

# Business Plan

## 2018 – 2021



Teesside Pension Fund

## EXECUTIVE SUMMARY

The purpose of this Business Plan is to outline the Fund's objectives and provide a plan of action as to how key priorities will be achieved in order to further these objectives.

Over the last few years the Fund has faced increasing complexities and there has been and continues to be new legislation that has fundamentally changed the way in which we work and our relationship with our stakeholders. The complexities have stemmed from but are not limited to the following;

- Asset Pooling
- The Public Service Pensions Act 2013
- Increased risk monitoring
- Funding pressures resulting from longevity risk and volatile financial markets
- Overriding HMRC legislation
- Increased diversity of scheme employers resulting from alternative service provision models
- End of contracting-out of the State Second Pension
- Amending Local Government Pension Scheme regulations

To manage these challenges the Fund needs to be flexible and responsive to adapt in a timely and effective manner.

This Business Plan also outlines the expected Fund income and expenditure for the current financial year 2017-18, and projections for 2018-19.

The Business Plan also details the key performance indicators by which the Fund's performance will be measured, and a current risk register for the Fund.

Officers will update the Teesside Pension Fund Committee and the Teesside Pension Board on the progress made against all aspects of the Business Plan in update reports presented during 2018/19.

## SIGNIFICANT ACHIEVEMENTS

There have been some significant achievements for the Fund during 2017/18:

- The performance return for investments of 24.9% for 2016/17 was reported, significantly lifting the value of the Fund to over £4 billion for the first time and a positive return for five consecutive years;
- An interim Actuarial Valuation result of 118%, based on previous membership experience, but updated for the changes in asset values and future investment forecasts;

- The launch and roll out of Member Self-Serve, allowing scheme members the opportunity to view their pension data and forecasts for retirements;
- The project to bring the governance arrangement in line with current LGPS regulations and up-to-date is almost complete, with only an assessment against the Pension Regulator's Code of Practice left outstanding; and
- A plan for the transition of investment assets and employees to Border to Coast Pension Partnership was developed and agreed, including planning and arranging the initial transfer of overseas equities (Japanese and Far Eastern Equities) to passive, index tracking funds.

## INTRODUCTION

Middlesbrough Borough Council is the Administering Authority for the Teesside Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS), a final salary/career average revaluated earnings (CARE) scheme. It is principally funded by its constituent employers and members and investment income.

The Fund currently has approx. 70,000 scheme members from over 150 employer bodies, including four Local Authorities.

At the last Actuarial Valuation, March 2016, the assets worth £3.13 billion, were sufficient to meet 100% of the Fund's liabilities. The assets of the Fund have increased since then and are £4.07 billion as at 31 December 2017.

## PURPOSE OF THE FUND

### Mission Statement

*"To provide an efficient and effective pension scheme for all scheme members and employers in accordance with the requirements of the regulations and legislation for the Local Government Pension Scheme."*

### Purpose

The Fund is a vehicle by which scheme benefits are delivered. The purpose of the Fund is to:

- Receive monies in respect contributions from employers and employees, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

### Aims

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk exposure policies of the administering authority and employers alike.

- Seek returns on investments within reasonable risk parameters.

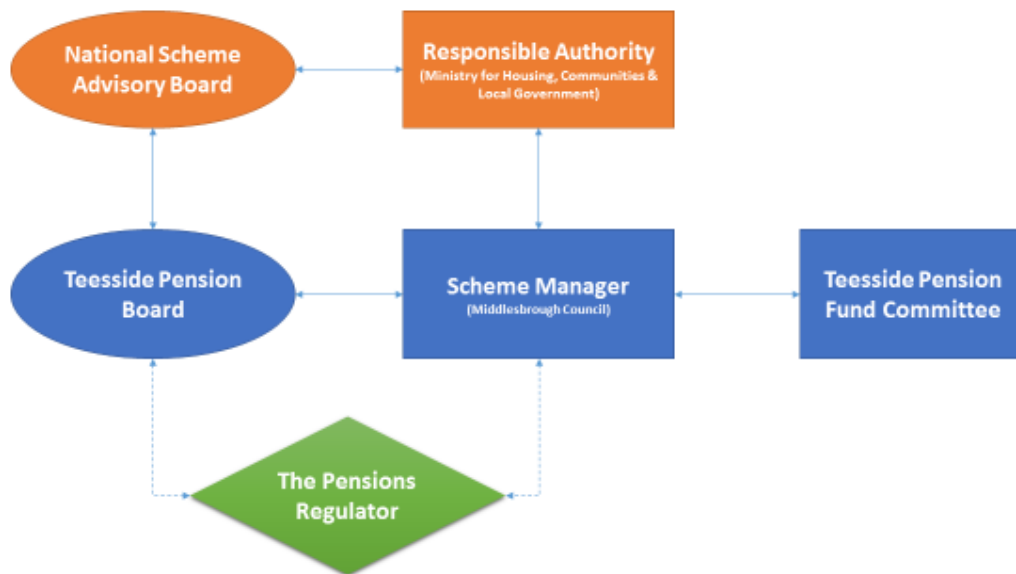
## Service Promise

*“We will provide a customer-focused pension service meeting the needs of members and employers, and manage the investments of the Fund to achieve solvency and long-term cost efficiency for our customers.”*

The full service promise is attached as Appendix A, and sets out the promises to the four key stakeholders of the Fund.

## GOVERNANCE ARRANGEMENTS

The Public Service Pensions Act 2013 introduced a new national and local governance framework for all public sector pension schemes, including the LGPS. The interaction of the various bodies is shown below.



## Responsible Authority

For the LGPS, this is the Ministry for Housing, Communities and Local Government (DCLG); its primary roles being:

- The LGPS Scheme ‘sponsor’;
- Ensuring affordability of the LGPS for members and employing authorities;
- Developing policy for the operation of the LGPS to reflect government policy and LGPS specific experience; and
- Commissioning and updating legislation and actuarial guidance.

## **National Scheme Advisory Board**

The Local Government Pension Scheme Advisory Board (LGPSAB):

- Advises on policy, best practice, and governance issues;
- Reporting responsibility;
- 'Bona fides' single source for LGPS stakeholders on general and specific health of the LGPS; and
- Liaison role with the Pensions Regulator.

Further information on the Advisory Board, its role and operation can be found at the Board website: <http://www.lgpsboard.org/> .

## **The Pensions Regulator**

The statutory objectives of the Pension Regulator are:

- Protect member benefits (although they accept that these are already guaranteed); and
- Promote and improve understanding of good administration.

Please visit The Pensions Regulator website for more information:

<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx> .

In addition to the national bodies, each individual LGPS Fund has a single employing authority designated as the administering authority for its geographic area. Middlesbrough Council was appointed the Administering Authority for the Teesside Pension Fund by the Secretary of State, replacing the former Cleveland County Council Fund following Local Government Reorganisation in 1996.

Each administering authority is responsible for the financial and administrative functions of their Fund. For the Teesside fund, this function is delegated to the Teesside Pension Fund Committee, which is assisted by the Teesside Pension Board.

## **Teesside Pension Fund Committee**

The Pension Fund Committee's principal aim is to carry out the functions of Middlesbrough Council as the Scheme Manager and Administering Authority for the Teesside Pension Fund in accordance with Local Government Pension Scheme and any other relevant legislation.

In its role as the administering authority, Middlesbrough Council owes fiduciary duties to the employers and members of the Teesside Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pension Fund Committee and its members must not compromise this with their own individual interests.

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Finance Officer and the Fund's professional advisers:

- a) Ensuring the Teesside Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Teesside Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Middlesbrough Council and making recommendations to Middlesbrough Council about any changes to that framework.
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
  - iii) Investment strategy - approving the Fund's Investment Strategy Statement and Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Borders to Coast Pension Partnership; the Asset Pooling

Collaboration arrangements:

- i) Monitoring of the performance of the Borders to Coast Asset Pooling Collaboration and its Operator and recommending actions to the Joint Committee, The Mayor or his Nominee (in his role as the nominated person to exercise Shareholder rights and responsibilities), Officers Groups or BCPP Ltd, as appropriate.
- ii) Undertake the role of Authority in relation to the Inter Authority Agreement, including but not limited to:
  - Requesting variations to the Inter Authority Agreement
  - Withdrawing from the Inter Authority Agreement
  - Appointing Middlesbrough Council officers to the Officer Operations Group.
- g) Considering the Fund's financial statements and the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, independent professional advisers and AVC provider.
- i) Liaison with internal and external audit, including providing recommendations in relation to areas to be covered in audit plans, considering audit reports and ensuring appropriate changes are made following receipt of audit findings
- j) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- k) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- l) Agreeing Pension Fund business plans and monitoring progress against them.
- m) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- n) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- o) Receiving ongoing reports from the Chief Finance Officer, the Head of Investments and Treasury Management and other relevant officers in relation to delegated functions.

No matters relating to Middlesbrough Council's responsibilities as an employer



participating within the Teesside Pension Fund are delegated to the Pension Fund Committee.

### Teesside Pension Board

The Board is responsible for assisting the Administering Authority:

- a) To 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 Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund. The Board makes recommendations and provides assurance to assist in the management of the Fund.

### Teesside Pension Officer Support

In order to support the Teesside Pension Fund Committee and Teesside Pensions Board and enable them to fulfil their obligations under the LGPS investment regulations administering authorities are required to take proper advice. *“Proper advice”* is defined in the regulations as *“the advice of a person who is reasonably believed to be qualified by his ability in and practical experience of financial matters.”* Advice is taken from internal and external sources:

- Internal advice comes from the **Strategic Director Finance, Governance and Support**, who has Section 151 responsibilities. It is the Director who is responsible for ensuring that adequate expertise is available internally and, where he deems that not to be the case, he will advise when external advice should be sought. Internal expertise and advice is provided by:
  - The **Head of Legal Services** on legal matters pertaining to the Fund.
  - The **Head of Investments and Treasury Management** on investment and LGPS governance issues.
  - The **Fund Manager** on investment issues.
  - The **Head of Pensions (Kier Business Services)** on fund administration and regulatory issues.
  - The **Head of Financial Governance & Revenues** on issues relating to the Statement of Accounts.
- External advice is provided by:
  - The **Fund’s Investment Advisor** on asset allocation and investment matters.
  - The **Fund’s Actuary**, Aon Hewitt, on actuarial matters.
  - The **Fund’s Solicitors**, Nabarro, on regulatory and administrative matters, and Freeths LLP, on legal matters relating to the Fund’s property investments.

- The **Fund's Auditor**, previously now EY LLP, regarding auditing the accounts and internal controls and systems.
- Other external advisors as the Strategic Director Finance, Governance and Support shall see fit to recommend.

## PROCEDURE FOR THE REVIEW OF MANAGERS AND ADVISORS

The Fund's management arrangements, the arrangements for the appointment of advisors and other external service providers and the regular review of those arrangements have been determined by the Committee.

- Fund investment management arrangements were last reviewed by the Investment Panel in March 2015. Since this review the new LGPS (Management and Investment of Funds) Regulations 2016 included the requirement for all LGPS Funds to pool their assets. The Fund is a shareholder and partner in Border to Coast Pension Partnership Ltd. (BCPP) and is working with BCPP towards them managing the majority of investment assets for the Fund.
- Following the transfer of investment management to BCPP, there will be a number of investment assets which will remain with the Fund to manage, either because they will never transfer to BCPP, e.g. cash or local investments, or their transfer is delayed until BCPP are in a position begin management of these assets, e.g. property. These will continue to be managed by an internal team.
- Fund Investment Advisor arrangements were reviewed by the Committee on 10 June 2009. A tender exercise for the procurement of Independent Investment Advisors is underway and planned to conclude by April 2018.
- The contract to provide Custodian Services to the Fund was tendered in 2012/13. BNP Paribas Securities Services was appointed on 19 September 2012 for a period of five years with the option to extend the contract by another year; this option was agreed in 2017.
- The contract to provide Shareholder Governance Services to the Fund was tendered in September 2016. Pensions Investment Research Consultants (PIRC) was appointed for a period of two years, with an option to extend by a further year. This is sufficient to carry this service up to when BCPP take over the day to day management of listed UK Equities.
- Pension Administration Services are provided by Kier Group under the terms of a contract for a period of ten years commencing 1 June 2001. This arrangement was approved by the Investment Panel on 2 March 2001. A five year extension to this contract was approved by the Investment Panel on 3 March 2010 and another five year extension was also approved on 17 June 2015.
- The contract to provide Actuarial Services to the Fund was tendered in 2012/13. Aon Hewitt was appointed on 12 December 2012 for a period of seven years.

- Fund Additional Voluntary Contribution (AVC) provision was reviewed by the Investment Panel on 12 July 2002 and the Prudential Assurance Company Ltd were appointed. The long-term nature of AVC provision does not lend itself to the regular review of providers.

## PERFORMANCE TARGETS

Targets are set for each of these key areas to monitor the performance of the Fund.

### Funding

The Funding Strategy Statement sets out a comprehensive strategy for the whole Fund, balancing and reconciling the many interests which arise from the nature of the Scheme and the requirements to fund benefits now and in the future. The Funding Strategy Statement was last updated and approved in March 2017, in time for implementation of the 2016 Actuarial Valuation.

The funding target of the Fund is to achieve fully funded status, i.e. the assets of the Fund match, exactly, its liabilities. This is expressed as a percentage, with fully funded status represented as 100% funded. The Fund's Actuary, AON Hewitt, carries out a full actuarial valuation every three years, with the last valuation undertaken based on the assets and membership at 31 March 2016. An interim valuation is undertaken in the intervening years. Both Fund committees are updated with the funding level of the Fund each year.

### Investments

The Investment Strategy Statement sets out the Fund's strategy asset allocation (also known as the customised benchmark), a tailor made mix of investments which is reached after an Actuarial Valuation and subsequent Asset/Liability Study. The strategic asset allocation was last reviewed and set in December 2014 with an Asset/Liability Study due to be presented to Members of the Teesside Pension Fund Committee in March 2018. The Investment Strategy Statement was last reviewed and approved in March 2017.

Monitoring investment performance is one way in which Members can assess how well the Fund is being managed. Performance is measured against the tailor-made mix of investments which should produce returns over the medium and long term to meet the Fund's liabilities; the strategic asset allocation and customised benchmark.

The Fund's investment performance is measured by Portfolio Evaluation Limited (PEL), a leading provider of performance services to public and private sector pension schemes. Investment performance reported as part of the Fund's Annual Report & Accounts and to both of the Fund's committees each year.

Investment performance is measured against the customised benchmark over three time periods; one year, three year and ten year (i.e. short, medium and long term performance).

## **Pension Administration**

Key Performance Indicators (KPIs) relating to pension administration are included within the terms of the contract with Kier Group and performance against those KPIs is monitored as part of that contract. The current KPIs and targets are:

<b>Pension Administration KPI</b>	<b>Target</b>
All new entrant processed within eighteen working days of receipt of notification being received by pensions.	98.50%
Transfer Values - To complete the process within one month of the date of receipt/request for payment.	98.50%
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being received.	98.75%
Statements issued within ten working days - Estimate of benefits (of receipt of request) and Deferred Benefits (of receipt of all relevant information). (Formerly F68 and F72)	98.25%
Pension costs to be recharged monthly to all employers.	98.75%
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	98.75%
Payment of retirement grant payment to be made within 6 working days of the later of the payment due date and the date of receiving all of the necessary information.	98.75%
Pay eligible pensioners a monthly pension on the dates specified by the Council.	100.00%
All calculations and payments are correct.	98.75%

It is proposed that the KPIs are reviewed with a view to updating them and the target rates. It is also proposed that in future the actual results against these KPIs are reported annually to both Fund committees.

## **Accounting**

The Fund's Annual Report and Accounts are prepared in line with the current guidelines and reported to the Teesside Pension Fund Committee. The Annual Report and Accounts are audited by the Fund's External Auditors (EY LLP). EY present their audit findings to the Teesside Pension Fund Committee and provide their audit opinion based on the findings of

the report. The target is for the External Auditors to report that the Annual Report & Accounts show a true and fair view of the transactions the Fund.

To ensure there are adequate internal controls in place to manage and administer the Fund effectively, Internal Audit carry out an independent audit review every year, and the final reports are presented to the Teesside Pension Board. Internal Audit report their findings and an audit assurance level. The target for both internal audits is to receive an assurance level of a strong control environment.

## **Governance**

In addition to the Funding Strategy Statement and Investment Strategy Statement, the Fund is required to have in place a number of other key governance documents to allow the Fund to run effectively and smoothly. These additional governance documents are:

- Governance Policy and Compliance Statement
- Training Policy
- Conflicts of Interest Policy
- Risk Management Policy
- Procedures for Reporting Breaches of the Law
- Communication Policy
- Pension Administration Strategy and Employer Guide
- Discretions Policy and Fund Officers' Scheme of Delegation

All governance documents should be reviewed at least every three years to ensure they are still relevant and represent best practice.

A summary of performance against all targets is presented in Appendix B of this report.

## **RISK MANAGEMENT**

The Fund's Risk Management Policy details the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk.
- How risk management is implemented.
- Risk management responsibilities.
- The procedures that are adopted in the Fund's risk management process.
- The key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

Effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Fund can:

- Demonstrate best practice in governance.
- Improve financial management.
- Minimise the risk and effect of adverse conditions.
- Identify and maximise opportunities that might arise.
- Minimise threats.

The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims to:

- Integrate risk management into the culture and day-to-day activities of the Fund.
- Raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners).
- Anticipate and respond positively to change.
- Minimise the probability of negative outcomes for the Fund and its stakeholders.
- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.
- Ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- The CIPFA Managing Risk publication.
- The Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



## Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

## Risk Analysis & Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating.

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

## Risk Response

The extent to which the identified risks are covered by existing internal controls is reviewed to determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Fund Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;

- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

### **Risk Monitoring & Review**

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Committee considers whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to be learned for the future assessment and management of risks.

### **Risk Reporting**

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Fund Committee – see attached Appendix C. The Pension Fund Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review will be carried out at least twice a year.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it will be included in either the Risk Register.

### **Risk Matrix**

The risk matrix is adapted from the one used by the Pension Regulator and the External Auditor's assessment of materiality (for the 2017/18 audit £77 million) is used as a very high fund value for the purposes of scoring the identified risks.



RISK REGISTER - SCORING DEFINITIONS						
Scores:		1	2	3	4	High 5
Impact <small>(May be one or more of the listed items)</small>	Fund Value & Reputation	No financial or reputational impact	Minimal financial or reputational impact	Financial and/or reputational impact on the Fund	High financial and/or reputational impact on the Fund	Very high financial and/or reputational impact on the Fund
	Scheme Members	No impact on member benefits	Affect benefits at individual member level	Affects several individual members	Affects significant number of members	Affects entire membership
	Scheme Employers	No impact on employers	Affect benefits at individual employer level	Affects several individual employers	Affects significant number of Fund's employers	Affects entire Fund's employers
Probability		Very unlikely that risk will occur	Unlikely that risk will occur	Risk may occur	Likely that risk will occur	Very likely that risk will occur

RISK REGISTER - RISK SCORES						
Risk Scores		Impact				
		1	2	3	4	5
Probability	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5

	Low
	Medium
	High

## TRAINING PLAN

The Fund has adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. It is a requirement of the Code that an annual statement on compliance must be included in the Fund's Statement of Accounts.

Investment Officers are required to acquire, by examination, the Investment Management Certificate (IMC) or relevant qualification. Officers without the relevant qualification and with less than five years relevant experience must undergo a minimum of twenty hours relevant training.

The Principles included in the Myners Review of Institutional Investment included a requirement under "Effective Decision Making" that Trustees should have sufficient expertise and be offered appropriate training.

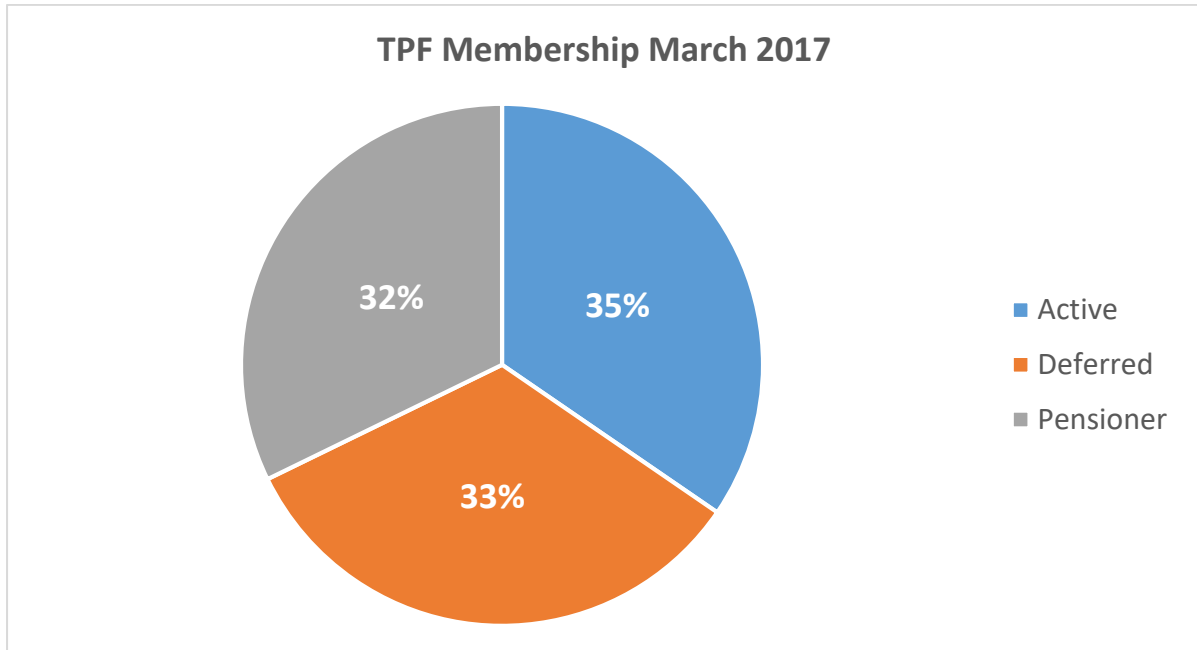
It is a requirement that all Members serving on the Teesside Pension Fund Committee and those who may act as substitute received adequate training. This facility is extended to also include non-Middlesbrough Council members of the Investment Panel. All Teesside Pension Board Members have received training and passed the Pension Regulator's toolkit.

It is proposed that once resources are in place to carry out a fundamental review of current training arrangements to ensure compliance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills and best practice. Training for Members and the staff employed by

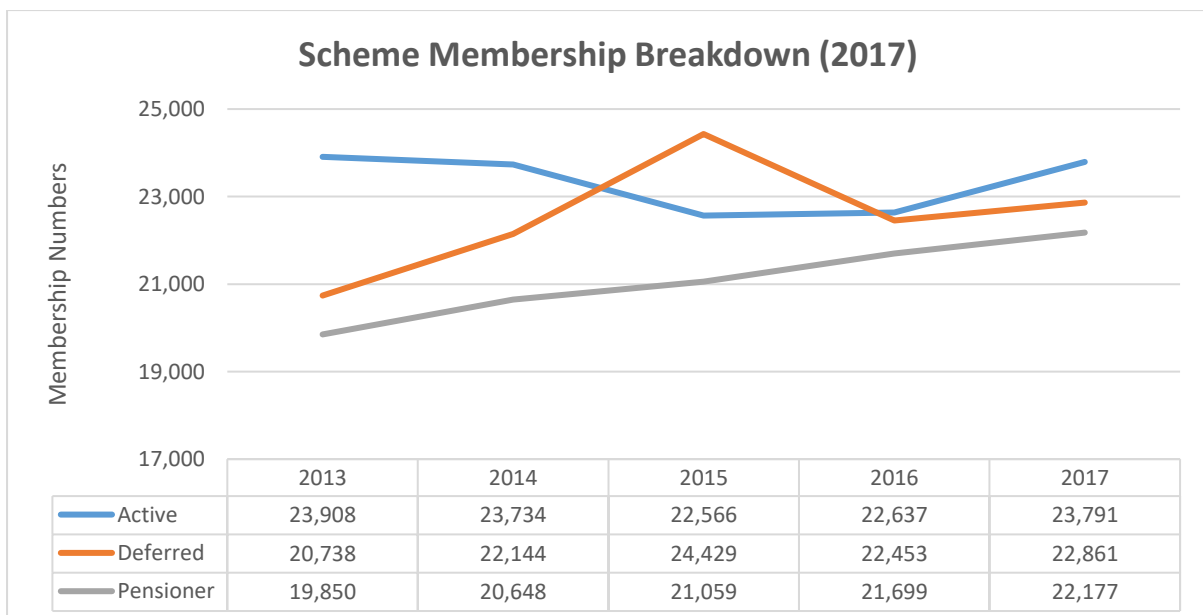
the Fund will be essential in the future as the Fund will be effectively managing two huge outsourcing contracts with Border to Coast Pension Partnership managing the majority of the Fund’s investment assets, and Kier Group managing the Fund’s pension administration service.

## MEMBERSHIP DATA

The total scheme membership for the Fund as at 31 March 2017 was 68,829, made up of the following membership types:

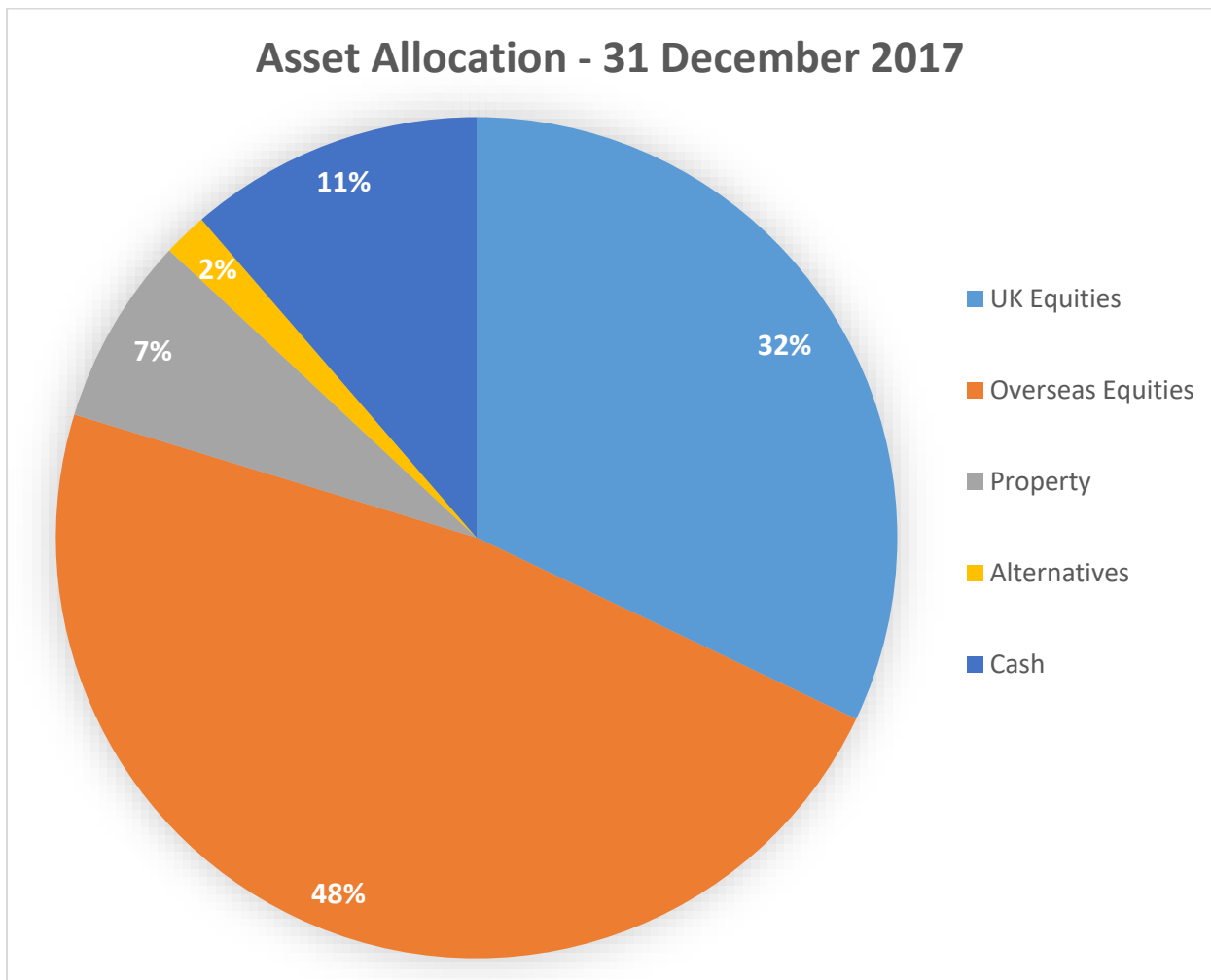


The changes to the scheme membership types is shown below. Whilst the membership has increased by approx. 4,000 members in total, the active membership has remained relatively static over that period, whereas the number of deferred and pensioner members has increased.

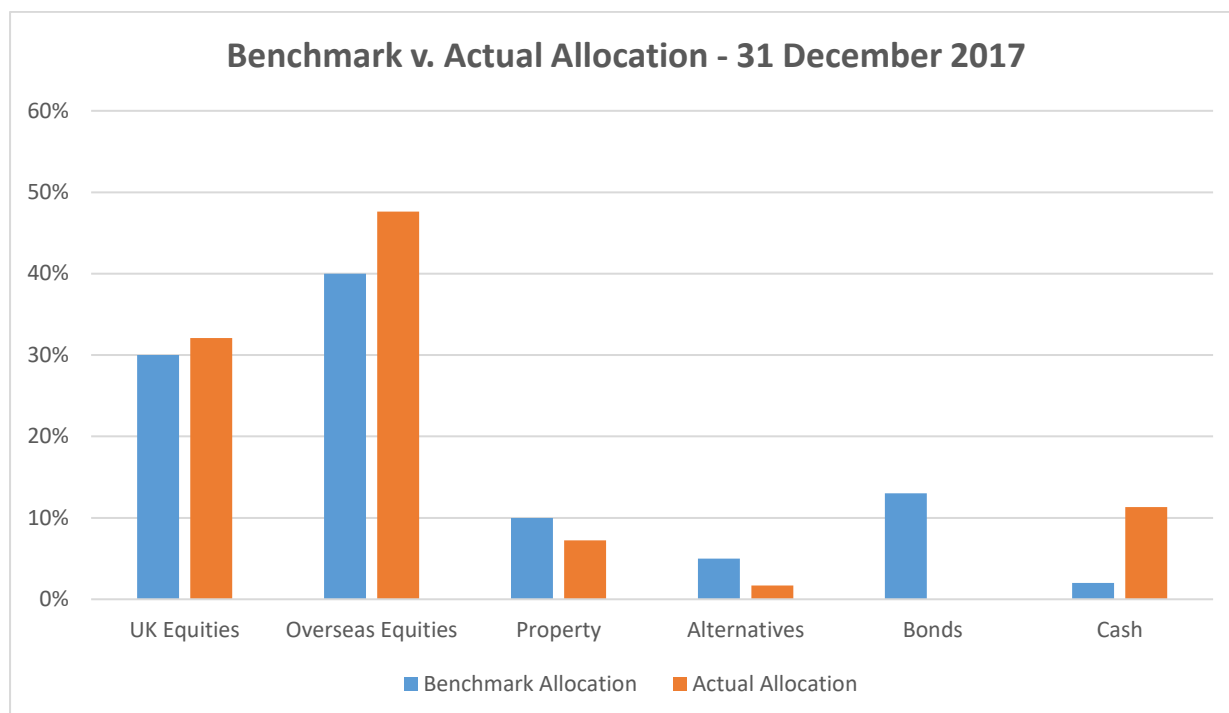


## INVESTMENTS AND FUNDING

The Pension Fund invests in a wide range of asset classes and regularly reviews its asset allocation policy to ensure that it remains appropriate for the Fund.



The Fund's Investment Strategy Statement sets out the Asset Allocation Strategy. This strategy is set for the long term and is reviewed every 3 years as part of the Fund's Asset/Liability study to ensure that it remains appropriate to the Fund's liability profile. As part of the strategy the Administering Authority has adopted a strategic benchmark representing the mix of assets best able to meet the long term liabilities of the Fund. As at 31 December 2017 the actual assets compared to the benchmark as follows:



Actuarial Valuations are carried out every three years with the last Valuation dated 31 March 2016. These Valuations calculate the value of the Fund’s liabilities and compare them to the market value of the assets to determine a funding ratio. At the last Valuation, there was a small surplus of £11.1 million, which corresponded to a funding ratio of 100%.

An Interim Actuarial Valuation was carried out as at 31 March 2017. This Interim Valuation only provides an approximate funding update, and is not carried in a consistent way to the main triennial Valuation. The Interim Valuation reflected the rise in the markets over the year, and calculated a surplus of £588 million, which corresponded to a funding ratio of 118%.

Another Interim Actuarial Valuation is planned for 31 March 2018 and the next triennial Valuation is due as at 31 March 2019. The result of this Valuation will be implemented for 1 April 2020, with any changes to employer contribution rates due to take effect then. In addition, the 2016 Valuation results are being reviewed by the Government Actuary Department, with initial results from this review due soon.

## FUND ACCOUNT, INVESTMENT AND ADMINISTRATION ESTIMATES

The following table provides a summary of the estimates of the fund account, investment and administration income and expenditure (income shown in brackets):

Description	2016-17 Actual £'000s	2017-18 Forecast £'000s	2018-19 Estimate £'000s
Contributions	(85,887)	(90,698)	(93,363)
Transfers in from other pension funds	(5,225)	(3,154)	(4,000)
Other income	(6,382)	(5,974)	(6,200)
<b>Total Income from members</b>	<b>(97,494)</b>	<b>(99,826)</b>	<b>(103,563)</b>
Benefits payable	125,785	132,477	137,553
Payments to and on account of leavers	9,084	11,698	12,000
<b>Total expenditure to members</b>	<b>134,869</b>	<b>144,175</b>	<b>149,553</b>
Management expenses	4,673	4,738	6,382
<b>Total income less expenditure</b>	<b>42,048</b>	<b>49,087</b>	<b>52,372</b>
Investment income	(102,150)	(102,986)	(62,400)
(Profit) and losses on disposal of investments and changes in the market value of investments	(666,369)	(108,820)	(25,000)
<b>Net return on investments</b>	<b>(768,519)</b>	<b>(211,806)</b>	<b>(87,400)</b>
<b>Net (increase) / decrease in net assets available for benefits during the year</b>	<b>(726,471)</b>	<b>(162,719)</b>	<b>(35,028)</b>

The detail behind the above summary is attached in Appendix D. Both 2017/18 and 2018/19 are transition years, with one-off costs for making arrangements for pooling and the work carried out to bring the Fund's governance arrangements up to date. In addition, the net returns on investments are best estimates at this time, however equity and currency markets have entered into a volatile phase making these estimates unreliable.

## ANNUAL PLAN FOR RECEIVING REPORTS

The Teesside Pension Fund Committee will meet four times in 2018/19 year, with an additional meeting to approve the Annual Report & Accounts. These should be before the end of:

- June;
- July;
- September;

- December; and
- March.

This allows for the presentation of key reports, which are needed to meet statutory deadlines:

June	Fund Performance Report
July	Annual Report & Accounts Audit Report
September	Interim Actuarial Valuation Report
December	Shareholder Governance Annual Report
March	Business Plan Annual Report to Council Annual External Audit Plan

## FORWARD WORK PLAN

A number of reviews and reports have been scheduled as a result of earlier Investment Panel decisions and the requirement to put out to external tender services provided to the Fund. It may be necessary to delay non-contractual elements of the Plan, depending on resources available.

### **2018/19:**

#### **Pooling of Investment Assets:**

- Manage the TUPE of staff to BCPP and implement the new staffing structure for Pensions Governance & Investments after Pooling.
- Assist the other partners of BCPP in the set-up of the new FCA approved Investment Management Company (BCPP) and begin the transfer of the Fund's investment assets.

#### **Pension Fund Governance:**

- Implement the Asset/Liability Study, and set a plan for rebalancing the Fund's asset allocation to the new customised benchmark.
- Complete the remaining part of the review of the Fund's Governance Arrangements (ensure the policies are in line with Regulations and the Pension Regulator's Code of Practise (Code 14), develop a new training plan for Investment Panel/Pension Board Members and implement new reporting processes after the review).

#### **Pension Investments:**

- Complete the tender for Property Investment Manager and Agent Services.

- Review the requirement for a Global Custodian, and make arrangements for either an alternative solution or re-procurement.
- Implement the asset allocation instructions from the Investment Panel.
- Monitor and report investment performance of the Fund, as measured against the Fund's customised benchmark.
- Review the requirement for the Shareholder Governance provider and, if required, either extend the contract for one year or allow the contract to expire.

**Pension Administration:**

- Review of Employer Covenant Risk.
- Pension Customer Service Strategy.

**Funding:**

- Carry out an Interim Actuarial Valuation.
- Prepare for the 2019 Actuarial Valuation.
- A cash flow forecast, produced by the Actuary, and ahead of the 2019 Actuarial Valuation.
- Review the GAD "Section 13" Report.

**2019/20:**

- Triennial Actuarial Valuation.
- Tender for Actuarial and Benefit Consultancy Services.
- Review and update the Funding Strategy Statement and Investment Strategy Statement.
- Transfer of Investment Assets to BCPP.

**2020/21:**

- Asset/Liability Study.
- Review of the Governance Policies.
- Transfer of Investment Assets to BCPP.
- Interim Actuarial Valuation.

## ANNUAL REPORT TO COUNCIL

The Fund is required by Regulation to maintain and publish Governance Policy and Communications Policy Statements. In furtherance of those policies CIPFA recommends that an annual report on the Fund be made to the Council of the administering authority.

The required report is attached – see Appendix E.