

Ms. Ariane Burgess MSP
Convener, Local Government, Housing and Planning Committee
The Scottish Parliament Edinburgh EH99 1SP

28 November 2025

Dear Convener,

Re: City of Edinburgh Council (Lothian Pension Fund) – Response to Request for Views on the UK Pension Schemes Bill 2025 and Legislative Consent Memorandum (LCM-S6-65)

Thank you for your letter inviting the Pensions Committee's views on the above Bill and the associated Legislative Consent Memorandum. I write on behalf of the City of Edinburgh Council's Pensions Committee, as Convener, to provide our considered response. We appreciate the opportunity to contribute evidence from the perspective of Lothian Pension Fund, which our Council administers. Please also accept my sincere apologies for the delay in responding.

At the outset, I wish to acknowledge the importance of the issues addressed by the Pension Schemes Bill. The Bill represents a significant development in UK pensions policy. We recognise and support its high-level objectives – namely, to improve outcomes for pension savers and to enable pension funds to contribute to long-term economic growth. In particular, the emphasis on scale, efficiency and strong governance in pension fund management is one that resonates with our Fund's experience. Lothian Pension Fund (LPF) has long believed that prudent investment, cost-effectiveness and robust oversight are key to delivering pensions securely and sustainably.

The Committee notes that the Bill's provisions on Local Government Pension Scheme (LGPS) consolidation and asset pooling currently apply to England and Wales, with Scottish Ministers seeking the corresponding powers via the LCM. We welcome the Scottish Government's proactive approach in securing these parity powers. It is our view that maintaining an *equal suite of regulatory tools* across the UK is prudent. This ensures that, should a compelling case emerge for similar reforms in Scotland, our government can act swiftly in the interests of LGPS members and employers here. We agree with the Cabinet Secretary that having the executive competence to regulate in these areas – investment pooling, fund management responsibilities and governance – is desirable to future-proof Scotland's ability to manage its pension schemes.

That said, we also agree with the sentiment that Scotland's policy approach need not mirror England and Wales unless and until it is right to do so. The LCM itself notes differences in approach. Our Committee would echo this: the Scottish LGPS, comprising 11 funds, is distinct in scale and context from the 86 funds down south. To date, our funds have collaborated effectively without formal consolidation. In our own case, Lothian has partnered with Falkirk and Fife Pension Funds through a joint investment strategy forum and shared services. This has achieved many benefits of scale (cost savings, access to

investments) while retaining local accountability. We mention this to illustrate that **there are multiple routes to the outcomes sought** by the Bill.

We have carefully reviewed the Bill's potential **risks and opportunities** as they pertain to Lothian Pension Fund and the Scottish LGPS:

- **Opportunities:**

The creation of larger asset pools could indeed offer economies of scale and enhanced investment capabilities. With a greater asset base, funds can negotiate lower fees and invest in infrastructural or private market projects that smaller funds might struggle to reach. The Government's vision of pension "mega funds" and increased investment in productive assets could boost returns for members and simultaneously contribute to economic development – a dual benefit we find very attractive in principle. Additionally, measures such as the DC pension reforms (value-for-money tests and small pot consolidation) should improve member outcomes and confidence in pension saving overall. For defined benefit schemes, allowing trustees to utilise surpluses (where they exist) could help employers redirect funds to other workforce or service priorities, which, in the local government context, might support community outcomes. More broadly, the push for stronger governance and transparency aligns with our own commitment to high standards; it will reinforce public trust in how pensions are managed. We see an opportunity for Scottish LGPS funds to learn from the implementation experiences in England and Wales – adopting successful innovations and avoiding any pitfalls encountered.

- **Risks:**

Set against these benefits are some notable risks which must be managed. The foremost in our view is the risk that *a one-size-fits-all consolidation* could disrupt well-functioning aspects of our system. Lothian Pension Fund, for example, is already delivering excellent results (fully funded, with stable contributions and a strong investment performance record) under its present structure. Forcing structural change where none is needed could entail unnecessary transition costs and complexities, potentially with no guarantee of better outcomes. We are also mindful of the importance of local accountability: our Pension Committee, being part of the Council, is directly accountable to local employers and members. If assets were removed to a distant pooled entity, there is a concern that the connection to local priorities and the agility to respond to employer needs might weaken. Another risk is if new powers were used to mandate specific investments or strategies that conflict with our fiduciary duty to scheme members. Investment decisions should remain grounded in financial merit and risk management, notwithstanding the Government's economic policy goals. We caution that any exercise of reserve powers to direct investments (for instance, requiring a certain percentage in infrastructure) must be carefully balanced against the pension fund's primary purpose of paying pensions. Finally, during any transition (should pooling be pursued in future), there is operational risk in moving assets and reassigning responsibilities. This must be handled with meticulous planning to avoid value leakage or governance oversights in the interim.

Taking these points together, the Pensions Committee advocates a measured, evidence-based approach for Scotland. We are reassured that the Scottish Government's intent – as reflected in the LCM – is to consult with stakeholders like us before making changes. In our view, the optimal path forward would be:

- **Monitor and Evaluate** the implementation of the LGPS pooling in England and Wales over the coming months and years. Lessons learned (both positive and negative) should inform any Scottish proposals. If, for example, the six pools demonstrably reduce costs and improve net returns without sacrificing governance, that would build the case for Scottish adaptation. Conversely, if issues arise, Scotland can tailor a solution that avoids them.
- **Maintain Parity of Regulatory Powers** (as is being done) but use those powers judiciously. Parity is not by itself a reason to deploy a power; it simply enables the option. We suggest that Scottish Ministers exercise the new LGPS powers in a way that complements our current strengths. For instance, introducing *guidance on asset pooling* that encourages funds to deepen existing collaborations (short of mandatory mergers) could be a low-risk step that yields gains. Similarly, requiring an *independent governance review* across all Scottish funds could provide assurance that every fund meets a high standard, without immediately altering structures.
- **Consider Mirroring Select Aspects** of the E&W approach only if clearly beneficial. One aspect that may merit mirroring is the value-for-money regime for pension schemes. All pension funds should be able to demonstrate to their members that they are delivering value. We would support the development of consistent VFM metrics in the LGPS context. Another aspect is facilitating asset pooling on a voluntary or phased basis. The Scottish Government might, for example, enable the creation of pooled investment vehicles that funds can opt into for certain asset classes (as some have done with joint ventures). This stops short of forced consolidation but moves us in that direction if funds see the merit. On the other hand, we do not see a need to mirror for mirroring's sake. The number "six pools" or the 2030 timeline from England need not apply here given our different scale. If current strategy is meeting objectives, the axiom "if it ain't broke don't fix it" holds weight.
- **Retain What Works in the Current Strategy.** We urge that any reforms keep intact the elements of the Scottish LGPS that are successful. Our funding levels across the Scottish funds are generally healthy, governance frameworks (with Administering Authorities and local boards) have ensured accountability and there is a robust culture of stakeholder engagement through the Scheme Advisory Board. These are strengths to build on. In particular, stakeholder engagement must continue to be a cornerstone of any change. As a fund, we have found that open dialogue with employers, trade unions and pensioner representatives has enriched decision-making and pre-empted problems. The same will be true at a national policy level: engaging with COSLA, pension committees, member reps and professional advisors will lead to more durable and acceptable outcomes.

- **Ensure Stability and Confidence.** Above all, we ask that the Scottish Government and Parliament proceed in a way that maintains the confidence of our members and employers. Our pension fund members – council employees, teachers (for compensatory payments), arm's-length body staff, etc. – rely on us to safeguard their retirement benefits. They should be reassured that any changes will not negatively affect the security of their pensions. Similarly, our employers (the Councils and other bodies) need stability in contribution rates and the knowledge that the scheme's rules won't change unpredictably. Therefore, ample lead time, clear communication and transitional protections would be essential for any significant shifts (for example, if asset pools were to be introduced, employers would need clarity on how their funding positions and obligations are carried into the new system).

In conclusion, the City of Edinburgh Council Pensions Committee is supportive in principle of the aims of the Pension Schemes Bill 2025 – we agree that the pensions sector should strive for better value, more efficient investment and the capacity to invest in our economy. We also support the Legislative Consent Memorandum to equip Scottish Ministers with matching powers, as this represents good governance and preparedness. At the same time, we urge a balanced and Scotland-specific approach to applying these powers. The Scottish LGPS is in a strong position; evolutionary improvements, rather than revolutionary overhaul, are likely to serve our stakeholders best at this juncture. Parity in powers does not necessitate parity in immediate action and we believe the Government recognises this.

The Pensions Committee stands ready to work collaboratively with the Scottish Government, Scottish Parliament and Scheme Advisory Board as these matters progress. We are keen to contribute our expertise – including the positive outcomes and lessons from Lothian's collaborative initiatives – to inform the national discussion. Going forward, our focus will remain on protecting the interests of our fund's members and employers, and we are confident that with careful policy design, the risks can be mitigated and the opportunities realised for the benefit of all.

Thank you once again for inviting our views. Please do not hesitate to contact me or the Council's Director of Finance (Section 95 Officer) for any further information or clarification. We would be happy to provide additional evidence or to appear before the Committee if that would be helpful.

Yours sincerely,

Cllr. Mandy Watt

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