

MEETING	PENSIONS COMMITTEE
DATE	11 FEBRUARY 2016
TITLE	WESTMINSTER GOVERNMENT (DCLG) CONSULTATION ON REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009
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1. INTRODUCTION

- 1.1 Members of the Committee will be aware that the Pension Fund has a Statement of Investment Principles which provides a framework for the investments. It includes any increases to the standard limits in the legislation for specific types of investments.
- 1.2 The current consultation proposes revoking the regulations and the restrictions would then no longer apply. The reason for this change is to enable funds to participate in pooling investments without breaching the current limits.
- 1.3 The consultation is aimed at all parties with an interest in the LGPS and the closing date for responses is 19 February 2016. The responses will be analysed and a Government response published within three months, and subject to the outcome of the consultation, the resulting regulations will be laid in Parliament.

2. PROPOSAL 1: ADOPTING A LOCAL APPROACH TO INVESTMENT

- 2.1 The consultation paper sets out the following matters under proposal 1:
 - Deregulating and adopting a local approach to investment by simplifying the regulations that govern the management and investment of funds.
 - Removing the existing schedule of limitations on investments. Instead authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately divers portfolio of assets and ensured an appropriate approach to managing risk. This would allow us to invest 15% in the Insight fund without the current UK overlay required to conform to the regulations. It would give more flexibility for BlackRock investing in passive funds during any transition period. It would also facilitate pooling on a larger scales as required by the Government.
 - Instead of the current Statement of Investment Principles, there will be a requirement for an Investment Strategy which authorities will be required to prepare, having taken proper advice, and publish. Transitional

arrangements would require authorities to publish an investment strategy statement no later than six months after the regulations come into force.

- The draft replacement Regulations include provision for administering authorities to publish their policies on the extent to which environmental, social and corporate governance matters are taken into account in the selections, retention and realisation of investments.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

3. CONSULTATION QUESTIONS

3.1 The consultation questions on the changes to the regulations are as follows:

Q1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?

Q2. Are there any specific issues that should be reinstated? Please explain why.

Q3. Is six months the appropriate period for the transitional arrangements to remain in place?

Q4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

4. PROPOSAL 2: INTRODUCING A SAFEGUARD – SECRETARY OF STATE POWER OF INTERVENTION

4.1 The consultation paper sets out the following matters under proposal 2:

- Power to intervene if the Secretary of State believes that an administering authority has not had regard to guidance and regulations.
- In reaching that conclusion the Secretary of State will consider the available evidence including;
 - Evidence that an administering authority is ignoring information on best practice
 - Evidence that an administering authority is not following the investment regulations or has not had regard to guidance published by the Secretary of State, for example, this might include failing to participate in one of the large asset pools or proposing a pooling arrangement that does not adhere to the criteria and guidance.

- Evidence that an administering authority is carrying out another pension-related function poorly.
- If the Secretary of State is satisfied that an intervention is required, he will write to the authority outlining the proposed intervention and the evidence used to reach a determination.
- The authority will then be given time to consider the proposal and present its argument for any changes that it thinks should be made.
- If, at the end of that period an intervention is issued, any resulting costs, charges and expenses incurred would be met by pension fund assets.
- The intervention will have a formal review date but could be ended before that if sufficient improvement is made.

4. CONSULTATION QUESTIONS

4.1 The consultation questions on the changes to the regulations are as follows:

Q5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?

Q6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?

Q7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

Q8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

5. RESPONSE TO CONSULTATION

- 5.1 A full copy of the consultation document is available at <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>
- 5.2 The Committee is asked to consider any views or issues that they wish to include in the response from Gwynedd Council.