

Report to: **Pension Board**

Date of meeting: **3 November 2016**

By: **Interim Chief Finance Officer**

Title: **LGPS Management & Investment of Funds Regulations 2016 and Investment Strategy Statement (ISS) Guidance**

Purpose: **This report provides Members with the LGPS Regulations 2016 and Department for Communities and Local Government (DCLG) guidance on preparing and maintaining an Investment Strategy Statement.**

RECOMMENDATION

The Board is recommended to note the LGPS Regulations 2016 and DCLG guidance on maintaining an Investment Strategy Statement.

1. Background

1.1 The LGPS - Management & Investment of Funds Regulations were laid before parliament on 23 September and come into force from 1 November 2016. These regulations (Appendix 1) remove many of the investment restrictions imposed on LGPS funds, introduce a prudential framework for investment decision making, introduce a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and require all funds to publish a new Investment Strategy Statement (ISS) by 1 April 2017.

1.2 The Department for Communities and Local Government (DCLG) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement (Appendix 2). This statement will replace the Statement of Investment Principles (SIP).

1.3 In order to comply with the guidance, administering authorities must take proper advice. They should also explain the extent to which the views of their Pension Board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors and must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

2. The Investment Strategy Statement

2.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- a. A requirement to invest 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 rights (including voting rights) attaching to investments.

2.2 The new regulations contain provision for the Secretary of State to issue a direction, where he or she deems an administering authority not to have followed the new guidance. The power of direction can be used -

- to require an administering authority to make changes to its investment strategy in a given timescale;
- to require an administering authority to invest assets as specified in the direction;
- to transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
- to require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

3. Implementation Timeframe

3.1 Under Regulation 7(6) and (7), the statements must be published by 1 April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Description	2016	Post 2016
Statement of Investment Principles ("SIP")	Yes	No
<i>Investment Strategy Statement ("ISS")</i>	No	Yes

4. Conclusion and reasons for recommendations

4.1 The Management & Investment of Funds Regulations will come into force from 1 November 2016, and the DCLG guidance has been prepared to assist administering authorities with the formulation, publication and maintenance of their Investment Strategy Statement.

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Background Documents

None