TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

TEESSIDE PENSION BOARD REPORT

24 APRIL 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE AND SUPPORT – JAMES BROMILEY

FUNDING STRATEGY STATEMENT & INVESTMENT STRATEGY STATEMENT

1. PURPOSE OF THE REPORT

1.1 To present to Members of the Teesside Pension Board the new Funding Strategy Statement (FSS) (Appendix A) and Investment Strategy Statement (ISS) (Appendix B).

2. RECOMMENDATIONS

2.1 That Members review and note the new FSS and ISS, and pass any comments.

3. FINANCIAL IMPLICATIONS

3.1 The Statements set out the both the finding and investment strategies for the Fund.

4. FUNDING STRATEGY STATEMENT

4.1 The Local Government Pension Scheme (England and Wales) Regulations 2013 require all Local Government Pension Scheme (LGPS) funds to prepare and publish a FSS. The purpose of the FSS is to document the processes by which the administering authority:

- Establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- Supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013;
- Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- Takes a prudent longer-term view of funding those liabilities.

4.2 The Regulations require that the FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the. In practice, subsequent to 2004 the Fund's FSS has been revised for each triennial valuation. The new FSS is attached.

4.3 Since the previous valuation, there are changes to the assumptions used in the Actuarial calculation of the funding targets and a change in the treatment of different employers in the Fund.

Funding Target Assumptions:

4.4 There are a number of key assumptions included in the FSS (e.g. discount rate, inflationary salary increases, retail price indexation and consumer price indexation). A summary with comparisons against the 2013 valuation assumptions is shown in the table below:

Assumptions	TPF 2013	TPF 2016
Discount Rate	5.4%	4.7%
Salary Increase	3.9%	3.0%
RPI	3.3%	3.0%
CPI	2.4%	2.0%
Probability of Success	70%	70%
Recovery Period	11 yrs	20 yrs
Trajectory Period	11 yrs	25 yrs

4.5 The main unfavourable movement from the 2013 valuation is the discount rate. In order to mitigate this, the trajectory period has been increased to 25 years and the deficit recover period has increased to 20 years. The recovery/trajectory periods now used are in line with recommended market levels.

5. INVESTMENT STRATEGY STATEMENT

5.1 The Department for Communities and Local Government (DCLG) laid before Parliament the new LGPS (Management & Investment of Funds) 2016 (Statutory Instrument 2016 No. 946) on 23 September 2016 and came into force from 1 November 2016 (see Appendix C).

5.2 The new regulations make four key changes to the previous 2009 Regulations:

- The introduction of an ISS, replacing the Statement of Investment Principles;
- The removal of Table of Limits on Investments (Schedule 1), placing the responsibility of setting appropriate limits on each fund;
- The introduction of allowing funds to investment without restriction as to quantity in Treasury approved collective investment schemes (i.e. pooling); and
- The introduction of the power for the Secretary of State for DCLG to intervene where and Investment Strategy is deemed not acceptable or a fund does not make suitable arrangements to make investments determined by the Secretary of State.

5.3 The removal the existing schedule of limitations on investments requires authorities to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

5.4 This is set out in the ISS, which authorities are required to prepare having taken proper advice and appropriate consultation with interested parties, and publish. The new ISS covers:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

5.5 The Department for Communities and Local Government (DCLG) published guidance in September 2016 (Appendix D) to assist Funds with writing the new ISSs.

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