

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 27 February 2017.

PRESENT: Mr C Monson
Mr G Whitehouse (Deputy Chair)
Mr G Clyburn
Mrs J Cook
Councillor N J Walker
Councillor B Woodhouse

ALSO IN ATTENDANCE: B Durran, Aon Hewitt

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

APOLOGIES FOR ABSENCE There were no Apologies for Absence..

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mr C Clyburn	Non Pecuniary	Member of Teesside Pension Fund
Mrs J Cook	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
Councillor B Woodhouse	Non Pecuniary	Member of Teesside Pension Fund

1 MINUTES - TEESSIDE PENSION BOARD - 7 NOVEMBER 2016

The minutes of the Teesside Pension Board held on 7 November 2016 were taken as read and approved as a correct record.

2 MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL

- A) 28 SEPTEMBER 2016**
B) 7 DECEMBER 2016 (DRAFT)

Copies of the minutes of the Teesside Pension Fund and Investment Panel meetings held on 28 September and 7 November 2016 were submitted for information.

7 November 2016

The Chair highlighted that at draft minute number six, in relation to the External Audit Report 2015/2016, the recommendation for membership of the proposed Working Party had not been minuted correctly. The proposal was that there would be an additional representative from the Teesside Pension Board. The stipulation that the additional member would be from a Local Authority other than Middlesbrough applied only to the additional representative from the Teesside Pension Fund and Investment Panel. The Democratic Services Officer undertook to amend the draft minutes accordingly to clarify this point.

NOTED

3 PENSION GOVERNANCE REVIEW - UPDATE

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board of progress to date with the governance review following as an action from the 2015/2016 External Auditor report.

A review of the Annual Report and Financial Statements 2015/2016 was undertaken by the External Auditor, EY. During the course of that review EY were requested to comment on how governance of the Fund compared to other large pension schemes. The observations and recommendations of the review were set out in Appendix A to the submitted report, together with the proposed actions resulting from the recommendations.

One of the actions agreed was to form a small working group of Officers and Members of the Teesside Pension Fund and Investment Panel and the Teesside Pension Board. The Terms of Reference for the working party were drafted and agreed at the last Investment Panel meeting on 7 December 2016 and a copy was attached to the submitted report at Appendix B. The three Members representing the Board on the working group were: Colin Monson, Gary Whitehouse and Councillor N Walker.

AON Hewitt were asked to carry out an independent review of governance arrangements in accordance with the terms of reference attached. AON Hewitt provided actuarial services for the Funds, and this existing contractual arrangement allowed for pension governance advice. To date, AON Hewitt had asked for key documents for review including Terms of Reference for both the Board and Investment Panel, the Council's Constitution and key Fund documents. In addition, discussions had been held with Fund Officers to ascertain current arrangements.

The first meeting of the working party had been scheduled for 7 April 2017 and the priority was to look at the governance and clarify reporting structures and responsibilities. In view of the short timescale, it was suggested that the information from Aon Hewitt should be circulated to all Board Members in advance of the meeting to enable any issues to be picked up at the 7 April 2017 meeting.

It was hoped that agreement would be reached at the working party meeting and a report produced which addressed the Terms of Reference for the review; and also that some of the other points from the External Audit report would form the basis of discussion. An additional meeting might be required depending on the findings in the report and the outcome of the initial meeting.

AGREED that:

1. the information provided was received and noted.
2. information provided by Aon Hewitt would be circulated to all Board Members in advance of 7 April 2017.

4 POOLING UPDATE

A report of the Strategic Director Finance, Governance and Support was presented to follow up the reports on LGPS Investment Reform presented at previous meetings and inform Members of the Teesside Pension Board (the Board) of the latest developments in setting up the new Pool (BCPP - Border to Coast Pension Partnership).

The Minister for Department for Communities and Local Government (DCLG) had approved the BCPP proposal in December 2016. Three Member sub groups were formed from the Member Steering Group and had tendered for some key services including tax advisers, a recruitment consultant to assist with creating the remuneration package for senior executives of the BCPP and their recruitment and legal assistance with preparation of the key documents required for the Pool to function.

A report had been prepared for each administering authority to obtain authority from each partner Council to set up the Joint Committee to oversee the investment activities of the BCPP and for each Council to acquire the required shareholdings. The Fund's report was presented to Middlesbrough Council on 15 February 2017 and the recommendations were agreed. All

reports would be presented to the administering authorities of each BCPP partner by the end of March and full Joint Committee and shareholder meetings to be held in April 2017. It was highlighted that there were still some outstanding delegations to amend and key governance documents to finalise. The Chair of the Teesside Pension Fund and Investment Panel would be the representative on the Joint Committee and the Mayor would have responsibility for shareholder matters. It was noted that one Council had deferred a decision pending further information in relation to non-voting Trade Union representation.

The Member Steering Group had agreed the Executive Officers' remuneration in principle and an outline draft of packages for senior executives, non-executives and the Chair would be presented to the next meeting of Teesside Pension Fund and Investment Panel for consideration. Following approval, recruitment for the Chair and Chief Executive of BCPP would take place and once those positions were filled a management team would be recruited. Approval from the Financial Conduct Authority (FCA) could then be sought and this could take approximately nine to twelve months.

A transition plan was in development to identify and mitigate risks to the Fund with pooling assets with BCPP. All current staff in the Loans and Investment service area were listed for TUPE (Transfer of Undertakings (Protection of Employment)). All pension administration services were currently outsourced to Kier Business Services and some of the accounting function was carried out by the Council's Finance Section. However, if the staff moved to BCPP under TUPE, the Fund would be left with insufficient resources to manage BCPP and any legacy assets not transferred to BCPP, service the Board and Investment Panel, monitor the activities of pension administration, and key parts of the Fund's Report and Accounts would be incomplete.

In addition since the service in Middlesbrough could effectively close and move to Leeds, staff were looking at protecting their own futures. This had had a detrimental effect on moral and three key staff had already left the service, leaving gaps in the skills and knowledge base. One new member of staff had been recruited on a fixed term basis. Once this member of the team had been fully trained another one would be recruited.

For a period of time the Fund might have to be managed slightly different from the way it was currently in order to mitigate the risks identified. This would involve creating an effective staffing structure to manage the transition to the pool, the activities of the pool after transfer of assets, manage the assets not transferred and carry out other governance and accounting work required. All options would be explored to retain existing staff for as long as they were needed and supplement them with additional staff to ensure the investment assets continued to be effectively managed in the interim.

The key risks to assets were the continued management of existing investment assets, the identification of assets to transfer to BCPP and the actual transfer itself, monitoring the investment management of BCPP in the future, and management of any legacy assets that were not transferred, for example direct property. The key to mitigating the asset risk was identifying the assets to transfer to BCPP for management and there were three main issues as follows:

- BCPP did not yet have a timetable for receiving assets to start managing them.
- BCPP needed to create an in-house team from the existing staff of three internally managed Funds in BCPP, plus additional new staff in order to continue with low cost, active management.
- The Minister for DCLG had originally stated that all authorities were expected to place all their assets in the pool unless there was a strong value for money case for delay. However the criteria for a strong VFM case had not been set out. For Teesside it was recognised that the current arrangements for management of quoted equities and bonds was cost effective and had a strong long term performance track record. It was proposed to seek clarification as to Teesside's position and whether there was an option for delay.

It was acknowledged that potentially some the risks were considerable and it was the role of

Board to gain assurance that everything was under control and the various contingencies that might arise would be dealt with. The considerable workload faced by staff was also acknowledged.

The Chair read out an email from the Chair of the Tyne and Wear Pension Board requesting the Board's views on non-voting Trade Union representation on the BCPP Joint Committee. Following discussion, the Chair undertook to respond with his personal view that it would be helpful to have a non-voting Trade Union representative and that this view was supported by the Board.

AGREED that the information provided was received and noted.

5 **PRESENTATION - PENSION CUSTOMER IMPROVEMENT STRATEGY**

The Head of Pensions provided a power point presentation in relation to the Teesside Pension Fund Customer Improvement Strategy. An overview of the work of the Teesside Pension Fund was provided for the Board's information.

Following some negative feedback from the Leadership Management Team and other anecdotal comments, a Customer Improvement Strategy had been developed to improve the transparency of the Teesside Pension Fund as well as the customer experience. The Pension Fund had approximately 70,000 Scheme Members and over 150 Employers.

The Head of Pensions outlined the actions taken to date to address the issues raised which included:

- An online questionnaire promoted through the latest issues of the Fund's newsletters - AtEase and Outlook.
- A targeted leavers process which included work-flow analysis and leaver questionnaires.
- Reviewed and updated the Leavers Checklist in conjunction with Middlesbrough Employee Services.
- Compiled a list of Middlesbrough Council managers' experience of the leavers process.
- Surveyed fifteen other scheme employers.

The response rate to the questionnaires had been low, however the responses received were generally positive with the service scoring highly. A summary of the results was tabled.

An Action Plan had been developed with short and medium term aims to address the issues raised and this included reviewing and updating both the Members and the Employers' websites to make them more interactive, providing training, updating the Fund's Communication Policy and investigating membership of the Pension Administration Standards Association (PASA).

AGREED that the information provided was received and noted and the Board endorsed the Strategy.

6 **ACTUARY PRESENTATION - ACTUARIAL VALUATION**

The Board received a power point presentation of the Actuarial valuation of the Teesside Pension Fund as at 31 March 2016. It was noted that the Fund was 100% funded at the time of the valuation.

The presentation included a detailed explanation of the following elements of the valuation:

- An overview of the actuarial valuation.
- Summary of key financial assumptions.
- Summary of key demographic assumptions
- Whole fund past service position.
- Change in funding position.

- Whole fund future service rate.
- Employer contributions.
- Post-valuation experience.
- Key roles in the valuation.
- External influences/oversight.
- Next steps.

AGREED that the results of the Actuarial valuation of the Teesside Pension Fund as at 31 March 2016 were received and noted.

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

Annual Report of the Teesside Pension Board

Members were informed an Annual Report would be produced and a draft presented to the next meeting of the Board for approval.

NOTED