

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

TEESSIDE PENSION BOARD REPORT

27 FEBRUARY 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

PENSION GOVERNANCE REVIEW – UPDATE

1. PURPOSE OF THE REPORT

- 1.1 To inform Members of the Teesside Pension Board of progress to date with the governance review following as an action from the 2015/16 External Auditor report (observations and recommendation).

2. RECOMMENDATION

- 2.1 That Members note the progress made to date.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications from this report.

4. BACKGROUND

- 4.1 A review of the Annual Report and Financial Statements (2015/16) was undertaken by EY. During the course of the audit EY were asked to comment on how the Governance of the Fund compares to other large pension schemes and they set out some high level observations. The observations and recommendations are set out below in Appendix A, together with the proposed actions resulting from the recommendations.
- 4.2 One of the actions agreed was to form a small working group made up from officers of the Fund and Members of both the Teesside Pension Fund and Investment Panel and Teesside Pension Board. A terms of reference was drafted and agreed at the last Investment Panel meeting on 7 December 2016, see attached Appendix B.

5. PROGRESS TO DATE

- 5.1 The three Members representing the Teesside Pension Board on the small working group were decided as:
- Chair – Colin Monson
 - Deputy Chair – Gary Whitehouse
 - Scheme Employer Representative – Cllr Nicky Walker

- 5.2 AON Hewitt were asked to carry out an independent review of governance arrangements in accordance with the terms of reference attached. AON Hewitt provide actuarial services for the Funds, and this existing contractual arrangement allows for pension governance advice.
- 5.3 To date, AON Hewitt have asked for key documents for review (e.g. terms of reference of both the Board and Investment Panel, the Council's constitution and key Fund documents). They have also held discussions with Fund officers to ascertain current arrangements.
- 5.4 A report will be produced as the basis of discussion at the meeting of the working party. This report will address the terms of reference for the review and some of the other points made in the External Audit report. An additional meeting may be required depending on the findings in the report and the outcome from the initial meeting
- 5.5 A further verbal update on progress will be brought to the Board meeting.

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APPENDIX A

	Observation	Recommendation	Proposed Action
1.	<p>Following the introduction of the Local Government Act 2013, the Council has introduced a local Pensions Board ('the Board') with responsibility for assisting the Council to comply with the regulations and legislation relating to the governance and administration of the Fund and any requirements by the Pensions Regulator.</p> <p>The Pensions and Investment Panel ('the Panel') continues to exist as before ensuring that the Fund's objectives are delivered and the investments managed.</p> <p>Given these changes it is important that the Board and Panel have clear roles and responsibilities to enable the Fund to be governed and operated effectively.</p> <p>The purpose of the Board is to challenge and scrutinise how the Fund is being managed and operated including the appropriateness of the investment strategy.</p> <p>Being able to do this effectively requires having a sufficient level of knowledge of the Fund in relation to investment strategy and performance as well as compliance with all relevant laws and regulations (including Code 14).</p> <p>The area of pensions and investment is immensely complex and expertise is critical to have in today's regulatory environment. For a Fund of this size it is very usual not to have independent external</p>	<p>We recommend that the Board determines and fully documents its role.</p> <p>A key part of this is ensuring that it has the appropriate level of knowledge and expertise to challenge and scrutinise effectively in line with the new rules and expectations.</p> <p>We would strongly recommend that consideration is given as a matter of priority to the appointment of an external consultant to advise on governance, administration and compliance to ensure that best practice is adopted and improvements made where necessary; and an external investment adviser to help support both the Board in its ability to challenge and scrutinise effectively and also the Panel with its operational responsibilities.</p> <p>Independent external expertise would help to ensure that the Board and Panel are able to demonstrate that they are managing risk effectively for the Fund and ultimately the Council.</p>	<p>A small working party is created to review the current governance arrangements.</p> <p>Attached is Appendix B which sets out the proposed terms of reference for the working party.</p> <p>Once the working party has concluded its work, the Board will review its terms of reference and decide on appropriate consultancy support to assist it with its role.</p>

	Observation	Recommendation	Proposed Action
	consultants and external investment advisers appointed to help.		
2.	<p>The Fund is now under the oversight of the Pensions Regulator ('TPR') and therefore needs to comply with Code 14.</p> <p>The Board and Panel and need to understand their reporting duties.</p> <p>Additionally the Code emphasises the importance of scheme trustees to have appropriate knowledge and understanding to make effective decisions about scheme operations.</p>	<p>We recommend that the Panel organise for a detailed compliance checklist to be produced which is maintained and reviewed at each meeting to monitor compliance of laws and regulations which the Board can also review.</p> <p>Additionally we recommend a training log is introduced covering all relevant Board and Panel members and which is personalised for each member to address knowledge gaps.</p> <p>It should log the learning activities of all relevant members and the Board and Panel as a whole with actions to address gaps.</p>	<p>A compliance checklist will be created and reported to the Panel. The checklist will continue to be updated and maintained, and reported regularly to the Panel and Board.</p> <p>A report will be brought to the Panel and Board to agree a training policy for each which sets out the procedure for identify and delivering training and setting up an appropriate recording system.</p>
3.	<p>The last detailed asset/liability review was in 2013.</p> <p>Undertaking regular reviews helps to mitigate the risk of inappropriate investment strategies to enable pension liabilities to be effectively managed.</p> <p>This is in common with how large schemes mitigate funding deficits.</p> <p>The Fund's funding level at the last valuation was 101% which is very satisfactory, however the Fund's investment performance for the 2015/16 year has now fallen behind its peer group as a result of the higher concentration of equities held relative to others.</p>	<p>We recommend that the Panel introduces a formal process to have regular monitoring of funding and investment performance using triggers to highlight when actions for change need to be considered.</p> <p>As part of this process more regular and greater input and involvement by the actuary is likely to be required to help develop and monitor this.</p> <p>The Board should consider its role in terms of scrutiny and review of this and also the advice and support and information it needs to supplement its knowledge and understanding to challenge effectively.</p> <p>Given the current investment risk profile of the Fund</p>	<p>Once the actuarial valuation for 2016 is almost complete a detailed asset liability review will be undertaken.</p> <p>In addition, the tender for actuarial services includes the option to obtain an interim valuation every year. Interim valuations will provide a guide to the Fund as to changes in actuarial assumptions and their impact on the funding level.</p> <p>The Board's role will be considered as part of the terms of reference of the working party as proposed in observation and recommendation 1 above.</p>

	Observation	Recommendation	Proposed Action
		(relative to similar LGSs) the Board should review and have evidence to demonstrate its challenge of the appropriateness of the current investment strategy as early as possible particularly in the run up to the pooling arrangements.	
4.	<p>We understand that compliance with the Myners Principles has not been reviewed since 2009.</p> <p>The areas covered include:-</p> <ul style="list-style-type: none"> ➤ Effective decision making ➤ Clear Objectives ➤ Risks and Liabilities ➤ Performance Assessment ➤ Responsible Ownership ➤ Transparency and Reporting 	<p>Given the developments in best practice and expectations of The Pensions Regulator ('TPR'), we recommend that the Panel updates the status of current levels of compliance with Myners.</p> <p>The Board should then review taking advice as necessary and identify any gaps and actions to address.</p>	<p>The Fund's compliance with the Myners Principles is reported in the Fund's Annual Report and Accounts.</p> <p>An annual assessment can be reported to the Panel for consideration ahead of publication of the Fund's Annual Report and Accounts.</p> <p>The Board can review the annual assessment and recommend actions considered necessary.</p>
5.	<p>We understand that the Fund has a risk register but that it is not reviewed regularly in line with best practice and the expectations of The Pensions Regulator.</p> <p>Risk registers should be treated like living documents and reviewed regularly and at times of significant change.</p>	<p>We recommend that there is a process for more regular formal review and update.</p> <p>The Panel should also consider how it obtains appropriate evidence and assurance that the risks are being managed as expected. For example, introducing a testing strategy which could involve internal audit.</p>	<p>The risk register will be reviewed and reported to the Panel with a recommendation of how regular it should be reported to the Panel for further review.</p>
6.	<p>We observed that the latest Governance Statement is dated 2011.</p> <p>There is a requirement to have this updated annually and include in the Annual Report.</p>	<p>We recommend that this is updated as soon as possible to address any changes required in relation to roles, responsibilities, structures and process.</p>	<p>A new, proposed Governance Statement is included as an outcome aim of the working party proposed in observation and recommendation 1 above.</p>

TEESSIDE PENSION FUND

REVIEW OF GOVERNANCE ARRANGEMENTS – WORKING PARTY

TERMS OF REFERENCE

Aims of the Review:

To ensure the current governance arrangements for the Teesside Pension Fund are in line with current regulations and laws, and are effective and clearly understood by all relevant parties.

Outcomes of the Review:

The review of governance arrangements should produce the following outcomes:

1. Define the roles of the Teesside pension Fund and Investment Panel and the Teesside Pension Board, and produce recommended update terms of reference for both committees.
2. Review the membership mix of the Teesside Pension Fund and Investment Panel and recommend an appropriate mix which best represents the membership and responsibilities of the Fund's employers.
3. Following the above reviews, produce a new recommended governance compliance statement in line with the LGPS 2013 Regulations (para. 55) and review and recommend any additional changes needed for the administering authority's constitution.
4. In anticipation of the Teesside Pension Fund pooling its investments into a collective investment vehicle in full, in part or not at all, recommend any future potential governance changes.
5. Build a regular governance review (e.g. every three years or sooner if needed) to confirm the Fund's arrangements remain adequate and up to date.

Working Party Membership:

The following are proposed for membership of the working party carrying out the review:

1. Independent Lead/Chair – An external consultant with suitable knowledge and experience in LGPS governance.
2. Investment Panel Members – Three Members from the existing Panel
3. Pension Board Members – Three Members from the existing Board.
4. Officers – The Strategic Director Finance, Governance & Support (in his capacity as the lead responsible officer for the Fund), the Head of Investments and Treasury Management and a suitable officer from MBCs Legal & Democratic Services.

Required Resources:

The resources needed to complete the review are the procurement costs for the external consultant and the officer/Member time needed.

Proposed Timetable:

1. Procure the external consultant either through quotes or a procurement framework agreement before the end to December 2016.
2. Agree the membership of the Working Party – December 2016.
3. Carry out the review during January 2017.
4. Report back to the Teesside Pension Board (27 February 2017) and Teesside Pension Fund and Investment Panel (8 March 2017).