

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 24 July 2019.

PRESENT: Councillors Coupe, (Chair), Cooper, Dean, Furness, Polano, Rostron and Sands

Other Local Authority Member:
Beall, Stockton Borough Council

ALSO IN ATTENDANCE: S Kenny, E Ferdani, EY

OFFICERS: W Brown, S Lightwing, N Orton, J Robinson, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of P Fleck and T Watson.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Teesside Pension Fund Member
Councillor Rostron	Non pecuniary	Teesside Pension Fund Member
Councillor Sands	Non pecuniary	Teesside Pension Fund Member

19/13 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 19 JUNE 2019**

The minutes of the meeting of the Teesside Pension Fund Committee held on 19 June 2019 were taken as read and approved as a correct record.

19/14 **DRAFT ANNUAL PENSION FUND REPORT AND ACCOUNTS 2018/19**

A report of the Strategic Director, Finance Governance and Support was presented, the purpose of which was to provide details of the Annual Report and Accounts for the Year Ended 31 March 2019 for the Teesside Pension Fund.

The terms of reference for the Teesside Pension Fund Committee required the Annual Report and Accounts to be approved. A copy of the Draft Report and Accounts was attached to the submitted report.

The overall financial performance of the Fund for the year to 31 March 2019 was a reasonably positive increase. The Fund's value increased to £4.08 billion, an increase over the year of approximately £187 million or 4.8%.

The membership of the Fund had increased, with total membership at the year-end now standing at 72,266, an increase of 2,971 over last year. The number of active members had decreased by 363 (1.6%) over the year, but increased by 1.6% over the past four years. The number of pensioners increased by 967 (4.2%) over the year, and increased by 12.7% over the past four years. The number of deferred members increased last year by 2,367 (10.2%), and increased by 4.8% over the past four years.

There had been a slight reduction in the number of Scheme Employers due some schools transferring to academies.

In this financial year the Fund received over £4.1 million from early retirement recharges, down on last year's figure of £4.5 million, a 9.4% decrease on last year.

The Head of Pensions Governance and Investments highlighted two minor amendments to the report. On page 6, in relation to attendance at Committee, the Trade Union details needed correcting to show that the members had voting rights and also their attendance record needed updating. On page 57, the Fund's BCPP equities had been recorded as Level 1 assets, however these should have been recorded as Level 2 assets. This correction had no impact on the report or the accounts.

The Asset Allocation Strategy was detailed on page 19 of the report and it was highlighted that the Fund was overweight in equities in terms of the target. However, the Committee was in the process of restructuring the portfolio and considering alternative investments, private equity and infrastructure projects.

There had been a significant increase in costs in the Fund, some of which were as a consequence of set up fees for Border to Coast Pension Partnership (BCPP), and starting to invest in asset classes, where the fees were higher. It had cost just under £2 million to transition the Fund's assets to BCPP and State Street. In addition, £833,334, being a one-twelfth share, had been allocated to BCPP to meet the Financial Conduct Authority (FCA) requirement to hold £10 million capital, although this was an investment rather than a cost.

The next actuarial valuation was due to be carried out as at 31 March 2019, with the final report published in March 2020, and any changes required to employer contribution rates due to come into force from April 2020.

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 in order to comply with the requirements of these standards. Although the Fund was 'actuarially' fully funded, the employers still had FRS17/IAS19 deficits due to the way the figures in the reports were calculated. It was noted that the FRS17/IAS19 calculations had no impact on the actual Funding Level of the Fund or the Employers within it.

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

The Chair reminded Members that the BCPP Annual Conference would be held in Leeds in October and several places were available if Members wished to attend.

AGREED that Annual Report and Accounts for the Teesside Pension Fund for the Year Ended 31 March 2019 were approved.

19/15

ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

Teesside Pension Fund Audit Results Report - Year Ended 31 March 2019

The External Auditor presented the Teesside Pension Fund Audit Results Report for the Year Ended 31 March 2019. The overall headline was that EY would be issuing an unqualified opinion on the Pension Fund accounts that appeared in the Council's Financial Statements and an unqualified consistency opinion in the Annual Report, subject completion of the following outstanding items:

- Obtaining two investment confirmations.
- Review of Teesside Pension Fund Annual Report.
- Reconciliation of the Custodian report to the financial statements.
- Review of the final accounts.
- Receipt of management representation letter.
- Final review of audit work completed and audit completion procedures.

Based on EY's materiality measure of net assets, EY had updated its overall materiality assessment to £40.8 million (Audit Planning Report £38.9 million). This resulted in updated performance materiality, at 75% of overall materiality, of £30.6 million. However, the threshold for reporting misstatements had remained the same at £1.9 million.

The Auditor drew the Committee's attention to the areas of audit focus, which included the

following significant risks:

- Misstatements due to fraud or error.
- Valuation of complex pooled investment vehicles.
- Valuation of directly held properties.
- Implementation of new accounting standards.
- General Ledger system upgrade.

The Auditor confirmed that there were no material misstatements in the accounts in relation to the significant risks.

Finally the Auditor drew the Committee's attention to the audit differences, which were listed at page 17 of the submitted report. These adjustments had been discussed with managers and amended. The adjustment highlighted earlier in the meeting by the Head of Pensions Governance and Investments relating to classification of the Fund's assets was not highlighted in this draft version of the report.

A copy of the final Audit Results Report would be circulated to the Committee.

AGREED that the Teesside Pension Fund Audit results report for the Year Ended 31 March 2019 was approved.