

 Brent	<p style="text-align: center;">Pension Fund Sub-Committee</p> <p style="text-align: center;">23rd February 2016</p> <p style="text-align: center;">Report from the Chief Finance Officer</p>
For Information	Wards Affected: ALL
LGPS Reforms Update	

Recommendation

Members are asked to:

- Note the overview of the two current pension reform consultations issued by the DCLG.
- Delegate responsibility for responding to these consultations to the Chief Finance Officer in discussion with the Chair of the Pensions Sub-Committee.

1. Background

1.1 Please see below for a briefing note on two related current national LGPS reform work streams:

- The requirement for Local Authorities to respond on pooling proposals as set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.
- Consultation on the Local Government Pension Scheme: Revoking & Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

2. Introduction

Requirement for Local Authorities to Respond on Pooling Proposals

2.1 At the summer Budget 2015, the Chancellor announced the intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance. In November 2015, prescriptive guidance was provided requiring Local Authorities to set out their response to meet this proposal. This guidance, Local Government Pension Scheme: Investment Reform Criteria and Guidance, can be found from the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

Consultation on LGPS Scheme Regulation changes

- 2.2 In order for the pooling arrangements to be able to operate, the current regulations need to be reviewed. In November 2015, the DCLG issued a consultation on the LGPS; proposing to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. There are two main areas of reform:
- Reforms aimed at removing some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of investments and take account of risk.
 - Introduction of safeguards to ensure the more flexible legislation is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.
- 2.3 A full copy of the consultation, Local Government Pension Scheme: Revoking & Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, can be found at:
- https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479642/Consultation_on_investment_reform.pdf
- 2.4 The aim of this report is to provide an overview of the national pension reform agenda. There will be further reports setting out the implications and resulting actions needed to implement these proposals. The DCLG require a response to both of these reform work streams by 19th February 2016.

3. Pension Reforms

Requirement for Local Authorities to Respond on Pooling Proposals

- 3.1 Local Authorities are being asked to submit initial proposals on how their pooling arrangements will be constituted and will operate. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.
- 3.2 Subsequently, by 15 July 2016, these submissions need to be further refined, fully addressing the criteria in the guidance document and providing any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:
- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
 - for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings,

the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Consultation on LGPS Scheme Regulation changes

3.3 The regulatory reforms required, include two main proposed areas:

Proposal 1: Deregulation and adopting a local approach to investment

3.4 In developing these draft regulations, the Government has sought, where appropriate, to deregulate and simplify the regulations that have governed the management and investment of funds since 2009. By lifting some of the restrictions on investments it will make it easier for administering authorities to pool their investments. Those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. However, the steps taken to move to a more local approach to investment include:

- No specific requirement to state extent of compliance with Myners principles. But authorities should still have regard to this guidance.
- Removal of requirement to maintain a Statement of Investment Principles. To be replaced by an Investment Strategy Statement, (ISS) which must be published by 1 October 2016. Additional areas to be included in the ISS are the approach to collaborative investment and the authority's policy on the exercise of voting rights attached to its investments.
- The draft regulations also propose to remove 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 diverse portfolio of assets and have ensured an appropriate approach to managing risk. For example, additional information has been added to make clear that certain investments, such as derivatives, may be used where appropriate.

Proposal 2: Introducing a safeguard – Secretary of State power of intervention.

3.5 In order to ensure that this new flexibility as recommended above is used appropriately, the draft regulation proposes to give the Secretary of State the power to intervene in the investment function of an administering authority if the Secretary of State has determined that best practice or the regulations is being ignored. The consultation sets out:

- The evidence that the Secretary of State may draw on before deciding to intervene, and makes clear that any direction will need to be proportionate.
- The power proposed in this consultation is intended to allow the Secretary of State to act if best practice or regulation is being ignored, which will help to ensure that authorities continue to pursue more efficient means of investment.

3.6 In order to determine when to intervene, the following will be considered:

- Evidence that an administering authority is ignoring information on best practice, for example, by ignoring advice provided by the Scheme Advisory Board to Local Pension Boards.
- Evidence that an administering authority is not following the investment regulations.
- Evidence that an administering authority is carrying out another pension-related function poorly (for example, an actuarial valuation which has not been carried out in accordance with Scheme regulations).

3.7 The proposed intervention might include:

- Requiring the administering authority to develop a new investment strategy statement that follows the regulations
- Directing an administering authority to invest all or a portion of its assets in a particular way (for example, through a pooled vehicle)
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body

4. Next Steps

4.1 It is proposed that the consultation response is delegated to the Chief Finance Officer in discussion with the Chair of the Pensions Sub-Committee and a copy shared with the Pension Fund Sub-Committee and the LPB. The views expressed by the London CIV will be considered as part of this response.