

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 26 February 2018.

PRESENT: Mr G Whitehouse (Chair)
Mr C Monson (Vice Chair)
Mrs J Cook
Councillor N J Walker

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

OFFICERS: G Hall, P Campbell, S Lightwing

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Woodhouse and Mr G Clyburn.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
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

1 **MINUTES - TEESSIDE PENSION BOARD - 6 NOVEMBER 2017**

The minutes of the meeting of the Teesside Pension Board held on 6 November 2017 were taken as read and approved as a correct record, subject to a minor correction.

2 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 27 SEPTEMBER 2017**

A copy of the minutes of the Teesside Pension Fund and Investment Panel meeting held on 27 September 2017 were submitted for information.

NOTED

3 **TEESSIDE PENSION FUND COMMITTEE - 21 DECEMBER 2017**

The Head of Investments and Treasury Management provided a verbal update on agenda items considered at the Teesside Pension Fund Committee at a meeting held on 21 December 2017.

It was confirmed that a copy of the Teesside Pension Fund Treasury Management Practices (TMPs) Policy, which was approved and adopted at the meeting, was available on the Council website.

NOTED

4 **DRAFT EXTERNAL AUDIT PLAN 2018**

The Draft Teesside Pension Fund Audit planning report for the Year Ended 31 March 2018 was presented to the Board for information. The report would be presented to the Teesside Pension Fund Committee for consideration on 7 March 2018.

The report summarised the External Auditor's initial assessment of the key risks driving the development of an effective audit for the Teesside Pension Fund, and outlined the planned audit strategy in response to those risks.

The Auditor drew the Committee's attention to the significant risks identified for the current year audit as follows:

- Misstatements due to fraud or error.
- Valuation of complex pooled investment vehicles.
- Valuation of directly held properties.

The Auditor provided the rationale and expected audit approach for each significant risk.

It was highlighted that the risks identified could change to reflect any significant findings or subsequent issues identified during the audit.

For planning purposes, materiality for 2017/2018 had been set at £77.1m. This represented 2% of the Fund's prior year net assets value and was an increase of 1% from previous years. The increase was due to there not being any issues identified with the Accounts in prior years. Materiality would be reassessed throughout the audit process and all uncorrected misstatements over this amount relating to the Fund account and net asset statement would be reported back to the Teesside Pension Fund Committee.

It was reported that there had been a change to the Audit Team and Hassan Rohimun, EY's Associate Partner responsible for the overall quality and delivery of the audit service would be signing off the audit opinion going forward, supported by Stuart Kenny as Manager on the audit, who would remain the main point of contact for the audit team.

The Audit Fee of £28,535, as prescribed by Public Sector Audit Appointments Ltd (PSAA) was drawn to the Board's attention.

Finally, it was highlighted that the Government had brought forward both the audit and the production of accounts deadlines. The Financial Statements had to be ready by the end of May, with the audit completed by the end of July rather than end of September. The main impact for the Fund was the Annual Report, which was usually signed off at the same time as the Council's Financial Statements. The deadline for the Annual Report remained as 1 December. However, with the deadline for the Financial Statements moving, it was likely that the Annual Report would be moved to August to September time, although this had not yet been determined.

AGREED that the Draft Teesside Pension Fund Audit Planning Report for the Year Ended 31 March 2018 was received and noted.

5

TEESSIDE PENSION BOARD - PENSION CUSTOMER SERVICE STRATEGY

A report was presented to inform Board Members of proposals to enhance the customer services provided to both members and employers of the Teesside Pension Fund.

The report previously agreed by the Board was approved by the Teesside Pension Fund Committee on 21 December 2017 and discussions had taken place between Council and Kier Officers to produce proposals to improve the scheme member and employer experience when they utilised pension administration services for the Teesside Pension Fund. A report outlining the proposed changes would be presented to the Teesside Pension Fund Committee on 7 March 2018 and the Board would receive a further update at its next meeting.

The financial implications of taking up the policy was approximately £200,000 per annum plus one-off costs for the redesign and enhancement of the Teesside Pension Fund website.

Potentially two new teams would be created: an Employee Liaison Team and a Communications Team, with ten to twelve posts in total, including some increases to the current teams. It was intended to start advertising the new posts as soon as possible, with the aim of having the teams in place by the end of August 2018.

AGREED that the information provided was received and noted.

6 **TEESSIDE PENSION FUND - BUSINESS PLAN 2018-2021**

The Head of Investments and Treasury Management presented the Teesside Pension Fund Business Plan 2018-2021. The purpose of the Business Plan was to outline the Fund's objectives and provide a plan of action as to how key priorities would be achieved in order to further these objectives.

The Fund had faced increasing complexities over the last few years and there had been, and continued to be, new legislation that had fundamentally changed the way in which the Fund worked and the relationship with stakeholders. In order to manage the challenges the Fund needed to be flexible and responsive and adapt in a timely and effective manner.

The Business Plan outlined the expected non-investment related Fund receipts and payments for the current financial year 2016-2017 as well as the administration and investment expenses. The Plan also detailed the key performance indicators by which the Fund's performance was measured.

The Head of Investments and Treasury Management provided a detailed commentary on each section of the Business Plan, highlighting the following areas:

- Teesside Pension Fund - Service Promise (Appendix A)
- Governance Arrangements.
- Performance Targets (Appendix B).
- Risk Management (Risk Register - Appendix C).
- Training Plan.
- Membership Data.
- Investments and Funding.
- Fund Account, Investment and Administration Estimate (Detailed analysis - Appendix D).
- Annual Plan for Receiving Reports.
- Forward Plan for Key Decisions.
- Annual Report to Council (Appendix E).

Progress against the Business Plan would be reported to all future meetings of the Teesside Pension Board and the Teesside Pension Fund Committee.

A query was raised with regard to the current Key Performance Indicators (KPIs) in relation to Pension Administration, which were included within the terms of the contract with the Kier Group. It was noted that the KPIs had been in existence for a number of years and it was questioned whether they were still relevant. The Head of Investments and Treasury Management confirmed that the KPIs would be reviewed, although an innovative solution would be needed.

AGREED that the Teesside Pension Fund Business Plan 2018-2021 was received and noted.

7 **MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II - UPDATE**

A report of the Strategic Director Finance, Governance and Support was presented to update Members of the Teesside Pension Board of the Markets in Financial Instruments Directive II (MiFID II) and its impact on the Teesside Pension Fund. The new MiFID II rules were applicable from January 2018.

The new regulations affected 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 retention increased to 5 years.

In terms of Client Classification the opt-up process for Local Government Pension Scheme Funds (LGPS) was simpler than originally assumed and the Teesside Pension Fund had opted up with all stock brokers, money brokers and fund managers without issue. Longer term, meeting the criteria would enable the Fund to transact with Border to Coast Pension Partnership (BCPP) and continue to manage other fund management relationships outside BCPP, for example, limited partnerships in Alternatives.

With regard to Inducements, given the timeframe for pooling investment assets, all brokers were categorised as execution only brokers, with the exception of one, who identified a methodology for charging for research through commission rates until a threshold was reached, at which point they reverted to execution only. When considering which broker's research would be most useful, this was the only research relationship considered to meet the criteria. There were no ties or contracts with that broker and their advice was impartial and independent.

In relation to recording of communications, MiFID II reinforced the need for effective recording of all communications and lengthened the retention period of records to five years. A MiFID II compliant telephone recording facility had now been implemented and a policy on data retention and logging occasion were recordings were required would follow. Recordings would not be released.

AGREED that the report was received and noted.

8 **PENSION REGULATOR DURHAM CONFERENCE**

The Vice Chair provided a verbal update on a regional meeting with the Pension Regulator held on 21 December 2017.

Items discussed at the meeting included:

- Legal responsibility of Pension Boards.
- Data Cleansing.
- Governance and Communications.
- Challenges.

The key issues identified for the Board included:

- Insurance for Board Members.
- General Data Protection Regulation - including the speed of response (only 72 hours to inform the Data Commissioner of any breach).
- The Board's oversight of member communications.
- Assurances about cyber security, including 'cyber resilience'.

AGREED that:

1. The information provided was received and noted.
2. The Vice Chair would email a copy of the presentation by the Pensions Regulator to all Board members.

9 **TEESSIDE PENSION BOARD - GENERAL DATA PROTECTION REGULATION (GDPR)**

A report of the Strategic Director Finance, Governance and Support was presented to provide an overview of progress to date for the introduction of the General Data Protection Regulation (GDPR) which would come into force on 25 May 2018.

Attached at Appendix A to the submitted report was a Briefing Note provided by Kier, which was not a legal opinion, on what the GDPR would introduce. The GDPR called for specific processes to be in place to protect data on individuals. The main areas that needed to be in place were:

- A Data Protection Officer.
- Data Mapping.
- Privacy Notices.
- Data Protection Impact Assessments (DPIA).
- Data Breach Notification.

The GDPR formalised many of the regulations already in force via the Data Protection Act 1988.

A Data Protection Officer had been appointed by Middlesbrough Council and would be in place by May 2018.

Kier were currently assisting Middlesbrough Council in mapping the pension data held. It was noted that some pension data had to be retained for many years since service could date back to 1978.

Middlesbrough Council was currently reviewing what the Privacy Notice would contain and how it would be published. Other Pension Funds had also produced a Privacy Policy.

DPIAs were required prior to the use of new technologies or where processing was likely to result in a high risk to individuals. Kier was working with the Council to ensure robust processes were in place so that any changes to process occurred after a DPIA was undertaken.

Although it was hoped that no data breaches would occur, the Council and Kier were working together to ensure appropriate processes were in place so that any data breach could be escalated via the relevant channels in a prompt and efficient manner. Reporting of breaches to the ICO now had to take place within 72 hours and the fines for persistent breaches had increased up to a maximum of 10 million Euros.

AGREED that the information provided was received and noted.

10 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items 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.

11 **POOLING UPDATE**

An update on the latest developments with the Border to Coast Pension Partnership (BCPP) was provided by the Head of Investments and Treasury Management.

ORDERED that the report was received and noted.

12 **NEWRIVER REIT (UPDATE)**

The Head of Investments and Treasury Management presented an Internal Audit Report regarding the NewRiver REIT transaction.

ORDERED that the report was received and noted.

13 **GAD REPORT**

The Head of Investments and Treasury Management reported on the dry run of the GAD Report. The full report would be presented to the Board once complete.

ORDERED that the report was received and noted.