

## **POLICY NOTE**

### **THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) (SCOTLAND) AMENDMENT REGULATIONS 2016**

#### **SSI 2016/74**

#### 1. Purpose of the instrument

1.1 This instrument amends The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations) in order to increase the proportion of funds that local authority pension funds can invest in partnerships from a maximum of 15% of the fund to a maximum of 30%.

#### 2. Legislative context

2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (SI 2010/233) (“the 2010 Regulations”) are made under section 7 of and Schedule 3 to the Superannuation Act 1972. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme (Administration) Regulations 2009 (SI 2009/187).

2.2 Schedule 1 to the 2010 Regulations contains a list of limits on investments and regulation 14(1) of those regulations restricts the making of investments of the types contained in that list. Paragraph 3 of the table, as currently in force, restricts all contributions to partnerships to 5% of fund monies, increased to 15% of fund monies if the administering authority complies with requirements set out in regulation 15 (which include taking proper advice before making an investment).

#### 3. Territorial Extent and Application

3.1 This instrument applies to Scotland.

#### 4. Policy Objectives

4.1. In relation to management of Local Government Pension Scheme (LGPS) pension funds, LGPS scheme managers are required to manage LGPS in such a way as to ensure that investments deliver the returns needed to pay pensions accrued by current and former LGPS members and also to protect local taxpayers and employers from high pension costs. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations) were designed to enable local fund managers to pursue effective investment strategies in order to meet these two objectives. Those regulations require that funds and risks are spread across a number of different types of investment; therefore, by setting limits on the proportion of funds that can be invested in each type of investment, the Investment Regulations were designed to minimise risk to; and protect the interests of taxpayers.

4.2. It is recognised that it is important that local scheme managers have appropriate levels of flexibility to maximise their investment opportunities. In this context, concerns have been expressed by some stakeholders and, recently, by the Local Government and Regeneration

Committee that local authority pension funds may not be in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. It has been suggested in particular, that there are difficulties caused by the 15% limit set by the Investment Regulations on investment in partnerships.

4.3 Scottish Ministers have considered the representations they have received on this matter, including Scottish Government dialogue with representatives of the LGPS Scheme Advisory Board, and have:

- i) made clear the Scottish Government's on-going commitment to pension fund investment in Scotland's infrastructure;
- ii) made clear the Scottish Government's intention to act to remove barriers to investment in infrastructure from the LGPS regulations;
- ii) asked the LGPS Scheme Advisory Board to work with officials from the Scottish Public Pension Agency (SPPA) to consider and recommend appropriate revisions to The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations).

4.4 Following advice from representatives of the Scottish LGPS Scheme Advisory Board, it has been agreed that an initial step should be taken prior to the completion of that further work by the Scheme Advisory Board to provide further flexibility in the area relating to partnerships and until such time as a full review of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 can be undertaken.

## 5. Consultation

5.1 A consultation was carried out with those stakeholders concerned with investments in the LGPS scheme but due to the highly technical nature of the amendment, and because no change of policy was involved, a wider consultation was not thought to be necessary.

## 6. Impact Assessment

6.1 It is considered that these Regulations have no new impact on business or the voluntary sector as they are amending Regulations to improve administration of the scheme and to implement other government policies.

## 7. Contact

7.1 If you have any queries regarding this instrument, please contact Kimberly Linge at the Scottish Public Pensions Agency. email: [kimberly.linge@gov.scot](mailto:kimberly.linge@gov.scot) , tel: 01896 893229

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