TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 11 July 2016.

PRESENT: Councillors Mr C Monson (Chair); Mr G Whitehouse (Deputy Chair); Mr G Clyburn and N J Walker

OFFICERS: P Campbell - Head of Investments and Treasury Management, B Carr - Governance Officer, D Conyard - Investment Support Officer, G Hall -Scheme Co-ordinator and M Taylor - Interim Chief Finance Officer.

APOLOGIES FOR ABSENCE Mrs J Cook, Councillor B Woodhouse.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mr G Clyburn	Non-Pecuniary	Member of Teesside Pension Fund
Mr C Monson	Non-Pecuniary	Member of Teesside Pension Fund
Mr G Whitehouse	Non-Pecuniary	Member of Teesside Pension Fund

16/1 **RETIRING CHAIR - THANKS**

Councillor Walker advised that she wished to place on record her thanks to Mr Monson - the Deputy Chair of the Teesside Pension Board for the Municipal Year 2015/2016, and to the staff and Board Members for their support over the previous year.

Councillor Monson thanked Councillor Walker for her contribution particularly to the development of the Teesside Pension Board in its first year and the way in which she had chaired the meetings of the Board.

NOTED

16/2 **ROTATION OF CHAIR AND ELECTION OF DEPUTY CHAIR FROM EMPLOYER REPRESENTATIVES**

Nominations were sought for the appointment of Deputy Chair of the Teesside Pension Board. Mr G Whitehouse was nominated and seconded and, therefore, appointed as Deputy Chair of the Board for the Municipal Year 2016/2017.

ORDERED that Mr G Whitehouse be appointed as Deputy Chair of the Teesside Pension Board for the Municipal Year 2016/2017.

16/3 **MINUTES - TEESSIDE PENSION BOARD - 26 APRIL 2016**

The minutes of the Teesside Pension Board held on 26 April 2016 were taken as read and approved as a correct record.

Matters arising from the minutes

- Page 3 - An update on the pooling arrangements was attached at Agenda Item 7.
- Page 3 - Councillor Walker advised that she would finalise the report with regard to suggested training for the Members of the Teesside Pension Fund and Investment Panel (TPFIP), and, with the agreement of the Board, present it to the next meeting of the TPFIP.
- Page 4 - The Chair advised that it was important that colleges, universities and academies were looked at in more detail and, because of the risk of the increased number of smaller organisations joining the Fund, that a formal covenant was agreed.

The Head of Investments and Treasury Management advised the Fund was looking at using its own resources and the actuary to establish and agree a formal covenant review process. A time-frame would need to be established and this would be reported back to the Teesside Pension Board, once the time-frame was agreed.

16/4 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENTS PANEL - 9 FEBRUARY 2016 AND 9 MARCH 2016**

The Interim Chief Finance Officer submitted a copy of the minutes of the Teesside Pension Fund and Investment Panel meetings held on 9 February 2016 and 9 March 2016 for information.

The Chair referred to Page 3 of the minutes of the TPFIP dated 9 March 2016 and queried whether there had been any reduction in the investment level of Bonds. The Head of Investments and Treasury Management advised that there had been a 2% reduction.

The Chair referred to Page 7 of the minutes of the TPFIP dated 9 March 2016 and queried whether Brexit would have any impact of MIFIR and MIFID II. The Head of Investments and Treasury Management advised that once Article 50 was initiated, the Government had two years to negotiate the UK's exit from the EU, and MIFID II was due to be in place by 2018.

The wider problem with the Referendum outcome was with FCA regulation. Currently within the EU there was a regulatory passporting system in place. This allowed UK financial institutions who were FCA regulated to carry out their business throughout the EU without needing to have EU local versions equivalent to FCA regulation.

This was a city-wide issue and something that the Government as a whole would need to address in order for the city to function as it currently functioned, otherwise there could be conditions where it was more favourable for financial institutions to relocate to other EU countries.

The risk to the Fund was in relation to the Fund's Custodian, BNP Paribas. BNP Paribas were currently regulated in France and that regulation was passported to the UK. This could mean that they would no longer be able to act as the Fund's Custodian.

AGREED that the minutes of the Teesside Pension Fund and Investment Panel held on 9 February 2016 and 9 March 2016 be noted.

16/5 **LOCAL INVESTMENT PROTOCOL**

The Interim Chief Finance Officer submitted a report, the purpose of which was to provide information with regard to infrastructure, particularly in relation to local investment.

The Panel was advised that the Fund had historically avoided direct investment in the Tees Valley area. The reason for this was primarily to ensure that the Fund did not find itself inhibited by conflicts of interest in the management of those assets.

The Fund had however in the 1990s committed £5 million to the Teesside Private Equity, an arms-length investment which backed enterprises both locally and nationally. The advantage of investing locally would mean that the economic activity of providing affordable pensions would benefit a wide range of local stakeholders.

The Chancellor of the Exchequer had indicated that Local Government Pension Schemes should do more to invest in infrastructure. It was highlighted that a report had been submitted to the Tees Valley Combined Authority in February 2016 naming Teesside Pension Fund as a possible source of funding for infrastructure projects.

At the current time, no measures were in place to enforce LGPSs to invest in infrastructure, but it could be that in the future the Fund might be obligated to increasing investment in infrastructure.

In order to assist further infrastructure investment, the Treasury and Department of Communities and Local Government had provided the following definition:

"Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets,*
- *Long life and low risk of obsolescence,*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked,*
- *Revenues largely isolated from the business cycle and competition, e.g. through long term contracts, regulated monopolies or high barriers to entry, and/or*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distributions, communications networks, health and education facilities, and social accommodation.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be. Infrastructure service companies would not normally be included. The development, construction and commissioning of infrastructure assets is included in the broad definition.

Individual infrastructure investors will have further additional criteria they apply before making investments, such as current yield, time to income generation, management strength, risk mitigation measures, and amount of leverage."

Currently, there was no formalised protocol for local public bodies to approach the Fund with local investment opportunities. It was suggested that any local area investment proposals be submitted to the Fund for consideration; however it was emphasised that, in accordance with the Fund's fiduciary duties, proposals could only be evaluated and accepted or declined on the individual project's investment potential.

Any proposals received must have a viable business plan to allow for a detailed investment evaluation to be carried out, including detailed costings, benefits, risks and timescales. The proposal would be internally assessed with external advice taken where required, to identify portfolio suitability and risk return trade off, with riskier projects potentially requiring a partial guarantee from the leading project authorities.

If a project was considered as a potential viable fund investment, the Chief Finance Officer (or whoever was the lead responsible officer for the Fund), would submit a report to the Investment Panel for consideration, to approve the necessary resources required for a second stage of detailed due diligence and the resources required. Once the second stage was completed, a detailed report with regard to the investment would be submitted to the Panel for final approval.

It was highlighted that, in accordance with the current LGPS reforms to pool assets and for collective investment vehicles to carry out the "stock selection" investment decisions for Funds in the future, once the Borders to Coast Pension Partnership (BCPP) was able to evaluate and invest in infrastructure assets, all proposals would be put to BCCP for consideration.

The Panel was advised that using Fund assets to facilitate local area investment could both benefit the Tees Valley area and could add value to the Fund's asset mix; however not all projects would be suitable and no such investment would be undertaken without the approval of the Investment Panel.

A member queried why the Fund had only a small proportion of infrastructure in its portfolio. The Board was advised that the Fund had not invested in Infrastructure Funds because, until very recently, they charged high management fees and bonus fees, such as 2% management fees and a 20% bonus fee on performance returns over 8%. Some Infrastructure Funds had reacted to the Government initiative towards collaborative working and pooling assets in the LGPS by offering an LGPS specific classification of their Fund with reduced fees.

Pooling would provide more opportunity to resource a dedicated due diligence team. Nationally, Central Government were looking to put a national infrastructure vehicle in place for all pools. TPF would be able to join in particular schemes with other pools that would be of benefit to the Fund.

The Board was advised that the Local Authority Pension Fund Forum (LAPFF) were putting together an All Party Parliamentary Group to look at the issue of investment in infrastructure.

The Interim Chief Finance Officer advised the Board that investment in infrastructure represented a long term return and, in the case of investing locally, that the primary consideration would be if the business case demonstrated the ability to generate an acceptable economic return and the objectives of the proposal were deliverable.

ORDERED that the report be noted.

16/6 **THE PENSION REGULATOR OVERVIEW**

The Interim Chief Finance Officer submitted a report, the purpose of which was to provide the Board with an overview of the Pensions Regulator.

The Board was advised that the Pensions Regulator was a non-departmental public body whose role was to regulate work-based pension schemes by working with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

The Pensions Regulator had a clear set of objectives:

- To improve confidence in work-based pensions by protecting members benefits;
- To reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund (PPF);
- To promote good administration of work-based pension schemes; and
- To maximise employer compliance with employer duties (including the requirement to automatically enrol eligible employees into a qualifying pension provision with a minimum contribution) and with certain employment safeguards.

The Board was advised that as part of its role, the Pensions Regulator issued Codes of Practice and, although the Codes were not law, if an error was made by a Pension Fund, and they had failed to follow the Code of Practice, they could be liable to a fine for non-compliance which was set at £5k per individual and £50k for a company.

The Pensions Regulator intended to send out surveys to schemes to monitor standards and self-assessments to ensure that every scheme had a basic level of compliance, the appropriate internal controls, scheme record keeping, minimum data requirements as set out by the Regulator and the provision of accurate and high quality communications to members.

The self-assessment tool was due to be launched in 2016 and the Pension Board would be advised once the tool was launched and of any subsequent results that resulted from the self-assessment process.

The Chair advised that a representative from the Pensions Regulator had provided a presentation at the Local Pensions Board conference in June 2016. The Pensions Regulator had highlighted that the results of a survey carried out by the Regulator the previous year had revealed that only 52% of those organisations that had responded had processes in place to identify breaches. The top three risks of breaches included:-

- Record keeping;

- Internal Controls (e.g. follow up on issues where things have gone wrong); and
- Poor and ineffective communication.

The Chair also advised that there was an expectation that the Board would produce an Annual Report at the end of this year. The Board was advised that in terms of the provision of information to employers/employees in respect of the role of the Board, the information provided should be accessible without employers/employees having to request it and to meet this requirement it could be made available on the website.

AGREED that the report be noted.

16/7 **DRAFT ACCOUNTS**

The Interim Chief Finance Officer submitted a report, the purpose of which was to present to Members the draft accounts for 2015/16, attached at Appendix A to the report.

The Interim Chief Finance Officer clarified that the draft accounts had not been published; however the auditors had reviewed the accounts and would provide their conclusions in September.

It was highlighted that the cost of Leavers had decreased this year, compared to last year, from £80.8 million to £7.1 million. The reason for the high amount of Leavers costs for the previous year was as a result of a one-off transfer during 2014/15 of approximately £76 million following the transfer of responsibility for administering and managing pensions for all Probation Services from the Teesside Pension Fund to the Greater Manchester Pension Fund.

The Board was advised that Management expenses had increased by £535,000. The majority of the increase was due to the higher volume of transactions undertaken as opportunities for investment were taken up while the markets were volatile during the year.

Investment income had increased by approximately £4.8 million as investments continued to be made in high yielding assets, particularly higher dividend yielding equities and property investments.

It was highlighted that the Investment Advisors had been requested to carry out an interim review of the Fund's asset allocation.

In terms of the production of the draft accounts, the Interim Chief Finance Officer advised that his team were looking to attach some of the information as appendices to reduce the size of the document. Consideration would also be given to whether an average payment for pensions should be included.

The Interim Chief Finance Officer advised that the results of the triennial valuation could reveal that the Fund was under-funded which could result in pressure to increase employer contributions however the appropriate Finance Officers had been alerted to this possibility.

AGREED that the report and the draft accounts be noted.

16/8 **INTERNAL AUDIT REPORT - PENSION FUND INVESTMENTS**

The Interim Chief Finance Officer submitted a report to present to the Teesside Pension Board the final report of Pension Fund Investments produced by Tees Valley Audit and Assurance Service (TVAAS) which was attached at Appendix A to the report.

The Board was advised that the overall audit opinion from TVAAS was that there was a strong control environment in relation to the areas reviewed and based on the audit work undertaken, an effective system of internal control was in operation and was being applied consistently.

The only finding identified from the review was that random checks of dividends received from overseas territories were not consistently carried out, with only checks of dividends from

European equities up to date at the time of the review. It was highlighted that the checks of dividends received from overseas territories had only been missed for a six month period and this had since been rectified. The period Checks were now up to date and a system of control was in place to ensure dividends from all overseas territories were checked each month.

The Board agreed that the report was very positive and requested that the staff involved be congratulated on their efforts which had resulted in such a good report being produced.

AGREED that the report be noted and the staff working in the areas reviewed be congratulated on their efforts in achieving a good report.

16/9 **FEEDBACK FROM DEPUTY CHAIR - PENSIONS ONE YEAR ON (CIPFA/BARNET WADDINGHAM)**

The Chair provided the Board with an update in respect of the Local Pension Boards conference, hosted by CIPFA and Barnett Waddingham, that he had attended on 29 June 2016. A copy of the email from CIPFA enclosing all of the presentations received at the conference which was circulated prior to the event would be forwarded to all members of the Board.

The Board was advised that approximately 80 people from Pensions Boards across the country (many of them based in the London area), had attended the conference. The Chair advised that in comparison to many other Funds, the Teesside Pension Fund was quite sizeable. Many of the London Boroughs had their own individual Funds worth in the region of £500k.

The conference had received a presentation from the Local Government Pension Scheme Advisory Board which provided an overview of the role of the Board. The Advisory Board's role included the provision of advice to LGPS scheme managers and pension boards in relation to the effective and efficient administration and management of the LGPS and connected schemes.

The conference had also received a presentation from the Government Actuary Department. Delegates were advised that the Government Actuary had undertaken a Section 13 review designed to provide an overview of the 91 separate valuations by four actuarial firms, and the appropriateness of the employer contributions.

The Government Actuary had established its own standard basis, and as part of the review, it was revealed that there were wide discrepancies between the valuation the 4 actuarial firms had placed on the triennial valuations and the valuation that the Government Actuary had arrived at; in general, the valuation based on the new Government Actuary standard basis tended to be higher.

The Chair showed members of the Board a diagram representing the current valuations that the 4 actuarial firms had carried out in respect of the triennial valuations and the valuations that the Government Actuary had placed upon them. The reviews had been carried out in respect of the triennial valuations that were completed in 2013. The exercise would be repeated in respect of the triennial valuations carried out in 2016. An analysis of the data would be available in 2018.

It was highlighted the Government Actuary would be carrying out a number of regional conferences in the Autumn.

The conference also received a presentation from the Department for Communities and Local Government. The Minister's view was that there should be a single platform for handling infrastructure investment.

The Chair advised that after speaking to Members of other Pension Boards regarding how their Boards operated, he had felt reassured that the Teesside Pension Board was operating at the right level.

One of the issues that was raised at the conference was whether Board Members had the appropriate insurance cover in place for any decisions they may make. The Board was advised that an agreement was in place with the Council's Risk and Insurance Unit for Board Members to be covered for third party insurance. The documentation would be signed off by the Interim Chief Finance Officer.

AGREED as follows:-

1. That the update with regard to the Local Pensions Board conference provided by the Chair be noted.

2. That a copy of the email from CIPFA enclosing all of the presentations received at the conference which was circulated prior to the event be forwarded to all members of the Board.

16/10 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following item on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

16/11 **REFORM OF LGPS INVESTMENTS - FINAL SUBMISSION**

The Interim Chief Finance Officer submitted an exempt report, the purpose of which was to provide Members with an update in relation to a report that was submitted to the Teesside Pension Fund and Investment Panel (TPFIP) on 29 June 2016 with regard to LGPS Investments Reform. A copy of the latest draft of the final proposal in respect of the proposed pooling arrangements to be submitted to Central Government was attached at Appendix A to the report.

AGREED that the report and the draft proposal be noted.