

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 6 November 2017.

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

ALSO IN ATTENDANCE: M Ferguson, Aon Hewitt
S Kenny, EY
N Armstrong, EY

OFFICERS: P Campbell, Head of Loans and Investments
G Hall, Scheme Co-ordinator
S Lightwing, Democratic Services Officer

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Woodhouse.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mrs J Cook	Non Pecuniary	Member of Teesside Pension Fund
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

17/14 MINUTES - TEESSIDE PENSION BOARD - 24 JULY 2017

The minutes of the meeting of the Teesside Pension Board held on 24 July 2017 were taken as read and approved as a correct record.

17/15 MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 28 JUNE 2017

A copy of the minutes of the Teesside Pension Fund and Investment Panel meeting held on 28 June 2017 were submitted for information.

In response to a query, the Head of Loans and Investments confirmed that Councillors McGloin and Walters had recently attended training.

NOTED

17/16 TEESSIDE PENSION FUND AND INVESTMENT PANEL - 27 SEPTEMBER 2017

The Head of Loans and Investment provided a verbal update on agenda items considered at the Teesside Pension Fund and Investment Panel at a meeting held on 27 September 2017.

NOTED

17/17 ANNUAL REPORT AND ACCOUNTS 2016/2017

The 2016/2017 Draft Annual Report and Accounts for the Teesside Pension Fund were presented for information. The Annual Report and Accounts provided an update on recent changes to the Fund's membership, income and expenditure and the change in the size of the Fund's investment assets.

The Fund membership had increased, with the total membership at the year-end now standing at 68,829, which was an increase of 2,040 over last year. The number of active members had increased by 1,154 (5.1%) over the year, and increased by 0.5% over the past five years. This position reversed the trend of decreases in membership when measured on a five year basis. The total number of pensioners increased by 478 (2.2%) over the year, and increased by 10.5% over the past five years. The number of deferred members increased last year by 408 (1.7%), and increased by 9.3% over the past five years.

Contributions received from active members increased during 2016/2017 by £831,000 from the previous year and lump sum and benefit payments grew again by almost £6 million compared to 2015/2016.

The biggest change was the increase in new assets from £3.13 billion to £3.86 billion, a rise of over £726 million in the year. The main reason for the rise was the strong equity market rally over the year and also the change to currency rates, with the Fund's overseas assets rising as a result of a weaker Pound.

Investment income carried on rising, this time by £7.84 million, as investments in equities and property continued, and more dividend and rent income was received.

There had been a decrease in management expenses between 2015/2016 and 2016/2017. CIPFA guidance required transaction costs to be included in the investment management costs. For 2015/2016 transaction costs were approximately £2.1 million compared to only £1.3 million in 2016/2017. The transaction activity was much reduced through last year, particularly investment asset purchases with the markets rising.

At the latest valuation the actuary was able to declare a funding level of 100%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation would be carried out in March 2019.

The Council adopted International Finance Reporting (IFRS) from 1 April 2010 and the Pension Fund accounts complied with the reporting standards.

ORDERED that the Annual Report and Accounts 2016/2017 were noted.

17/18 **TEESSIDE PENSION FUND AUDIT RESULTS REPORT - YEAR ENDED 31 MARCH 2017**

The External Auditor presented the Teesside Pension Fund Audit results report which detailed the findings of the Audit carried out as per the Audit Plan which was presented to the Teesside Pension Board on 24 April 2017.

EY had issued an unqualified opinion on the Accounts that went into Middlesbrough Council's Accounts 2016/2017 and had also issued an unqualified opinion on the consistency opinion around the Annual Report.

The Auditor highlighted several key points from the report as follows:

The level of materiality had increased from £31.3m at the planning phase to £38.5m on receipt of the actual year-end figures. The threshold for reporting audit differences had remained at £1.5 million as agreed with the Panel on 28 June 2017.

It was confirmed that the outstanding items listed under the status of the audit on page 5 of the submitted report had now been completed.

There were a number of issues with regard to disclosures, mainly due to new guidance not being followed. Any adjustment or disclosure amended had been adjusted in the final financial statements.

The areas of audit focus included three significant risks:

- Valuation of complex pooled investment vehicles.
- Valuation of directly held properties.
- Management override.

The Auditor confirmed that no issues had been identified during testing.

The Auditor's opinion on the financial statements was detailed at Section 3 of the submitted report and was a clean opinion.

A summary of adjusted differences was provided at Section 4 of the submitted report and the Auditor confirmed that there were now no uncorrected misstatements. The information presented in the Accounts represented a true and fair view.

The Auditor drew the Panel's attention to issues in relation to the Contribution Monitoring Spreadsheet. There had been a few minor discrepancies which, although they did not have any impact on the audit opinion, could be improved in future.

The Auditor was pleased to report that the Fund had acted on previous recommendations in relation to governance arrangements and good progress had been made.

Cyber Security and the EU's General Data Protection Regulation (GDPR), (which would come into effect from 25 May 2018), were highlighted as developing risks that Panels across the country should consider.

ORDERED that the Teesside Pension Fund Audit results report for the Year ended 31 March 2017 was received and noted.

17/19

GOVERNANCE REVIEW - UPDATE

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board of progress to date with the governance review.

As reported to the July Board meeting, the outcome of the review and the work completed by the working group, the following key changes would be made:

- The Panel would change its name to the Teesside Pension Fund Committee (the Committee).
- Membership of the Committee and Board would be for four years, fitting in with the electoral cycle.
- The Panel currently had membership availability for scheme members/trade unions, but they were non-voting positions. The Committee would have two voting positions for scheme members/trade unions.
- The Teesside Pension Board Members would serve for a period of four years, fitting in with the electoral cycle.
- Pension Board Members were able to attend Pension Fund Committee meetings as observers, including for any exempt items.
- The current business plan was focussed more on investments. This plan would be extended to include more Pension Administration and Governance, including key performance indicators and budgets for pension administration and governance.
- An annual Employer Forum would be introduced for scheme employers to attend and receive updates on the Fund.

The proposed changes to the terms of reference for the Panel and Board previously discussed at the Panel and Board meetings, were approved by Middlesbrough Council on 1 November 2017.

The outstanding policies and strategies had been completed and were attached to the submitted report for the Board's approval. A detailed explanation of each policy was provided

at the meeting. In relation to the Communication Strategy, Board Members discussed increasing the use of electronic communication with both employers and employees, particularly with regard to annual pension statements and newsletters.

Following acceptance of the new policies and strategies, and adoption of the new terms of reference for the Pension Committee and Board, there were two further outstanding issues to complete:

- Carry out a formal check of the Fund's adherence to the Pension Regulator's Code of Practice and;
- A full Risk Register should be produced for the Fund, using the up-to-date CIPFA format.

ORDERED as follows:

1. that the report was received and noted.
2. that the following documents were approved:

- Governance Policy and Compliance Statement (Appendix A).
- Officers' Scheme of Delegation (Appendix B).
- Administration Strategy (Appendix C).
- Communication Strategy (Appendix D).

17/20

PENSION CUSTOMER SERVICE STRATEGY

A report of the Strategic Director of Finance, Governance and Support was presented to inform the Members of the Teesside Pension Board (the Board) of proposals to enhance the customer services provided to both members and employers of the Teesside Pension Fund.

In line with Middlesbrough Council's Customer Service Improvement Strategy, the report analysed the work carried out by Kier for the provision of administrative services to the Teesside Pension Fund since 2001 and suggested changes to improve the service and ensure it was fit for purpose.

During the period of the partnership the size of the membership administered by Kier had risen by 65%. The number of scheme employers had also increased significantly since 2009 from 45 to 154.

The Teesside Fund had Service Level Agreements embedded in its contract with Kier and during the period of the contract there had been no financial penalties imposed for failing to achieve key performance requirements. Many additional services had been provided by Kier to Middlesbrough Council, as Administering Authority for the Teesside Pension Fund, which were listed at paragraph 6.3 of the submitted report.

The introduction of the new Career Average Local Government Pension Scheme in 2013 had added additional complexity to an already overly complex pension arrangement. Scheme members' queries were taking longer to answer due to the complexities of the joint schemes. Scheme employers needed more assistance to understand the requirements of the scheme and the administrators to be able them to supply accurate information.

A number of suggestions had been put forward by Kier to alleviate the current resource issues as follows:

- Introduce an Employer Liaison Team.
- Increase the size of the Systems Support Team.
- Introduce a Communications Manager and Communication Team.
- Formalise the Employer Covenant Monitoring function.

It was proposed that Kier pension staff engage with Middlesbrough Council's senior pension staff to discuss the proposals, with a view to amending the current Kier contract/SLA to reflect the additional work.

AGREED as follows that:

1. The report was received and noted.
2. The report was presented to the Teesside Pension Fund Committee for consideration.

17/21

FUNDING UPDATE REPORT - 2017

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board (the Board) of the outcome of the Actuary's Funding Update Report, as at 31 March 2017. A copy of the Actuary's Funding Update Report was attached at Appendix A to the submitted report.

There were no direct financial implications from the update report, however, it provided Members with an indication as to how the performance of the Fund's assets had impacted on its funding level, and provided a guide to the outcome of the next Actuarial Review, due in 2019. Changes to the Fund's Employer's contribution rates could only be made every three years after a full Actuarial Review.

The Funding Update Report was based on movement in the Fund's assets over the period since 31 March 2016, but did not consider changes to the Fund's membership base. The funding level at 31 March 2017 had increased from 100% the previous year to 118%. The surplus had increased from £11.1m to £588m. The improved funding level was due to the large increase in the Fund's assets. This put the Fund in a good position going into the next Actuarial Valuation and confirmed that the current investment strategy was working.

The one downside was the assumptions used by the Actuary resulted in an increase in the future service rate by 1%. This was as a result of the discount rate used decreasing by 0.2% (from 4.7% to 4.5%) following a reassessment of the forecast assumptions for the financial markets. However, going forward, it was proposed that contribution rates for Employers should be kept as close to static as possible.

In addressing the sudden increase and the extent of the increase in the funding level, the Actuary had made a written statement at paragraph 5.7 of the submitted report regarding whether:

- the funding level increase was wholly because of the asset increase.
- the assumptions set for the 2016 Actuarial Valuation were too prudent, and
- the Fund's employers could see a discount to the contribution rate set at the next valuation if there was still a surplus.

Following an Actuarial Valuation it was common for the Fund to undertake an Asset/Liability Study (ALS) in conjunction with the Actuary. The aim of the ALS was to check the market conditions and investment opportunities to ensure the Fund would continue with its investment strategy and continue to be 100% funded over the long term.

The ALS was underway with the aim of updating the Teesside Pension Fund Committee at its December meeting with its outcome and recommendations.

AGREED that the report was received and noted.

17/22

TEESSIDE PENSION BOARD INSURANCE

A report of the Strategic Director, Governance and Support was presented to provide Members of the Teesside Pension Board with information regarding an insurance policy providing protection to the Board.

The Teesside Pension Board was set up under the Public Service Pension Act, and not the Local Government Act. In view of this, the normal insurance arrangements were not in place

to cover the Board. It had been raised at previous Board meetings that insurance cover was required for the Board.

AON offer insurance cover for Public Service Pension Boards. Attached at Appendix A to the submitted report was an AON policy document detailing the cover provided. For an Administering Authority with assets of approximately £4 billion, there were two options:

- £1 million cover at a cost of £5,500.
- £10 million cover at a cost of £10,000.

AGREED as follows:

1. that the report and policy were noted.
2. the purchase of cover for £1million, at a cost of £5,500 per annum was approved.

17/23 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items 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.

17/24 **LGPS INVESTMENT REFORM (POOLING ASSETS) - UPDATE**

The Head of Loans and Investments provided an update on the latest developments in setting up Border to Coast Pension Partnership (BCPP).

17/25 **NEWRIVER REIT - UPDATE**

The Head of Loans and Investments provided an update on the NewRiver REIT transaction.