TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

1 FEBRUARY 2016

CHIEF FINANCE OFFICER - PAUL SLOCOMBE

TEESSIDE PENSION FUND & INVESTMENT PANEL – MEMBER TRAINING

1. PURPOSE OF THE REPORT

1.1 Board Members requested an assessment of training provided and/or available to Members of the Teesside Pension Fund and Investment Panel (the Panel).

2. RECOMMENDATIONS

2.1 That Members decide if the current training to Panel Members is sufficient or whether or not to suggest improvements to the Panel Members.

3. FINANCIAL IMPLICATIONS

3.1 The financial implications arising from this report are the cost of any future training events, either provided by internal staff resources (in time) or the cost of external providers.

4. BACKGROUND

4.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) published in 2010 CIPFA *Pension Finance Knowledge and Skills Framework: A Technical Guidance for Elected Representatives and Non-executives in the Public Sector* (CIPFA Framework). When published there was not widespread take up of the Framework by LGPS funds. Attached as Appendix A is the report to the Panel from December 2010 which recommends the Teesside Fund does not adopt the CIPFA Framework, but does adopt its own Trustee Self-Assessment Programme. Self-assessment questionnaires were issued to Panel Members with zero returned.

4.2 The CIPFA Framework covers six areas of knowledge and skills identified as the core technical requirements for Board members:

- Pensions Legislative and Governance Context
- Pension Accounting and Auditing Standards
- Financial Services Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge

- Actuarial Methods, Standards and Practices.

4.3 In 2011, CIPFA published CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (CIPFA Code of Practice). Attached as Appendix B is the report to the Panel recommends adopting the CIPFA Code of Practice. Since this report, the Teesside Fund has reported compliance with the six Myners Investment Principles in its Annual Report and Accounts.

5. COMPLAINCE WITH THTE CIPFA FRAMEWORK

5.1 Attached as Appendix C is the Members Introduction Pack (2015) which is the latest version of the Pack presented to Panel Members each year. In the past, this was used to train new Members and as reminder training presentation for Members who wished to receive it. From 2015 onwards, it is mandatory for all Middlesbrough Councillors to receive this training before they can vote at the Panel meetings.

5.2 The Introduction Pack provides an overview of most of the key areas identified in the CIPFA Framework. The areas that stand out as not covered are Accounting and Auditing Standards and Financial Services Procurement. The Investment Panel do not approve the Annual Report & Accounts and do not agree the External Audit reports, this is the Corporate Affairs and Audit Committee who receive their own training. Also, the Teesside Fund manages the majority of its investments internally; the only procurement needed is for Property.

5.3 In addition to the introduction training, the Panel are offered the opportunity to attend LGPS “Trustee Training Fundamentals Course run by the Local Government Association (LGA). The Fundamentals Course covers all the key areas identified in the CIPFA Framework. Three Members attended 2015’s course.

5.4 It should also be recognised that the Investment Panel employs two Independent Investment Advisors. Part of their remit is to educate the Panel Members on financial products & markets, investment performance & risk management and any other matters as needed. In addition, Panel Members also have access to staff in the in-house investment team and Kier Group’s Pension Administration Unit.

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Appendix A

TO THE: CHAIR AND MEMBERS **AGENDA ITEM 9**

OF THE: TEESSIDE PENSION FUND AND INVESTMENT PANEL

FOR: **1 December 2010**

MYNERS PRINCIPLES: TRUSTEE SELF EVALUATION

1. **PURPOSE OF THE REPORT**

1.1 To produce a framework that delivers a trustee self-evaluation programme.

1.2 Improve compliance with the Myners Principles with regard to performance assessment.

2. **RECOMMENDATIONS**

2.1 For reasons of cost and suitability that the Fund does not adopt the CIPFA Knowledge and Skills framework.

2.2 That the Fund adopts a Trustee Self-Assessment Programme.

3. **FINANCIAL IMPLICATIONS**

3.1 The self-assessment process carries no additional financial implications. However further trustee training may impose costs.

4. **BACKGROUND**

4.1 In June 2009 Trustees considered compliance with the revised Myners Principles. Principle 1: EFFECTIVE DECISION-MAKING, stated:

> *"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.*
>
> *Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."*

4.2 Whilst the Fund considered that it was in full compliance with the principle, it has been evident that there is no self-evaluation mechanism. This would enable Trustees to better gauge their own level of expertise and identify what, if any, further training or advice is required.

4.3 In September 2010 CIPFA and Hymans Robertson launched a Knowledge and Skills Framework, which would enable Trustees to evaluate their own capabilities. The Framework is a chargeable service and we discuss its suitability in the findings.

5 FINDINGS

5.1 As discussed at the June 2009 meeting it has been a challenge to devise an acceptable process for trustee self-assessment. We have looked at how other funds have addressed this element of the principle. Information from the public domain bears out two general responses (in addition to sometimes avoiding the "comply or explain" requirement). In each case we comment accordingly relative to our Fund's approach.

5.1.1 The detailed approach

Trustees are asked to complete a detailed self-assessment questionnaire, which is then subject to a detailed statistical analysis and published. Questions designed to test for skills, knowledge and ability under such headings as "analysis and strategic thinking" or "technical knowledge" drill into a Trustee's level of awareness.

The questionnaires are then made anonymous and a lengthy report is produced for consideration.

The advantage of this approach is that it generates a lot of data; however we note that findings are based on a low response rate, typically a handful of replies. This approach also gets to the heart of any debate on self-assessment; **where does the burden of responsibility to understand and explain technical matters lay?** Should this be sole the duty of Officers and Advisors to have appropriate competency or should Trustees be obligated to have equivalent qualifications?

The Fund has historically conducted the Officer/Advisor/Trustee relationship around the principles of the Trustee Acts. Broadly Trustees should "conduct the business of the trust with the same care as an ordinary prudent 'man' of business would extend to his own affairs". This enables Trustees with a wide range of background and experience to serve. It also ensures that the decision making process is not restricted to a limited group of members with backgrounds in investment management, legal or pensions administration.

That the meetings of the Investment Panel are conducted in a way that is as accessible and inclusive as possible is the current practice. Hopefully this should ensure that Trustees, in particular new appointments, feel in no way intimidated by the subject matter and can play an active role in policy making.

5.1.2 Waiting For CIPFA

Authorities have also opted to wait for further guidance on this matter, in some cases waiting for publication of the CIPFA Knowledge and Skills Framework for elected members.

In conjunction with Hymans Robertson, CIPFA have now published the framework. Member assessment is based on a training needs analysis which is derived from the new Knowledge Library.

The framework tests for knowledge and skills in the following competencies

- Legislative and governance context;
- Accounting and auditing standards;
- Procurement of financial services and relationship management;
- Investment performance and risk management;
- Financial markets and knowledge of investment products;
- Actuarial methods, standards and practices.

Although compliance with the Framework is not compulsory, CIPFA is encouraging Funds to state in their report and accounts whether they have adopted the framework.

CIPFA have only released a sample of the Analysis and Library (APPENDIX A), accordingly a full assessment is not possible. However we note that the service will be subject to annual charges, for which we have no budgetary provision. For Trustees this imposes an examination style of assessment which may be counterproductive.

5.2 Although we can learn a lot from other Fund's responses, it appears that it would be most appropriate to develop our own Trustee evaluation process. The solution devised has been based around some guiding principles.

5.2.1 Cost – There is no budget established for the actual assessment process, so an in house approach is required. Any expenditure should be directed at providing training not measuring it.

5.2.2 Accessibility – To ensure maximum take up, any Trustee evaluation process should be kept confidential. The process should be straightforward, take less than an hour and the actual self-evaluation produces clear results. The programme will be open and offered to all attendees of the Investment Panel.

5.2.3 Support – Where a training need is identified nominated Officers will provide Trustee support. The need may be met by 1 to 1 briefings, informal discussion or formal training such the employers' Association Fundamentals courses.

5.3 Appendix B details the mechanics of the proposed Trustee evaluation process. The document will be sent out to Trustees as a guidance note to assist with completing the evaluation, analysing it and how to get further help.

5.4 Appendix C provides a small sample of specimen evaluation questions and answers. The actual evaluation will comprise of approximately 20 questions and should take under an hour to complete.

Appendix B

TO THE: CHAIR AND MEMBERS **AGENDA ITEM 9**

OF THE: TEESSIDE PENSION FUND AND INVESTMENT PANEL

FOR: **14 December 2011**

CIPFA KNOWLEDGE & SKILLS CODE OF PRACTICE

2. **PURPOSE OF THE REPORT**

1.1 To report on the requirement to consider the Fund's response to the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge & Skills.

2. **RECOMMENDATIONS**

2.1 That the Fund adopts the Code of Practice and the recommended Statement as set out in 5.2.

3. **FINANCIAL IMPLICATIONS**

3.1 There are no financial implications arising from this report.

5. **BACKGROUND**

4.1 In June 2009 Members considered compliance with the revised Myners Principles. Principle 1: EFFECTIVE DECISION-MAKING, stated:

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest".

4.4 In September 2010 CIPFA launched a Knowledge and Skills Framework. This covered both Members and Officers.

4.5 In December 2010 Members received a report which considered adoption of the Framework and agreed certain changes, particularly around Member training, which would meet the requirements of the Framework. The Fund's Knowledge & Skills Policy is attached (Appendix A).

4.6 At that time it was anticipated that CIPFA would produce a formal Code of Practice and this has now been published.

4.7 The Fund is in compliance with the Code of Practice.

6 THE CODE OF PRACTICE: KEY PRINCIPLES

5.1 The Code of Practice is underpinned by four key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.

2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

3. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as those set down in the CIPFA Framework.

4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

5.2 CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their financial regulations the following statement:

1. This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2. This organisation recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Framework.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to Paul Slocombe, the Director of Strategic Resources, who will act in accordance with the organisation's policy statement and with CIPFA Standards of Professional Practice.

Teesside Pension Fund

Appendix C

Elected Member Introduction Pack

An Introduction to the Local Government Pension Scheme

2015

CONTENTS

INTRODUCTION TO THE LOCAL GOVERNMENT PENSION SCHEME

THE NATURE OF THE LOCAL GOVERNMENT PENSION SCHEME

The Local Government Pension Scheme (LGPS) is a statutory, defined benefit scheme governed by regulations laid before parliament, rather than a trust based scheme covered by a trust deed and rules.

Nationally, there are many thousands of individual employers participating in the LGPS, with over 130 in the Teesside Fund alone. Employers participating in the scheme include not only large authorities, but small Parish Councils, a whole range of public bodies, educational establishments, charities and contractors undertaking functions outsourced by local authorities.

Unlike the other main public service pension schemes, the LGPS is a funded scheme - in common with most private sector defined benefit pension schemes. This means that contributions are collected from employing authorities and members which are then invested by the individual Funds, with all pensions and other outward payments being met by the Funds themselves. Councillors in each of the administering authorities in England and Wales are responsible for the management and investment of the Pension Funds via their respective Funds' committees. This means that decisions are taken by democratically elected local representatives working within the restraints of local authority budgets.

REGULATORY AND GOVERNANCE FRAMEWORK

Regulatory

The LGPS is established under powers conferred upon the Secretary of State under the Superannuation Act 1972.

In common with other UK pension schemes the LGPS is subject to a raft of primary legislation that dictates the boundaries within which it can operate and the minimum requirements it must meet. These include, but are not limited to, the Pension Schemes Act 1993, Pensions Act 1995 and the Finance Act 2004. In addition to this primary legislation (and its periodic amendments) there is also a large amount of additional subordinate legislation that the Scheme must comply with in such areas as disclosure of information, etc.

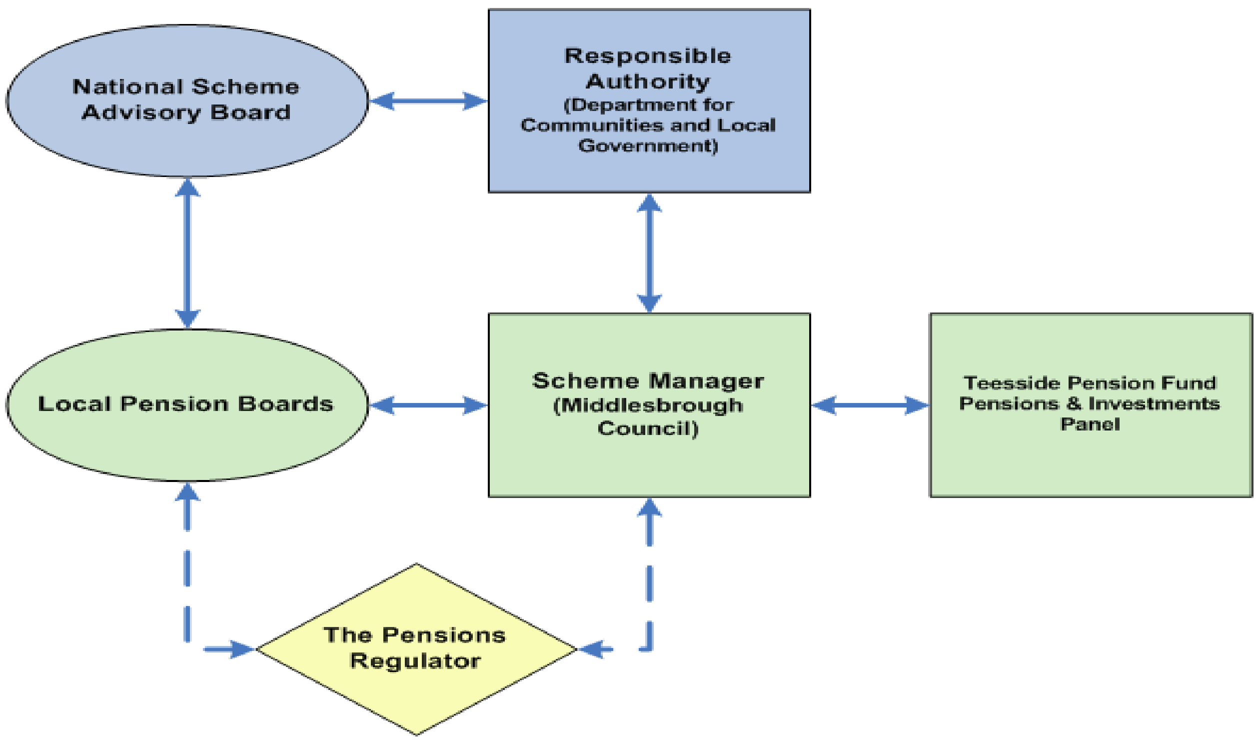
The subordinate legislation governing the direct operation of the current LGPS is contained in The Local Government Pension Scheme Regulations (2013) and the Local Government Pension Scheme (Transitional) Regulations 2014; these set out the relevant provisions, which are applicable to all participating authorities in England and Wales.

This legislation sets the benefit structure of the Scheme, the payment and contribution responsibilities, and the decision making responsibilities and accountabilities for all participating stakeholders (from members to administering authorities).

Across the public sector, the Public Service Pensions Act 2013 introduced new governance requirements for each of the public sector schemes, with the need to establish both national and local Boards which will act in an advisory and audit capacity.

Governance

The Public Service Pensions Act introduced a new national and local governance framework for all public sector pension schemes, which the LGPS now adheres to. The interaction of the various bodies is shown below.



At a national level:

- Responsible Authority
  - For the LGPS, this is the Department for communities and Local Government (DCLG). Its primary roles being
    - The LGPS Scheme 'sponsor'
    - Ensuring affordability of the LGPS for members and employing authorities
    - Developing policy for the operation of the LGPS to reflect government policy and LGPS specific experience

    - Commissioning and updating legislation and actuarial guidance

- National Scheme Advisory Board
  - Local Government Pension Scheme Advisory Board (LGPSAB)
    - Advises on policy, best practice, and governance issues
    - Reporting responsibility
    - 'Bona fides' single source for LGPS stakeholders on general and specific health of the LGPS
    - Liaison role with the Pensions Regulator

  further information on the Advisory Board, its role and operation can be found at the Board website: http://www.lgpsboard.org/

- The Pensions Regulator
  - Statutory objectives
    - Protect member benefits (although they accept that these are already guaranteed)
    - Promote and improve understanding of good administration

  Please visit The Pensions Regulator website for more information: http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx

In addition to the national bodies, each individual LGPS Fund has a single employing authority designated as the administering authority for its geographic area – usually, but not always, a County Council or the largest of the relevant boroughs. Middlesbrough Council was appointed the Administering Authority of the Teesside Pension Fund by the Secretary of State, replacing the former Cleveland County Council Fund following Local Government Reorganisation.

Each administering authority is responsible for the financial and administrative functions of their Fund. For the Teesside fund, this function is delegated to the Teesside Pension & Investment Panel whose function is covered in more detail later.

LGPS REFORM

The Government commissioned a report from Lord Hutton into Public Sector pension funds, covering both funded and unfunded funds. The report concluded that in order to be both sustainable and affordable, the public sector schemes needed to undergo radical change from their existing state.

Following publication of the final report a process of consultation and negotiation led to a framework for all public sector schemes, resulting in the publication of the Public Service Pensions Act 2013. This Act applies across the public sector schemes from April 2015 and enforces those radical changes including a move away from “final salary” benefits and a link to State Pension Age for service after 2015.

Other public sector schemes faced increased member contribution rates ahead of 2015 which, due to the unique nature of the LGPS were avoided in return for a move to the new public sector scheme structure a year early in April 2014.

The final provisions for the new scheme, which came in to force in April 2014 can be summarised:

- the final salary pension scheme is replaced with a new career average scheme (CARE);
- improved accrual rate ($1/49^{th}$);
- existing members move to the new schemes for future accruals, maintaining the link to final salary for calculating the value of their pension rights accrued under the old schemes;
- normal pension age be linked to the State Pension Age and rise over time accordingly;
- arrangements to be in place to keep future costs under control by capping employer contribution rates through a cost sharing mechanism which limits the amount paid by the taxpayer;
- governance arrangements be enhanced with workforce representatives and best practice administration standards;
- The LGPS to remain funded;

Changes from the previous LGPS are displayed in the table below.

	LGPS 2014	**LGPS 2008**
Basis of pension	Career Average Revalued Earnings (CARE)	Final salary
Accrual rate	1/49th	1/60th
Revaluation rate	Consumer Price Index (CPI)	Based on final salary
Pensionable pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution flexibility	Members can pay 50% for 50% of the benefits	None
Normal pension age	Individual member's state pension age (min 65)	65
Lump sum option	Yes, £12 for each £1 of pension	Yes, £12 for each £1 of pension
Death benefits	Yes, lump sum of 3 x pensionable pay and survivor pension based on 1/160th accrual	Yes, lump sum of 3 x pensionable pay and survivor pension based on 1/160th accrual
Indexation of pension in payment	CPI	CPI (RPI for pre 2011 increases)
Qualifying period for benefits	2 years	3 months

The Local Government Pension Scheme, at the end of March 2014, had 4.6 million members (1.9 million contributors, 1.4 million pensioners and 1.3 million deferred pensioners). At the end of March 2014 the LGPS Funds in England and Wales has approximately £180 billion in investments and assets, enough to pay benefits for nearly 20 years.

The scheme receives income from investments and contributions from employers. In 2013/14 these amounted to (£ billions):

Whole LGPS				Teesside Pension Fund			
Income (£ billion)		Expenditure (£ billion)		Income (£ million)		Expenditure (£ million)	
Employers	6.6	Benefits	7.8	Employers	63.4	Benefits	111.1
Employees	1.8	Expenses	1.1	Employees	25.4	Expenses	4.5
Investments	3.2			Investments	84.0		

The scheme's aim remains to deliver pensions in the long term, and Funds are managed so as to mitigate the effects on council tax resulting from short term fluctuations in market values. The scheme receives income from both investments and contributions from employers. Expenditure being largely in the form of benefit payments with the addition of Fund expenses. Surplus is available for investment allowing Funds to grow to meet future pension liabilities, with the LGPS being a major investor in both UK and world economies.

The future service costs for the scheme which are to be met by councils is a target 12 per cent of pensionable salary – equivalent to many other open defined benefit pension schemes in the private sector.

Although many authorities are currently paying more than this (with an average rate of around 18%), the extra contributions are to cover the underfunding of benefits that have already accrued. That underfunding cost has to be met regardless of future changes to the scheme.

Employees make a significant contribution into the Local Government Pension Scheme. Employee contributions to the LGPS in England and Wales vary between 5.5 per cent of salary for the lowest paid (those earning up to £13,600 a year) to 12.5 per cent for staff earning over £151,801 a year.

The average pension paid under the scheme is around £4,000per annum. The average reflects the wide range of pensions that are paid, from very small pensions paid to those scheme members who have had a short period of low paid service to very much larger pensions paid to long-serving higher paid employees. The Teesside Fund pays out, on average, around £3,900 per annum to each pensioner. The Audit Commission states that half of all LGPS pensions in England are below £4,000.

Strong governance arrangements within the LGPS continue ensure transparency and accountability, with proposed strengthening of these arrangements. Each Fund has to produce and publish audited accounts, an annual report, a governance compliance statement, a funding strategy statement, and a statement of investment principles; it has to publish its triennial fund valuation report; it is subject to internal and external audit; and data on the scheme is collected and published by the Department for Communities and Local Government (CLG).

Further developments

The government announced its intention to further reform the LGPS, seeking additional cost savings across the whole Scheme. Proposals included a potential merger of individual Funds to form “Super Funds” with a view to providing cost savings through economies of scale. A call for evidence was issued in 2013 inviting respondents’ views on this and other possible cost saving measures.

Following the call for evidence and a subsequent evaluation of all proposals by the actuarial firm Hymans Robinson, the proposed merger of Funds has been shelved. Other forms of collaboration and cost savings are still being considered for the future, including on the recent Budget red book:

> “2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.”

THE TEESSIDE PENSION FUND & INVESTMENT PANEL

Middlesbrough Council is the Administering Authority for the Teesside Fund, appointed to that role by the Secretary of State following the abolition of Cleveland County Council. The Fund is controlled by the Teesside Pension Fund & Investment Panel (the Investment Panel) which has plenary powers to make decisions without reference to the Council. The Investment Panel acts in a similar manner to the board of trustees of a private sector fund. Although the Teesside Fund does not have a Trust Deed, as all local government schemes are controlled by Statute, technically elected members who serve on the Investment Panel are not trustees. However they are usually considered to be required to act as quasi trustees.

Under the cabinet structure in Local Government, management of the pension fund is a non-executive function, as stated in Section 2 and Schedule 1H of the Local Authorities (Functions and Responsibilities)(England) Regulations SI 2000 No. 2853. Section 101 of the Local Government Act 1972 provides a Local Authority with the power to delegate certain of its functions to a Committee or a sub-Committee, which is how the Teesside Pension Fund Investment Panel derives its powers.

The Panel is made up of elected members from the Administering Authority and each of the other three unitary authorities in the former Cleveland area. In addition, the other employers in the Teesside Fund elect a single representative to the Investment Panel. All members have equal voting rights. There are also employee representatives on the Panel, selected by the Trade Unions, who do not have voting rights. All members can ask questions, through the Chair, on all items on the Agenda.

The Investment Panel is supported by officers and external advisors. The Chief Finance Officer, the Pensions Manager, the Head of Investments and the Fund Manager all attend meetings, which are held every three months. In addition the Investment Panel appoints external specialists to advise on investment and actuarial matters.

Responsibility for the proper operation of the Teesside Fund rests with the Chief Finance Officer. The Pensions Administration Unit, under the control of the Pensions Manager, is responsible for the calculation and payment of pension benefits and for looking after employer interests in the Teesside Fund. The Loans & Investment Section, under the control of the Head of Investments, is responsible for the proper management of the investments of the Teesside Fund under delegated powers.

CONFLICTS OF INTEREST

Middlesbrough Council's Code of Conduct relating to members sets out the general requirements of the Code of Conduct and the Seven Principles of Public Life contained in the Localism Act.

The Act makes it a duty for members to register and declare any “pecuniary and other interests”.

Pecuniary interests include:

- Any employment or vocation carried out for profit or gain;
- Any sponsorship or financial benefit in respect of expenses incurred in carrying out their duties as a member, or towards their election expenses;
- Certain contracts between a member and the Council under which goods or services are to be provided or works carried out;
- Beneficial interests in land within the Council’s area of relevant authority, and any licence to occupy land in the Council’s area;
- Tenancies where the Council is the landlord and the tenant is a body in which the member has a beneficial interest;
- Beneficial interests in securities or bodies that have a place of business in the Council’s area, and set limits (£25,000 or share capital of more than 1%) are exceeded

The Act does not define “other interests”. The Council’s Code of Conduct notes that members’ public roles may, from time to time, overlap or conflict with their personal or professional lives. Members might have a non-pecuniary interest where such overlap or conflict could reasonably be regarded as being so significant that it is likely to prejudice their judgement in Council matters. Members should register and/or declare any such non-pecuniary interests.

PROPER ADVICE

The LGPS Regulations require that the Administering Authority must take *“proper advice from a person the authority reasonably believes to be qualified by their ability in and practical experience of financial matters (including any such person who is an officer of the administering authority.)”* The Teesside Fund uses the services of two external investment advisors. Peter Moon (formerly the Chief Investment Officer of the Universities Superannuation Scheme) has advised the Fund for over 20 years, and Fred Green who previously worked as the Head of Investments for the Teesside Pension Fund for around 30 years. In addition the Fund draws on internal expertise:

- Paul Slocombe, Director of Strategic Resources
- Steve Vickers, Legal Services
- Paul Campbell, Head of Investments
- Mike Hopwood, Pensions Manager
- Andy Hill, Fund Manager
- Jan Oliver, Fund Accountant

FUND ACTUARY & OTHER EXTERNAL SPECIALIST ADVISORS

The LGPS Regulations require that the Fund appoint an actuary to carry out a triennial valuation of the Teesside Fund and to undertake other Employer-related actuarial services. The Teesside Fund actuary is Aon Hewitt.

In addition the Teesside Fund has contracted with solicitors to give advice on Scheme matters (Nabarros) and property matters (Freeth Cartwright) and will use other specialists when appropriate to do so.

FUND AUDITORS

The Teesside Fund's external auditors are Deloitte LLP, who present an Audit Plan and Audit Report to the Investment Panel.

FUND CUSTODIAN

The Teesside Fund's global custodian, BNP Paribas, holds in safe custody all the investments of the Teesside Fund other than property and cash. All transactions are processed through the custodian under the control of the Fund Administration Manager.

FUND MANAGEMENT ARRANGEMENTS

The Teesside Fund is managed internally. That is to say that all investment management decisions are delegated through the Chief Finance Officer to the Head of Investments and the team of specialist managers working under the Fund Manager. All transactions undertaken by the managers are reported quarterly to the Investment Panel. In addition the Investment Panel receives annual reports covering Fund performance

Matters relating to the Scheme membership; payment of pensions, collection of contributions, dealing with employers etc are covered by the partnership agreement with Kier Group.

TEESSIDE PENSION BOARD

The Public Service Pensions Act 2013 set out changes to the governance arrangements for all public sector pension schemes. The Teesside Pension Fund and Investment Panel is still the main decision making committee for the Fund, whereas the Teesside Pension Board assists Middlesbrough Borough Council, as the Administering Authority, to:

a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pension Regulator in relation to the Scheme; and
b) To ensure the effective and efficient governance and administration of the Scheme.

The Teesside Pension Board is made up of six voting members as follows:

a) Three Employer representatives; and

b) Three Scheme Member representatives.

MEMBER TRAINING

MYNERS' REVIEW OF INSTITUTIONAL INVESTMENT

Compliance with the Myners' Code was adopted by the Teesside Fund.

Principle 1: Effective Decision Making states that:

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

MIDDLESBROUGH COUNCIL MEMBER DEVELOPMENT STRATEGY

The Council's Member Development Strategy states that:

"Members will be required to undertake training or attend briefings in respect of certain roles and in order to serve on certain Committees.

Those Middlesbrough members serving on the Investment Panel, or intending to substitute, must:

- *Attend a briefing from officers representing the Investments Section and the Pensions Section;*
- *Consider participating in the self-assessment programme;*

Based on that self-assessment, consider how he or she could benefit from the training opportunities made available from time to time."

Members representing other Employers are encouraged to adopt the relevant part of the Middlesbrough Council Member Development Strategy.

ADDITIONAL TRAINING

For some time the Teesside Fund has promoted the participation by members of the Investment Panel in the Local Government Employer's Organisation "Fundementals" training courses. These are usually held regionally and spread over three, separate days. These courses and others which are deemed to be appropriate are open to all members serving on the Investment Panel and paid for by the Fund, although members from other authorities must comply with their own authority's, rules on travel and accommodation.

KEY FUND PUBLICATIONS

A number of key documents are required to be published and maintained.

STATEMENT OF ACCOUNTS

The annual Statement of Accounts is approved by the Middlesbrough Council's Corporate Affairs and Audit Committee. This incorporates the required statements from the Fund auditors and actuary.

STATEMENT OF INVESTMENT PRINCIPLES

The Fund must publish a Statement of Investment Principles which sets out policy relating to:

- Investment Responsibilities
- Adoption of the Myners' Code
- Types of Investments To Be Held
- Diversification
- Risk
- Investment Objective
- The Realisation of Investments
- Ethical, Social & Environmental Investment
- Shareholder Governance
- Performance Measurement

FUNDING STRATEGY STATEMENT

The Teesside Fund must publish a statement to establish a clear and transparent fund-specific strategy which will identify how employer's pension liabilities are best met going forward and to take a prudent long-term view of funding those liabilities.

OTHER PUBLICATIONS

- Governance Policy Statement
- Communications Policy Statement
- Management Agreement
- Business Plan
- Shareholder Governance Annual Report

(All published documents are available on www.teesspen.org)

KEY EMPLOYEE DOCUMENTS

- Outlook-sent to all contributing members
- AtEase-sent to all members in receipt of their pensions

(All published documents are available on www.teesspen.org)

USEFUL WEBSITES

These websites may be useful:

Teesside Pension Fund:

http://www.teespen.org.uk/

Employers' Website:

http://www.employers.teespen.org.uk/

Local Authority Pension Fund Forum:

http://www.lapfforum.org/

National Association of Pension Funds:

http://www.napf.co.uk/

Scheme Advisory Board:

http://www.lgpsboard.org/

The Pensions Regulator:

http://www.thepensionsregulator.gov.uk/publicserviceschemes.apsx

GLOSSARYGLOSSARY

ACTUARIAL VALUATION - Commonly refers to an investigation by an actuary into the ability of a defined benefit scheme to meet its liabilities. The purpose is usually to assess the funding level and contribution rate, based on the agreed valuation method and assumptions.

ACTUARY – A person who calculates risks, assets and liabilities for pension funds

ADMINISTERING AUTHORITY – The local authority responsible for administering the Local Government Pension Fund for a specified area. A local authority can be both an administering authority and an employing authority. All local authorities are employing authorities but not all employing authorities are administering authorities. For example, Middlesbrough Council is the administering authority for the Teesside Pension Fund and is also an employing authority within that fund. Stockton Council is an employing authority within the fund but do not administer it.

CAREER AVERAGE SCHEME - A scheme where the benefit for each year of membership is related to the pensionable earnings for that year.

DEFINED BENEFIT SCHEME - A scheme where benefits are linked through a formula to the members' earnings and/or length of pensionable employment.

DEFINED CONTRIBUTION SCHEME – A scheme where each individual build up their pension account through contributions and investment returns. The benefits paid in retirement are dependent on the size of the pension account.

DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (CLG) – The sponsoring government department for the Local Government Pension Scheme. It is CLG who write and move through parliament the rules and regulations for the scheme.

FINANCIAL STATEMENTS - The formal presentation of accounting information in a structured manner, the objective of which is to provide information about the financial position, performance and financial adaptability of the reporting entity.

FUNDED SCHEME – A pension scheme that provides in advance for future liabilities by the accumulation of assets, normally external to the employer's business.

FUTURE SERVICE COSTS – The cost of providing pension benefits being accrued in a pension scheme. When assessing the contribution rate to be paid by the scheme employer the scheme actuary calculates the cost of buying one days service. The amount of buying this service is split between the employer and employee. Every 3 years this rate is reassessed and all past service is reviewed to see if the correct rate has been paid for it. Sometimes not enough money has been paid which leaves a past service deficit**.** This is added to the future service rate to determine the total contribution to be paid to the pension fund. If the amount paid in the past is too high then this leads to a past service surplus which allows the total contribution to be reduced.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD) - Acts as an actuarial consultancy, providing advice to many of the public service pension schemes. GAD is usually the body which certifies a private sector scheme as broadly comparable for Fair Deal purposes.

MYNERS' CODE - A set of voluntary principles for UK pension funds encompassing governance, investment decision making, and reporting arising from the Myners Review and revised periodically following consultation and discussions within government.

MYNERS REVIEW - The review of issues and challenges affecting institutional investment decision making carried out by Paul Myners on behalf of the UK Government, which was published in 2001. A key recommendation was that pension fund trustees should embrace a set of principles now known as the Myners Code.

NORMAL PENSION AGE (NPA) - Earliest age at which a member can receive full pension benefits. It is not necessarily the same as normal pension date.

NORMAL PENSION DATE (NPD) - The date at which a member of a pension scheme normally becomes entitled to receive his/her retirement benefits.

PENSIONABLE EARNINGS - The earnings on which benefits and/or contributions are calculated under the scheme rules.

PENSIONS COMMITTEE – The Committee appointed by the Administering Authority to oversee the running of the Pensions Fund. This committee normally has plenary powers to act without the approval of the full council.

PRIMARY LEGISLATION – Acts of Parliament that create the framework around which detail is added by enacting detailed Statutory Instruments.

STATEMENT OF ACCOUNTS - The financial statements of an occupational pension scheme, which include a report given by an auditor on the accounting information presented therein.

STATEMENT OF INVESTMENT PRINCIPLES (SIP) - A written statement of the principles governing decisions about investment for an occupational pension scheme, which administering authorities are required to prepare and maintain. They must be prepared having regard to advice from a suitably qualified person and consult with the employer.

STATE PENSION AGE (SPA) - The minimum age from which state retirement pensions are normally payable. (Also referred to as State Pensionable Age.)

STATUTORY SCHEME - A pension scheme whose rules and arrangements are written as Statutory Instruments and are enshrined in law rather than a trust based scheme whose rules are written in the form of a discretionary trust. All public service pension schemes are statutory schemes.

TOTAL CONTRIBUTION RATE – The amount paid to the pension scheme to fund pension benefits. It is usually made up of contributions from the employer and employee adjusted to take account of the future service rate and any past service deficit or reserve.

TRUST - A verbal or written arrangement whereby one person or persons (trustees) agree to take care of assets and to use those assets in particular ways for particular people (beneficiaries).

TRUST DEED - The legal document that sets up an occupational pension scheme and defines how it should be operated.

UNFUNDED SCHEME - A scheme where assets are not accumulated in advance of the benefits being paid.

VALUATION – see Actuarial Valuation.