

TEESSIDE PENSION BOARD

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

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

ALSO IN ATTENDANCE: M Ferguson, Aon Hewitt

OFFICERS: J Bromiley, Strategic Director, Finance, Governance and Support
P Campbell, Head of Loans and Investments
M Hopwood, Head of Pensions
S Lightwing, Democratic Services Officer

APOLOGIES FOR ABSENCE were submitted on behalf of Mrs J Cook.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
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

17/1 **ROTATION OF CHAIR AND ELECTION OF DEPUTY CHAIR FROM EMPLOYER REPRESENTATIVES**

The purpose of the report was to give Members of the Teesside Pension Board (the Board) the opportunity to elect a Deputy Chair in accordance with the current Terms of Reference for the Board.

It was suggested that Members considered whether to bring the tenure of the Chair and Deputy Chair in line with the Fund's financial year and change the length of term. It was also suggested that the length of time Board Members served should be four years and the Chair and Deputy Chair should serve two years.

Nominations were sought for the appointment of Deputy Chair of the Teesside Pension Board.

Mr Colin Monson was nominated and seconded and, therefore, appointed as Deputy Chair of the Board.

ORDERED as follows that:

1. Mr Colin Monson was appointed as Deputy Chair of the Teesside Pension Board.
2. the current Chair and Deputy Chair were appointed until 31 March 2019.
3. the length of the terms of office of Chair and Deputy of the Teesside Pension Board would in future be two years.

17/2 **MINUTES - TEESSIDE PENSION BOARD - 24 APRIL 2017**

The minutes of the meeting of the Teesside Pension Board held on 24 April 2017 were taken as read and approved as a correct record.

17/3 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 8 MARCH 2017**

A copy of the minutes of the Teesside Pension Fund and Investment Panel meeting held on 8 March 2017 were submitted for information.

NOTED

17/4 **TEESSIDE PENSION FUND AND INVESTMENT PANEL - 28 JUNE 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 28 June 2017.

NOTED

17/5 **TEESSIDE PENSION BOARD - ANNUAL REPORT**

The draft Teesside Pension Board Annual Report 2016-2017 had been circulated for information.

ORDERED that the Teesside Pension Board Annual Report 2016-2017 was approved.

17/6 **PENSION GOVERNANCE REVIEW - UPDATE**

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Board (the Board) of progress to date with the Governance Review. A copy of the Governance Review was attached to the submitted report at Appendix C.

Michael Ferguson from AON Hewitt was in attendance at the meeting to update the Panel on progress. Following the review and work completed by the working group, the following key changes would be implemented:

- The Panel would change its name to the Teesside Pension Fund Committee (the Committee).
- Membership of the Committee and Board would be for four years, fitting in with the electoral cycle.
- The Panel currently had membership availability for scheme members/trade unions, but these were non-voting positions. The Committee would have two voting positions for scheme members/trade unions.
- The Teesside Pension Board Members would serve for a period of four years, fitting in with the electoral cycle.
- Pension Board Members would be able to attend Pension Fund Committee meetings as observers, including any exempt items.
- The current business plan was focussed more on investments. This plan would be extended to include more Pension Administration and Governance, including key performance indicators and budgets for pension administration and governance.
- An annual Employer Forum would be introduced for scheme employers to attend and receive updates on the Fund.

Draft revised terms of reference had been produced for the Board and the Teesside Pension Fund and Investment Panel and copies were attached at Appendices E and D to the submitted report. Following approval from the Board and the Panel, the revised terms of reference would be presented to Middlesbrough's Council meeting in September 2017 for approval.

The terms of reference for the Teesside Pension Fund Committee and Teesside Pension Board and the policies and strategies presented were approved by the Panel on 28 June 2017.

The draft terms of reference for the Teesside Pension Board were discussed and some minor changes of wording were agreed. Board members requested that further consideration was given to the determination of the Chair's allowance and expenses.

A number of policies had been identified as required by the Local Government Pension Scheme (LGPS) Regulations or related guidance, but were either missing or out of date. AON Hewitt were therefore instructed to produce the following draft policies for consideration and adoption by the Fund:

- Conflicts of Interest Policy.
- Governance Policy and Compliance Statement (including a delegation of functions to officers).
- Procedure for Reporting Breaches of the Law.
- Risk Management Policy.
- Training Policy.

In addition, Kier Business Services were asked to produce an Administration Strategy and a Communications Strategy.

The Governance Policy and Compliance Statement, Administration Strategy and Communications Strategy were still in draft form and would be completed for presentation at the September 2017 Panel meeting and the November 2017 Board meeting.

In addition, an exercise would be undertaken to update the Fund's risk register. The risk register would be updated to reflect the recommended format by CIPFA, and adopted as part of the Risk Management Policy.

Following the adoption of the recommended changes and new policies, a process would be introduced to check adherence to the Pension Regulator's Code of Practice.

Finally, individual training plans would be created for all Committee and Board Members, as well as key Fund Officers. Attendance at training by at least 75% of the Pension Fund Committee Members would be required.

ORDERED as follows that the following documents, as amended at the meeting, were approved :

1. Terms of Reference - Teesside Pension Fund Committee (Appendix D)
2. Terms of Reference - Teesside Pension Board (Appendix E)
3. Conflicts of Interest Policy (Appendix F)
4. Procedure for Reporting Breaches of the Law (Appendix G)
5. Risk Management Policy (Appendix H)
6. Training Policy (Appendix I)

17/7

POOLING UPDATE

A report was presented to follow up reports on Local Government Pension Scheme (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 - Border to Coast Pension Partnership (BCPP).

A meeting of the Member Steering Group/Joint Committee was held on 6 June 2017 and Members were updated on progress by BCPP on the following:

- Project delivery and implementation budget.
- Governance documentation and incorporate of BCPP Ltd.
- Refinement of BCPP corporate entity and cost sharing principles.
- Development of the Target Operating Model (TOM) and asset template progress.
- Update on the property search.
- Options for terms and conditions of Employees of BCPP Ltd.
- Company committee structures and the roles of Non-Executive Directors.
- Governance requirements for BCPP Ltd as a Financial Conduct Authority (FCA)

- regulated entity.
- Update on the Executive search, remuneration and recruitment process.

The Head of Treasury and Management provided further explanation in relation to the incorporation of BCPP, the property search, and Executive recruitment process.

It was highlighted that the key risk to assets was 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 not initially transferred. Agreement had been reached to comply with the spirit

A workshop, with Members of the Panel and the Board, was held in April 2017 held to clarify the position of the Investment Panel over the future of the Fund's investment management arrangements, ie managing the Fund's assets in the long term and in the period up to BCPP taking over investment management responsibilities. The potential benefits and risks of different investment strategies available to the Fund were discussed and agreement was reached to comply with the spirit of the new legislation and pool the Fund's investments with BCPP.

As an interim measure, given the current staffing risks discussed at previous Panel meetings, it was approved by the Panel, that the Strategic Director Finance, Governance and Support and the Head of Investments and Treasury Management were authorised to deviate from internal management, where necessary, to greater use of pool funds. Additional resources would be needed to appoint a Transition Manager and potentially purchase additional consultancy support to assist the Fund with the transformation.

A staffing transformation plan had been developed to identify the future (post-pooling) staffing requirements of the Fund, and mitigate the risks to the current staffing establishment. A copy of the first draft staffing structure was attached to the submitted report at Appendix D (ii) which would enable the Fund to manage the activities of the pool after the transfer of assets, manage the assets not transferred to the pool and carry out the other governance and accounting work as required. In addition, all options would be explored to retain existing staff for as long as was needed and supplement them with additional resources to ensure the investment assets continued to be managed effectively in the interim.

Finally, it was confirmed that BCPP would be located in Leeds and a number of suitable properties had now been identified and a final decision would be made in September 2017.

ORDERED that the report was received and noted.

17/8

PENSION CUSTOMER IMPROVEMENT STRATEGY

A report of the Director of Finance, Governance and Support was presented to inform Members of the Teesside Pension Board (the Board) of the progress to date, and intended future action, to measure and improve customer service as necessary.

A complete review of the leaving process had been undertaken and the process was running smoothly. Questionnaires had been issued to fourteen employers and all retirees since December 2016. Overviews of the questionnaires and the responses received were attached at Appendices A and B to the submitted report.

With regard to employers, it was proposed to review the questionnaire to ensure it was fit for purpose and contact them again to ensure the right service was being provided. The Communications Strategy would also be reviewed and consideration given to re-introducing Employer Forums. Consideration would also be given to introducing briefings to Section 151 Finance Officers and equivalent officers of the non-council employers, to ensure that financial implications of being a scheme employer were transmitted to the correct people. In addition, briefings might be provided to Tees Valley HR Group on an annual basis to cover upcoming changes to the pension landscape and areas of importance in provision of pension administration.

In relation to scheme members, Kier were willing to collate responses from non-retiring members of the Teesside Pension Fund and discussions would take place as to whether a general annual survey would suffice and whether it should be online or paper based. A decision on the best way to proceed with non-retiring members would be made by 30 September 2017 and rolled out by January 2018.

With regard to the Teesside Pension Fund website, Altair, the Heywood Pension Administration Unit, was due an update which would facilitate greater interaction via the Employer and Member self-service platforms. The update was due by the end of 2017 and development of the website was expected to be under discussion in 2018.

ORDERED that the report was received and noted.

17/9 **FEEDBACK FROM CHAIR - PENSION BOARDS TWO YEARS ON (CIPFA/BARNETT WADDINGHAM)**

The Chair gave a verbal update on a recent seminar he had attended. The Local Pensions Boards - Two Years On seminar was hosted by CIPFA and Barnett Waddingham. The purpose of the seminar was for members to share experiences of the second year of Local Pension Boards and look ahead to the key challenges for the next year.

Representatives from the Pensions Regulator, the Local Government Pension Scheme's Regulator, the Department for Communities and Local Government, and the Scheme Advisory Board were in attendance and provided information in relation to their organisation.

The following items were also highlighted:

- General Data Protection Regulation (GDPR)
- Governance.
- Record Keeping and Risk.
- Indemnity Insurance for Board Members.

The Chair commented that it had been a worthwhile seminar which was well patronised by all the Boards.

ORDERED that the information provided was noted.

17/10 **INVESTMENT PERFORMANCE REPORT**

A report was presented to report on the performance of the Fund. 2016 was a very positive year for the Fund and most investors in general. Growth asset classes (equities, property and alternatives) had produced positive returns, particularly UK Equities. In addition, Bond performance was strong.

Strong gains were also seen in Property and Alternative asset classes. The Fund continued to invest in these asset classes when opportunities arose. The Fund built up cash as profits were taken out of Equities, and Bonds were sold down to near zero. In the year £189.1 million (net) was divested. Cash increased by approximately £250 million to £400 million.

The total Fund return for the calendar year 2016 was 20.8%, against a benchmark return of 18.5%.

The most important measure of pension fund performance was over the long term. The Fund's performance over 3, 5 and 10 years was positive: 8.6% pa, 9.7% pa and 6.9% pa respectively. Over 3 years the Fund underperformed its benchmark by 1.2% pa, over 5 years it underperformed by 1.3% and over the longer period of 10 years the Fund had also underperformed its benchmark by 0.2%.

For 2016 the difference in performance returns between the customised benchmark (18.5%) and the Teesside Fund (20.8%) was 2.3%.

ORDERED that the report was noted.

17/11 **INTERNAL AUDIT REPORTS
- PENSION FUND ADMINISTRATION
- PENSION FUND INVESTMENTS**

A report of the Strategic Director Finance, Governance and Support was presented on the final report of Pension Fund Administration (Appendix A) and Pension Fund Investments (Appendix B), produced by Tees Valley Audit and Assurance Services (TVAAS).

The overall audit opinion from TVAAS was a strong control environment for both audits and in relation to the areas reviewed. Based on the audit work undertaken, an effective system of control was in operation across the Pension Fund and was being applied consistently.

The only finding identified in both reviews, was that the Fund's Risk Register was not on the system used by the Council (Covalent) and had not been reviewed since April 2015. It was agreed in both reviews that the Risk Register would be revised by 30 September 2017 and the Council's system would be used.

ORDERED that the report was noted.

17/12 **MIFID II - UPDATE**

A report was presented to update Members on the Teesside Pension Board (the Board) of the Markets in Financial Instruments Directive II (MiFID II) and its impact on the Teesside Pension Fund.

MiFID II was a European Law that provided harmonised regulation for investment services across the 31 member states of the European Economic Area. The new regulation/directive would be applicable from January 2018 and would affect the Fund in three ways:

- Client Classification - stricter provisions for public sector entities.
- Inducements - restrictions on provision of free of charge research to clients.
- Recording of Communications - records retentions increased to five years.

Whilst there were no immediate financial implications, it was highlighted that classification of the Fund would affect transaction costs and a research budget might be needed.

ORDERED that the report was noted.

17/13 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

EXCLUSION OF PRESS AND PUBLIC

ORDERED that the press and public be excluded from the meeting for the following item on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The Head of Loans and Investments provided details of a transaction that had been made in error due to a breach of controls.