

**TEESSIDE PENSION BOARD**

A meeting of the Teesside Pension Board was held on 23 July 2018.

**PRESENT:** Councillors C Monson  
N J Walker  
G Whitehouse  
B Woodhouse

**ALSO IN ATTENDANCE:** L Caudwell, AON Hewitt

**OFFICERS:** W Brown, P Campbell, G Hall, S Lightwing

**APOLOGIES FOR ABSENCE** were submitted on behalf of J Cook.

**DECLARATIONS OF INTERESTS**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
C Monson	Non pecuniary	Member of Teesside Pension Fund
G Whitehouse	Non pecuniary	Member of Teesside Pension Fund

18/1 **MINUTES OF THE PREVIOUS MEETING OF THE TEESSIDE PENSION BOARD HELD ON 23 APRIL 2018**

The minutes of the meeting of the Teesside Pension Board held on 23 April 2018 were taken as read and approved as a correct record.

18/2 **MINUTES OF THE MEETING OF THE TEESSIDE PENSION FUND COMMITTEE HELD ON 7 MARCH 2018**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 7 March 2018 were submitted for information.

**NOTED**

18/3 **VERBAL UPDATE ON THE MEETING OF THE TEESSIDE PENSION FUND COMMITTEE HELD ON 27 JUNE 2018**

The Interim Head of Pensions Governance and Investments provided a verbal update on agenda items considered at the Teesside Pension Fund Committee at a meeting held on 27 June 2018.

**NOTED**

18/4 **NEW PENSIONS GOVERNANCE AND INVESTMENTS STRUCTURE**

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board of the new structure for Pensions Governance and Investments.

A copy of the new staffing structure was attached at Appendix A to the submitted report. Since the report was produced, a Head of Pensions Governance and Investments had been appointed. The Deputy Head of Pensions - Investments, Wendy Brown, had also been appointed and was welcomed to the Board meeting. The new investment team was in place previous team members taking up the new posts. Recruitment to the governance and reporting team was underway.

In addition to the new Section, the reporting lines had changed. The Head of Pensions Governance would now report to the Head of Financial Governance and Revenues (Deputy Section 151 Officer) on a trial basis for approximately one year. The report stated that the trial would be for a "minimum" of one year, however it was agreed by Board members at the meeting that this stipulation should be removed.

The Head of Pensions Governance and Investments would continue as a Head of Service for Middlesbrough Council and the new arrangement would allow the Strategic Director Finance Governance and Support to act on behalf of the Council, as Section 151 Officer, when needed and when in conflict with the interests of the Fund. The Head of Financial Governance and Revenues could now act on behalf of the Fund in these situations.

**AGREED** that the report was received and noted.

18/5 **TEESSIDE PENSION BOARD ANNUAL REPORT 2017/18**

The Chair presented the second Teesside Pension Board Annual Report 2017-2018 and asked for any comments.

It was highlighted that with regard to the membership at paragraph 2 of the report, it should be specified that the "representatives from other unitary authorities" should be Elected Members and that all members of the Committee now had voting rights, including the trade union representatives.

**AGREED** that the report was approved, subject to the minor amendments highlighted at the meeting.

18/6 **DRAFT ANNUAL REPORT 2017/18**

The 2017/2018 Draft Annual Report and Accounts for the Teesside Pension Fund were presented for information. The Annual Report and Accounts provided an opportunity for stakeholders to be updated on recent changes to the Fund's membership, income and expenditure and the change in the size of the Fund's investment assets.

The overall financial performance of the Fund for the year to 31 March 2018 was a small positive increase. The Fund's value remained at approximately £3.9 billion, a small increase over the year of approximately £37 million. It was highlighted that the Fund was moving away from investment in income producing assets such as equities and bonds. This needed to be managed in the longer term although the £750 million held in cash was sufficient to cover any short term issues there.

The membership of the Fund had increased, with total membership at the year-end now standing at 69,295, an increase of 466 over last year. The number of active members had increased by 382 (0%) over the year, and decreased by 1.85% over the past five years. The number of pensioners increased by 580 (2.6%) over the year, and increased by 9.3% over the past five years. The number of deferred members increased last year by 382 (1.7%), and increased by 4.3% over the past five years.

In the financial year the Fund received over £4.5 million from early retirement re-charges, down on last year's figure of £5.3 million, a 14.4% decrease on last year.

There had been a slight rise in costs due to the transition costs of moving to the Border to Coast Pension Partnership (BCPP) of approximately £3,000. Management expenses had also risen as External Managers' fees were linked to the size of assets under management and the Fund had been putting more money into those assets, particularly into property.

Financial Reporting Standard 17 (FRS17) Retirement Benefits and International Accounting Standard 19 (IAS19) Employee Benefits, required employers to disclose in their accounts their share of the assets and liabilities in the Pension scheme. The Fund's Actuary, Aon Hewitt, produced reports for the employers in the Teesside Pension Fund containing the figures which each needed to disclose to comply with the requirements of these standards.

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

The Head of Financial Governance and Revenues informed the Board that the Pension Fund accounts formed part of the Council's overall Statement of Accounts, which would be presented to the Corporate Affairs and Audit Committee later this week for approval. As required by legislation, the accounts had been open for public inspection for a period of six weeks and no questions had been raised from members of the public. It was anticipated that the accounts would be signed off as a true and fair reflection of the financial position of the Council as at 31st March 2018.

**AGREED** that the Annual Report and Accounts 2017/2018 were received and noted.

18/7 **PENSION ADMINISTRATION REPORT 2017/18**

A report of the Strategic Director of Finance, Governance and Support was presented to provide Members of the Teesside Pension Board with details of the administration achievement against KPIs and general administrative data for the Teesside Pension Fund. A copy of Kier's Service Delivery Report 2017/2018 was attached at Appendix A to the submitted report.

The Pensions Manager (Kier Workplace Services) tabled an updated summary of the results for data quality and provided a detailed explanation of each section of the report.

It was noted that in future, membership details would be shown on a quarter-by-quarter basis. With regard to the Customer Satisfaction Survey it was suggested that if any issues were raised, it would be helpful for the Board to know what those issues were and how they were dealt with. In relation to the Performance Charts it was suggested that a fifth column be added to show the total cases.

**AGREED** that the report was received and noted.

18/8 **INTERIM FUND VALUATION REPORT**

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board of the outcome of the Actuary's Funding Update Report, as at 31 March 2018. A copy of the Funding Update Report was attached at Appendix A to the submitted report.

The Interim Head of Pensions Governance and Investments explained that the interim valuation was based on the customised benchmark that was currently in place and not the proposed new benchmark and the assumptions that were used at the 2016 valuation.

The main findings of the valuation were as follows:

- The position of the Fund was very good and, on a whole of fund basis, the funding level was 100%. The value of assets (£3.1bn) exceeded the liabilities by £11.1m.
- The employers' average cost of future service benefits was 15.7% of pensionable pay with effect from 1 April 2017.
- At the 2016 valuation the deficit recovery period had been set at 20 years.

The Funding Update Report was based on the 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 purpose of the report was to guide the Fund and prepare Pension Fund Committee and Board Members and Scheme Employers for the next Actuarial Valuation, which had an effective date of 31 March 2019 and would be carried out over the financial year 2019/2020.

The funding update was produced on the basis of no change to the investment strategy of the Fund. A second update had been commissioned to reflect the proposed changes to the

investment strategy following the Asset Liability Study reported to the Teesside Pension Fund Committee in March 2018.

The Fund's Actuary had also been requested to look at mortality for the Fund, looking at targeting mortality rates away from national and regional statistics to something that better reflected the Fund's membership with targeted post-code mortality rates.

The change in the funding level and surplus was due to a combination of the 2017/2018 investment performance report being lower than the previous year and below the required rate of return. The outlook for future market returns had deteriorated reducing the discount rate and increasing the cost of future benefits and the future service rate.

It was noted that the wording of the overall view in the actuary's report appeared quite pessimistic, reporting that the funding level had worsened since last year, when in fact the funding level was 112% and there was a significant surplus of £421.1 million at 31 March 2018. The Interim Head of Pensions Governance and Investments agreed to feed that comment back to the Actuary.

**AGREED** that the report was received and noted.

18/9

### **THE PENSION REGULATOR CODE 14 ASSESSMENT**

Laura Caudwell from AON Hewitt, presented the results of the assessment undertaken on Middlesbrough Council's compliance with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and Administration of Public Service Pension Schemes (the TPR Code).

The document presented highlighted the key elements of the TPR Code and evidenced whether Middlesbrough Council was meeting the areas of best practice. The information detailed when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where an element was marked partially or not compliant, it was highlighted whether the Council had identified actions to be carried out to improve current practices. Where an element was not yet active, the commentary still highlighted where advance progress was being made.

Where a process, policy or practice was officially reviewed at a set interval, the actual interval was shown as well as the last interval date. In many circumstances, processes and procedures were ongoing and part of the daily operation of the Fund and an annual check would be carried out.

There were ninety different areas which were shown on the summary dashboard at page 3 of the report and the majority were coloured green, indicating full compliance. It was noted that the Regulator would expect some elements to be amber and red.

The areas covered were as follows:

- Reporting Duties.
- Knowledge and Understanding.
- Conflicts of Interest.
- Publishing Information.
- Risk and Internal Controls.
- Maintaining Accurate Member Data.
- Maintaining Contributions.
- Providing Information to Members and Officers.
- Internal Dispute Resolution,
- Reporting Breaches.
- Scheme Advisory Board Requirements.

As a result of the assessment, the following actions were recommended:

- The assessment should be reviewed every years.

- The data agreement plan should be formalised, with a proposal of how to fix the challenges and issues.
- The process for reporting breaches should be in place.
- Conditional or scheme specific data should be reported.
- The Teesside Pension Fund website should be developed and updated.
- A self-assessment of training needs for Teesside Pension Fund Committee and Board Members should be undertaken.
- AVC controls should be implemented.

**AGREED** that the report was received and noted.

18/10 **RISK REGISTER**

A report of the Strategic Director Finance, Governance and Support was presented to provide the current version of the Fund's risk register, a copy of which was attached at Appendix A to the submitted report.

The risk matrix was adapted from the Pension Regulator risk matrix, which was attached at Appendix B to the submitted report. The risk register as presented was created by the Interim Head of Pensions Governance and Investments and the Pensions Manager (Kier Workplace Services).

From current analysis and taking into account mitigating actions, there was only one area of concern - reliance on Kier Workplace Services. A number of checks to the current contract and an assessment of the financial viability of Kier was underway to provide more evidence and might mitigate the likelihood of a serious issue occurring.

It was suggested that the Risk Register would be reported to the Teesside Pension Board twice yearly and the Teesside Pension Fund Committee on an annual basis.

**AGREED** that the report was received and noted.

18/11 **INVESTMENT PERFORMANCE 2017**

A report of the Strategic Director Finance, Governance and Support was presented to report on the investment performance of the Fund.

2017 was a very positive year for the Fund and most investors in general. Growth asset classes produced positive returns, particularly Equities. Bond performance was weaker than other asset classes, assisting the return for the Fund from the asset allocation decision to be underweight in Bonds. Strong gains were also seen in Property and Alternative asset classes. The Fund continued to invest in these asset classes as opportunities arose.

Overall purchases and sales were almost level for 2017. In the year the Fund's Bond portfolio was sold out and sales from here and Overseas Equities were invested in Property, UK Equities and Alternative Investments. Cash increased by approximately £60 million to £460 million.

Over the past few years the policy of being overweight in Equities negatively affected the Fund.

The total Fund return for 2017 was 11.8%, against a benchmark return of 12.1%. This was the return for the calendar year.

The Fund's performance over 3, 5 and 10 years was positive: 11.3% pa, 10.0% pa, and 7.0% respectively. Over 3 years the Fund underperformed its benchmark by 0.01% pa, over 5 years it underperformed by 1.5% and over the longer period of 10 years the Fund also underperformed its benchmark by 0.6%. The Fund's returns over the last 10 years were detailed at paragraphs 6.4 and 6.5 of the submitted report.

The difference in performance returns between the customised benchmark (11.8%) and the

Teesside Fund (12.1%) was -0.3%. Asset allocation and stock selection decisions had impacted performance.

With so much of the Fund invested in Equities, (approximately 80%), it was always this asset class that determined how well the whole Fund performed. There was strong performance across all regions during 2017, however negative performance at stock selection caused a drag on overall performance.

Bonds underperformed their underlying benchmark indices, however given the amount invested in this asset class the impact was minimal. Alternatives outperformed its benchmark index, whereas Property underperformed.

**AGREED** that the report was received and noted.

18/12 **INTERNAL AUDIT REPORTS (INVESTMENT AND PENSION ADMINISTRATION)**

A report of the Strategic Director of Finance, Governance and Support was presented in relation to the final reports on the Pension Fund Administration and Pension Fund Investments, by Tees Valley Audit and Assurance Service (TVAAS), which were attached to the submitted report at Appendices A and B respectively.

The overall audit opinion from TVAAS was a strong control environment for both audits and in relation to the areas reviewed. Based on the audit work undertaken, an effective system of internal control was in operation across the Pension Fund and was being applied consistently.

**AGREED** that that the information provided was received and noted.

18/13 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The Interim Head of Pensions Governance and Investments informed members that Graham Clyburn had resigned from the Teesside Pension Board, leaving a vacancy for a Member Representative.

Mr Clyburn was a member of Unison and it was suggested that a representative might be sought from other trade unions such as GMB and UNITE.

The Interim Head of Pensions Governance and Investments invited suggestions as to the desired length of the term of office for the replacement Member. Following discussion, it was agreed that a four-year term of office from the date of appointment was optimum and would provide continuity.

**AGREED** that:

1. A Member Representative for the Teesside Pension Board would be recruited.
2. The term of office for the Member representative would be four years from the date of appointment.

18/14 **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.

18/15 **POOLING UPDATE**

The Interim Head of Pensions Governance and Investments provided an update on the latest developments with the Border to Coast Pension Partnership (BCPP).

**AGREED** that the report was noted.

18/16      **EMPLOYER COVENANT REVIEW**

A report was presented to update Pension Board Members regarding the Employer Covenant Review.

**AGREED** that the report was noted.

18/17      **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

Kier Contract

Officers provided information in relation to the Kier Contract.

**NOTED**