

## **Pension Fund Committee**

Meeting to be held on 29 January 2016

Electoral Division affected: None
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### **Consultation on Replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations** (Appendices 'A' - 'C' refer)

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#### **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
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N/A

Reason for inclusion in Part II, if appropriate

N/A