



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 March 2017
Classification:	Public
Title:	Changes to Investment Regulations to be Implemented on the 1st April 2017
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no financial implications arising from this report.
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. EXECUTIVE SUMMARY

- 1.1 The Committee was updated at the November 2016 meeting of guidance that the Government has issued on the preparation of Investment Strategy Statements (ISS) and Funding Strategy Statements (FSS) to replace existing Funding Statements. These Statements must be approved for use as at the 1st April 2017. The draft FSS was approved at the Committee meeting on the 15th November.
- 1.2 The investment environment under the new regulations will be one of increased freedom but with more onerous justification of investment policy together with greater requirements to consult with interested parties and to report on the application of policy. There will also be greater Government powers of intervention, mainly but not exclusively, aimed at pooling.
- 1.3 The Committee will not have to alter its current investment strategy. It may well have to consider the extent of diversification and the adequacy of risk management, which was already anticipated post the actuarial review.

- 1.4 The new ISS sets out the Council's policy on ethical, social and corporate governance issues for both its own investments and also those being managed through the London CIV.

2. RECOMMENDATIONS

- 2.1 The Committee is invited:
 - a. To approve the new Investment Strategy Statement (ISS) required by changes of Legislation to be implemented as at the 1st April.
 - b. To approve the Funding Strategy Statement required by changes of Legislation to be implemented as at the 1st April and which was approved in draft at November Committee meeting.

3. PROPOSALS AND ISSUES

- 3.1 The Government issued revised investment regulations in September 2016, to have effect from 1st November 2016. The centre piece of the regulations was the replacement of the Statement of Investment Principles (SIP) with a requirement to prepare and operate in accordance with an ISS. Guidance has recently been issued on the preparation of an ISS. Each scheme is required to have an ISS by 1st April 2017 and a draft will be presented to the 21st March 2017 meeting of the Committee.

Overview of the Investment Regulations – Investment Strategy Statement

- 3.2 The ISS sets out the requirements of the legislation and the Investment Committee's terms of reference. The six main objectives of the legislation are then detailed in relation to Westminster City Council's Pension Fund policies and strategies. These are:
 - 3.3 Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments – This sets out how the investment strategy deals with diversification and return to meet the long term objectives of the fund;
 - 3.4 Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment – this sets out how the Investment Committee assesses the suitability of Investments and measures their suitability;
 - 3.5 Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed – this sets out how the Investment Committee assesses the different types of risk in order to establish what is acceptable to ensure that the fund meets its obligations;

- 3.6 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles – this sets out the Investment Committee's approach to pooling and also what the London Collective Investment Vehicle (CIV) can offer in terms of Investment opportunities;
- 3.7 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments – this sets out how the fund meets these obligations and also how potential investments with the London CIV will comply with these obligations;
- 3.8 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments - this sets out how the fund meets these obligations and also how potential investments with the London CIV will be dealt with.

Overview of the Investment Regulations – Funding Strategy Statement

- 3.9 A Draft Funding Strategy Statement was presented to the Committee on the 15th November. This which reflects the revised CIPFA guidance. The main changes are:
- There is much greater emphasis on achieving and maintaining solvency than before;
 - There is more on achieving returns within reasonable risk parameters;
 - Maintaining the stability of contribution rates becomes an aspiration which is subordinate to meeting the solvency issues and achieving long term cost efficiency
- 3.10 At the meeting on the 15th November it was highlighted that the statement might require further modification once the results of the 2016 valuation are known. Following the final Actuarial Report, there is just one section of the report, 7.2, which has been updated. This relates to the monitoring arrangements for assessing the financial health of Employers. In addition, Section 12 has been corrected to refer to the new ISS and not the old SIP.

4 IMPLICATIONS FOR THE PENSION FUND COMMITTEE

- 4.1 The new investment regulations and guidance provide greater freedom to set strategy. The greater degree of explanation required in setting the investment strategy should be seen as best practice, although with an unwelcome degree of Government oversight
- 4.2 The ISS presented, sets out the requirements of the legislation in regards to the Westminster City Council's Pension Fund. It includes elements of the London CIV's ISS which will apply, to those items the Fund has invested through the London CIV.

- 4.3 The FSS as presented to the Committee in draft in November needs no further amendments and can also be implemented as at the 1st April.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Pete Carpenter pcarpenter@westminster.gov.uk or 020 7641 2832

BACKGROUND PAPERS:

ISS and FSS Committee Papers – November 2016

APPENDICES:

Appendix 1 – Investment Strategy Statement

Appendix 2 – Funding Strategy Statement