

Item 7

SAB Draft Letter to Minister on Structure Review

Dear Minister

I am writing to you as Chair of the Scottish Local Government Pensions Scheme Advisory Board (SLGP SAB) to update you on work which the SAB has undertaken on a review of the structure of the SLGPS Funds. My purpose in writing is in part to introduce you to the SAB and to draw your attention to this important piece of work, looking at the future of the SLGPS Pension Funds and to seek your views on where we go from here.

I recently wrote to you on behalf of the SAB on a separate but wholly related issue of the implication of the National Care Service on the SLGPS and thank you for your reply, which I will touch on later in this letter.

The SAB has taken forward work to consider options for a review of the structure of the SLGPS Funds for some considerable time now. Your officers from SPPA are well acquainted with this work and will be able to brief you at a more detailed level than I am setting out in this letter. Having undertaken initial work on developing options for review and subsequently undertaking an extensive consultation on these, the SAB embarked on work, through a specific project during 2021, reporting in Spring 2022, to look at the types of evidence required to develop detailed business cases for scheme merger, pooling of investments, and enhanced co-operation, baselined against the status quo.

A gap analysis on all 4 options setting out likely areas of work was shared with your SPPA officers. This can be found here [Papers 22nd February 2022 | LGPSAB](#).

Having reached this stage in the Spring of 2022, 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 potentially 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.

Fundamentally the SAB feels it is at a juncture whereby further direction is needed on where to go with the work from here. The SAB in recent discussions re-affirmed a view that further work would be valuable, given the scale of the SLGPS and the need to secure its future in the longer term.

There are a number of factors at play though, not the least of these being the NCS. The SAB welcomes your offer to engage, however I would wish to stress that there are very real and increasing concerns on what the creation of the NCS could mean for the Local Government Pension Scheme. These concerns extend across employers, employees and Pension Funds, should the NCS result in potentially one third of members transferring to a different pension scheme, which would lead to a radically altered landscape and create a substantial risk to the future viability of the SLGPS.

The SAB would therefore welcome greater detail about the work that is being commissioned at the earliest opportunity and, more specifically, what advice the SAB can provide to Ministers regarding the implications for the SLGPS of any significant change to the existing arrangements.

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The SAB is also aware that Lothian and Falkirk Pension Funds are actively moving toward a merger. We also know that there is learning coming from the pooling arrangements for Funds in England and Wales.

Taking account of these more recent factors and giving more reflection to the SAB Members' own awareness, the SAB has agreed to hold a series of workshop/ learning events during 2023 to enable it to be more informed in considering the next course of action. It is worth saying that through this course of learning this will help the SAB to refine considerably what its ask should look like, if a decision is then taken to commission work requiring a potentially substantial resource.

This is work for the long term and we should recognise that steps toward any change should be considered carefully and not in haste.

The SAB would therefore welcome your direction on how to proceed. Should the SAB continue the structural review work on four options, should it focus on the merger option, should it pause the work until there has been more detailed work on the National Care Service, or should the SAB look to do something else?

To facilitate a discussion on where we go from here, the SAB would like to invite you to a special meeting, in March or April when convenient, to discuss the structural review and the National Care Service and how the SAB could work with you on these issues. By then we should have more information on where we are with NCS and we already have planned, as one of the workshops, to receive an update on the Project Forth merger around that time.

I look forward to hearing from you on these matters of importance for the Scottish Local Government Pension Scheme.

Yours sincerely,

Chair of SAB

Comments from SAB Members

David Richardson	Happy with the contents of the Draft Letter to Ministers.
Vaughan Moody	Happy with this.
Angela Rainey	No comments Ed but thank you for the opportunity to do so