

**TEESSIDE PENSION FUND & INVESTMENT PANEL
GOVERNANCE REVIEW (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>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>

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	<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 consultants and external investment advisers appointed to help.</p>		
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 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 identifying 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</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>Once the actuarial valuation for 2016 is almost complete a detailed asset liability review will be undertaken.</p>

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	<p>enable pension liabilities to be effectively managed. 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>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 (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.</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>
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>

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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>