

PENSIONS PANEL – 6 DECEMBER 2016

Report of the Director of Finance and Resources

Local Government Pension Scheme: The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Recommendation of the Chair

1. That the Pensions Panel notes the content of new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force on 1 November 2016.

Background

2. In the July 2015 budget, the then Chancellor George Osborne, announced the Government's intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.
3. In November 2015, the Government issued a consultation paper on Revoking and Replacing the LGPS (Management and Investment of Funds) Regulations 2009, with the aim of removing the prescriptive nature of the existing regulation, in order to allow LGPS Funds the ability to collaborate on the pooling of Fund assets. Staffordshire's response to the consultation, which was generally supportive of the proposed changes, was submitted after the approval of the Pensions Committee, at its meeting on 15 February 2016.
4. In its post-consultation commentary, published in September 2016, the DCLG reported that it had received 23,516 responses to its consultation proposals. No fewer than 23,131 of those were from individual members of the public who objected to the new powers of intervention that the government intended to grant itself, alongside its insistence that administering authorities should not pursue policies that conflict with those of the Government in the areas of foreign affairs and defence.
5. The Government's response to these objections highlighted the significant volumes of public money at stake and the fact that the deregulation achieved by the changes should be accompanied by a broader power to intervene should circumstances require.
6. On 24 October 2016, an annulment Early Day Motion (EDM 586) was tabled in the House of Commons against these regulations; no resolution was passed for the matter to be debated.

7. So, despite the objections, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were published and came into force on 1 November 2016. It should be noted that at an individual administering authority level, these can only be adopted if the administering authority has in place an Investment Strategy Statement (ISS) which replaces current Statement of Investment Principles (SIP) (see paragraph 10).

New Investment Regulations - What's Changed?

8. There are several key areas of reform:
 - (i) the existing 'prescribed' means of securing a diversified investment strategy are removed and instead the onus is placed on authorities to determine the balance of their investments and take account of risk;
 - (ii) the introduction of safeguards to ensure that the more flexible legislation is used appropriately and that the guidance on pooling assets is adhered to. This includes a power for the Secretary of State to intervene in the investment function of an administering authority where they consider it necessary; and
 - (iii) the obligation for administering authorities to formulate an Investment Strategy Statement (ISS) in accordance with the governments' guidance on such and publish it by 1 April 2017.
9. The new 2016 Investment Regulations can be accessed following the link below:

http://www.legislation.gov.uk/uksi/2016/946/pdfs/ukxi_20160946_en.pdf

Investment Strategy Statement (ISS)

10. The Investment Strategy Statement (ISS) is a document that, under the new regulations, replaces and largely replicates, the current Statement of Investment Principles. Authorities are required to prepare and maintain an ISS which documents how the investment strategy for the Fund is determined and implemented. The ISS is required to cover a number of areas, specifically:
 - the requirement to invest money across a wide range of investments;
 - an assessment of the suitability of particular investments and investment types;
 - the maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits

on allocations to any asset class are not prescribed as is currently the case under the 2009 Regulations;

- the authority's attitude to risk, including the measurement and management of risk;
- the authority's approach to investment pooling;
- the authority's policy on social, environmental and corporate governance considerations; and
- the authority's policy with regard to stewardship of assets, including the exercise of voting rights.

11. On 15 September 2016, the DCLG also issued 'Guidance on Preparing and Maintaining an Investment Strategy Statement' - a copy is attached at Appendix 2.
12. This contains more detail about the Directions of the Secretary of State, the required approach to the pooling of investments and for the first time, is more explicit on matters regarding responsible investment. There is also the requirement for all authorities to become signatories to the UK Stewardship Code, and state how they implement the seven principles and guidance of the Code.
13. The authority is required to publish its first ISS by 1 April 2017 and maintain it, with reviews taking place at least every three years. The ISS for the Staffordshire Pension Fund, which is being worked on in collaboration with LGPS Central colleagues, will be available for consideration by the Pensions Panel and Pensions Committees at their meetings in March 2017.

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Background Documents:

1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

1. **Equalities implications:** There are no direct equalities implications arising directly from this report.
2. **Legal implications:** There are no direct legal implications arising from this report.
3. **Resource and Value for money implications:** The resource and value for money implications are included in the body of the report.
4. **Risk implications:** There are no direct risk implications arising from this report.
5. **Climate Change implications:** There are no direct climate change implications arising from this report.
6. **Health Impact Assessment screening:** Not applicable