

Agenda Item No 5(b)

**DERBYSHIRE COUNTY COUNCIL
PENSIONS AND INVESTMENTS COMMITTEE**

26 October 2016

Report of the Director of Finance

**REPORT ON LOCAL GOVERNMENT PENSION SCHEME INVESTMENT
REGULATIONS**

1 Purpose of the Report

To inform the Pensions and Investment Committee of the publication of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("2016 Investment Regulations") attached as Appendix 1 that will come into effect from 1st November 2016.

2 Information and Analysis

In November 2015, the Government published a consultation document: Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 together with the draft Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The 2009 Investment Regulations were designed to ensure that the Local Government Pension Scheme funds were properly and effectively managed by administering authorities, and contained restrictions on the proportion of fund assets that could be invested in different vehicles in order to ensure that authorities established balanced and diversified portfolios. Consideration of the implications of creating asset pools amongst authorities, led to a review of the 2009 Investment Regulations.

The 2016 Regulations remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. The changes effectively move towards the "prudent person" approach to investment that applies to trust based pension schemes with decisions taken within a prudential framework with less central prescription. (The "prudent person" approach places the onus on the pension fund to determine a suitable balance of investments to meet its liabilities, which are clearly articulated in an investment strategy.) Authorities will be expected to demonstrate 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.

A key feature of the 2016 Regulations is the requirement to publish an Investment Strategy Statement by 1st April 2017, having taken proper advice.

The statement must cover:

- A requirement to use a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investment;
- The authority's approach to risk, including how it will be measured and managed;
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

The authority's investment strategy will need to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment and the authority will be required to consult such persons as it considers appropriate regarding the proposed contents of its investment strategy.

The Investment Strategy Statement must be reviewed, and if necessary revised, at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement is published. There will no longer be a requirement to maintain a Statement of Investment Principles ("SIP), with the main elements of the SIP, such as risk, diversification, corporate governance and suitability, becoming part of the reporting requirements of the new investment strategy.

The 2016 Regulations introduce safeguards to ensure that the more flexible legislation is used appropriately, and in the best long term interests of scheme beneficiaries and taxpayers, and that the guidance on pooling assets is adhered to, including a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary. Where there is evidence to suggest that an authority is failing to act in accordance with the guidance contained within the 2016 Regulations, the Secretary of State will have the power to intervene in the investment function of an administering authority. Full consultation with the relevant authority will be required to ensure that the power is used "appropriately, proportionately and

only where justified by the evidence” as stated by the DCLG Local Government Pension Scheme – Guidance on Preparing and Maintaining an Investment Strategy Statement.

A proposed Investment Strategy Statement will be brought to the January 2017 Pensions and Investments Committee for consideration, leaving sufficient time for consultation to take place with the relevant stakeholders ahead of final approval of the investment strategy in March 2017.

3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, prevention of crime and disorder and social values.

4 Background Papers

Files held by the Director of Finance.

5 Officer’s Recommendations

That the Committee notes the report.

PETER HANDFORD

Director of Finance