

Lancashire County Council

Pension Fund Committee

Friday, 29th January, 2016 at 10.30 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No. Item

1. Apologies

2. Disclosure of Pecuniary and Non-Pecuniary Interests

Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.

3. Minutes of the Meeting held on 27 November 2015 (Pages 1 - 6)

To be confirmed, and signed by the Chair.

4. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

5. Lancashire and London Pensions Partnership - Progress Report (Pages 7 - 12)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

6. **The Lancashire County Pension Fund's Response to the Government's Requirement for Stage 1 Pooling Submissions** (Pages 13 - 16)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

Part I (Open to Press and Public)

7. **Consultation on Replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations** (Pages 17 - 58)
8. **Lancashire County Pension Fund - Future Employer Risk Management Framework and Approach to Covenant Review** (Pages 59 - 66)
9. **Lancashire County Pension Fund Training Policy** (Pages 67 - 82)
10. **Lancashire County Pension Fund - Discretionary Policies Update** (Pages 83 - 102)
11. **Report of Decisions taken under the Urgent Business Procedure** (Pages 103 - 104)
12. **Urgent Business**
An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.
13. **Date of Next Meeting**
The next meeting of the Committee will be a special meeting and will be held on Tuesday 1 March 2016 at 10am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young
Director of Governance,
Finance and Public Services

Agenda Item 3

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 27th November, 2015 at 10.45 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

County Councillor Kevin Ellard (Chair)

County Councillors

M Barron	M Otter
L Beavers	A Schofield
D Borrow	K Sedgewick
G Dowding	D Westley
J Gibson	D Whipp
R Newman-Thompson	B Yates

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Edward Pope, (Lancashire Leaders' Group Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

External Advisors

Aoifinn Devitt
Eric Lambert

County Councillors J Gibson and R Newman-Thompson replaced County Councillors J Oakes and M Parkinson at this meeting.

It was reported that the County Council had appointed Abbi Leech as the interim Head of the Lancashire County Pension Fund. This followed the recent appointment of the Fund's current Director, George Graham, as Chief Finance Officer designate to the new Lancashire and London Pension Fund Partnership.

1. Apologies

Apologies were received from Councillor P Rankin and Councillor M Smith.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

George Graham, Mike Jensen, Diane Lister, Richard Tomlinson, Frances Deakin and Andy Fox declared an interest in agenda item 7 (Lancashire and London Pensions Partnership - Report on Progress of Documentation) in view of their likely TUPE transfer to the new partnership. County Councillor D Borrow also declared a non-pecuniary interest as the County Council Shareholder representative on the Partnership's Board.

3. Minutes of the Meeting held on 10 November 2015

Resolved: - That the minutes of the meeting held on 10 November 2015 be confirmed as a true and accurate record and be signed by the Chair.

4. Exclusion of Press and Public

Resolved: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report on the performance of the Fund as at 30 September 2015. The information was again presented in the new format to ensure that it was more focussed and easy to understand. The new format also included commentary from individual portfolio managers to highlight particular issues, areas of concern and key risks.

Particular reference was made to the following areas:

- The economic backdrop;
- The total fund return at 30 September 2015;
- 12 months performance to 30 September 2015 in respect of equities, property, credit, infrastructure, private equity;
- Funding ratio since 31 March 2013;
- Fund allocations;
- Contributions net of benefits.

The Committee welcomed the new report format and members felt that it would also be useful to receive a summary of income generated by the Fund. Officers agreed to include this information in future reports.

Resolved: - That the report, now presented, be noted.

6. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee received a report from the Investment Panel setting out the work of the Panel since the last meeting of the Committee. The Committee's attention was specifically drawn to the following key areas considered by the Panel:

- The Investment and Market Context in which the Fund is operating including the impact of China's economy;
- Performance Report;
- LLPP Panel Due Diligence role;
- QC opinion regarding use of derivative;
- Annual Equity Manager Reviews;
- Credit Strategy Annual Reviews;
- Transactions in progress;
- Infrastructure Due Diligence and request for investment approval;
- Transactions outside of Panel Meeting.

Members particularly discussed the effects of the US and Chinese economies on worldwide markets. The presentation of information showing the level of worldwide exports to China as a % of GDP was welcomed and officers were asked to circulate comparative information in respect of worldwide exports from China.

Resolved: - That the report, now presented, be noted.

7. Lancashire and London Pensions Partnership - Report on Progress of Documentation

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report setting out an update on the satisfactory progress made on the various documentation required for the development of a Lancashire and London Pensions Partnership.

Mark Packham, PricewaterhouseCoopers (PwC), attended and presented an update to the Pension Fund Committee on the financial business model produced by the Director of the Fund to assess the viability of the LLPP and the likely savings to the Lancashire County Pension Fund and the London Pensions Fund Authority (LPFA).

It was noted that discussions with the LPFA were on-going, and that further work would need to be undertaken by County officers and by PwC. The Committee also noted that consideration was being given to the appropriate mechanism for approving, for the purposes of the County Council's governance processes, the remuneration to be paid to Directors of the Partnership Board.

Members were informed that further updates would be presented in due course.

Resolved: - That recommendations (i) – (iv) as set out in the report, now presented, be approved.

8. Progress on Delivering the Lancashire County Pension Fund Strategic Plan

The Committee considered a report setting out progress on delivering the Lancashire County Pension Fund Strategic Plan. The plan was structured around the following four dimensions that impact on the running of a successful pension fund:

- Governance
- Asset and Liability Management
- Administration, and
- Communication

Appendix 'A' provided an update on progress made against the various objectives set out in the plan over the first six months of the year. The progress was pleasing particularly in view of the considerable amount of time spent by officers on the development of the Lancashire and London Pensions Partnership which had not been envisaged when the plan was first approved.

Resolved: - That the report, now presented, be noted.

Part I

Resolved: - That the Committee returns to the remaining Part I agenda items.

9. Lancashire County Pension Fund Interim Administration Report

The Committee considered an interim administration performance report for the period 1 April to 30 September 2015. The report set out performance against standards and targets as defined in a Service Level Agreement with Your Pension Service and indicated that service delivery had been maintained throughout a significant period of change.

Members welcomed the report and the continued excellent performance of Your Pension Service.

Resolved: - That the report, now presented, be noted.

10. Responsible Investment

The Committee considered a report which provided the Pension Fund Committee with its regular update on Responsible Investment (RI) related matters which included:

- the fund's annual review of its Statement of Compliance with the UK Stewardship Code;
- the outcome of meetings with equity managers to discuss the Fund's aspiration in developing its RI approach going forward;
- the fund's investment in fossil fuels;
- voting and engagement activities on behalf of the fund;
- shareholder litigation;
- active investing; and
- an update on the action plan produced by the RI member working group.

It was agreed that the action plan should form part of the main stream work being undertaken in developing the new Lancashire and London Pensions Partnership including its detailed operating model.

It was reported that the Government proposed to introduce new restrictions around RI and members noted that a further report would be presented to the Committee at its meeting on 29 January 2016.

Resolved: That:

- (i) The report, now presented, be noted;
- (ii) The Stewardship Code Compliance Statement for 2015 set out at Appendix 'A', now presented, be approved.

11. Feedback from Committee Members on External Pension Fund Training Events and Conferences

The Committee considered a report on external Pension Fund training events and conferences attended by Members since the last meeting of the Committee.

Committee Members reported on their recent attendance as follows:

- CIPFA Pensions Network October Seminars, 1 October 2015, Manchester
Attended by County Councillor Mike Otter
- NAPFA Annual Conference/Exhibition, 14 - 16 October 2015, Manchester
Attended by County Councillors David Borrow and Kevin Ellard and Councillor Eddie Pope

- LGA Pooled Investment Event, 16 October 2015, London
County Councillor Miles Parkinson attended this event but was unable to attend the meeting to provide feedback.
- Local Government Annual Pension Investment Forum, 20 - 22 October 2015, London
Attended by County Councillors Lorraine Beavers, Gina Dowding, Kevin Ellard and Janice Hanson
- NAPF Local Authority Forum, 3 November 2015, London
Attended by County Councillor Kevin Ellard

Resolved: - That the report and updates, now presented, be noted.

12. Urgent Business

There was no urgent business to be considered.

13. Date of Next Meeting

The Committee noted that the next meeting of the Committee would be a special meeting and would be held on Friday 29 January 2016 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston

Agenda Item 5

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Agenda Item 6

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Consultation on Replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations (Appendices 'A' - 'C' refer)

Contact for further information:

George Graham, (01772) 538102, Director, Lancashire County Pension Fund,
george.graham@lancashire.gov.uk

Executive Summary

The Government has published part of its package of proposed reforms to the Local Government Pension Scheme (LGPS), central to which is the pooling of investment assets. A copy of the consultation document is set out at Appendix 'A'. As part of this, proposed new LGPS Investment Regulations have been published for consultation and these are set out at Appendix 'B'.

Appendix 'C' sets out a draft response to this consultation for approval by the Committee.

Recommendation

The Committee is recommended to approve the draft response to the consultation on the draft LGPS Investment Regulations as set out at Appendix 'C'.

Background and Advice

There have been plans for a considerable time for the Government to review the regulations which govern the investment activities of LGPS Funds. The general view is that the current regulations are overly prescriptive and in fact act to prevent, rather than facilitate, funds doing things which represent good investment practice. The most obvious example being the so-called Schedule 1 limits which limit the proportion of a fund's assets that can be pooled to either 10% or 35% depending on how the regulations are read. Such a situation creates difficulties both for funds and for potential investment counterparties which stifle innovation and limit potential returns and fee savings.

As part of the overall agenda for reform of LGPS and to support the Government's preferred option of creating a number of large investment pools a new set of draft investment regulations have been issued for consultation. These are set out in Appendix 'B'.

The draft regulations adopt an approach much closer to that which applies to private sector pension funds including removing the unhelpful Schedule 1 limits, looking to funds to set their own limits around issues such as the total proportion of the fund that could be invested in one asset. The draft response prepared by officers and set out at Appendix 'C' generally welcomes the draft regulations. However, there are two areas where the draft response is less positive:

- The reserve power of intervention which is intended to deal with Funds which refuse to pool their assets is drawn much more widely than this. The view advanced in officers' draft response is that a separate debate is required around the need for such a widely drawn power, while accepting that a power restricted to investment pooling is appropriate, given that this had been signalled in advance.
- The draft regulations contain proposals which would restrict the ability to reflect Responsible Investment issues in decisions. Officers have questioned the justification and evidence base justifying the inclusion of these restrictions referring to a preference for relying upon the common law position.

The intention is that subject to the parliamentary timetable new regulations will come into force on 1 April 2016.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The draft regulations will require the Committee as part of its investment strategy to define a series of risk based prudential limits for key issues such as investment concentration. This is good practice in any case and at a detailed level is reflected in the management agreements that the Fund has with investment managers and funds already.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Tel
-------	------	-------------

N/A

Reason for inclusion in Part II, if appropriate

N/A



Department for
Communities and
Local Government

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Consultation



© Crown copyright, 2015

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

November 2015

ISBN: 978-1-4098-4731-1

Contents

About this consultation	4
The consultation process and how to respond	5
Scope of the consultation	5
Basic Information	6
Background	7
Introduction and Background	9
Introduction	9
Background	9
Getting to this stage	11
Proposal 1: Adopting a local approach to investment	16
Deregulating and adopting a local approach to investment	16
Investment strategy statement	17
Non-financial factors	18
Investment	18
Proposal 2: Introducing a safeguard - Secretary of State power of intervention	20
Summary of the proposal	20
Summary of the draft regulations	24
Annex A: Members of the Investment Regulation Review Group	26

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

Department for Communities and Local Government
2 Marsham Street
London
SW1P 4DF

or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

The consultation process and how to respond

Scope of the consultation

<p>Topic of this consultation:</p>	<p>This consultation proposes to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with the draft regulations described in this paper. There are two main areas of reform:</p> <ol style="list-style-type: none"> 1. A package of reforms that propose to 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. 2. The introduction of safeguards to ensure that the more flexible legislation proposed 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.
<p>Scope of this consultation:</p>	<p>Views are sought on:</p> <ol style="list-style-type: none"> 1. Whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk. 2. Whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.
<p>Geographical scope:</p>	<p>This consultation applies to England and Wales.</p>
<p>Impact Assessment:</p>	<p>The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.</p>

Basic Information

To:	The consultation is aimed at all parties with an interest in the Local Government Pension Scheme (the Scheme) and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted
Body/bodies responsible for the consultation:	Secretary of State, Department for Communities and Local Government. The consultation will be administered by the Workforce, Pay and Pensions Division.
Duration:	25 November 2015 to 19 February 2016
Enquiries:	Enquires should be sent to Victoria Edwards. Please email LGPSReform@communities.gsi.gov.uk or call 0303 444 4057.
How to respond:	Responses to this consultation should be submitted to LGPSReform@communities.gsi.gov.uk by 19 February 2016 . Electronic responses are preferred. However, you can also write to: LGPS Reform Department for Communities and Local Government 2/SE Quarter, Fry Building 2 Marsham Street London SW1P 4DF
Additional ways to become involved:	If you would like to discuss the proposals, please email LGPSReform@communities.gsi.gov.uk
After the consultation:	All consultation responses will be reviewed and analysed. A Government response will then be published within three months, and subject to the outcome of this consultation, the resulting regulations laid in Parliament.
Compatibility with the Consultation Principles:	This consultation has been drafted in accordance with the Consultation Principles.

Background

Getting to this stage:	<p>The proposals in this consultation are the culmination of work looking into Local Government Pension Scheme investments that began in early 2013. It has been developed in response to the May 2014 consultation, <i>Opportunities for collaboration, cost savings and efficiencies</i>, which considered whether savings might be delivered through collective investment and greater use of passive fund management. A copy of the consultation and the Government's response is available on the Government's website: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.</p> <p>The consultation responses called for a voluntary approach to reform, opposing the introduction of a single, national model of pooling. The Government has therefore invited authorities to develop their own proposals for pooling, subject to common criteria and guidance. The criteria for reform have been developed using the consultation responses and following a series of workshops and conversations with authorities and the fund management industry since the July Budget 2015.</p> <p>Some respondents to the May 2014 consultation also suggested that amendments were required to the investment regulations in order to facilitate greater investment in pooled vehicles. In addition, prior to that consultation, authorities and the fund management industry had called for wider reform. A small working group, whose participants are listed in Annex A, was established to look at whether the approach to risk management and diversification in the existing regulations was still appropriate. They recommended moving towards the "prudential person" approach that governs trust based pension schemes. The group also sought clarity as to whether certain types of investment were possible, such as the use of derivatives in risk management. The work of that group has informed the development of this consultation.</p> <p>In relaxing the regulatory framework for scheme investments, it is important to introduce safeguards to ensure that the less prescriptive approach is used appropriately. The July Budget 2015 announcement also indicated that measures should be introduced to ensure that those authorities who do not bring forward ambitious proposals for pooling, in keeping with the criteria, should be required to pool. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.</p>
-------------------------------	--

<p>Previous engagement:</p>	<p>The proposed changes in this consultation are the result of a programme of engagement that began in summer 2013:</p> <ul style="list-style-type: none"> • Round table event, 16 May 2013. Representatives of administering authorities, employers, trade unions, the actuarial profession and academia discussed the potential for increased cooperation within the Scheme. • A call for evidence, run with the Local Government Association, June to September 2013. This gave anyone with an interest in the Scheme the opportunity to inform the Government's thinking on potential structural reform. The results were shared with the Shadow Scheme Advisory Board, which provided the Minister for Local Government with their analysis of the responses. • Consultation, <i>Opportunities for collaboration, cost savings and efficiencies</i>, May to June 2014. The consultation set out how savings of £470-660m a year could be achieved by collective investment and greater use of passive fund management. It also sought views as to how these reforms might best be implemented. The Government's response is available online: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies. • Informal engagement, July to November, 2015. Since the July Budget 2015 announcement, officials have attended over 25 workshops and bi-lateral meetings with administering authorities and the fund management industry. These discussions have been used to develop the criteria for reform and inform how the proposed power of the Secretary of State to intervene might work. <p>In addition, the Investment Regulation Review Group was formed in 2012 to consider potential amendments to the investment regulations. The group included representatives from administering authorities, actuarial firms, pension lawyers and the fund management industry. An initial proposal for reform was prepared that has also informed the development of the draft regulations that are the subject of this consultation.</p>
------------------------------------	--

Introduction and Background

Introduction

1.1 In May 2014 the Government published a consultation which set out how savings of up to £660m a year might be achieved through greater use of passive management and pooled investment. Investing collectively can help authorities to drive down costs and access the benefits of scale, and also enables them to develop the capacity and capability to invest more cost effectively in illiquid asset classes such as infrastructure. The Government has therefore invited authorities to develop ambitious proposals for pooling assets that meet published criteria. More information about the criteria and process of reform is available on the Government's website:

<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>.

1.2 This consultation complements that invitation, recognising that the existing regulations place restrictions on certain investments that may constrain authorities considering how best to pool their assets. It therefore proposes to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. In so doing, and to ensure that authorities take advantage of the benefits of scale, the Government proposes to introduce a power to allow the Secretary of State to intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

1.3 This paper sets out the purpose and rationale of the suggested amendments to the investment regulations, and seeks views as to whether the proposed approach would best deliver those stated aims.

Background

1.4 With assets of £178bn at its last valuation on 31 March 2013, the Local Government Pension Scheme is one of the largest funded pension schemes in Europe. Several thousand employers participate in the Scheme, which has a total of 4.68 million active, deferred and pensioner members.¹ The Department for Communities and Local Government is responsible for the regulatory framework governing the Scheme in England and Wales.

1.5 The Scheme is managed through 90 administering authorities which broadly correspond to the county councils following the 1974 local government reorganisation as well as each of the 33 London boroughs. In most cases, the administering authorities are upper tier local authorities such as county or unitary councils, but there are also some authorities established specifically to manage their pension liabilities, for example the London Pension Fund Authority and the Environment Agency Pension Fund. The

¹ Scheme asset value and membership figures taken from Department for Communities and Local Government statistical data set - Local government pension scheme funds summary data: 2012 to 2013 <https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-summary-data-2012-to-2013>

administering authorities have individual governance and working arrangements. Each has its own funding level, cash-flow and balance of active, deferred and pensioner members. Authorities take these circumstances into account when preparing their investment strategies, which are normally agreed by the councillors on each authority's pension committee. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set the legal framework for the development of these investment strategies and the investments carried out by administering authorities. This consultation proposes that the Government revokes and replaces those regulations.

1.6 Under the Public Service Pensions Act 2013, there is a requirement for a national scheme advisory board, as well as a local board for each of the 90 funds. In 2013, Scheme employers and the trade unions established a shadow board, which has been considering a number of issues connected with the Scheme, including its efficient management and administration. Appointments have now been made to the national scheme advisory board and the Chair is expected to be appointed shortly.

Getting to this stage

- 2.1 The consultation is formed of two main proposals:
1. A package of reforms that propose to remove some 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 proposed would move towards the “prudent person” approach to investment that applies to trust based pension schemes.
 2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately, 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.

Pooling assets to deliver the benefits of scale

2.2 The proposals set out in this consultation are the culmination of work carried out over the last two and a half years to explore how to reform the way the Scheme makes its investments in order to achieve the benefits of scale and drive efficiencies.

2.3 In summer 2013, the coalition government launched a call for evidence to explore how the Scheme might be made more sustainable and affordable in the long term. 133 responses were received, many of which took the opportunity to discuss whether collective investment and greater collaboration might deliver savings for the Scheme.

2.4 Following the call for evidence, the Minister for the Cabinet Office and Minister for Local Government commissioned a cost-benefits analysis from Hymans Robertson on a range of proposals. Hymans Robertson’s report explored three areas:

- **The cost of investment:** Many of the costs associated with investment are not transparent and so difficult to capture. The costs of managing and administering the Scheme were reported as being £536 million in 2012-13.² However, Hymans Robertson found that the actual cost was likely to be rather higher; with investment costs alone estimated as in excess of £790 million a year.³
- **Approaches to collaboration:** Hymans Robertson was asked to examine the costs and benefits of three options for reform: merging the authorities into 5-10 funds, creating 5-10 collective investment vehicles, or establishing just 1-2 collective investment vehicles. They found that the net present value of savings over ten years was highest with a small number of vehicles, while merging funds offered the lowest benefit.⁴

² Local government pension scheme funds summary data: 2012 to 2013

³ Department for Communities and Local Government: Local Government Pension Scheme structure analysis, Hymans Robertson pp. 10-11. <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>

⁴ Hymans Robertson, p.6

- **The aggregate performance of the scheme:** The report found that the Scheme as a whole had been achieving the market rate of return in each of the main equity markets over the ten years to March 2013. If the Scheme's investments in bonds and equities had been managed passively instead of actively, authorities could have saved at least £230m a year in management fees without affecting overall investment returns.⁵

2.5 Drawing on the Hymans Robertson report and the call for evidence, the coalition government published a consultation in May 2014 entitled *Opportunities for collaboration, cost savings and efficiencies*. This set out how the Scheme could save up to £660m a year by using collective investment vehicles and making greater use of passive management for listed assets like bonds and equities. The consultation sought views on these proposals, and how they might be most effectively implemented. Respondents were broadly in favour of pooling assets, but felt that any reform should be voluntary and led by administering authorities. While many recognised a role for passive management in an investment strategy, most also felt that some active management should be retained.

2.6 At the July Budget 2015, Ministers having reflected on the consultation responses, the Chancellor announced the Government's intention to invite administering authorities to bring forward proposals for pooling local government pension scheme investments. Authorities' proposals would be assessed against published criteria, designed to encourage ambition in the pursuit of efficiencies and the benefits of scale. These criteria have now been published and are available online at <https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>.

Updating the investment regulations

2.7 When considering the implications of creating asset pools amongst authorities, some respondents to the May 2014 consultation took the opportunity to call for a review of the existing investment regulations. At their introduction in 2009, the regulations sought to ensure that authorities established a balanced and diversified portfolio by placing restrictions on the proportion of their assets that could be invested in different vehicles. For example, deposits with a single bank, institution or person, (other than the National Savings Bank), were restricted to 10% of an authority's assets. These restrictions have been kept under regular review and have been subject to change following representations from the investment sector and pension fund authorities.

2.8 Some respondents to the consultation suggested that the current limits on investments would prevent authorities from making meaningful allocations to a collective investment vehicle, one of the leading options for asset pooling, as the allocation to particular types of vehicle is capped at 35%. Participants in the London Boroughs' collective investment vehicle and the collaboration between the London Pension Fund Authority and Lancashire County Council also wrote to the Department encouraging reform in this area.

⁵ Hymans Robertson, p.12

2.9 While the proposals for collective investment in the May 2014 consultation prompted encouragement to review the investment regulations, the idea of reform was not new. In 2012, following representations from the investment sector, the Government formed a small working group to revisit and examine the investment regulations with input from actuaries, fund managers and administering authorities. This group, whose membership is set out in Annex A, recommended that a more permissive approach should be taken to the legislative framework, similar to the “prudent person” model that applies to trust based pension schemes. This 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. The group also felt that the existing regulations introduced uncertainty for some authorities as to what constituted a permitted investment, as some asset classes were explicitly referenced but others were not. In particular, concern has been expressed as to whether or not pension fund authorities are permitted to invest in vehicles such as derivatives, hedge funds and forward currency contracts.

2.10 The proposals in this consultation paper therefore seek to address these issues, placing the onus on authorities to determine a diversified investment strategy that appropriately takes risk into account.

2.11 However, in relaxing the regulatory framework for scheme investments, it is also important to introduce safeguards to ensure that the less prescriptive approach proposed is used appropriately. Similarly, the July Budget 2015 announcement stated that draft regulations would be introduced to require an authority to pool its investments if it did not bring forward ambitious proposals that met the Government’s criteria. This consultation therefore sets out how the Secretary of State might intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

Response to the Law Commission’s Review of Fiduciary Duty

2.12 The Kay Review on Fiduciary Duty published its final report in July 2012. In addition to making a number of recommendations to address the excessive focus on short-term performance in equity investment markets, it recommended that the Government ask the Law Commission to review the fiduciary duties of investment intermediaries amid concerns that these common law duties were being interpreted by some pension schemes as a requirement to focus solely on short-term financial returns.

2.13 In their report, published in July 2014, the Law Commission called on the Department to review:

- Whether the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 should transpose article 18(1) of the Institutions for Occupational Retirement Provision (IORP) Directive, and
- Those aspects of Regulation 9 of the 2009 Regulations which require investment managers to be appointed on a short-term basis and reviewed every three months.

2.14 These recommendations were supported by the Government's progress report on the implementation of the Kay Review published in October 2014 by the Department for Business Innovation and Skills.

2.15 Article 18(1) of the IORP Directive requires assets to be invested in the best interests of members and beneficiaries and, in the event of a conflict of interest, in the sole interests of members and beneficiaries.

2.16 Regulation 4 of The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005 No 3378) transposed Article 18(1):

"4. (1) The trustees of a trust scheme must exercise their powers of investment, and any fund manager to whom any discretion has been delegated under section 34 of the 1995 Act (power of investment and delegation) must exercise the discretion, in accordance with the following provisions of this regulation

(2) The assets must be invested:

- (a) In the best interests of members and beneficiaries; and
- (b) In the case of a potential conflict of interest, in the sole interest of members and beneficiaries."

2.17 The Local Government Pension Scheme is a statutory scheme made under section 1 of the Public Service Pensions Act 2013 and previously under The Superannuation Act 1972. It is not subject to trust law and those responsible for making investment decisions in the Scheme are not therefore required to comply with Regulation 4 of the 2005 Regulations.

2.18 However, this does nothing to change the general legal principles governing the administration of Scheme investments and how those responsible for such decisions should exercise their duties and powers under the Scheme's investment regulations.

2.19 In a circular issued by the then Department of the Environment in 1983 (No 24), the Secretary of State took the view that administering authorities should pay due regard to the principle contained in the case of *Roberts v Hopwood* [1925] A.C. 578 p. 595:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons, the body stands somewhat in the position of trustees or managers of the property of others."

2.20 Those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it.

2.21 Having considered fully the recommendation made by the Kay Review and supported by both the Law Commission and the Government, Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law

is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes.

2.22 We do, however, propose to remove the requirement for the performance of investment managers to be reviewed once every three months from the regulations.

Proposal 1: Adopting a local approach to investment

Deregulating and adopting a local approach to investment

3.1 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. Some of the existing provisions have not been carried forward into the draft 2016 Regulations in the expectation that they would be effectively maintained by general law provisions and so specific regulation is no longer needed. For example, those making investment decisions are still required to act prudently, and there remains a statutory requirement to take and act on proper advice. Some of the provisions in the 2009 Regulations which have not been carried forward on this basis include:

- Stock lending arrangements under Regulation 3(8) and (9) of the 2009 regulations. The view is taken that the definition of “investment” in draft Regulation 3 is sufficient given that a stock lending arrangement can only be used if it falls within the ordinary meaning of an “investment”.
- Regulation 8(5) of the 2009 regulations ensures that funds are managed by an adequate number of investment managers and that, where there is more than one investment manager, the value of the fund money managed by them is not disproportionate. Here, the view is taken that administering authorities should be responsible for managing their own affairs and making decisions of this kind based on prudent and proper advice.
- There are many provisions in the 2009 Regulations which impose conditions on the choice and terms of appointments of investment managers. Since the activities of investment managers are governed by the contracts under which they are appointed, the view is taken that making similar provision in the 2016 Regulations would be unnecessary duplication. Examples include the requirement for investment managers to comply with an administering authority’s instructions and the power to terminate the appointment by not more than one month’s notice.
- Regulation 12(3) of the 2009 Regulations requires administering authorities to state the extent to which they comply with guidance given by the Secretary of State on the Myners principles for investment decision making. As part of the wider deregulation, the draft regulations make no provision to report against these principles, although authorities should still have regard to the guidance.

3.2 These examples of deregulation are for illustrative purposes only. It is not an exhaustive list of provisions which the Government proposes to remove. Consultees are asked to look carefully at the full extent of deregulation and comment on any particular case that raises concerns about the impact such an omission might have on the effective management and investment of funds.

Investment strategy statement

3.3 As part of this deregulation, 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.

3.4 Key to this will be the investment strategy statement, which authorities will be required to prepare, having taken proper advice, and publish. 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 investments.
- 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 environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Transitional arrangements

3.5 Draft regulation seven proposes to require authorities to publish an investment strategy statement no later than six months after the regulations come into force (this is currently drafted as 1 October 2016, in case the draft regulations come into effect on 1 April 2016). However, the draft regulations would also revoke the existing 2009 Regulations when they come into effect. Transitional arrangements are therefore required to ensure that an authority's investments and investment strategy are regulated between the draft regulations coming into effect and the publication of an authority's new investment strategy statement. The transitional arrangements proposed in draft regulation 12 would mean that the following regulations in the 2009 Regulations would remain in place until the authority publishes an investment strategy or six months lapses from the date that the regulations come into effect:

- 11 (investment policy and investment of pension fund money)
- 14 (restrictions on investments)
- 15 (requirements for increased limits)
- Schedule 1 (table of limits on investments)

Statement of Investment Principles

3.6 We do not propose to carry forward the existing requirement under regulation 12 of the 2009 Regulations to maintain a Statement of Investment Principles. However, the main elements, such as risk, diversification, corporate governance and suitability, will instead be carried forward as part of the reporting requirements of the new investment strategy

statement. Administering authorities will still be required to maintain their funding strategy statements under Regulation 58 of the 2013 regulations.

Non-financial factors

3.7 The Secretary of State has made clear that using pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Secretary of State has said, “Divisive policies undermine good community relations, and harm the economic security of families by pushing up council tax. We need to challenge and prevent the politics of division.”

3.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 already require administering authorities to publish and follow a statement of investment principles, which must comply with guidance issued by the Secretary of State. 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 selection, retention and realisation of investments. Guidance on how these policies should reflect foreign policy and related issues will be published ahead of the new Regulations coming into force. This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.

Investment

3.9 A few definitions and some aspects of regulation 3, which describes what constitutes an investment for the purpose of these regulations, have been updated to take account of changing terminology and technical changes since the regulations were last issued in 2009. For example, the reference to the London International Financial Futures Exchange (LIFFE) has been removed as it now operates as a clearing house and so is covered by the approved stock exchange definition.

3.10 Some additional information has been included to make clear that certain investments, such as derivatives, may be used where appropriate. The Government expects that having considered the appropriateness of an investment in their investment strategy statement, authorities would only use derivatives as a means of managing risk, and so has not explicitly stated that this should be the case.

Questions

1. 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?
2. Are there any specific issues that should be reinstated? Please explain why.

3. Is six months the appropriate period for the transitional arrangements to remain in place?
4. 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?

Proposal 2: Introducing a safeguard - Secretary of State power of intervention

Summary of the proposal

4.1 The first part of this consultation lifts some of the existing restrictions on administering authorities' investments in order to make it easier for them to pool their investments and access the benefits of scale. To ensure that this new flexibility is used appropriately, the consultation also proposes to introduce a power to intervene in the investment function of an administering authority if the Secretary of State believes that it has not had regard to guidance and regulations. 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.

4.2 The July Budget 2015 announcement set out the Government's intention to introduce "backstop" legislation to require those authorities who do not bring forward sufficiently ambitious plans to pool their investments. It also explained that authorities' proposals would need to meet common criteria, which have been published with draft guidance alongside this consultation. The draft power to intervene discussed in this paper could be used to address authorities that do not bring forward proposals for pooling their assets in line with the published criteria and guidance. The guidance will be kept under review, and will be revised as circumstances change and authorities' asset pools evolve.

4.3 The following sections set out the process for intervention described in draft regulation 8.

Determining to intervene

4.4 The draft regulations propose to give the Secretary of State the power to intervene in the investment function an administering authority, if the Secretary of State has determined that the administering authority has failed to have regard to the regulations governing their investments or guidance issued under draft regulation 7(1). In reaching that conclusion, the Secretary of State will consider the available evidence, which might include:

- Evidence that an administering authority is ignoring information on best practice, for example, by not responding to advice provided by the scheme advisory board to local pension boards.
- Evidence that an administering authority is not following the investment regulations or has not had regard to guidance published by the Secretary of State under draft Regulation 7 (1). For example, this might include failing to participate in one of the large asset pools described in the existing draft guidance, 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, such as an unsatisfactory report under section 13(4) of the Public Service Pensions Act 2013, or another periodic reporting mechanism. (Section 13(4) of the 2013 Act requires a person appointed by the Secretary of State to report on whether the actuarial valuation of a fund has been carried out in accordance with Scheme regulations, in a way that is consistent with other authorities' valuations, and so that employer contribution rates are set to ensure the solvency and long term cost efficiency of the fund.)

4.5 If the Secretary of State has some indication to suggest that intervention might be necessary, the draft regulations propose that he may order a further investigation to provide him with the analysis required to make a decision. If additional evidence is sought, draft regulation 8(5) would allow the Secretary of State to carry out such inquiries as he considers appropriate, including seeking advice from external experts if needed. In this circumstance, the administering authority would be obliged to provide any data that was deemed necessary to determine whether intervention is required. The authority would also be invited to participate in the review and would have the opportunity to present evidence in support of its existing or proposed investment strategy.

The process of intervention

4.6 If the Secretary of State is satisfied that an intervention is required, he would then need to determine the appropriate extent of intervention in the authority's investment function. The draft regulations propose to allow the Secretary of State to draw on external advice to determine what the specific intervention should be if necessary.

4.7 Draft regulation 8(2) describes the interventions that the Secretary of State may make. The power has been left intentionally broad to ensure that a tailored and measured course of action is applied, based on the circumstances of each case. For example, in some cases it may be appropriate to apply the intervention just to certain parts of an investment strategy, whereas in particularly concerning cases, more substantial action might be required. The proposed intervention might include, but is not limited to:

- Requiring an administering authority to develop a new investment strategy statement that follows guidance published under draft Regulation 7(1).
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

4.8 The Secretary of State will write to the authority outlining the proposed intervention. As a minimum, this proposal will include:

- A detailed explanation of why the Secretary of State is intervening and the evidence used to arrive at their determination.

- A clear description of the proposed intervention and how it will be implemented and monitored.
- The timetable for the intervention, including the period of time until the intervention is formally reviewed.
- The circumstances under which the intervention might be lifted prior to review.

4.9 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 in administering the fund would be met by the pension fund assets.

Review

4.10 As set out above, each intervention will be subject to a formal review period which will be set by the Secretary of State but may coincide with other cyclical events such as the preparation of an annual report or a triennial valuation. At the end of that period, progress will be assessed and the Secretary of State will decide whether to end, modify or maintain the current terms of the intervention, and will notify the authority of the outcome. The authority will also have the opportunity to make representations to the Secretary of State if it feels a different course of action should be followed. Throughout this period of intervention, the authority will be supported to improve its investment function, so that it is well placed to bring the intervention to an end at the first opportunity.

4.11 The Secretary of State's direction will include details about what is required of the authority in order to end the intervention, and how progress will be measured. Progress could, for example, be measured by creating a set of performance indicators to be monitored on an ongoing basis by Government officials, the local pension board, the scheme advisory board, or an independent body. A regime of regular formal reports to the Secretary of State could also be required.

4.12 The draft regulations also allow the Secretary of State to determine that sufficient improvement has been made to end the intervention before the review date. The administering authority may also make representations to the Secretary of State before that date, if it has clear evidence that the prescribed action is no longer appropriate.

Questions

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?
6. 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?
7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

8. 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?

Summary of the draft regulations

(1) Citation, commencement and extent

This details the citation and scope of the draft regulations, and gives the date at which they will come into force.

(2) Interpretation

These provisions define terms used in the draft regulations with reference to legislation, and cite the legislation that gives administering authorities the powers that may be impacted by the draft regulations.

(3) Investment

This draft regulation defines what is considered an investment for the purposes of the regulations. This definition includes futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines who a person with whom a contract of insurance can be entered into is.

(4) Management of a pension fund

This draft regulation lists the monies that an administering authority must credit to its pension fund, including employer and employee contributions, interest, and investment capital and income. It also sets out the administering authority's responsibility to pay benefits entitled to members, and states that, except where prohibited by other regulations, costs of administering the fund can be paid by the fund.

(5) Restriction on power to borrow

This proposed regulation outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

(6) Separate bank account

The draft regulation states that an administering authority must deposit all pension fund monies in a separate account, and lists those institutions that can act as a deposit taker. It also states that the deposit taker cannot use pension fund account to set-off any other account held by the administering authority or a connected party.

(7) Investment strategy statement

This draft regulation places an obligation on the administering authority to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement should demonstrate that investments will be suitably diversified, and it should outline the administering authority's maximum allocations for different asset classes, as well as their approach to risk and responsible investing.

In many respects, the investment strategy statement replaces the list of restrictions given in Schedule 1 of the 2009 Regulations and enables the criteria to be determined at local

level. Schedule 1 of the 2009 Regulations will remain in force until such time that the new investment strategy statements have to be published.

Provision is made for authorities to publish their policy on the extent to which environmental, social and corporate governance factors are taken into account in the selection, retention and realisation of investments.

Separate guidance will be issued by the Secretary of State that will clarify how the Government's recent announcement on boycotts, sanctions and disinvestment will be exercised.

(8) Directions by the Secretary of State

This provision would grant the Secretary of State the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to have regard to regulation and guidance. He can also initiate inquiries to determine if an intervention is warranted, and must consult with the authority concerned. Once it is determined that an intervention is needed, the Secretary of State can intervene by directing the authority undertake a broad range of actions to remedy the situation.

(9) Investment managers

This draft regulation details how an administering authority must appoint external investment managers.

(10) Investments under section 11(1) of the Trustee Investments Act 1961

This draft regulation allows administering authorities to invest in Treasury-approved collective investment schemes.

(11) Consequential amendments

This proposed regulation lists the prior regulations that are amended by the draft amendments.

(12) Revocations and transitional provisions

The draft provision lists the regulations that would be revoked if the draft regulations come into effect. It also proposes transitional arrangements to ensure that the existing regulations governing the investment strategy remain in place until a new investment strategy statement is published by an authority under draft regulation seven. These transitional arrangements would apply for up to six months after the draft regulations came into effect.

Annex A: Members of the Investment Regulation Review Group

Alison Hamilton	Barnet Waddingham
Bob Claxton	Wandsworth Pension Fund
Clifford Sims	Squire Patton Boggs
Dawn Turner	Environment Agency Pension Fund
Geoff Reader	Bedford Pension Fund
Graeme Russell	Greater Gwent Pension Fund
Guy Sears	Investment UK
Loretta Stowers	Greater Manchester Pension Fund
Nick Buckland	Dorset Pension Fund
Nigel Keogh	Chartered Institute of Public Finance and Accountancy
Paul Dale	Bromley Borough Council
Peter Morris	Greater Manchester Pension Fund

 STATUTORY INSTRUMENTS

2016 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

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

<i>Made</i>	- - - -	2016
<i>Laid before Parliament</i>		2016
<i>Coming into force</i>	- -	2016

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(a).

In accordance with section 21 of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st April 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

“the 2000 Act” means the Financial Services and Markets Act 2000(b);

“the 2013 Regulations” means the Local Government Pension Scheme Regulations 2013(c);

“the Transitional Regulations” means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(d);

(a) 2013 c. 25

(b) 2000 c.8.

(c) S.I. 2013/2356.

(d) S.I. 2014/525.

“authority” means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

“fund money” means money that is or should be in a pension fund maintained by an authority;

“proper advice” means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters;

“the Scheme” means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011^(a) (local authority’s general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004^(b) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations “investment” and related expressions have their normal meaning.

(2) But the following provisions of this regulation specify things which count as investments for these Regulations, although they might not otherwise do so, and exclude things which might otherwise count.

(3) A contract entered into in the course of dealing in financial futures, traded options or derivatives is an investment.

(4) A contract of insurance is an investment if it is a contract of a relevant class, and is entered into with a person within paragraph (5) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act^(c).

(5) The persons within this paragraph are—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule^(d) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(6) A contract of insurance is of a relevant class for the purposes of paragraphs (4) and (5) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with contracts of insurance covering either conservation of capital or payment of minimum interest.

(7) It is an investment to contribute to a limited partnership in an unquoted securities investment partnership.

(8) For the purposes of this regulation—

“limited partnership” has the meaning given in the Limited Partnerships Act 1907^(a);

(a) 2011 c. 20.

(b) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.

(c) Section 22 was amended by section 7(1) of the Financial Services Act 2012 (c.21).

(d) Paragraph 15 was amended by S.I. 2007/126.

“recognised stock exchange” has the same meaning as in section 1005 of the Income Tax Act 2007(b);

“traded option” means an option quoted on a recognised stock exchange; and

“unquoted securities investment partnership” means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(c), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

- (a) the amounts payable by it or payable to it under regulations 15(3), 67 and 68 of the 2013 Regulations (employer’s contributions and further payments);
- (b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);
- (c) all income arising from investment of the fund; and
- (d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the reference in paragraph (1) to the authority’s pension fund is to the fund which is the appropriate fund(d) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(e) (charges in relation to pension sharing costs)(f).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

- (a) paying benefits due under the Scheme; or
- (b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

(a) 1907 c. 24.

(b) 2007 c.3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c.8).

(c) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(d) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the “appropriate administering authority” in relation to a person.

(e) 1999 c. 30.

(f) See S.I. 2000/1047 and S.I. 2000/1049.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) “Deposit-taker” for the purposes of paragraph (1) means—

- (a) a person who has permission under Part 4A(a) of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(b);
- (b) an EEA firm of the kind mentioned in paragraph 5(b)(c) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(d) to accept deposits;
- (c) the Bank of England or the central bank of an EEA state other than the United Kingdom;
or
- (d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority’s investment strategy must include—

- (a) a requirement to invest fund money in a wide variety of investments;
- (b) the authority’s assessment of the suitability of particular investments and types of investments;
- (c) the authority’s approach to risk, including the ways in which risks are to be measured and managed;
- (d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority’s investment strategy must 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.

(4) The authority’s investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

(5) The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.

(a) Part 4A was inserted by section 11 of the Financial Services Act 2012 (c. 21).
(b) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
(c) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
(d) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906 and 2013/1881.
(e) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st October 2016.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to have regard to guidance issued under regulation 7(1) (investment strategy statement).

(2) Where this regulation applies in relation to an authority the Secretary of State may issue a direction requiring all or any of the following—

- (a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within a period of time specified in the direction;
- (b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;
- (c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;
- (d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

- (a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under section 62 of the 2013 Regulations (actuarial valuations of pension funds);
- (b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board^(a);
- (c) any representations made by the authority in response to the consultation under paragraph (3);
- (d) any other evidence available that the Secretary of State regards as relevant to whether the authority has been complying with these regulations or acting in accordance with guidance issued under regulation 7(1) (investment strategy statement).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must co-operate with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

(a) The Local Government Pension Scheme Advisory Board is established under regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(2) The authority must reasonably believe that the investment manager’s ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(3) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961^(a) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(a) (pension fund annual report) substitute—

“(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;”.

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

“(b) the statement of the administering authority’s investment strategy published under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

“(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

Revocations and transitional provision

12.—(1) Subject to paragraph (2), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009^(b) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013^(c) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority publishes its investment strategy statement under regulation 7(1) (investment strategy statement).

(3) For the period starting on 1st April 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7 (investment strategy

^(a) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).

^(b) S.I. 2009/3093.

^(c) S.I. 2013/410.

statement), or 30th September 2016, Regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

We consent to the making of these Regulations

Date *Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Date *Name*
Parliamentary Under Secretary of State
Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

Appendix 'C'

Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 Consultation - Response by the Lancashire County Pension Fund

Introduction

Lancashire County Pension Fund welcomes the opportunity to respond to the Government's proposals to make changes to the Local Government Pension Scheme Investment Regulations. The Fund is one of the largest in the LGPS with over 150,000 members working for around 230 employers and with around £5.8bn of assets under management.

In general the Government's proposals represent a welcome move away from over detailed prescription which limits the ability of funds to execute the most effective (and indeed cost effective) options for the delivery of their investment strategies. Our comments seek to ensure that the regulations provide the clarity that will be required by counter parties in ensuring that Funds have appropriate powers to enter into transactions. We also strongly welcome the introduction of the Investment Strategy Statement to replace the Statement of Investment Principles and the Funding Strategy Statement. For us this represents a significant step forward and will encourage funds to properly articulate the rationale for their strategic asset allocation in the context of addressing their liabilities.

As a fund which was one of the first to embark on the journey to create an asset pool for investment purposes we clearly welcome the removal of the schedule 1 limits. However, the reserve powers which it is proposed that the Secretary of State should exercise do seem particularly broad and extend well beyond the area of management and investment of funds amounting in fact to a general power of intervention. Whether such a broad power of intervention is required is something that should be debated in its own right and not in the context of the Government's view that a power is required to encourage pooling where funds are failing to follow this direction.

To us the provisions in relation to non-financial factors seem unnecessary. We are not aware of any significant evidence of the sort of practices suggested in the consultation document. Given that the Government is proposing to rely on the common law test in relation to fiduciary duty surely the same test would achieve the objective sought by the Government.

Turning to the specific consultation questions:

- 1. 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?*

In general terms the answer here has to be yes. The overall approach of allowing administering authorities to set their own risk appetite and investment mix through a more prudential approach supported by proper advice is something that is long overdue. However, history indicates that investment counterparties when dealing

with public bodies require some specific assurances in terms of power to enter into particular transactions. The draft regulations clearly seek to free up the investment universe and the Government's intention is clear. In order to make this clear to counter parties, however, it may be helpful to add in at relevant points some language along the following lines, e.g. "for the avoidance of doubt derivatives should be taken to include, but not be limited to..." This is perhaps to exercise an abundance of caution, but will provide clarity for counter parties who tend to exercise significant caution when dealing with public bodies whose activities are constrained by statute.

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

No, our feeling is that by moving to a regime more akin to that for private sector funds the draft regulations represent the appropriate way of regulating this area of activity placing an emphasis on the need for Pension Fund Committees acting in the same way as trustees to exercise prudence and appropriate judgement acting with proper advice.

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

This seems appropriate and manageable, although given the proximity to the results of 2016 valuation becoming available and impacting on investment strategies there could be a case for extending the transition period until the point at which the valuation comes into operation. There is also a case for providing a somewhat longer period to allow pooling proposals to be effectively encompassed in the new Investment Strategy Statement. However, on balance we feel that the new Investment Strategy Statement represents a major step forward in scheme governance and will provide much needed clarity for stakeholders and therefore favour the Government's proposal which probably represents the shortest possible transition across the breadth of the scheme.

4. *Should the regulations 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?*

There are a number of ways, in addition to risk management, in which derivatives could be used within the execution of Funds' investment strategies. The most obvious is in the delivery of passive equity strategies where it is possible to simply buy index futures in order to achieve the same returns as a passive manager. This approach is in general terms cheaper than a traditional manager in order to achieve the same results.

"Use" of derivatives also needs to be effectively defined. Sensible hedging strategies may involve both the buying of instruments (which would be usually accepted as being a form of investment) and the selling of others. The ability of funds to do the latter has sometimes been questioned, although interestingly not the ability of managers acting on behalf of funds. Therefore providing absolute clarity on this would be extremely helpful.

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

The issue here is less the evidence base than the nature of the intervention power. The power proposed is much more widely drawn than a power simply to ensure that all funds pool their investment assets. It is, in fact drawn as a general power of intervention, and the evidence base indicated supports this.

We make no argument for or against such a general power, although we would contend that there is no evidence such a power is required. However, we would strongly argue that the Investment Regulations are not the place for such a power within the overall governance framework and that the introduction of such a wide ranging power, which as far as we are aware does not exist in other locally administered schemes, requires proper debate in its own right rather than as part of a major package which is focussed on fundamentally changing how LGPS funds are invested.

6. *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?*

This seems appropriate and reflects the approach in other intervention regimes.

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

The range of interventions in relation to investment strategy set out in the consultation document seem to give an appropriate range and it would be anticipated that the directions issued to give effect to them would add appropriate light and shade to what the Department is seeking to achieve through a particular intervention.

8. *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?*

The range of choices available seems to cover the whole range of those available.

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Lancashire County Pension Fund - Future Employer Risk Management Framework and Approach to Covenant Review

Contact for further information:

George Graham, (01772) 538102, Director, Lancashire County Pension Fund

george.graham@lancashire.gov.uk

Executive Summary

During 2015 a detailed covenant review process has been carried out and is now largely completed.

The purpose of this exercise was twofold, prior to the commencement of the 2016 valuation work:

- to specifically assess covenant for the majority of fund employers;
- to devise and implement an ongoing covenant assessment and risk management framework.

Recommendation

The Committee is recommended to approve the proposed risk classification methodology and approach to implementing risk management/security arrangements as set out in the report.

Background and Advice

Within a pensions context the term 'covenant' relates to an assessment of an employer's longer-term ability to meet its financial commitments to the fund. This includes the ability to meet any historic deficit payments due as well as ongoing employer contributions.

Should an employer become unable to meet its commitments, usually because of insolvency, the fund must still meet its pensions obligations to the affected employer's members, and the financial burden of doing so then falls upon other fund employers. Thus it is important to form a view on employers' covenant strength and put in place risk management strategies to reduce any impact of employer default.

2016 Valuation Strategy and Employer Risk

The proposed 2016 valuation approach has been consulted on with employers and one element of this relates to the actuarial treatment of individual employers, specifically how employer risk will be factored into the determination of future service rates and deficit contribution calculations. In essence it is proposed that differential investment strategies be applied to employers, dependent upon their risk profile, with higher risk employers being assigned to a lower risk investment strategy, meaning that there will be more certainty of the strategy delivering the returns required. As a result of this differentiation it follows that different discount factors be applied (high risk = low discount factor) to the actuary's calculations.

This strategy will impact upon higher risk employers in that their future service rate, and deficit calculation, will be higher than it would be had the employer been placed in a lower risk category. It is therefore in employers' interests to engage with the Lancashire County Pension Fund (LCPF) in its risk management approach and provide alternative forms of security where this is requested - in doing so being assigned a lower risk category than would otherwise be obtained.

This report sets out a proposed covenant review framework to be applied for LCPF employers and sets out an approach to managing risk issues arising from the current exercise.

Employer Risk and Security

There are over 200 employers within LCPF, ranging from large taxpayer-backed organisations such as councils, through to small charities with no guaranteed sources of funding. Clearly, some employers present a higher risk than others. Employers are either 'scheduled' or 'admitted': scheduled employers have an automatic right to Local Government Pension Scheme (LGPS) entry, admitted employers don't, and their entry to LGPS arises as a result of being 'admitted' via an Admission Agreement (AA).

LCPF Admission Agreements now specify a requirement for security against default, however older agreements do not, and these older agreements therefore need to be revised and signed-up to by affected employers in order to provide increased protection for the Fund.

The Fund has recently consulted on proposed changes to the admissions process which will limit access in future largely to employers who have a right to entry, largely academies and organisations providing contracted-out services to scheduled employers.

Employers have defaulted on their commitments previously and there remains a risk of further default, although following the review process there is not deemed to be an imminent risk of such. The covenant review process to date has shown that, generally speaking, the riskiest employers are those who have charitable status.

Deficits and Risk Management

The principle source of risk to the fund arises from the existence of individual employers' deficits, rather than an inability to fund future liabilities which haven't yet materialised or accrued; deficits relate to the past rather than the future, and any insolvency or similar affecting an employer reduces their ability to pay off their deficit which is effectively a debt owed to the Fund.

How Risk Can Be Managed

There are five primary tools available to LGPS funds in managing risk:

- obtaining guarantees from existing 'low risk' fund employers in respect of other employers' liabilities;
- an employer obtains an 'insurance policy' (known as a 'bond') which would pay off liabilities in the event of employer default;
- an employer provides a Charge over land/property which would enable the fund to secure some or all monies due to it in the event of default;
- escrow accounts (where an employer sets aside monies in a specific account controlled by a third party); and
- cancellation of Admission Agreement – this can trigger an 'exit payment' due from the employer but its effectiveness depends upon the ability of the employer to meet the exit payment; at the point of exit, a calculation of all outstanding liabilities is carried out, resulting in a demand from the employer of an exit payment which once paid over, absolved the ex-employer of any further funding requests from the Fund.

Employer Type and Associated Risk Profile

The larger employers within LGPS are councils, scheduled bodies who are tax-raising organisations with an implicit 'government guarantee' – no council has yet become insolvent, and were any to do so in future, there is perceived to be little likelihood of pension commitments not being underwritten by central government. A second broad category of employers are not scheduled, but are large admitted public sector or quasi-public sector organisations such as universities, Further Education Colleges and housing associations – these do not have as strong an implicit

government guarantee as councils, however experience to date across the UK is that where such organisations have failed their commitments have been taken on and honoured by other similar organisations.

The third broad category are admitted employers who do not have any implicit or explicit government guarantee - clearly these present the highest risk, although in membership terms they are relatively small within LCPF.

Covenant Review for LCPF Employers

A comprehensive exercise has been carried out, which involved asking most Fund employers to complete detailed questionnaires. The response rate has been good and this has enabled a clear overview of risk issues to be obtained. Lessons have been learned from this review, and a detailed 'map' of risk issues derived, which provides a platform for ongoing covenant assessment reviews. In the light of this exercise, it is felt that detailed covenant review work in future should be shaped by the resource requirement needed to carry out reviews on an ongoing basis, particularly given that 'lighter-touch' reviews can be carried out by analysing publicly available information (such as is available for the housing and university sectors, for example).

The covenant review exercise has identified some high risk employers and enabled a framework to be proposed which will focus largely on managing higher risk employers proactively, with a more passive approach applied to lower risk employers but which will provide a methodology to maintain a watching brief and early warning system to identify and mitigate any emerging risk issues.

Some employers, despite several attempts, have not engaged with the covenant review exercise and it is proposed that, in the absence of any supporting information, such employers be categorised as high risk; note however that this suggested approach would apply only to certain organisations (categories B and C - as outlined below).

The Fund will engage with higher risk employers with a view to them providing adequate security before December 2016, thus enabling them to benefit in terms of their risk classification and treatment within the valuation process.

As a first step, employers will be required to sign up to a new admission agreement (AA) which explicitly states a requirement to provide security should that be required. Following the signing of a new AA, attempts will be made to put in place security measures as necessary, and in a way which will be tailored to each employer's particular circumstances. Employers who do not wish to provide security or engage with the Fund will be required to consider whether they wish to remain as an (admitted) employer within LCPF.

Proposed Covenant and Risk Management Process

It is proposed that employers are classified both objectively and subjectively; objectively by organisation type, subjectively by looking at all relevant aspects of an employer's finances and future prospects.

Objective Classification of Employer

Employers will be grouped by type of organisation as follows:

Category A – Lowest Risk – scheduled, taxpayer-backed or with the ability to levy local taxes, implicit government guarantee:

- County, District, Unitary, Parish and Town Councils
- Office of the Police and Crime Commissioner / Lancashire Constabulary
- North West Inshore Fisheries Conservation Authority
- Lancashire Combined Fire Authority
- NHS-related organisations
- Academies including Multi-Academy Trusts
- Other employers who provide security in excess of deficit plus unfunded liabilities
- Any employer with a category A guarantor

Category B – Higher Risk – Large public sector, (generally) admitted bodies, no or weaker implicit government guarantee:

- Housing Associations
- Further Education Colleges
- Universities
- Any employer with a category B guarantor

Category C – Highest Risk – no implicit government guarantee, admitted bodies:

- Trade Unions
- Charities

- Private schools
- Any employer with a category C guarantor
- Any employer not in category A or B

Subjective Categorisation of Employer

These would be applied to categories B and C only and would be 'scored' by:

(Category B) keeping a watching brief on employers' financial/socio-economic/political environment via a process reliant on publicly available information;
(Category C) carrying out annual detailed covenant review via questionnaire and proactive liaison with employers.

Employers' risk profile will be subjectively classified using a 'traffic light' system:

Red – highest risk, immediate action required

Amber – lower risk, watching brief and potential medium term action required

Green – lowest risk, 'light-touch' review unless specific concerns arise

The 'traffic light' classification will be formed largely by carrying out analyses of data, financial accounts, annual reports and discussions with employers. The data analysis methodology and findings will be made available to employers, who will be offered the facility to challenge, if necessary, the Fund's review methodology and conclusions. The table below sets out the results of this analysis across the current client base:

The table below shows the number of employers grouped by risk category

Employer Objective Category	Subjective amber	Subjective green	Subjective red	Totals
A	n/a	n/a	n/a	87
B	25	73	2	100
C	4	4	15	23
Totals	29	77	17	210

The table below shows the number of members grouped by their employer's risk category

Employer Objective Category	Subjective amber	Subjective green	Subjective red	Totals
A	n/a	n/a	n/a	129,187
B	10,288	3,890	2	14,180
C	11,234	2,156	686	14,076
Totals	21,522	135,233	688	157,443

Key Points Arising from Proposed Classification System

- complies with The Pensions Regulator's best practice guidance;
- proactively manages risk with a view to minimising resource input to covenant process;
- all employers in categories B and C are able to obtain Category A status (by provision of adequate security);
- improves communications/liaison/support for employers; and
- over the medium term the aim will be to have no Category C employers.

Next Steps

Consultation/negotiation with individual high risk employers has already commenced; the process tends to be complex and time-consuming, requiring employers to implement changes (such as agreeing to a land charge) which from their perspective could potentially be seen as impacting negatively upon their ability to achieve organisational goals. Each employer faces a different set of circumstances in terms of finances, future prospects, funding etc. and as such there is no defined model for engaging and ultimately reaching agreement.

Whilst the use of differing investment strategies (and therefore discount factors) will likely form a key part of the 2016 valuation strategy, it is not yet possible to determine the interplay between actuarial assumptions, risk and investment prospects, and as such the impact of differing discount factors cannot yet be modelled or otherwise exemplified; as the valuation proceeds the final position will become clearer. This means that in attempting to reach agreement with employers during 2016, employers may not be able to fully understand the financial implications

of not coming to an agreement with the Fund in terms of providing additional security.

Consultations

A formal consultation, with Fund employers, in respect of the 2016 actuarial valuation, has been completed recently and will be reported to the next meeting of the Committee.

Implications:

This item has the following implications, as indicated:

Risk management

The recommendations contained within this report are intended to mitigate and manage risk where possible.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Lancashire County Pension Fund Training Policy (Appendices 'A' and 'B' refer)

Contact for further information:

Frances Deakin, (01772) 533112, Financial Policy Officer

frances.deakin@lancashire.gov.uk

Executive Summary

The Lancashire County Pension Fund Training Policy is due for review. This has provided an opportunity to consider;

- latest guidance on fulfilling the training needs of individuals performing key roles in the management and governance of Local Government Pension Schemes (LGPS);
- changes to requirements for providing training as a result of:
 1. the establishment of Local Pension Boards
 2. the remit of the Pensions Regulator being extended to include public sector pension schemes including the LGPS.

The proposed Training Policy provides a framework for ensuring an appropriate balance between individuals assuming personal responsibility for their own learning and Lancashire County Council (as Administering Authority) providing support for the development of the skills and knowledge needed to ensure effective oversight, governance and decision making.

Recommendation

The Committee is recommended to:

- (i) Note the report;
- (ii) Approve the Lancashire County Pension Fund Training Policy set out at Appendix 'A';
- (iii) Commit to meeting the requirements of the Training Policy which forms part of the Fund's wider risk management arrangements.

Background and Advice

In November 2013 the Pension Fund Committee approved a Training Policy and Plan covering the period to 2015. The Policy applied to all individuals charged with the governance and financial management of the Lancashire County Pension Fund (Pension Fund Committee Members and Senior Officers). The Policy was introduced as a basis for ensuring best practice within the Fund and compliance with the Public Service Pensions Act 2013.

The expiration of the current Training Policy has provided an opportunity to review latest guidance on fulfilling the training needs of individuals performing key roles in the management and governance of Local Government Pension Schemes. The main changes reflect the impact of Local Pension Boards being established and the remit of the Pensions Regulator being extended to include public sector pension schemes including the LGPS.

Local Pension Boards were established by the Public Service Pensions Act 2013 and came into being from April 2015. It is the role of the Local Pension Board to:

- assist the Administering Authority to comply with:
 1. LGPS Regulations;
 2. any other legislation relating to the governance and administration of their scheme;
 3. any requirements imposed by the Pensions Regulator in relation to their scheme,
- ensure the effective and efficient governance and administration of their scheme.

Local Pension Board members have a legal obligation to develop a degree of knowledge and understanding appropriate to enabling them to exercise the functions of a member of the Pension Board effectively.

The shift in governance represented by the implementation of Local Pension Boards has prompted the Chartered Institute for Public Finance & Accounting (CIPFA) to publish a Technical Knowledge and Skills Framework for Local Pension Boards. The new framework complements CIPFA's existing Code of Practice on Public Sector Pensions Finance Knowledge and Skills and its Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector.

The Training Policy at Appendix 'A' reflects current guidance from CIPFA and the Pensions Regulator on:

- core areas of knowledge and skill;
- the responsibilities of Administering Authorities for providing training support.

Practical questions prompted a re-consideration of the previous Policy's approach of including Senior Officers within scope. The needs of Board and Committee members differ considerably from those of Senior Officers (whose performance and training already feature within the County Council's regular Performance Development Review process and the Continuing Professional Development frameworks that

apply to them). Accordingly, Senior Officers have been excluded from the scope of the new Policy in order for it to focus exclusively on the needs of Committee and Pension Board members.

The Training Policy outlines the Fund's approach to training and presents a framework for supporting individual and collective training needs. The approach will be supportive in nature with the intention of providing Committee and Board members with the tools to assess their own learning needs and the means to fill any significant gaps in their knowledge.

Support for learning will feature a range of methods and approaches including:

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via an online Virtual Reading Room
- access to on-line training and assessment modules via the Pensions Regulators Trustee Toolkit.

There is an expectation that Board and Committee members will undertake self-directed learning to supplement the formal training provided for them. A review of learning needs will be undertaken annually by self-assessment in order to capture personal requirements and identify common knowledge gaps which benefit from being addressed collectively through a formal training session. Fund officers will offer ongoing support and advice and a Virtual Reading Room will provide easy access to core documents, an archive of training presentations, links to useful websites and signposting to topical content, all in one place.

The Training Policy will be put into practical application via a rolling Training Plan. This is a live document which will be continually updated to reflect the scheduling of in-house training sessions, the availability of external events and feedback from members on their training needs. The Training Plan is simultaneously a record of training activity and a planning tool for capturing and co-ordinating the various strands of training underway. The intention is for the plan to be flexible enough to be responsive to member needs and capable of accommodating emerging issues and topical matters whilst covering the core subject areas set out in the CIPFA frameworks. A snapshot of the Training Plan as it stands currently is provided at Appendix 'B', and shows the training scheduled and undertaken during 2015 and the events already scheduled (to date) in 2016.

The Training Plan will be developed further once the outcome of a self-assessment of learning needs has been undertaken and the results are available to offer insight into priorities for group training. This assessment will be based upon CIPFA's competency self-assessment which has been developed as a tool supporting individuals to capture specific requirements, identify key knowledge gaps, plan their development and measure their progress.

Consultations

An advance copy of the draft Training Policy was circulated to all members of the Pension Fund Committee and the Lancashire Local Pension Board with an invitation to provide comments and feedback on proposals. The observations received have been reflected within the policy now presented for the approval of the Committee.

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision-making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

An appropriate Training Policy forms the foundation of measures focussed on managing the risks posed by individuals with insufficient knowledge and understanding having responsibility for management, governance and oversight. This is a risk which has been identified within the Fund's Risk Register.

The Training Policy seeks to apply best practice and to ensure compliance with guidance from CIPFA and the Pensions Regulator. Failing to implement an adequate Training Policy and framework and to regularly review the effectiveness of training arrangements would place the County Council (as Administering Authority) at risk of non-compliance with the Pensions Regulator's Code of Practice No.14 (Governance and administration of public service pension schemes) and the legislative requirements that this code interprets.

Financial

Decisions made by the Pension Fund Committee have direct financial implications for the Fund. The Fund's Training Policy forms part of its governance and risk management arrangements which seek to ensure Pension Fund Committee and Pension Board members are well-informed, confident, and knowledgeable participants who work effectively and consistently in the best interests of the Fund and its stakeholders.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Tel
CIPFA - Code of Practice on Public Sector Pensions Finance Knowledge and Skills	October 2011	Frances Deakin 01772 533112
CIPFA – Technical Knowledge & Skills Framework for Local Pension Boards	July 2015	Frances Deakin 01772 533112
CIPFA - Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-Executive members in the Public Sector (CIPFA)	2010	Frances Deakin 01772 533112
The Pensions Regulator - Code of Practice No 14 (Governance and Administration of public service pension schemes)	2015	Frances Deakin 01772 533112

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Training Policy



Contents

Introduction	Page 3
Aim & Scope	Page 3
Objectives	Page 3
Approach	Page 4
1. Assessing learning needs	Page 4
2. Identifying and planning learning opportunities	Page 4
3. Evaluating learning outcomes and reviewing the effectiveness of the training approach	Page 5

Introduction

This is the Training Policy of Lancashire County Pension Fund (LCPF) which is a Local Government Pension Scheme (LGPS) managed and administered by Lancashire County Council.

Aim & Scope

Lancashire County Council recognises the significance of its role as Administering Authority for the Fund on behalf of its stakeholders which include

- current and former members of the Fund, and their dependants;
- employer organisations;
- local taxpayers.

This Policy sets out the Fund's approach to supporting the learning and development needs of individuals with responsibility for the strategic direction, governance and oversight of LCPF through their membership of the Pension Fund Committee (PFC) or the Lancashire Pension Board (LPB).

The aim of this Training Policy is to ensure the Fund has a training framework in place which supports people to perform well and develop personally in their roles. The ultimate aim is to ensure LCPF is overseen by individuals who:

- have appropriate levels of knowledge and skill;
- understand and comply with legislative and other requirements;
- act with integrity;
- are accountable to the Fund's stakeholders for their decisions.

The competency and performance of senior Officers charged with managing and directing LCPF fall under the auspices of Lancashire County Council's Performance Development Review (PDR) process and wider continuing professional development (CPD) frameworks. For this reason, officers are outside the scope of this Training Policy which focusses specifically on the training needs of members of the Pension Fund Committee and Lancashire Pension Board.

Objectives

Members of the PFC and LPB are routinely faced with navigating lengthy and complex regulatory requirements, understanding technical terminology and evaluating (and challenging) the information and advice they are given as part of reaching robust decisions. It is recognised that members need support to attain the level of knowledge understanding and confidence necessary for informed decision-making and effective oversight.

The objectives of this Training Policy are to ensure that

- individuals have appropriate support to gain the breadth and depth of knowledge needed to fulfil their responsibilities effectively
- the Fund complies with guidance for providing training to Committee and Board members from the following sources:
 - a) The Public Service Pensions Act 2013
 - b) CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills 2013

- c) CIPFA Knowledge and Skills Framework
- d) CIPFA Local Pension Boards: Technical Knowledge and Skills Framework
- e) The Pensions Regulator: Code of Practice for Public Service Schemes No.14 *Governance and Administration of Public Service Pension Schemes*
- f) The Stewardship Code (Myners Principles)

Approach

This Training Policy establishes a framework for ensuring members of the PFC and LPB receive appropriate support (both collectively and individually) for gaining the level of knowledge and understanding they need to serve the Fund effectively. The framework aims to be responsive to the learning needs of individuals in their different roles and comprises 3 strands

1. Assessing learning needs;
2. Identifying and planning learning opportunities;
3. Evaluating learning outcomes and reviewing the effectiveness of the training approach.

1. Assessing Learning Needs

Establishing learning needs involves assessing current levels of knowledge and understanding against an objective standard in order to identify whether (and where) there are gaps or weaknesses which need to be overcome.

PFC and LPB members face different requirements for gaining and maintaining knowledge and understanding. This reflects that their remit and responsibilities originate from different pieces of legislation. Knowledge requirements falling on Local Pension Board members are defined statutorily within the Public Service Pensions Act 2013 and are personal to each individual. Learning requirements for Committees have been less stringently defined in legislation and fall collegiately on committees as collective bodies rather than on their members as individuals.

Though their learning obligations under legislation are different, PFC and LPB members share significant common ground in terms of the sphere of knowledge and understanding they need to be conversant with. Across the range of Technical Knowledge and Skills Frameworks it has published to date, CIPFA has identified a syllabus of 8 core areas of knowledge:

1. pensions legislation;
2. public sector pensions governance;
3. pensions administration;
4. pensions accounting and auditing standards;
5. financial services procurement and relationship management;
6. investment performance and risk management;
7. financial markets and product knowledge;
8. actuarial methods, standards and practices;

The different roles fulfilled by the Committee and the Board mean their emphasis and the level of detailed knowledge they require will vary in practice, but members are ultimately charged with the same responsibility with regard to their learning, which is

to identify and actively seek to rectify any gaps in their knowledge or understanding which might prevent them from performing their duties effectively.

A review of learning needs will be undertaken annually in order to capture individual learning requirements and identify common knowledge gaps. The review will be by self-assessment and will be based around CIPFA's competency self-assessment which has been developed as a tool supporting individuals to capture specific requirements, identify key knowledge gaps, plan their development and measure their progress.

On first joining the PFC or the LPB, new members will receive an induction pack providing them with basic information about the Fund, a glossary of terms and support for accessing and beginning to navigate content within the Virtual Reading Room and other information systems they may use as part of their role with the Fund.

2. Identifying and Planning Learning Opportunities

Learning requirements, including those identified by self-assessment, will be met by a combination of self-directed learning (private study by the member) and training opportunities offered as part of a rolling Training Plan.

The rolling Training Plan is the vehicle which puts this Training Policy into practical operation. In aiming to deliver against the 8 core learning requirements identified by CIPFA it will seek to prioritise common knowledge gaps, to be responsive to specific needs and to cover topical themes of particular interest to members (who are encouraged to share their ideas and to give regular feedback on training).

Support for learning under the rolling Training Plan will feature a range of methods and approaches including:

- in-house training from officers and/or external advisors
- external training events by recognised bodies
- attendance at external seminars and conferences
- practical support and guidance through recommended reading and targeted information
- key documents/learning materials made accessible via an online Virtual Reading Room
- access to on-line training and assessment modules via the Pensions Regulators Trustee Toolkit.

Training sessions delivered in-house will include pre-meeting briefings (scheduled immediately before formal meetings in order to allow officers and advisors to provide insights and updates to all attendees) and a separate programme of workshops falling outside the routine cycle of Board and Committee meetings. Workshops will aim for a less formal learning environment designed to prompt interaction and the discussion of topical issues including day to day operations and service delivery. Workshops will encourage a more contextualised understanding of the Fund and an appreciation of its main interactions and influences.

PFC and LPB members are encouraged to express their interest in attending external conferences and training events which will help to address identified learning needs. Details of suitable events will be circulated as they arise and authorisation to attend will reflect the value of the training to the individual concerned and the knowledge and insight they will gain as a result.

Board and Committee members are expected to undertake self-directed learning to supplement and underpin the training opportunities scheduled by the Fund. The provision of support for learning under this Policy is intended to enhance the capacity of members to be well-prepared and confident participants by helping them to:

- read around broad themes;
- undertake their own more specific research;
- refer to relevant sections of guidance, regulations and legislation;
- determine the issues and questions needing further clarification.

Members are expected to utilise the tools and support provided under the Fund's Training Policy to ensure they develop and maintain the level of knowledge, insight and understanding needed to perform their duties effectively. Practical support in the form of a Virtual Reading Room will facilitate this through the access it offers to a broad range of relevant learning materials including key documents, links to further information, topical news items and recommended reading.

Board and Committee members are specifically encouraged to access the Pensions Regulators (tPR) web-page and to work through tPR Trustee Toolkit where on-line training modules have been designed to meet the needs of Pension Fund Trustees. As a minimum, Committee and Board members are expected to complete the learning modules specific to Public Sector pension schemes and to submit a copy of the online assessments they have completed each year as evidence of their learning.

3. Evaluating Learning Outcomes and Reviewing the Effectiveness of Training

Members of the PFC and LPB are personally responsible for maintaining a record of their personal learning (self-directed study) as a basis for demonstrating the steps they have taken to

- comply with the requirement to gain the knowledge and understanding needed to fulfil their responsibilities effectively
- mitigate risks posed by any gaps in their knowledge

A simple pro forma will be provided to assist them with this.

In addition, LCPF will maintain a central record of member attendance at training events and of the individual learning needs identified through self-assessment. These will ensure the Fund is able to comply with requirements under CIPFA's Code of Practice on Public Sector Pensions Finance Knowledge and Skills to include information within the Fund's Annual Report on

- how the knowledge and skills framework has been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the training needs identified

Timely feedback will be sought from members on all training delivered in-house in order to evaluate its quality and effectiveness. Members are encouraged to regularly reflect upon their learning experiences and to evaluate the training they have received in order to offer practical insight and feedback on the suitability and relative success of different learning methods. Members attending external training events will be required to provide verbal feedback to the next Committee or Board meeting in order for this to be recorded within the relevant minutes. Feedback should include:

- the member's view on the value of the event and the merit, if any, of attendance;
- a summary of the key learning points gained from attending the event;
- recommendations about any subject matters covered which might be of wider benefit as a focus for future training.

Wherever possible, training materials received by members who have attended external events will be made available for wider reference through an archive of shared training materials accessed via the online Virtual Reading Room.

The approach to training set out within this Training Policy will be reviewed periodically by the PFC and LPB in order for members to provide feedback on its effectiveness in practice and to make recommendations for any changes required.

Member compliance with this Training Policy and with the wider CIPFA Knowledge and Skills frameworks will also be reviewed periodically in order to determine whether the risk posed from individuals having insufficient knowledge to meet their responsibilities (a risk formally identified within the Fund's Risk Register) is being adequately managed and mitigated through the arrangements put in place under this policy and framework.

Appendix 'B' - LCPF Rolling Training Plan (Snapshot)

External Conferences & Training

Month	Year	Date	Event	Organiser	Venue	Committee Members	Board Members
Mar	2015	11-13 18 19	NAPF Investment Conference 'Living Longer, Investing Smarter LGPS Reform -Ethical, Efficient, Effective 2015 Local Authority Pension Fund Investment Strategies and Current Issues	NAPF GovToday SPS Conferences	The Exchange, Edinburgh London Le Meridian Hotel, London	CC Borrow CC Yates, CC Pope, CC Whittle CC Borrow, CC Beavers	
Sep	2015	25	Intro to the LGPS	CIPFA Pensions Network	Northern Trust Offices, Canary Wharf, London	CC Ellard	John Hall
Oct	2015	1st	CIPFA Pensions Network October Seminar	CIPFA Pensions Network	Manchester - Midland Hotel	CC Otter	
		12	LGPS Practitioners Conference	Your Pensions Service	Woodlands Conference Centre, Chorley		Kathryn Haigh
		14-16	NAPF Annual Conference	NAPF	Manchester Central	CC Borrows, CC Ellard, CC Pope	CC Harvey
		16	LGA - LGPS Investment Pooling Event (Chair and Deputy Chairs only)	LGA	LGA House, London	CC Parkinson	
		20-22	13th Annual Local Government Pension Investment Forum 2015	IBC	Guoman Tower Hotel, London	CC Ellard (21 October only) CC Hanson (20 and 21 October) CC Beavers (20 and 21 October) CC Dowding (20 and 21 October)	
Nov	2015	3	NAPF Local Authority Forum	NAPF	NAPF Cheapside House, London	CC Ellard	
		10	Meeting the financial challenge of local government pensions	LGA	Local Government House	CC Winlow	Kathryn Haigh
Dec	2015	2-4	LAPFF Conference 20 years of Responsible Investment - Where Next?	LAPFF	Bournemouth Highcliff Marriot	CC Ellard, CC Dowding	
Jan	2016	27	CIPFA Pensions Summit	CIPFA	HSBC Canary Wharf	CC Ellard	
Feb	2016						
March	2016	3-4	LGC Investment Seminar "2016: be prepared for the year of change"		Carden Park Hotel, near Chester	CC Ellard	
	2016	9-11	PLSA Investment Conference		EICC ,Edinburgh	To be circulated for Expressions of Interest	
	2016	17	SPS Local Authority Pension Investment Strategies and Current Issues "Reviewing Investments & Funding at a Time of Change"		Le Meridien Piccadilly, London	Circulated for Expressions of Interest	
April	2016						
May	2016						
June	2016						
July	2016						
Aug	2016						
Sep	2016	tbc	Intro to the LGPS	CIPFA Pensions Network	tbc		
Oct	2016	tbc	CIPFA Pensions Network October Seminar	CIPFA Pensions Network	tbc		
Nov	2016						
Dec	2016	7-9	LAPFF Conference	LAPFF	tbc		
Sep	2017	tbc	Intro to the LGPS	CIPFA Pensions Network	tbc		
Oct	2017	tbc	CIPFA Pensions Network October Seminar	CIPFA Pensions Network	tbc		
Nov	2017						
Dec	2017	tbc	LAPFF Conference				

In-House Training

		Meeting Dates		Pre-Committee Training			Workshops Programme			
		Pension Board Meetings	Pension Fund Committee Meetings	Subject	CIPFA Core Knowledge Area	Presenter/Trainer	Date	CIPFA Core Knowledge Area	Subject	Presenter/Trainer
2015										
January										
February										
March			Fri 27th	Infrastructure Investment	Financial markets & products	Richard Tomlinson				
April										
May										
June			Fri 5th	Top 5 Fund Discretions	Pensions administration	In-House (YPS)	18th June 2015	Fund Governance	Initial training for Pension Board Members	Hymans Robertson
July		Weds 8th								
August										
September			Weds 30th	2016 Fund Valuation	Actuarial methods, standards and practices;	Mercers	Thurs 24th 10am	Pension administration	Back to Basics	Ammie McHugh/Julie Wigg
October		Mon 19th					Thurs 29th 10am	Pension administration	Pensions Reform	Steven Moseley
November			Fri 27th	A Direct Investment Journey - Vasco (Infrastructure EDF Nouvelles)	Investment performance and risk management	Mike Jensen	Thurs 19 10am	Pension admin/actuarial methods	Risk and Valuation 1	Andy Brown
December										
2016										
January		Mon 18th	Fri 29th				Thurs 28th 10am	Pension admin/actuarial methods	Risk and Valuation 2	Andy Brown
February							Tues 23rd 10am	Investment	The new format Investment Performance Report	Jamie Griffin / Trevor Castledine
March			Tue 1st	tbc		tbc	Weds 23 10am	Investment	tbc	tbc
April		Mon 11th	Fri 1st	tbc		tbc	Thurs 28th 10am	Investment	tbc	tbc
May							Weds 25th 2pm	Investment	tbc	tbc
June			Fri 10th	tbc		tbc	Thurs 30th 10am	Accounting & Auditing Standards	Accounting and Auditing Requirements & the Annual Report & Accounts	Helen Gallacher/Elaine Jackson
July		Mon 4th								
August										
September			Thur 15	tbc		tbc	tbc	tbc	tbc	tbc
October		tbc					tbc	tbc	tbc	tbc
November							tbc	tbc	tbc	tbc
December			Fri 2nd	tbc		tbc				

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Lancashire County Pension Fund - Discretionary Policies Update

(Appendix 'A' refers)

Contact for further information:

Andy Brown, (01772) 530622, Lancashire County Pension Fund,

andy.brown@lancashire.gov.uk

Executive Summary

On 30 September 2015, the Pension Fund Committee agreed to consult on various proposals covering five 'key' discretionary policy areas, namely:

- abatement of pensions;
- transfer in of pension rights;
- commutation of pensions;
- admissions and terminations; and
- bulk transfers.

The purpose of this report is to:

- summarise consultation feedback in respect of the above and make recommendations accordingly;
- present a summary of the remaining refreshed or restated policies (other than death grants); and
- propose specific changes to the death grants policy.

Recommendation

The Committee is recommended to:

- (i) Approve the original proposals in respect of the five key discretions above;
- (ii) Approve the proposed policies covering remaining dicretions (excluding death grants); and
- (iii) Approve proposed changes to the existing death grants policy.

Background and Advice

The Local Government Pension Scheme (LGPS) regulations provide for individual funds to set their own discretionary policies in certain areas. On 30 September 2015,

the Pension Fund Committee agreed to consult on various proposals covering five key discretionary policy areas:

- abatement of pensions;
- transfer in of pension rights;
- commutation of pensions;
- admissions and terminations; and
- bulk transfers

These five policy areas are amongst around 100 discretionary policies which LGPS funds can determine at a Fund level, and are deemed the 'top five' most significant.

The reason for amending and or refreshing policies is to ensure they remain fit for purpose and relevant in the light of both regulatory changes and operational experience, hence all existing/new discretionary policies have now been reviewed and where necessary updated.

Subject to Committee approval as above, existing policy documents will be amended or created, ready for publication and 'go live' from 1 April 2016.

Outside of the five most significant policy areas, which have been subject to consultation, it is proposed that any changes to the remaining discretionary policy areas are not subject to consultation: many of these policy areas can appear somewhat esoteric and do not have as material an impact on the Fund, members or employers.

'Top Five' Consultation Feedback

Nine responses were received and were all supportive in principle, with the majority of respondents answering 'yes' to the various proposals.

Some useful feedback was given in respect of the abatement policy, which will help inform how that is taken forward once the impact of Government's proposed cap on public sector exit payments becomes clear.

In respect of transfers in, one respondent expressed concerns about the potential impact of large transfers in from private sector schemes and how these could potentially impact on small employers – however as the policy proposal was to 'generally' accept private sector transfers-in, it is felt this wording would provide sufficient flexibility in such a scenario.

Given the level of support from consultation respondents, it is recommended that the policy proposals presented to the Committee in September 2015 be adopted.

Other Discretionary Policies

Appendix 'A' sets out the proposed Fund position on these discretions.

Death Grants

The Fund's death grants policy was last amended in 2014. The existing policy generally works well in practice, however it is proposed that changes be made to two specific aspects of this policy:

- the payment of death grants where the beneficiary would be a young adult or child; and
- the payment of grants where a pensioner does not have mental capacity to manage their own financial affairs.

(i) Payments to Children or Young Adults

The LGPS provides for the payment of a death grant following the death of a member:

- during employment;
- having left employment before becoming eligible to receive pension benefits; or
- during the minimum pension guarantee period of a pensioner.

LGPS funds have discretion as to whom death grants are paid, and the existing policy sets out LCPF's approach. Where it is decided, under this policy, that all or part of a death grant should be paid to a child or young adult, payments above a certain value are paid into a trust fund, which is controlled by LCPF and family (where relevant) as follows:

Existing Death Grant Payment Arrangements

(For context, during 2014 to 2015 inclusive, 10 cases arose, affecting 11 children/young adults with ages ranging from 2-23 years, and an average grant of £28,000.)

The table below summarises existing payment practice, which differs according to size of grant.

Above £25,000	Between £5,000 and £25,000	Below £5,000
Paid into trust until age 25; or	Paid into trust until age 18; or	Below age 16 paid to parent/guardian for the benefit of child
Can be partially paid out below age 25 at the discretion of trustees	Can be partially paid out below age 18 at the discretion of trustees	Above age 16, paid to the child

This particular aspect of the death grants policy is difficult to administer for a number of reasons, and administrative delays can cause financial penalty to both LCPF and the recipient; additionally, paying death grants to recipients dependent upon age could present difficulties for young people who may wish to access their death grant earlier than current policy allows, for example to support university study or to purchase property.

It is proposed to change the existing payment arrangements as follows:

Children/Young Adults below the age of 18

- payment to be made to person/s with parental responsibility for the child/young adult;

Children/Young Adults above the age of 18

- payment to be made to the child/young adult;

In exceptional circumstances

- payment to be made into Trust as per existing policy and practice, at the discretion of the Fund (delegated to the Head of Your Pension Service).

It is believed the 'exceptional circumstances' clause is necessary to deal with particularly complex cases or those where there are other concerns; clearly these cannot be specified in advance but could cover, for example, cases where there may be concerns about family dynamics or other sensitivities.

(ii) Death Grants - Whether, Where a Person is Incapable of Managing their Affairs, to Pay the Whole or Part of that Person's Pension Benefits to Another Person for their (i.e. Pensioner's) Benefit

The Mental Capacity Act 2005 sets out a framework for the management of the affairs of those who lack 'Mental Capacity', the meaning of which is defined within the Act. The above discretion is relatively new, as is the Act, despite its title. Policy in respect of this discretion has not been stated previously.

It is relatively common for conditions such as Alzheimer's Disease and similar causes of dementia to occur, and which can make managing financial affairs difficult or impossible for those affected. The County Council/Fund has statutory responsibilities in this area and must ensure it is satisfied, in any situation where another person manages (a pensioner's) financial affairs, that adequate safeguards are in place. Formal arrangements such as Lasting Power of Attorney or Deputyship, both of which are supervised by the Court of Protection, exist to provide protection for vulnerable people. However whilst such formal arrangements exist, in many situations more ad-hoc arrangements may be in place but which can work effectively. This is a sensitive area and each case must be assessed on its own merits.

Suggested Policy Statement

Where in the Fund's opinion a member is unable to manage their own affairs, then having considered the individual circumstances of the particular case they may decide to pay some or all of the benefits to someone else, to be applied for the benefit of the member. In such cases a medical declaration will be required signed by a GP or consultant. However where the annual pension exceeds £3,000 per annum, or otherwise as determined by the Fund, then Lasting Power of Attorney or Deputyship arrangement will be required to be in place.

Consultations

N/A

Implications:

Risk management

The recommendations contained within this report are intended to mitigate financial and reputational risk where possible. Overall the impact of adopting these revised policies should be fair, transparent and justifiable to the scheme member, the fund employer and the Fund itself.

Financial

The recommendations, whilst not solely focussing on financial implications, are intended where possible to make financial savings and reduce liabilities.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
-------	------	-------------------------

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A' - Lancashire County Pension Fund - Draft Administering Authority Policy Statement

The document below contains the discretionary policies of Lancashire County Council, as "Administering Authority" for the Lancashire County Pension Fund, in respect of the Local Government Pension Scheme Regulations:

These discretions are specifically made under the legislation contained within the following legislation:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]
- the Local Government Pension Scheme Regulations 1995 (as amended) [prefix S]
- the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended) [prefix C]

<u>Discretion</u>	<u>Regulation</u>	<u>Statement</u>
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or care Quality Commission	R4(2)(b)	To be included in separate admissions and termination policy. Agreement to these admission arrangements will be made on the assumption that the agreement will reflect that the NHS would ultimately act as guarantor.

<p>Whether to agree to an admission agreement with a body applying to be an admission body</p>	<p>R3(5) & RSch 2, Part 3, para 1</p>	<p>To be included in separate admissions and termination policy.</p> <p>Where the admission arrangement is requested as a result of the transfer of services or assets from a Scheme employer or relates to a body that exists as a result of being specifically set up by a local authority/s then these will generally be accepted subject to an acceptable risk assessment and guarantee of security for the fund.</p> <p>Other applications for admission will normally be refused unless exceptional circumstances are identified and again subject to an acceptable risk assessment and guarantee of security for the fund.</p>
<p>Whether to terminate an admission agreement in the event of</p> <ul style="list-style-type: none"> - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so 	<p>RSch 2, Part 3, para 9(d)</p>	<p>To be included in separate admissions and termination policy</p> <p>In the event of insolvency, winding up or liquidation the fund would always terminate agreement</p> <p>A breach by the Admission Body of any of its obligations under the Admission Agreement or the Regulations would also lead to steps to terminate the agreement provided that the Administering Authority shall, if the breach is capable of remedy, first afford to the Admission Body the opportunity of remedying that breach within such reasonable period (being not less than twenty (20) Business Days) as the Administering Authority may specify.</p> <p>In the specific event of an Admission Body failing to pay any sums due to the Administering Authority or to the Fund within the periods specified in the Admission Agreement or in the Regulations or in any other case within thirty (30) calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so, then the agreement would be terminated. Under these circumstances the Administering Authority shall first issue a notice to the Admission Body requiring it to pay such outstanding sums within such reasonable period (being not less than ten (10) Business Days) as the Administering Authority may specify, and may only proceed to terminate the Agreement if the Admission Body fails to pay the requested sums within such specified period.</p> <p>Should the Admission Body fail to procure, renew or adjust the level of the bond, indemnity, or guarantee in accordance with the specific terms set out in the admission agreement then the agreement would be terminated.</p>

Define what is meant by “employed in connection with” in relation to an admission arrangement as a result of the transfer of services or assets from a Scheme employer	RSch 2, Part 3, para 12(a)	To be included in separate admissions and termination policy “employed in connection with” shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.
Whether to set up a separate admission agreement fund	R54(1)	To be included in separate admissions and termination policy There are no plans to create a separate admission agreement fund
Whether to suspend, for up to 3 years, an employer’s obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	R64(2A)	To be included in separate admissions and termination policy The Fund's position would be to secure an exit payment at the point there are no active members unless it can be demonstrated that further employees will become active members of the LGPS within a period not exceeding 6 months.
Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	R64(4)	To be included in separate admissions and termination policy

Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	R16(1)	The monthly amount must be more than £25 otherwise payment must be made as a single lump sum payment.
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC	R16(10)	<p>Where a member elects to pay an APC/SCAPC a medical declaration should also be completed and permission granted for LCPF to obtain further information regarding absence from their employer. Occasionally, the member will be required to attend a medical examination at their own expense.</p> <p>Generally applications will be approved where:</p> <ul style="list-style-type: none"> • The medical practitioner's report confirms that the member is in reasonably good health; • There are exceptional circumstances. <p>Applications will not be granted where:</p> <ul style="list-style-type: none"> • The member refuses to complete the medical declaration form; • The member refuses to attend a medical examination at their own expense when requested by Lancashire County Council in connection with an application to pay an APC/SCAPC; • On receipt of the medical practitioner's report, Lancashire County Council is not satisfied that the member is in reasonably good health. <p>Decisions regarding the above are delegated to the Head of Your Pension Service</p>
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	R17(12)	This should match and be included with current policy concerning discretion to pay death grants. However we only have absolute discretion over who to pay that sum to, provided the AVC contract was taken out on or after 1 April 2014. If the AVC contract was taken out before then, we must pay any AVC lump sum to the estate.
Pension accounts may be kept in such form as is considered appropriate	R22(3)(c)	The LCPF uses the Altair software to maintain member pension accounts in an electronic format.

<p>Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits, from the concurrent employment which has ceased, should be aggregated (where there is more than one ongoing employment)</p>	<p>TP10(9)</p>	<p>Where an active member with concurrent employments ceases an employment with entitlement to a deferred pension, the benefits in the deferred member's pension account must be aggregated with those in the ongoing active member's pension account and, if there is more than one such account, the one chosen by the member, unless— (a) within 12 months of the date the concurrent employment ceased, or (b) such longer time as the Scheme employer in relation to the relevant ongoing active member's pension account permits</p> <p>If the member does not choose an account (where there is more than one active account) then we should amalgamate with the active account yielding the highest benefit accrual at the relevant date.</p>
<p>Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement; where a member voluntarily draws before normal pension age and has post 31/3/14 membership; or where a member has applied for early release of deferred benefits and left before 1 April 2014</p>	<p>R30(8) TPSch 2, para 1(2) TP3(1), TPSch 2, para 2(1), B30(5), B30A(3) and B30A(5)*</p>	<p>Although normally an Employer discretion, if the employer has become defunct then the Fund must exercise their discretion. The fund would not normally agree to waive reductions unless exceptional circumstances are identified.</p>
<p>Whether to grant application for early payment of deferred benefits, for a member who left before 1 April 2014, on or after age 55 and before age 60</p>	<p>B30(2)*</p>	<p>Although normally an Employer discretion, if the employer has become defunct then the Fund must exercise their discretion. The Fund would not normally agree to an application for early payment of deferred benefits unless exceptional circumstances are identified</p>

<p>Whether to require any strain on Fund costs to be paid “up front” by employing authority following payment of benefits under (flexible retirement), (redundancy / business efficiency), or the waiver (in whole or in part) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement</p>	<p>R68(2) TPSch 2, para 2(3) & L80(5)</p>	<p>All pension strain payments are required to be made by the employer as a single lump sum payment unless exceptional circumstances can be identified. This payment is due as close as possible to the event itself and will be collected in accordance with LCC's debt management policy.</p>
<p>Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement</p>	<p>R32(7)</p>	<p>On the assumption that the scheme employer has already taken a decision to either let a member retire early or take flexible retirement from a given date, then the Fund will agree to an extension if necessary.</p>
<p>Decide whether to commute small pension</p>	<p>R34(1), B39, L49,L156 &T14(3)</p>	<ul style="list-style-type: none"> • All 'small' pensions will be commuted in accordance with relevant regulations, actuarial guidance and prescribed limits, unless exceptional circumstances apply • Where a child's pension is being commuted and that child is aged 16 or over then the administering authority is required to make a decision on the length of time the child is expected to remain in full time education in assessing the payment due, up to an upper limit of the child's 23rd birthday. In circumstances where the child is in full time education at the time of any commutation payment then this will be calculated on the basis that the child will remain in full time education until 23. • An incapacitated child under the age of 17 in receipt of a pension will not be commuted until they reach the age of 17 in line with the Government Actuary Department's guidance. • Any non-commuted pensions will be paid monthly, unless exceptional circumstances apply • The Head of Your Pension Service will determine whether exceptional circumstances apply, on a case-by-case basis, in respect of both statements above.

<p>Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members)</p>	<p>L50 & L157</p>	<p>Serious ill health commutation is a protected provision only available to members who left on or after 1 April 1998 and before 1 April 2008, active councillor members and councillors who left after 01/04/1998 and Pension credit members still subject to the 1997 regulations.</p> <p>The provision, where applicable, will be offered to members in all cases where medical evidence is satisfactory, but is never enforced. The medical evidence required will take the form of a certificate from a fully registered person within the meaning of the Medical Act 1983 stating that the member's life expectancy is less than one year.</p>
<p>Approve medical advisors used by employers (for ill health benefits)</p>	<p>R36(3),L97(10) & A56(2)</p>	<p>Unless exceptional circumstances are identified IRMP's will always be approved where the qualification criteria set out under the regulations is met.</p>
<p>Decide to whom death grant is paid</p>	<p>TP17(5) to (8), R40(2), R43(2), R46(2), A52(2) B23(2) & B32(2), B35(2), TSch1,L95, L155(4), L38(1), L155(4) & SE8</p>	<p>As specified in existing policy and changes proposed at 29/1/16 Pension Fund Committee Meeting</p>

Whether to payments due in respect of a deceased person to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	R82(2)	As specified in existing policy and changes proposed at 29/1/16 Pension Fund Committee Meeting This relates to o/s pension payments as well as death grants which are not paid under TP17(5) to (8) & R40(2), R43(2) & R46(2) – to be included with death grant policy. Anything under £5000 can be paid potentially using a form of indemnity. The death grants under the other discretionary regs. may not be "due" to the personal representatives
Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	R83, B27(5), L47(2), A52A & SG11(2)	As specified in existing policy and changes proposed at 29/1/16 Pension Fund Committee Meeting
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	R49(1)(c) & B42(1)(c)	In these circumstances the Fund will choose the provision of benefits that would provide the greater benefits when actuarially valued.

<p>Governance policy must state whether the admin authority delegates their function of part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state</p> <ul style="list-style-type: none">- the frequency of any committee or sub-committee meetings- the terms, structure and operational procedures appertaining to the delegation- whether representatives of employing authorities or members are included and, if so, whether they have voting rights <p>The policy must also state</p> <ul style="list-style-type: none">- the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and- the terms, structure and operational procedures appertaining to the local Pensions Board	<p>R55*</p>	<p>See existing policy http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e</p>
<p>Decide on Funding Strategy for inclusion in funding strategy statement</p>	<p>R58*</p>	<p>See existing policy http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e</p>

<p>Whether to have a written pensions administration strategy and, if so, the matters it should include</p>	<p>R59(1) & (2)</p>	<p>See existing policy http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e</p>
<p>Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.</p>	<p>R61*</p>	<p>See existing policy http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e</p>
<p>Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.</p>	<p>R69(1),L81(1) & L12(5)</p>	<p>All employee and employer contributions made to the Fund must be paid on a monthly basis before the 19th of the month following that in which they were deducted.</p>
<p>Decide form and frequency of information to accompany payments to the Fund</p>	<p>R69(4) & L81(5)</p>	<p>Contribution payments must be made by direct debit. Where exceptional circumstances are identified then payment can be made by BACS with an associated £50 plus vat charge per monthly submission. The associated information regarding pensionable pay and contributions deducted should be in the form of a monthly file uploaded through the Fund's "Employer Pension Information Collection" system EPIC. Employers should submit files by 6th of the month following pay period end.</p>

Whether to issue the employer with notice to recover additional costs incurred as a result of the employer's level of performance	R70 & TP22(2)	See Pensions Administration Strategy Statement (PASS) http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33912&e=e
Whether to charge interest on payments by employers which are overdue	R71(1) & L82(1)	The Fund may charge interest on a case-by-case basis. Any interest payable would be charged at 1% above base rate.
Decide procedure to be followed by admin authority when exercising its stage two IDRPs and decide the manner in which those functions are to be exercised	R76(4), A60(8) & L99	See existing policy http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33912&e=e Procedure is contained within appeals guide.
Whether admin. authority should appeal against employer decision (or lack of a decision)	R79(2), A63(2) & L105(1)	An appeal will be made to the secretary of state in circumstances where it can be demonstrated that the employer has acted outside of the parameters of the LGPS regulations.
Specify information to be supplied by employers to enable admin. authority to discharge its functions	R80(1)(b), TP22(1) & A64(1)(b)	The fund requires Employers to adhere to the Pensions Administration Strategy Statement as well as the guidance provided by the Employers administrative procedures manual contained within the employers area of the Fund's website.
Agree to bulk transfer payment	R98(1)(b)	To be included in separate admissions and termination policy

Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	R100(6)	<p>This is an Employer and Admin. Authority discretion.</p> <p>The fund will only agree to extend the time limit where the appropriate employer has also agreed to extend the time limit, unless the Fund determines that exceptional circumstances apply, which would deem an extension detrimental to the fund.</p>
Allow transfer of pension rights into the Fund	R100(7)	See separate policy
Where member applies to use pay protection using an average of 3 years pay for final pay purposes or a certificate of protection and dies before making an election, the fund may make that election on behalf of the deceased	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b), TSch 1,L23(9) & B10(2)	Where it appears to the County Council that if the member had made such an election it would have been beneficial in the calculation of death benefits then the County Council as administering authority would make the election on behalf of the member.
Decide to treat child as being in continuous full-time education or vocational training despite a break	RSch 1,TP17(9) & TP17(9) (a)	Consideration needs to be given to each case to identify whether the break is fundamental to the overall qualification, or whether it was a true break. The spirit of the regulation is to permit reinstatement of the pension where the break was part of the overall qualification plan.

Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	RSch 1, TP17(9)(b) & B25	Evidence of financial interdependency or dependency will be required at the time of death and can include confirmation of shared household spending or extra living expenses for the partner on your death. This can be demonstrated in any of the following ways: <ul style="list-style-type: none"> • a joint mortgage or tenancy • a joint bank account • joint savings and investment accounts • a joint credit arrangement • being the beneficiary of a will • being the beneficiary of life assurance • household bills in joint names
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	TP3(13), A70(1), A71(4)(c), T12, L109 & L110(4)(b)	The Fund does not abate pensions
Extend time period for capitalisation of added years contract when the member has left on the grounds of redundancy.	TP15(1)(c) & TSch1 & L83(5)	An extension for an election to pay a lump sum to capitalise an added years contract will not be permitted beyond the time limit set by the regulations (not later than the expiry of the period of three months beginning on the day after the member leaves employment) unless it can be demonstrated to the satisfaction of the administering authority that the person's delay in giving notice is caused by an error or oversight on the part of the administering or employing authority.
Decide whether to delegate any administering authority functions under the Regulations	R105(2)	At present no functions are delegated. (This position will need to be reviewed after the formal creation of LLPP)
Decide whether to establish a joint local pensions board (if approval has been granted by the Secretary of State)	R106(3)	Lancashire County Pension fund have established a Local Pension Board representing the Lancashire fund only.

Decide procedures applicable to the local pensions board	R106(6)	Terms of reference detailed on website http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=46004&e=e
Decide appointment procedures, terms of appointment and membership of local pension board	R107(1)	See above
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	A45(3), R85(3) & L89(3)	Each case will be assessed on an individual basis and an agreed recovery plan for contributions will be introduced which allows for the recovery over the shortest period of time taking account the financial wellbeing of the member. Where a member is near to retirement or exceptional circumstances are identified then the outstanding contributions will be deducted from benefits when they are due.
Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	L47(1) & SG11 (1)	To comply with the wording of the current LGPS regulations benefits would be payable in equal shares to eligible children.
Timing of pension increase payments by employers to fund (pre 1.4.08. leavers)	L91(6)	Pensions increase is now a funded payment however some historical payments of PI are still recharged. The normal position is for monthly payments to be made, however there are exceptional cases where the fund allows for payments to be made either quarterly or annually.
Whether to pay spouses pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation)	SF7	The fund will continue to pay spouses benefits that are in payment for life, rather than cease the benefits should the spouse subsequently remarry or co-habit.
Agree to pay annual compensation on behalf of employer and recharge payments to employer	C31(2)	Payments will be recharged to employers monthly on a direct debit basis. Historically some exceptional cases are still recovered on a quarterly, 6 monthly or annual basis.

***These are matters about which the regulations require there must be a written policy.**

Pension Fund Committee

Meeting to be held on 29 January 2016

Electoral Division affected: None

Report of Decisions taken under the Urgent Business Procedure

Contact for further information:

Dave Gorman, (01772) 534261, Legal and Democratic Services,

dave.gorman@lancashire.gov.uk

Executive Summary

This report sets out details of items that have been dealt with by the Director, Lancashire County Pension Fund, under the procedure for dealing with matters of Urgent Business.

Recommendation

The Committee is asked to note the report.

Background and Advice

Local Authority Pension Fund Forum - Election of Officers to the Executive

This decision was taken on 19 January 2016.

Lancashire County Pension Fund (LCPF) is a member of the Local Authority Pension Fund Forum (LAPFF). All member Funds are entitled to vote in elections to the Executive in line with the Forum's governance arrangements.

Three places on the Forum's Executive are reserved for officer members and nominations were sought in December 2015 for candidates to serve in 2016. Four individuals have been duly nominated, necessitating a ballot. Voting papers and supporting material were circulated for return by 22 January 2016.

Three of the four officers nominated are incumbents who have served on the Executive for various lengths of time. The fourth candidate is a first time nominee. As all the nominated candidates are qualified and well suited to fulfilling the role, the decision taken is to encourage the injection of new "New Blood" on to the Executive and to select two further candidates based on achieving the best overall blend of knowledge and practitioner experience.

Accordingly, the fund has supported the election of the following three candidates to the officer places on the LAPFF Executive:

Faith Ward - Chief Responsible Investment and Risk Officer - Environment Agency Pension Fund

David Murphy - Chief Executive - Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)

Jane Firth - Principal Investment Manager - South Yorkshire Pensions Authority

The timescale for returning the ballot papers reflects that results are required in advance of the LAPFF Business meeting and AGM held on 27 January 2016. Due to the timescales for votes to be cast, which was by 22 January 2016, it was not possible to wait for the next meeting of the Pension Fund Committee on 29 January 2016 and therefore a decision has been taken under the Urgent Business Procedure.

Consultations

The Chair and Deputy Chair of the Pension Fund Committee were consulted and supported the proposed action.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
-------	------	-------------

N/A

Reason for inclusion in Part II, if appropriate

N/A