

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 26 October 2015.

PRESENT: Councillors N J Walker (Chair); Mr C Monson (Deputy Chair); Mrs J Cook, Mr G Whitehouse and B Woodhouse

OFFICERS: P Campbell - Head of Investments and Treasury Management , B Carr - Governance Officer, M Hopwood - Head of Pensions and P Slocombe. - Chief Finance Officer.

APOLOGIES FOR ABSENCE Mr G Clyburn.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mrs J Cook	Non-Pecuniary	Agenda Item 7 - Member of Teesside Pension Fund

15/8 **MINUTES - TEESSIDE PENSION BOARD - 28 JULY 2015**

The minutes of the Teesside Pension Board held on 28 July 2015 were submitted for approval.

It was suggested that the Voting Outcome should only be included if a recorded vote was required.

AGREED that the minutes of the Teesside Pension Board be taken as read and approved as a correct record subject to the Voting Outcome being removed.

15/9 **PENSION BOARD MEMBERS - TRAINING UPDATE**

The Head of Investments and Treasury Management circulated a revised record of training schedule. It was noted that all Members of the Board had completed the Pensions Regulator Public Service Toolkit and had attended the Introduction to the Local Government Scheme training session.

The Head of Investments and Treasury Management suggested that Members might want to look at the Knowledge and Understanding and Training Needs matrix that had been submitted to the previous meeting of the Board and provide any feedback on future training requirements. The Deputy Chair suggested that rather than complete the whole checklist, Members might want to use it as an aide memoire to identify any areas where a Member might require further information or training. The Chair suggested that Officers circulate the training matrix to Board Members electronically.

The Chief Finance Officer advised that if individual Board Members indicated that further information or training was required, Officers would endeavour to provide any support or assistance required.

AGREED as follows:

1. That the Head of Investments and Treasury Management circulate an electronic copy of the Knowledge and Understanding and Training Needs matrix.
2. That Members of the Board notify the Head of Investments and Treasury Management of any further information required or any future training requirements.

15/10 **UPDATED TERMS OF REFERENCE**

The Chief Finance Officer provided the Board with an updated version of the Terms of Reference for the Teesside Pension Board.

The Board was advised that the amendments agreed at the Board meeting held on 28 July 2015 had been incorporated into the revised Terms of Reference.

AGREED that the revised Terms of Reference be noted and confirmed.

15/11

PROPOSED WORK PROGRAMME

The Chief Finance Officer provided the Pension Board with a proposed work plan to initiate discussions with regard to the areas of the work that the Board might consider over the following 12 months.

At the previous meeting of the Board, it was agreed that the Board should concentrate on, but not be restricted to the following four key operating areas:

- a) Policy and Performance;
- b) Performance;
- c) Governance;
- d) Risk

It was suggested that the Board might also want to consider a number of "one-off" project reviews, including:-

- a) Review of the employer and administering authority statutory obligations and discretions;
- b) Review processes to investigate and assess the strength of the employers in the scheme in order to protect the fund;
- c) Review the Business Continuity Plan and Disaster Recover arrangements.

Other ideas for proposed project work could arise through information gained from the Teesside Pension Fund and Investment Panel (TPFIP) or the Pensions Regulator.

When compiling the proposed work plan, Officers had looked at which topics/projects that other Pension Boards were considering, including the West Midlands and Berkshire to see if there were any core functions included within their work plans. A copy of the proposed work plan which listed the proposed activities to be undertaken under the four key operating areas was attached at Appendix A. The activities included:-

Policy and Procedure

1. Review the Fund's membership-wide communications - It was highlighted that there was a regulatory requirement to provide membership-wide communications. It was proposed to review this function Bi-annually.
2. Review the Fund's employer communications and training. It was proposed to review this function Bi-annually.

The above activities related to the Boards Terms of Reference - Core Functions - Paragraph 61(a) and 62(a). It was highlighted that the outcome of neither of the above activities were submitted to the TPFIP.

Performance

1. Investment Performance Report - This report was submitted to the TPFIP. This activity related to the Boards Terms of Reference - Core Functions - Paragraph 61(c). It was proposed to review this function Annually.

2. Kier Group's Administration Unit compliance with Service Level Agreement Key Performance requirements. This activity related to the Boards Terms of Reference - Core Functions - Paragraph 61(c) and 62(b). It was proposed to review this function Annually.

3. Consider the timeliness of collecting employer contributions. This activity related to the Boards Terms of Reference - Core Functions - Paragraph 61(a). It was proposed to review this function Bi-annually. It was highlighted that the Performance report was submitted to the TPFIP.

Governance

1. To consider the Annual Report and Accounts. The CIPFA Regulations required the accounts to be completed on time. It was highlighted that the External Auditor's report would highlight any risks to the Fund. This activity related to the Boards Terms of Reference - Core Functions - Paragraph 61(a) and 62(c). It was proposed to review this function Annually.

2. To review the minutes of the TPFIP meetings and decisions taken. This activity related to the Boards Terms of Reference - Core Functions - Paragraph 61(a). It was proposed to review the minutes on a quarterly basis.

3. Monitor the documents (below) as required by the Regulations to ensure they are regularly reviewed and approved:

- Funding Strategy Statement;
- Statement of Investment Principles;
- Governance Policy & Governance Compliance Statement;
- Pension Administration Strategy;
- Shareholder Governance Policy.

The Deputy Chair requested that any changes to the above documents be reported to the Teesside Pension Board for information to assist the Board in its monitoring role. It was highlighted that the Annual Report and Accounts were submitted to the Corporate Affairs and Audit Committee for approval prior to being submitted to the TPFIP for information.

Risk

1. Review the Risk Register - It was suggested that the register be reviewed Bi-Annually rather than quarterly.

2. Receive the final External Audit Report.

3. Receive the Internal Audit reports.

It was highlighted that the Review of the Risk Register and the Internal Audit reports were not currently reported to the TPFIP. The External Audit report was submitted to Corporate Affairs and Audit Committee and Teesside Pension Fund and Investment Panel.

It was suggested that a further column be included in the Work Plan to indicate if any of the activities listed in the plan were reported to or considered by another Committee. The Board could then do a more in-depth review of activities that were not considered by or reviewed by another Committee, if it considered it appropriate.

It was suggested that in terms of the Board's Project work, the following schedule be agreed:

a) Review of the employer and administering authority statutory obligations and discretions - To be considered at the meeting scheduled for 1 February 2016;

b) Review processes to investigate and assess the strength of the employers in the scheme in order to protect the Fund - To be considered at the meeting scheduled for 26 April 2016;

c) Review the Business Continuity Plan and Disaster Recover arrangements - As this was

considered a more complex longer term topic and would involve an in-depth review and would potentially take a year to complete; it was agreed that this would be considered as an Annual Project.

AGREED as follows:

1. That the suggested Pension Board Work Plan for the following 12 months, including the revised frequency for review of the Work Plan options be agreed.
2. That an additional column be included in the Work Plan to indicate if any of the activities listed in the plan were reported to or considered by another Committee.
3. That any amendments/changes to the documents listed under Point 3. of the Governance function be reported to the Board to assist in its monitoring role.
4. That the suggested timescale for reviewing the "one-off" Projects be agreed.

15/12 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 17 JUNE 2015**

The Chief Finance Officer submitted a copy of the minutes of the TPFIP held on 17 June 2015 for discussion by the Board.

The following issues were raised following discussion of the minutes of the TPFIP.

Substitutes/Training

The Board queried how often substitutes had been used in terms of attendance at the meetings of the TPFIP. The Head of Investments and Treasury Management indicated that in his experience, the use of a substitute occurred very rarely as all Middlesbrough Members attending the TPFIP were required to undertake Mandatory Training. The Deputy Chair advised that the TPFIP was slightly different to a Council Committee and he queried whether the use of substitutes was appropriate.

The Board was advised that at the meeting of the Panel held on 17 June 2015, a Member from Stockton Council had indicated that in his view, the training should be mandatory for all Members, given the complex nature of the documentation submitted to the Panel. The Chair of the TPFIP had stated that Middlesbrough Council did not have any jurisdiction over Members from other local authorities.

A query was raised with regard to why the TPFIP had decided not to adopt the CIPFA Knowledge and Skills Framework. The Head of Investments and Treasury Management indicated that he would locate the minute of the meeting where this decision was made, and report the reasons for the decision back to the Board.

Ethical Investments

Reference was made to the Agenda Item in relation to Ethical Investments. It was suggested that it would be useful for the Board to receive a Briefing with regard to the Legal Advice and Guidance available in respect of investing in Ethical Investments.

AGREED as follows:

1. That the Governance Officer investigates how often a substitute has been used in respect of attendance at the TPFIP.
2. That the Head of Investments and Treasury Management provide the Board with the reasons for the decision for TPFIP not to adopt the CIPFA Knowledge and Skills Framework for elected members.
3. That a Briefing be arranged for Members of the Pension Board to look at the Legal Advice and Guidance available in respect of investing in Ethical Investments.

15/13 TEESSIDE PENSION FUND - REPORT AND ACCOUNTS

The Chief Finance Officer submitted a copy of the Teesside Pension Fund Annual Report and Accounts for the year ended 31 March 2015.

The Head of Investments and Treasury Management highlighted the following four key areas:

Page 49 of the report showed the TPFIP Membership and the meeting attendance of Members for the year 2014/2015. It was queried whether those Members who had not attended on a regular basis were fulfilling the quasi duties of the Fund.

Page 86 of the report included the Independent Auditor's statement to Members of Middlesbrough Council on the Pension Fund Financial Statements which was in compliance with the Fund's Governance function. Page 88 included the Statement of Responsibilities for the Financial Statements which outlined the responsibilities of the authority and the Chief Finance Officer. The statement certified the accounts as being a true and fair view of the financial position of the Teesside Pension Fund as at 31 March 2015 and was signed by the Chief Finance Officer.

Page 89 of the report provided a Summary of the Accounts. The accounts showed that contributions had reduced slightly. The Fund's benefits had risen by £9m in one year which demonstrated the effect that non-active members were having on the Fund. The Transfers in/out reflected the merger of Durham Probation Service. The leavers' figure which had risen from 5,696 to 80,755 was as a result of the members of the Durham and Tees Probation Trust transferring to the Greater Manchester Pension Fund. The Management Expenses reflected the amount spent to run and administer the Fund.

Income had risen by £5m because the size of the Fund had increased. In response to a query with regard to why Management Costs had doubled from 2012/2013 to 2013/2014, the Board was advised that CIPFA did not require the Fund to include transactions costs in 2012/2013 because they were capitalised. In 2014/2015 CIPFA had required the Fund to include the transactions in Management Expenses in that years accounts and they also required that the Fund re-state the transactions in the Management Expenses in the 2013/2014 accounts. The Transaction Costs last year were £1.5m which meant that the Management Expenses were comparable to the previous 3 years.

AGREED that the Teesside Pension Fund Annual Report and Accounts for the year ended 31 March 2015 be noted.

15/14 DRAFT RISK REGISTER

The Chief Finance Officer submitted a copy of the Draft Risk Register in respect of the Teesside Pension Fund.

The Board was advised that the register was in draft form and it was queried whether it would be appropriate for Officers to score the register alone, as the score could be subjective and it was anticipated that the Board could be involved. In response to a query with regard to what measures were put in place if an activity within an objective was listed as Amber, the Chief Finance officer advised that the activity would be examined to see if the risk was acceptable. The Board requested further details on the activities that were listed as Amber on the draft register.

It was clarified that a Score of 1 - 5 was classed as Green; a score of 6 - 12 was classed as Amber and a score of 15 - 25 was classed as red. It was requested that Officers:

- Update the categories on the Risk Register;
- Identify the Direction of Travel in respect of the Amber categories; and
- Provide more detailed information in respect of the Amber categories in terms of actions taken to mitigate risk.

In response to a query with regard to whether the Disaster Recovery Plans had been tested, the Board was advised that they had been tested in the past, but not recently.

The Head of Investments and Treasury Management provided the board with an update with regard to the outcome of the recent recruitment exercise to appoint Pension Fund staff. He advised that two of the posts had been appointed to and two would be re-advertised in appropriate places.

The Chief Finance Officer advised that as the Fund was managed in-house, one of the risks was that a member of staff handed in their notice. The staff employed by the Fund had local knowledge and it was important to ensure that the Fund had succession planning in place.

In terms of developing the Risk Register, Officers had consulted the National Association of Pension Funds to see if the Risk Register that the Fund was producing was relevant.

AGREED as follows:-

1. That the categories included on the Risk Register be updated.
2. That Officers identify the Direction of Travel each time the risks are re-appraised.
3. That more detailed information be provided, in respect of the Amber categories in terms of actions taken to mitigate risk.

15/15

SCHEME MEMBER DATA QUALITY

The Head of Pensions provided Members of the Board with an overview of Scheme Member Data Quality.

The Board was advised that the Pensions Regulator required all Private Sector pension schemes to measure membership data. Public Sector schemes were also expected to measure data quality. It was highlighted that poor record keeping could result in significant additional costs for the Fund.

The common data that the Fund was required to capture included National Insurance Number, Surname and Forename (or initials), Sex, Date of Birth, Date Member joined the Scheme, Expected Retirement Date, Membership Status, Last Status Event and the Member's address (including the Post Code). The Fund Managers needed to ensure that all of the above information was captured, that it was correct and that it was up-to-date.

The Head of Pensions referred to the Results Table which related to the capture of the above data. It was highlighted that it was almost impossible to have a 100% return on the capture of National Insurance Numbers as some people who were beneficiaries of the Fund were dependants under the age of 16.

One area of concern was the figure for the capture of the Member's address (93.58%). The majority of addresses that Fund Managers had been unable to capture related to deferred Members. It was the responsibility of each Member of the Scheme to provide the Fund Managers with a valid, up-to-date address. Members were reminded regularly through Pensions correspondence that they should inform the Fund Managers of any change of address.

If the Fund did not have a valid address for a Member whose Pension was due to be paid, they would contact the Department of Work and Pensions to ascertain if they had an up-to-date address for that Member.

AGREED that the information regarding the Scheme Member Data Quality be noted.

15/16

ACTUARIAL ASSUMPTIONS

The Head of Investments and Treasury Management presented the Board with an overview of the objective of Actuarial Assumptions.

The Valuation objectives were as follows:-

- To review the financial position of the Fund;
- Set the employer contribution rates;
- Meet the legal and regulatory requirements on actuarial valuations

The Valuation was concerned with the size of the Fund and the expected cash inflows from contributions and investment income and the cash outflows to pensioners.

As part of the Valuation, the following key assumptions were made:-

- Life Expectancy/mortality;
- Inflation;
- Wage growth;
- Projected investment performance;
- Discount Rate.

The area that a person lived in e.g. whether it was an urban or rural area could have an effect on a person's life expectancy/mortality rate. In terms of Life Expectancy, the Actuary standard tables had listed Teesside Pension Fund at the 2013 Valuation under the Normal category. Prior to that valuation, TPF had been in the Heavy category.

Local Government Pension Schemes increased in line with the Consumer Price Index (CPI). The higher the CPI was, the larger the pension rise would be. For those Members who were part of the CARE Scheme, their earnings were increased each year in line with the CPI.

In terms of Wage Growth, it was expected that there would be an annualised rate of increase for cost of living rises, pay grade increments and anticipated promotion pay rises. The Board was advised that in terms of the current workforce of Middlesbrough Council, many of the staff had worked for the Council for a large number of years and as a consequence, they were at the top of their pay grade. The staff were also subject to fixed term pay rises which may be for up to 3 years at a time.

It was highlighted that the higher the wage growth, the higher the payroll contribution cash inflows and the higher eventual pension cash outflows.

Reference was made to the Fund's Customised Benchmark which set out the level of investment that should be made in relation to each of the different asset classes. A list of indexes which showed the Customised Benchmark in respect of Growth Assets including Property and Alternatives and Protection Assets including Bonds was circulated to the Members of the Board.

AON Hewitt, the Fund's Actuary had set out the Capital Market Assumptions after surveying a number of different organisations. The CMAs were carried out because there were risk factors related to investments, and because of this appropriate capital market analyses were necessary.

The Board was advised that whilst overall, the Fund was fully funded, the situation with regard to individual employers varied. Some employers still had a deficit that needed to be recovered and the payments were spread over a number of years. This was the "deficit recovery period" and in line with previous valuations, this period reduced every three years. It was highlighted that the deficit recovery period had been reduced from 14 years to 11 years to ensure that in time, all individual employers would have sufficient assets to match their liabilities. The deficit recovery period could be increased up to 25 years if the funding rate reduced.

The discount rate set at the 2013 valuation was 5.4% and this was calculated according to the Projected Investment Performance. This figure was used to calculate the future service rate and the deficit rate (how much the Fund was short in providing for existing members).

AGREED that the information regarding the Actuarial Assumptions be noted.

15/17 **ACTIONS ARISING FROM THE TEESSIDE PENSION BOARD MEETING - 26 OCTOBER 2015**

The following actions were identified following consideration of the Agenda Items:

MINUTES

Take out Reference to Voting Outcome in Minutes unless there is a recorded vote
Governance Officer (B Carr)

TRAINING AND ATTENDANCE

Provide information regarding the number of times substitutes have been used on TPFIP -
Governance Officer (B Carr)

Check Attendance of Members on TPFIP to see if Member is fulfilling requirements of role as
Member in terms of attendance at Panel. - Governance Officer (B Carr)/TPB

Consider whether TPFIP Training should be mandatory for All Members including other local
authority Members. - TPB to decide whether to recommend to TPFIP

Look at CIPFA training requirements for Pension Panel Members to see if standard is being
met. - Head of Investments & Treasury Management. (P Campbell)

Circulate Knowledge and Skills proforma so that Board Members can identify any future
training needs. - Head of Investments & Treasury Management. (P Campbell)/TPB

RISK REGISTER

Change requirement to submit Risk Register to Board Bi-Annually rather than quarterly. -
Head of Investments & Treasury Management. (P Campbell)/ Head of Pensions(M Hopwood)

Update categories on Risk Register. - Head of Investments & Treasury Management. (P
Campbell)/ Head of Pensions(M Hopwood)

Identify Direction of Travel each time the risks are re-appraised - Head of Investments &
Treasury Management. (P Campbell)/ Head of Pensions(M Hopwood)

Provide more detailed information in respect of Amber categories in terms of actions taken to
mitigate risk. - Head of Investments & Treasury Management. (P Campbell)/ Head of
Pensions(M Hopwood)

ETHICAL INVESTMENTS

Provide Board Members with a presentation with regard to the Legal Advice in relation to
Ethical Investments and TPFIP members' Fiduciary Duties. - Head of Investments & Treasury
Management. (P Campbell)

FUTURE PROJECT WORK

Review of the employer and administering authority statutory obligations and discretions – To
be considered at the 1 February 2016 Board meeting. - Head of Pensions(M Hopwood)/
Scheme Co-Ordinator(G Hall)

Review processes to investigate and assess the strength of employers in the scheme in order
to protect the Fund – To be considered at the 26 April Board meeting. - Pensions Manager(M
Hopwood)/ Scheme Co-Ordinator(G Hall)

Review the Business Continuity Plan and Disaster Recovery arrangements – Annual Project.
- Head of Investments & Treasury Management. (P Campbell)/Head of Pensions(M
Hopwood).

