

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 26 April 2016.

PRESENT: Councillors N J Walker, Mr C Monson, Mr G Clyburn, Mrs J Cook, Mr G Whitehouse and B Woodhouse

ALSO IN ATTENDANCE: P Mudd- KBS

OFFICERS: P Campbell, S Blood, G Hall, and Mike Hopwood

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mrs J Cook	Non-Pecuniary	Member of Teesside Pension Fund
Mr C Monson	Non-Pecuniary	Member of Teesside Pension Fund
Mr G Clyburn	Non-Pecuniary	Member of Teesside Pension Fund
Mr B Woodhouse	Non-Pecuniary	Member of Teesside Pension Fund
Mr G Whithouse	Non-Pecuniary	Member of Teesside Pension Fund

1 MINUTES - TEESSIDE PENSION BOARD - 1 FEBRUARY 2016

The minutes of the Teesside Pension Board held on 1 February 2016 were taken as read and approved as a correct record.

2 MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 9 DECEMBER 2015 AND 9 FEBRUARY 2016

The Chief Finance Officer submitted a copy of the minutes of the Teesside Pension Fund and Investment Panel held on 9 December 2015 and 9 February 2016 for information.

AGREED that the minutes of the Teesside Pension Fund and Investment Panel held on 9 December 2015 and 9 February 2016 be noted.

3 REFORM OF LGPS - UPDATE

The Chief Finance Officer submitted an exempt report, the purpose of which was to update Members of the Board with information with regard to the reform of the LGPS investments following a special meeting of the Teesside Pension Fund and Investment Panel on 9 February 2016.

The report informed Members of the Board about the initial proposals on how the pool met the criteria and its proposed interaction with the Fund.

The Board was advised that on the 25 November 2015, the Chancellor announced the release of the awaited consultation in pooling. At the same time the Department for Communities and Local Government (DCLG) had published the Investment Reform Criteria and Guidance.

In summary the DCLG's criteria was as follows:

- Asset pools achieve the benefit of scale - Pools should be £25 billion as a minimum;

- Strong governance and decision making - Pools need to be capable of managing investments and risk on behalf of Funds;
- Reduced Cost and excellent value for money, i.e. saving must be made across the LGPS and Improved capacity to invest in infrastructure - this is implied with the pools having greater scales than single Funds.

Members were made aware that the Teesside Pension Fund and Investment Panel agreed to partner with the Borders to Coast pension Partnership (BCPP) pool. The BCPP initial proposal (appendix C of the report) was also submitted to the DCLG.

The Head of Investments and Treasury Management highlighted that there were a number of risks at this stage which were still unresolved and provided some uncertainty and risks to the Fund. The following risks had been identified:

- Staffing Impact
- Asset Ownership
- Investment decision making , and
- Reporting responsibilities.

The Board was advised that a formal timetable in respect of the consultation and pooling arrangements had not yet been announced; however the anticipated timeline was included at paragraph 6 of the report.

It was advised that following the Chancellors expressed wish that the six pools formed, should be greater than £25 billion in size. Given the short timescales since the statement, the pools declared so far have only been able to make high level proposals. Greater detail is required for the final submission in July for the Pools.

The report outlined that there were currently eight pools that has been declared. The names and details of the Pools were detailed in paragraph 7 of the report.

The criteria of Evaluation included:

- Size and Scale;
- Governance;
- Asset Allocation;
- Cost, and
- Performance

The Board were presented with a table detailing the name of the fund, the Funding ratio, the Management style, the size and percentage of performance each year over a 1 year, 3 year, 5 year and 10 year period (paragraph 8.75 of the report).

Out of the eight pools, three were chosen who met the criteria. A summary of the benefits and risks for the propositions by the three pools who met the evaluation criteria was outlined a paragraph 9.3 of the report.

Information on the BCPP and initial proposals to pool LGPS assets were attached to the report as an appendix.

The Board requested that they receive regular updates especially in relation the implications to pension, Staff implications (TUPE) and training.

AGREED as follows:-

1. That the report, proposal and presentation be noted.

4

TEESSIDE PENSION FUND AND INVESTMENT - MEMBER TRAINING PROPOSED REPORT

The Chief Finance Officer submitted a report, the purpose of which was to inform the Pension Board of actions arising from the Boards meeting held on 5th February 2016.

At the meeting of the Board on 1st February 2016 agreed that a report be produced on behalf of the Board for submission to the Teesside Pension Fund and Investment Panel (TPFIP), recommending that it becomes a requirement for all Members of the TPFIP, not just Middlesbrough Councillors, to complete the Mandatory Introductory Training and that this training be offered on a voluntary basis to Trade Union Representatives. The report was attached at Appendix A.

Following a discussion with regard to Member Training, the following measures were suggested:

- (i) That there be a minimum Mandatory training requirement for all Members of the Teesside Pension Fund and Investment Panel (TPFIP); and
- (ii) That all Members of the TPFIP complete a self-assessment form to ascertain if further guidance or training is required, following completion of the Mandatory training, in order to comply with the Myners Principles.

Board members welcomed the report, and pressed the importance that all members receive training before undertaking a decision making role.

AGREED as follows:-

1. That the report be approved

5 **EMPLOYER COVENANTS**

The Board welcomed Paul Mudd, (KBS) who presented to the Board in relation to the Employer Covenant within the Local Government Pension Scheme (LGPS).

The covenant is the employers ability to pay the contributions set by the scheme actuary and to provide the necessary indemnities where required.

The Pensions Regulator published a paper in August 2015 which provided practical guidance for defined benefit pension schemes to follow in assessing and monitoring the employer covenant.

The advice from the Pensions Regulator provides that Schemes should give a greater regard to the employers ability to pay when setting contributions. This is quite a shift from the primary responsibility of the Fund in years gone by who previously was responsible for setting the required rate in order to try and meet a funding target, at a point in time, for that employer, and in line with the Funding Strategy Statement.

The covenant check covers all employers and not just the commercial contractors. Historically, it is on these organisations that the focus has been, as it was envisaged that this was where the major risks lie. It is important that we look at Colleges, Universities and Academies in more detail now as they are very quickly adopting a business model which sees them operating like a commercial entity rather than a Public Sector Employer. The Board made comment in relation to the outsourcing of payroll by some academies and the need for them to inform the pension scheme of any changes. It was confirmed that this is something that is encouraged as it helps with the payment of contributions and the year-end return process.

The Board were advised that work has been carried out with many scheme employers over the years to help them understand their obligations under the Scheme, and that there are certain trigger events that would need to be reported to the Fund, in advance, to ensure that there was no material impact on the Fund / its Employers as a consequence of an employer; merging with another, ceasing membership, significantly reducing its staff numbers etc.

The Pensions Regulator has made recommendations that Schemes should expand in their assessment of the employer covenant and we are looking at ways to ensure compliance with this, Elements of an employer that we wouldn't ordinarily look into other than at their Admission

Date, such as audited accounts, financial forecasts, the financial and strategic governance comes into play too, along with credit ratings and even the local knowledge of an employer.

All of this should be regularly, even continually reviewed to ensure that there will be no surprises for either the Employer or the Fund.

Next Steps:

Working together, the Fund and KBS will develop, consult and agree a formal covenant review process. The scheme actuary is keen to provide input into this and we will, where appropriate, utilise their experience in the development of this process.

Agreed as follows:

That the presentation be noted

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MYNERS PRINCIPLES

The Chief Finance Officer submitted a report to the Board the purpose of which was to inform members of Myers Principle. Further to the action arising from the Teesside Pension Board meeting held 5th February 2016, the Pension Board identified a number of areas where further training was requested, including training on the Myners Principles.

The Board were advised that In 2000, Gordon Brown (then the Chancellor of the Exchequer) was concerned about the relative lack of entrepreneurial enterprise in the UK. His suspicion was that that this might be due, in part at least, to the conservative way that institutional investments were made in this country and lack of funding available to would-be entrepreneurs. So he commissioned Paul Myners, chairman of a fund management firm (Gartmore) to investigate this issue.

Paul Myners widened his remit considerably. Rather than focusing on the issue of the availability of venture capital, he covered the way in which institutional investments (particularly pension schemes) were governed. His review "Institutional Investment in the United Kingdom" was published on 6 March 2001.

The Board were made aware that within the original Myners principle, Myners set out principles that he believed to be best practice for the governance of pension schemes. Following consultation, the Government published its response to the review, which included a voluntary code for pension scheme investment based on those principles. There were originally ten principles for defined benefit pension schemes.

In 2007 Myners Principle was reviewed as the Government asked the National Association of Pension Funds (NAPF) to assess the extent to which:

- pension fund trustees were applying the Myners principles;
- scheme governance and the quality of trusteeship had improved; and
- whether key gaps identified in a previous review had been addressed.

The Government accepted the NAPF's principal findings and recommendations. In particular, it agreed that the Principles would be more effective if Government and industry developed more flexible and high-level voluntary principles, rather than prescribing how pension funds should manage specific aspects of their business. They also set up an independent Investment Governance Group under the chairmanship of The Pensions Regulator, to enable the pension's community to take responsibility for the content and implementation of the principles and associated guidance and best practice.

The Panel were advised that there were six high level principles of the Myners principle, together with the best practical guidance as recommended by the Pension regulator.

Principle 1: Effective decision making

Middlesbrough Council members are requested to undergo training every year to develop a baseline knowledge prior to decision making.

Principle 2: Clear Objectives

Trustees should set out overview investment objective (s) for the fund that takes into account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

The Fund sets clear benchmarks , monitors performance over 1, 3 and 10- year time horizons and investment management arrangements are reviewed every 5 years.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

Every 3 years, after the actuarial valuation, the Fund requests an Asset/Liability Study to be carried out by the Fund's Actuary, assisted by the Investment Panel's Independent Advisors.

Principle 4: Performance Assessment

Middlesbrough produce an annual performance report, which will be reported in June to the Teesside Pension Fund and Investment Panel.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

The Board were advised that the Investment Panel set a voting template and votes are carried out for all UK company meetings, where the Fund is a shareholder. The Fund is also a member of the Local Authority Pension Fund Forum who carry out company engagement and specific corporate governance projectson behalf of it's members.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Middlesbrough Council publish all reports and decisions on the website (except for confidential reports) and ensure we are as transparent as possible.

Agreed as follows :

That the Board notes the report.

7 **DATE OF NEXT MEETING**

It was confirmed that the next meeting of the Teesside Pension Board was scheduled to take place on 11 July 2016 at 2.00pm in the Spencer Room, Town Hall, Middlesbrough.

8 **ACTIONS ARISING FROM THE TEESSIDE PENSION BOARD HELD ON 26 APRIL 2016**

The following actions were identified following the meeting of the Teesside Pension Board held on 26 April 2016.

Reform of LGPS - Update

That the Head of Investment and Treasury Management presents on Infrastructure investments, particularly referencing the local infrastructure investment for the next meeting of the Board.

Teesside Pension Fund and Investment - Member Training Proposed Report

That the Chair of the Board, in consultation with the Head of Investments and Treasury Management make any amendments to the report and present to the Teesside Pension Fund and Investment Panel.

9 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

The Chair of the Board reminded members that the Reform of LGPS - Update report was exempt and therefore should not be shared with third parties