

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 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.

RESPONDENT DETAILS

<p>Name of responding organisation(s) Please list the full name of each organisation participating in this response.</p>	<p>Organisation type Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation.</p>
<p>Scottish Borders Council</p>	<p>Employer Authority</p>
<p>Authors Please list any people that wish to be recorded as authors of this response, including name, job title and organisation.</p>	<p>Consent Please confirm each author consents to their information being retained for analysing the consultation responses by writing 'confirm' by their name.</p>
<p>David Robertson, Chief Financial Officer Kirsty Robb Pensions and Investment Manager</p>	<p>confirm</p>
<p>Date</p>	<p>29/11/18</p>

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.

Scottish Borders Council administers the Scottish Borders Council Pension Fund as part of the Local Government Pension Scheme (LGPS). The fund has 18 scheme employers, 4,409 active members and issued 6,575 benefit statements during in the year to 31 March 2018. The fund had 10,667 members as at 31/3/18.

The latest Triennial Valuation of the fund was undertaken at 31 March 2017. The outcome of the 2017 Valuation was a funding level of 114%, an improvement in the 2014 position of 101%. The funding position at the 31 March equated to a surplus of £80.6m.

The Council budgets for a fund contribution rate of 18%, one of the lowest employer rates in the LGPS in Scotland. This rate has been consistent since 2004 ensuring the on-going affordability of the Scheme to the Council as an Employer.

The investments of the fund are all managed by external fund managers. Administration of the fund is undertaken within the Council HR service by a small dedicated team. Financial advice and support for investment decisions is provided by a small team of Finance Officers.

The fund delivered strong investment performance of 8.6% for the rolling 3 year period to 31 March 2018. At 31 March 2018 the fund had £684.6m of assets under management, an increase of £30.2m (5.6%) on the position as at 31 March 2017.

Over the last 10 years Scottish Borders Council Pension Fund has delivered significant positive returns. Since 2010 there has only been one year of when the Fund experienced negative returns and that was immediately following the financial crisis in 2008. On average the fund has returned relative out performance against bench mark of 0.66% per annum over the last 10 years.

Over the last 10 years the net assets of the fund have increased by 133%.

The Fund is fully compliant with the relevant legislation and has well established governance arrangements in place. The Council delegates oversight of the fund to the Pension Fund Committee who meet regularly with the Pension Fund Board.

The external statutory Audit of Scottish Borders Pension Fund for 2017/18 undertaken by Audit Scotland once again concluded positively on the Council's management of the Fund including its governance arrangements.

The Scottish Borders Pension fund is now well diversified to protect against market shocks such as those experienced in equity markets post 2008 and has recently concentrated on increasing the proportion of income yielding assets held in response to the increasing maturity profile of the membership.

Council management of the fund is assisted by appropriately qualified and experienced officers, external advisers and fund managers. The Fund complies fully with CIPFA guidance on fee transparency. The Council has opted up to professional status under

MiFID 2 and is well placed to meet the future challenges facing the LGPS.

The Council endorses the view that everyone involved with the LGPS should have access to high quality benefits and believes that the continuing high levels of engagement in the pension fund by employees of both the Council and the funds scheduled an admitted bodies demonstrates continued confidence in the stability of the scheme and in the benefits of local management.

This position is assisted greatly by the involvement of local elected members, local trades unions representative and local employers in the decision making process through the activities of both the Pension Fund Committee and the Pension Fund Board.

In responding to this consultation the Council has concluded that making any change to the structure of the LGPS in Scotland not required and is an unacceptably high risk strategy. This view is informed by:-

- The continued strong performance of the LGPS in Scotland and the Scottish Borders Council Pension fund;
 - The efficient integrated management structure that exists across the council and the pension fund;
 - The lack of robust empirical evidence of the benefits of change;
 - The strong funding position of the pension fund;
- The potentially negative impact that such change will have on the stability and affordability of employer contributions.

As noted above Council officers who advise and administer the pension fund are also engaged in the wider corporate management of the Council. This cost effective arrangement also avoids key person risk to the pension fund and ensures the Council has the capacity to manage its financial affairs effectively. Structural reform whereby senior finance staff would TUPE transfer to new bodies would pose an unacceptable risk to the management of the Council.

The Council recognises that some marginal cost savings could potentially be delivered by fewer larger funds replacing the current arrangements over the longer term. Evidence to support this view is however limited and there is presently no strong reliable evidence base to verify this position.

The Council believes therefore that there is no reliable empirical case for change and much more work would have to be done to evaluate the benefits, and to mitigate the significant risks, associated with change before this could be supported.

The Council therefore endorses the view that the uncertainty and dis-benefits of structural change significantly outweigh any potential benefits. If change is required Scottish Borders Council would support a voluntary collaboration model proposed under consultation option 2, avoiding the need for problematic pooling or expensive, time consuming structural reform for un-proven benefits.



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?***

Scottish Borders Council delegates responsibility for the management and governance oversight of the Pension fund to its Pension Fund Committee and the Pension Fund Board. The council is well informed about investment costs and fully supports the principals of fee transparency. The Council recognises that fees paid to fund managers represent a significant cost to the LGPS. Ultimately the costs of the pension fund are met partly by employer contributions and they must be understood fully, closely monitored and controlled effectively.

The Council fully supports the requirements of CIPFA's Guidance on Accounting for Local Governance Pension Schemes.

The Pension Fund encourages its pension managers to sign up to the LGPS fee transparency code and fully discloses both internal and external management fees and transaction costs within its annual accounts.

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

The Fund has good information with regard to fee levels allowing objective evaluation and comparison of the fees charged by individual managers.

The Council believes that while the absolute level of fee cost is important, the overall value for money delivered by a manager is normally a more important consideration than absolute fee levels.

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

The Council has a good understanding of the costs of investment including layered fees in our alternative mandates.

All fund managers employed by the LGPS should be required to disclose their full fee structure in line with the fee transparency code. This information should be benchmarked and published annually.

It is suggested this could be role for the Scheme Advisory Board in future.

b) Governance:

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

The 2017/18 audit of the pension fund concluded positively on the governance of the pension fund noting " the fund has effective governance arrangements in place that

support the scrutiny of decisions made by the pension fund committee.”

The recent advent of Pension Boards, with strong local employee membership, has added a further positive dimension to the governance of the pension fund.

The fund undertakes benchmarking of the outputs of the fund, including investment performance, funding level, expenses and contribution rates to assess its performance.

The Fund publishes an annual Governance Statement under the 2014 regulations.

The outcome of the statutory audit process is reported to full Council along with a copy of the pension fund accounts.

- ***How well is the current system governed?***

The Council believes that the current system is governed effectively. Pension Fund Boards, although only introduced in 2015, have added a further positive dimension to the governance of the LGPS in Scotland ensuring additional scrutiny of pension fund committee decisions and the effective engagement of employee representatives in the management of pension funds.

Statutory external Audit of the LGPS funds is undertaken annually. These do not highlight any concerns with the current governance arrangements in place across funds.

It is understood that all funds and Councils as employer bodies have opted up to “professional status” to comply with the requirement of MiFID 2.

The recent review of LGPS governance undertaken by KPMG in 2016 concluded positively with regards to the standard of governance in place across the 11 funds administering the LGPS in Scotland.

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

The KPMG review of the system outlined no fundamental weaknesses in the LGPS governance model in Scotland.

All funds should be required to publish information regarding their investment strategy, actuarial report and funding assumptions as well as performance and key policy documents for example the statement of investment principles or their ESG policies.

Pension Fund committees should meet jointly with Pension Boards on a regular basis and committee meetings should be held in public wherever possible.

The minutes of meetings should be published and be publically available.

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

The LGPS is a local service. Scottish Borders Council believes that decisions that affect local people are best made locally by elected members and that these decisions should be as transparent and open as possible.

The costs of pensions are a significant component of the costs of employing staff and

therefore are a significant element of council budgets which local councilors are responsible for.

The Council believes it is important therefore that there is effective oversight and scrutiny of pension funds at local level. This is best achieved where there is close alignment between scheme members and their dependents and those charged with taking decisions. Such close alignment improves local accountability and assists to promote confidence in the LGPS amongst its' membership whether they are active contributing members, deferred members or pensioners and their dependents.

The Council endorses the view that decisions with regard to investments, ethical investment, environmental issues, risk management etc. should kept as local as possible so that elected representatives can be held responsible to their members and the local electorate for their stewardship of the pension fund.

The local nature of decision making importantly guarantees an effective voice for employee representatives on pension fund boards.

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

The Council strongly believes that its pension fund compares favourably with any scheme in the LGPS by any objective measure of performance over any time period. Furthermore, it supports the view that the maintenance of good governance in any organisation has no relationship to the scale of the organisation.

Good governance relies on sound management, effective processes, openness, transparency and accountability. There is no evidence that larger size funds have better governance, perform better, or that they have fundamentally lower costs simply because they are larger.

In fact it could be argued that larger size may encourage complacency and a reluctance to act quickly to emerging market trends.

There is no evidence to suggest that the current model is not working effectively either in terms of governance standards or in terms of investment performance.

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?***

The pension fund in the Borders holds regular meetings with their fund managers to assess and understand the performance and risks associated with their investments.

The Council has a well established, structured approach to risk management and also applies this approach to the management of risks within the Pension Fund

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

The performance of the LGPS in Scotland and the content of external audit reports

indicate these risks are being managed effectively. The Council has appropriately qualified, experienced officers managing both pension fund investments and pension fund administration processes. The Fund has a strong risk based culture and has effective arrangements in place for managing those risks. The fund does not manage any money internally, instead relying on the expertise of professional investment firms. The operation of the fund is supported by a range of appropriately qualified managers and advisors.

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

Those charged with governance should be required to undertake mandatory training in the form of the Trustee toolkit provided by the Pensions Regulator, evidencing training modules have been passed to ensure they have a good understanding of operating risks. All decision makers should be required to undertake annual training and evidence their participation in training events.

Each fund should be required to publish a comprehensive risk register for the fund which is subject to regular review.

The Scheme advisory Board could collate and publish this information on an annual basis.

Infrastructure:

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

Scottish Borders Council Pension Fund is actively collaborating in a range of Infrastructure investments with Lothian Pension fund. This arrangement provides cost effective access to investment opportunities which are also being accessed by Falkirk, Fife and NILGOS. Recent investments include renewable energy, telecoms and transport infrastructure.

Detailed diligence is undertaken by council officers before decisions with regards to investments are made. These decisions are reported to elected members and performance is tracked.

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

The principal objective of a pension fund is to build up a fund of assets sufficient to meet future pension fund liabilities not to fund public infrastructure projects.

There is an inherent tension between optimising risk and return for pension funds and delivering public investment in infrastructure at the lowest possible cost to the taxpayer.

There are however excellent examples of the LGPS investing in infrastructure which is increasing featuring as part of the Asset Allocation Strategy of LGPS funds for example it is understood Strathclyde has now allocated over £330m in this asset class.

Scottish Borders has made an allocation of 5% of assets under management to infrastructure and is investing in this asset class in collaboration with Lothian Pension

Fund.

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

The attractiveness of this asset class can only be assessed in comparison to the risk and return profile of other assets. Having an appropriate vehicle to access infrastructure investment in a cost effective manner would assist.

The Scottish Futures Trust has recently undertaken work in this area and published a paper with regard to housing infrastructure investment.

A vehicle to easily enable large scale investment in public infrastructure, which balances suitable returns within an optimized risk profile, with low cost project funding which can match PWLB costs, are not however yet suitably developed.

Development of such a model would help to facilitate infrastructure investment.

The desire to see LGPS funds investing in infrastructure is a well-established political objective; however, it must be recognized that pension fund assets are separate from council funds and they exist to pay for significant pension liabilities.

Any decision to invest in infrastructure needs to be based on an objective assessment of both 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 other and there needs to be an acceptance that meeting the policy objective of having pension funds invest in local infrastructure must result in the risk of lower investment returns to pension funds or higher pension costs for Local Authorities.

Do you have any additional comments about this option?

This option represents the Status Quo for the LGPS in Scotland and any other options considered must deliver demonstrably better outcomes, based on robust empirical data, for them to be seriously considered.

The LGPS is an integral part of local government and of local decision making and is a considerable success story by any measure. Costs are low, governance is effective, member trust in the current system is high and most importantly funding levels are near or above 100% in all funds. Scottish Borders Council is of the opinion that structural reform is likely to prove costly and is unlikely to address the challenges faced by the LGPS or lead to better outcomes.

The 11 fund option represents minimum risk to the LGPS and the Council is strongly of the view that the Council has demonstrated the capability and capacity to manage its pension fund effectively over many years and that it should retain responsibility for the management and governance of the LGPS in the Scottish Borders.

The Council recognises Incremental improvements are almost always possible however and the Council will explore these issues in its response to option 2.

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?***

The Council recognises the benefits of collaboration and already collaborates with other funds. Promoting joint agreements relating to collaborative investments could have some positive impacts in terms of fees. This is particularly the case with regard to the cost of investing in alternative asset classes such as infrastructure.

- ***What would be the positive impacts?***

Economies of scale may be delivered to some of the smaller funds through greater purchasing power.

Collaboration and cooperation will give all funds the confidence to invest in a wider range of diversified assets and provide access to a wider breadth of expertise.

The sharing of experience, knowledge and good practice will lead naturally to improvements in governance and better outcomes.

There is a role for the Scheme Advisory Board in highlighting and promoting good practice

- ***What would be the negative impacts?***

Collaboration does not remove the requirement for individual funds to undertake due diligence regarding prospective investments. Each party to the collaborative investment agreement must undertake their own research and fully understand the risks and potential benefits of investing before committing.

Governance:

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

This should have a positive impact. It should be noted however that collaboration does not remove the requirement for each fund to ensure its governance arrangements are operating effectively.

- ***What would be the positive impacts?***

Sharing of best practice and closer cooperation on co investment opportunities should have a positive impact.

A wider range of individuals scrutinizing and challenging investment decisions should lead to better outcomes

- ***What would be the negative impacts?***

The difficulty of coordinating investment decisions, often to tight market driven timescales, could be a potential disadvantage.

Operating risks:

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

No material impacts if collaboration is undertaken on a voluntary basis with each fund retaining responsibility for its own investment decisions. Significant voluntary cooperation already exists between LGPS funds. Best practice is already shared through the Officer forum the IGG which is attended by representatives of all Scottish Local Authority Pension Funds.

Funds already access a range of services through nationally agreed procurement frameworks.

- ***What would be the positive impacts?***

There could be potential benefits through economies of scale.

Increase collaboration relating to Pension Administration could have a positive impact beyond those already in place. All administering authorities now operate on the same administration system which, working with the provider, could lead to increased synergies around documentation and testing of system upgrades resulting from changes to regulations.

What would be the negative impacts?

Formal legally binding agreements would need to be documented leading to additional legal costs.

d) Infrastructure:

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

In practice this arrangement is already working effectively for Scottish Borders Council with respect to infrastructure investment.

- ***What would be the positive impacts?***

Smaller funds would have access to a wider range of investment opportunities on a cost effective basis. A recent good example is the benefits that have been gained by Falkirk

and Scottish Borders Council through collaboration with Lothian Pension Fund in a range of infrastructure based investments. Co investment provides the opportunity to share legal, technical due diligence costs.

- ***What would be the negative impacts?***

There is however the potential for disagreement and challenge arising from service failure or adverse investment returns. This could increase the risk of legal challenge and require formal dispute resolution procedures.

There is a risk that under a collaborative investment model inappropriate reliance is placed upon the work of others and that the necessary diligence on behalf of individual funds does not take place with sufficient rigor. The effectiveness of any diligence process is reliant upon pension funds having a clear understanding of the key features and risks associated with investment products.

Do you have any additional comments about this option?

Closer collaboration would allow the retention of local expertise in Council Finance and HR functions 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 local knowledge of pension benefits provides significant advantages and support to the corporate management of the wider local 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. Collaboration would in direct contrast facilitates the retention of local experience to advise local councillors and board members appropriately.

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?***

Pooling of investments would require significant restructuring of LGPS investment mandates at significant cost. The study undertaken by Mercers does not support the view that larger fund always have lower costs and perform better based on their snapshot analysis of the LGPS 2015 accounts.

- ***What would be the positive impacts?***

There could be a positive impact on some of the smaller funds fee costs from investment pooling. The larger funds e.g. Strathclyde are unlikely to see much if any

benefit due to their existing scale.

Reducing costs is important but will only deliver benefit if it improves **net** investment returns.

- ***What would be the negative impacts?***

The drive to reduce costs may lead to a reduction in the number of fund managers willing and able to engage with the LPGS.

Pooling may provide fee costs benefits in the short term but these are also likely to be largely, if not wholly, offset by transition and reorganization costs. Such fee gains made through market competition may not be sustainable in the longer term - which could see the reversal of the current gains and fees increasing.

The LGPS in Scotland is already able to access comparatively low investment fees when compared to England and Wales as set out in Mercers structure review paper.

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

The Council believes that the LGPS is a local service. Fund should not be required to pool and this should only be undertaken on a voluntary basis if it provides significant advantages to the fund. These advantages will differ depending on the circumstances of each fund. The performance of the SBCPF has allowed the Council to retain a contribution rate of 18 % since 2004 providing stability and cost certainty. Increased contribution rates following pooling could lead to legal challenge and dispute.

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

Scottish Borders Council is strongly opposed to any proposal that would require pooling on anything other than a voluntary basis.

The only circumstances where this should be considered is if there was sustained evidence of governance failure on behalf of the Council and /or evidence that pension funds is completely unable to meet its long term liabilities on an actuarial basis and the pension fund had therefore become unaffordable to the Council.

b) Governance:

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

Pooling is likely to require additional governance and administrative structures to be established.

- ***What would be the positive impacts?***

There is as yet no evidence that pooling has had any positive impact in England and Wales.

- ***What would be the negative impacts?***

This option may require additional layers of governance, lessen local involvement in investment decisions and make decision making more remote.

c) Operating risks:

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

There is likely to be little impact on operating risks arising from pooling. Day to day investment would continue to be carried out by line managers.

- ***What would be the positive impacts?***

The Council can not envisage any positive impact on operating risks from pooling.

- ***What would be the negative impacts?***

Pooling will in all likelihood lessen the number of fund managers in the LGPS concentrating investments with fewer firms, reducing diversification and arguably increasing risk.

d) Infrastructure:

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

Decisions to invest in infrastructure are only taken where these provide additional benefit to a pension fund for example greater asset diversification. Pooling is unlikely to have any material impact on a pension funds appetite to invest in infrastructure. Strathclyde, Lothian, Fife, Falkirk and Scottish Borders already invest in infrastructure.

- ***What would be the positive impacts?***

None

- ***What would be the negative impacts?***

None

Do you have any additional comments about this option?

Yes. There are significant risks associated with this option and a lack of tangible data to support it. Pooling will introduce an added layer of bureaucracy. 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 yet that the pooling arrangements in England and Wales have delivered any cost benefits or improvements in governance. The costs of pooling may be significant and will require substantial professional advice from pension fund

managers, investment consultants and actuaries

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.

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 reorg/ transition costs.

Pooling would result in a dilution of local expertise and knowledge potentially increasing risk to the smaller councils where staff often performs 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 and may lessen support for the wider Council's activities.

Pooling of investment will offer no advantages for pension fund administration.

It is concerning that the evidence base used for pooling in England and Wales is so selective, out of date and unrelated to UK LGPS fund performance.

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

The text can wrap onto additional pages.

a) Cost of investing:

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

Merger would require significant restructuring of LGPS investment mandates at significant cost. The study undertaken by Mercers does not support the view that larger funds always have lower costs and perform better based on their snapshot analysis of the LGPS 2015 accounts.

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 restructuring have been avoided.

- ***What would be the positive impacts?***

Larger funds are potentially able to access cheaper fees due to scale. These may benefit the smaller funds who manage a minority of LGPS assets.

- ***What would be the negative impacts?***

The consultation document highlights significant cost savings as a potential advantage of this option. There is however as yet little UK, and clearly no Scottish, evidence to support this assertion.

The larger funds that already enjoy these benefits of scale are unlikely to see any benefits in terms of cost reduction as they already access the cheapest fees.

Proposal is untried and the risks of merger are not fully understood.

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

This should only be considered if it were objectively evaluated to be in the best interests of the fund membership.

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

This would effectively be a statutory intervention by Scottish Ministers and should only be considered as a last resort and only where there is significant evidence of governance failures or the inability to meet future liabilities following a deficit recovery period agreed with the fund actuary.

b) Governance:

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

A merged model with one governance structure may be cheaper for the remaining fund(s) to administer. It will however require appropriately qualified and remunerated staff to administer and there is likely to be significant upward pay drift as such roles do not sit neatly within local authority pay structures..

The cost savings are unlikely to be cheaper for the Council who will retain the same governance overheads as at present.

- ***What would be the negative impacts?***

This would effectively remove a local service from local control by removing the role of local councilors and employee representatives from the oversight and governance of the pension fund.

The move to formal restructure would lessen links to local decision making for example with regard to investment strategy and asset allocation, removing a key role for elected members in the governance of pension funds.

c) Operating risks:

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

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. Increased costs following merger could lead to dispute and potentially legal challenge by councils.

- ***What would be the positive impacts?***

This option would remove the requirement for administering authorities to run pension funds reducing the administrative burden.

- ***What would be the negative impacts?***

The model is untried in a Scottish Context.

Key personnel with wider management role may be lost to smaller councils.

d) Infrastructure:

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

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 agreed investment strategy this should be pursued. A number of pension funds are already investing in infrastructure. Collaboration without restructure provides an equally valid route to access infrastructure at potentially much lower cost through co investment.

- ***What would be the positive impacts?***

A larger fund may have more appetite for alternative infrastructure investments.

- ***What would be the negative impacts?***

There is a danger that merger is seen as providing a solution to a political aspiration. Potential Investment in infrastructure should not be seen as a driver for this option.

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

New governance arrangements would be required and this would incur additional costs during transition.

The effect on employer contributions of this option 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 positive investment returns.

The effect of any merger on Pension 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, or that costs to Councils paid through employer contributions could rise when compared to current rates.

Full Merger is likely to require expensive restructuring and segregation of portfolios would still be required if previous contribution rates are to be maintained.

There is no evidence that restructuring in England and Wales has, or will, deliver tangible benefits when compared to previous arrangements.

Any move to restructure the current Scottish 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.

The process of merger may unsettle the membership of the LGPS encouraging transfers out of the scheme and discouraging new entrants.

Scottish Borders Council is resolutely opposed to forced merger of pension funds.

Question 5: Preferred and additional options

The text can wrap onto additional pages.

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

Scottish Borders Council believes that there is no reliable empirical case for change and much more work would have to be done to evaluate the benefits and risks associated with change before options involving pooling or merger could be supported as being in the best interests of the fund membership.

In the absence of evidence to the contrary the Council is of the view that such change is likely to have a detrimental impact on performance and pensioner confidence and for this reason believes options 3 and 4 should be discounted.

The Council believes there are already good examples of collaboration working in practice within the LGPS in Scotland and that increased collaboration as envisaged by option 2 could achieve a number of positive benefits, while avoiding the need for pooling or expensive, time consuming and un-proven structural reform.

The Council believes the results of the E&W LGPS changes must be given time to bed in and a proper evaluation of the benefits and disadvantages of such change needs to be undertaken before any such similar experiment is undertaken in Scotland.

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

There are no other options the Council identifies should be considered.

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?

N/A

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

No

The consultation questions end.