

Teesside Pension Board

Annual Report 2016 – 2017



1. Background

The **Teesside Pension Fund** is the Local Government Pension Scheme (LGPS) for local authority employees in the Teesside region (and employees working for other bodies that are eligible to participate). The Fund has over 70,000 members, and assets of more than £3.5 billion.

The administering authority for the Teesside Pension Fund is Middlesbrough Council. The Council has granted authority to manage the investments of the fund (within the requirements of the Local Government Pension Scheme Regulations) to the **Teesside Pensions and Investments Panel**. The Panel consists of representatives from all the district councils in the former Cleveland County Council area as well as representatives from the trades unions and a representative from the small scheme employers. At present, voting rights are held by all members with the exception of the trades union representatives.

Section 5 of the *Public Service Pensions Act 2013* required every LGPS to establish a Board to assist in assuring that the administration of its Pension Scheme complies with all relevant legislation. Pensions Boards are specifically required to assist in:

- (a) securing compliance with:
 - (i) the *Local Government Pension Scheme (Amendment) (Governance) Regulations 2015*
 - (ii) any other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme, and
- (b) ensuring the effective and efficient governance and administration of the Scheme.

In accordance with the *Public Service Pensions Act 2013* and the 2015 Regulations, the **Teesside Pension Board** was created on 1 April 2015 to assist in the administration of the Teesside Pension Fund. The Board's formal statement of purpose is:

To assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

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

The Board consists of six voting members – three employer representatives and three member representatives. Two employer representatives are appointed from the Councils of Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-on-Tees, and one employer representative is chosen from all other Scheme employers. Two member representatives are appointed from the recognised trades unions representing employees who are Scheme members, and one member representative is appointed from the pensioner Scheme members.

The role of Chair is rotated on an annual basis with the Deputy Chair. Each post is held by one employer representative and one Scheme member representative.

This is the first Annual Report of the Board, for the period 1 April 2016 to 30 March 2017. No report was issued for the first year of the Board, and so this report also contains information about the work of the Board during its first year.

2. Introduction

This is the first Annual Report of the Teesside Pension Board. As a new body, operating within a framework set out by national government, the first task of Board members has been to establish a shared understanding of our responsibilities, and determine our role in relation to the Teesside Pensions and Investments Panel. In this work we have been supported by officers of Middlesbrough Council (the administering authority for the Teesside Pension Fund) and by specialist external advisers. In assessing the administration of the pension scheme we have also been assisted by staff from Kier Business Services, who deal with the day-to-day administration of pensions.

Pension Boards have been created at a time of substantial change:

- there has been widespread national concern about whether funding levels – for both private and public sector pension schemes – are adequate
- for local government pension (LGP) schemes, the Government Actuary has embarked on a programme to standardise the varying approaches used by the four actuarial consultancies that undertake valuation of LGP schemes
- the Government has required all LGP schemes to pool their assets into larger “British Wealth Funds”, claiming that this will significantly reduce costs
- the Government is taking increasing interest in the investment strategies of LGP schemes, and has stated that it expects the new British Wealth Funds to have the “ambition of matching the infrastructure investment levels of the top global pension funds”.

These changes – especially the complete restructuring of the local government pension funds – have created pressure on human resources and huge uncertainty for staff. The Board is conscious that the Teesside Pension Fund has low running costs, has one of the lowest employer contribution rates and nevertheless has assets that actuarial analysis indicates are sufficient for projected demands. The Board will therefore be looking closely at pooling proposals, to satisfy itself that the movement of assets into a British Wealth Fund is in the interests of the Fund and its members.

Despite the uncertainties and pressures described above, the Board is satisfied that governance structures ensure that the Teesside Pension Fund is compliant with the appropriate regulations and other relevant legislation, and we are content that the governance and administration of the Fund are effective and efficient.

3. Work programme 2015 – 2017

Over the course of its first two years, the focus of the Board has moved from understanding its role & responsibilities to ensuring effective governance and having oversight of performance and risk management. Our action in each of these areas is described below.

Training

- within the first three months of appointment, every Board member successfully completed the Pension Regulator’s Public Service Toolkit
- all Board members received a formal introduction to the Local Government Pension Scheme, and the operation of the Teesside Pension Fund
- Board members have studied publications by the Pensions Regulator, including the Compliance & Enforcement Policy and the Regulatory Strategy
- the Board has also undertaken training on:
 - the role of the Pensions Regulator
 - the Myners principles for investment decision-making and governance
 - assuring the accuracy of scheme member data
 - employer covenants
 - employer and administering authority statutory obligations and discretions
 - legal guidance regarding ethical investment
 - actuarial issues associated with the triennial valuation
 - the work of the LGP Scheme Advisory Board and emerging areas of interest.

Governance & policies

- at its second meeting (October 2015) the Board agreed an annual work plan, which has formed the basis for its subsequent work
- informed by the work plan, the Board assessed members' training needs, and has kept them under review
- the Board approved a Knowledge & Understanding Policy
- the Board reviewed, and commented on the Customer Improvement Strategy
- the Board assessed compliance with the Myners principles
- the Board noted that the Fund's external auditors, Ernst & Young, had issued an unqualified opinion in respect of the Fund's Annual Report and Accounts for 2014/15 and 2015/16
- following a recommendation by the Fund's External Auditors that the Board should formally approve the Fund's Statement of Accounts, the Board approved the 2015/16 accounts on 19 September 2016
- the Board, noting that training was mandatory only for Middlesbrough Council members of the Teesside Pension Fund & Investment Panel (hereafter referred to as *the Panel*), recommended that training should be mandatory for all voting members; the recommendation has been accepted by the Panel
- the Board noted that the Panel, as required by legislation, had approved an Investment Strategy Statement and a Funding Strategy Statement; these statements set out the future funding and investment strategies for the Fund
- in view of the Government's guidance for pooling LGP scheme assets into "British Wealth Funds", the Board has received regular reports on proposals for joining the proposed *Border to Coast Pension Partnership*
- the Board discussed the 2016 valuation of the Fund with Aon Hewitt (the Fund's actuaries), and were pleased to learn that the funding level is currently 100% - i.e. the Fund's assets are considered sufficient to meet its future liabilities
- the Board studied the Government Actuary's report, providing analysis of the 2013 valuations of all LGP schemes. We were happy to find that the Government Actuary confirmed Aon Hewitt's assessment that the funding level of the Teesside Pension Fund, in 2013, was over 100%
- in view of Chancellor of the Exchequer's statement that LGP schemes should do more to invest in infrastructure, the Board received a report on infrastructure, particularly referencing local investment. Members stressed that any decision to invest in infrastructure should be in the best interests of the Fund; the Board was satisfied that criteria, set out by officers for investing in infrastructure, would ensure that this was the case
- in the light of comments made by Ernst & Young during their 2015/16 audit, the Board (jointly with the Panel) commissioned Aon Hewitt to undertake a review of governance, including the respective roles of the Board and the Panel; this review is being taken forward in 2017/18.

Performance

- the Board has received regular updates on performance issues and has maintained an oversight of the detailed performance reports presented to the Panel
- the Board noted the Customer Improvement Strategy and discussed the findings of a survey of recently-retired members
- the Board has considered and commented on plans to improve communication with Scheme employers and members
- the Board was reassured to note that the Government Actuary's report on the 2013 valuations of all LGP schemes (already referred to above) indicated that, despite having one of the best funding levels of all LGP schemes, the average contribution rate in 2014/15 was the lowest of all LGP schemes.

Risk

- at each meeting the Board is updated on progress towards setting up the Border to Coast Pension Partnership; the Board has closely monitored progress, to satisfy itself that the initiative is in the long-term benefit of the Teesside Pension Fund
- in view of the staffing implications of the Border to Coast Pension Partnership, the Board has monitored staffing levels, to ensure that the Fund continues to be able to fulfil its core functions
- the Board has reviewed the Risk Register, and has kept it under review
- the Board received a report on the steps taken to ensure the accuracy of data collected about members
- the Board commissioned a report on the risk implications of the increasing number of small employers joining the Fund, and has welcomed the forthcoming review of the employer covenant process
- the Board received a report on the new Markets in Financial Instruments Regulations (MiFIR) and Directive II (MiFID II) and agreed to keep the cost and risk implications under review
- following the triennial valuation the Board discussed, with Aon Hewitt, their actuarial assumptions used to assess the ongoing solvency of the Fund
- the Board has taken cognisance of the three areas considered by the Pensions Regulator nationally to be at greatest risk of breach (record keeping, internal controls and poor & ineffective communication), and has kept these areas under review
- the Board has noted that investment in various asset classes has gone outside the benchmark ranges specified in the Fund's strategic asset allocation; however, we are satisfied that the Panel (which is responsible for monitoring the investment performance and financial control of assets) is actively scrutinising investment decisions and taking appropriate professional advice
- the Government Actuary's report on the 2013 valuations tested each scheme against a range of solvency and long-term cost-efficiency measures. The Board noted that the Teesside Pension Fund would be at slightly higher risk than most funds, in the event of a large (15%) fall in the value of its assets. We were satisfied that the Teesside Panel was aware of this risk and is in a position to take effective action, in the unlikely event that this should prove necessary. We were pleased to note that no adverse comments were made regarding any of the other twelve measures in the Government Actuary's report.

4. Work programme 2017 – 2018

During 2017/18 the Board will:

Training

- commission further training on investment performance & risk management, and financial markets & product knowledge
- review its training needs and develop a training plan
- invite the Pension Regulator to provide training on the work of the Regulator, and on recent developments and priorities
- receive training on current and emerging issues, including:
 - the requirements of the new General Data Protection Regulation (GDPR)
 - the risks associated with HMRC's current reconciliation exercise on "contracting out" contributions
 - the accuracy of membership data
- increase its practical knowledge of the work of the pension administrators.

Governance & policies

- in consultation with the Panel, review governance arrangements and implement any necessary changes to ensure that the Teesside Pension Fund adheres to best practice and fully meets modern governance expectations
- monitor documents required by the Regulations to ensure they are regularly reviewed and approved
- assess compliance against the Pension Regulator's Code of Practice
- review arrangements for ensuring that the Fund is providing value for money in relation to its contractual requirements
- regularly review the minutes of the Teesside Pension Fund & Investment Panel meetings and decisions taken
- receive Internal Audit reports
- receive the report of the External Auditors
- receive, and comment upon, the Annual Report and Accounts
- ensure that appropriate action is being taken to minimise any potential debt impact resulting from HMRC's reconciliation between its own records and Fund records relating to "contracting out" contributions.

Performance

- review the measures used to assess performance of the Fund
- examine the pension administration unit's compliance with key performance requirements agreed in the SLA
- consider the timeliness of collecting employer contributions
- monitor actions to improve communication with employers and members.

Risk

- continue to monitor progress towards setting up the Border to Coast Pension Partnership, to ensure that the initiative is in the long-term benefit of the Teesside Pension Fund
- continue to monitor staffing levels, to ensure that the Fund continues to be able to fulfil its core functions
- reinvigorate the Risk Register and keep it under review
- use the forthcoming review of the employer covenant process to provide assurance that risk is minimised
- keep the cost and risk implications of MiFIR and MiFID II under review
- respond to guidance from the Pensions Regulator regarding areas considered nationally to be at greatest risk of breach (currently record keeping, internal controls and poor & ineffective communication) to ensure that these areas are monitored effectively
- satisfy itself that all necessary steps are being taken to ensure the accuracy of membership data, and compliance with the Pension Regulator's requirements for data accuracy
- ensure that a strategy is in place to manage any debt impact which might result from HMRC's current reconciliation exercise on "contracting out" contributions
- monitor compliance with the requirements of the new GDPR.

Appendix – Panel membership and meeting attendance

Membership

Jackie Cook	member representative (UNITE)
Graham Clyburn	member representative (UNISON)
Colin Monson <i>Deputy Chair 2015/16, Chair 2016/17</i>	member representative (retired members)
Nicky Walker <i>Chair 2015/16</i>	employer representative (Councillor, Middlesbrough Council)
Gary Whitehouse <i>Deputy Chair 2016/17</i>	employer representative (Middlesbrough College)
Barry Woodhouse	employer representative (Councillor, Stockton Council)

Meeting attendance

	28 July 2015	26 Oct 2015	1 Feb 2016	26 April 2016	11 July 2016	19 Sept 2016	7 Nov 2016	27 Feb 2017
G Clyburn	✓	✗	✗	✓	✓	✓	✓	✓
J Cook	✓	✓	✓	✓	✗	✓	✓	✓
C Monson	✓	✓	✓	✓	✓	✓	✓	✓
N Walker	✓	✓	✓	✓	✓	✓	✓	✓
G Whitehouse	✓	✓	✗	✓	✓	✓	✓	✓
B Woodhouse	✓	✓	✗	✓	✗	✓	✓	✓