Option1	Advantages	Disadvantages
Retain Current Fund Structure	System currently works – it is not clear what problem a review of the current structure is actually trying to address. Good funding levels across Scotland as evidenced by Audit Scotland Investment returns consistently positive over the short, medium and long term. For example 9 out of the last 10 years have seen positive returns for Scottish Borders Council in excess of benchmark. Sound governance arrangements nationally in place as evidenced by Audit Scotland reports. Pension Boards, while relatively new, have given an added additional level of scrutiny involving employer and employee. The current structure supports local decision making with regard to investment strategy and asset allocation with a key role for elected members in the governance. Contribution rates remain low and stable with an 18% pool rate in Scottish Borders providing a cost effective pension scheme for employers. Membership levels remain high (overall %age?) as a proportion of the work force have been boosted auto enrollment indicating that members value their pension and trust that the current arrangements will provide for them in retirement.	There is a risk that smaller funds are too reliant on key individuals to manage the pension fund. The costs of maintaining 11 pensions systems could be reduced with greater collaboration or one contract with Heywoods who it is understood provide systems to all funds. There is a perception that the current arrangements are costly both in terms of fees and administration there is however little evidence to support this view. The important point is that performance should be assessed net of fees and increasingly investment managers such as Baillie Gifford are offering a consistent fees for all LGPS clients. The important point being fees paid are proportionate to the risk taken in delivering investment returns and **net** returns drive out peformance. The desire to see LGPS funds investing in infrastructure is a well-established political objective; however, it must be recognized that fund assets are separate from council funds and exist to pay for liabilities. Any decision to invest in infrastructure need to be based on an objective assessment of risk and reward to the pension fund as well as the cost and benefit of such investment to local communities. One cannot be assessed and achieved without an understanding of the

	Scottish Borders Fund is well diversified across a range of asset classes, providing sound investment returns and sustained improvements in the funding level over time. For example in 2011 the funding level was 98%, in 2014 101%, in 2017 114%. The surplus funding is now enabling a review of the strategic asset allocation to move from equities to less volatile asset classes. Appropriate expertise is maintained linked to the well-established sharing of good practice across the 11 Funds. The status quo avoids the need for expensive restructuring and ensures the returns delivered by investment can be retained by Funds rather than being spent on costly transition costs. There is no evidence that restructuring in England and Wales has, or will, deliver any benefits when compared to previous arrangements. It is concerning that the evidence based used for pooling in England and Wales is so patchy and unrelated to UK pension funds. Any move to restructure the current LGPS must be based on sound empirical evidence and must deliver tangible improvement for both large and smaller funds when compared to the 11 fund structure. Collaboration is already working and is increasing for example. Falkirk and Lothian have	other and there needs to be an acceptance that meeting the policy objective of having funds invest in local infrastructure must result with the risk of higher project costs for Local Authorities.

	successfully collaborated for many years. Scottish Borders has successfully collaborated since 2016 with Lothian Pension fund on infrastructure investments and it is understood Fife Council are actively pursuing collaboration with Lothian, avoiding expensive restructuring and allowing cost effective access to infrastructure markets. One advantage of the current structure is that smaller funds are able and willing to access investment opportunities which would not be of interest to the larger funds or pools. Larger pools due to scale may be unable to take advantage of these niche opportunities to realign their strategic asset allocation quickly.	
Option 2	**Advantages**	**Disadvantages**
Promote Cooperation in Investing and administration	Cooperation would allow bets practice using existing structures and systems to develop over time. Risk to current funding levels would be minimized. The sound investment returns delivered by funds over many years would not be compromised. Nor would any differences which currently exist between funds for example funding levels and rates of employer contribution require to be addressed. (This could of course be avoided through segregation of funds but would require enhanced levels of administration and reconciliation.)	The current level of collaboration is low and the pace of change needs to be enhanced. May be a perceived loss of influence by Councilors in favor of delegation to officers. Need to ensure there is not an increased administrative under this option, e.g. reporting what collaboration has actually been undertaken. Risk that under a collaborative investment model inappropriate resilience is placed upon the work of others and the necessary diligence on behalf of individual funds does not take place with sufficient rigor. The effectiveness of any diligence process is reliant upon funds

	Existing governance arrangements would not be compromised. Links to local accountability would be maintained and the recent development to establish Pension Fund Boards would be allowed to reach its full potential. There would be no need to develop new asset allocation strategies for segregated funds linking risk appetite, required return and varying funding levels. Collaboration would allow the continued diversification of funds and would ensure that strategic asset allocations remained aligned to funding levels reflecting the different positions across 11 funds, none of which are currently in an adverse funding position. Further enhances current models of collaboration. This could however be delivered in a more structured and consistent manner if the benefits of collaboration were to be accepted and promoted. Collaboration will allow the retention of local expertise in the Finance and HR function providing depth and resilience across Scotland, particularly in smaller authorities, which would otherwise be lost. It should be recognized that expertise in pensions and investment, an understanding of financial markets and pension benefits provides significant advantages and support to the wider local	having a clear understanding of the key features and risks associated with investment products.

	authority. This would be lost under a formal restructuring proposal but could be retained under a collaboration model. This point is linked strongly to concerns over key person risk should restructuring occur allowing the retention of local experience to advise local councilors and board members appropriately. Ensures that value would not be lost through adverse timing of sales and the repurchase of assets as funds restructure. Risk under this option is therefore avoided when compared to formal restructuring.	
Option3	**Advantages**	**Disadvantages**
Investment Pooling	Current governance structures would remain in places avoiding costly restructuring and preserving recent changes made to enhance governance through the establishment of Boards. Perception that pooling would save costs with regard to manager fees. Would retain local expertise and staff to assist. Would allow funds to maintain their current asset allocation strategies in response to current funding position and risk appetite	Added layer of bureaucracy would be required under this option. Staff would be required to run the new pools at potentially significant cost if staffing arrangements and grades sit out with LGPS pay structures. There is no evidence that the pooling arrangements in England and Wales have delivered any cost benefits or improvements in governance. Tangible evidence is scarce however anecdotal evidence of pooling so far seems to indicate that the process has been problematic with concerns over loss of local accountability and governance resulting in disagreement e.g. the London CIV

		The costs of pooling may be significant and will require substantial professional advice from pension fund managers, investment consultants and actuaries. The drive to establish larger pools may perversely have the effect of increasing fee costs in the longer term as fewer remaining providers are able to exercise their market dominance to increase fees with little risk of losing business. The timing of the financial transitions required to establish pools may be problematic if disinvestments are executed at a time when markets are volatile. This will introduce risk and unnecessary cost. Increasing cost may perversely cause pools to invest in higher risk higher yield assets to recover the ground lost through timing losses and to recover establishment/ transition costs. Pooling would result in a dilution of local expertise and knowledge potentially increasing risk to the smaller councils where staff often perform a wider role with respect to the financial management of the authority. Pooling may thereby reduce opportunities for elected members to access financial advice and reduce expertise at a local level. Pooling will not promote collaboration and expertise across the wider funds' activities.

		Pooling will offer no advantages for pension fund administration. Larger pools may be unwilling or unable due to scale to access smaller niche investment opportunities, for example recently the Borders has invested further in the M&G Alpha Opportunities Bond Fund which is closed to new members.
Option 4	**Advantages**	**Disadvantages**
Full Merger	The consultation document notes significant cost savings as a potential advantage of this option. There is however little UK and clearly no Scottish evidence for this assertion. Both investment advisors and investment managers have noted that the effects of pooling in England and Wales are already providing benefits for the Scottish LGPS through lower fees while to date the costs of restructure have been avoided. Would eliminate key person risk for smaller pension funds. It is unclear how merger would assist with the process of investment in infrastructure. If such investment is identified as being the correct course of action for funds as part of their strategy this should be pursued. Collaboration without restructure provides an equally valid route to access infrastructure at poentially much lower cost. Could be savings from back office functions. This may however have an adverse impact	Proposal in untried and the risks of merger are not fully understood. This feels like a step in the dark for unquantified benefits It is not clear what effect this option would have on funding levels, which could potentially change for individual employers under a fully merged structure. Merger would require a new asset allocation strategy for the new funds linked to funding levels and a new combined actuarial valuation. New governance arrangements would be required and this would incur additional costs to transition to the new arrangements. TUPE transfer would apply to staff who spend a significant element of their time on pensions matters. There are potential redundancy costs to be met by pension funds The move to formal restructure would sever links to local decision making with regard to investment strategy and asset

	on council's where staff resources are currently shared between the Fund and the Council	allocation removing a key role for elected members in the governance of pension funds. The effect on funds contribution is not known. It should be noted however that some of the smaller funds have the lowest contribution rates at present indicating a high degree of efficiency in terms of cost and investment returns. The funds in in rural areas also have the some of the highest longevity for fund members. The effect of merger on Fund diversification is not known. There is a risk that investment in assets with higher risk profiles over many years may be required to compensate for the costs of merger. Appropriate expertise will be lost from individual councils with a knock on effect on the wider financial expertise available to the council with a potentially detrimental impact. Full Merger is likely to require expensive restructuring. There is no evidence that restructuring in England and Wales has, or will, deliver any tangible benefits when compared to previous arrangements. It is concerning that the evidence based used for pooling in England and Wales is so patchy and unrelated to UK pension funds. Any move to restructure the current LGPS must be based on sound empirical evidence and must deliver tangible improvement for both large and

		smaller funds when compared to the current structure. One disadvantage of fewer larger funds may be an inability or unwillingness to access investment opportunities which would be of interest to smaller funds or pools. The process of transition may unsettle the membership encouraging transfers out of the fund and discourage new entrants.