

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

TEESSIDE PENSION BOARD REPORT

7 NOVEMBER 2016

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

EXTERNAL AUDIT REPORT 2015/16

1. PURPOSE OF THE REPORT

- 1.1 To inform Members of the Teesside Pension Board (the Board) of the findings and observations of the External Auditor (EY - Ernst & Young LLP).

2. RECOMMENDATION

- 2.1 That Members note the External Audit Report (Appendix A), as presented by EY, and review and discuss the Governance Observations and Recommendations (pages 8 – 10).

3. FINANCIAL IMPLICATIONS

- 3.1 The Report issues an unqualified opinion on both the Annual Report and Financial Statements for 2015/16.

4. BACKGROUND

- 4.1 A review of the Annual Report and Financial Statements (2015/16) was undertaken by EY. The purpose of the work carried out is:

- Express an opinion on the 2015/16 financial statements;
- To ensure that the Fund's Annual Report is consistent with the financial statements presented in Middlesbrough Council's Statement of Accounts; and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

- 4.2 During the course of the audit EY were asked to comment on how the Governance of the Fund compares to other large pension schemes and have set out some high level observations. The observations and recommendations are set out below:

	Observation	Recommendation
1.	Following the introduction of the Local Government Act 2013, the Council has introduced a local Pensions Board ('the Board') with responsibility for assisting the Council to	We recommend that the Board determines and fully documents its role. A key part of this is ensuring that it has the

	Observation	Recommendation
	<p>comply with the regulations and legislation relating to the governance and administration of the Fund and any requirements by the Pensions Regulator.</p> <p>The Pensions and Investment Panel ('the Panel') continues to exist as before ensuring that the Fund's objectives are delivered and the investments managed.</p> <p>Given these changes it is important that the Board and Panel have clear roles and responsibilities to enable the Fund to be governed and operated effectively.</p> <p>The purpose of the Board is to challenge and scrutinise how the Fund is being managed and operated including the appropriateness of the investment strategy.</p> <p>Being able to do this effectively requires having a sufficient level of knowledge of the Fund in relation to investment strategy and performance as well as compliance with all relevant laws and regulations (including Code 14).</p> <p>The area of pensions and investment is immensely complex and expertise is critical to have in today's regulatory environment. For a Fund of this size it is very usual not to have independent external consultants and external investment advisers appointed to help.</p>	<p>appropriate level of knowledge and expertise to challenge and scrutinise effectively in line with the new rules and expectations.</p> <p>We would strongly recommend that consideration is given as a matter of priority to the appointment of an external consultant to advise on governance, administration and compliance to ensure that best practice is adopted and improvements made where necessary; and an external investment adviser to help support both the Board in its ability to challenge and scrutinise effectively and also the Panel with its operational responsibilities.</p> <p>Independent external expertise would help to ensure that the Board and Panel are able to demonstrate that they are managing risk effectively for the Fund and ultimately the Council.</p>
2.	<p>The Fund is now under the oversight of the Pensions Regulator ('TPR') and therefore needs to comply with Code 14.</p> <p>The Board and Panel and need to understand their reporting duties.</p> <p>Additionally the Code emphasises the importance of scheme trustees to have appropriate knowledge and understanding to make effective decisions about scheme operations.</p>	<p>We recommend that the Panel organise for a detailed compliance checklist to be produced which is maintained and reviewed at each meeting to monitor compliance of laws and regulations which the Board can also review.</p> <p>Additionally we recommend a training log is introduced covering all relevant Board and Panel members and which is personalised for each member to address knowledge gaps.</p> <p>It should log the learning activities of all relevant members and the Board and Panel as a whole with actions to address gaps.</p>

	Observation	Recommendation
3.	<p>The last detailed asset/liability review was in 2013.</p> <p>Undertaking regular reviews helps to mitigate the risk of inappropriate investment strategies to enable pension liabilities to be effectively managed.</p> <p>This is in common with how large schemes mitigate funding deficits.</p> <p>The Fund's funding level at the last valuation was 101% which is very satisfactory, however the Fund's investment performance for the 2015/16 year has now fallen behind its peer group as a result of the higher concentration of equities held relative to others.</p>	<p>We recommend that the Panel introduces a formal process to have regular monitoring of funding and investment performance using triggers to highlight when actions for change need to be considered.</p> <p>As part of this process more regular and greater input and involvement by the actuary is likely to be required to help develop and monitor this.</p> <p>The Board should consider its role in terms of scrutiny and review of this and also the advice and support and information it needs to supplement its knowledge and understanding to challenge effectively.</p> <p>Given the current investment risk profile of the Fund (relative to similar LGSs) the Board should review and have evidence to demonstrate its challenge of the appropriateness of the current investment strategy as early as possible particularly in the run up to the pooling arrangements.</p>
4.	<p>We understand that compliance with the Myners Principles has not been reviewed since 2009.</p> <p>The areas covered include:-</p> <ul style="list-style-type: none"> ➤ Effective decision making ➤ Clear Objectives ➤ Risks and Liabilities ➤ Performance Assessment ➤ Responsible Ownership ➤ Transparency and Reporting 	<p>Given the developments in best practice and expectations of The Pensions Regulator ('TPR'), we recommend that the Panel updates the status of current levels of compliance with Myners.</p> <p>The Board should then review taking advice as necessary and identify and gaps and actions to address.</p>
5.	<p>We understand that the Fund has a risk register but that it is not reviewed regularly in line with best practice and the expectations of The Pensions Regulator.</p> <p>Risk registers should be treated like living documents and reviewed regularly and at times of significant change.</p>	<p>We recommend that there is a process for more regular formal review and update.</p> <p>The Panel should also consider how it obtains appropriate evidence and assurance that the risks are being managed as expected. For example, introducing a testing strategy which could involve internal audit.</p>
6.	<p>We observed that the latest Governance Statement is dated 2011.</p>	<p>We recommend that this is updated as soon as possible to address any changes required in</p>

	Observation	Recommendation
	There is a requirement to have this updated annually and include in the Annual Report.	relation to roles, responsibilities, structures and process.

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High level timeline for establishing BCPP:

BCPP	Summary Timeline for Establishing the Pool
July 2016	Submit consultation response
Sept 2016	Government approval of proposal
Oct 2016	Approval of detailed project plan by Funds
Oct 2016	Formal creation of governance structure
Oct 2016	Commence regulatory approval process
Dec 2016	Recruit senior executives & non-executives
Jan 2017	Commence asset transition planning
Jan 2017	Amendments to consultations as required
Dec 2017	Complete asset transition planning
Dec 2017	Receive regulatory approval
Dec 2017	Start TUPE transfer of staff from existing Funds
Dec 2017	Recruit additional investment and operational staff
April 2018	Commence operations

APPENDIX B