

**CIPFA Pensions Network
Edinburgh
30 September 2015**



Regulatory Update on the LGPS in Scotland

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Head of Pensions
Strathclyde Pension Fund**

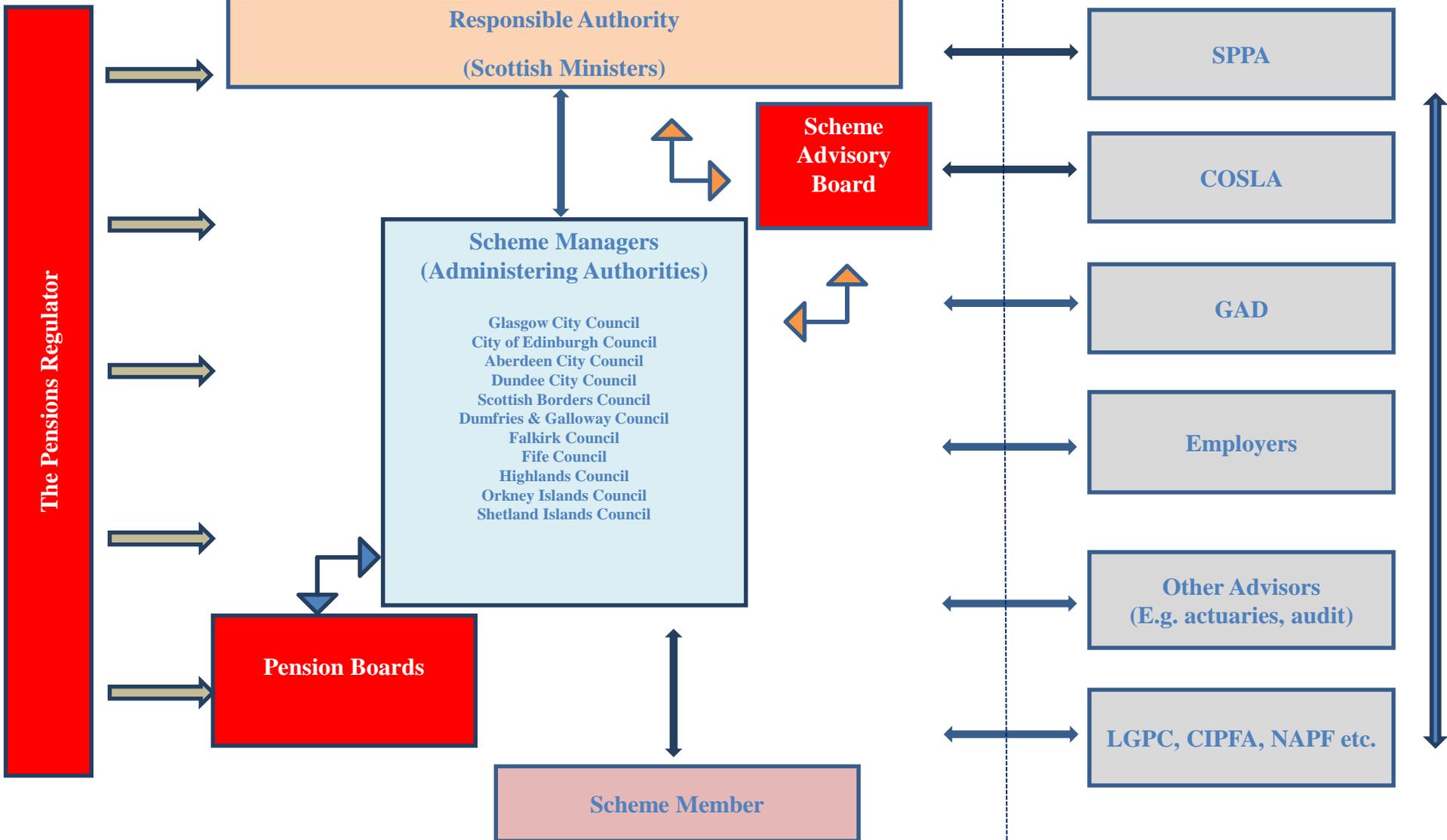
Agenda

- LGPS (Scotland) governance arrangements
- Accounting regulations
- Scheme regulations
- The Pensions Regulator
- Investment regulations
- Other developments

LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) – Governance Model

MANDATORY ROLES

OTHER STAKEHOLDERS



Governance Regulations

SCOTTISH STATUTORY INSTRUMENTS

2015 No. 60

PUBLIC SERVICE PENSIONS

The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

Made - - - - - *17th February 2015*
Laid before the Scottish Parliament *19th February 2015*
Coming into force - - - *1st April 2015*

The Scottish Ministers make the following Regulations in exercise of the powers conferred by sections 1, 2, 5 and 7 of, and paragraph 3(b) of Schedule 2 to, the Public Service Pensions Act 2013(a) and all other powers enabling them to do so.

In accordance with section 21 of that Act, they consulted representatives of such persons as appeared to them likely to be affected by these Regulations.

Citation, extent, commencement and interpretation

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

(2) These Regulations extend to Scotland.

(3) These Regulations come into force on 1st April 2015.

(4) In these Regulations—

“the 2014 Regulations” mean the Local Government Pension Scheme (Scotland) Regulations 2014(b);

“Pension Board” means a pension board established under regulation 5;

“Pension Committee” means the committee of a scheme manager with responsibility for pensions;

“the Pensions Regulator” means the Pensions Regulator established by section 1 of the Pensions Act 2004(c);

“relevant fund” means the pension fund or funds managed by a scheme manager in relation to whom a Pension Board has been established;

“relevant trade unions” means those trade unions which are accustomed from time to time to represent employees of local government in Scotland in negotiations with scheme employers;

“the Scheme” means the Local Government Pension Scheme established by the 2014 Regulations;

(a) 2013 c.25.
(b) S.S.I. 2014/164.
(c) 2004 c.35.

Governance



June 2015

BULLETIN

Welcome

The Scottish Local Government Pensions Scheme Advisory Board (SLGPSAB) is responsible for advising Scottish Ministers on the desirability of changes to the design of the scheme and the implication of other policy issues. Also the Board is responsible for the provision of advice to the Scheme managers or the Scheme's pension boards in relation to the effective and efficient administration and management of the scheme.

The minutes of meetings will be published on the SPPA website and there will be a short bulletin like this after each meeting.

The Scheme Advisory Board held its first meeting on 30 April 2015. Cllr Stewart Cree was elected as Chair and Harry Frew as Vice-Chair.

Draft work plan

The focus of the April meeting was consideration of a draft work plan for the SAB.

The immediate tasks include:

- Rigorous approach to the collection and consistency of fund data, including investment costs.
- A template to ensure greater transparency in the reporting of investments.
- Review of the investment regulations to give greater flexibility to pension funds.
- Guidance on fiduciary duty as it applies to the SLGPS.
- Funding issues and the impact of the latest fund valuation outcomes.
- Review benefits regulations in light of experience with the new scheme.
- A review of the structure of funds in Scotland.

The draft plan will go to Scottish Ministers and will then be published.

Pensions Choice

The UK Government's pensions choice provisions came into effect on 5 April 2015. As a Defined Benefit scheme the SLGPS is not directly affected. However, members can transfer their pension to a Defined Contribution scheme in order to realise a lump sum payment. There are charges and tax implications of doing this and the SLGPSAB is concerned about the risk of miss-selling and pensions scams. SLGPS pension funds have already taken some initial actions and the SAB will consider further guidance at its August meeting.

For further information:

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Dave Watson: d.watson@unison.co.uk

Accounting Regulations

SCOTTISH STATUTORY INSTRUMENTS

2014 No. 200

LOCAL GOVERNMENT

The Local Authority Accounts (Scotland) Regulations 2014

Made - - - -

Laid before the Scottish Parliament

Coming into force - -

The Scottish Ministers make the following Regulations in section 105(1) of the Local Government (Scotland) Act 1973 in order to do so.

In accordance with section 105(2) of that Act, they have no power to make Regulations which are to be concerned.

PART I Introductory

Citation and commencement

1. These Regulations may be cited as the Local Authority Accounts (Scotland) Regulations 2014 and come into force on 10th October 2014.

Saving provision

2. Nothing in these Regulations applies to any accounts, or financial year that began prior to 1st April 2014.

Interpretation

3. In these Regulations—

- “the 1973 Act” means the Local Government (Scotland) Act 1973;
- “Annual Accounts” means the abstract of accounts as defined in section 96(3) of the 1973 Act;
- “auditor” means the person appointed to audit a local authority under section 96(4) (accounts and audit)(b) of the 1973 Act;

- (a) 1973 c.65, which is amended by the Rating and Valuation (Amendment) (Functions of the Secretary of State) (Scotland) Act 1998 (c.46);
- (b) Section 96(4) is amended by paragraph 3 of schedule 4 to the Public Finance (Scotland) Act 2012 (2012 c.1).

Local Government and Communities Directorate
Local Government Division

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Local Government Finance Circular 7/2014

Directors of Finance of Scottish Local Authorities
Audit Scotland
COSLA

Our ref: A7652027
16 July 2014

Dear Director of Finance,

THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

I write to advise that the Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and are due to come into force on 10 October 2014. These regulations will apply to the statutory accounts of local authorities commencing with the financial year 2014-15. The provision in the regulations relating to internal audit applies from the 10 October 2014.

The new regulations revoke The Local Authority Accounts (Scotland) Regulations 1965, making the 2013-14 statutory accounts the last ones subject to those regulations.

This Finance Circular is to provide local authorities with a summary of the requirements of the new regulations, together with an explanation of the consultation draft of the regulations published last year. It is the result of joint working between the Scottish Government, local authority Finance and Audit Scotland. I would like to take the opportunity to thank you and Audit Scotland for their invaluable help and advice.

Separate guidance on the management commentary requirement is being drafted, and will be published at a future date.

Yours faithfully

Hazel Black
Head of Local Authority Accounting



PENSION FUNDS

48. The consultation draft of the regulations proposed a change in the disclosures required for pensions, to include the cash equivalent transfer value of a person's pension right. This change was not supported by those consulted for a number of reasons and the regulations do not include this disclosure requirement.

49. The regulations apply to local government pension funds. These pension funds also have separate statutory reporting requirements as set out in *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* (the Administration Regulations).

50. The Administration Regulations include a statutory requirement for a report about the management and financial performance during the year of each of the pension funds maintained by the authority. This report is published as part of the statutory pension fund annual report. The accounting regulations require a management commentary. We recommend that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations.

51. The Administration Regulations also require the preparation of a governance compliance statement. The accounting regulations require an annual governance statement. We recommend that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations.

52. Finance circular 1/2011 which sets out statutory guidance for *Accounting for local authority pension funds* will be updated and re-issued to include additional guidance.

The Pensions Regulator

The Pensions
Regulator



How we will support your scheme to meet the required standards

Today, we published details of how we will support public service schemes like yours to meet the required standards of governance and administration, and what we might do in cases of non-compliance - including using our enforcement powers.

[Read our compliance and enforcement policy for public service schemes.](#)

We recognise that the reforms are significant and those involved with public service schemes face complex and challenging conditions, so we want to work with you to help you meet the new standards set out in law. For further help and practical guidance, visit the [public service section of our website.](#)

Investment Regulations

SCOTTISH STATUTORY INSTRUMENTS

2010 No. 233

PENSIONS

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

Made - - - - 10th June 2010
Laid before the Scottish Parliament 11th June 2010
Coming into force - - 5th July 2010

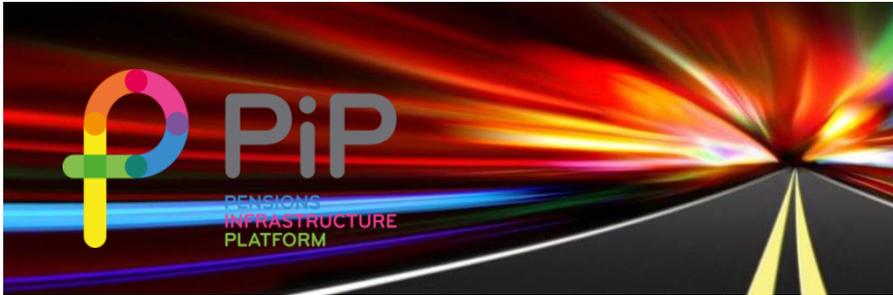
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New Opportunities Portfolio



Investment Regulations


 The Scottish Parliament
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 Local Government and Regeneration Committee
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 The Scottish Parliament
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 25 March 2015
 Ms Lynn Brown
 Executive Director for Finance,
 Glasgow City Council and
 Strathclyde Pension Fund
 By Email Only
lynn.brown@fgs.glasgow.gov.uk;
richard.mcnisroe@fgs.glasgow.gov.uk

Dear Ms Brown,
 Local Government Pension Scheme and capital investment
 As part of the Local Government and Regeneration Committee's scrutiny of the Scottish Government's 2016/17 budget proposals, the Committee is undertaking a number of one-off oral evidence sessions to supplement its budget mainstreaming agenda.
 An element of this scrutiny will be an oral evidence session looking at how the Scottish Local Government Pension Scheme can support the delivery of key infrastructural needs in Scotland, such as transport projects and...
 ...Committee, to invite you, or another...
 ...oral evidence to the...
 ...April 2015. This...

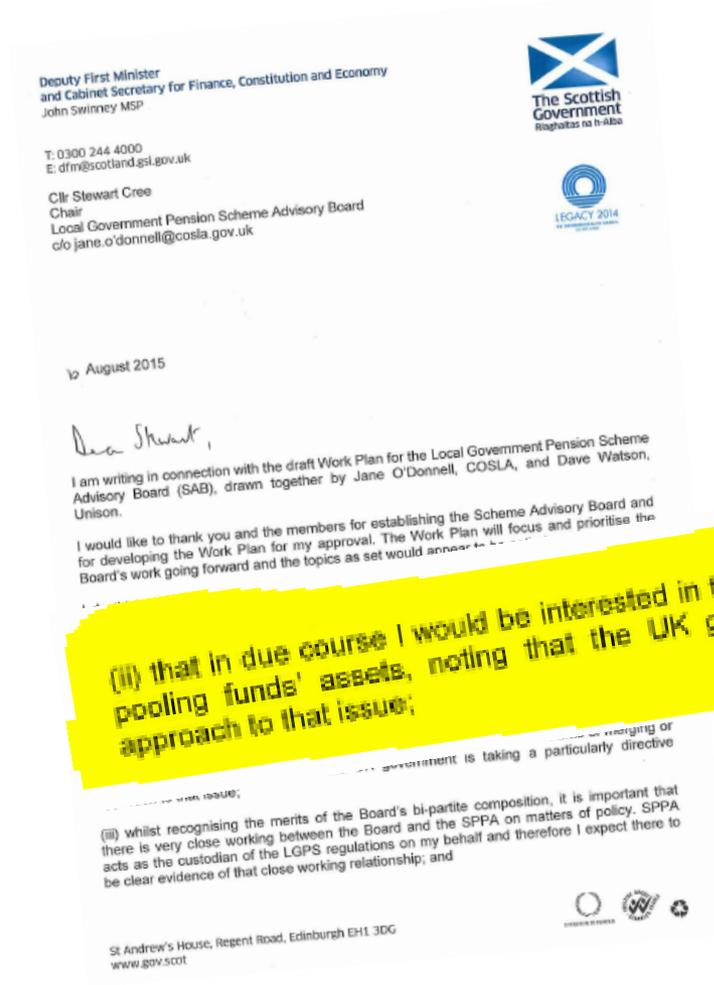
"We note evidence received in term of the fiduciary duty applying to trustees of local government pension funds. There are clearly opportunities to deliver much-needed capital investment in areas such as transport and housing, if impediments can be addressed. We encourage the Scottish Government and local government pension fund managers to look closely at this aspect with a view to unlocking this funding for investment in secure local capital projects. We expect the Scottish Government to take all possible steps to facilitate such investment. [Paragraph 65 of the report]"

"We will look to take evidence from local government pension funds, in terms of their operation and ability to invest, as part of our 2015 mainstreamed budget work programme. [Paragraph 66 of the report]."



	<p> The Local Government and Regeneration Committee is a sub-committee of the Scottish Parliament. It was established in 2007 to scrutinise the Scottish Government's policies and actions in relation to local government and regeneration. </p>	<p> The Committee's primary role is to hold the Scottish Government to account for its policies and actions in relation to local government and regeneration. It does this through a combination of oral and written evidence sessions, reports, and recommendations. </p>	<p> The Committee is currently undertaking a number of oral evidence sessions to supplement its budget mainstreaming agenda. These sessions will focus on how the Scottish Local Government Pension Scheme can support the delivery of key infrastructural needs in Scotland. </p>	<p> The Committee is also undertaking a number of written evidence sessions. These sessions will focus on how the Scottish Local Government Pension Scheme can support the delivery of key infrastructural needs in Scotland. </p>	<p> The Committee is also undertaking a number of written evidence sessions. These sessions will focus on how the Scottish Local Government Pension Scheme can support the delivery of key infrastructural needs in Scotland. </p>	<p> The Committee is also undertaking a number of written evidence sessions. These sessions will focus on how the Scottish Local Government Pension Scheme can support the delivery of key infrastructural needs in Scotland. </p>	<table border="1"> <tr> <td> </td> </tr> </table>										

Investment Regulations



Investment Regulations

Public sector pension funds in Scotland ploughing £1.7bn into 'dirty investments'



Vast fossil fuel investments of Scottish local government pensions revealed

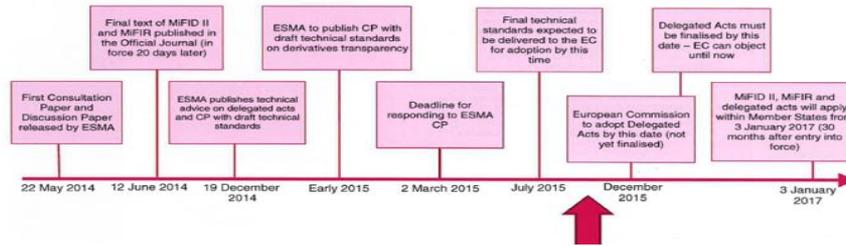
Millions of UK public sector pensions 'exposed to risky fossil fuel investments'

Mass data release: £14 billion risky fossil fuel investments by UK councils revealed

"Public investments in fossil fuels are fuelling dangerous climate change, and present a threat to the pensions of 4.6 million public sector workers. There's a strong ethical and financial case for local councils to divest from fossil fuels and reinvest into infrastructure fit for the 21st century." -- Danni Paffard of 350.org

Other Developments

MiFID II Timeline



MiFID2 Impact matrix – Public Sector Entities

The table below shows which MiFID2 requirements impact the various types of public sector entities.

In all cases the impact of MiFID requirements is indirect, in that it applies to banks when they financial instruments with public sector entities

	Local authorities	Pension schemes*
MiFID classification	YES	YES
Per Se Retail classification	YES	NO
Restrictions on free research	YES	YES
Appropriateness	YES	YES
Pricing disclosures	YES	YES
Product governance	YES	YES
Pre-trade transparency	YES	YES
Post-trade transparency	YES (low impact)	YES (low impact)
Trading obligation	NO	Potentially
Systematic internalisers	NO	NO
ALGO/HFT trading	NO	NO
OTF	YES (low impact)	YES (low impact)
Transaction Reporting	NO	NO
Recording of communications	YES	YES

Local Government Pensions Schemes – key take-away points

We have mentioned below a number of key points which are likely to be of particular relevance to LGPS over and above those already applicable to Local Authorities.

Counterparty classification

- Local Government Pensions Schemes (LGPS) are likely to be defaulted to Retail status and would need to consider opting up to elective Professional in order to trade some of the more complex types of financial instruments. LGPS would be required to acknowledge the loss of certain investor protections as a result of opting up)
- Opt up process needs to be repeated on an annual basis
- LGPS which do not meet the opt up thresholds would need to revise their hedging strategy to meet the restrictions on trading complex derivatives.

Pre-Trade transparency impact

- LGPS will be impacted by the liquidity squeeze that is likely to result from the implementation of MiFID2 pre-trade transparency rules. It is quite possible that many sell-side banks will push many derivatives through trading venues (MTFs or OTFs) in order to avoid the transparency requirements.
- Trading on MTFs/OTFs comes with certain registration requirements and associated costs. Access to an OTF is at the discretion of that trading venue (likely dependent on volume of business LGPS does).

Trading Obligation

- LGPS are likely to be classified as Financial Counterparties under the EMIR regulation, which means they would be subject to the MiFID2 Trading Obligation.
- As a result, all products identified as mandatorily clearable under EMIR (currently liquid and standardised Rates and Credit derivatives) will need to be traded on a trading venue. This will require access to such venues before trading a vanilla interest rate swap or credit default swap.

* It refers to pension schemes owned or managed by a local authority but which operate as separate legal entities

** Housing associations which meet the definition of an undertaking by operating under an individual legal structure

Conclusions

The future ain't what it used
to be.

Yogi Berra

If you don't know where you
are going, you might wind up
someplace else.

Yogi Berra

In theory there is no
difference between theory
and practice. In practice
there is.

Yogi Berra

Questions?