
STATUTORY INSTRUMENTS

1995 No. 1019

The Local Government Pension Scheme Regulations 1995

PART L

PENSION FUNDS AND PAYMENTS BY AUTHORITIES

Management and investment of funds

Management of pension fund

L4. Subject to paragraph (2), every administering authority shall in each year carry and credit to their pension fund—

- (a) the amounts contributed during the year by members entitled to participate in the benefits of the fund,
- (b) the amounts payable by employing authorities under regulation L12,
- (c) all dividends and interest arising during the year out of the investment or use of money forming part of the fund, and any capital money resulting from the realisation of investments or from the repayment of money used temporarily for other authorised purposes,
- (d) the amount of any additional payments received by the administering authority under these regulations, and
- (e) any other sum which the administering authority may become liable to carry to the fund under these regulations.

(2) Interest paid under this Part shall be carried and credited—

- (a) if paid under paragraph (3) of regulation L15, to the relevant fund within the meaning of that regulation,
- (b) otherwise, to the appropriate pension fund.

(3) An administering authority may pay out of money forming part of their pension fund any costs, charges and expenses incurred by them in administering the fund—

- (a) including those incurred—
 - (i) in discharging their functions under regulations L5 to L8, or
 - (ii) in connection with a scheme to which contributions are payable under Schedule C4, but
- (b) excluding those incurred in connection with a retirement benefits scheme approved by the Commissioners of Inland Revenue under section 591(1) and (2)(h) of the Income and Corporation Taxes Act 1988⁽¹⁾.

Use and investment of pension fund's money

L5.—(1) Any money forming part of the pension fund maintained by an administering authority (“fund money”) that is not for the time being required to meet payments to be made out of the fund under these regulations shall be invested by the authority.

(2) An administering authority may vary the manner in which any fund money is for the time being invested by them under this regulation.

(3) In the discharge of their functions under this regulation an administering authority shall have regard—

- (a) to the need for diversification of investments of fund money,
- (b) to the suitability of investments of any description of investment which they propose to make and of any investment proposed as an investment of that description, and
- (c) to proper advice, obtained at reasonable intervals.

(4) Paragraph (3)(c) does not apply where functions under this regulation are lawfully discharged, under arrangements made under section 101 of the Local Government Act 1972(2) or otherwise, by an officer who is competent to give proper advice.

(5) For the purposes of this regulation and of regulations L4(1)(c) and L6, investment includes—

- (a) any contract entered into in the course of dealing in financial futures and traded options,
- (b) appropriation by the administering authority for use as a loan for any purpose for which they have a statutory borrowing power (including power to borrow under an instrument made under a statute),
- (c) any contract the effecting of which constitutes the carrying out of insurance business within class VII in Schedule 1 to the Insurance Companies Act 1982(3) with a person—
 - (i) who is permitted under that Act to carry on such business, or
 - (ii) who, as an insurance company the head office of which is in a member State, is permitted under the law of a member State (other than the United Kingdom) to carry on insurance business of a corresponding class,
- (d) a permitted stocklending arrangement, and
- (e) entering as a limited partner into a partnership.

(6) For the purposes of this regulation—

“limited partner” means a person who is not liable for the debts or obligations of a partnership beyond the amount contributed at the time of entering into that partnership;

“partnership” means a partnership whose purpose is to invest in shares in or securities of companies which at the date of purchase by the partnership are normally not quoted on a recognised stock exchange;

“proper advice” means the advice of a person who is reasonably believed by the administering authority to be qualified by his ability in and practical experience of financial matters (including where appropriate an officer of theirs);

“recognised stock exchange” has the meaning given in section 841(1) of the Income and Corporation Taxes Act 1988;

“stocklending arrangement” means an arrangement such as is mentioned in section 129(1) or (2) of the Income and Corporation Taxes Act 1988 and such an arrangement is a permitted arrangement if it complies with the provisions of regulation 5.58 and 5.60 of Section L of the Financial Services (Regulated Schemes) Regulations 1991, taking—

(2) 1972 c. 70.

(3) 1982 c. 50.

- (a) the reference in paragraph 1c(iii) of regulation 5.58 to Guidance of the Board as a reference to Guidance Release 4/91 issued by the Securities and Investments Board in June 1991, and
 - (b) any reference to the trustee as a reference to the administering authority;
- “traded option” means an option which is for the time being quoted on a recognised stock exchange or on the London International Financial Futures Exchange.

Restrictions on investments

L6. Subject to the following provisions of this regulation, an administering authority may not—

- (a) make any investment in unlisted securities of companies so as to cause the total value of such investments to exceed the permitted percentage,
- (b) make any investment so as to result—
 - (i) in more than the permitted percentage being represented by a single holding, or
 - (ii) in more than the permitted percentage being represented by investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body,
- (c) make any deposit with a relevant body (within the meaning of paragraph (4)) so as to cause the aggregate amount of fund money deposited with any one bank, institution or person (other than the National Savings Bank) to exceed the permitted percentage,
- (d) lend, use as mentioned in regulation L5(5)(b), or deposit with a person specified in paragraph 12 or 13 of Schedule 2 to the Banking Act 1987(4), any or any additional fund money so as to cause the aggregate amount of all fund money so lent, used or deposited to exceed the permitted percentage,
- (e) make any contract falling within regulation L5(5)(c) under which the total amount so contracted exceeds the permitted percentage,
- (f) enter into a stocklending arrangement so as to cause the total value of the securities transferred, or agreed to be transferred, by the authority pursuant to stocklending arrangements to exceed the permitted percentage, or
- (g) contribute to a partnership so as to cause the total value of contributions by the authority—
 - (i) to that partnership, or
 - (ii) to such partnerships in general,to exceed the permitted percentage.

(2) For the purposes of this regulation “the permitted percentage” in relation to any time means—

- (a) in the case of paragraphs (1)(a), (b)(i), (c) and (d), 10 per cent.,
- (b) in the case of paragraphs (1)(b)(ii), (e) and (f), 25 per cent.,
- (c) in the case of paragraph (1)(g)(i), 2 per cent., and
- (d) in the case of paragraph (1)(g)(ii), 5 per cent., of the value at the time of all investments of fund money.

(3) The total value of investments referred to in paragraph (1)(a) does not include the value of such investments made in accordance with a scheme under section 11 of the Trustee Investments Act 1961(5).

(4) 1987 c. 22.

(5) 1961 c. 62; section 11 was amended by the [Greater London Council \(General Powers\) Act 1967 \(c.xx\)](#), section 10(1), [Superannuation Act 1972 \(c. 11\)](#), Schedule 6, paragraph 40, [Local Government Act 1985 \(c. 51\)](#), Schedule 14, paragraph 38, Schedule 17, [Financial Services Act 1986 \(c. 60\)](#), Schedule 16, paragraph 2, [Norfolk and Suffolk Broads Act 1988 \(c. 4\)](#),

- (4) Paragraph (1)(b) does not apply—
- (a) to an investment made in accordance with such a scheme,
 - (b) to an investment falling within paragraph 1 of Part I or paragraph 1 or 2 of Part II of Schedule 1 to that Act, or
 - (c) to a deposit with a relevant body;
- and in this paragraph “relevant body” means—
- (i) the Bank of England,
 - (ii) an institution authorised under Part I of the Banking Act 1987(6),
 - (iii) a person for the time being specified in Schedule 2 to that Act, or
 - (iv) a European authorised institution which has lawfully established a branch in the United Kingdom for the purpose of accepting deposits.
- (5) Paragraph (1)(b)(i) does not apply if—
- (a) the investment is made by an investment manager appointed under regulation L8, and
 - (b) the single holding comprises only investments in units or other shares of the investments subject to the trusts of any one unit trust scheme.
- (6) Paragraph (1)(d) does not apply if the loan is—
- (a) to Her Majesty’s Government in the United Kingdom, or
 - (b) to the Government of the Isle of Man;
- and for the purposes of that paragraph money is not lent if it is—
- (i) invested in registered securities to which section 1 of the Stock Transfer Act 1963(7) applies or in listed securities, or
 - (ii) deposited with the Bank of England, an institution authorised under Part I of the Banking Act 1987 or a person for the time being specified in paragraphs 1 to 11 of Schedule 2 to that Act.
- (7) In this regulation—
- “companies” includes companies established under the law of any territory outside the United Kingdom;
- “European authorised institution” has the same meaning as in the Banking Co-ordination (Second Council Directive) Regulations 1992(8);
- “listed securities” means securities quoted on a recognised stock exchange and “unlisted securities” shall be construed accordingly;
- “securities” includes shares, stock and debentures;
- “single holding” means investments—
- (a) in securities of, or in loans to or deposits with, any one body, other than investments in unit trust schemes,
 - (b) in units or other shares of the investments subject to the trust of any one unit trust scheme,

Schedule 6, Water Act 1989 (c. 15), Schedule 25, paragraph 29, Local Government (Wales) Act 1994 (c. 19), Schedule 16, paragraph 19(1), Police and Magistrates’ Courts Act 1994 (c. 29), Schedule 4, paragraph 4; section 11 was repealed in part by the London Government Act 1963, Schedule 8, Local Government Act 1972 (c. 70), Schedule 30, Education Reform Act 1988 (c. 40), Schedule 13.

(6) 1987 c. 22.

(7) 1963 c. 18; section 1 was amended by virtue of the Companies Consolidation (Consequential Provisions) Act 1985 (c. 9), section 30, Schedule 2, the Building Societies Act 1986 (c. 53), section 120, Schedule 18, Part I, the Post Office Act 1969 (c. 45), section 103(1)(f), the Finance Act 1964 (c. 49), section 26(7), Schedule 9 and the Financial Services Act 1986 (c. 60), section 212, Schedule 16, paragraph 4.

(8) S.I. 1992/3218.

- (c) in the acquisition, development or management or in any advance of money upon the security of any one piece of land, or
 - (d) in the acquisition of any one chattel;
- “recognised stock exchange” and “stocklending arrangement” have the same meaning as in regulation L5;

and the value at any time of all investments of fund money is to be taken to include the amount of any fund money used as mentioned in regulation L5(5)(b) and for the time being not repaid.

Use of fund money by administering authority

L7. An administering authority shall pay interest to the fund on the total from day to day of any fund money used by them and for the time being not repaid, at a rate no lower than the lowest rate at which that amount could have been borrowed by them at arms' length at 7 days' notice (otherwise than by way of overdraft from a bank).

Fund managers

L8.—(1) In this Part “investment manager” means—

- (a) a person who is authorised under the Financial Services Act 1986⁽⁹⁾ and entitled by virtue of that authorisation to manage the assets of occupational pension schemes;
- (b) a person—
 - (i) who does not transact investment business (within the meaning of that Act) from a permanent place of business maintained by him in the United Kingdom;
 - (ii) whose head office is situated in a member State other than the United Kingdom;
 - (iii) who is recognised by the law of that member State as a national of that or another member State; and
 - (iv) who is for the time being authorised under that law to engage in one or more of the activities falling within Part II of Schedule 1 to that Act, and is not precluded by that law from managing the assets of occupational pension schemes or assets belonging to another person; or
- (c) a person who is a European institution carrying on home-regulated investment business in the United Kingdom.

(2) Instead of managing and investing fund money on their own behalf, an administering authority may, subject to the following provisions, appoint one or more investment managers to manage and invest it on their behalf.

- (3) An administering authority may only appoint as an investment manager a person who—
 - (a) they reasonably believe is suitably qualified by his ability in and practical experience of financial matters to make investment decisions on their behalf, and
 - (b) is not an employee of that authority.
- (4) An administering authority may only make such an appointment if—
 - (a) they have considered the value of the fund money to be managed by the investment manager or, as the case may be, by each of the investment managers to be appointed;
 - (b) they have taken proper advice; and
 - (c) they are satisfied, having regard—

(9) 1986 c. 60; relevant amending instruments are S.I. 1988/318, S.I. 1988/803.

- (i) to the desirability of securing diversification of the management of the fund, and
 - (ii) to the value of the assets of the fund, that it will not be excessive.
 - (5) The terms of an appointment under paragraph (2) shall—
 - (a) provide for the appointment to be terminable by the administering authority giving not more than one month's notice;
 - (b) require the investment manager to provide the administering authority at least once every three months with a report setting out the action he has taken under the appointment;
 - (c) require the investment manager to comply with such instructions as the administering authority may give;
 - (d) require the investment manager to have regard—
 - (i) to the need for diversification of investments of fund money, and
 - (ii) to the suitability of investments of any description of investment which he proposes to make, and of any investment proposed as an investment of that description; and
 - (e) prohibit the investment manager from making investments which would contravene regulation L6;
- and in determining those terms an administering authority shall have regard to proper advice.
- (6) Where an authority have made an appointment under paragraph (2) they shall—
 - (a) at least once every three months review the investments made by the investment manager; and
 - (b) from time to time consider the desirability of continuing or terminating the appointment.
 - (7) In exercising their functions under paragraph (6), an administering authority shall have regard to proper advice and—
 - (a) to the need for diversification of investments of fund money; and
 - (b) to the suitability of investments of any description of investment which the investment manager has made and of any investment made as an investment of that description.
 - (8) In this regulation—
 - “home-regulated investment business” and “European institution” have the same meaning as in the Banking Coordination (Second Council Directive) Regulations 1992(10); and
 - “proper advice” and “investment” have the same meaning as in regulation L5.

Accounts and audit

- L9.** As soon as practicable after any audit of their pension fund an administering authority shall send each body whose employees contribute to the fund copies—
- (a) of the revenue account and balance sheet of the fund, and
 - (b) of any report by the auditor.