

Appendix 'A'

Progress in Addressing the Government's LGPS Reform Agenda

(Annexes 1 - 2 refer)

Introduction

This report provides an update for the Local Pension Board in relation to the developments in the Government's agenda for LGPS reform and the local response. These issues have been considered on a regular basis by members of the Pension Fund Committee and in reports presented for information to the Pension Board over the last 18 months.

The Government's reform agenda is now operating across a number of work streams:

- Replacement of the existing Investment Regulations;
- Publication of criteria for evaluating pooling proposals;
- A requirement to provide pooling proposals.

This report deals with each of these areas in turn.

Replacement of the Current LGPS Investment Regulations

The Government proposes to replace the current highly prescriptive regulations with a new framework more akin to that used by private sector pension funds, details of the proposals are set out at Annex 1. This will require funds having taken proper advice to invest their funds in a suitably diversified mix of assets. Funds will have to produce a new Investment Strategy Statement which will replace the Statement of Investment Principles and the Funding Strategy Statement. This new statement will set out any prudential limits (for example on the proportion of the fund that can be invested in any single asset) that the Fund may consider it appropriate to set as well as approaches to Environmental Social and Governance issues, and there is a specific proposal to prohibit funds from taking steps to disinvest or take similar action on foreign policy type grounds.

There are specific reserve powers proposed to allow the Secretary of State to intervene and direct funds to undertake specific actions. This is intended to ensure that all funds participate in pooling of investment assets, although the power is actually much more widely drawn.

A formal response to the consultation on the Draft Investment Regulations will be considered by the Pension Fund Committee on 29 January 2016. In general the changes are very welcome and reflect a broad approach that the Fund and its officers have advocated for some time. However, there are some concerns about the overall breadth of the reserve power, and officers feel that in some areas some additional "for the avoidance of doubt" language in some places would provide additional clarity for investment counter parties. The new Investment Strategy Statement is regarded as a particularly welcome change, particularly in the context of asset pooling, as it requires funds to set out in one place the logic of their strategic asset allocation.

The Board may wish to consider whether it wishes to pass on any comments on these proposals to the Pension Fund Committee.

Criteria for Evaluating Pooling Proposals

As previously reported, the Government is seeking to consolidate the investment assets of the LGPS around a number of asset pools which they describe as "Citizens' Wealth Funds". They have now published the criteria that they propose to use to evaluate the proposals made by individual funds to meet this aspiration.

These criteria, details of which are at Annex 2, are focussed around:

- Achieving the benefit of scale;
- Demonstrating strong governance and decision making;
- Delivering reduced costs and excellent value for money;
- Achieving an improved capacity to invest in infrastructure.

These criteria are much as expected, looking for pools to achieve a scale of around £25bn and at a detailed level a number of the specific measures reflect suggestions made by the Fund in its input to the informal consultation process over the summer.

Requirement to Provide Pooling Proposals

Funds are required to make an initial submission in relation to their intentions in relation to pooling by 19 February 2016 with a final fully worked up proposal by July. The Pension Fund Committee will be asked to approve the initial response at its meeting on 29 January 2016.

The Lancashire responses will be based around the proposals which have been developed over the last 12 months with the London Pensions Fund Authority for a pooling arrangement which covers not just investment assets but pensions administration as well. Both funds have been involved in a range of discussions with other funds over the pooling of investment assets in recent weeks and further details will be provided at the Board meeting if possible.

In terms of the specific Lancashire/London proposal the governing bodies of the two funds endorsed a business plan in November as demonstrating the viability of the business model and work to complete the necessary legal documentation is progressing alongside consideration by the Financial Conduct Authority for the authorisation of the relevant parts of the new entities. The target date to commence operation is 1 April 2016. As a consequence of this process the County Council has appointed Ms Abigail Leech as Interim Head of the Pension Fund. This role will be responsible for managing the relationship between the Partnership and the Pension Fund, taking decisions which will continue to have to be taken by the Fund and acting as the lead officer for both the Pension Fund Committee and the Local Pension Board. Officers who transfer to the Partnership will, of course, continue to attend meetings of both the Committee and the Board and provide information and prepare reports as necessary.

The Board may wish to consider whether it wishes to make any comments on these matters for the Pension Fund Committee to consider.