significant investment of funds, time, and human resources. Whilst part of this resource may be found in house, the gap analysis is clear that external consultants would be needed to undertake the bulk of the work. It may be that consideration could also be given to the Scottish Government offering resource, should the full scale of work identified be undertaken. So, prior to taking this step, we are seeking clarification from you on the coverage of advice you would like to receive, to determine a clear remit for this work.

We look forward to hearing from you at your earliest convenience. For your awareness the SAB is due to meet again at the end of August.

Kind regards,

SAB Chair

DRAFT

## **Employers Members' comments on the original draft of the letter:**

The original draft text stated, "the SAB commissioned a report by the Pensions Institute which found that the "consultation raises sufficient likelihood of benefits that the case for merger of SLGPS funds should be evaluated."

Employers Members feel that this is leading the Minister toward the merger option, based on the initial letter sent by Cllr Rankin as Chair at the time, whereas the SAB in fact agreed to evaluate business cases for all 4 options.

Employers Members feel this is the key message which the Minister should be made aware of, that the work which has been carried out to date is predicated on evaluation of the 4 options. This was confirmed at the SAB's meeting on 19<sup>th</sup> January 2021, where the approved Minute states that "During discussion it was highlighted that the work is to review all four options and not just merger. It was therefore agreed that the draft specification should be slightly re-written to reflect the other 3 options not just focussing on evaluating merger."

Employers Members feel that the reply from Ben Macpherson (9<sup>th</sup> June 2020) also confirms that it is the Scottish Government's understanding that all 4 options were being evaluated (and this should be reflected in the letter to go to the Minister).

The Pensions Institute report also concluded that 36 respondents said they "they prefer the status quo or cooperation options" whereas 17 respondents said, "the system...has significant flaws and should be abandoned in favour of pooling or merger." The Employers Members feel this should be reflected in the letter, that there was a majority of respondents favouring status quo/ collaboration.

Employers Members also feel that more needs to be said about resourcing work going forward and that this again is a key issue to raise with the Minister. To offer options to scale down the work (eg just look at merger) would again be leading the Minister, so Employers Members' view is this should be left open, ie the question is the SAB was evaluating the 4 options, what is the Minister's view given the resourcing required to complete this work.