

Report to: **Pension Committee**

Date of meeting: **30 November 2016**

By: **Interim Chief Finance Officer**

Title: **Officers' Report – General Update**

Purpose: **To provide a general update to the Pension Committee on matters related to the Committee's activity.**

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## **RECOMMENDATION**

**The Committee is recommended to note the report.**

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### **1. Introduction**

1.1 This report provides an update on matters relating to the Pension Board and Committee activities.

### **2. Report Overview**

#### Cash Flow Forecast and Summary

2.1 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 5 years, the East Sussex fund has been broadly cash flow 'neutral'. The projection for the fiscal year 2016/17 is that the fund will generate a surplus of £7.1m; the estimated cash flow position will be helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2015. Table 1 below shows the cash projection to 30 September 2016.

<b>PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS</b>	<b>Original 2016/17 £m</b>	<b>Projected Outturn 2016/17 £m</b>	<b>Variance £m</b>
Employees Contributions	28.1	29.0	0.9
Employers Contributions	94.3	90.2	(4.1)
Deficit Recovery	5.2	5.0	(0.2)
Transfers In	4.0	6.4	2.4
<b>TOTAL INCOME</b>	<b>131.6</b>	<b>130.6</b>	<b>(1.0)</b>
Pensions Benefits Paid	(97.4)	(101.2)	(3.8)
Pensions Lump Sum Paid	(19.9)	(21.4)	(1.5)
Administration expenses	(2.1)	(2.1)	-
Transfers Out (excluding Probation transfer)	(5.1)	(3.1)	2.0
<b>TOTAL EXPENDITURE</b>	<b>(124.5)</b>	<b>(127.8)</b>	<b>(3.3)</b>
<b>SURPLUS CASH</b>	<b>7.1</b>	<b>2.8</b>	<b>(4.3)</b>

### **3. National Development - updates**

#### LGPS Management & Investment of Funds Regulations 2016

3.1 The LGPS - Management & Investment of Funds Regulations were laid before parliament on 23rd September and come into force from 1st 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 1st April 2017.

3.2 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).

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

3.3 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.

#### **4. What is MiFID, and why does it matter?**

4.1 The FCA is currently consulting on implementation proposals for MiFID II which are due to take effect from 3 January 2018. The Markets in Financial Instruments Directive ('MiFID'), part of the European Commission's Financial Services Action Plan, is legislation for the regulation of investment services within the European Economic Area which came into force in November 2007. It was designed to:

- Achieve harmonisation throughout the economic area;
- Aid transparency;
- Protect investors;
- Improve efficiency;
- Increase competition.

##### Potential impact on LGPS administering authorities

4.2 The main issue that administering authorities could face is a re-classification from 'per se professional' to 'retail' client status. If no action were taken, administering authorities could see restrictions as retail clients e.g. in terms of the universe of investment funds they may invest in. The good news is that administering authorities will have the opportunity to "opt-up" to 'elective professional client', i.e. professional client status.

4.3 The FCA believes that the ability to access financial markets will not be fundamentally affected by broader changes if classified as a professional client. The specific procedure for opting-up will include both qualitative and quantitative assessments.

#### **5. Pension Committee Agenda –**

5.1 The draft agenda for the 27 February 2017 Pension Committee meeting include the following-

- Funding Strategy Statement
- Communications policy statement
- Funds Actuarial Valuation Report
- Pension administration statement
- Investment Strategy Statement

#### **6. Conclusion and reasons for recommendations**

6.1 The Committee is requested to note the general update regarding the Pension Fund activities.

**PHIL HALL**

**Interim Chief Finance Officer**

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017  
[ola.owolabi@eastsussex.gov.uk](mailto:ola.owolabi@eastsussex.gov.uk)

Background documents:  
None