

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

TEESSIDE PENSION BOARD REPORT

10 FEBRUARY 2020

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

Update on Current Issues

1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Teesside Pension Board (the Board) with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

2. RECOMMENDATIONS

- 2.1 That Members note this report.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications in respect of the information contained in this report.

4. LGPS COST MANAGEMENT PROCESS AND CHANGES EXPECTED BECAUSE OF THE MCCLLOUD CASE

- 4.1 Members will recall that the LGPS, in common with the other public service pension schemes, has a mechanism for periodically checking whether the cost of providing the scheme falls within acceptable parameters. If the cost of the scheme is assessed as too high this potentially results in reductions to future scheme benefits and/or increases to employee contributions. Conversely, if the cost is assessed as too low this can result in improvements to future benefits and/or reductions in employee contributions.

- 4.2 This is known as the cost management process and the outcome of the latest process revealed that the average overall cost of the scheme was 19% of pensionable pay, which is 0.5% of pensionable pay lower than the target cost for the LGPS of 19.5% of pensionable pay. Consequently the Scheme Advisory Board developed proposals to improve scheme benefits and reduce employee contributions to bring the cost of the scheme back up to the target level.

- 4.3 The proposals were not enacted and the cost management process was paused when the Government lost a high court case in December 2018 (the McCloud case). This case was brought on behalf of members of the Judges' pension scheme and the Firefighters' pension

scheme, who successfully argued that the protections put in place when changes were made to those schemes were age discriminatory, as they only protected older scheme members. The Supreme Court denied the Government the right to appeal the case and the Government confirmed it would look at the issue of discriminatory treatment in the introduction of the new schemes across all public service pension schemes, including the LGPS.

4.4 The LGPS Scheme Advisory Board provided an update on their website in November 2019 (see Appendix A) setting out the likely way forward and impact on the LGPS its administering authorities. This update sets out the following likely next steps for the LGPS

- The LGPS will be treated separately from the rest of the public sector pension schemes in respect of the method for remedying discrimination identified in the McCloud case
- The remedy is likely to involve extending the underpin that now only applies to older LGPS members (those born before April 1957 – currently aged around 63+). This underpin is a check to ensure on retirement the individual hasn't lost out through the introduction of the career average LGPS in 2014, by working out their benefits for all their service on the old final salary basis as well and giving them the better of those benefits or benefits under the career average LGPS.
- In order to carry out this check (potentially) for LGPS members of all ages who were scheme members at a cut-off date of April 2012, scheme administrators will need a history of part-time hours changes for all scheme members after the career average pension scheme was introduced. Normally, information on hours worked would not be collected in a career average scheme as benefits are based on amounts not service periods. XPS Administration has confirmed they are aware of this potential extra data requirement and will work with scheme employers to ensure this data is available once the final details of the remedy are decided.
- The LGPS cost management process will be re-run once the McCloud remedy has been agreed.

4.5 As there will be some uncertainty over the cost of providing the scheme until the McCloud remedy and the LGPS cost management process have been finalised, and this is unlikely to be resolved before the current actuarial valuation needs to be published, the actuary has applied an assumption across all employers which results in an increase in employer contribution rate of 0.9% of pensionable pay with effect from April 2020.

5 SCHEME ADVISORY BOARD GOVERNANCE REPORT

5.1 As reported to the 18 September 2019 Committee, the Scheme Advisory Board (SAB) commissioned consultants Hymans Robertson to survey LGPS stakeholders to examine the perceived effectiveness of current LGPS governance models and to consider alternatives or enhancements which could potentially strengthen LGPS governance in the future. Hymans Robertson published their initial Good Governance Report in July 2019 and worked with two working groups (Standards & Outcomes and Compliance & Improvement) to produce a further report which the SAB published in November 2019 (see Appendix B).

5.2 Page 12 of the report contains the full list of recommendations, some of the most notable are as follows:

- Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”). This can be either the s151 Officer if they have the capacity, LGPS knowledge and internal assurance framework to assume that role, or another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role.
- Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund.
- Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
- Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively. This will extend the ‘knowledge and understanding’ requirement that currently only covers Local Pension Board members to Pension Fund Committee members and officers.
- Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

5.3 The SAB met on 3 February 2020 and was expected to accept the recommendations of the report and initiate phase II of the project which (according to the report) will include the following steps:

1. Ministry of Housing Communities and Local Government (MHCLG) to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 Key Performance Indicators (KPIs) referred to within proposal E.3 (these are measures of service delivery to members and employers and should be drawn where possible from current reporting structures).
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund’s position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to

address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.

- 5.4 The Head of Pensions Governance and Investments will work to ensure compliance with the Guidance when it is published and will report back to the Pension Fund Committee and the Board with details of any changes require to the Fund's policies and procedures.

6. COMPETITION AND MARKETS AUTHORITY ORDER

- 6.1 On 10 June 2019 the Competition and Markets Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. The Order has implications both LGPS Funds.
- 6.2 LGPS Funds are affected as the order sets out rules about how pension schemes should obtain investment consultancy. This requires investment consultants to be appointed through a suitable competitive tendering process, and for them to be set objectives.
- 6.3 As was reported to the 4 November 2019 Board meeting from our Fund's perspective, both our investment advisers were appointed as part of a competitive tendering process and both have been set objectives as part of their appointment so the Fund complies with the Order.
- 6.4 The objectives the investment advisers have been set are in the context of the overall purpose of the Fund (as set out in the Funding Strategy Statement):

3. Purpose of the fund

3.1 Purpose

The fund is a vehicle by which scheme benefits are delivered. The purpose of the fund is to:

- Receive monies in respect contributions from employers and employees, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

3.2 Aims

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk exposure policies of the administering authority and employers alike.
- Seek returns on investments within reasonable risk parameters.

- 6.5 These are the objectives/outcomes the investment advisors were set as part of their appointment process:

SERVICES TO BE PROVIDED – SPECIFICATION

Two individuals are sought to support and assist Members of the Teesside Pension Fund Committee (the Committee). In accordance with the Investment Strategy Statement, the outcomes expected of the Investment Advisors include, but are not limited to:

- Advising the Committee on the most appropriate short term, quarter-by-quarter asset allocation for the Fund, given the up-to-date economic and financial market conditions at each meeting, both verbally at the meetings and by written report.
- Advising the Committee on the most appropriate long term asset allocation for the Fund as part of the Asset/Liability Study.
- Advising the Committee in the preparation and review of the Funding Strategy Statement and Investment Strategy Statement.
- Advising the Committee in their regular monitoring of the performance of the Investment Managers.
- On behalf of the Committee, carry out a periodic review of investment management arrangements.
- Advising the Strategic Director Finance, Governance and Support on matters relating to the strategic direction of the Fund.
- Informal, ad-hoc advice for the internal investment managers between meetings to discuss current issues and events.

The Committee meets four times each year and the Investment Advisors are expected to attend, and any other ad hoc meetings as required.

It will be expected that a minimum of 12 days work per annum will be required to fulfil these roles. This may increase by a few days at certain times throughout the contract.

7. NEXT STEPS

- 7.1 Further updates will be provided periodically.

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