

**TEESSIDE PENSION BOARD**

A meeting of the Teesside Pension Board was held on 24 April 2017.

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

**ALSO IN ATTENDANCE:** N Armstrong, EY  
S Kenny, EY

**OFFICERS:** J Bromiley - Strategic Director, Finance, Governance and Support  
P Campbell - Head of Loans and Investments  
D Conyard - Investments Support Officer  
G Hall - Scheme Co-ordinator  
M Hopwood - Head of Pensions  
S Lightwing - Democratic Services Officer

**APOLOGIES FOR ABSENCE** were submitted on behalf of Councillor B Woodhouse and Mrs J Cook.

**DECLARATIONS OF INTERESTS**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
Mr C 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

**16/26 MINUTES - TEESSIDE PENSION BOARD - 27 FEBRUARY 2017**

The minutes of the meeting of the Teesside Pension Board held on 27 February 2017 were taken as read and approved as a correct record, subject to one minor typographical amendment made at the meeting.

**16/27 MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 7 DECEMBER 2016**

A copy of the minutes of the Teesside Pension Fund and Investment Panel meeting held on 7 December 2017 were submitted for information.

**16/28 TEESSIDE PENSION FUND AND INVESTMENT PANEL - AGENDA - 8 MARCH 2017 - RUN THROUGH**

The Head of Loans and Investments provided a verbal update on agenda items considered at the Teesside Pension Fund and Investment Panel at a meeting held on 8 March 2017.

**16/29 PENSION GOVERNANCE REVIEW - UPDATE**

A report setting out the findings of Aon Hewitt's governance review of the Teesside Pension Fund, commissioned by Middlesbrough Council, had been circulated. The purpose of the review was to ensure that the legal requirements in relation to the governance of the Fund were being adhered to, as well as to highlight areas of good practice in relation to the governance of the Fund and recommend any areas for improvement.

A number of key priorities had been identified by Aon Hewitt as follows:

- Develop and deliver a training plan.
- Pension Regulator's review.
- Increase focus on administration.
- Host an Employer Forum.
- Review terms of reference/Constitution/delegations.

Other areas for improvement included:

- Lack of training records, plan and review for Local Pensions Board and Panel.
- Need for compliance check against The Pension Regulator's Code of Practice.
- Oversight of Administration function.
- Monitoring of wider performance measures.
- Reinvigorate the Risk Register.
- Time elapsed since key policies and strategies were reviewed and structure/key contents.
- Fund Business Plan - incorporate tasks and projects, not just committee business and budgets.

A further meeting of the Working Party had been held and good progress had been made.

The key changes for the Board suggested by Aon Hewitt included that consideration should be given to appointing an independent non-voting Chair; however the Board members agreed that this was not necessary, as they considered that the Board would operate more effectively under the current arrangements, supplemented by external advice as deemed necessary. The current arrangements for Chairing the Board would remain, with the position rotating between Employer or Member representation. It was also suggested that the term of office for Board members was increased to four years rather than three to provide more continuity and that terms of office could be extended for a further two years to ensure an offset change of membership rather than all terms of office expiring at the same time.

In relation to the issues raised around training, the Chair suggested that as part of the Board's Annual Report an appendix identifying all the training undertaken by Board Members over the last two years should be included. Members discussed the training already received and concerns were voiced with regard to the time commitment that might be required. Following discussion, the Chair suggested that the Board should consider what sort of external professional advice it might need to have on an ongoing basis and then decide what additional training needs there might be.

The Head of Loans and Investments tabled a Governance Action Plan for the Teesside Pension Board. The priority was to review the terms of reference for the Panel and the Board and have them approved by Middlesbrough Council. The timescale for completion for the Action Plan was by late summer 2017.

With regards to hosting an Employer Forum, it was highlighted that other Funds held such events annually as an Annual General Meeting for employers. Usually the Final Report and Accounts were presented and details of any major events that had taken place were highlighted. The Forum also served as an opportunity for employers to provide their views on any improvements that could be made.

The frequency of Board meetings was considered and Members agreed that four meetings per year was sufficient.

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

16/30

#### **LGPS INVESTMENT REFORM (POOLING ASSETS) - UPDATE**

A report was presented to follow up the reports on Local Government Pension Scheme (LGPS) Investment Reform presented at previous meetings and inform Members of the Board

of the latest developments in setting up the new Pool: Border to Coast Pension Partnership (BCPP).

Advertisements had now been placed for the posts of Chair and Chief Executive Officer and the closing date was next week.

The operating model was developing and a meeting was taking place the following day with Alpha, the consultants, to look at how the model would work in a practical way for customers and shareholders. Some fine tuning was required in respect of the proposed asset allocation timetable.

With regard to governance and monitoring the legal documents needed for the Pool to function were almost at a state of agreement for all Funds. It was likely that the start date for BCPP would be moved from 1 April to 1 June 2018 to ensure that everything was in place and not rushed.

A workshop was scheduled for 28 April 2017 to consider the following:

- To gauge the appetite for delaying transfer of assets.
- If the decision was to not transfer, whether the Panel wished to adapt the current investment strategy to take some risk out of the current arrangements.
- To agree an outline of new staffing structure to meet the needs of the Fund in the period leading up to transfer of assets, over the transfer period and to manage the legacy assets after the equities and bonds were transferred.

With regard to staffing the transition plan would look at creating an effective strategy to identify the immediate and future requirements of the Fund. This would involve creating an effective staffing structure to manage the transition to the pool, the activities of the pool after the transfer of assets, manage those assets not transferred and carry out other governance and account work as required. All HR options would be explored to retain existing staff for as long as needed, and supplement them with additional resources to ensure the investment assets continued to be managed effectively in the interim. It was felt across the pool that Transaction Managers would be needed to assist during the period leading up to the transfer of the main liquid assets.

Linked to staffing risks, the Fund was currently managed at officer level through the Loans and Investments Section. The transition plan needed to address this and retain the key skills and knowledge required to continue to manage the Fund, post pooling, otherwise the Fund could be vulnerable to breaching LGPS regulations and unable to produce accurate and adequate Annual Report and Accounts.

In response to a query as to whether incentives could be offered to retain existing staff it was explained that Middlesbrough Council's Recruitment and Retention Policy was structured around offering market supplements following two failed rounds of recruitment, which did not cover the present situation. Two posts were currently filled with agency staff and another member who was on secondment would be returning shortly. The Chair requested that the Board was kept up to date on staffing at future meetings and also asked for a copy of the staff newsletter to be provided. The Head of Loans and Investments stated that there were plans for existing staff to meet with those staff managing the pooling arrangements.

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

16/31

## **PENSION CUSTOMER IMPROVEMENT STRATEGY**

The Scheme Co-ordinator provided an update on the Customer Service Review - Pensioner Leavers.

Since 16 December 2016 the Kier Pensions Unit had included a questionnaire with the pension options issued to members at the time of their retirement. The questionnaire asked

eight questions, the first six of which were mostly related to people's contact with the Pensions Unit. Since December, 1367 questionnaires had been issued and 91% of responses were positive, 6.8% neutral and 2.5% negative. A breakdown of the scores for each question was included in the submitted report. Not all the questions had been answered.

Overall the results were positive but some work was needed particularly around people's expectations of retirement process - how long it took and what should be expected. 80.23% of responders felt that they had sufficient knowledge of their employer's retirement process. The Unit planned to provide information on the website to help people understand what information was required from employers and members with an explanation of each stage of the process. Hopefully, providing a better understanding of the process for people who were thinking of retiring would reduce some of the negative issues that had been raised.

The report also included the responses and average scores received from the four Borough Councils.

In addition to the introduction of the questionnaire, a Members' online self-service tool had recently been rolled out to Middlesbrough Council. This would be advertised in the next Outlook magazine and allowed Members to look at their own record and estimates.

The Board was also informed there had been no complaints to the Ombudsman during the last quarter.

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

#### 16/32 **FUND ACTUARIAL VALUATION**

A report was presented to inform the Board of the final results of the triennial valuation of the Teesside Pension Fund and update Members regarding the next steps following the valuation.

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 £24.6m. This was a small decrease of £12.4m compared to the last valuation when the Fund was also 100% solvent.

At each valuation the Actuary determined how much it would cost to buy new or future service ie any service going forward from the valuation. The assumption was that by paying the future service rate any service purchased will be paid for in full.

The employers' average cost of future service benefits was 15.7% of pensionable pay with effect from 1 April 2017; this was an increase from the 14.4% set at the 2013 valuation. The main reasons for the increase were that the Actuary had a more pessimistic view of future returns achievable from the investment assets owned by the Fund; and a fall in active members contributing to the Fund and an increase in pension members receiving payments from the Fund.

Following the actuarial valuation it was standard practice to undertake an Asset/Liability Study to look at the long-term liabilities of the Fund and construct a benchmark setting out what mix of investments would be best suited to match those liabilities over the medium and long term. The Study would be carried out by the Fund's advisors and the Head of Investments in conjunction with the Fund Actuary by the end of the year.

In past valuations, the same funding target assumptions were used across all employers. The employer covenant risk was not taken into account in the calculations, and, with some employers, the risk of calculating the employer contribution rate on an on-going basis only for those employers to face a cessation valuation on exit from the scheme at a lower discount rate, based on the gilt rate, could result in a large charge to the Fund. Therefore, a full assessment of employer covenant risk would be undertaken and reflected in future versions of the Funding Strategy Statement. The work would begin in the summer in conjunction with the Actuary.

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

**16/33      TEESSIDE PENSION FUND EXTERNAL AUDIT PLAN**

The Auditors presented the Audit Plan for Teesside Pension Fund for the year ending 31 March 2017. The Plan summarised EY's initial assessment of the key risks driving the development of an effective audit for Teesside Pension Fund (the Pension Fund) and outlined the planned audit strategy in response to those risks.

The Audit Plan covered the work that EY planned to perform to provide:

- An audit opinion on whether the financial statements of the Pension Fund gave a true and fair view of the financial transactions of the Pension Fund and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017.
- An audit opinion on the consistency of the Pension Fund's financial statements within the Pension Fund's Annual Report with the published financial statements of Middlesbrough Council.

The Audit would also include the mandatory procedures that EY was required to perform in accordance with applicable laws and auditing standards.

The significant risks to the financial statement were identified as: Risk of Management Override, Valuation of directly held properties and Valuation of complex pooled investment vehicles. It was noted that Management Override was a standard risk throughout all audits.

EY's initial assessment of overall materiality for the financial statements of the Pension Fund was £31.3 million based on 1% of net assets as at 31 March 2016. The materiality amount would be re-assessed and where necessary updated on receipt of the draft 2017 financial statements. Uncorrected audit misstatements greater than £1.5 million would be reported to those charged with governance.

The fee for the 2016/2017 audit was £28,535.

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

**16/34      FUNDING STRATEGY STATEMENT AND INVESTMENT STRATEGY STATEMENT**

A report was presented, the purpose of which was to present to Members of the Board the new Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Copies of both Statements were Appendices A and B to the report.

The Statements set out the funding and investment strategies for the Fund.

Since 2004 the Fund's FSS had been revised for each triennial valuation. Since the previous valuation, there had been changes to the assumptions used in the actuarial calculation of the funding targets and a change in the treatment of different employers in the Fund. Employers had been notified of the change in advance of receiving notification of the contribution rates.

There were a number of key assumptions included in the FSS. A summary with comparisons against the 2013 valuation assumptions was shown in a table at point 4.4 of the report. The main unfavourable movement from the 2013 valuation was the discount rate. In order to mitigate this, the trajectory period had been increased to 25 years and the deficit recovery period had increased to 20 years. The recovery and trajectory periods were no in line with recommended market levels.

The ISS was a new document which replaced the Statement of Investment Principles. The removal of the existing schedule of limitations on investments required authorities to take a prudent approach, demonstrating that they had given consideration to the suitability of

different types of investment, ensured an appropriately diverse portfolio of assets as well as an appropriate approach to managing risk. This was set out in the ISS, which authorities were required to prepare having taken proper advice and appropriate consultation with interested parties, and publish.

Other changes in the new ISS included an explanation of the Fund's environmental, social and corporate governance policy and UK sustainability policy and the Authority's policy on exercise of rights, including voting rights, attached to its investments.

**AGREED** that the new Funding Strategy Statement and Investment Strategy Statement were received and noted.

16/35 **TEESSIDE PENSION BOARD - ANNUAL REPORT**

The Chair outlined his plans for preparing the Teesside Pension Board's First Annual Report which would cover the period 1 April 2016 to 31 March 2017 and include a summary of the work of the Board during its first year ending 31 March 2016.

The proposed structure of the report was to include:

Background.  
Role and Remit.  
Constitution and Membership.  
Work Programme 2015-2017 with findings and recommendations.  
Work Programme 2017-2018.  
Review of compliance against The Pensions Regulator Code of Practice 14.

Information regarding attendance and training undertaken by Board members would be included as annexes to the main report.

It was suggested that an introductory statement from the Chair should also be included.

**AGREED** as follows:

1. The information provided was received and noted.
2. A draft copy of the Report would be circulated to Members of the Board for comment.

16/36 **CHANGE OF CHAIR AND NEW DEPUTY CHAIR**

The Board was reminded that Gary Whitehouse would take over as Chair of the Teesside Pension Board at the next meeting and a Deputy Chair would be elected by the Board.

**NOTED**

16/37 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

It was proposed that the date of the next Teesside Pension Board was re-scheduled to take place on 24 July 2017.

**AGREED** that the next meeting of the Teesside Pension Board would be held at 2.00 pm on Monday 24 July 2017.