Scottish Local Government Pension Scheme

Structure Review

August 2018

Introduction

The Scottish Local Government Pension Scheme (SLGPS) Advisory Board is consulting employers and trade unions on whether outcomes for the SLGPS can be improved by altering the structure of the funds. The consultation asks stakeholders to compare the advantages and disadvantages of the current structure against three options that, by degrees, consolidate the functions of the scheme's 11 constituent funds by collaboration, pooling and merger.

This paper sets out UNISON Scotland's interim position following our consultation with branches and pension champions. The final response will be agreed by the Scottish Committee in November.

Background

The SLGPS is Scotland's largest pension scheme with more than 406,000 members who are employees, former employees and pensioners. It has members in local government, education, the police, the voluntary sector, NDPBs and private contractors. UNISON Scotland is the largest trade union representing members of the scheme.

The scheme is currently delivered through 11 individual funds with assets totaling around £42bn and liabilities to members of £55bn.There are four consultation options:

1. Retain the current structure with 11 funds.
2. Promote cooperation in investing and administration between the 11 funds.
3. Pool investments between the 11 funds.
4. Merge the 11 funds into one or more new funds.

Towards a merged fund for Scotland

UNISON Scotland accepts the case for scale in pensions. There is an international movement towards greater scale in pension management that makes the status quo in Scotland very difficult to sustain. With greater scale comes economies of scale, which reduce costs, increase efficiencies, and this ultimately secures the pension benefits of UNISON members.

UNISON's own research reinforces the benefits of scale. A study we commissioned from the Dutch pensions group, APG (The Netherlands probably has the best pension system in the world), showed that a single fund in Scotland would have delivered an additional £830m p.a. Even accepting the limitations of any historical look back, this is a huge difference and would be a much higher saving at today's prices.

In the current austerity driven Local Government setting, savings can also reduce pressure on public service spending, freeing up resources for jobs, services and pay. Every basis point (0.01%) shaved off costs equates to £3.5m.

Based on this evidence, UNISON Scotland supports the development of a single merged fund for Scotland (Option 4). We accept that this cannot be achieved overnight and much more work needs to be done to turn this option into a practical proposal. In the interim period we believe that funds should be required to collaborate as part of the process towards merger. This should include common systems and data collection; full adoption of the fee transparency code; a central Environmental Social and Governance (ESG) unit; and the use of infrastructure investment pools or lead funds. There should be no merger of liabilities - contributing employers would retain responsibility for their own as at present.

Our vision for a new one fund for Scotland includes:

- A single clean governance model, probably based on a Joint Board model to retain local authority, trade union and other employer engagement, as well as retaining VAT exemptions. A single employer lead would have governance problems and an NPDB would be open to political interference from government. The statutory Pensions Board could either be incorporated into the governance model or operate in tandem, as with the current Scottish system.

- Common data collection and systems to improve the transparency of performance and address inconsistencies in the current system.

- An in-house investment team that delivers the benefits identified in the SAB research reports - drawing on the experience of funds like Lothian, West Yorkshire and RailPen. This approach is both cost effective and can facilitate appropriate infrastructure investment on a much greater scale.

- Control of investment costs through fee transparency and in-house teams.

- An ESG unit that ensures ESG assessments are undertaken on all investments, and delivers active shareholder engagement. It would develop best practice in relation to ethical investment in accordance with the values of our members and the public services they deliver.

- A one Scotland fund would be a significant national and international investor, able to adopt the best practice we have seen in public service pension schemes across the world. It will be a challenge to deliver, but the opportunities are significant.

Other Options

1. While UNISON often champions the cause of localism, there are few, if any, local factors in pension management. The current performance of funds is often cited, but this is not related to geography, it reflects different investment strategies that can go up or down. Funds have not always responded quickly to new developments like fee transparency, ESG concerns and infrastructure investment.

2. Collaboration can bring benefits, but there are limitations when governance remains with the administrating authority. Lead funds can only advise under FCA rules and processes can be slow.

3. The England and Wales model of pooling is generally not delivering the scale of investment or the promised criteria. Some pools are doing better than others when they have adopted good governance models. The Scottish Futures Trust (SFT) is developing a different approach to pooling in Scotland. However, this is at an early stage and focused more on property than infrastructure. Issues of governance, guarantees and trust, remain to be addressed.

Conclusion

The SLGPS is in a reasonable financial position although we recognise the weaknesses and the significant challenges ahead. This is a good time to reform rather than in response to a crisis. There can never be absolute certainty over the total costs because investment returns depend on external factors. However, the evidence from the UK and across the world points to the benefits of scale.

Scale gives greater investment clout, tackles fee transparency, enables in-house expertise to invest in new areas like infrastructure, better manages ESG issues and reduces duplication and cost. Change is always difficult and there are significant vested interests who will oppose change. Pensions are one of our members most important benefits and they need to be protected, not just today, but in the long-term. This may appear to be radical reform, but in the worldwide pensions sector, it will be seen as common sense.

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