

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 15 April 2019.

PRESENT: Councillors Mr C Monson (Chair)
B Woodhouse

ALSO IN ATTENDANCE: M Taylor, XPS Administration

OFFICERS: W Brown, S Lightwing, N Orton, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor N J Walker and G Whitehouse.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor B Woodhouse	Non pecuniary	Member of Teesside Pension Fund
C Monson	Non pecuniary	Member of Teesside Pension Fund

18/40 **MINUTES - TEESSIDE PENSION BOARD - 11 FEBRUARY 2019**

The minutes of the meeting of the Teesside Pension Board held on 11 February 2019 were taken as read and approved as a correct record.

XPS Administration Report

It was confirmed that the number of Members not receiving their Annual Benefit Statement due to the required information not being supplied to the Pensions Unit by the Employers was 1,904 which was 8% of the total. Work was continuing on the supply of accurate Date of Births (DOBs) and a report would be available within the next two works. Two companies had been approached for quotes to pursue up-to-date addresses for Pension Fund Members over the age of 50 years.

18/41 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 12 DECEMBER 2018**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 12 December 2019 were submitted for information.

18/42 **TEESSIDE PENSION FUND COMMITTEE - 13 MARCH 2019 - VERBAL UPDATE**

The Head of Pensions Governance and Investments provided a verbal update on agenda items considered at the meeting of the Teesside Pension Fund Committee held on 13 March 2019.

18/43 **APPOINTMENT OF CHAIR AND DEPUTY CHAIR AND EXTENSION TO THEIR TERMS OF OFFICE**

A report of the Strategic Director Finance, Governance and Support was submitted, the purpose of which was:

- to note the appointment of the Chair by rotation.
- to ask the Chair to appoint a Deputy Chair from the employer representatives.
- to ask Members of the Teesside Pension Board to agree to a proposal from the Nomination Committee to extend the terms of office of the Chair and Deputy Chair of the Pension Board by two years.

On behalf of the Board, the Chair placed on record his thanks to Gary Whitehouse for fulfilling

the role of Chair for the past two years.

AGREED as follows:

1. The report was noted.
2. The appointment of Colin Monson as Chair of the Teesside Pension Board was noted.
3. The appointment of Gary Whitehouse as Deputy Chair of the Teesside Pension Board was noted.
4. The Board agreed to extend the terms of office of Colin Monson and Gary Whitehouse for two years until 28 July 2021.

18/44

XPS - ADMINISTRATION REPORT

A report of the Strategic Director Finance, Governance and Support was presented to provide an overview of the administration services provided to the Teesside Pension Fund by XPS Administration.

A copy of the latest Teesside Pension Fund Service Delivery Report was attached at Appendix A to the submitted report and provided information on the work undertaken since the last update by the Administration Unit.

Attention was drawn to the "Headlines" in the submitted report which detailed the fact that the discount rate had changed due to the Budget and some of the factors used for calculations on the administration system needed to be amended. For a period certain transactions could not be undertaken which in turn impacted on some of the graphs in the report. The main impact was in January 2019. There were also some amendments to the LGPS regulations, which were mainly a tidying up exercise and did not impact on the work of the Administration Unit.

The submitted report also contained updated information in relation to Complaints, Common Data, and Performance. There were five complaints in total during the year to end of February 2019 and the Common Data Score had increased to 99.2%. All performance targets agreed within the current Service Level Agreement were being met.

In relation to a query from the Chair, the Officer outlined the Complaints process and confirmed the five complaints listed in the report had been marked as completed.

AGREED that the information provided was received and noted.

18/45

INVESTMENT POOLING UPDATE

A report of the Strategic Director Finance, Governance and Support was presented to provide an update on the continuing pooling of assets through Border to Coast Pension Partnership (BCPP).

Border to Coast had worked with Partner Funds to develop and agree the following indicative launch timetable for future funds. The Pension Fund had committed to investing £200 million (around 5% of its assets) into BCPP's Alternatives Fund in the first year it was available, with half being allocated to private equity and half to infrastructure. The intention was that a further £100 million a year (split 50:50 between private equity and infrastructure) would be invested over the subsequent 4 years.

Two shareholder resolutions had recently been agreed to by the Chair on behalf of the Pension Fund:

- Alternatives Structure - a resolution allowing BCPP to set up limited partnership agreements to facilitate the efficient structuring of the alternatives investment arrangements - this required unanimous agreement of the shareholders.
- Strategic Plan (including budget and capital adequacy) - a resolution agreeing BCPP's proposed budget and activity for 2019/2020 - this required agreement from at least 75% (nine) of the shareholders.

The Joint Committee met on 11 March 2019 and details of the agenda were included at paragraph 7.1 in the report. Points of note from the meeting included:

- Scheme member observer and substitute: Nicholas Wirz from Tyne and Wear was elected as the scheme member observer on the Joint Committee with Dierdre Burnet from Cumbria Pension Fund as substitute - their term of office would cover the March 2019 meeting and the forthcoming municipal year.
- Legal advice was being sought as to whether any potential conflicts of interest existed with regard to a member of a Pension Fund Committee also being a non-executive Director of BCPP.

AGREED that the information provided was received and noted.

18/46

DRAFT TEESSIDE PENSION FUND AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2019

The Draft Teesside Pension Fund Audit Planning Report for the year ended 31 March 2019 had been circulated with the agenda for the meeting. The purpose of the report was to provide the Teesside Pension Fund Committee with the basis to review the Auditor's proposed audit approach and scope for the 2018/2019 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointment Ltd (PSAA), auditing standards and other professional requirements.

The main audit risks and areas of focus were identified as:

- Misstatements due to fraud or error.
- Valuation of unquoted investments.
- Valuation of directly held properties.
- Implementation of new accounting standards.

The first risk was mandatory and testing was carried out each year. The Valuation of Unquoted Investments was an area selected for focus due to the number of complex pooled investment vehicles and the move to BCPP. The Evaluation of directly held properties related to retail assets that the Fund held and due to the recent downturn in the high streets the Auditor wanted to focus on the valuation of those assets at the year end. Finally, the Implementation of new accounting standards was included due to this being the first year of the implementation of those standards.

Planning materiality for the audit had been set at £38.9m, representing 1% of the net year's assets and reduced from 2% the previous year. All uncorrected misstatements greater than £1.9m would be reported and any other items the Auditor considered should be notified.

Finally, the planned Audit Fee for 2018/2019 was £21,972, reduced from £28,535 the previous year due to re-tendering of the contract. Fees for any additional work carried out by the Auditor would be discussed with the Section 151 Officer and notified to the Teesside Pension Fund Committee for approval.

ORDERED that the report was received and noted.

18/47

UPDATE ON CURRENT ISSUES

The Head of Pensions Governance and Investments presented a report to provide Members of the Teesside Pension Board with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

Actuarial Valuation

2019 was a valuation year for the LGPS and the scheme actuary (AON) would carry out a valuation of the assets and liabilities of the Fund as at 31 March 2019. The valuation

outcome would set employer contribution rates for all the Fund's employers for the period from 1 April 2020 up until the day before the outcome of the next valuation applies.

Preliminary discussions had taken place with AON and a draft timetable was included at paragraph 4.2 of the submitted report. Asset values as at 31 March 2019 were expected to be above the level forecast at the last valuation, equity markets had risen over the three months to the end of March, having suffered a dip at the end of 2018.

Asset values as at 31 March 2019 were expected to be above the level forecast at the last valuation. However, the valuation of the Fund's liabilities was also highly significant and the Actuary might have a more pessimistic view of future long-term investment returns, which would impact on the way liabilities were valued, as would the Actuary's view of the risk return profile of the Fund's current and prospective future asset mix.

If the outcome was an improvement in funding, there might be a perception that this would result in reductions in contribution rates. However, as the Fund was already well funded, there was little scope for employers to see a benefit from a funding level improvement. There was a significant risk that there would be upward pressure on future service contribute rates for employers, if the long term outlook for future investment returns had worsened. The position on this would become clearer as dialogue with the Actuary continued.

LGPS Cost Management Process

The Scheme Advisory Board had confirmed that it would not progress with proposals under the cost management process to increase the cost of the scheme by improving member benefits and reducing member contributions. All changes to public service pension schemes under cost management processes were on hold pending the legal outcome of the McCloud Case. The Scheme Advisory Board had agreed to issue guidance to Funds and Actuaries on how the uncertainty over additional cost caused by the potential application of the McCloud Case outcome to the LGPS, or the application of the delayed cost management process, should be dealt with in the current actuarial valuation.

Consultations

The Head of Pensions Governance and Investment, in consultation with XPS Administration, would respond to the Ministry of Housing Communities and Local Government (MHCLG) consultation on proposed changes to the late retirement increase factors and guidance, focussing on the administrative practicalities of the proposed change to methodology.

The MHCLG had also circulated proposals to strengthen pension protections that applied when an employee of an LGPS employer was compulsorily transferred to the employment of a service provider. XPS Administration contributed to a consultation response from the LGPS Technical Group, and AON also produced its own response - both of which were largely supportive.

Administration Guide

A copy of a new guide entitled "Administration in the LGPS" produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) and AON was attached to the submitted report for information.

Board Members discussed the relevance of the current performance targets which had formed part of the Service Level Agreement since 2001. It was highlighted that XPS who had recently taken over the administration of the Teesside Pension Fund were currently looking at introducing measures for overall demand and performance as outlined in the CIPFA guide.

AGREED that the information provided was received and noted.