Committee and Date	Item
Pensions Committee 10 February 2010	**10** Public

LOCAL GOVERNMENT PENSION SCHEME INVESTMENT REGULATIONS

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Summary

This report explains changes to the Local Government Pension Scheme Investment Regulations that came into force on 1 January 2010. It outlines the requirement to have a separate bank account for Fund monies and the decision to implement this with effect from 1st April 2010. It highlights that a separate Treasury Strategy will be produced for the Fund and that Pension Fund cash balances will be invested separately from Shropshire Council monies from 1st April 2010. The report also highlights updated requirements for the Statement of Investment Principles.

Recommendations

Members are asked to note the report.

Report

Background

1. The Department for Communities and Local Government (DCLG) conducted a statutory consultation with all Scheme stakeholders in early 2009 on proposed changes to the investments regulations of the Local Government Pension Scheme. This consultation included a proposed new requirement for local government pension funds to have a separate bank account. Currently, Pension Fund transactions are processed via the Shropshire Council bank account and accounted for separately on the financial ledger.

2. In December 2009, the DCLG issued new investment regulations that came into force on 1st January 2010 although some of the changes outlined do not need to be implemented until April 2011. The changes outlined incorporate;-

- separate bank account,
- investment of Fund cash by the Administering Authority,
- borrowing powers,
- statement of investment principles.

Separate bank account

3. The Fund has assets of £899 million of which £896 million is currently managed by the Fund's investment managers. These assets including any cash within portfolios are held by the Fund's global custodian, Northern Trust.

4. The Administering Authority has a need to maintain a small cash balance (currently £3 million) so as to manage the day to day transactions of the Fund. These transactions include the payment of pensions and transfers out together with the receipt of contributions from employers and transfers into the Fund.

5. The day to day income and expenditure transactions of the Shropshire County Pension Fund are accounted for separately within the financial system of the Administering Authority. The Administering Authority does not have a separate bank account for the Pension Fund.

6. The investment regulations issued in December require Administering Authorities to set up a separate bank account by 1st April 2011 so as to improve the transparency of the cash position of pension funds. The Shropshire County Pension Fund proposes to set up a separate bank account from 1st April 2010.

Investment of Fund cash by the Administering Authority

7. The Administering Authority aims to keep the pension fund cash held for day-to day transactions to a minimum level. The pension fund cash is currently pooled with the cash balances of Shropshire Council and invested on the money markets in accordance with the Council's Treasury Strategy. The Fund is paid the average local authority 7 day interest rate on its balances by Shropshire Council. In the financial year 2008/09 the Fund had an average cash balance of £1.4 million on which it was paid interest of £40,000.

8. The investment regulations issued in December mean that the Administering Authority will no longer have the legal power to pool pension fund money with its own cash, and invest the pooled sum on the money markets (before returning a share of the interest earned to the pension fund).

9. In view of these changes to the regulations a Treasury Strategy for the Pension Fund has been produced for 2010/11 which explains the approach to be taken with regard to pension fund cash balances from 1st April 2010. This is included as a separate item on the agenda.

Borrowing

10. The current banking and investment arrangements mean the Fund has not needed to borrow on the money markets to fund day to day transactions. The new banking and investments may mean that it is necessary to borrow in the short term to finance payments.

11. The new investment regulations give the Administering Authority an explicit power to borrow for up to 90 days, for the purpose of the pension fund. This will enable borrowing for cash flow purposes such as to ensure that scheme benefits can be made on time. Any borrowing needs to have an identifiable income from which repayment of the borrowed amount and related interest can be funded.

12. The Fund's approach to borrowing for 2010/11 is outlined in the Treasury Strategy included within this agenda.

Statement of Investment Principles

13. The new regulations require the Statement of Investment Principles (SIP) to include a policy on the lending of stock from the Fund. The regulations also provide a technical update on the definitions and rules surrounding securities lending.

14. The Shropshire Fund suspended its securities lending programme in October 2008 immediately following the collapse of Lehman Brothers. There are currently no plans to re-instigate a securities lending programme and these regulations have no impact on the Fund

15. The new regulations require the Statement of Investment Principles to outline ways in which risks are measured and managed. The Shropshire Fund already specifies risks and how they are mitigated within its SIP and has done so for a number of years.

16. Regulations require the Fund to state within its SIP the extent to which it complies with a series of principles of good governance known as Myners Principles. The Chartered Institute of Public Finance (CIPFA) has recently issued revised guidance on six principles that the Fund is required to report against in the future.

17. The Statement of Investment Principles is updated in June each year. A revised SIP which incorporates all the required changes will be brought to the next Pensions Committee in June.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Pensions Committee, 30 June 2009, Statement of Investment Principles, Item 8, Paper C

Human Rights Act Appraisal
The recommendations contained in this report are compatible with the Human Rights Act 1998.

Environmental Appraisal
There are no direct implications for the environment arising from this report.

Risk Management Appraisal
Thorough assessment of the LGPS Investment Regulations and their implications for the Fund mitigates any regulatory risk to the Fund.

Community / Consultations Appraisal
NA

Cabinet Member
NA

Local Member
NA

Appendices
NA