

County Buildings, Stafford
DDI (01785) 276133
Please ask for Michael Bradbury
Email: michael.bradbury@staffordshire.gov.uk

Pensions Committee

Monday, 15 February 2016

10.00 am

Oak Room, County Buildings, Stafford

John Tradewell
Director of Strategy, Governance and Change
5 February 2016

A G E N D A

PART ONE

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of the meeting held on 18 December 2015** (Pages 1 - 6)
4. **LGPS Pooling**
Oral update
5. **Local Government Pension Scheme: Investment Reform Criteria and Guidance** (Pages 7 - 18)
Report of the Director of Finance and Resources
6. **Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009** (Pages 19 - 24)
Report of the Director of Finance and Resources

PART TWO

7. Exclusion of the Public

The Chairman to move:

'That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A of the Local Government Act 1972 indicated below'

8. **Exempt minutes of the meeting held on 18 December 2015** (Pages 25 - 28)
(exemption paragraph 3)

9. **Pensions Administration** (Pages 29 - 32)
(Exemption paragraph 3)

Report of the Director of Finance and Resources

Membership

Margaret Astle	Mike Lawrence
Philip Atkins	Robert Marshall
Derek Davis, OBE	Shelagh McKiernan
Alan Dudson	Stephen Sweeney (Chairman)
Steve Elsey (Co-Optee)	Mike Worthington (Vice-Chairman)

Note for Members of the Press and Public

Filming of Meetings

The Open (public) section of this meeting may be filmed for live or later broadcasting or other use, and, if you are at the meeting, you may be filmed, and are deemed to have agreed to being filmed and to the use of the recording for broadcast and/or other purposes.

Recording by Press and Public

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.

Minutes of the Pensions Committee Meeting held on 18 December 2015

Present: Stephen Sweeney (Chairman)

Attendance	
Margaret Astle	Robert Marshall
Philip Atkins	Shelagh McKiernan
Steve Elsey (Co-Optee)	Eric Shaw (Co-Optee)

Apologies: Derek Davis, OBE, Alan Dudson, Mike Lawrence, David Loades (Co-optee) and Mike Worthington.

PART ONE

13. Resignation of Eric Shaw, Co-opted Member

The Chairman informed the Committee that Eric Shaw has served as a Co-opted Member on the Pensions Committee (representing retired scheme members) since the Spring of 2012. This was Eric's last meeting as he had indicated that he could not continue to be the representative of retired scheme members beyond the end of 2015.

Members expressed their thanks to Eric for the valuable contribution he had made to the work of the Committee over the last 4 years and wished him well for the future.

14. Minutes of the meeting held on 23 October 2015

RESOLVED – That the minutes of the meeting held on 23 October 2015 be confirmed and signed by the Chairman.

15. Minutes of the meeting of the Pensions Panel held on 1 December 2015

RESOLVED – That the minutes of the meeting of the Pensions Panel held on 1 December 2015 be noted.

16. Review of Communication Strategy

The Committee received a report of the Director of Finance and Resources in respect of the proposed review of the Administering Authority's Communication Strategy.

They were informed that under Regulation 106B of the 1997 regulations an administering authority was first required to prepare and publish a written statement on its communication policy. Regulation 61 of the current regulations, the Local Government Pension Scheme Regulations 2013 (LGPS2013) requires that the administering authority must set out its policy on:

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

- (b) the format, frequency and method of distributing such information or publicity;
and
- (c) the promotion of the Scheme to prospective members and their employers”.

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to above. The Communication Strategy was last reviewed on 2 July 2013. A review had now taken place to include the new Local Pension Board.

The Committee considered the draft revised Communication Strategy.

In response to a question from Mr Elsey in relation to how the administering authority communicated with Fund employers and members, the Director of Finance and Resources indicated that employers received a regular newsletter and also an “infolet” to bring to their attention any changes within the Scheme; and Members of the Fund received a guide to membership of the Fund. Additional information was also available on the Fund’s website.

In response to a question from Ms McKiernan in relation to parish councils, the Director indicated that parish councils could, by passing the necessary resolution, opt to join the LGPS and also decide which roles/positions on the Council could be eligible for membership.

RESOLVED – That the draft Communication Strategy be approved.

17. Review of the Governance Policy Statement

The Committee received a report of the Director of Finance and Resources in respect of the proposed review of the Administering Authority’s Governance Policy Statement.

They were informed that under Regulation 73A of the 1997 regulations an administering authority was first required to prepare and publish a written statement on its governance arrangements. Regulation 55 of the current regulations, the Local Government Pension Scheme Regulations 2013 (LGPS2013) required that the administering authority must set out a policy statement.

The Governance Policy Statement was last reviewed in 2008 and a review had now taken place to update the document to reference the County Council’s current constitution; update the document to reference the LGPS 2013 regulations; and include details of the new Local Pension Board.

The Committee considered the draft revised Governance Policy Statement.

RESOLVED – (a) That the draft Governance Policy Statement be approved in principle.

(b) That the Director of Finance and Resources be requested to undertake a short consultation with relevant parties as required by the pension regulations following a review of the statement.

(c) That the Chairman of the Committee be authorised to approve the final document in consultation with the Director of Finance and Resources.

18. Pensions Committee - Co-opted Representatives of the Pensions Forum

The Committee received a report of the Director of Strategy, Governance and Change seeking the Committee's views on the appointment of co-opted members on the Committee going forward.

They were informed County Council's Constitution provided that the Pensions Committee should comprise of 9 elected members and 6 non-voting co-opted members representing the following categories:-

- 2 Trades Union Representatives (A vacancy for one of which had existed for some time)
- 1 Representative for larger public bodies (ie Local Authority, Police and Fire)
- 1 Admitted Body Representative – representing organisations that employ staff who have been transferred from local authority employment under TUPE arrangements (eg. Entrust, Kier, Housing Associations)
- 1 Other Scheduled Employer Representative representing smaller bodies (for example academies)
- 1 representative of retired scheme members.

Of the 6 non-voting co-opted members, five were appointed by the Pensions Forum, and one (a representative of retired scheme members) was appointed directly by the Committee.

The attendance of the non-voting co-opted members at the Pensions Committee meetings was aimed at providing the opportunity for the Committee to hear other perspectives during their discussions. However, since the Forum representation on the Committee was agreed, the membership of the Staffordshire Pension Fund had changed greatly and it was now made up of around 200 employers, of which 50% were academies/ educational bodies with the other 50% split fairly evenly between Councils and other types of employers. With three of the five seats appointed by the Forum being currently vacant, this provided an opportunity to consult on the current structure of representation with a view to making changes to better reflect the membership of the Fund.

The consultation with members of the Pensions Forum took place throughout November 2015. A total of 21 responses were received. Twelve responses advocated the status quo; 7 proposed option 1 below and one response proposed option 2 below. The final response, from Kidsgrove Town Council, proposed that "Councillor Geoff Locke re-join the Pensions Committee".

It was suggested that the Committee should also consider option 3 below which was a consolidated option based on responses.

	Status Quo (Supported by 12)	Option 1 (supported by 7)	Option 2 (proposed by 1)	Option 3 consolidated option
Trade Unions	2	1	1	2
Larger public bodies	1	1	1	1
Admitted Bodies	1	1	2	1
Other scheduled employers	1	1	0	0
Education Sector	-	1	1	1

Given that although the majority of responses to the consultation favoured the status quo i.e. the retention of the current allocation of seats, there was still a need for the Committee to consider whether this would be fit for purpose for the future bearing in mind that, in recent years the membership of the Staffordshire Pension Fund had changed greatly. It was also important to have robust, up to date governance arrangements which could stand up to scrutiny by the new Pensions Board.

Following a debate, the Committee agreed that, as the Education sector now formed a large part of the Fund's membership, Option 1 above should be pursued.

RESOLVED – That the Pensions Forum be informed of the Committee's proposal to seek approval to a change to the County Council's Constitution in order that one of the co-opted member seats on the Committee currently allocated to the "Trades Union Representatives" be allocated instead to the "Education Sector Representative".

19. Consultation on pooling and Investment Management Regulations

The Committee received a report of the Director of Finance and Resources in respect of the Government consultation on "Pooling" and Investment Management Regulations issued on 25 November 2015 as part of the Chancellor's Autumn Statement.

They were informed that Government issued two main documents on 25 November 2015:

- Local Government Pension Scheme: Investment Reform Criteria and Guidance.
- Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The above documents were issued alongside other supporting documents:

- Cabinet Office and Department for Local Communities and Local Government – Design of the structure and governance of effective and efficient CIVs for LGPS funds.
- Draft Regulations – The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.
- Local Government Pension Scheme: opportunities for collaboration, cost savings and efficiencies – Consultation Response.

The Committee noted that there had been several earlier Government papers about how LGPS funds may achieve cost savings through collaboration. The first was a ‘call for evidence’ from 21 June 2013 to 27 September 2013 which was followed up by a specially commissioned paper by Hymans Robertson which examined three options;

- 5 – 10 merged funds
- 5- 10 collective investment vehicles (CIV)
- 1 collective investment vehicle

This was followed up by a consultation that ran from 1 May 2014 to 11 July 2014. The Government included a summary of the consultation responses in the papers released on 25 November 2015.

The Director of Finance and Resources explained that the formal consultation issued on 25 November 2015 was in fact in relation to the investment regulations. This allowed more flexibility for local decision making and retracted a number of current restrictions. However the regulations also crucially introduced a new power for the Secretary of State to intervene ‘if the Secretary of State believes that a Fund has not had regard to guidance and regulations’ which might include failing to participate in one of the large asset pools or proposing a pooling arrangement that does not adhere to the criteria’. It is in that context that the Government has also published its ‘Criteria and Guidance’ document and had requested authorities to -

- Submit their initial proposals by 19 February 2016
- Submit ‘refined and completed submissions’ by 15 July 2016

With regard to the Pooling criteria, there were 4 headline criteria -

- Scale
- Governance
- Savings
- Infrastructure investment

In respect of scale, the Government has explicitly stated that funds should have at least £25bn of assets.

The Committee noted that the amount of information required in responses in some cases was substantial and it was clear that any response in February would not be a full and detailed response given the complexity in answering how pools would be structured. It appeared that the Government had recognised that full details would not

be available in February but they were expecting a full response by the second deadline of 15 July 2016.

The Director of Finance and Resources indicated that the pooling of investments was the largest change to LGPS investments for 40 years. Given the significance of the change, the Pensions Committee may wish to hold a special meeting to approve the formal response and, with that in mind, 15 February 2016 was being reserved in Members' diaries. Further consideration would also need to be given as to whether a special Committee meeting may be required prior to the 15 July deadline.

RESOLVED – (a) That the consultation on pooling and the investment management regulations, issued on 25 November 2015 as part of the Chancellor's Autumn Statement, be noted.

(b) That a special meeting of the Pensions Committee be held on 15 February 2016 to consider the response to the consultation.

(c) That it be noted that a further special meeting of the Committee may need to be held prior to the 15 July deadline.

20. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of schedule 12A of the Local Government Act 1972 indicated below

The Committee then proceeded to consider reports on the following issues:

21. Exempt minutes of the meeting held on 23 October 2015
(Exemption paragraph 3)

22. Exempt minutes of the meeting of the Pensions Panel held on 1 December 2015
(Exemption paragraph 3)

23. Knowledge and Skills Framework Training - 2016 Valuation
(Exemption paragraph 3)

24. Administration Strategy
(Exemption paragraph 3)

25. Pooling
(Exemption paragraph 3)

Chairman

Local Members Interest	
<u>Nil</u>	

PENSIONS COMMITTEE – 15 FEBRUARY 2016

Report of the Director of Finance and Resources

**Local Government Pension Scheme:
Investment Reform Criteria and Guidance.**

Recommendation of the Chair

1. That the Pensions Committee notes that the Government has issued a consultation paper on the Investment Reform of the Local Government Pension Scheme; including a set of Criteria that must be met to achieve such reform, and appropriate Guidance.
2. That the Pensions Committee endorses their commitment to LGPS Central.
3. That the Pensions Committee approves the initial proposal to DCLG from the Staffordshire Pension Fund and delegates any decision arising from such, in connection with the establishment of LGPS Central, which it is felt cannot reasonably await the next meeting of the Committee, to the Director of Finance and Resources, in consultation with the Chair.

Background

4. In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.
5. Authorities are invited to submit proposals for pooling which the Government will assess against the criteria outlined later in this report. This is a 2 stage process, with initial proposals, confirming which Pool(s) Authorities are proposing to work with, due by 19 February 2016. The second stage of the process requires more detailed proposals from each pool and these are due to be submitted by 15 July 2016.

6. Committee Members have already approved the proposal for the Staffordshire Pension Fund to work alongside LGPS colleagues in Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Worcestershire and the West Midlands (2 Funds) in the formation of an asset pool. Going forward, the pool will be known and referred to as LGPS Central.

Criteria

7. At their meeting on 18 December 2015, Committee Members received a report and presentation on LGPS Pooling, together with a full set of the consultation documents; they are not therefore re-appended to this report. As a reminder, however, the following criteria set out how administering authorities can deliver against the Government's expectations for pooling assets. Authorities need to suggest how their pooling arrangements will be constituted and how they will operate. Submissions should describe:

8. **A. Asset pool(s) that achieve the benefits of scale:**

The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational. (A1)
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so. (A2)
- The type of pool(s) they are participating in, including the legal structure if relevant. (A3)
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside. (A4)
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable. (A5)

9. **B. Strong governance and decision making:**

The proposed governance structure for the pools should:

- (i) At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with

their stated investment strategy and in the long-term interests of their members;

(ii) At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted. Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used. (B1)
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed. (B2)
- Decision making procedures at all stages of investment, and the rationale underpinning this. (B3)
- The shared objectives for the pool(s), and any policies that are to be agreed between participants. (B4)
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required. (B5)
- How any environmental, social and corporate governance policies will be handled by the pool(s). (B6)
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities. (B7)
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice. (B8)
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment. (B9)

10. **C. Reduced costs and excellent value for money:**

In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most

pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013. (C1)
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison. (C2)
- A detailed estimate of savings over the next 15 years. (C3)
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met. (C4)
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance. (C5)

11. **D. An improved capacity to invest in infrastructure:**

Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds". (D1)
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements. (D2)

- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount. (D3)

LGPS Central

12. Staffordshire Pension Fund's initial proposal to DCLG is provided, for approval, at Appendix 2. This confirms the Fund's commitment to the pooling Agenda and its intention to work alongside LGPS colleagues in the creation and development of LGPS Central. The LGPS Central joint response, to this initial stage of the consultation, is still being drafted and will be tabled at the meeting. Initial responses are at a very high level, as much of the detailed work around pooling will be carried out by the participating Funds between now and July 2016. This will enable both Staffordshire Pension Fund and LGPS Central to submit their detailed responses to DCLG for 15 July 2016.
13. Committee Members will be kept informed of LGPS Central's progress at their Pensions Committee meetings in March and June. However, they are asked to recognise that, due to the timeframe being imposed on pooling by DCLG and the fact that there are several participating Funds, in LGPS Central, there will be times when it will be impractical and untimely to bring all decisions to a full Pensions Committee Meeting. Whilst it is difficult to be prescriptive about the nature of such decisions at this moment in time, Committee Members are asked to delegate any decision, which it is felt cannot reasonably await their next meeting, to the Director of Finance and Resources, in consultation with the Chair. This is consistent with the County Council's constitution under Section 11, (Appendix 1, Table 4, Item 4).

Andrew Burns
Director of Finance and Resources

Contact : Melanie Stokes
Telephone No. (01785) 276330

Background Documents:

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Cabinet Office and Department for Local Communities and Local Government – Design of the structure and governance of effective and efficient CIVs for LGPS funds

Local Government Pension Scheme: opportunities for collaboration, cost savings and efficiencies – Consultation Response

1. **Equalities implications:** There are no direct equalities implications arising directly from this report.
2. **Legal implications:** A piece of work detailing the legal structure and considerations for participating Funds associated with pooling is being commissioned by LGPS Central.
3. **Resource and Value for money implications:** The resource and value for money implications of asset pooling will need to be developed in time for LGPS Central to submit its detailed proposal to DCLG for 15 July 2016.
4. **Risk implications:** There are no direct risk implications arising from this report.
5. **Climate Change implications:** There are no direct climate change implications arising from this report.
6. **Health Impact Assessment screening:** Not applicable

**Staffordshire Pension Fund
Initial proposal to DCLG on Investment Reform to be read in conjunction
with an Initial Joint proposal from LGPS Central
15 February 2016**

A	Asset pool(s) that achieve the benefits of scale	
	Commitment to Pooling	Staffordshire Pension Fund (SPF) is fully committed to the pooling Agenda and is collaborating with 8 other LGPS Funds in submitting a proposal to DCLG for the creation of LGPS Central.
1	Anticipated size of the pool once fully operational	<p>LGPS Central will comprise of assets in excess of £30 billion at 31 March 2015. It will include the assets of:</p> <ul style="list-style-type: none"> Cheshire Pension Fund Derbyshire County Council Pension Fund Leicestershire County Council Pension Fund Nottinghamshire County Council Pension Fund Shropshire County Pension Fund Staffordshire Pension Fund West Midlands Pension Fund West Midlands ITA Pension Fund Worcestershire County Council Pension Fund
2	Assets proposed to be held outside the pool and the rationale for doing so.	<p>Our expectation is that over time <u>all</u> assets will be managed within the Pool.</p> <p>Transitional arrangements may be required for some illiquid assets with significant costs of transition or potential loss of value from forced sale and it is anticipated that these will initially be kept outside the pool until market opportunities for transfer or sale arise.</p> <p>Based on SPF's assets at 31 March 2015, these may include;</p> <ul style="list-style-type: none"> UK Direct and Pooled Property £298 million Diversified Alternatives Funds £105 million Private Equity Funds £119 million Hedge Funds £88 million Operational Cash £40m <p>For clarification all new investments into these assets classes will be made through the pool.</p>
3	Type of pool including the legal structure if relevant.	Further details will be provided in the July 2016 response from LGPS Central.
4	How the pool will operate, the work to	LGPS Central has developed a Statement of Commitment (see Appendix A) which incorporates

	be carried out internally and services to be hired from outside.	several principles of like-mindedness to show how individual Funds will co-operate and work together in a collaborative manner. It is envisaged that investment management will be provided both internally and externally. This may add to the complexity of the LGPS Central's legal structure compared with a straightforward external management only structure. Further details will be provided in the July 2016 response from LGPS Central.
5	Timetable for establishing the pool and moving assets into the pool. Transparent reporting of progress against the pools timetable.	The detailed implementation plan will be developed by LGPS Central in time for 15 July 2016. It is anticipated that regular reports will be made to bodies existing under each participating Funds current governance structure (e.g. Pensions Committee, Pensions Board) as well as any LGPS Central governance structure implemented. In addition, reporting to stakeholders will form part of regular newsletters, website updates, employer's forum meetings and will be reported in participating Fund's Annual Report and Accounts.
B Strong governance and decision making		
1	Governance structure for the pool, including the accountability between the pool and elected councillors, and the way in which external scrutiny will be used.	The detail of the Governance Structure for the Central LGPS Pool will be developed in time for 15 July 2016. Irrespective of structure, each participating Fund will have one vote.
2	Mechanisms by which the authority can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.	The mechanisms by which the administering authority can hold LGPS Central to account will be developed in time for 15 July 2016. It is envisaged that there will be an 'oversight committee' or 'holding company' which will have equal representation from each participating Fund and the relationship with the administering authority will be determined by agreement. LGPS Central will be held to account through its routine performance reporting to each administering authority.
3	Decision making procedures at all stages of investment, and the rationale underpinning this.	The decision making procedures at all stages of investment will be developed in time for 15 July 2016. Strategic Asset Allocation (SAA) decisions will remain with the administering authority and LGPS Central will need to operate flexibly to ensure that each authority's individual SAA can

		be delivered. Investment managers will be appointed and monitored by LGPS Central.
4	Shared objectives for the pool and any policies that are to be agreed between participants.	LGPS Central has developed a Statement of Commitment (Appendix A). As LGPS Central gains clarity around its governance structure, further policies will be developed as considered appropriate.
5	Resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.	The detailed implementation plan, including the resources required will be developed by LGPS Central for the 15 July 2016.
6	The way in which environmental, social and corporate governance (ESG) policies will be handled by the pool.	LGPS Central is fully committed to ESG matters and has recognised such in its Statement of Commitment (Appendix A). It is envisaged that participating Funds will continue their current practice of endorsing the United Nations Principles for Responsible Investment (UNPRI) and ensure that the Investment Managers appointed are UNPRI signatories. UK Investment Managers will be required to comply with the Financial Reporting Council's UK Stewardship Code. Furthermore, participating Funds will remain members of the Local Authority Pension Fund Forum (LAPFF). An ESG Policy will be jointly developed by participating Funds in LGPS Central.
7	How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.	LGPS Central has recognised in its Statement of Commitment (Appendix A) that 'Responsible investment can enhance long term investment performance'. An ESG Policy, which will be jointly developed by participating Funds in LGPS Central, will detail how stewardship responsibilities will be enacted.
8	Public reporting of the net performance of each asset class by the pool, to encourage the sharing of data and best practice.	The legal structure of LGPS Central will determine its public reporting requirements. However, as a participating Fund, SPF fully expects to report our own asset class performance, in line with current best practice, in our Annual Report and Accounts.
9	Extent of using benchmarking by the authority to assess	SPF envisages continuing our current best practice of benchmarking the administering authority against other LGPS Funds through:

	their own governance and performance and that of the pool, for example by undertaking the Scheme Advisory Board's key performance indicator assessment.	CIPFA benchmarking; CEM benchmarking; Hymans Robertson 'like for like' comparison; and participation in SAB KPI analysis. Benchmarking arrangements for LGPS Central will be determined once more detail about its structure and investments are known.
C Reduced costs and excellent value for money		
1	Transparent assessment of investment costs and fees as at 31 March 2013.	SPF reports its investment costs and fees in accordance with best practice, determined by CIPFA. LGPS Central is analysing all participating Funds costs and fees, as at 31 March 2013, on this basis. Full details will be provided for 15 July 2016.
2	Transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.	LGPS Central is analysing all participating Funds costs and fees reported since 31 March 2013 in accordance with CIPFA best practice. Full details will be provided for 15 July 2016.
3	Detailed estimate of savings over the next 15 years.	The detailed estimate of savings for SPF as a participating Fund in LGPS Central will be developed by LGPS Central for the 15 July 2016.
4	Detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool and an explanation of how these costs will be met.	The detailed estimate of implementation costs, including transition costs, when they will arise and how they will be met will be developed by LGPS Central for the 15 July 2016. LGPS Central has agreed in principle that all costs will be shared fairly between participants.
5	Proposal for reporting transparently against forecast transition costs and savings. Reporting of fees and net performance.	The detailed proposal for reporting transparently against forecast transition costs and savings, together with the reporting of fees and net performance, will be developed by LGPS Central for 15 July 2016.
D An improved capacity to invest in infrastructure		
1	Proportion of participating Fund currently allocated to	Staffordshire Pension Fund has a Strategic Asset Allocation to UK Property of 10% (c£350m) including Industrial Estates, Retail Parks, Offices

	infrastructure, both directly and through funds, or “fund of funds”.	etc. and has recently committed £20m to invest in the UK Private Rented Housing sector. The Fund also has a significant explicit allocation of 15% (c£540m) to invest in UK companies and a further £250m in the debt structure of UK companies through an 8% UK corporate bond portfolio. Hence the Fund currently invests 1/3 of its total assets in ‘UK plc’. Whilst the Fund currently has no explicit separate allocation to ‘UK Infrastructure’ it is not adverse to investment in such, should the right opportunity arise.
2	Development or acquisition of the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool, rather than existing fund, or “fund of funds” arrangements.	SPF will work with colleagues in LGPS Central to develop their understanding, capacity and capability to assess and access investments in UK Infrastructure.
3	Proportion of participating Fund intended to be invested in infrastructure, ambition in this area going forward and derivation of that amount.	1/3 of Staffordshire Pension Fund is currently invested in UK plc as described previously. This may be increased as the capacity of LGPS Central evolves and the availability of suitable UK projects, with acceptable risk / return profiles in which to invest become available.

LGPS CENTRAL

STATEMENT OF COMMITMENT

LGPS Central is investigating the opportunities for investment collaboration between like-minded Local Government Pension Scheme funds against the background of the government's proposals for pooling LGPS investments. The Group has a regional identity but collaboration with other LGPS pools will be welcomed. **One fund, one vote**, will be an overriding principle of any resulting pooling arrangement.

Characteristics

Assets will be managed by both internal and external investment managers
The split between internal and external management will vary over time
The internal investment resource and resilience will be developed where appropriate
Knowledge and expertise will be shared
Participants will be open to challenge and change
Participants will listen and be constructive
Strong governance, based on openness and transparency, within the pool will be paramount
Recognising that Funds have different funding levels and deficit recovery profiles; the pool structure will aim to meet the Funds' needs in this respect
Costs will be actively managed and transparent, and will be shared fairly between participants
Responsible investment will be an integral part of the investment process
Collaboration with other LGPS pools will be encouraged

Investment Beliefs

A long term approach to investment will deliver better returns
The long term nature of LGPS liabilities allows for a long term investment horizon
Asset allocation is the most important factor in driving long term investment returns
Liabilities influence the asset structure; funds exist to meet their obligations
Risk premiums exist for certain investments and this can help to recover funding deficits
Markets can be inefficient, therefore there is a place for both active and passive management
Diversification across investments with low correlation improves the risk/return profile
Secure and growing income streams underpin the ability to meet future liabilities
Responsible investment can enhance long term investment performance

Measurement of Success

Successful delivery of the pool against the government's published criteria

January 2016

Local Members Interest	
<u>Nil</u>	

PENSIONS COMMITTEE – 15 FEBRUARY 2016

Report of the Director of Finance and Resources

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

Recommendation of the Chair

1. That the Pensions Committee notes that the Government has issued a consultation paper on Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which:
 - (i) set out a package of reforms for a less prescriptive set of LGPS Investment Regulations;
 - (ii) introduce safeguards to ensure that this more flexible legislation is used appropriately and that the guidance on pooling assets is adhered to; and
 - (iii) include a suggested power for the Secretary of State to intervene in the investment function of an administering authority when necessary.
2. That the Pensions Committee approves the Staffordshire Pension Fund response to the consultation, provided as Appendix 2 to this report.

Background

3. In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.
4. To assist with this process, there is considered a long overdue need to revoke and update the LGPS (Management and Investment of Funds) Regulations 2009. There are 2 main areas of reform:
 - (i) 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.

- (ii) 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 for the Secretary of State to intervene in the investment function of an administering authority when necessary.

Consultation Response

- 5. At their meeting on 18 December 2015, Committee Members received a report and presentation on LGPS Pooling, together with a full set of the consultation documents, including those relating to the Investment Regulations, that are the subject of this report; they are not therefore re-appended to this report.
- 6. Staffordshire Pension Fund's response to the consultation is provided, at Appendix 2. This restates the 8 questions asked in the consultation documents and provides our answer. This is due to be submitted, to DCLG, alongside the Fund's initial proposal on the LGPS Investment Reform Criteria by 19 February 2016.

Andrew Burns
Director of Finance and Resources

Contact : Melanie Stokes
Telephone No. (01785) 276330

Background Documents:

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

Draft Regulations – The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

1. **Equalities implications:** There are no direct equalities implications arising from this report.
2. **Legal implications:** The legal implications are considered in the main body of this report.
3. **Resource and Value for money implications:** There are no direct resource and value for money implications arising from this report.
4. **Risk implications:** There are no direct risk implications arising from this report.
5. **Climate Change implications:** There are no direct climate change implications arising from this report.
6. **Health Impact Assessment screening:** Not applicable

Staffordshire Pension Fund (SPF) welcomes the opportunity to respond to the Consultation on LGPS: Revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009. The specific questions that the consultation asks are repeated in the table below, together with the Funds response.

	Question	SPF Response
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?	Yes. The proposed regulations provide the Fund with additional flexibility.
2	Are there any specific issues that should be reinstated? Please explain why.	Whilst neither current practice nor future intention to hire and fire managers regularly, we would welcome consideration of re-instating the 1 month termination provision (2009 No.3093 9(2)) which we find extremely useful for procurement and legal purposes in determining Investment Management Agreements.
3	Is six months the appropriate period for the transitional arrangements to remain in place?	Given the extensive programme of pooling being undertaken by the LGPS and the absence of appropriate guidance in formulating the Investment Strategy Statement, we would advocate the 6 months transitional period commencing from the date guidance is issued.
4	Should the regulation be explicit that derivatives should only be used as a risk management tool?	No, the regulation should not restrict the use of derivatives, solely for risk management purposes because it can be difficult to differentiate between their use for risk management and return e.g. how would a forward foreign currency agreement be viewed? However, derivatives are often used for risk management purposes e.g. transition management, and the Investment Strategy Statement will identify how they will be used in the Fund.
5	Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?	Draft Regulation 2016 No. 0000 8(4)(d) 'any other evidence available for the Secretary of State regards as relevant....' is sufficiently widely drafted, that we can think of no other source.
6	Does the intervention allow	The proposed regulations as currently

	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?	drafted do not specify any minimum time limits for authorities to respond and this should be addressed before we can comment constructively. Our suggestion is that any minimum time specified should be proportionate to the seriousness of the intervention.
7	Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?	The proposed regulations appear to be widely drafted and the issue of proportionate intervention can only be judged on a case by case basis.
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?	Whilst the proposals do appear to meet the policy objective, we have a concern that guidance often covers a range from 'good' through 'exemplary' practice. Whilst all Funds might aspire to achieve best practice, in some cases this may not offer best value for money, which is a judgement call for the Fund. The Secretary of State's intervention should only be exercised where the Fund is failing significantly and risks falling below a minimum acceptable standard.

Not for publication by virtue of paragraph(s) 3
of Part 1 of Schedule 12A
of the Local Government Act 1972

Document is Restricted

Not for publication by virtue of paragraph(s) 3
of Part 1 of Schedule 12A
of the Local Government Act 1972

Document is Restricted

Not for publication by virtue of paragraph(s) 3
of Part 1 of Schedule 12A
of the Local Government Act 1972

Document is Restricted

