Middlesbrough
moving forward

Legal and Governance

TEESSIDE PENSION BOARD

Date:	**Monday 7th July, 2025**
Time:	**2.00 pm**
Venue:	**Spencer Room, Town Hall**

AGENDA

To consider passing a Resolution Pursuant to Section 100A (4) Part 1 of the Local Government Act 1972 excluding the press and public from the meeting during consideration of the following items on the grounds that if present there would be disclosure to them of exempt information falling within paragraphs 3 of Part 1 of Schedule 12A of the Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

13.	EXEMPT - Pension Administration Report	161 - 162
14.	EXEMPT - Real Estate Transfer	163 - 172

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Friday 27 June 2025

MEMBERSHIP

P Thompson (Chair), J Stubbs, J Bell, C Massey (Deputy Chair) and N Walker

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Claire Jones, 01642 729112/01642 729712, claire_jones@middlesbrough.gov.uk/susan_lightwing@middlesbrough.gov.uk

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Wednesday 26 February 2025.

PRESENT: P Thompson (Chair), J Bell and C Massey (Deputy Chair)

OFFICERS: N Orton, W Brown and C Jones

APOLOGIES FOR ABSENCE: J Stubbs and N Walker

23/21 WELCOME AND FIRE EVACUATION PROCEDURE

The Chair welcomed all attendees to the meeting and explained the fire evacuation procedures.

23/22 DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item/Nature of Interest
J Bell	Non pecuniary	Member of Teesside Pension Fund
Councillor C Massey	Non pecuniary	Deferred Member of Teesside Pension Fund

23/23 MINUTES - TEESSIDE PENSION BOARD - 25 NOVEMBER 2024

The minutes of the meeting of the Teesside Pension Board held on 25 November 2024 were taken as read and approved as a correct record

23/24 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 25 SEPTEMBER 2024

A copy of the minutes of the meeting of the Teesside Pension Fund Committee held on 25 September 2024 was submitted for information.

NOTED

23/25 TEESSIDE PENSION FUND COMMITTEE - 11 DECEMBER 2024

The Head of Pensions, Governance and Investments provided a verbal update on agenda items considered at a meeting of the Teesside Pension Fund Committee held on 11 December 2024.

It was noted that the investment activity report had been presented; the cash level of the fund had increased and that the fund had disinvested from passive equity funds.

The EY Audit Reports for the years ending 2022 and 2023 had been presented. The new Auditors, Mazars were currently working on the 2024 report.

The LGPS National Knowledge Assessment outcome was presented, with the Committee agreeing that a training budget should be made available for Committee and Board members.

A presentation was delivered by the Actuary on the valuation of the fund, with further attendance expected at the March Committee meeting to discuss contribution levels.

The Government Consultation on Local Government Pension Schemes and making them ‘fir for future’ was presented, with discussion around a potential pool/ fund consolidation and the potential of this leading to greater investment in UK assets.

Updates were provided to the Committee from Border to Coast, CBRE and XPS.

Exempt reports were presented on the management of unlisted LGPS assets and the transfer from LGPS funds to pool companies.

AGREED that the information provided was received and noted.

23/26 **UPDATE ON WORK PLAN ITEMS**

A report of the Director of Finance and Transformation was presented to provide Members of the Teesside Pension Board with the updated work plan and information on items scheduled in the work plan for consideration at the current meeting.

The items scheduled for consideration in the work plan for the meeting were Pension Board Conflicts of Interest and an Update on the Code of Practice Review.

Pension Board Conflicts

The Pension Regulator's General Code of Practice explained the legal requirement scheme managers of public service pension schemes had to meet certain requirements in respect of conflicts of interest relating to a pensions board, specifically around registers of interest and the board's terms of reference.

In practice, conflicts of interest were unlikely to occur but nonetheless it was important to be aware of the possibility of conflict and, if in doubt, to declare and discuss any potential conflict in advance of a meeting.

As present, no actual conflicts of interest had been identified in respect of the Board. Consideration was given as to whether a 'nil return' statement should be posted on the Council's website to ensure compliance with the publication requirement.

Update on the Code of Practice Review

The Pensions Regulator (TPR) was the UK regulator of workplace pension schemes. It had a wide range or responsibilities in relation to regulating trust-based (private sector) pension schemes and played a more limited but still very significant, role in regulating public service pension schemes such as the Local Government Pension Scheme (LGPS).

As reported to the 8 July 2024 Board meeting, the Fund carried out an initial assessment to determine its level of compliance with the Code, with the aid of a spreadsheet-based assessment tool developed by Hymans Robertson (the Fund's actuary). That initial assessment showed that, from the 14 chapters of the General Code of Practice that were analysed in the report, five showed full compliance and the remaining nine showed levels of compliance between around 57% and 93%. A task list was produced showing what steps needed to be taken to reach full compliance with the Code and was shared with the board.

Agreed as follows that:

- The information provided was received and noted.
- The workplan would continue to be provided to future board meetings.
- The Code of Practice checklist would be provided to future board meetings as required.

23/27 **GOVERNMENT CONSULTATION - LGPS (ENGLAND AND WALES) FIT FOR THE FUTURE**

A report of the Director of Finance and Transformation was presented to inform Members of the consultation issued by the Government intended to make the Local Government Pension Scheme (LGPS) in England and Wales 'fit for the future, outline some key points from that consultation and how the Teesside Fund could be impacted by the eventual outcome.

The government confirmed on 4 September 2024 that it would carry out a pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor appointed the Minister for Pensions to lead the review and focussed on defined contribution workplace schemes and the Local Government Pension Scheme.

The Government issued a ‘call for evidence’ which focussed on;

- Scale and consolidation
- Costs vs Value
- Investing in the UK

There was a three-week deadline for responses. The Head of Pensions Governance and Investments worked with colleagues in Border to Coast and its Partner Funds to produce a response that emphasised:

- The benefits of scale provided by the Fund’s participation in Border to Coast
- The extent to which the Fund already invests in the UK

On 14 November 2024 the Chancellor of the Exchequer announced the publication of the interim report of the Pensions Investment Review. This was followed by the publication of a set of documents including a consultation “Local Government Pension Scheme (England and Wales): Fit for the future” which closed on 16 January 2025.

As well as responses to the consultation, the documents also asked each of the LGPS pools to prepare a proposal setting out how it would meet the requirements and timescales set out in the consultation. This proposal had to be submitted by 1 March 2025. Border to Coast had worked on this document with its Partner Funds. The document would confirm that Border to Coast was well placed to meet the Government’s expectations, would emphasise the key role of partnership in achieving success and also highlighted some of the potential risks inherent in achieving the consultation’s ambitions.

Further updates on the consultation outcome and how they would impact on the Fund, on Border to Coast and on the wider LGPS would be provided to future meetings.

AGREED that the information provided was received and noted.

23/28 **XPS ADMINISTRATION REPORT**

The XPS Client Relationship Manager joined the meeting remotely to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The report provided information on the following:

- Headlines
- Errors and Complaints
- Member Engagement
- Membership
- Data Quality
- Regulations and Guidance

The highlights of the report included;

- Membership continued to steadily increase (total membership 83,670 members).
- SLA 99.90%

AGREED that the information provided was received and noted.

23/29 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The Head of Pensions, Governance and Investments informed the Board that he would be leaving the Local Authority and recruitment had commenced for the post. The Chair thanked the Head of Pensions, Governance and Investments on behalf of the Board for his work.

The Head of Pensions, Governance and Investments advised the Board the Project Plan for Tyne and Wear Pension Fund administration would be added to the agenda for the March meeting, to ensure the Board had reassurance on the changes to the administration.

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 12 March 2025.

PRESENT: Councillors John Kabuye, J Rostron, J Ewan, D Branson, D McCabe and M Fairley

ALSO IN ATTENDANCE: W Bourne (Independent Adviser), P Moon (Independent Adviser) and J Baillie (Hymans Robertson)

OFFICERS: Nick Orton, Wendy Brown and Claire Jones

APOLOGIES FOR ABSENCE: D Coupe, D Jackson, J Young, J Beall, Scarborough and Ms J Flaws

24/58 **WELCOME AND FIRE EVACUATION PROCEDURE**

A formal notice had been issued to all concerned of a meeting of the Teesside Pension Fund Committee to be held on 12 March 2025.

Part 3, Paragraph 16, of the Council’s Constitution states that if at the start of the meeting there is not a quorum present, then if after a period of five minutes there is still not a quorum, the meeting will be abandoned. The business will be considered at a rescheduled meeting.

The quorum for meetings of the Teesside Pension Fund Committee is eight (with at least five of the members present being Middlesbrough Councillors) as the quorum of the meetings was not achieved the Chair declared there was not a quorum present, and abandoned the meeting, with the remaining business to be considered at the next meeting of the Teesside Pension Fund Committee, date to be confirmed.

24/59 **DECLARATIONS OF INTEREST**

Deferred.

24/60 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 11 DECEMBER 2024**

Deferred.

24/61 **CONTRIBUTION RATE REVIEW REQUEST**

Deferred.

24/62 **INVESTMENT ACTIVITY REPORT (INCL. TM REPORT, VALUATION & FORWARD INVESTMENT PROGRAMME)**

Deferred.

24/63 **EXTERNAL MANAGERS' REPORTS (BORDER TO COAST & STATE STREET GLOBAL ADVISORS) WITH BORDER TO COAST ESG REPORTS**

Deferred.

24/64 **PENSION FUND BUSINESS PLAN 2025-28**

Deferred.

24/65 **PENSIONS REGULATOR GENERAL CODE OF PRACTICE REVIEW - UPDATE**

Deferred.

24/66 **FUND ACTUARY PRESENTATION - 2025 VALUATION**

Deferred.

24/67 **BORDER TO COAST PRESENTATION**

Deferred.

24/68 **INVESTMENT ADVISORS' REPORTS**

Deferred.

24/69 **CBRE PROPERTY REPORT**

Deferred.

24/70 **XPS PENSIONS ADMINISTRATION REPORT**

Deferred.

24/71 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

Deferred.

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 11 December 2024.

PRESENT: Councillors J Kabuye (Chair), J Rostron (Vice-Chair), J Ewan, D Coupe, D Jackson, J Young, J Beall, M Fairley, M Scarborough, Ms J Flaws and Mr T Watson

ALSO IN ATTENDANCE: W Bourne (Independent Adviser), P Moon (Independent Adviser)
D Knight (Border to Coast), T Manuel (Border to Coast)
A Owen (CBRE), R Quinn (CBRE), G Rutter (CBRE)
M Rutter (Ernst Young),
J Baillie (Hymans Robertson)
L Pelmear (XPS)

OFFICERS: N Orton, C Jones and D Middleton

APOLOGIES FOR ABSENCE: Councillors D Branson, T Furness and S Hill

24/39 **WELCOME AND FIRE EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/40 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item / Nature of Business
Councillor Beall	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Coupe	Non-Pecuniary	Non-Executive Director of Border to Coast Pensions Partnership LTD.
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non-Pecuniary	Member of Teesside Pension Fund

24/41 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 25 SEPTEMBER 2024**

The minutes of the meeting of the Teesside Pension Fund Committee held on 25 September 2024 were taken as read and approved as a correct record.

24/42 **FINAL AUDIT RESULTS REPORTS - YEAR ENDING 31 MARCH 2022 AND YEAR ENDING 31 MARCH 2023**

A report was presented by Ernst & Young (EY) which summarised the audit conclusion in relation to the audit of Teesside Pension Fund for 2021/22. The audit was designed to express an opinion on the 2021/22 financial statements and addressed current statutory and regulatory requirements. The report contained the findings of EY, related to the areas of audit emphasis, their views on Teesside Pension Fund's accounting policies and judgements and material internal control findings.

The report identified key areas of focus for the audit of the Pension Fund's financial statements, and set out the Auditor's observations and conclusions, including their views on areas which might be conservative, and where there was potential risk and exposure. The consideration of these matters, and any others identified, were summarised in the "Areas of Audit Focus" section of the report.

The following Areas of Audit Focus were discussed for the 2021/22 report:

- Misstatements due to fraud or error (fraud risk)
  As reported in the Outline Audit Planning Report, audit planning procedures identified a large unexpected increase in investment income which increased from £13.7m in 2020/21 to £176.4m in 2021/22. Initial enquiries of management identified this as erroneous and EY recognised a significant risk in relation to investment income. This matter had been corrected within the financial statements, and Auditors were satisfied it arose as a result of error rather than fraud.

  As at 31 March 2022, the Pension Fund's financial statements included a £26.5m investment in a start-up challenger bank. Management asserted that the valuation at 31 March 2022, which significantly exceeded the Pension Fund's share of the net assets of the bank at that date, was reasonable and reflected the anticipated future profitability of the bank. It was noted that at 31 March 2022, the bank was still going through licensing and was not yet actively trading. However, the financial statements for the year ended 31 March 2023 included a significant impairment of this investment to reflect changes in management's expectations for recoverability of the Pension Fund's investment. It was the view of Auditors that the Pension Fund should also have impaired its investment. As at 31 March 2022, Auditors were reporting an uncorrected misstatement of £19.9m in relation to this investment.

- Valuation of pooled investment vehicles
  The agreement of investment valuations to third party confirmations from investment managers identified a number of errors in the recording of investment valuations, including incorrectly recording investments denominated in foreign currencies without converting amounts to sterling and omission of purchases made in the final quarter of the year. The net impact of these misstatements overstated investment assets by net £35.8m, which management had corrected the financial statements for. However, the size of the gross misstatement, overstatements of investments assets by £71.4m and understatement of investment assets by £35.6m, indicated that controls over the recording of investment valuations were not operating effectively. In addition, without impacting the overall valuation of investment assets, Auditors identified £52.5m of classification errors between the categories of investments disclosed within the notes to the financial statements. Management have corrected the financial statements for these classification misstatements. Following correction of the majority of identified misstatements, Auditors were satisfied that the valuation of pooled investment vehicles was not materially misstated.

- Valuation of private market investments
  Additional audit procedures over private market investments identified that one of the Fund's external investment managers had provided valuations to the Pension Fund which were based on historic cost, rather than market value which was required for reporting in the Pension Fund's financial statements. The Pension Fund had not identified as part of their review processes that valuations were not being provided on the correct basis. As a result of the incorrect valuation methodology being used by the fund manager, investment assets were understated by £7.7m. Management had opted not to correct the financial statements for this matter.

- Valuation of directly held property
  The analysis of the valuation of the Pension Fund's property assets as at 31 March 2022 identified 12 individual property valuations which were considered to exhibit indicators of having a higher risk of misstatement. Factors indicative of a higher risk of misstatement included: changes in valuations from the prior year; valuations which were out-of-line with similar assets; assets with a high proportion of tenants on expiring leases; and assets whose tenants were more exposed to adverse financial impacts of the Covid-19 pandemic. These 12 assets covered 41% of the total balance by value and EY Real Estate specialists were asked to review the valuations of these assets. The EY Real Estate specialists concluded that, other than a clearly trivial variance on one property, all valuations were within a reasonable range. There were no other observations to report in relation to directly held property. EY were therefore satisfied that directly held property was not materially misstated.

The conclusions of the 2022/23 report were:

- Valuation of pooled investment vehicles

Pooled Investment Vehicles reported in the financial statements were £10.1 million lower than confirmations received from fund managers. Of this, £8.1 million relates information from fund managers not being available until after the financial statements were prepared. The two investments totalling £7.3 million were noted as being incorrectly classified as level 3 instead of level 1 related to Pooled Property Investments. Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices. No control observations were noted from the review of investment manager control report.

- Valuation of private market investments

It was identified that for two investments totalling £18.6 million, fund managers provided valuations on cost rather than on a revaluation basis. This understated the investments reported by £7.3 million. The Fund held investments in a limited company with a reported value of £40.1 million. It was noted that the Fund had continued to value this at the cost of the investment, rather than revaluing its investment at 31 March 2023. The value reported was in excess of the Fund's share of the net book value of the company by £30.3 million (£9.8 million total). This had been adjusted by management. Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices.

- Valuation of directly held property

The Fund's valuer was appropriately objective, competent and capable. It was noted that the principal signatory of the valuation report had performed the valuation since 2012, in excess of suggested timings under RICS recommendations. It was identified that properties were mostly valued at the upper end of expected valuation ranges. From properties reviewed, expected valuations were not significantly different to underlying lease agreements and wider market indices and costs. No audit differences were identified.

During discussion, Members queried follow-up actions to the audit findings. The Director of Finance directed Members to Appendix C: The Management Representation Letter and advised the Committee that updates were routinely reported to Middlesbrough Council's Audit Committee. It was further advised that Mazars would complete an Audit Report of 2023/24 with an update provided on the recommendations set out in the 2022/23 report.

ORDERED that the information was received and noted.

24/43 **INVESTMENT ACTIVITY REPORT (INCL. TM REPORT, VALUATION & FORWARD INVESTMENT PROGRAMME)**

A report of the Director of Finance was presented to inform Members of how the Investment Advisors' recommendations were being implemented and provided a detailed report on transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's Valuation. The treasury management of the Fund's cash balances and the Forward Investment Programme were also presented.

The Fund continued to favour growth assets over protection assets. For the period under discussion, bonds were still not considered value for the Fund and the Fund had no investment in bonds at this time.

Cash level at the end of September 2024 was 5.97%.

Investment in direct property where the property had a good covenant, yield and lease terms would continue. There were no purchases or sales in the quarter.

Investment in Alternatives, such as infrastructure and private equity, offered the Fund diversification from equities and bonds. They came with additional risks of being illiquid, traditionally they had costly management fees and investing capital could be a slow process. An amount of £34m was invested in the quarter.

Appendix A of the report detailed transactions for the period 1 July 2024 – 30 September 2024. There were net sales of £147m in the period.

As at 30 September 2024, the Fund had £326m invested with approved counterparties. This was an increase of £135m over the last quarter. Appendix B of the report showed a graph of the maturity profile of cash invested. It also showed the average rate of interest obtained on the investments for each time period.

The Fund Valuation detailed all the investments of the Fund as at 30 September 2024, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,483 million. The detailed valuation was attached to the report at Appendix C. This compared with the last reported valuation, as at 31 March 2024 of £5,524 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 September 2024 compared with the Fund's customised benchmark.

As at 30 September 2024, the Fund's equity weighting was 57.49% compared to 60.26% at the end of June 2024. It has been agreed between the Investment Advisers and the Head of Pensions Governance & Investments that the Fund would disinvest from State Street (SSGA) Passive Equity Funds.

In the quarter July – September £435m was redeemed, of that, £330m was re-invested in the Border to Coast Overseas Developed Equity Fund with the remainder held as cash at the Fund. A summary of equity returns for the quarter 1 July 2024 – 30 September 2024 was set out at paragraph 8.4 of the report.

The Fund had no investments in bonds at this time, the level of cash invested was 5.97%. Discussions were held within the Committee Meeting regarding investment in bonds. Although there was no directive to invest at this time, the Advisers had since indicated the levels at which they felt investment would be appropriate. Officers were monitoring the situation, when the levels come into range, there would be further discussion with the advisers. At present, it was considered was that an investment via the Border to Coast Sterling Index Linked Bond Fund would be the most appropriate vehicle.

To date the Fund had agreed 4 Local Investments:

- GB Bank – £20m initial investment called in full in September 2020. £6.5m was paid to the bank in December 2021. £13.5m paid August 2022 as the bank received regulatory approval to exit mobilisation. £4m was agreed at the September 2023 Committee and paid to GB Bank in October. £5m agreed at March 2024 Committee and paid May 2024.
- Ethical Housing Company - £5m investment of which £765k had been called.
- Waste Knot - £10m investment agreed at the June 2021 Committee, payment made in full December 2021.
- FW Capital – At the September Committee meeting, agreement was given for an investment of £20m into the Teesside Flexible Investment Fund. The money would be called down as and when investments were made.

As at 31 October 2024 total commitments to private equity, infrastructure and other debt were £1,920m, as set out at paragraph 8.8 of the report.

ORDERED that the information provided was received and noted.

24/44 **EXTERNAL MANAGER REPORTS (BORDER TO COAST & STATE STREET GLOBAL ADVISORS) WITH BORDER TO COAST ESG REPORTS**

A report of the Director of Finance was presented to provide Members with Quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited ('Border to Coast') and with State Street Global Advisers ('State Street')

At 30 September 2024 the Fund had investments in the following three Border to Coast listed equity sub-funds:

- The Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
- The Border to Coast Overseas Developed Markets Equity Fund, which had an active

overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

- The Border to Coast Emerging Markets Equity Fund, which had an active emerging markets equity portfolio aiming to produce long term returns at least 1.5% above the FTSE Emerging markets indices. Part of the Fund was managed externally (for Chinese equities) by FountainCap and UBS, and part managed internally (for all emerging markets equities excluding China) by the team at Border to Coast.

For all three sub-funds, the return target was expected to be delivered over rolling three-year periods, before calculation of the management fee.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report, shown at Appendix B showed the market value of the State Street passive equity portfolio and the proportions invested in each region at 30 September 2024. Performance figures were also shown in the report over a number of time periods and from inception.

State Street continued to include additional information with their report this Quarter, giving details of how the portfolio compared to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues.

Border to Coast had worked with its reporting providers to develop reporting which covered the Environmental Social and Governance (ESG) issues and impact of the investments it managed, together with an assessment of the carbon exposure of these investments.

Appendix C contained the latest available ESG and carbon exposure in relation to the three Border to Coast listed equity sub-funds the Fund invests in: UK Listed Equity, Overseas Developed Markets Equity and Emerging Markets Equity. Amongst other information, the reports included information on the highest and lowest ESG-rated companies within those Border to Coast sub-funds, together with an analysis of the carbon exposure of the sub funds on a number of metrics. The sub-funds' ESG position and carbon exposure was also compared to benchmarks representing the 'average' rating across the investment universe of that particular benchmark.

ORDERED that the report was received and noted.

24/45 **GOVERNANCE POLICIES REVIEW**

A report of the Director of Finance was presented to provide Members with updated versions of a number of governance policies for comment / noting, as appropriate.

Most of the Pension Fund's governance policies were required to be formally updated every three years. At the last review, in December 2021, an overarching review of Local Government Pension Scheme (LGPS) governance had been expected for over a year, as a follow-on from work carried out on behalf of the Scheme Advisory Board. This review, which was expected to introduce the "Good Governance" proposals, had not yet taken place, but the governance issues fund and pool level were a key element of the Government's recently issued LGPS (England and Wales) 'Fit for the Future' consultation.

The latest consultation was expected to mean further guidance on LGPS governance, and would be published in the New Year. In addition, the Fund was due to be working with a different pensions administrator from June 2025. Consequently, this was a 'light touch' review of the Fund's governance policies, as further changes were likely to be required for some of them during 2025.

The following documents had been reviewed and updated (where necessary) based on the existing regulations and guidance:

- Governance Policy and Compliance Statement.
- Training Policy.
- Conflict of Interest Policy.
- Risk Management Policy.
- Procedures for Reporting Breaches of Law.

- Communication Policy.
- Pension Administration Strategy and Charging Policy.
- Fund Officers' Scheme of Delegation.

The documents were shown at Appendices A to H of the report.

ORDERED that:

- The information provided was received and noted.
- The revised governance policies would take immediate effect.

24/46 **LGPS NATIONAL KNOWLEDGE ASSESSMENT OUTCOME**

A report of the Director of Finance was presented to inform Members of the outcome of the National Knowledge Assessment recently undertaken by Teesside Pension Board and Pension Fund Committee members, and to discuss a potential training plan to address gaps in knowledge identified by the assessment.

The National Knowledge Assessment (NKA) allowed a direct insight into the knowledge and skills of their key decision makers and oversight body. Participants answered a series of questions covering a broad spectrum of topics, for which they should be familiar to effectively perform their role. Based on responses, a score was recorded for each member, and also collectively for both the Committee and Board.

The report included benchmarking against the results of all other participating Funds. The assessment would help the Fund assess and report on the Knowledge and Skills of Committee and Board members, demonstrating that they had met the requirements laid out in The Pensions Regulator's General Code of Practice.

The performance of the Board (average overall score of 76.4 %) was stronger than that of the Committee (average overall score of 53.5 %). The performance for the Committee and Board diverged the most in the Financial Markets and Product Knowledge section, when Board were 40.7 % higher than the Committee. The Committee performed most strongly in the areas of Pensions Governance and Investment Performance and Risk Management. The Board areas of strongest knowledge were Pensions Governance and Investment Performance and Risk Management.

Based on the results from the assessment, potential training sources had been prepared based on what would be most valuable to the Fund at the present time.

A discussion took place whereby the training budget was reflected on; a Member suggested that all Members offer firm commitment to the Committee because of this. It was further highlighted by the Director of Finance that there was great value in having stability on the Pension Fund and would encourage members to remain on the Committee.

ORDERED that the report was received and noted.

24/47 **PRESENTATION FROM THE ACTUARY - 2025 VALUATION PREPARATION**

A presentation on the 2025 Valuation Preparation was provided by the Actuary. The presentation included:

- How the Fund works.
- Role of the Actuary.
- Reasons behind a valuation.
- How a valuation is completed.
- 2022 valuation results.
- What has happened since 2022.
- Key funding decisions.

The presentation highlighted areas of what the actuary carried out for stakeholders, with the main focus on carrying out fund valuations. It was noted that there was a statutory requirement to complete a valuation every three years with assumptions and estimations also included. The actuary also performed ongoing health checks to ensure there were enough funds set aside.

The information provided showed a funding level of 116%, with a total average employer rate of 14.8%. Funding had improved since 2022, with assets returns positive. There had been rising interest rates and high inflation with a higher expected return on the Fund's assets.

For 2025 there were key funding decisions that the Fund should make; how much should be collected in contributions, and how much in investment returns.

The Actuary highlighted the results of national assessment as a useful resource, with on-demand learning which could be revisited multiple times. It was advised that Committee Members complete modules 7: Financial Markets and Product Knowledge and 8: Actuarial Methods, Standards and Practices, and Board Members should complete modules 4: Pensions Accounting and Audit Standards and 8: Actuarial Methods, Standards and Practices.

A Member queried the timeline for the valuation preparation and how this aligned with Local Authority's budget planning. The Actuary advised that in March 2025 a comprehensive set of assumptions would be compiled, conversations with Officers would begin in June and discussions with Employers in Autumn. The Director of Finance advised that there would be an expectation that this would be available for September when most Local Authorities commenced budget planning.

ORDERED that the information was received and noted.

24/48 **BORDER TO COAST RESPONSIBLE INVESTMENT POLICY, CORPORATE GOVERNANCE & VOTING GUIDELINES AND CLIMATE CHANGE POLICY**

A report was presented which advised the Committee of recent changes made by Border to Coast Pensions Partnership Limited ('Border to Coast') to its Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) required the Fund to have a policy on:

- Environmental, social and governance (ESG) considerations. The policy was required to take into account the selection, non-selection, retention and realisation of assets.
- The exercise of rights, including voting rights attached to investments.

To allow a practical and consistent approach to pooled investments, Border to Coast developed a Responsible Investment (RI) Policy and a Corporate Governance and Voting Guidelines document for all its Partner Funds to approve that applied across all the investments it held on their behalf. In 2021, Border to Coast also introduced a standalone Climate Change Policy. The latest version of all three documents (as approved at the 13 December 2023 Pension Fund Committee) could be found on Border to Coast's website at the following link:

https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies

Border to Coast would continue to work with its Partner Funds to develop and update its approach to Responsible Investment (including Climate Change) and Corporate Governance.

A Member raised the issue of Responsible Investment and tobacco exclusion being considered as part of the policy. Border to Coast advised that further exclusions will be considered more fully in 2025 and will bring forward tobacco as part of that discussion.

ORDERED that Members noted and approved the changes made to the Border to Coast documents – relevant extracts were included as Appendices A, B and C to the report.

24/49 **PRESENTATION FROM BORDER TO COAST - RESPONSIBLE INVESTMENT**

The Committee received a summary and update on the Fund's investments with Border to Coast.

The presentation provided information on the following:

- Listed Investments as at 30 September 2024.
- Macro outlook Q3 2024.
- Listed Investments: Performance Q3, 2024.
- Private Equity.
- Infrastructure.
- Responsible Investment Update.

ORDERED that the information provided was received and noted.

24/50 **GOVERNMENT CONSULTATION - LGPS (ENGLAND AND WALES) FIT FOR THE FUTURE**

A report of the Director of Finance was presented to inform Members of the consultation issued by the Government intended to make the Local Government Pension Scheme (LGPS) in England and Wales 'fit for the future', outline some key points from that consultation, how the Teesside Fund could be impacted and the timetable, and process for responding to the consultation. The report also asked Members to agree that the Head of Pensions Governance and Investments (in consultation with the Chair and Vice Chair) could draft and submit a consultation response on behalf of the Fund / the Council as administering authority for the Fund.

The Government confirmed on 4 September 2024 that it would carry out a pensions review, which it described as follows: "The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme."

The Government issued a 'call for evidence' which focussed on the following three topics; some questions under those topics related to defined contribution schemes, others purely related to the LGPS, and some potentially covered both:

- Scale and consolidation.
- Costs vs Value.
- Investing in the UK.

In addition, the document referred to the consultation carried out by the previous Government last year and stated, "Asset pooling policy in the Local Government Pension Scheme in England & Wales (LGPS) was consulted on in 2023. In addition to the below request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions."

There was a three-week deadline for responses. The Head of Pensions Governance and Investments had worked with colleagues in Border to Coast and its Partner Funds to produce a response that emphasised:

- The benefits of scale provided by the Fund's participation in Border to Coast.
- The extent to which the Fund already invested in the UK.

Consideration was also given as to whether potential pool or fund consolidation would of itself lead to greater investment in UK assets, as the call for evidence seemed to imply.

On 14 November 2024, Chancellor of the Exchequer Rachel Reeves announced as part of her Mansion House speech that she would be "publishing the interim report of the Pensions Investment Review. It sets out our plans to create Canadian and Australian style-"megafunds" to power growth in our economy… underpinned by a clear commitment to legislate for these changes for the first time in the Pension Scheme Bill next year." and that the Government would "legislate on measures to consolidate the Local Government Pension Scheme… and require that the 86 Local Government Pension Scheme administering authorities consolidate all their assets into 8 pools."

This was followed by the publication of a set of documents including a consultation "Local Government Pension Scheme (England and Wales): Fit for the future" which would close on 16 January 2025.

Some significant points from the consultation included:

- LGPS Pool companies would need to be regulated by the Financial Conduct Authority (FCA) and able to offer internal management (Border to Coast was already FCA regulated and offers internal management in some asset classes).
- Funds/Administering Authorities would need to transfer all their listed assets to their Pool by 31 March 2025 and would be expected to transfer legacy assets to the management of the Pool by 31 March 2026.
- Pool companies would be expected to be the principal source of investment advice to Funds/Administering Authorities.

During discussion, a Member suggested that it would be more inclusive if large employer stakeholders were able to contribute directly to the consultation. The Head of Pensions, Governance and Investments advised that it was an open consultation, allowing anyone to respond. However, the draft response of the Teesside Pension Fund Committee would be shared with S151 Officers in the neighbouring authorities.

ORDERED:

- That the Committee agreed that consultation responses would be drafted and submitted.
- The Committee had the opportunity to provide any suggestions in relation to the Fund's consultation response at this meeting or, over the following weeks, through feedback to the Chair or Vice Chair.

24/51 **INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors had provided reports on current capital market conditions to inform decision-making on short-term and longer-term asset allocation, which were attached as Appendices A and B to the submitted report.

Further commentary was provided at the meeting.

Both Advisors spoke of the United States, with the focus on what a Trump administration meant for the economy, in particular the expectation of substantial trade tariffs.

ORDERED that the information provided was received and noted.

24/52 **CBRE PROPERTY REPORT**

A report was submitted that provided an overview of the current property market and informed Members of the individual property transactions relating to the Fund.

The report included:

- Economic Commentary.
- Direct Portfolio Analysis.
- Property Portfolio Returns.
- Investment and Asset Management Updates.
- Portfolio Arrears Update.
- Lending Update.
- Existing Loan Portfolio.
- Responsible Investment Initiatives.

As of 30 November 2024, the portfolio comprised of 34 properties located throughout the UK, with a combined value of £485.1m. This reflected an overall Net Initial Yield of 5.5%, and an Equivalent Yield of 5.88%. The portfolio comprised of principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprised 94% of the Portfolio by capital value. There were 91 demises and a total net lettable area of 2,751,651 sq. ft. The portfolio had a current gross passing rent of £28,613,928 per annum against a gross market rental value of £27,578,437 per annum. The weighted average unexpired lease term was 8.9 years to the earlier of the first break or expiry and 9.6 years to expiry, ignoring break dates.

The portfolio highlight was that the Fund was negotiating a £25m Bridge Loan Facility to Verdant Regeneration Limited. The loan would aid the borrower with infrastructure and enabling works at the 176-acre site in Ilkeston, Derbyshire. On completion, the Fund's loan book would reach the current target allocation of £100m.

A member raised a query in respect of the portfolio arrears, in particular a tenant's total arrears of £108,123 (27.3% of the collectable arrears). CBRE confirmed that this was due to the reporting cycle and that some tenants preferred to pay monthly rather than quarterly. It was noted that the rent collection figure was more meaningful to the Fund.

ORDERED that the information provided was received and noted.

24/53 **XPS PENSIONS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The report provided information on the following:

- Overview.
- Membership Movement.
- Errors and Complaints.
- Membership Engagement.
- Data Quality.
- Regulations and Guidance.
- SLAs.
- Administration Team.

The report was taken as read with further commentary provided at the meeting.

ORDERED that the information provided was received and noted.

24/54 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

24/55 **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.

24/56 **PROPERTY MANAGEMENT**

A report was presented to request that Members consider a revised approach to the management of the Pension Fund's directly held property portfolio, in the light of the requirements set out in the Government's recently issued "LGPS (England and Wales): Fit for the Future" consultation.

ORDERED that option one, as detailed in the report, was approved.

24/57 **PROCUREMENT UPDATE**

A report was presented which provided Members of the Teesside Pension Fund Committee (the Committee) with an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

ORDERED that the information provided was received and noted.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

PENSION FUND BOARD REPORT

07 JULY 2025

DIRECTOR OF FINANCE AND TRANSFORMATION, ANDREW HUMBLE

PENSION FUND BUSINESS PLAN 2025/28

1. PURPOSE OF THE REPORT

1.1 To present to Members of the Teesside Pension Board ('the Board') the annual Business Plan for the Fund, which was approved by the 18 June 2025 Pension Fund Committee.

2. RECOMMENDATION

2.1 That Members note the Business Plan including the 2025/26 Pension Fund budget.

3. FINANCIAL IMPLICATIONS

3.1 The 2025/26 forecast income and expenditure is set out in the Business Plan, and is summarised below (expenditure in brackets):

	£ millions
Income from employers / members	134.7
Expenditure to members	(213.7)
Administration and management expenses	(13.8)
Estimated net investment income	151.0*
Net increase (decrease) in net assets available for benefits	**58.2**

**Assumes the Fund chooses to take £70 million in dividends from Border to Coast equity pooled funds.*

4. BACKGROUND

4.1 In order to comply with the recommendations of the Myners Review of Institutional Investment it was agreed that an annual Business Plan should be presented to Members for approval. The Business Plan should contain financial estimates for the Fund, including the budgeted costs for investment and management expenses.

4.2 The Teesside Pension Fund Business Plan is designed to set out how the Pension Fund Committee operates, what powers are delegated and to provide information on key issues. The Business Plan sits alongside the Fund's other governance documents, which set out the delegated powers and responsibilities of officers charged with the investment management function.

4.3 The Business Plan for 2025/28 is attached (Appendix 1). The Business Plan includes:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (see Appendix A);
- The current governance arrangements for the Fund;
- The performance targets for the Fund for 2025/26, and a summary of the performance for 2024/25 (latest available) (see Appendix B);
- The arrangements in place for managing risk and the risk register for the Fund (see Appendix C);
- Membership, investment and funding details for the Fund;
- An estimated outturn for 2024/25 and an estimate for income and expenditure for 2025/26 (see Appendix D and page 22 of Appendix 1); and
- An annual plan for key decisions and a forward work programme for 2025/26 and an outline work plan for 2027 – 2028.

CONTACT OFFICER: Wendy Brown – Acting Head of Pensions Governance and Investments

TEL NO.: 01642 729630

Middlesbrough
moving forward

Teesside Pension Fund

Our Service Promise

We will provide a customer-focused pension service meeting the needs of members and employers, and manage the investments of the Fund to achieve solvency and long-term cost efficiency for our customers.

Contact:
Nick Orton, Head of Pensions Governance and Investments
nick_orton@middlesbrough.gov.uk / 01642 729040.

Scheme Members

- Payment of pension payments/retirement grants
- New entrants to the LGPS processed
- Accurate transfer values calculated and paid
- Provide annual benefit statements

Scheme Employers

- Accurate contribution calculated and collected
- Pension costs accurately calculated and recharged
- Cash flow data supplied to the Actuary for IAS19/FRS17 reports

Pension Fund Committee

- Safe custody of the Fund's assets
- Invest the Fund's monies in accordance with LGPS Regulations and Pension Fund Committee instructions
- Manage the relationship with the Fund's pooling asset management company (Border to Coast Pensions Partnership)
- Report the Fund's investment transactions & asset valuations
- Produce a Business Plan for approval
- Hold accurate scheme membership data
- Statutory and selected non-statutory returns will be completed.

Pension Board

- Annual Report & Accounts produced in accordance with the latest CIPFA LGPS Code of Practice.

What we'll do for you:

- We will administer and manage the Fund in accordance with the relevant statute and regulations.
- We will process transactions and payments listed in this Service Promise in line with the timescales stipulated.
- We will provide annual benefit statements to all scheme members, in accordance with the LGPS Regulations by 31 August every year.
- We will provide Rates & Adjustment Certificates to scheme employers following the triennial valuation of the Fund's assets and liabilities, in accordance with the LGPS Regulations by 31 March the year following the valuation.

What you can do for us:

- Scheme employers provide all required information within the timeliness required for the task and in the format required.
- Scheme employers make contribution payments on time and in line with the Regulations and their Admission Agreements.
- Scheme employers provide a bond or other guarantee required by their Admission Agreements.
- All scheme members and scheme employers provide updated information relevant to the general upkeep of the data needed to maintain their records accurately.

APPENDIX B

SUMMARY OF PERFORMANCE AGAINST TARGETS

Funding:

	Target	Actual
2022 Triennial Actuarial Valuation	100%	116%

Investments:

	As at 30 September 2024		
	Benchmark	Actual	Excess Return
Performance Return – 1 Year	10.8%	9.8%	**-1.0%**
Performance Return – 3 Year (per annum)	4.2%	6.4%	**2.3%**
Performance Return – 5 Year (per annum)	5.0%	7.0%	**2.0%**
Performance Return – 10 Year (per annum)	7.1%	8.0%	**0.9%**

Pensions Administration:

	As at 31 December 2021	
	Target	Actual
All new entrant processed within twenty working days of receipt of notification being received by pensions.	98.50%	100.00%
Transfer Values - To complete the process within ten working days of the date of receipt/request for payment.	98.50%	100.00%
Refund of contributions - correct refund to be paid within ten working days of the employee becoming eligible and the correct documentation being received.	98.75%	100.00%
Statements issued within ten working days - Estimate of benefits (of receipt of request) and Deferred Benefits (of receipt of all relevant information).	98.25%	99.23%
Pension costs to be recharged monthly to all employers.	98.75%	100.00%
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	98.75%	88.92% (shortfall relates to missing pay information from employers)

	As at 31 December 2021	
	Target	Actual
Payment of retirement grant payment to be made within 6 working days of the later of the payment due date and the date of receiving all of the necessary information.	98.75%	99.54%
Pay eligible pensioners a monthly pension on the dates specified by the Council.	100.00%	100.00%
All calculations and payments are correct.	98.75%	100.00%

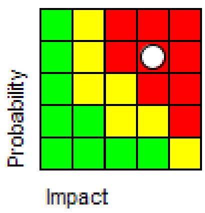
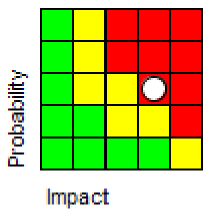
Accounting:

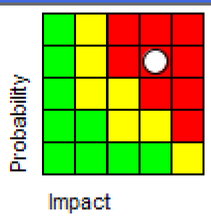
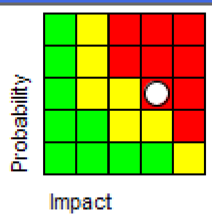
	Target	Actual
External Auditor Opinion	True & Fair View	True & Fair View 2021/22 and 2022/23 accounts. The 2023/24 accounts were 'disclaimed' by the auditor, principally owing to lack of time to complete the necessary work.
Internal Audit Opinion – Investments	Strong Control Environment	Strong Control Environment
Internal Audit Opinion – Administration	Strong Control Environment	Strong Control Environment

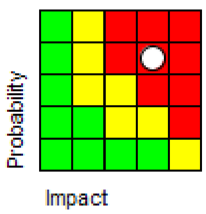
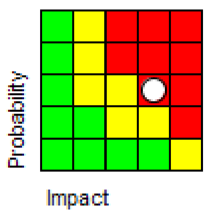
Governance:

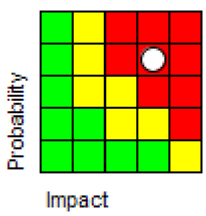
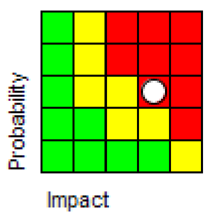
	Target	Actual
Funding Strategy Statement	Last 3 Years	March 2023
Investment Strategy Statement	Last 3 Years	December 2024
Governance Policy & Compliance Statement	Last 3 Years	December 2024
Training Policy	Last 3 Years	December 2024
Conflict of Interest Policy	Last 3 Years	December 2024
Risk Management Policy	Last 3 Years	December 2024
Procedures for Reporting Breaches of Law	Last 3 Years	December 2024
Communication Policy	Last 3 Years	December 2024
Pension Administration Strategy & Employer Guide	Last 3 Years	December 2024
Fund Officers' Scheme of Delegation	Last 3 Years	December 2024

Appendix C - Teesside Pension Fund Risk Register

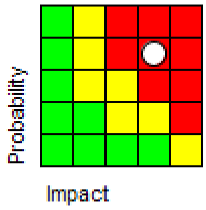
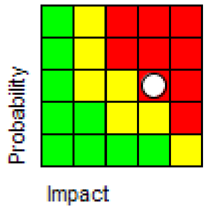
Code	Title	Original Score		Current Score	
TPF001	INFLATION Price inflation is significantly more than anticipated: an increase in long-term CPI inflation of 0.2% a year will increase the liability valuation by 3%. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-5		20		15
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
In assessing the member liabilities, the triennial Fund Actuary assumptions made for inflation are "conservatively" set based on independent economic data, and hedged against by setting higher investment performance targets.				Head of Pensions Governance and Investments	

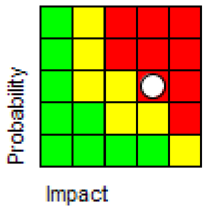
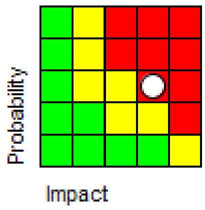
Code	Title	Original Score		Current Score	
TPF002	ADVERSE ACTUARIAL VALUATION Impact of increases to employer contributions following the actuarial valuation. Fund & Reputation Impact-3 Employers Impact-5 Member Impact-1		20		15
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Interim valuations provide early warnings. Actuary has scope to smooth impact for most employers.				Head of Pensions Governance and Investments	

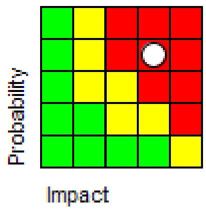
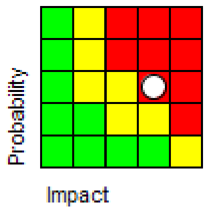
Code	Title	Original Score		Current Score	
TPF003	GLOBAL FINANCIAL INSTABILITY Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		20		15
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Increasing investment diversification will allow the Fund to be better placed to withstand this type of economic instability. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.				Head of Pensions Governance and Investments	

Code	Title	Original Score		Current Score	
TPF004	POLITICAL RISK Significant volatility and negative sentiment in investment markets following the outcome of adversely perceived political changes. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		20		15
Current Mitigation		**Future Mitigation**		**Responsible Officer**	

Increasing investment diversification will allow the Fund to be better placed to withstand this type of political instability. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.		Head of Pensions Governance and Investments

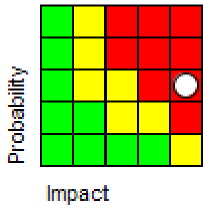
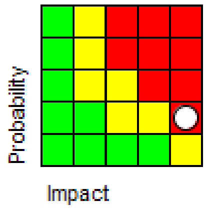
Code	Title	Original Score	Current Score
TPF005	INVESTMENT CLASS FAILURE A specific industry investment class/market fails to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 20	 15
Current Mitigation	**Future Mitigation**	**Responsible Officer**	
Increasing investment diversification will allow the Fund to be better placed to withstand this type of market class failure. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.		Head of Pensions Governance and Investments	

Code	Title	Original Score	Current Score
TPF012	POOLING INVESTMENT UNDERPERFORMANCE Investments in the investment pool not delivering the required return. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 15	 15
Current Mitigation	**Future Mitigation**	**Responsible Officer**	
Ongoing monitoring by officers and advisors		Head of Pensions Governance and Investments	

Code	Title	Original Score	Current Score
TPF053	CLIMATE CHANGE The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Responsible Investment Policy	 20	 15
Current Mitigation	**Future Mitigation**	**Responsible Officer**	
In relation to the funding implications, the administering authority keeps the effect of climate change on future returns and demographic experience, eg. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.		Head of Pensions Governance and Investments	

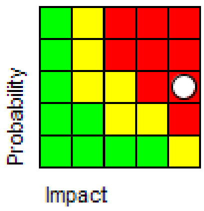
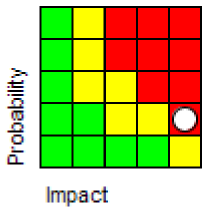
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF009</td><td>HIGHER THAN EXPECTED COSTS OF INVESTMENT POOLING

Higher setup and ongoing costs of Border to Coast and of the management associated with investment pooling arrangements (or lack of reduction compared to current costs).

Fund & Reputation Impact-7
Employers Impact-2
Member Impact-1</td><td> 21</td><td> 14</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">Border to Coast's budget is set annually with the agreement of at least 9 of the 11 partner funds. Expenditure is monitored and reported to the Officer Group and Joint Committee meetings. Tenders for suppliers ensure value for money ethos applies.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

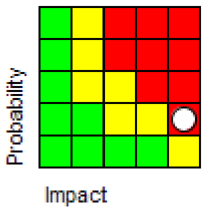
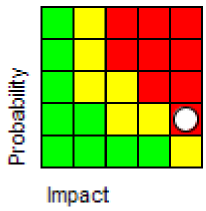
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF010</td><td>INADEQUATE POOLING TRANSPARENCY

Lack of transparency around investment pooling arrangements.

Fund & Reputation Impact-7
Employers Impact-1
Member Impact-1</td><td> 21</td><td> 14</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">With the pooling of investment assets TPF staff work closely with Border to Coast sub-fund asset managers and Border to Coast management to gain full clarity of performance, with training provided to TPF staff as required.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

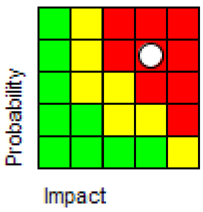
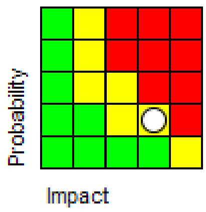
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF021</td><td>INAPPROPRIATE INVESTMENT STRATEGY

Mismatching of assets and liabilities, inappropriate long term asset allocation of investment strategy, mistiming of investment strategy.

Fund & Reputation Impact-7
Employers Impact-7
Member Impact-1</td><td> 14</td><td> 14</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">This is mitigated by the Triennial Valuation and the engagement of Two Independent Investment Advisors.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

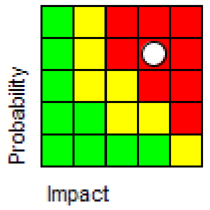
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF007</td><td>KEY PERSON RISK

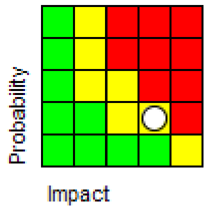
Concentration of knowledge & skills in small number of officers and risk of departure of key staff - failure of succession planning.

Fund & Reputation Impact-5
Employers Impact-1
Member Impact-1</td><td> 20</td><td> 10</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">Two Deputy positions were created in 2018/19 (although one remains to be filled). These act to support deputise as required for the Head of Investments, Governance and Pensions.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF008</td><td>INSUFFICIENT STAFF

Causes failure to have time to adopt best practice by properly developing staff and processes.

Fund & Reputation Impact-5
Employers Impact-5
Member Impact-1</td><td>

20</td><td>

10</td></tr>
<tr><th>Current Mitigation</th><th></th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">In preparation for the pooling of investment assets to Border to Coast, the team was expanded and has a total complement of 9 staff (albeit with two current vacancies). With a new investment strategy of passive rather than active management, investment transaction volumes have significantly reduced.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
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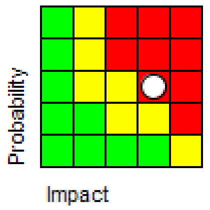
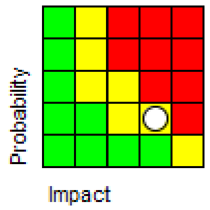
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF011</td><td>UNANTICIPATED PAY RISES

Increases are significantly more than expected for employers within the Fund.

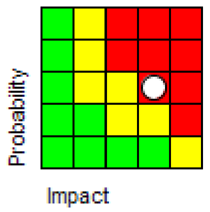
Fund & Reputation Impact-5
Employers Impact-5
Member Impact-1</td><td>

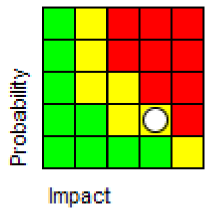
15</td><td>

10</td></tr>
<tr><th>Current Mitigation</th><th></th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">1) Fund employers will monitor own experience.
2)Triennial Actuarial valuation Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) will be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review.
3) Employers are made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.
4) Over time, a diminishing proportion of LGPS liabilities are linked to final salary following the introduction of the career average scheme from April 2014.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

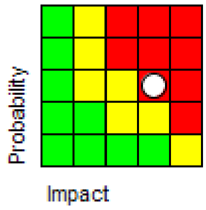
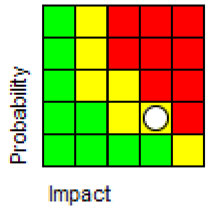
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF013</td><td>POOLING SYSTEMIC RISKS

Systemic and other investment risks not being properly managed within the investment pool; for example appropriate diversification, credit, duration, liquidity and currency risks.

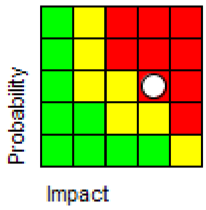
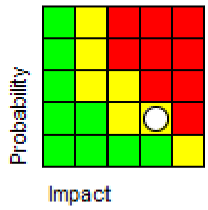
Fund & Reputation Impact-5
Employers Impact-5
Member Impact-1</td><td>

15</td><td>

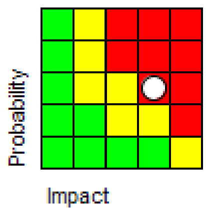
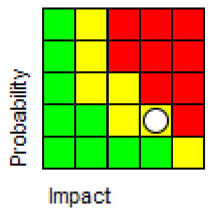
10</td></tr>
<tr><th>Current Mitigation</th><th></th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">Appropriate due diligence is carried out regarding the structure, targets, diversification and risk approach for each sub-fund before investment. In addition, The Pensions Head of Service and Section 151 officer, will closely monitor and review Border to Coast sub-fund investment elements on an on-going basis, and report to TPF Committee and Board.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

Code	Title	Original Score	Current Score
TPF014	LONGEVITY Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 15	 10

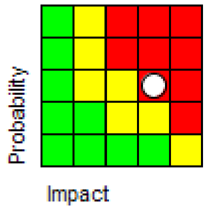
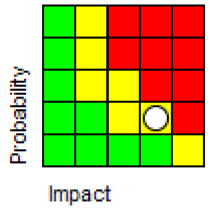
Current Mitigation	Future Mitigation	Responsible Officer
In assessing the member longevity and pension liabilities, the Triennial Actuary assumptions made for longevity are "conservatively" set based on the latest life expectancy economic data. They are reviewed and updated at each three-year Actuarial valuation. If required, further investigation can carried out of scheme specific/employer longevity data.		Head of Pensions Governance and Investments

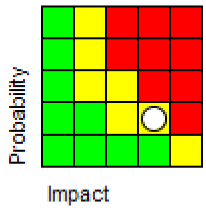
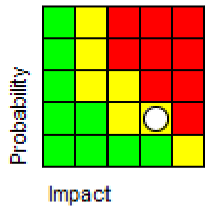
Code	Title	Original Score	Current Score
TPF017	BULK TRANSFER VALUE DISPUTE Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights are acquired for transferring members. Fund & Reputation Impact-3 Employers Impact-5 Member Impact-1	 15	 10

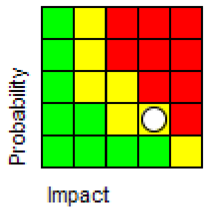
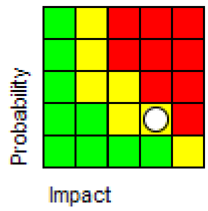
Current Mitigation	Future Mitigation	Responsible Officer
A mechanism exists within the regulations to resolve such disputes - this should reduce the financial impact of any such event.		Head of Pensions Governance and Investments

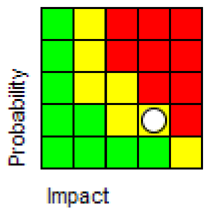
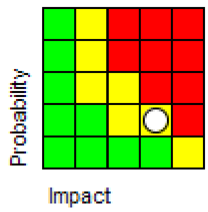
Code	Title	Original Score	Current Score
TPF018	TPF INVESTMENT UNDERPERFORMANCE Investment Managers fail to achieve performance targets over the longer term: a shortfall of 1% on the investment target will result in an annual impact of £50m. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 15	 10

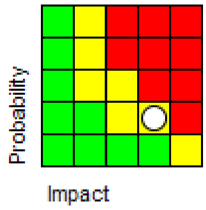
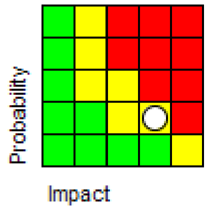
Current Mitigation	Future Mitigation	Responsible Officer
1) The asset allocation made up of equities, bonds, property, alternatives, cash etc. funds, is sufficiently diversified to limit exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place every three years. 4) Interim valuation data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of a measure over CPI over gilts is regarded as achievable over the long-term when compared with historical data.		Head of Pensions Governance and Investments

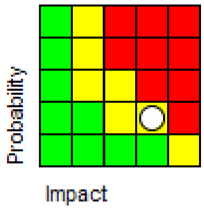
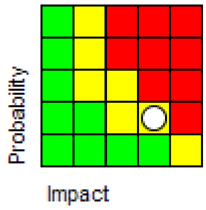
Code	Title	Original Score		Current Score	
TPF019	TPF GOVERNANCE SKILLS SHORTAGE Lack of knowledge of Committee & Board members relating to the investment arrangement and related legislation and guidance. Fund & Reputation Impact-5 Employers Impact-3 Member Impact-1		15		10
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Pension Fund Committee new members have an induction programme and have access to on-line training based on the requirements of CIPFA Knowledge and Skills Framework including Pooling.				Head of Pensions Governance and Investments	

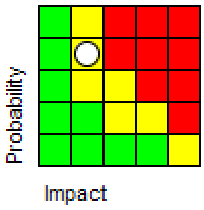
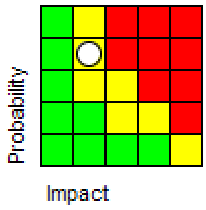
Code	Title	Original Score		Current Score	
TPF025	OUTSOURCED MEMBER ADMIN FAILURE XPS Administration service fails to the point where it is unable to deliver its contractual services to employers and members. Fund & Reputation Impact-1 Employers Impact-1 Member Impact-5		10		10
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
XPS Administration is a well-resourced established pensions administration provider which is not in financial difficulty.				Head of Pensions Governance and Investments	

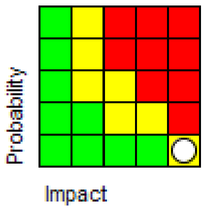
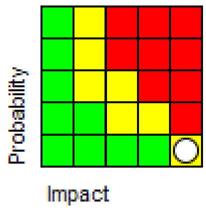
Code	Title	Original Score		Current Score	
TPF026	INSECURE DATA Failure to hold personal data securely - i.e data stolen. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-5		10		10
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
XPS Administration have advised they have robust data security and are not aware of any attempted hacking events.				Head of Pensions Governance and Investments	

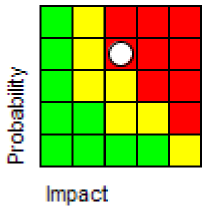
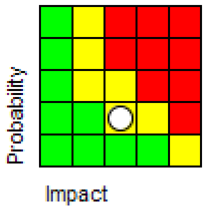
Code	Title	Original Score		Current Score	
TPF028	INADEQUATE POOLING INVESTMENT EXPERTISE Inadequate, inappropriate or incomplete investment expertise exercised over the pooled assets. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		10		10
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Border to Coast has completed recruitment of experienced and capable management team, alongside its expanding complement of over 100 staff.				Head of Pensions Governance and Investments	

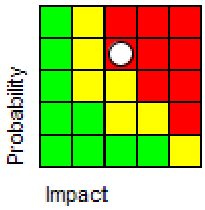
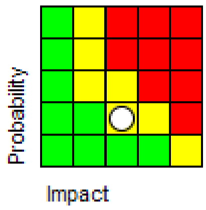
Code	Title	Original Score	Current Score
TPF029	INSUFFICIENT RANGE OF POOLING ASSET CLASSES Insufficient range of asset classes or investment styles being available through the investment pool. Fund & Reputation Impact-5 Employers Impact-3 Member Impact-1	 10	 10
Current Mitigation		**Future Mitigation**	**Responsible Officer**
There is in place a roll-out plan of different asset classes and engagement with Border to Coast to identify relevant future asset classes			Head of Pensions Governance and Investments

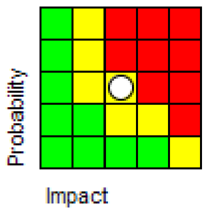
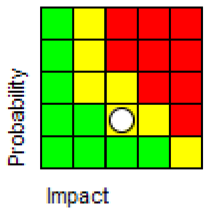
Code	Title	Original Score	Current Score
TPF031	INTERNAL COMPLIANCE FAILURES Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator. Fund & Reputation Impact-5 Employers Impact-1 Member Impact-1	 10	 10
Current Mitigation		**Future Mitigation**	**Responsible Officer**
The Head of Pensions Governance and Investments attends all Committee and Board meetings and acts as a conduit between the two, ensuring any Board recommendations are relayed to the Committee.			Head of Pensions Governance and Investments

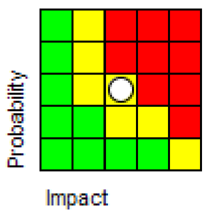
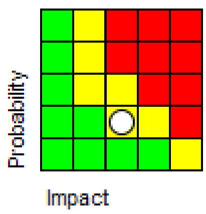
Code	Title	Original Score	Current Score
TPF030	COMMITTEE MEMBERSHIP CHANGE Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	 8	 8
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Officers and advisers provide continuity and training following changes to Committee membership.			Head of Pensions Governance and Investments

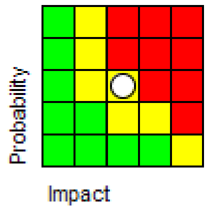
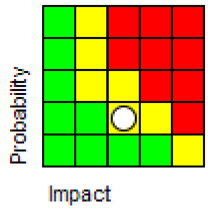
Code	Title	Original Score	Current Score
TPF039	BORDER TO COAST FAILURE Failure of the operator itself, or its internal risks and controls failure of corporate governance, responsible investment, or the failure to exercise voting rights according to policy. Fund & Reputation Impact-7 Employers Impact-4 Member Impact-1	 7	 7
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Ongoing oversight and close working with Border to Coast and the other Partner Funds will provide advance warning of any issues in this area and an opportunity to rectify them.			Head of Pensions Governance and Investments

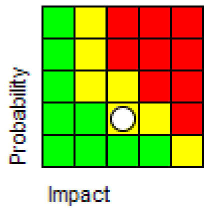
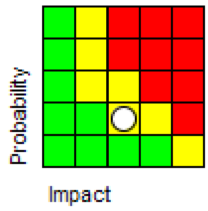
Code	Title	Original Score		Current Score	
TPF015	EMPLOYER FAILURE An employer ceasing to exist with insufficient funding, or being unable to meet its financial commitments, adequacy of bond or guarantee. Any shortfall would be attributed to the fund as a whole. Fund & Reputation Impact-2 Employers Impact-3 Member Impact-3		12		6
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
1) Fund employers should monitor own experience. 2) Triennial Actuarial Assumptions will account for the possibility of employer(s) failure (for the purposes of IAS19/FRS102 and actuarial valuations). Any employer specific assumptions above the actuaries long-term assumption, would lead to further review. 3) Employers rates are set taking into account the strength of an employer and any underwriting by other employers in the Fund.				Head of Pensions Governance and Investments	

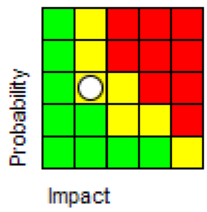
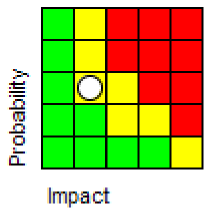
Code	Title	Original Score		Current Score	
TPF016	ADVERSE LEGISLATIVE CHANGE Risk of changes to legislation, tax rules etc.; resulting in increases required in employer contributions. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-3		12		6
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
The process of legislative change and the actuarial valuation cycle means any such change would be flagged up well in advance. The actuary has scope to mitigate any contribution increase in respect of most Fund employers.				Head of Pensions Governance and Investments	

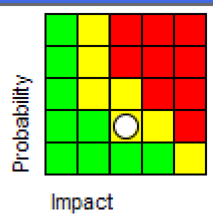
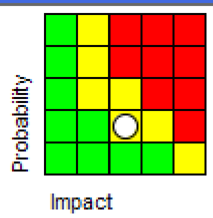
Code	Title	Original Score		Current Score	
TPF022	GDPR COMPLIANCE Non-compliance with GDPR regulations. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1		9		6
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Data protection privacy notices have been distributed by XPS Administration. The Council has established GDPR-compliant processes and procedures.				Head of Pensions Governance and Investments	

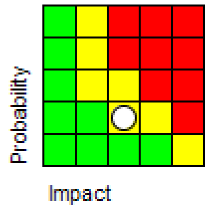
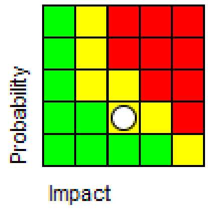
Code	Title	Original Score		Current Score	
TPF023	INACCURATE DATA RECORD COLLATION Failure to maintain proper, accurate and complete data records leading to increased errors and complaints. Fund & Reputation Impact-1 Employers Impact-3 Member Impact-3		9		6
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Administration data quality is being assessed as part of the triennial valuation process, as well as being assessed regularly in order to meet Pensions Regulator requirements on scheme data.				Head of Pensions Governance and Investments	

Code	Title	Original Score	Current Score
TPF024	STRUCTURAL CHANGES TO EMPLOYER MEMBERSHIP Risk that TPF are unaware of structural changes to an employer's membership, or changes (e.g. closing to new entrants) meaning the individual employer's contribution level becomes inappropriate. Fund & Reputation Impact-2 Employers Impact-3 Member Impact-2	 9	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
The XPS Administration employer liaison team will improve this by working closely with employers.			Head of Pensions Governance and Investments

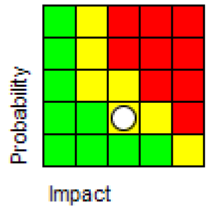
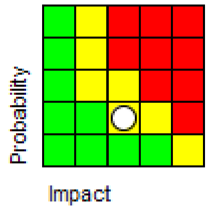
Code	Title	Original Score	Current Score
TPF032	INADEQUATE POOLING DATA Inability to gather robust, quality or timely information from Border to Coast. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
TPF staff work closely with Border to Coast sub- fund asset managers and Border to Coast management to gain full clarity and reporting of performance, with training provided to TPF staff as required.			

Code	Title	Original Score	Current Score
TPF033	ESG REPUTATIONAL DAMAGE Insufficient attention to environmental, social and governance (ESG) leads to reputational damage. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Border to Coast provides increased focus on Responsible Investment.			Head of Pensions Governance and Investments

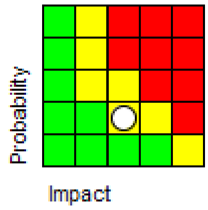
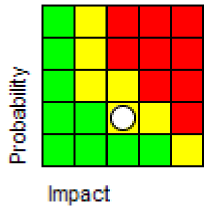
Code	Title	Original Score	Current Score
TPF034	THIRD PARTY SUPPLIER FAILURE Financial failure of third party supplier results in service impairment and financial loss. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
New supplier’s financial strength is assessed through the procurement process. Existing suppliers are obliged to report any issues.			Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF035	PROCUREMENT PROCESS CHALLENGES Procurement processes may be challenged if seen to be non-compliant with procurement regulations. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1	 6	 6

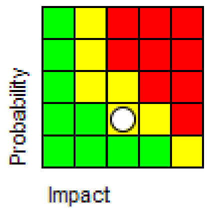
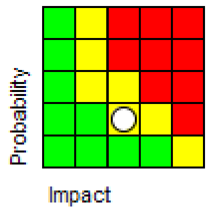
Current Mitigation	Future Mitigation	Responsible Officer
Advice sought from Council's procurement specialist on regulatory compliance,		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF036	ASSET POOLING TRANSITION RISK Loss or impairment as a result of Asset transition. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	 6	 6

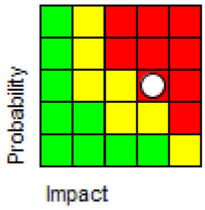
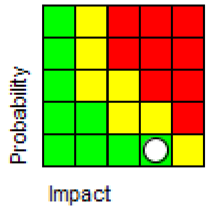
Current Mitigation	Future Mitigation	Responsible Officer
Listed assets already transferred		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF037	COMPLIANCE FAILURES Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests, Code of Practice 14. Fund & Reputation Impact-3 Employers Impact-2 Member Impact-0	 6	 6

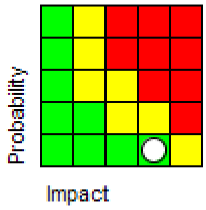
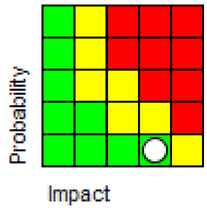
Current Mitigation	Future Mitigation	Responsible Officer
Advice sought where needed on compliance e.g. ISS, FSS		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF038	CUSTODY DEFAULT The risk of losing economic rights to pension fund assets, when held in custody or when being traded. The risk might arise from missed dividends or corporate actions (e.g. rights issues) or problems arising from delays in trade settlements. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	 6	 6

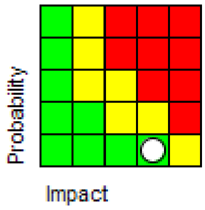
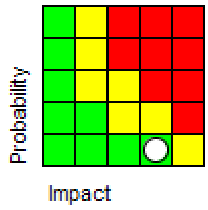
Current Mitigation	Future Mitigation	Responsible Officer
Issues are now largely historic and relate to withholding tax claims or corporate actions in relation to assets previously held by the Fund.		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF020	INADEQUATE BORDER TO COAST OVERSIGHT Insufficient resources to properly monitor pooling & Border to Coast. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 15	 5

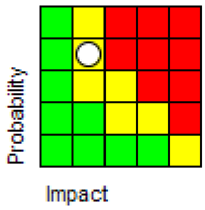
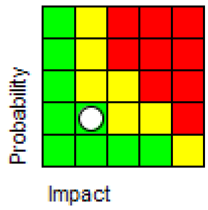
Current Mitigation	Future Mitigation	Responsible Officer
Sufficient resources exist within the team to oversee and monitor Border to Coast. External providers are also involved, such as Portfolio Evaluation Limited and the two independent investment advisors.		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF042	DECISION MAKING FAILURES Failure to take difficult decisions inhibits effective Fund management. Fund & Reputation Impact-5 Employers Impact-2 Member Impact-1	 5	 5

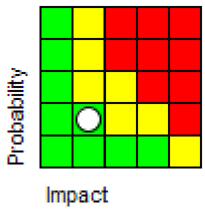
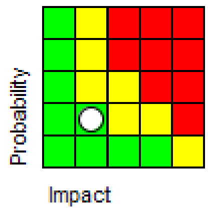
Current Mitigation	Future Mitigation	Responsible Officer
Ongoing challenge and advice from two independent advisors		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF043	CASH INVESTMENT FRAUD Financial loss of cash investments from fraudulent activity. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 5	 5

Current Mitigation	Future Mitigation	Responsible Officer
Approval processes and systems		Head of Pensions Governance and Investments

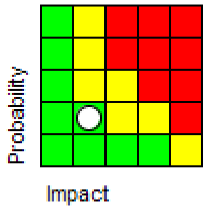
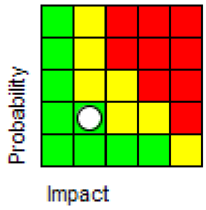
Code	Title	Original Score	Current Score
TPF027	SCHEME MEMBER FRAUD Fraud by scheme members or their relatives (e.g. identity, death of member). Fund & Reputation Impact-1 Employers Impact-1 Member Impact-2	 8	 4

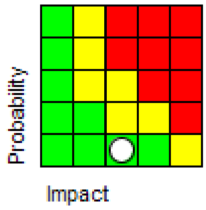
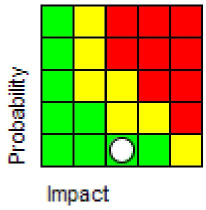
Current Mitigation	Future Mitigation	Responsible Officer
XPS checking processes – e.g. mortality screening		Head of Pensions Governance and Investments

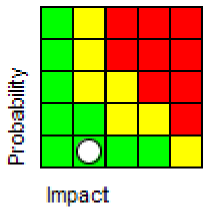
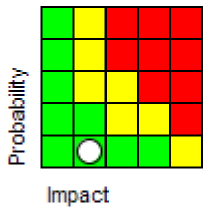
Code	Title	Original Score	Current Score
TPF040	INACCURATE FUND INFORMATION In public domain leads to damage to reputation and loss of confidence. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1	 4	 4

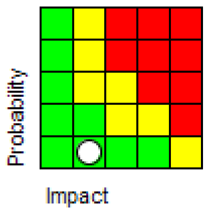
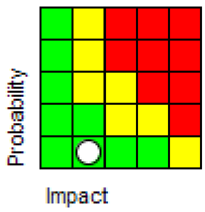
Current Mitigation	Future Mitigation	Responsible Officer

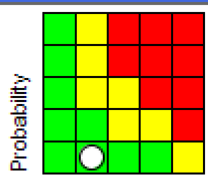
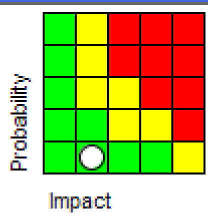
Checking and reviewing processes, internal and external audit		Head of Pensions Governance and Investments

Code	Title	Original Score	Current Score
TPF041	LIQUIDITY SHORTFALLS Risk of illiquidity due to difficulties in realising investments and paying benefits to members as they fall due. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	 4	 4
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Daily monitoring of cash position, cash-flow planning			Head of Pensions Governance and Investments

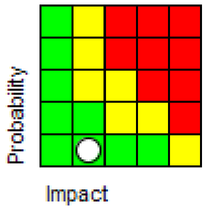
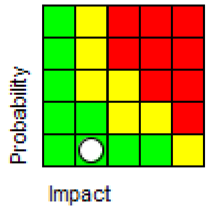
Code	Title	Original Score	Current Score
TPF044	ICT SYSTEMS FAILURE Prolonged administration ICT systems failure. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-3	 3	 3
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Disaster recovery plans			Head of Pensions Governance and Investments

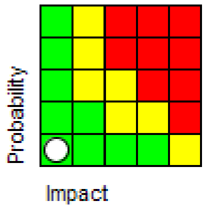
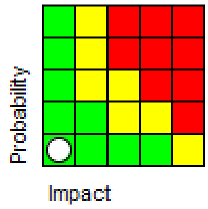
Code	Title	Original Score	Current Score
TPF045	CONTRIBUTION COLLECTION FAILURE Failure to collect employee/er member pension contributions. Fund & Reputation Impact-1 Employers Impact-2 Member Impact-1	 2	 2
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Ongoing monitoring of contribution collection at employer level			Head of Pensions Governance and Investments

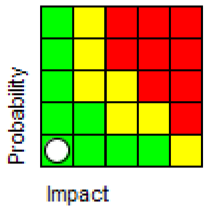
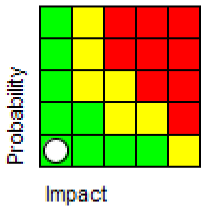
Code	Title	Original Score	Current Score
TPF046	INADEQUATE DISPUTES RESOLUTION PROCESS Failure to agree and implement an appropriate complaints and disputes resolution process. Fund & Reputation Impact-1 Employers Impact-2 Member Impact-2	 2	 2
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Process is in place and operating effectively.			Head of Pensions Governance and Investments

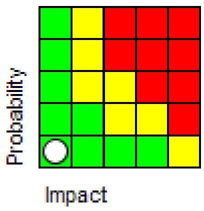
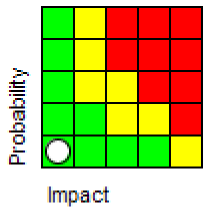
Code	Title	Original Score	Current Score
TPF047	BORDER TO COAST CESSATION Partnership disbands or fails to produce a proposal deemed sufficiently ambitious. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1	 2	 2

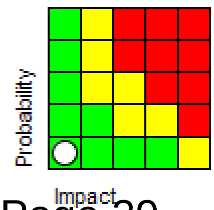
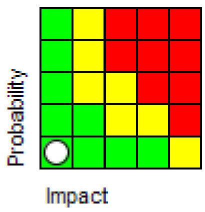
Current Mitigation	Future Mitigation	Responsible Officer
Border to Coast in place – Fund has oversight and jointly owns the company.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF048	POOLING CUSTODIAN FAILURE Failure to ensure safe custody of assets. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1		2		2
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Border to Coast's custodian is financially secure and keeps pool's assets segregated.				Head of Pensions Governance and Investments	

Code	Title	Original Score		Current Score	
TPF049	OFFICER FRAUD Fraud by administration staff. Fund & Reputation Impact-5 Employers Impact-1 Member Impact-1		1		1
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Approval processes, verification on transactions, restricted options in place re payments				Head of Pensions Governance and Investments	

Code	Title	Original Score		Current Score	
TPF050	EXCESSIVE ADMIN COSTS Excessive costs of member benefit administration leads to lack of VFM and loss of reputation. Fund & Reputation Impact-1 Employers Impact-1 Member Impact-1		1		1
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
				Head of Pensions Governance and Investments	

Code	Title	Original Score		Current Score	
TPF051	ERRONEOUS MEMBER BENEFIT CALCS Risk of incorrect calculation of members benefits. Fund & Reputation Impact-1 Employers Impact-1 Member Impact-2		1		1
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
				Head of Pensions Governance and Investments	

Code	Title	Original Score		Current Score	
TPF052	INADEQUATE MEMBER COMMS Increased workload for pensions team or increased opt-outs if communications inadequate or misunderstood. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1		1		1

Current Mitigation	Future Mitigation	Responsible Officer
		Head of Pensions Governance and Investments

Appendix D

Fund account, investment and administration - detailed analysis

	2023-24 Actual £'000s	2024-25 Forecast £'000s	2025-26 Estimate £'000s
Income from members			
Employers' contributions normal	-79,548	-84,067	-85,748
Employers' contributions additional	-16	-6	-6
Employers' contributions deficit recovery	-50	-70	-70
Members' contributions	-36,714	-36,743	-37,478
Transfers in from other schemes	-8,055	-5,931	-5,931
Other income	-2,060	-5,418	-5,418
	-126,443	**-132,235**	**-134,651**

	2023-24 Actual £'000s	2024-25 Forecast £'000s	2025-26 Estimate £'000s
Expenditure to members			
Pensions paid	150,993	162,608	165,860
Commutations and lump sum retirement benefits	27,950	29,477	30,066
Lump sum death benefits	3,569	2,065	2,065
Payments to and on account of leavers	12,318	15,697	15,697
	194,830	**209,847**	**213,688**

Appendix D

	2023-24 Actual £'000s	2024-25 Forecast £'000s	2025-26 Estimate £'000s
Management expenses:			
Administration costs	**2,234**	**2,500**	**2,500**
Investment management expenses			
Custody fees	19	25	25
External investment management expenses	8,671	7,500	10,000
Internal investment management expenses	579	600	600
Transaction costs	0	0	0
Total Investment management expenses	**9,269**	**8,125**	**10,625**
External audit cost	112	120	120
Oversight & governance costs	511	550	550
Total Management Expenses cost	**12,126**	**11,295**	**13,795**

	2022-23 Actual £'000s	2023-24 Forecast £'000s	2024-25 Estimate £'000s
Investment Income			
Investment income from pooled investment vehicles	-32,278	-60,000	-130,000*
Other investment income	0	0	0
Property gross rental income	-30,641	-29,000	-7,500
Property expenses	3,010	2,000	1,500
Interest on cash deposits	-10,384	-17,000	-15,000
	-70,293	**-104,000**	**-151,000**

Change in Asset Market Value	**-457,515**	**tbc**	**tbc**

*Assumes the Fund chooses to take £70 million in dividends from Border to Coast equity pooled funds.

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

PENSION FUND BOARD REPORT

18 JUNE 2025

DIRECTOR OF FINANCE AND TRANSFORMATION – Andrew Humble

GOVERNMENT FIT FOR THE FUTURE CONSULTATION

1. PURPOSE OF THE REPORT

1.1 To advise Members of Teesside Pension Board of the response to the Government's Fit for the Future consultation.

2. RECOMMENDATION

2.1 That Members note the report.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 The new government confirmed on 4 September 2024 that it would carry out a pensions review which it described as follows:

"The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme."

A call for evidence relating to defined contribution schemes and the LGPS was issued that covered:

- Scale and consolidation
- Costs vs Value
- Investing in the UK

Within the document reference was made to Asset pooling:

"Asset pooling policy in the Local Government Pension Scheme in England & Wales (LGPS) was consulted on in 2023. In addition to the below request for evidence, the review will engage extensively on next steps with regard to LGPS consolidation, with funds, pools and representative groups including the LGA and trade unions."

4.2 Following this the Government issued the “Fit for the Future” consultation in November 2024.

4.3 The Head of Pensions Governance and Investments submitted a response on behalf of the Fund, they also worked with Border to Coast and partner funds to agree a collective response.

5. GOVERNMENT RESPONSE TO CONSULTATION

5.1 The Government published its response to the consultation at the end of May 2025, (Appendix A). Headline changes for the Fund include:

- Administering Authorities, (AA), will delegate implementation of their investment strategy to the pool, and will take their principal investment advice from them.
- AAs will be required to transfer management of all assets to the pool.
- A strategy for Local Investments will be included in the Investment Strategy Statement and reported on in the annual report. Pools will carry out due diligence, decide whether to invest and manage the investments.
- Requirement for an independent governance review every three years.

5.2 Border to Coast, as part of their 2030 strategy, are working on developing new capabilities to deliver the requirements of the consultation relating to:

- Advisory Services
- Management of legacy assets
- Local Investment

6. GOVERNMENT RESPONSE RE POOLING COMPANIES

6.1 As well as responding to the consultation, all pools were required to submit their proposals indicating how they would develop their current arrangements to meet Government requirements of a pool as set out in the “Fit for the Future” consultation.

6.2 In April 2025 the Government announced that the responses from two pools, ACCESS and Brunel, did not meet the requirements of their proposed pooling model, the 21 Funds within these pools now need to find a new pool.

6.3 Within the Border to Coast 2030 Strategy there are three strands:
1) delivering its current remit as efficiently and effectively as possible,
2) developing additional capabilities to further support Partner Funds, and
3) enabling Partner Funds to take advantage of, and manage potential risks of, additional scale opportunities.

6.4 Strand 3 – “enabling Partner Funds to take advantage of, and manage potential risks of, additional scale opportunities” covered the possibility of additional funds joining the partnership. Border to Coast and Partner Fund officers are engaging with several potential additional partners. The 21 funds from Access and Brunel have until September 2025 to have “in principal” agreed which Pool they will join.

7. NEXT STEPS

7.1 Officers will continue to work with Border to Coast on the development of new capabilities to meet the requirements of the Government's consultation response. Officers will also be involved in ongoing discussions with regards to additional funds joining Border to Coast.

CONTACT OFFICER: Wendy Brown – Acting Head of Pensions Governance and Investments

TEL NO.: 01642 729630

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Ministry of Housing,
Communities &
Local Government

Consultation outcome

Local Government Pension Scheme (England and Wales): Fit for the future – government response

Updated 29 May 2025

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/outcome/local-government-pension-scheme-england-and-wales-fit-for-the-future-government-response

1. Summary and introduction

1. The Local Government Pension Scheme in England and Wales (LGPS) is set to grow to £1 trillion by 2040. It is critical that strong and sustainable foundations are embedded, and assets invested effectively to deliver a sustainable scheme in the best interest of scheme members, employers and local taxpayers. Pension funds are also critical as a major source of domestic investment, and the local nature of the LGPS means that the scheme has a unique role to play in supporting the economic development of local communities.

2. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution pensions schemes and the LGPS. The Pensions Review's objectives for the LGPS are to consider how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through asset consolidation and enhanced governance, while strengthening the focus on local investment.

3. On 14 November 2024 the government launched its consultation on proposals to reform the LGPS and put it on a clearer, firmer trajectory to scale and consolidation. The consultation included proposals in three areas:

- **reforming asset pooling** by mandating certain minimum standards deemed necessary to strengthen the foundations of the scheme in line with international best practice. These minimum standards are:
  - a requirement on administering authorities (AAs) to delegate the implementation of their investment strategy to their asset pool
  - a requirement for AAs to take their principal advice on their investment strategy from their pool
  - a requirement on asset pools to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA) with the expertise and capacity to implement investment strategies
  - a requirement for all AAs to transfer all investments to the management of their pool
  - a requirement for pools to develop the capability to carry out due diligence on local investments and to manage such investments
- **boosting investment in local areas and regions** of the UK by requiring that:
  - AAs set out their approach to local investment in their investment strategy including a target range for the allocation, and to have regard to local growth plans and priorities in developing their investment strategy

    - AAs work with strategic authorities (Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority), or in areas where there are none of the above another designated authority, to identify local investment opportunities. In Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities
    - pools conduct appropriate due diligence on potential local investments and make the final decision on whether to invest
    - AAs set out their local investment and its impact in their annual reports
- **strengthening the governance of LGPS AAs and LGPS pools** in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:
    - committee members would be required to have the appropriate knowledge and skills
    - AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities
    - pool boards would be required to include representatives of their shareholders and to improve transparency. The consultation also asked for views on how best to ensure the views of scheme members are taken into account by the pools

4. A total of 220 responses were received, including from all 86 AAs and 8 pools, as well as scheme members, trade unions, advisors, industry representatives, and campaign groups. The government is grateful for all the responses received and has considered these carefully in arriving at the conclusions set out in this document.

5. The government notes that many of the scheme members who responded to the consultation were concerned about the security of their pensions. For the avoidance of doubt and to reassure members, LGPS members' benefits and pensions are guaranteed in law and will not be affected by these policy measures.

6. Responses to the proposals on pooling were varied. Many were supportive of the government's vision for pooling, but responses ranged from significant concern over the direction of travel to those who felt the proposals did not go far enough. Particular areas of concern were loss of local autonomy on investments, the requirement for AAs to take their principal investment advice from their pool, a perceived lack of ways for AAs to hold an underperforming pool to account, and transition costs. Among respondents who did not agree with the direction of travel there was

nonetheless general agreement that the minimum standards proposed are an appropriate way of delivering the government's vision.

7. There was strong support for the proposals on local investment. Most respondents felt that local investment was an important part of the LGPS's role and were supportive of protecting it, though there were some concerns raised regarding conflicts of interest and fiduciary duty. In the context of the reforms to pooling, there was a broad acceptance that pools should have the ability to make such investments and to carry out due diligence on such projects. Some were concerned that the pools may be less likely to take account of the non-financial benefits of local investment than AAs when making allocations. Most responses were supportive of active collaboration between the LGPS and strategic authorities.

8. The proposals on fund governance were welcomed. Respondents generally supported the move to bring the governance standards of the whole scheme up to a common baseline and were pleased that government had listened to the recommendations of the SAB. Similarly, respondents agreed that asset pools should report consistently and transparently on performance and costs, and shareholders should be appropriately represented in pool governance.

Final policy measures

9. Following consideration of the consultation responses and engagement with stakeholders during the course of consultation, the government will implement the proposals as set out below.

Pooling
10. The following proposals will be implemented as consulted upon:

- Requirement on AAs to delegate the implementation of their investment strategy to their pool in line with the illustration at Figure 1. The investment strategy set by AAs may include a high-level strategic asset allocation (SAA) that is no more detailed than the template in Figure 3, which government intends to publish in guidance.
- Requirement on AAs to take their principal investment advice from the pool.
- Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.
- Requirement for AAs to transfer all assets to the management of their pool.

11. Following consideration of consultation responses the government will not now require that listed assets are managed through collective investment vehicles. Instead, it will require that all LGPS investments, listed and unlisted, are transferred to the management of the pool. This means that the pool has full oversight of the assets and will make all investment decisions including on whether to buy, hold or sell. It will be the responsibility of the pool to determine how the investment strategies of its partner AAs are implemented, including consideration of whether assets are managed via pooled vehicles or otherwise. The government's strong expectation is that the default position will be management through pooled or collective investment vehicles.

12. The minimum standards for pooling will be introduced in the Pension Schemes Bill. Subsequent regulations and statutory guidance will provide further detail on implementation.

Local investment

13. The following proposals will be implemented as consulted upon:

- Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.
- Requirement on AAs to work with relevant Strategic Authorities (Combined Authorities, Mayoral Combined Authorities, Combined County Authorities, and the Greater London Authority) or Corporate Joint Committees to identify suitable local investment opportunities.
- Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities, take the final decision on whether to invest and manage those investments.
- Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

14. Following consideration of the consultation responses pools will now be required to report annually on total local investments made on behalf of their AAs and their impact. This will simplify reporting for AAs, who will not need to undertake or commission their own report on their local investments but can draw on the pool's report.

Fund governance

15. The following proposals will be implemented as consulted upon:

- Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.
- Requirement to prepare and publish an administration strategy.

- Changes to the way in which strategies on governance and training, funding, administration and investments are published.
- Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.
- Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.
- Requirement for AAs to participate in an independent governance review and, if applicable, produce an improvement plan to address any issues identified.

16. Following consideration of consultation responses, the government has decided to:

- require an independent governance review to take place once in every three-year period rather than every two years. This will align the reviews with the valuation cycle
- require AAs to have an independent advisor without voting rights, rather than an independent member of the committee
- require AAs to prepare strategies on governance, knowledge and training (replacing the governance compliance statement), and administration, and publish these either as separate strategies or as a single document. The knowledge and training strategy will be required to include a conflicts of interest policy

17. The Pension Schemes Bill will include provision for the independent governance review. The other governance policy measures will be dealt with under existing powers. Subsequent regulations and statutory guidance will provide further detail on implementation of all the new requirements.

Pool governance
18. The government intends to proceed with the requirement for pools to publish performance and transaction costs and will work with the SAB, the Government Actuary's Department (GAD) and others to explore ways to deliver this.

19. On the question of how pool shareholders are represented in pool governance the government will not require a specific number or model for shareholder representation on pool boards. This is in recognition of concerns raised that the different composition of the various asset pools means that a single model for how shareholders are represented in the governance of their pool is not in the scheme's best interest. Instead, pools will be required to establish a governance model that works for their

shareholders and any clients, with flexibility in how this is delivered. Government has received requests from AAs for greater clarity on how to hold their pools to account as shareholders in a pool company, and will work with the SAB, pools and AAs to develop guidance.

20. The government has also considered the responses it received on the issue of member representation on pool boards. The government does not intend to introduce requirements for scheme members to be represented on pool boards and agrees that it is for pools and AAs to work together to ensure member views are taken into account by pools.

Implementation

21. The forthcoming Pension Schemes Bill will put asset pooling on a statutory basis, and will mandate the minimum standards for pooling whilst providing for the detail to be set out in regulations. Those powers will enable regulations to be made requiring all AAs to participate in an asset pool either as a shareholder or as a client, and for AAs to delegate the implementation of their investment strategy to the asset pool.

22. The requirement for AAs to work with relevant strategic authorities, local authorities, or Corporate Joint Committees will be implemented through regulations made under new, mandatory powers in the Pension Schemes Bill, while a reciprocal duty on strategic authorities will be delivered under the English Devolution Bill. The Pension Schemes Bill will also include powers for regulations to make provision about triennial independent governance reviews of AAs. Regulations will put the detail of the proposals into legislation and we will consult on draft regulations in due course.

23. Respondents to the consultation flagged two potential barriers to maximising the benefits of scale through asset pooling and collaboration across pools. Firstly, that Stamp Duty Land Tax (SDLT) has implications for transferring property investments from an AA to a pool investment vehicle where the seeding relief period for that vehicle has closed. The government acknowledges the concerns regarding SDLT and tax officials will engage with pools shortly to discuss this in further detail.

24. Secondly, that the Procurement Act 2023 prevents pools from collaborating to their full potential by requiring demonstration that a significant majority of a single pool's activity is in the interest of its own partner Authorities only. Government legislation should not act as a barrier to pool collaboration especially where it can benefit multiple groups of AAs. As such, the Pension Schemes Bill will include provision such that the relevant procurement exemptions are satisfied as long as a pool is acting in the interests of any LGPS AA. This means that a pool will no longer be

limited when investing through another pool, thereby harnessing even greater benefits of scale.

25. Finally, the Pension Schemes Bill will also clarify the existing provision in the Public Service Pensions Act 2013 to allow for the winding-up of pension funds so that it explicitly includes the merger, including compulsory merger, of pension funds. This will ensure there are sufficient powers in place to facilitate the merger of pension funds if needed, for example any mergers that are needed as a consequence of local government reorganisation. The government's strong preference is that mergers take place by agreement between AAs, but the power to merge pension funds will allow government to intervene in the event that local decision making is not effective in bringing about satisfactory arrangements.

26. The government's intention is to lay regulations and guidance to come into force at the same time as the powers in the Pensions Scheme Bill. We will consult on draft regulations in due course.

Progress on pooling proposals

27. Alongside the consultation process asset pools were invited to submit transition proposals setting out how they would seek to meet the proposed minimum standards. The government recognises that this was a significant undertaking and thanks all the pools and their partner AAs for their extensive engagement.

28. The proposals were assessed against a set of clear criteria including the benefits of scale, resilience, value for money, viability of meeting the proposed implementation deadline, and an options analysis of different means of meeting the minimum standards. Delivering the benefits of scale is not simply about the size of assets under management but includes accessing a wider range of asset classes including private markets, the ability to bring investment capacity in-house and make investments directly rather than via an intermediary, and the opportunity to negotiate lower management and performance fees.

29. Following this assessment the government has expressed support for the proposals from six pools and has invited the AAs of two pools to engage with other pools to determine which they wish to form a new partnership with. The government stands ready to support these decisions and will help to facilitate as required. The decision on which pool to work with is for each affected AA to make individually. The government recognises that AAs may wish to move to a new pool together with their existing pool partners, or may wish to move to different pools, and this is a decision for each AA.

30. The government recognises the significant upheaval and resource involved in moving pools. The current reforms are intended to shape the scheme for the long term and the government has no plans to intervene to reduce the number of pools further.

31. Government has asked the affected AAs to provide an in-principle decision between themselves and the pool they wish to work with by 30 September 2025. Government will continue to engage with AAs and all the pools over the coming months to discuss progress. The government's firm preference is for pool membership to be determined on a voluntary basis at a local level. In order to ensure the process of moving from eight LGPS pools to six does not result in any AA being left without a pool, and to protect the scheme in the long term, the government will take a power in the Pension Schemes Bill to direct an AA to participate in a specific pool.

Timing

32. The Pension Schemes Bill will be introduced during this parliamentary session, and secondary legislation will follow in due course. The government's expectation is that, for all asset pools that are continuing with their existing partner AAs, the minimum standards and all other requirements will be met by the end of March 2026. The government will be in touch with each pool to commission data on progress against this deadline.

33. For those AAs seeking a new asset pool and for pools taking on new partner AAs, the government expects the deadline to be adhered to as closely as possible, with new partnerships to aim to have shareholder or client agreements in place by March 2026. The government recognises that the process of developing new pool arrangements will take time and may allow some limited flexibility on this deadline for those AAs and pools affected, if required. However, decisions on timing will be balanced with the need to keep the period of disruption across the LGPS to a minimum.

34. The government is grateful for the ongoing input and expertise of the SAB in developing proposals. The government will continue to engage with the SAB and wider LGPS stakeholders as it implements the consultation proposals.

2. Pooling

35. The government believes that to deliver successfully for members and employers, LGPS asset pools will need to develop further as powerful global and local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals in this chapter drew on the evidence and experience of the benefits and drawbacks of the differing models of pooling developed in the LGPS to date, as well as international best practice.

36. This chapter considers the responses to those proposals, taking each consultation question in turn.

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

37. The consultation proposed that all AAs and pools should be required to adopt an operating model that meets the following minimum standards:

- AAs would remain responsible for setting an investment strategy for their fund and would be required to delegate the implementation of that strategy to the pool.
- AAs would be required to take principal advice on their investment strategy from the pool.
- Pools would be required to be established as investment management companies, authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies.
- AAs would be required to transfer legacy assets to the management of the pool.
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

Summary of responses
38. There were 197 responses to this question, of which 42% were supportive of the proposal and 35% were opposed.

39. Responses to this question were varied, with some being supportive of the proposals, some believing they should go further, and others being opposed to the government's proposed vision for pooling. Nonetheless, even among respondents who opposed the pooling model put forward by government there was often an acceptance of the direction of travel expressed and a willingness to comply with policy direction.

40. A number of AAs welcomed the clarity and supported the direction of travel, but often with caveats on particular proposals. The standard most opposed by respondents was the proposal for AAs to be required to take principal advice on their investment strategy from their pool, citing conflict of interest concerns. Many responses noted that overhauls to fund and pool governance would be crucial to the success of the new model, with those opposed often pointing to a lack of recourse options in the event of pool underperformance.

41. While the delegation of investment strategy implementation was mostly supported, some were concerned that the proposal would result in a loss of

local control and would undermine democratic accountability for the performance of investments. Some respondents felt the investment strategy and SAA template should be more granular: in particular, many wanted decisions on the use of passive or active management to remain with AAs. Some respondents, especially campaign groups, also questioned how pools would be able to effectively deliver varied environmental, social and governance (ESG) or responsible investment (RI) strategies set by their partner AAs if these diverged significantly within a pool.

42. The proposal for legacy illiquid investments to be under the management of the pool was unpopular, with many struggling to see the benefits and expressing doubt that pools would be able to deliver the capacity and capability needed to manage all these investments. Some external advisors and pressure groups also raised concerns that greater scale could reduce local investment, and expressed doubt that pools would be able to deliver local investment as effectively as AAs.

43. The deliverability of the timeline was another key concern of respondents, especially those in non-FCA regulated pools. Some suggested a staged approach to implementation.

Our response

44. The government recognises that the proposed reforms represent a significant cultural shift for some in the LGPS, and that delegating the implementation of the investment strategy to pools will markedly change the focus of many local pension committees. Nonetheless, the government does not agree that this undermines democratic accountability or diminishes local control. Instead, it frees up the capacity of pension committees to focus on the overarching objectives for their funds, rather than implementation decisions to achieve their aims.

45. These reforms are necessary to build on the success of pooling in the LGPS to date, and to strengthen its foundations to enable the scheme to reach its full potential as an institutional investor globally, domestically, and in local communities. The government acknowledges that for some pools and their AAs meeting the proposed minimum standards will require significant upheaval and additional transition costs in the short-term but believes that this is justified by the longer-term benefits of increased scale and greater efficiency.

46. Detailed responses to concerns raised in response to this question can be found in response to the following questions below, including Questions 2 and 4 on the investment strategy and SAA, Question 5 on advice, Questions 7 and 8 on the requirement for investments to be managed by the pool, and Question 10 on the implementation timeline.

47. The government intends to legislate to enact the proposals as consulted on, with the exception that it will be for the asset pool to decide the best way of implementing an AA's investment strategy. The pool will decide for both

listed and unlisted assets whether to invest through collective investment vehicles, or through other arrangements. The government expects that the default investment type will be collective investment vehicles.

Question 2: Do you agree that the investment strategy set by the AA should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

48. The consultation proposed that AAs delegate investment implementation activity to the pool, and retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
  - funding, for example target funding level, return and risk objectives, income requirements and stability of contributions
  - ESG matters and RI
  - local investments, with a target range

49. In addition, this could include a high-level SAA – although the government believes that expertise in the pools makes them best placed to set the SAA and that funds may wish to delegate this to the pool.

50. The division of responsibilities proposed is illustrated in figure 1:

Figure 1: The division of responsibilities between administering authority and pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Figure 1: The division of responsibilities between administering authority and pool - accessible version

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment objectives	Strategy	High	Decide	Advise

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Strategic asset allocation	Strategy	High	Decide or Monitor	Advise or Decide
Tactical asset allocation	Implementation	Med	Monitor	Decide
Investment manager selection	Implementation	Med	Monitor	Decide
Stock selection	Implementation	Med	Monitor	Decide

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment stewardship	Implementation	Low	Monitor	Decide
Cashflow management	Implementation	Low	Monitor	Decide

Summary of responses

51. There were 194 responses to this question, of which 41% were supportive of the proposal and 39% were opposed.

52. It was widely agreed that setting investment objectives, including the overall return target and risk appetite/budget, and SAA are the most impactful decisions affecting overall investment outcomes and should remain with the AA. However, views varied on delegating the implementation of the investment strategy to the pool. Some respondents supported full delegation of all investment strategy implementation decisions beyond this, while others, typically the AAs, believed AAs need to retain greater control over strategy implementation. These respondents often argued that investment strategy implementation reflects the ultimate accountability resting with the pension committee or equivalent decision-makers, and felt that it was necessary for pension committees to be taking these decisions directly.

53. Some respondents considered that fund decision-makers would need the ability to control or influence investment management style (i.e. active management styles and index-tracking decisions) and the implementation of RI and ESG preferences and constraints. Some respondents felt control over these factors was necessary for effective risk management and alignment with the fund's unique objectives.

54. Some respondents also raised concerns with delegating cashflow management to the pool, observing that AAs would need oversight in order to ensure that they can pay pensions on time. It was noted that pools would need to be able to respond quickly to AAs changing cashflow needs, and that cashflow management was an area that would require regular engagement between pool and AA.

55. A minority of respondents acknowledged the potential role of effective and consistent delegation in reducing fragmentation across the 86 authorities and creating favourable outcomes for the scheme as a whole.

Our response

56. The government has considered responses to this question carefully and agrees with respondents that the high-level investment objectives, including the overall return and risk appetite, and the SAA are the most impactful decisions for a pension fund because they have the greatest bearing on the investment return achieved by the fund overall. By clearly defining the financial goals and long-term asset mix these decisions ensure that the portfolio is aligned with fund objectives, ultimately driving its sustainability and stability.

57. The government has considered representations on the issue of whether decisions on investment management style (for example the split between passive and active management) should sit with the AA or with the pool. It remains the view of the government that choices of investment management style, including active or passive, are a function of the required rates of return and risk appetite, and are therefore an implementation rather than strategic decision. For these reasons decisions on investment management style, including decisions on active or passive management, should be the responsibility of the pool rather than the AA.

58. On the topic of cashflow management, the government wishes to clarify that what it intends to be delegated to the pool is the consideration of income from investments and whether this is sufficient to meet the cashflow requirements of the funds. It is for the funds to set their cashflow requirements in the income section of their investment strategy and to manage the income from contributions and investment income received via the pool.

59. The government intends to legislate to require AAs to set an investment strategy in accordance with the model consulted on, and to delegate the implementation of that strategy to the pool. AAs will be required to include a

SAA in their investment strategy statement in line with the template provided. AAs may choose to complete the SAA themselves or delegate this responsibility to their pool to set allocations in line with their investment strategy (see also Question 4). This is in keeping with the delegation model illustrated in the above table.

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the AA's fiduciary duty?

60. This question asked whether the AA's fiduciary duty would be met by retaining responsibility for an investment strategy, including the high-level objectives on:

- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment (RI)
- local investments, with a target range (further discussed in chapter 3)
- optionally, a high-level SAA

Summary of responses

61. There were 182 responses to this question, of which 29% were supportive of the proposal and 51% were opposed.

62. Some respondents agreed with the model proposed and observed that it is widely used in the private pensions sector in the UK and globally, as well as within some parts of the LGPS.

63. Many respondents raised concerns that AAs had limited ability to hold the pools to account for their performance, and that their options were limited if the performance of the pool meant they were not able to discharge their fiduciary duty. Pool partnerships were perceived by some as fixed and inflexible compared to private sector equivalents who can more easily end contracts with their investment managers.

64. A number of respondents felt that the investment strategy and SAA framework proposed were too high-level, and that to be able to satisfy their fiduciary duty AAs needed to be able to decide additional details. These included cashflow and liquidity requirements, investment style choices, whether index-tracking investments should be "conventional" or "ESG enhanced", whether to set "red lines" on investment types that the AA did not want held in its name, and a position on RI and net zero.

65. Some respondents were concerned that there was a potential tension between AAs having differing or contradictory ESG and RI policies and pools seeking to minimise the number of products they offered. Proposed solutions to this included allowing AAs to allocate to sub-funds with specific ESG profiles, by the pool balancing investments between sub-funds with different ESG profiles in order to meet each AAs specific stance on average (e.g. on net zero), or by the pools explicitly meeting divergent ESG stances by tailoring products to groups of partner AAs with similar stances.

66. Some respondents believed that AAs needed to be free to seek external advice on their investment strategy as they saw necessary in order to satisfy their fiduciary duty, and others raised concerns about reliance on advice provided by the pool before the pools had developed experience in providing this service.

67. A number of respondents felt they needed to consider legal advice on the issue of fiduciary duty in order to be reassured and noted that the SAB had sought such advice on behalf of the scheme.

Our response

68. The government notes the concerns raised in responses to this question, but remains of the opinion that the proposals are sufficiently flexible to allow AAs to meet their fiduciary duty to scheme members and employers.

69. Many of the additional factors that respondents told us they would need to be able to include in the investment strategy in order to satisfy their fiduciary duty already form part of the proposed investment strategy (e.g. cashflow and liquidity requirements, which form a part of the high-level objectives on funding, and a position on ESG matters, RI and net zero). Other factors derive directly from the investment strategy (e.g. the decision on whether index-linked investments should be conventional or modified to take account of ESG considerations derives from the ESG stance in the investment strategy).

70. As outlined in response to Question 2, the government has considered the question of whether the investment style (active, style of active management, index-tracking, what index to track etc) should form part of the investment strategy set by AAs. The government remains of the opinion that the investment style is an implementation decision that derives from the investment strategy and that pools are best placed to consider alongside other implementation decisions. The government is therefore of the opinion that the high-level stance set out in the investment strategy is sufficient for an AA to satisfy its fiduciary duty to scheme members and employers.

71. In order to enable the pool to invest at scale it is important that pools are not expected to create bespoke arrangements for each AA's ESG and RI requirements. This is in the interest of AAs, who should endeavour to work with their pool to reach a common approach and thereby maximise the

benefits of scale. Government expects each pool will facilitate discussions among their partner AAs to establish a common approach. However, the government recognises that this will not always be possible, for example where there are particularly divergent or conflicting stances between AAs in a pool. In these cases pools may need to consider alternative options such as offering more than one ESG standard. The appropriate solution may depend on the number of AAs in a pool and the degree of divergence between ESG and RI stances. The government does not intend to proscribe a single solution, but does not expect to see bespoke arrangements for each AA.

72. The government has considered the point that AAs feel they have limited recourse options if their pool fails to implement their investment strategy effectively. AA shareholder and client groups have a much greater influence on their pools than private sector schemes have on their fiduciary managers. Indeed, as pools are not profit generating organisations, their interests are much better aligned with their shareholders and clients than their private sector counterparts. It is for pool shareholders to ensure that their governance arrangements are sufficiently robust to enable them to adequately hold their pool to account, noting that pool shareholders have previously been able to effect leadership changes in LGPS pools. A fiduciary oversight service may provide additional assurance to AAs – government would expect that where shareholder/client groups are interested in procuring an oversight service that they do so collectively as a group of partner AAs and in conversation with their pool to ensure the service provided meets the needs of the group and avoid unnecessary duplication of costs and effort.

73. In response to concerns that the proposed requirement for AAs to take principal advice on their investment strategy from their pool would be insufficient for AAs to satisfy their fiduciary duty, the government notes that the proposals do not preclude AAs from taking advice from external sources ‘in exceptional circumstances’, nor does it prevent pools from considering or procuring advice from other sources if they wish to rather than solely providing it using an internal function. This could include situations where the pool may wish to seek specialist advice on a specific asset class or a pool wishes to seek a second opinion. The key point is that the government believes that these situations should be the exception, rather than the norm, given that pools are set-up to meet their shareholder’s needs and do not stand to benefit financially from poor quality advice. The government is therefore satisfied that AAs will have access to the ‘proper advice’ needed to satisfy their fiduciary duty. More detailed discussion of the proposed requirement for AAs to take principal advice on their investment strategy from their pool can be found in the response to Question 5 below.

74. The government notes that many respondents said that they wanted to consider legal advice on the issue of fiduciary duty and suggested that this should be sought on behalf of the scheme. The LGA sought advice on this issue which was published on the SAB website on 15 January 2025: [LGPS

Scheme Advisory Board - Legal Opinions (https://lgpsboard.org/index.php/legal-opinions). The SAB have also published a document summarising their understanding of the advice (https://lgpsboard.org/images/LegalAdviceandSummaries/20250325_SAB_Summary_of_Advice.pdf).

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

75. The question asked for views on the following template for SAA which would be used in the investment strategy statement:

Figure 2: Proposed SAA template in consultation

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

(ii)For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

76. AAs would have the option of completing the template themselves or delegating to the pool to choose an appropriate allocation in line with their investment strategy.

Summary of responses

77. There were 165 responses that expressed a view on the template for SAA.

78. Many were supportive of the template, arguing that high-level asset classes were adequate to fulfil AA needs while enabling pools to develop scale, and that further granularity would be an unhelpful distraction. Many respondents also agreed with the approach of allowing tolerance ranges alongside each, as this allows pools to take advantage of short-term, tactical investment opportunities and mitigate the risk of excessive trading to stick closely to the long-term SAA.

79. Some respondents argued that AAs should not set allocations to specific asset classes but instead wanted a template that would allow the AA to set objectives around categories such as growth, income and diversification. It was argued that this would allow the AA to more accurately express its objectives to the pool without being overly prescriptive on asset allocations.

80. Most responses requested additional granularity to the SAA, with some arguing that the high-level approach was incompatible with an AA's ability to discharge its fiduciary duty and would not accommodate different responsible investment policies. Some respondents requested the flexibility to set more detailed categories, though some of the suggested categories already form part of the proposed investment strategy, such as ESG policies and local investment. Other respondents proposed including active and passive equity allocations; geographical allocations including UK, global, and regional allocations; liability related investments such as buy-in policies; and more detailed breakdowns of private credit, private equity, alternatives, property, and UK government bonds categories. Many responses also set out their view that cash is not a strategic allocation and should not be included in the table.

81. A small number of respondents were concerned that the table may have an unintended consequence on the calculation of the discount rate used for funding purposes, which could lead to increased contributions. Some responses observed that fostering meaningful collaboration between partner AAs was the most important factor to make pooling work, and that a strict table would not be a shortcut to this end.

82. Some respondents requested that the government should set out its approach towards reviewing the table.

Our response

83. As set out in response to Question 2, the government intends to proceed with its proposal to require AAs to include a SAA in their investment

strategy statement. AAs would be able to set this themselves or delegate to their pool to choose an appropriate allocation based on their investment strategy.

84. The government has carefully considered views on whether the proposed template is appropriate and will bring forward guidance to establish an SAA template in line with Figure 3. This breakdown of asset classes is a clear and recognisable set of categories, which provides a common vocabulary for AAs and pools to use when considering their investment strategy. However, if there is collective agreement between a pool and their AAs, it will also be permitted to use a less granular asset allocation such as allocations to growth and matching assets only. The government agrees that AAs will need to foster strong working relationships with their pool in order to make a success of pooling. The government does not see the SAA template as an alternative to this and expects that AAs and their pool will work closely in the development of each SAA.

85. The government notes the feedback about cash and intends to describe this category as 'investment cash' to be clear that this refers to cash for investment purposes which the pool requires to meet portfolio demands. This is different to operational cash for paying pensions which remains within the purview of the AA.

86. In terms of the additional detail requested in the template, the government is of the view that everything requested either already forms part of the proposed investment strategy, or represents investment strategy implementation decisions which should be the remit of the pool rather than the AA. This includes decisions on geographic allocation within each asset class including global and UK exposure. As outlined in the response to Question 3 above, the government does not believe it is necessary for AAs to have decision making power at this more granular level in order to satisfy its fiduciary duty to its members. Therefore, the government will be requiring the SAA agreed between AAs and pools to be no more granular than that in the template at Figure 3 below.

87. The government does not agree that the template needs to impact the discount rate. The funding strategy should reflect the investment strategy, and these should be considered together in calculation of the discount rate. The government also wishes to emphasise that pool investment vehicles or sub funds do not need to map to the template SAA; these can be created, continued and closed as the pool considers necessary to deliver on the investment objectives and SAAs set by the partner AAs.

88. The government will publish guidance on the SAA that will include the following template:

Figure 3: Template SAA to be published in guidance

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Investment cash		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

89. The consultation proposed that pools should be required to provide advice on investment strategies of their partner AAs, and asked whether AAs may wish to seek additional advice, and what form this might take. The consultation proposed that AAs take the principal advice on investment strategy from their pool, although they could seek additional advice from external investment advisors in exceptional circumstances to help them consider the advice given to them by the pool.

Summary of responses

90. There were 185 responses to the first part of this question, of which 30% were supportive of the proposal and 54% were opposed. 155 respondents commented on whether it would be necessary to take further advice or input, of which 87% of responses were in favour of further advice. Many respondents were concerned that the proposed changes could create an unmanageable conflict of interest, potentially disincentivising pools from acting in the best interests of partner funds.

91. Many respondents emphasised the importance of pension committees having the necessary ability, knowledge, and information to effectively hold their investment managers, and therefore the pool, accountable. It was noted that independent investment consultants and advisors currently play a crucial role in this function. The majority saw this as a vital measure to provide checks and balances if the pool were to become the principal advisor. Some respondents also highlighted the success of the current investment consulting framework, citing its modest costs and long track record of delivering results. They expressed concerns about the risks of adopting an untested model, given that capability and capacity are not yet well established across the current pools.

92. A minority of respondents held a contrary view, believing that conflicts of interest could be effectively managed. They pointed to examples from UK corporate defined benefit schemes and international cases where such models are operating successfully.

Our response

93. The government remains of the view that there is no conflict of interest in the pools advising on the investment strategies of partner AAs, because the pools are solely owned by LGPS AAs, exist to provide services in their interest, and do not stand to gain financially from the partner funds taking their advice nor from providing poor quality advice.

94. The government agrees that it is important for Pension Committee members to have appropriate ability and knowledge to effectively hold their pools to account for their advice. It is envisaged that it will be part of the role of the independent advisor to the pensions committee (see response to Question 26) to support pension committees in challenging and testing the advice from the pool. The government recognise that there will be situations where AAs may feel that the advice of the pools needs supplementing with or testing against advice from other sources, however the government is clear that these cases should be exceptional rather than routine. In the vast majority of circumstances the pool should be the sole source of the AA's investment advice.

95. Pools will have the option of procuring investment advice if they wish to, but the government expects that most will wish to establish their own advisory services. Advisory services are one area where pools may wish to collaborate or procure from each other, as noted in response to Question 11.

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

96. The consultation proposed that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:

- Implementation of the investment strategies of their partner AAs, including any SAA
- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

97. All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

Summary of responses
98. There were 186 responses to this question, of which 59% were supportive of the proposal and 26% were opposed.

99. There were a wide range of responses to this question. Support was stronger on the general issue of pools being FCA-regulated than it was on the specific issue of pools being authorised to provide relevant advice.

100. Some respondents thought FCA regulation was a positive move that would align standards across the LGPS, and that it would provide reassurance of the quality of services provided to partner AAs. Many, whether or not they agreed with the government's wider proposals on pooling, felt that FCA regulation was a necessary and appropriate step to facilitate those aims effectively.

101. Conversely, a small number of respondents felt that it was possible for the pools to achieve the government's minimum standards without FCA regulation, and believed the government should focus on the wider objectives of pooling rather than the models through which they are achieved. It was also suggested by a small number of respondents that FCA regulation would inhibit local investment.

102. On the question of whether pools should be authorised to provide advice, some respondents commented that pools should be able to provide advice, but that it should be for AAs to decide where they take advice from. Others felt that pools should not provide advice at all.

103. Many respondents were concerned about the timetable for the pools to achieve FCA authorisation and for them to develop capability to provide advice. Respondents felt a March 2026 deadline would be unachievable, and that attempting to achieve authorisation within this timeframe would lead to poorly thought through decisions and increased costs.

Our response

104. The government notes the majority support for the pools to be authorised by the FCA, and intends to legislate to require this in order to support the wider pooling proposals. Government is of the view that FCA authorisation provides a robust platform for managing the growing volume of assets in the LGPS. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed.

105. The government notes that most of the opposition to the pools being authorised to provide advice is grounded in opposition to the general principle of pools providing advice, rather than whether FCA regulation is appropriate. As set out in the response to Question 5 above, the government intends to implement the requirement for AAs to take their principal advice on their investment strategy from their pool, and as such intends to require that the pools are authorised to provide this advice. AAs will not be prohibited from seeking supplementary advice from other sources in exceptional circumstances where there is an appropriate justification for doing so, but the pools should be the default source of advice.

106. The government rejects the suggestion that FCA-regulation will prevent the LGPS from investing locally. This is evidenced by the existing FCA-regulated pools successfully investing locally. FCA regulation does not prevent the pools from considering the non-financial benefits of investment nor from accepting lower returns in order to invest in projects with a local impact, provided the investment is in line with the investment strategy of the AA. As set out in response to question 15, AAs will be responsible for setting their objectives on local investment, including a target range, in their investment strategy, which pools will then be required to implement.

107. The government notes the concerns over timing. The government has sought assurance from the FCA and is confident that pools will be able to achieve authorisation within the required timeframe. Each pool seeking authorisation is in touch with the relevant FCA team for pre-application discussions.

Question 7: Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

108. The consultation proposed that AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles (collective investment vehicles with assets from multiple AAs in a pool) managed by their pool. This follows on from an expectation set out by the previous government in November 2023, that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis.

Summary of responses

109. There were 177 responses to this question, of which 36% were supportive of the proposal and 50% were opposed.

110. Most respondents were supportive of the idea of AAs investing listed assets via their pool. Many noted the benefits that could be derived from the pools, including economies of scale leading to reduced fees. Some were supportive of government compulsion for listed assets to be transferred, as this would drive quicker change towards establishing investment at the appropriate scale for the LGPS.

111. Some were concerned that the compulsion to pool listed assets would be incompatible with an AA's fiduciary duty, as pool products may perform worse than their existing products after costs. More broadly, some felt that requiring assets to be pooled amounted to government mandating investment decisions, which was considered inappropriate since it because it would undermine local democratic accountability for paying benefits.

112. Many were concerned that this proposal could compromise the RI policies of AAs. They argued that to achieve scale, AAs would have to meet common agreement on RI, which may in practice lead to a lowest common denominator solution, inhibiting the AAs with the most ambitious targets. There were concerns that it might not always be possible to accommodate AA-specific requirements on responsible investment in a pooled vehicle.

113. Many respondents were broadly supportive of the policy intent, but were concerned that pools do not have suitable products or operational readiness to be able to take on all listed assets, especially given the March 2026 deadline. Respondents argued that being required to invest all listed assets in pooled vehicles could lead to the forced liquidation or sale of assets without corresponding benefits to justify the costs incurred. A common concern was the treatment of index-tracking equity funds, where costs are already very low outside the pool. Some respondents noted that in some cases there are small-scale local investments that are listed.

Our response

114. The government's view is that it is preferable for listed assets to be invested in pooled investment vehicles, that is collective investment vehicles with assets from more than one investor.

115. The government does not agree this is incompatible with the AA holding fiduciary duty or that it undermines local democratic accountability. As outlined in response to Question 3, the government considers that setting the parameters in the high-level investment strategy is sufficient for AAs to satisfy their fiduciary duty to scheme members and employers. Deciding how the investment mandate should be delivered is an implementation decision rather than a strategic one and should sit with the pool. AAs remain responsible for their investment strategy and for their role as a pool shareholder or client, and therefore remain accountable for the management of their pension fund.

116. The government also recognises that balancing individual AAs' responsible investment positions, and particularly specific exclusions, can present challenges when seeking to invest at scale. However, the government does not believe these challenges are insurmountable, or should be a barrier to investing via the pool, or require investments to be held outside the pool. Indeed, existing pools are already achieving an effective balance between scale and delivering differing ESG/RI objectives through pragmatic discussions with their partner AAs.

117. During the course of the consultation further evidence from stakeholders indicated that there are some exceptional circumstances in addition to those noted above where it is not value for money for listed assets to be transitioned into pooled vehicles. This includes where transition costs are sufficiently high to erode savings in the longer term, where pooled vehicles cannot achieve the same risk-adjusted return as could be achieved through an alternative implementation route, or where transitioning assets by the March 2026 deadline would require multiple sales in a short period of time.

118. The government therefore no longer intends to require that all listed assets are invested in pooled investment vehicles. Instead it will require that all LGPS investments, listed and unlisted, are transferred to the management of the pool. This means that the pool has full oversight of the assets and will make all investment decisions including on whether to buy, hold or sell. It will be the responsibility of the pool to determine how the investment strategies of its partner AAs are implemented in their collective best interests, including consideration of whether assets are managed via pooled vehicles or otherwise. The government's strong expectation is that the default position will be management through pooled or collective investment vehicles, with the vast majority of assets managed in this way. However, the government believes it is appropriate for the pool to have responsibility for determining the best implementation route in the interests of its partner AAs, and for making changes to implementation over time if

needed. The March 2026 deadline for all assets to be under the management of the pool will still apply.

Question 8: Do you agree that AAs should be required to transfer legacy illiquid investments to the management of the pool?

119. This consultation proposed that funds transfer legacy illiquid investments to the management of their pool, but not necessarily into pooled vehicles managed by the pool.

Summary of responses

120. There were 177 responses to this question, of which 25% were supportive of the proposal and 54% were opposed.

121. The majority of respondents to this question disagreed with transferring the management of legacy illiquid assets to the pool or argued that certain assets should be excluded from pool management. Suggestions included assets that do not meet a minimum size threshold and assets that have a specific link to fund liabilities such as assets in runoff and direct property investments. One respondent also raised the issue of investments where the pension fund is not the outright owner of the investment, and therefore not able to legally transfer the management of the investment to the pool.

122. It was frequently commented that these are a diverse range of niche investments that would take the pools significant resource and expertise to manage, but which are a small proportion of total LGPS assets, many of which are in run-off. It was argued that there would not be cost savings from the pools managing these assets, and that transition costs could be high. There were some concerns raised about the potential SDLT implications of transferring property investments to the pool following the close of seeding relief windows in pool real estate sub-funds.

123. Some respondents were concerned that having the pools manage these assets would lead to a loss of asset diversification within the LGPS as pools would seek to simplify their portfolios and make them more efficient over time. There were also concerns raised about a loss of local accountability for these assets, and the ability of AAs to exercise their fiduciary duty due to a perceived lack of recourse options should the pools fail to manage these assets in the interest of the fund. Some were concerned that pools may underperform relative to existing arrangements. Some respondents were concerned that the loss of autonomy could inhibit a fund’s ability to implement their responsible investment policies.

Our response

124. The government recognises the difficulties highlighted by responses to this question. The government wishes to clarify that it does not intend to mandate that legacy illiquid assets should be sold and transferred to pool ownership, but rather that they should be managed by the pool. This means that the pool has full oversight of the asset and is responsible for making the decision on whether to buy, sell or reinvest. This should create efficiencies at the pool level as all of the AAs' illiquid assets can be managed by the pool, instead of each illiquid investment being managed by individuals at the AAs.

125. Some of the concerns raised were to do with the pool selling an asset when it was not in the AA's interest to do so. The government does not recognise this concern; pools are acting in the sole interest of their shareholders and clients and it is difficult to see what the pool would gain from selling an asset when it was not in the AA's best interest to do so.

126. The government does not agree with the concern of respondents around a lack of asset diversification if the investments are to be managed by the pool. The pools will seek sufficient diversification within their illiquid investments to meet their risk tolerances as they do for liquid investments. Indeed, by virtue of the pool having larger mandates than the individual AAs, more diversification of illiquid investments may be possible.

127. As with the response to Question 7 above, the government does not agree that the requirement for investments to be managed by the fund will undermine local accountability or an AA's fiduciary duty. AAs will retain responsibility for their investment strategy and will be responsible for their role as shareholder or client of their pool, giving sufficient flexibility for them to satisfy their fiduciary duty and to be democratically accountable for the management of their fund.

128. The government recognises that transferring the management of niche illiquid investments is not straightforward, and that there may not always be an immediate cost efficiency from doing so. However, the government believes that while managing assets in the pool might incur initial costs, continuing to manage them outside the pool will limit efficiency in the long term by reducing scale and limiting the pool's comprehensive oversight of a fund's assets. The costs of management would also still be incurred, but by the AAs instead of the investment experts at the pool. Some increase in costs may be due to managing assets within an FCA-regulated environment but the government's view is that this is justifiable to ensure appropriate standards and assurance.

129. The government acknowledges the concerns regarding SDLT in the context of real estate asset pooling. Tax officials will engage with pools shortly to discuss this matter in further detail.

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?

130. This question asked what capacity and expertise the pools would need to develop to take on management of legacy assets from the partner funds, and asked about timelines for delivery recognising that pools vary in the capacity and expertise that they currently have to take on this role. As set out in response to Question 8, the government's requirement is that the pool will be responsible for managing all assets which includes being responsible for decisions on whether to buy, sell or reinvest legacy illiquid assets.

Summary of responses

131. The majority of respondents said that pools would need to develop additional capabilities, although a minority felt that their pool already had the capability and expertise but would have to increase capacity. The additional capabilities required included specialist expertise in diverse illiquid asset classes and the processes for managing them, including significant relationship management capabilities. Other issues raised included the ability to manage cashflow requirements and to be able to handle cash calls on legacy investments, the need to upgrade or enhance IT systems to manage these assets, the need to improve data sharing, and the need to develop legal agreements between the pools and AAs that clearly set out roles and responsibilities of each in managing legacy investments. Many respondents also flagged that historic knowledge of specific investments would be required to manage these asset classes well.

132. A number of respondents raised concerns that developing appropriate capabilities and capacity would incur substantial additional costs but that there was little benefit to the AA of transferring management of these assets to the pool. Concerns were also raised that insufficient understanding of legacy assets would increase risk.

133. Some respondents were concerned that the pools would be in competition with each other for appropriately skilled staff, which could both drive up salaries and leave pools unable to recruit in time. Conversely, others were confident there were sufficient appropriately skilled individuals in the pensions sector. Many respondents also suggested the most workable solution would be for the pools to outsource management of niche asset classes to specialist investment management companies, at least in the short-term, rather than attempting to develop these capabilities in house.

134. A number of respondents proposed a model in which legacy assets would remain allocated to the individual AA until such a time as they mature and are transferred to pooled solutions. The pool would appoint a pool officer with responsibility for legacy assets, who would decide on the appropriate timing and means of disposal in consultation with the asset owner, specialist consultants, and the pool's investment managers.

135. Some respondents felt the timeline for implementation should be extended to allow the AAs more time to ensure that they had appropriate expertise and capability before taking on the management of assets, to avoid competition in recruiting, and to stagger the administrative demands on AAs so that it does not coincide with the valuation. Some felt that government should not set a deadline and allow AAs and pools to agree a date for transition, whilst others suggested dates in 2027.

Our response

136. The government recognises that managing legacy illiquid assets will require pools to develop new capacity and capabilities, however, as set out in response to Question 8 it believes that achieving the broader benefits of pooling requires that legacy assets are managed by the pool. The government encourages the pools to consider whether this is a potential area where they can collaborate with each other, with different pools establishing specialisms on different types of illiquid asset and offering management services to each other. Alternatively, pools may wish to procure services for the management of some illiquid asset types to specialist investment management companies. This enables flexibility in how this requirement is delivered to ensure these investments are managed with sufficient expertise.

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

137. The consultation proposed an indicative timeline to become compliant with all the minimum standards by March 2026. The government requested each pool to consider the viability of meeting this timescale in their pooling proposal. The timescale is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 fund valuations. It also takes account of the timescale over which the FCA may consider applications for investment management companies and authorisation to provide investment advice.

Summary of responses

138. There were 175 responses to this question, of which 5% were supportive of the proposal and 65% were opposed.

139. The significant majority of respondents to this question disagreed with the implementation timeline and expressed concerns about the proposed pace of transition, commenting that there were additional costs and risks associated with it. They argued that the substantial governance and resource demands on AAs of delivering this transition alongside other projects like the 2025 fund valuation risks rendering the proposal unrealistic.

140. Many respondents commented that typical timeframes required for FCA authorisation were longer than the proposed implementation deadline allowed for, which would impact the plans for non-FCA authorised asset pools to develop the necessary capabilities.

141. Alternative implementation timelines proposed by respondents included modifying the proposal to allow the new capabilities to be phased in over several years or adopting a “comply or explain” approach for the March 2026 deadline.

Our response
142. The government has carefully considered the proposed implementation timeline in the light of responses but has concluded that meeting this the March 2026 deadline is critical to drive progress in the scheme, and to minimise the period of disruption. Government believes the deadline should be achievable given that it has previously communicated its expectations on asset pooling and stated that it would consider legislating if insufficient progress was made by March 2025 (Chancellor vows ‘big bang on growth’ to boost investment and savings (https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings)).

143. The government recognises that it may take time for those pools that do not already have an advisory capability to develop it in order to be able to advise on investment strategy. As set out in the response to Question 5, pools may procure advisory capacity in the immediate term if necessary to meet this requirement.

144. In terms of the timeline for achieving FCA authorisation, the government is liaising with the FCA and is confident that authorisation can be achieved by March 2026 for the pools seeking to apply.

145. Following receipt of the pooling proposals requested alongside the consultation the government has expressed support for the proposals from six pools and has invited the AAs of two pools to engage with other pools to determine which they wish to form a new partnership with. The government stands ready to support these decisions and will help to facilitate as required. The decision on which pool to work with is for each affected AA to make individually. The government recognises that the AAs may wish to

move to a new pool together with their existing pool partners, or may wish to move to different pools, and this is a decision for each AA.

146. The government's expectation is that, for all asset pools that are continuing with their existing partner AAs, the minimum standards and all other requirements will be met by the end of March 2026. The government will be in touch with each pool to commission data on progress against this deadline.

147. For those AAs seeking a new asset pool and for pools taking on new partner AAs, the government expects the deadline to be adhered to as closely as possible, with new partnerships aiming to have shareholder or client agreements in place by March 2026. The government recognises that the process of developing new pool arrangements will take time and may allow some limited flexibility on this deadline - for those AAs and pools affected - if required. However, decisions on timing will be balanced with the need to keep the period of disruption across the LGPS to a minimum.

148. Failure to comply with legal requirements by the deadline and subsequently on an ongoing basis, could lead to AAs being directed by the Secretary of State to undertake a governance review with immediate effect. In cases where the governance review process and any peer support are not successful at delivering change, it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

149. This question asked about the scope to increase collaboration between pools, and about potential barriers. Areas where specialisation or collaboration may be particularly attractive include in specialist assets such as private equity, private debt and venture capital, as well as infrastructure and specific local or regional investments.

Summary of responses

150. The majority of respondents who answered this question were enthusiastic about increasing collaboration between pools and felt it would benefit the scheme as a whole. The main areas flagged for potential collaboration were developing "centres of excellence" in specialist asset classes such as private equity and infrastructure, particularly where it would be detrimental to the scheme as a whole for pools to develop separate

capabilities. Some respondents also suggested there could be pool-led centres of excellence on local investment, so that non-regional pools could benefit from the local knowledge of regional pools, or a single local investment capability jointly owned by all pools. The sharing of advice capabilities was another area of potential collaboration raised.

151. Potential barriers to collaboration raised included both structural and cultural factors. Some respondents flagged that the governance arrangements of a cross-pool investment vehicle need to be carefully considered and noted that the perceived increased distance between AAs and fund managers could make it harder to hold managers to account for performance. Respondents had differing views as to whether AAs of a pool investing in the vehicle of another pool should be treated equally to those of the 'lead' pool, for example in terms of fees. They commented that pools were setup in the long-term interests of shareholders, and that it could be detrimental to the lead pool's partner AAs if the partner AAs of another pool influenced mandates in the interest of their short-term objectives.

152. Some respondents were concerned that the Procurement Act 2023 could be a barrier to pool collaboration. Respondents were concerned that a pool they own investing in a vehicle owned by a different pool could potentially contravene the Act, and some respondents raised questions around how pools and AAs should interpret the Act's joint control test when considering their governance structures.

153. Some respondents raised concerns that the government's focus on pooling standards risked slowing or disincentivising collaboration. It was suggested that the focus on pooling standards had introduced a sense of competitiveness between pools, and that pools may be concerned that investing in the vehicle of another pool could be perceived as them being a weaker pool, or that it could result in them being targeted for a merger into another pool. It was also suggested that timelines meant pools were focussed on meeting the minimum pooling standards by the deadline rather than considering collaboration options which were harder to deliver.

Our response

154. The government welcomes the interest and enthusiasm from respondents for collaboration between pools. The government agrees that each pool developing as a centre of excellence in particular specialist asset classes would be beneficial to the scheme as a whole, and that further joint ventures such as for example GLIL and the London Fund could help unleash the full potential of the scheme to invest in UK assets.

155. The government agrees that the Procurement Act 2023 should not be a barrier to collaboration between pools. The existing FCA-regulated pools were all established under the Teckal exemption (set out in the Public Contracts Regulations 2015 and relevant to the "vertical arrangements exemption" within the 2023 Procurement Act), which allows public authorities to award contracts to entities they control without going through

full procurement procedures. The vertical arrangements exemption currently allows AAs to procure contracts from their pool without going through full procurement exercises, provided that the contract satisfies a number of tests. To meet the vertical arrangements exemption's activities test LGPS pools must demonstrate that 80% of their activity is undertaken for the benefit of their own partner AAs only (as per paragraph 2(2)(c) of Schedule 2 to the Procurement Act 2023). Government recognises this may prevent pools from collaborating to their full potential especially where it can benefit multiple groups of AAs.

156. The Pension Schemes Bill will therefore include measures to modify the Procurement Act 2023 for the LGPS, so that the vertical arrangements exemption is satisfied as long as 80% of the pool's activity is undertaken for the benefit of any LGPS Authority (rather than solely their partner Authorities). This means that a pool will no longer be limited when investing through other pools' investment vehicles, to the benefit of both groups of AAs. This change further enables close collaboration between pools and possible specialisation by pools in certain asset classes, thereby harnessing even greater benefits of scale. Government will also provide guidance in due course to support interpretation of the vertical arrangements exemption's joint control test, as outlined in paragraph 2(2)(d) of Schedule 2 to the Procurement Act 2023.

157. It is understood that the deadline for meeting the minimum standards of March 2026 may be the focus over collaborating in the short term, but over the medium term putting pools on a consistent footing should make collaboration easier. The government is clear that that pools should be working together wherever this can improve outcomes for scheme members, employers, and the taxpayer.

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

158. This question asked for views on whether there potential for collaboration between partner AAs in the same pool in the administration of the LGPS, or whether there could be greater collaboration and cooperation between AAs on any other issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

Summary of responses
159. There were 151 responses to this question, of which 83% were supportive of the proposal and 7% were opposed.

160. The majority of respondents who answered this question were supportive of the benefits of collaboration between partner funds in the same pool on issues such as administration and training. Many also considered that there was potential for collaboration in shared back-office services and other areas such as governance, investment strategy, environmental, social and governance matters and actuarial services. Others flagged that integrating technology and artificial intelligence (AI) tools into these systems had the potential to enhance data analysis and improve decision-making processes.

161. Many respondents highlighted the potential benefits of collaboration between funds including the potential for improved service quality, shared expertise, the potential for cost savings and for better collective negotiating capability.

162. Many highlighted existing collaborations between funds that are already delivering cost savings and efficiencies beneficial to both funds and their pools. These included collaboration models such as the "Tri-Borough" arrangement in London, and outsourced administration services provided by West Yorkshire Pension Fund. Others commented that there is already considerable informal collaboration within local pension officer groups where administration issues are discussed and good practice shared. In addition, collaboration occurs through membership of the Local Government Association and the Pensions and Lifetime Savings Association (PLSA), and briefings organised by the SAB.

163. A minority of respondents commented that there were barriers locally to further cooperation and integration of shared services and resources. These could occur where there were differing governance arrangements or differing local priorities and objectives.

Our response
164. The government was pleased to see the level of support for collaboration between AAs and believes that this is a valuable tool for reducing duplication, sharing best practice, and fostering innovation across the scheme. The government wishes to encourage and support collaboration initiatives across the scheme wherever possible.

165. It is anticipated that standardising the model of pooling and governance across the scheme will help to remove some local barriers to collaboration. However, government will remain alert to any remaining barriers and will seek to identify what action can be taken to remove them.

166. The government is looking at ways to make it easier to setup standalone pensions authorities, which it anticipates may be useful in cases of Local Government Reorganisation where new authorities do not map straightforwardly to underlying AAs.

3. Local investment

167. The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in what matters to local communities. The LGPS can play an important role in providing anchor investment in local and regional projects, which can make them more attractive to private sector investors including pension schemes. This includes affordable housing, clean energy, physical and digital infrastructure, and support for new and established local enterprises, which can deliver positive local impacts, as well as financial return. 'Local investment' has been used throughout this chapter to refer to both local and regional investment.

168. Many AAs have already deeply embedded these wider considerations into their investments. They recognise that it is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did throughout their working lives.

169. This consultation focussed on local investment by LGPS funds, but there are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance issues. These may contribute to the government's key missions including making Britain a clean energy superpower and accelerating to net zero.

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes?

170. This question invited views on the appropriate definition of 'local investment', for the purposes of reporting by AAs in their annual report on the extent and impact of their local investments.

Summary of responses

171. There were a range of views from respondents on the appropriate definition of 'local investment' for reporting purposes. A number of respondents considered that 'local investment' should be defined geographically as investment within an administering authority area or region. Others considered that the definition should be set at a UK-wide

scale that includes investments that benefit local economies regardless of geographic location.

172. A number of respondents said that a broad and flexible definition could enable AAs to maximise investment opportunities and avoid limiting returns. Other respondents felt that the definition should not be based on pool areas, as defining local as the pool area could potentially restrict opportunities. They also noted that a wider definition could be helpful as AAs may wish to invest in projects in a neighbouring authority area which is outside the pool area. Some respondents also considered that the definition should accommodate investments outside pool areas which have a clear economic, environmental or social impact on the region by delivering regeneration, employment or supply chain benefits.

Our response
173. The government has considered the responses and believes that local investment should be defined as broadly local or regional to the AA or pool. It should have some quantifiable external benefits to the area in question, including economic growth, environmental benefits or positive social impacts. Such investment may include investment in affordable housing, small and medium size enterprises, clean energy investment, local infrastructure, and physical regeneration. AA should work with their pool to agree any specific requirements in order to ensure their strategy can be implemented effectively.

174. The government expects most local investments will be made through private markets, although the use of external fund managers specialising in local or regional investments may be appropriate in some cases. The government will work with the SAB to develop guidance.

Question 14: Do you agree that AAs should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

175. The consultation proposed that AAs work with Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) or the Greater London Authority (GLA), or local authorities in other

areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities.

Summary of responses
176. There were 177 responses to this question, of which 56% were supportive of the proposal and 26% were opposed.

177. Many responses pointed to existing joint work on investment opportunities. Examples given included the South Yorkshire Pensions Authority, Durham, Tyne and Wear, and Greater Manchester, who work closely with CAs in those areas. Respondents were generally supportive as the new requirement would establish an important route for AAs to connect with opportunities which are the most beneficial to their region. Some respondents argued that pools, rather than AAs, should be working with strategic authorities to identify investment opportunities. Many argued that a clear and consistent process for pools to evaluate such proposals would be important.

178. Some respondents were concerned about resource pressures and argued that pools and AAs should be allowed to decide where to focus resource rather than being compelled to work with strategic authorities. Some were concerned that this proposal could lead to the LGPS investing in projects which have failed to raise finance from private sector investors and might be unsuitable, or considered that local growth is not a relevant consideration for a pension fund. Some were concerned that pools would be less able to take account of non-financial factors than their AAs.

Our response
179. Government has considered responses to this question, noting that there was broad support overall mixed with some concerns. The government's view is that the new requirement will be important in building collaboration between strategic authorities and AAs and pools across the scheme to deliver local and regional investment which aligns with local growth plans and local priorities growth.

180. The government agrees that pools may be well placed to work with strategic authorities on behalf of their AAs to identify investment opportunities. It will be for pools and their partners AAs to decide whether AAs will approach strategic authorities directly or work through their pool.

181. With regard to the pool conducting due diligence on local opportunities, government recognises that each pool will wish to consider the process with their partner AAs. In particular, in order to ensure the pool's resources are deployed effectively, AAs should work with their pool to agree criteria for determining which local investment opportunities will be prioritised for due diligence.

Question 15: Do you agree that AAs should set out their objectives on local investment, including a target range in their investment strategy statement?

182. The consultation proposed that AAs should be required by regulations to set out their high-level objective on local investment in their investment strategy statement, including a target range for local investment as a proportion of the fund.

Summary of responses

183. There were 171 responses to this question, of which 66% were supportive of the proposal and 24% were opposed.

184. The majority of respondents were supportive of the proposals, and noted that it was a sensible approach for AAs to ensure their local investment objectives are incorporated into their strategy and delegated to the pool. Many responses agreed that AAs should not be required to set a minimum or target level of investment in local projects. Others proposed that AAs should be able to set a minimum level of local investment, or an interim or indicative target range of 0%, pending identification of suitable local investments. A number of responses suggested that asset pools should take on the role of setting objectives and targets.

185. A number of respondents raised concerns about fiduciary duty, suggesting that setting target ranges could potentially lead to undue pressure to prioritise local investments over other opportunities with higher returns or lower risk. They argued that AAs have had mixed levels of success investing locally, and that local investment was not appropriate for all AAs. There were also comments that where AAs cover multiple local authorities, there is the potential for differing local and economic growth priorities for local investment.

Our response

186. The government has considered the points raised and notes that the proposal was broadly supported. The purpose of this proposal and the others on local investment is not to direct investments, but to ensure that local investment continues and is strengthened under the new minimum standards for pooling. The government will require AAs to set a target range for local investment, but will not restrict the ability of AAs to set a target of their choice.

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

187. The consultation proposed that pools be required to build capability to assess the suitability of local investments, as well as to manage such assets.

Summary of responses

188. There were 181 responses to this question, of which 62% were supportive of the proposal and 22% were opposed.

189. Most responses agreed that it would be important for the pools to develop capability to carry out due diligence on local investments. Many responses said that this capability could be outsourced to fund managers with expertise in local investments, or that a clear, standardised process at the pool level would be important for greater efficiency. Some argued that collaboration between pools would be beneficial. Many were concerned that AAs should still have a role in recommending local projects to their pool.

190. Some were concerned that this would be highly resource intensive for pools to carry out, and that imposing this requirement would divert capacity away from more important pool functions. They argued that it should be up to pools and AAs to allocate resources.

191. Some argued that this function should be at AA level, given they are the ultimate risk-taker and bear fiduciary responsibility. They were concerned that pools could invest in local assets against the AA's wishes, or that pools would be less able to take account of non-financial benefits of local investment, particularly given the proposed requirement for pools to be FCA regulated.

Our response

192. The government has noted the points raised by respondents, and that the proposal was broadly supported. The government's view is that it is essential for all pools to have the capacity to conduct due diligence on local projects to enable the LGPS to deliver on its potential to contribute to local growth. Pools may use external managers, where appropriate, to assist, but in the long run value will be added by using internal management. AAs should leverage their local knowledge and networks by passing on potential investment opportunities to their pool.

193. The government does not consider FCA regulation as an obstacle to pools making decisions to invest in local assets with benefits for the local

area. Impact investing is an established practice among regulated investors, including existing LGPS asset pools, and pools exist to deliver the investment strategy of their partner AAs, including in relation to local investment, which may include lower requirements on risk and return. Pools will need to ensure they deliver the outcomes set by their partner AAs on local investment.

Question 17: Do you agree that AAs should report on their local investments and their impact in their annual reports? What should be included in this reporting?

194. The consultation proposed that AAs include in their annual report, as part of the report on the fund's investments, the extent and impact of their local investments and asked what should be included in this reporting. The government intends to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports.

Summary of responses

195. There were 165 responses to this question, of which 76% were supportive of the proposal and 19% were opposed.

196. The majority of respondents were supportive of proposals that AAs should report on their local investments and their impact in annual reports. Respondents considered that the proposal could provide greater consistency, transparency and accountability across the scheme. They also provided a range of views on what should be included in reports.

197. Some respondents considered that AAs could report on key local metrics on economic impact of local investments such as the numbers of affordable homes provided, number of local jobs created, new businesses set up, and the units of renewable electricity generated. Some respondents pointed to examples of impact metrics already in use, such as the Good Economy's annual assessment of the place-based impact of Greater Manchester Pension Fund's local investment portfolio. Some respondents were concerned that imposing a requirement to report against metrics would be unnecessarily costly, and asked that any additional reporting should be for a clear audience, a specific purpose, and with adequate funding. A number of respondents suggested that AAs could publish qualitative case studies as part of their reporting on local investment.

198. Other respondents raised concerns on local variation in reporting by AAs and suggested that this reporting should be done by the pools. They suggested that it may be more appropriate for pools to produce a single report for all their constituent funds, as pools may be better placed to develop and apply a standardised methodology.

Our response
199. The government will require AAs to report on their local investments, including the total in relation to their target range, and on their impact in their annual reports, as proposed. However, following consideration of responses, pools will now be required to report annually on total local investments made on behalf of their AAs and their impact. The government does not intend to prescribe metrics or other methods for assessing and reporting local impact by either pools or AAs. This will simplify reporting for AAs, who will not need to undertake or commission their own report on their local investments but can draw on the pool's report. It will also enable costs associated with impact reporting to be shared.

4. Governance of funds and pools

Fund governance

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

200. This question asked for views on the government's overall approach to governance, which aims to ensure that the LGPS has robust and resilient governance appropriate to its scale and continues to deliver to a high standard for members and employers in every AA. It builds on the recommendations of the SAB's 2021 Good Governance Review.

Summary of responses
201. There were 159 responses to this question, of which 86% were supportive of the proposal and 12% were opposed. The majority of respondents who answered this question supported the overall approach to governance building on the SAB's 2021 Good Governance review.

202. The main request was for more detail about the proposals. In particular, respondents asked for detailed guidance and for that guidance to be developed in collaboration with the SAB and the sector. A minority of respondents asked for further proposals to reflect the new pooling landscape. There were also questions about when the new requirements would come into force, and some made points about the additional resources that would be required to meet new governance standards.

Our response
203. The government welcomes the broad support for the governance proposals and intends to proceed, with adjustments to the governance and training strategy (Question 19), the independent governance review (Question 23) and the independent member proposal (Question 26).

204. The government understands the call for more detail and will collaborate with the SAB and the Pensions Regulator as appropriate to develop and publish statutory guidance, covering many of the points raised at consultation. In particular, the government believes that the proposals take account of the new pooling landscape, but recognises that there are further specific governance issues, such as how AAs hold their pools to account in the new arrangement, where additional guidance would be helpful. We intend to provide further clarity on those points through guidance, working with the SAB.

205. On timing, our ambition is put the new framework in place as soon as possible so that new requirements are in place for the 2026-27 scheme year. We aim to introduce legislation on the independent governance review later this year, followed by regulations and guidance on all of the proposals that are being implemented.

206. On the cost of the governance proposals, the government's view is that good governance has financial and wider benefits through a governance premium for well governed pension schemes, which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the Pensions Policy Institute (https://www.pensionspolicyinstitute.org.uk/media/t2djkxca/201702-bn89-db-the-role-of-governance.pdf) suggests that this premium could be as high as 2% greater returns a year.

Question 19: Do you agree that AAs should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

207. The government proposed that AAs should be required to prepare and publish a governance and training strategy, to replace the governance compliance statement. This new strategy would set out the AAs' approach to governance, knowledge and training, member representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period.

Summary of responses
208. There were 170 responses to this question, of which 94% were supportive of the proposal and 4% were opposed. Many respondents said that the proposals were best practice, and many AAs have already started to implement them. The conflict of interest policy was highlighted as being particularly important. Some respondents asked how governance and training strategies would be monitored and how AAs would report against them.

209. Some respondents were concerned about the administrative burden of creating a strategy, and many thought that a single document would be too long and unwieldy. Most respondents agreed with the proposal that the strategy must be updated at least once in every valuation period, although many said that it should not clash with the triennial revaluation. Opinion was divided between requests for a central template or guidance and the desire for local flexibility on format. Respondents requested that new strategies align with current reporting requirements where possible.

210. Many respondents said that the training strategy should cover both Local Pension Boards and pension committees. Some also asked for the requirement to extend to pools, particularly the conflict of interest policy. Some individuals and campaign groups asked for a focus on climate issues and ESG in training.

Our response
211. The government welcomes the broad support for this proposal and intends to proceed. Recognising the concerns about the potential length of a single document, the government will require a strategy for governance (including member representation), a training strategy, and a conflicts of interest policy, which may be combined. We recognise that AAs will want to carry out the review of strategies at a different time to the triennial revaluation and will not prescribe when reviews should happen during a valuation cycle.

212. As to extending the requirements to pools, the government does not believe this is necessary. Pool governance is a matter for partner AAs subject to the framework set by government. All LGPS pools will be established as investment management companies, regulated and authorised by the FCA. FCA regulation already requires pools to consider conflicts of interest and disclose these to their partner AAs.

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

213. The government proposed that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund. The role of the senior officer would be set out in the AA's governance and training strategy, and would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, including through the administering authority's budget-setting process.

Summary of responses
214. There were 157 responses to this question, of which 92% were supportive of the proposal and 6% were opposed. Many respondents asked for more detail, in particular about the responsibilities of the senior officer role, as well as how the role would fit into existing structures. Questions were also asked about how the new role would interact with the statutory role of the section 151 (s151) officer, as well as how the new role would interact with the pool.

215. Several respondents were concerned about the statement in the consultation that the senior LGPS officer should be involved in the AA's budget-setting process, given the separation between the pension fund's budget and the AA's budget. There were also concerns about the time and cost of creating and appointing to these roles. This was a particular concern for smaller authorities.

Our response
216. Considering the broad support, the government intends to proceed with this proposal, through an update to the 2013 LGPS Regulations, with accompanying statutory guidance. This will include guidance on the responsibilities of the role in relation to the s151 officer and the pool.

217. The government's view is that pension fund budget-setting should be seen as separate from that of the AA as a whole and should not be subject to resource restrictions which may apply across other functions. The government intends to set this out in the guidance.

218. The government recognises the resource impacts of creating and appointing to the senior LGPS officer role. These are high profile roles with overall responsibility for the management, business planning, strategy and administration of the fund. That will require a robust appointment process and adequate renumeration, but as set out in the consultation, we consider the potential benefits to be much greater than the cost of investing in better governance.

Question 21: Do you agree that AAs should be required to prepare and publish an administration

strategy?

219. The government proposed that AAs should be required to prepare and publish an administration strategy, reviewing it at least every three years (once in every valuation period), in line with the requirement for other strategies.

Summary of responses
220. There were 154 responses to this question, of which 82% were supportive of the proposal and 11% were opposed. The proposals were largely welcomed, with responses highlighting the importance of transparency and a focus on member experience. Most respondents said that their fund already had an administration strategy.

221. There was a mix of views on how prescriptive guidance should be. Many respondents called for consistency across the scheme, but some asked for flexibility to reflect that each fund has its own portfolio of employers and members. Several respondents called for the administration strategy to set out how employers would be held to account for their role in providing good quality data on time.

222. There was also a mix of views on the proposal for the administration strategy to be reviewed at least once every three years. Most respondents supported this, but some were concerned about the cost and time required.

Our response
223. The government intends to proceed with this proposal, through an update to the 2013 LGPS Regulations. As with the governance and training strategy, we will not prescribe when a review of the administration strategy must happen in a valuation cycle. The government intends to work with the SAB to develop accompanying guidance, taking account of points made in consultation.

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

224. The government proposed that, in line with the LGPS in Scotland, AAs should no longer be required to include the full texts of any strategy, including the governance and administration strategies proposed in the consultation, in their annual reports, but should ensure accessibility.

Summary of responses

225. There were 149 responses to this question, of which 87% were supportive of the proposal and 11% were opposed. Respondents were supportive of this proposal to improve accessibility and reduce the complexity of annual reports. Some AAs are already using hyperlinks and have already removed the requirement for policies and strategies to be included in full within the annual report.

226. Some respondents requested a single set of guidance on reporting, noting existing guidance from both The Pension Regulator and the SAB. Some respondents went further, requesting a further review by the Department and SAB of the contents of annual reports, with a view to providing guidance on a summary or streamlined annual report with the metrics of most interest to members. The removal of pension fund accounts from main local authority accounts was also mentioned as a means to improve the accessibility of information to members. Respondents who were opposed suggested that there is no issue with the current publications, or that the changes would be unlikely to lead to improved readability or transparency.

Our response
227. The government intends to proceed with this proposal, and will continue to work with the SAB to provide and maintain guidance.

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

228. The government proposed that each AA should participate in an independent governance review every two years, carried out by independent experts with a good understanding of the LGPS. The consultation proposed that the draft report would go to the senior LGPS officer, pensions committee and local pension board. The pension committee would be required to add commentary and an action plan in the final report. AAs would be required to publish a summary of the final report and submit it to MHCLG.

Summary of responses
229. There were 159 responses to this question, of which 76% were supportive of the proposal and 19% were opposed. The consensus was that a review every two years was unrealistic. Most respondents asked for a three-year cycle in line with the valuation cycle, whilst a few asked for a three or five-year cycle.

230. Several respondents commented on the burden of such a review, both in terms of cost and time. There was a strong desire for the review to be peer-led, rather than by consultants. Many respondents asked for more detail of what the reviews would include, as well as an agreed template. There were also some concerns on the possible use of the Secretary of State's powers to issue directions following a review. A minority of respondents thought that the review might duplicate work already undertaken, or clash with the role of the local pension board.

Our response

231. The government welcomes the strong support for the proposal and intends to proceed. However, the government recognises the strength of feeling about the interval between reviews and intends to require the reviews to take place on a three-year cycle, rather than every two years. AAs will have the flexibility to carry out the review at any point during each valuation period, unless subject to a new power that the government will take, which allows for the Secretary of State to direct that a governance review is carried out of an AA at a specific time. This power will be exercised if there is concern that an AA has significant weaknesses in governance or is not in compliance with scheme regulations.

232. The government accepts that such a review requires time and money, but, as with all the governance proposals, believes the investment in better governance is in the best interest of the scheme and its stakeholders. We are aware that some AAs already carry out governance reviews and intend to ensure consistency across the scheme.

233. After the reviews are completed and submitted to MHCLG, the government envisages that for most AAs, the review will have identified recommendations to be taken forward locally. For some, the LGA's peer support offer, which is currently being developed, may be appropriate. If government has concerns about certain cases, they may bring them to the attention of TPR, who will consider the information in line with their usual approach. For the most serious cases, intervention may come through direction by the Secretary of State under the Public Service Pensions Act 2013, including the power clarified in the Pensions Bill to allow for compulsory merger.

234. The government intends to take a new power in the Pension Schemes Bill to make regulations relating to the independent governance review. The government intends to publish statutory guidance to accompany regulations, including on the points raised in consultation. The government will work with the SAB, the Pensions Regulator and AAs as appropriate to design the review process in detail.

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

235. The government proposed to require that pension committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned.

Summary of responses

236. There were 172 responses to this question, of which 95% were supportive of the proposal and 5% were opposed. Many respondents had views on what training would be included, and who would provide it. As with other governance proposals, there was a mix of views between a desire for local flexibility and a desire for a standardised programme. Specific skill gaps were raised – climate risks in particular – and many respondents highlighted existing resources, most notably the Pensions Regulator toolkit.

237. Respondents agreed that the requirement on knowledge and understanding should apply after a reasonable period of time, such as six months. Many respondents said that the turnover of members was a particular problem and suggested any knowledge requirement be based on the committee as a whole rather than individual members.

238. More detail was requested on what a minimum standard of knowledge would be, to ensure consistency between AAs, and there were questions about how 'appropriate' would be defined. Some respondents wanted more clarity about what level of training substitute members would require before being allowed to take part in decision making.

239. Some respondents said that the training requirement should only apply to s.151 officers and the senior LGPS officer, with the senior LGPS officer responsible for setting the training requirement for other officers. Some of those opposed to the proposal were concerned that the requirements might be too onerous and discourage councillors from serving on pensions committees.

240. Many respondents wanted more detail on how members would be held accountable and what action would be taken if a committee member failed to gain or maintain a level of knowledge and understanding. Some suggested that the training undertaken by members should be published each year.

Our response

241. Considering the broad support, the government intends to proceed with this proposal but recognises that there are a range of views on implementation.

242. Government considers that it is important that all members of the pension committee are held to account and have a high level of knowledge and understanding to contribute to the decision making of the committee. Therefore, we will continue with a knowledge and training requirement that applies to individuals, rather than the committee as a whole. We will consider further how this will apply to substitute members, and how members can be held to account for non-compliance. We intend to work with the SAB on guidance, which will address the points raised at consultation.

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

243. The government proposed to require AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge and understanding requirements.

Summary of responses
244. There were 161 responses to this question, of which 95% were supportive of the proposal and 4% were opposed. The overall response was very supportive of this proposal, especially welcoming improved accountability for AAs through a published strategy, although Similar concerns were raised to those in response to question 24.

Our response
245. Considering the broad support, the government intends to implement this proposal, through an update to the 2013 LGPS Regulations. The government's response to the concerns raised is covered in the response to Question 24. The government will work with the SAB to develop guidance.

Question 26: What are your views on whether to require AAs to appoint an independent person as

adviser or member of the pension committee, or other ways to achieve the aim?

246. The government invited views on securing professional and independent expertise for AAs and pension committees, including through requiring AAs to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration.

Summary of responses
247. There were 157 responses to this question, of which 71% were supportive of the proposal and 18% were opposed. Almost all respondents saw the value of independent expertise, but for most of those opposed to the proposal, their view was that it should be for AAs to decide themselves what expertise they require.

248. There was also significant concern about the suggestion in the consultation that an independent person could be appointed as a voting member. Many respondents thought that having an independent person as a voting member on a pension committee would undermine the principle of democratic accountability in the LGPS. Opinion was divided on whether an adviser would have little or no influence on the voting members of the committee, or too much. Others felt that there was an inconsistency in approach with the proposals to increase knowledge and understanding for members of pension committees.

249. Several respondents said that they were not sure if there were enough qualified people to be independent members, or expressed the view that the market for professional trustees in private sector schemes was much more developed. If there were a lack of available talent, some respondents made the point that funds would have to pay a premium to retain an independent member. Some also asked for more detail about the criteria for people to qualify as independent members.

Our response
250. The government recognises that, of the governance proposals, this proposal received the least support, although the majority of those who responded were supportive. In particular, the point about voting rights was raised by almost all respondents.

251. The government has concluded that AAs should be required to have an independent adviser without voting rights rather than an independent member, as some funds already do. This advisor would be required to have one or more of the following qualifications and experience: qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustee; member of, and

accredited by, the Association of Professional Pension Trustees (APPT); and significant experience of pensions and/or investments.

252. Noting the perceived clash between this requirement and that on knowledge and understanding of committee members, the government's view is that the adviser as a qualified pensions professional would have a different role to the members of the committee.

Pool governance

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

253. The government proposed that in addition to meeting the requirements of the FCA, boards should also include one or two representatives of the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

Summary of responses

254. There were 156 responses to this question, of which 68% were supportive of the proposal and 12% were opposed. There was a strong consensus on the necessity of partner AA representation on pool boards to ensure accountability and alignment of interests. While many agreed that shareholder representatives could fulfil this role, opinions varied on whether shareholder representatives should be nominated as external non-executive directors or should be councillors and officers from the partner AAs. Several responses noted the requirement for executive directors to comply with the FCA's Senior Managers and Certification Regime.

255. Concerns were primarily focused on whether shareholder representation alone might be insufficient to hold pools accountable to partner AAs. Respondents suggested that additional measures would be needed to enhance transparency and build trust among stakeholders, including the government and scheme members. Responses indicated that different solutions might be appropriate for different pools, particularly where the number of partner AAs varies significantly (e.g., London CIV with 33 funds, LPP with 3).

Our response

256. The government has concluded that it is not necessary to impose a single model for how pool shareholders should be represented on the board, recognising that different models will work for different pools and partner AAs. In particular, variation in the number of partner AAs in each pool may require that pools adopt differing governance models to ensure that AA views are adequately represented. Further, while the government believes that in the majority of cases AAs will want to be shareholders of a pool, there may situations where it is preferable for an AA to participate in a pool as a client. In these cases governance arrangements will need to ensure both shareholder and client views are adequately represented.

257. The government notes that in many cases a valid governance arrangement will be to have non-executive directors with appropriate professional expertise on the pool board who have responsibility for representing shareholder interests, as such professionals can bring considerable expertise and experience to the benefit of all AAs. This may be preferable to having AA pensions committee members from a couple of shareholder AAs to represent the full body of partner AAs.

258. The government will not therefore require a specific model of pool governance, but will work with the SAB, pools and AAs to develop guidance on ensuring that governance works for pool shareholders and clients.

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

259. The government sought views on the best way of ensuring that scheme members' views and interests are properly understood and taken into account by the pools. Scheme members must be represented on the local pension boards, and in many cases they also participate in decision making through the pension committee or sub-committees, but this is not mandatory.

Summary of responses

260. There were 141 responses to this question. There was a split between those who believed that this should be achieved at least in part by scheme member representation at the pool (45%) and those who explicitly stated that member representation at the participating AAs was sufficient (34%).

261. Among those who believed scheme members should be involved in pool governance, views differed on how this should be achieved. Although some respondents felt that scheme members or trade union representatives should have a place on the board with full voting rights, this was not the majority view. The SAB and others suggested that member representation

would be more appropriate in the oversight of the pool, rather than the board itself.

262. Some responses from pools described how scheme members are part of their existing governance structures. This includes through oversight boards which have non-voting member representatives, pension committee members attending some pool meetings as observers, or the pool holding public meetings that scheme members can attend. Other suggestions from respondents included establishing a pool advisory body with member representatives or having a representative of the local pensions boards of partner AAs as a voting or non-voting member of the pool board. Some respondents raised the issue of how to ensure that any decision making body – even if it does not have direct member representation – reflects the diversity of the scheme membership.

263. Many of those who did not agree with members being part of the pool governance or decision making felt that the appropriate place for scheme member and trade union representation was at the local pension board and pension committee level in the partner AAs, because these are the bodies responsible for holding the pool to account and for setting the investment strategy. Some respondents also requested that the government implement a recommendation from the SAB Good Governance Review to require AAs to publish a policy setting out how scheme members and employers are represented.

264. The importance of good communication between pools and AAs was raised by many respondents. Pools actively engaging with AAs by attending committee meetings was highlighted as a good example. Many scheme members who responded said that active engagement by the pools with members was important to them, both so they could offer their views to the pools, and to understand what the pools were delivering. It was noted that it requires work and resource to do this well.

265. Most responses from AAs suggested that members would predominantly continue to communicate with the AA rather than the pool, although some said that questions on investment implementation should be addressed to and answered directly by the pool. There were concerns from some respondents that the extension of pooling arrangements would distance scheme members further from decision making and could weaken the relationship between members and the AAs.

266. A number of responses expressed disappointment that there was not a question that explicitly asked about how scheme employer views and interest should be accounted for given that, unlike the benefits received by members, their contribution rates would be sensitive to the investment decisions of the pool. Similarly, some responses noted that the ultimate owner of the assets remains the AAs.

Our response

267. The government notes that member representation in the governance of AAs provides an important route for scheme member views to be part of the process of developing investment strategies, and that AAs will continue to hold their pool to account for the implementation of investment strategies. The government has concluded pools and AAs should work together to ensure that scheme members' views are understood and taken into account by the pools, and should publish their policy on how this is done. We will work with the SAB to highlight good practice and provide guidance.

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

268. The government proposed to introduce new requirements for pool transparency and reporting, including publication of performance and costs. This question also asked for views on other data which could be included in this reporting requirement.

Summary of responses
269. There were 171 responses to this question, of which 95% were supportive of the proposal and 5% were opposed.

270. There was strong support for enhanced transparency and consistency to facilitate effective oversight of asset pools. Many highlighted the importance of clarity and the ability to compare like-for-like performance and costs across pools as crucial, allowing AAs to monitor the performance of their pool compared to others. Some respondents also said that the pools collaborating in achieving consistency would be a good outcome.

271. In terms of the standards and content of reports, some respondents pointed to existing reporting frameworks such as the SAB Cost Transparency Initiative. Many suggested reporting total fees as a proportion of assets under management, including internal and external management fees and transaction costs, along with administration costs. They also emphasised the need for performance reporting over various time horizons, both net and gross of fees. A significant minority also called for reporting against climate targets, for example by making disclosures compliant with the Taskforce on Climate-related Financial Disclosures guidance.

Our response
272. The government notes the strong support for consistent and transparent reporting by pools and is grateful for the suggestions received as to what should be included in reporting requirements.

273. The government will work with the SAB to develop guidance on pool reporting to support transparency and accountability to scheme members, employers and others, including on cost and performance metrics. The government will continue to engage with the pools, AAs, and other users of these metrics in the development of this guidance.

274. The government is also considering formalising its existing voluntary data collection from asset pools, with the intention that this will include performance data. This will not be implemented for the 2024/25 reporting year, and MHCLG intends to collect data on a voluntary basis as usual this year.

5. Equality impacts

Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

275. The government invited views on the impact of the proposals on people who share a protected characteristic.

Summary of responses
276. The majority of respondents considered that no particular groups with protected characteristics would either benefit or be disadvantaged by any of the proposals.

277. Some responses pointed out the impact of climate change on protected groups, which may be affected by pensions investments. Others noted that the proposals could impact on intergenerational equity within the pension system. Some respondents commented that the government should take account of the interests of Welsh speakers when considering its response.

Our response
278. The government considers that the package of reforms will not affect any particular group with protected characteristics adversely. It has considered carefully all of the responses and the specific concerns raised. There will be no change to member contributions or benefits as a result of the proposals in the consultation.

Agenda Item 9

Teesside Pension Board

Annual Report
2024 – 2025

1. Background

The **Teesside Pension Fund** is the Local Government Pension Scheme (LGPS) for local authority employees in the Teesside region (and employees working for other bodies that are eligible to participate). The Fund has over 80,000 members, and assets of approximately £5.58 billion (as at 31 December 2024).

The administering authority for the Teesside Pension Fund is Middlesbrough Council on behalf of all participating employers. The Council has granted authority to manage the investments of the Fund (within the requirements of the Local Government Pension Scheme Regulations) to the **Teesside Pension Fund Committee** which has the power to make decisions without reference to Full Council. The Committee consists of elected members of Middlesbrough Council, representatives from the other unitary authorities and other employers and the trade unions (all of whom have voting rights). The Committee receives support and advice from a number of sources including Council officers and the Fund's Investment Advisers.

Section 5 of the *Public Service Pensions Act 2013* required every LGPS to establish a Board to assist in assuring that the administration of its Pension Scheme complies with all relevant legislation. Pensions Boards are specifically required to assist in:

(a) securing compliance with:
   (i) scheme regulations and other legislation relating to the governance and administration of the scheme;
   (ii) any requirements imposed in relation to the scheme by the Pensions Regulator;
   (iii) such other matters as the scheme regulations may specify

(b) ensuring the effective and efficient governance and administration of the Scheme.

In accordance with the *Public Service Pensions Act 2013* and the Local Government Pension Scheme regulations, the **Teesside Pension Board** ('the Board') was created on 1 April 2015 to assist in the administration of the Teesside Pension Fund. The Board's formal statement of purpose is:

> To assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:
>
> (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
> (b) to ensure the effective and efficient governance and administration of the Scheme.

This means that the Board is providing oversight of these matters and, accordingly, the Board is not a decision-making body in relation to the management of the Pension Fund. The Board makes recommendations and provides assurance to assist in the management of the Fund.

The Board consists of six voting members – three employer representatives and three member representatives. Two employer representatives are appointed from the Councils of Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-on-Tees, and one employer representative is chosen from all other Scheme employers. Two member representatives are appointed from the recognised trades unions representing employees who are Scheme members, and one member representative is appointed from the pensioner Scheme members.

Scheme member representative Paul Thompson of UNISON was Chair of the Board and employer representative Cllr Christopher Massey was Deputy Chair of the Board throughout the year. During the year the other two scheme member representatives on the Board were June Stubbs (UNISON) and Jeff Bell (pensioner representative) and the other two scheme employer representatives were Cllr Nicky Walker (from Middlesbrough Council) and Cllr Martin Dunbar (from Hartlepool Council).

This is the ninth Annual Report of the Board, for the period 1 April 2024 to 31 March 2025.

2. Introduction

Welcome to the ninth Annual Report of the Teesside Pension Board.

The Board seeks to assist the administering authority of the Teesside Pension Fund to maintain effective and efficient governance. We continue to be supported in this role by officers of Middlesbrough Council (the administering authority for Teesside Pension Fund), and we have also been assisted by specialist external advisers, and by staff from XPS Administration who deal with the day-to-day pension administration.

As highlighted in previous annual reports Teesside Pension Fund entered into an agreement to pool what now represents over half of its investments with other LGPS Funds through Border to Coast Pensions Partnership Limited (‘Border to Coast’). Border to Coast was set up, and is wholly owned, by eleven LGPS administering authorities each responsible for an LGPS fund (originally twelve administering authorities were involved until the long-planned merger of two of those authorities was confirmed, backdated to 1 April 2020). Border to Coast was established to meet central government’s requirement that local government pension schemes pool their investment assets with the aims of providing savings and improving governance. Middlesbrough Council (as administering authority for the Teesside Pension Fund) is one of the owners and customers of Border to Coast.

Initial investments with Border to Coast were in public equities (shares) and all the Fund’s UK equities transferred during 2018/19 to be managed by Border to Coast, using the same low-cost ‘internally managed’ approach but delivered by a larger team of investment professionals based in Leeds. The Fund also made a relatively small initial investment in Border to Coast’s internally managed overseas equity fund during 2018/19, followed by a transfer of the majority of the rest its overseas equities in 2021/22 from being managed passively (by State Street Global Advisors) to being actively managed by Border to Coast (again, using a low-cost ‘internally managed’ approach). The Fund has also invested in Border to Coast’s Emerging Markets Fund and is making increasingly significant investments into Border to Coast’s private markets funds. Initially this was private equity and infrastructure but from 2021/22 onwards investments also being made into Border to Coast’s Climate Opportunities fund. This fund will invest in a suitably diversified global portfolio of climate-related opportunities such as renewable energy, green hydrogen, carbon capture and storage and energy storage. During the year the Fund sold its remaining passive equity investments held with State Street Global Advisors, with around half of the proceeds being invested with Border to Coast’s internally managed overseas equity fund and the remainder being retained in the Fund as cash in the medium term. As at

31 December 2024, 63.1% of the Fund's assets were invested through Border to Coast, with this percentage expected to increase over the coming months and years.

Teesside Pension Board has received updates and commented on the process of establishing and developing Border to Coast. The Board is conscious that the Teesside Pension Fund is fully funded and has benefited from low running costs. The Board will therefore continue to closely monitor the progress of Border to Coast to satisfy itself that any movement of assets into Border to Coast remains in the interest of the Teesside Pension Fund and its members, and that Border to Coast is meeting the aims of providing savings and improving governance.

3. Board Activity 2024 – 2025

Over the 11 months to the end of February 2025, global equity market performance was volatile but positive overall. The US in particular performed well, although as in the previous year US stock market growth was significantly dependant on a small range of technology stocks which have benefited from investor interest in artificial intelligence and its potential current and future applications. Market concentration in the US continues to be a factor during the period, with the largest five stocks in the S&P 500 (Apple, Nvidia, Microsoft, Amazon and Alphabet) making up nearly a quarter of its total market capitalisation. Returns in Japan were negative over the period but were positive in the UK and Europe.

The overall value of the Fund's assets improved and is on course to remain over £5 billion. Interest rates were reduced three times by the Bank of England over the year from 1 April 2024 but remain at 4.5%, similar to rates seen before the 2007/2008 global financial crisis. This has influenced market views on long-term return rates which in turn reduce the value the actuary places on the Fund's liabilities. If this position does not change imminently it makes to an improvement in funding level at the next actuarial valuation more likely.

Although the Board has no role in deciding how the Fund is invested, it does have a role in overseeing the Committee's actions in this respect. As the global economy continues its progress to a more challenging, volatile and less benign period, the Fund's investment approach is likely to face challenges and the Board's oversight role will remain important during the coming months and years.

Over the course of 2024/25 planned meetings were held although one was cancelled as it was inquorate.

The Board has been able to continue in its role and carry out its responsibilities to ensure effective governance. As well as continuing to receive minutes and verbal updates from Pension Fund Committee meetings (meetings which all Board members are able to attend and all Board members receive agendas for), over the course of the year the Board has considered papers or had oral reports covering the following areas:

- The Fund's annual Business Plan
- The Board's own Annual Report
- The Draft Annual Report for the Fund (containing the Fund's accounts).
- Board membership and training
- Administration reports from XPS – these include performance against service level agreement targets, information on general administration activity, statistics on appeals

cases and details of current and future issues impacting, or potentially impacting, on the administration of the Fund.

- Pensions Regulator General Code of Practice Compliance Assessment and Review
- Updates on work programme items (see below), including:
    - Internal controls and managing risks
    - Pension Dashboards
    - Pension Board conflicts of interest
    - Pension Board Statutory Responsibilities

4. Board work programme

At its 19 July 2021 meeting the Board confirmed that the focus of its activity would be guided by the general principles set out by the Pensions Regulator. The Pensions Regulator's website lists the following areas of governance and administration that those responsible for running, overseeing or advising a public service pension scheme need to focus on:

- **"Reporting duties**
  Managers of public service pension schemes must ensure that the scheme return we issue each year is completed on time. They must also tell us of any changes to their scheme's 'registrable information' as soon as possible.

- **Internal controls and managing risks**
  Public service pension schemes need to have good internal controls. They are a key characteristic of a well-run scheme and will enable risks to the scheme to be managed effectively.

- **Record-keeping**
  Failing to maintain complete and accurate records can affect the ability of your public service pension scheme to carry out basic functions. Accurate record-keeping is crucial in ensuring that benefits are paid correctly.

- **Communicating to members**
  Members of public service pension schemes need to receive information to help them understand their pension arrangements and make informed decisions.

- **Publishing scheme information**
  Certain information relating to public service pension schemes needs to be published so that scheme members and interested parties know that their scheme is being managed effectively.

- **Maintaining contributions**
  Public service pension schemes need to have procedures and processes that enable you to effectively monitor pension contributions, resolve payment issues and report payment failures.

- **Pension board conflicts of interest and representation**
  In public service pension schemes, potential conflicts of interest need to be identified and managed to prevent actual conflicts of interest arising.

- **Resolving internal disputes**

Internal dispute resolution (IDR) arrangements play an important part in the management of a public service pension scheme. They enable someone with an interest in the scheme to ask for a matter in dispute to be resolved.

- **Reporting breaches of the law**
  Certain people involved with the governance and administration of a public service pension scheme must report certain breaches of the law to us."[1]

Taking these principles and its own Terms of Reference into account the Board set out its work plan as follows (shown here after being updated during the year):

[1] (from https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes/scheme-management)

Teesside Pension Board Work Plan		
Date of Board meeting and any standard items scheduled	**Suggested areas of focus (from the Pensions Regulator's Public Service Toolkit list)**	**Suggested activities (including from the Scheme Advisory Board guidance)**
April 2024 *Annual Board Report*	*Pension Board statutory responsibilities*	*Pensions Dashboards*
July 2024 *Draft Report and Accounts*		
November 2024 *Annual Review of Board Training*		*Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme*
February 2025	*Conflicts of interest*	*Update on Code of Practice review*
March 2025 *Annual Board Report*	*Managing risk and internal controls*	*Review of risk register* *Review internal and external audit reports*
July 2025 Draft Report and Accounts	Maintaining accurate member data	Review administration reports, including data quality scores and progress in relation to any data improvement plans.
November 2025 Annual Review of Board Training	Maintaining member contributions	Review administration reports including in relation to any late payment of contributions. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2026	Providing information to members and others	Review standard employer and scheme member communications. Review procurements carried out by Fund
April 2026 Annual Board Report	Resolving internal disputes	Review and internal dispute cases / Pensions Ombudsman cases since the last review. Review the outcome of actuarial reporting and valuations.
July 2026 Draft Report and Accounts	Reporting breaches of the law	Review breaches process and log. Review the complete and proper exercise of employer and administering authority discretions.
November 2026 Annual Review of Board Training		Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme

(2024/25 activities are shown in *italics* above)

Appendix – Board membership and meeting attendance

Membership

Paul Thompson – **Chair**	Scheme member representative (UNISON)
Jeff Bell	Scheme member representative (retired members)
June Stubbs	Scheme member representative (UNISON)
Christopher Massey – **Deputy Chair**	Employer representative (Councillor, Redcar & Cleveland Council)
Martin Dunbar	Employer Representative (Councillor, Hartlepool Council)
Nicky Walker	Employer representative (Councillor, Middlesbrough Council)

Meeting attendance:

	8 April 2024	8 July 2024	25 November 2024	26 February 2025	31 March 2025
	Inquorate				
P Thompson	✓	✓	✓	✓	
J Bell	✓	✓	✓	✓	
J Stubbs	✗	✓	✗	✗	
C Massey	✗	✓	✗	✓	
M Dunbar	✗	✗	✗	✗	
N Walker	✗	✗	✓	✗	

TEESSIDE PENSION BOARD REPORT

07 JULY 2025

DIRECTOR OF FINANCE AND TRANSFORMATION– ANDREW HUMBLE

Update on Work Plan Items

1. PURPOSE OF THE REPORT

1.1 To present Members of the Teesside Pension Board (the Board) with information on items scheduled in the work plan for consideration at the current meeting.

2. RECOMMENDATION

2.1 That Board Members note this report and discuss any issues arising from it.

3. FINANCIAL IMPLICATIONS

3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

4.1 At its meeting on 19 July 2021 the Board agreed an updated work plan for the coming months and years which set out areas for the Board to discuss or consider at subsequent meetings. These were typically areas that the Pensions Regulator and/or the Scheme Advisory Board (SAB) had identified as important for Local Pension Boards to consider. This work plan has been reviewed and updated periodically by the Board, with the last updated approved at its 25 November 2024 meeting.

4.2 The items scheduled for consideration in the work plan for this meeting are managing risk and internal controls, a review of the risk register and a review of internal and external audit reports – detail on these is set out below. The current work plan is contained at Appendix A.

5 MANAGING RISKS AND INTERNAL CONTROLS

5.1 The Pensions Regulator's recently General Code of Practice gives the following very broad definition of Internal Controls:

"Internal controls refer to all the following:

- the arrangements and procedures to be followed in the administration and management of the scheme
- the systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme."

This paper will focus on the Pension Fund's internal controls in relation to managing risks.

5.2 The Fund's Risk Management Policy (attached at Appendix B) details the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk.
- How risk management is implemented.
- Risk management responsibilities.
- The procedures that are adopted in the Fund's risk management process.
- The key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

5.3 Effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Fund can:

- Demonstrate best practice in governance.
- Improve financial management.
- Minimise the risk and effect of adverse conditions.
- Identify and maximise opportunities that might arise.
- Minimise threats.

5.4 In relation to understanding and monitoring risk, the Administering Authority aims to:

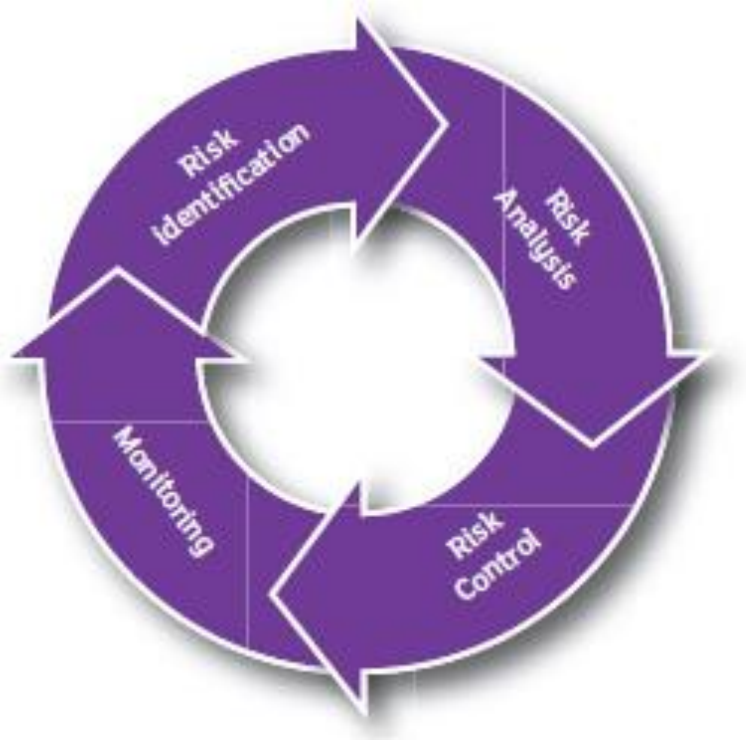
- Integrate risk management into the culture and day-to-day activities of the Fund.
- Raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners).
- Anticipate and respond positively to change.
- Minimise the probability of negative outcomes for the Fund and its stakeholders.

- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.
- Ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

5.5 To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- The CIPFA Managing Risk publication.
- The Pensions Act 2004 and the Pensions Regulator's Code of Practice as they relate to managing risk for public service pension schemes.

5.6 The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risk Analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating.

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

Risk Control

Risk control specifies actions taken to reduce the likelihood of a risk event happening, the frequency it could happen and reducing the impact if it does occur. Possible courses of action against risk:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

Risk Monitoring

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Administering Authority / Committee considers whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to be learned for the future assessment and management of risks.

Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register (appended to the Pension Fund Business Plan – a separate item on the agenda), including any changes to the internal controls, will be provided at least annually to the Pension Fund Committee. The Pension Fund Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review will be carried out at least twice a year.

As a matter of course, the Teesside Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.

Appendix B

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the Teesside Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it will be included in the Risk Register.

Risk Matrix

The risk matrix is adapted from the one used by the Council and the External Auditor's assessment of materiality (typically 1% of the overall Fund value i.e. over £50 million) is used as the high value for the purposes of scoring the identified risks.

Likelihood	**5**	**Almost Certain >80%**	Low (5)	Medium (10)	Medium (15)	High (25)	High (35)
	4	**Likely 51% - 80%**	Low (4)	Low (8)	Medium (12)	High (20)	High (28)
	3	**Possible 21% - 50%**	Low (3)	Low (6)	Medium (9)	Medium (15)	High (21)
	2	**Unlikely 6- 20%**	Low (2)	Low (4)	Low (6)	Medium (10)	Medium (14)
	1	**Rare <6%**	Low (1)	Low (2)	Low (3)	Low (5)	Low (7)
			1	**2**	**3**	**5**	**7**
			Insignificant	**Minor**	**Moderate**	**Major**	**Extreme**

6. RISK REGISTER REVIEW

6.1 The Pension Fund's risk register is included as an appendix to the Pension Fund Business Plan for 2025/28, which is on this meeting agenda as a separate agenda item.

7. REVIEW OF INTERNAL AND EXTERNAL AUDIT REPORTS

7.1 The Council's internal audit function is carried out by Veritau. Typically, Veritau carries out separate audits each year on the Pension Fund's administration and investment functions. The most recent reports in relation to these audits (both carried out during the 2024/25 financial year) are enclosed as Appendix B. Both audit reports have a "Substantial Assurance" rating.

7.2 The Council's external auditor is Forvis Mazars. Forvis Mazars initially reports its findings in relation to the Pension Fund's accounts (which are a subset of the Council's accounts) to the Council's Audit Committee. For the 2023/24 accounts Forvis Mazars was not able to complete its audit before the statutory backstop date this year of 28 February 2025. Consequently, it issued a disclaimer of opinion in relation to the Pension Fund's accounts, Forvis Mazars explain "This means we are expressing no opinion on the financial statements." Nevertheless, Forvis Mazars has issued an audit completion report (enclosed as Appendix C) which has been presented to the Council's Audit Committee and subsequently circulated to the Pension Fund Committee. The report contains observations in internal control and a summary of misstatements to the financial statements that were identifies and corrected during the audit.

7. NEXT STEPS

7.1 The workplan will continue to be provided to future Board meetings.

AUTHOR: Nick Orton (Head of Pensions Governance and Investments)

TEL NO: 01642 729024

Teesside Pension Board Work Plan

Date of Board meeting and any standard items scheduled	**Suggested areas of focus (from the Pensions Regulator’s Public Service Toolkit list)**	**Suggested activities (including from the Scheme Advisory Board guidance)**
November 2024 Annual Review of Board Training		Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2025	Conflicts of interest	Update on Code of Practice review
March 2025 **Annual Board Report**	**Managing risk and internal controls**	**Review of risk register** **Review internal and external audit reports**
July 2025 Draft Report and Accounts	Maintaining accurate member data	Review administration reports, including data quality scores and progress in relation to any data improvement plans.
November 2025 Annual Review of Board Training	Maintaining member contributions	Review administration reports including in relation to any late payment of contributions. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2026	Providing information to members and others	Review standard employer and scheme member communications. Review procurements carried out by Fund
April 2026 Annual Board Report	Resolving internal disputes	Review and internal dispute cases / Pensions Ombudsman cases since the last review. Review the outcome of actuarial reporting and valuations
July 2026 Draft Report and Accounts	Reporting breaches of the law	Review breaches process and log. Review the complete and proper exercise of employer and administering authority discretions.
November 2026 Annual Review of Board Training		Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme
February 2027	TBC	TBC
April 2027 Annual Board Report	TBC	TBC
July 2027 Draft Report and Accounts	TBC	TBC
November 2027 Annual Review of Board Training	TBC	TBC

Appendix B

Pension Fund Administration

Middlesbrough Council (Teesside Pension Fund)

Internal Audit Report

Business Unit: Finance
Responsible Officer: Director of Finance
Service Manager: Head of Pensions Governance and Investments
Date Issued: 6 August 2024
Status: Final
Reference: F1120/003

	P1	P2	P3
Actions	0	0	1
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

Teesside Pension Fund (TPF) is financed through contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from fund investments. The TPF's assets, after payment of benefits, are invested as directed by the Pension Fund Committee.

The day-to-day running of the TPF is delegated to the Director of Finance of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pension Fund Committee. The Director delegates responsibility to the Head of Pensions, Governance and Investments who oversees two groups. The Pensions Administration Team is responsible for the calculation and payment of pension benefits and for looking after employer interests in the TPF. This function is currently outsourced and is delivered by XPS Administration.

The Pensions Governance and Investments Team manages the investment of the TPF in conjunction with the advice of TPF's external investment advisors and provides support to the Pension Fund Committee and Teesside Pension Board (TPB). The TPB assists Middlesbrough Council, as the Administering Authority, to:

a) secure compliance with the regulations, any other legislation relating to the governance and administration of the scheme, and requirements imposed by the Pension Regulator in relation to the scheme; and

b) to ensure the effective and efficient governance and administration of the TPF.

The 2023/24 XPS Administration service delivery report confirmed that as of Q4 total membership was 82,213, broken down as follows:

- 26,220 Actives
- 28,180 Deferred
- 24,384 Pensioners
- 3,429 Widow/Dependent.

Every three years the TPF has a health check known as the valuation. The latest health check was undertaken in 2022 and confirmed that the TPF had a surplus of £684m relative to the liabilities, meaning that the funding level (the value of assets divided by the liabilities) was 116%.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Pensions Administration is operated in accordance with relevant legislation and agreed processes, and that support and guidance is provided to employers to ensure the quality of returns.
- Payments of pension made using Altair LGPS platform are accurate, timely, agree to supporting documentation held and are appropriately authorised.
- Bank account changes are verified and there is evidence of the checks made to minimise the risk of payments to a fraudulent bank account.

Key Findings

We were provided with evidence and explanations to confirm that pension administration is being operated in accordance with relevant legislation and that processes ensure any changes in legislation are identified and acted upon promptly. We confirmed that TPF pension administrators are notified of legislation changes by the Local Government Association and using the Perspective platform [1]. In 2023-24, three statutory instruments were successfully processed by the Technical Manager, changes were defined and implemented, and relevant administration teams and other stakeholders were informed of the changes in a timely manner.

The TPF Governance policy and the Communication policy were last reviewed in December 2021 which is within the stated 3-year review period. The TPF Pensions Administration Strategy states that it should be reviewed annually by the administering authority; however, the last review to take place was in December 2021.

Pension administrators have provided support and guidance to all scheme employers with details of data quality expectations and advice on how to address errors before submitting. Timescales are also provided to ensure that employers are aware of when they must submit the information by. A communication plan was issued to employers on 20th February 2024 instructing them on the scheme communication, timeline and data quality expectations for end of year submissions. Contact details for further advice and an opportunity to attend a drop-in session and virtual training were also provided. A review of the TPF board minutes confirmed that all employers had submitted their data within the required 15th May timescale.

A review of the Employer Contributions Spreadsheet, where the pension administration team records contributions from scheme employers, has shown that it is updated and maintained as income is received on a monthly schedule. Reconciliations are undertaken each month between the Employer Contributions Spreadsheet, Business World and TPF bank account. The process includes a report which

[1] Perspective is a platform containing timeline regulations and pensions related materials covering the Local Government Pension Scheme Regulations.

notifies staff of any discrepancies requiring attention. At the time that this audit report was issued we had not received confirmation as to whether there are any current unresolved discrepancies relating to employer contributions for 2023/24.

Each year, pension payments to members are increased in line with inflation. A review of this process has confirmed that a provisional pension increase is run ahead of the rise to identify errors before the increase is made live. Pensions are paid out to members as part of the monthly payroll run and are reconciled each month by headcount and checks that new leavers and starters are correct as per the Movement Summary report.

Newly retired members are provided with a pensions option form and the monthly payments are calculated and signed off by the new retiree then balanced against the payroll. Where there have been errors in the calculation, the administration team identifies and corrects them promptly.

Processes are in place to identify overpayments to members and to leavers. Net deduction plans are set up where necessary with the member to recoup overpayments.

The pension administration team use the Lexis Nexis system to check that requests for changes to members' bank details are genuine. Further documentation is also required as evidence. Staff have access to up-to-date guidance to use Lexis Nexus. Testing confirmed that Lexis Nexus checks are used in all cases where relevant. The only exceptions were for overseas bank accounts and power of attorney requests where different processes apply. The testing confirmed that the required processes were also complied with for each case we reviewed. Where a Lexis Nexus scan fails, further evidence is requested from the member and the change is not processed until all security checks have been passed.

The process of making bank detail changes includes a separation of duties between making the checks and processing the new data. Testing has shown that bank change requests are processed as promptly as possible to ensure they are relevant for the next payroll run. requests which are received after the cut-off date are deferred to the next month's payroll run.

Overall Conclusions

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 The Administration Strategy has not been reviewed annually.

Issue/Control Weakness	Risk
A key governance document has not been reviewed within the required timescales.	Policies and procedures fail to provide adequate and up to date guidance for staff involved in pensions administration.

Findings

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the TPF, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers, and a governance policy which sets out the procedures for the governance of the TPF. The regulations also provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy. The TPF publishes its communications policy and its governance policy on its website. The Administration Strategy is available via the Teesside Pension Fund Committee's meeting minutes. All three documents were last reviewed by the Teesside Pension Fund Committee in December 2021 along with the training policy, the conflict of interest policy, the risk management policy, the procedures for reporting breaches of law and the fund officer's scheme of delegation.

The Administration Strategy states that it should be reviewed annually but we have not seen any evidence that this has been undertaken since December 2021. At this committee meeting, it was stated that, as a charging policy and other changes had been made to the strategy, it would be sent out to employers for consultation and would be resubmitted to the committee for review if any substantial changes had been made. As this has not happened, it is possible that the consultation process did not result in any substantial amendments to the strategy. We have reviewed this document and we have not found any information that is out of date. However, it is important that the strategy is reviewed in line with agreed review timescales in order to identify any changes in legislation or working practices that may impact on its content.

Agreed Action 1.1

The Administration Strategy will be reviewed, updated if necessary, and presented to the next Pension Fund Committee (25 September 2024) for approval.	**Priority**	3
	Responsible Officer	Head of Pensions, Governance and Investments
	Timescale	30 September 2024

Audit Opinions and Priorities for Actions

Audit Opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Veritau

INTERNAL AUDIT REPORT

TEESSIDE PENSION FUND INVESTMENTS

MIDDLESBROUGH COUNCIL

Page 130

	Critical	Significant	Moderate	Opportunity
Findings	0	0	2	0
Overall audit opinion	Substantial Assurance			

Status: Final

Date issued: 18th March 2025

Responsible officer: Director of Finance and Transformation

Veritau

INTRODUCTION

With over 6.1 million individual members and around 18,000 participating employers, the Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. All staff employed in local government can join the LGPS scheme.

Investment or pensions committees are the most common decision-making bodies in LGPS schemes. In 2023/24, the Teesside Pension Fund Committee met 4 times.

The Committee's responsibilities include approving the Teesside Pension Fund's investment strategy statement and setting investment targets ensuring that they are aligned with the Teesside Pension Fund's risk appetite; monitoring the performance of Border to Coast; and selecting, dismissing, and monitoring the Teesside Pension Fund's advisors; including investment consultants.

The Teesside Pension Fund's Calls and Distributions (also called the Drawdown) process, is the ongoing recording of the investments, made by Teesside Pension Fund, in other companies. The process also tracks the transactions between the Teesside Pension Fund and the investment companies such as capital, payments, and the eventual settlement with the companies that Teesside Pension Fund has invested in once the investment period has come to an end.

The Teesside Pension Fund's risk register highlights various risks, including those relating to investments underperformance, and inability to gather robust, quality, or timely data from Border to Coast. The risk register is presented to the Committee at least annually, normally presented to the to the March Committee each year.

OBJECTIVES AND SCOPE

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- Calls and Distributions are undertaken in accordance with agreed processes and are appropriately authorised.
- Teesside Pension Fund's risk register entries relating to investment risks are regularly monitored, updated, and reported to the Pension Fund Committee in line with agreed processes.

KEY FINDINGS

Our work confirmed that the Calls and Distributions process is being undertaken in accordance with agreed processes and that that transactions are being authorised appropriately. We reviewed the roles performed by both the Pensions and the Governance teams and the process for management to sign off transactions.

We reviewed transactions from across the 2024-25 financial year and we confirmed that there is sufficient evidence to support all stages of the Calls and Distributions process, including the authorisation of the required initiator and approver. We noted an instance where an asset was being managed by the Head of Pension and Investments who would normally approve all transactions. Evidence was provided to show that this had been identified and a countersignature was obtained from the Deputy Head of Pensions, in order to demonstrate independent oversight of this transaction.

We reviewed the processes in place for ensuring the Fund's risk register entries are regularly monitored, updated, and reported to the Pension Fund Committee in line with agreed processes. Currently, the Fund's risk register is reported annually to the Pension Fund Committee and undergoes a review shortly before this takes place. This means that any in-year activities which may impact on the content of the register may not be reflected in a timely manner. The register is included in the agenda meeting pack, as an appendix to a larger document, and is therefore not an easily accessed document. Also, the Pension Fund Committee meeting minutes do not demonstrate that the register has been actively reviewed and considered during these meetings. A more regular reporting schedule, with the register having a more prominent place on meeting agendas would assist in demonstrating a more robust approach to monitoring risks.

Currently there is no regular liaison between the Head of Pensions and Investments and the Council's Risk and Insurance Manager in terms of identifying risk-related issues that may impact on both the Fund's risk register and the Council's strategic risk register.

OVERALL CONCLUSIONS

Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

1 Review of the Fund's risk register

Moderate

Control weakness.
The Fund's risk register is currently only reviewed and updated once a year, prior to being presented to the Pension Fund Committee.

What is the risk?
The risk register is not updated in a timely manner meaning that new and emerging risks are not identified and mitigated promptly.

Findings

Currently, the Fund's risk register is reviewed by the Head of Pensions and Investments prior to its annual presentation to the Pension Fund Committee, usually in March. As the report is not updated on a more regular basis, any in-year activities that impact on risk management and mitigation may not be accurately reflected within the report in a timely manner.

The risk register is not a standing item on the committee agenda, and it is appended to a larger report that is presented to the committee. Meeting minutes do not demonstrate that the risk register has been actively reviewed.   A more regular reporting schedule, with the register having a more prominent place on meeting agendas would assist in demonstrating a more robust approach to monitoring risks.

Agreed action

The risk register will be presented at each quarterly Pension Fund Committee meeting, with any emerging or high risks highlighted for discussion.

Responsible officer: Head of Pensions, Governance and Investments **Timescale**: 30th June 2025

2 Lack of co-ordination on risks between the Council and the Fund — Moderate

Control weakness.
Lack of co-ordination between the TPF risk register and the Council's risk register owners regarding joint risks.

What is the risk?
Risks that relate to both the Council and the Fund are not effectively managed and mitigated.

Findings

The Head of Pensions and Investments is responsible for updating the Fund's risk register. The Council also has its own strategic risk register. There is currently no liaison between the Head of Pensions and Investments and the Council's Risk and Insurance Manager for risk related issues that impact on both registers.

The Council's Risk and Insurance Officer has highlighted his willingness to be involved in a bi-annual review of the Fund's register to ensure that any issues impacting on both registers can be managed in a more co-ordinated manner moving forwards.

Agreed action

A meeting with the Council's Risk and Insurance Officer will be arranged to discuss setting up bi-annual meetings to review the Fund's risk register.

Responsible officer: Head of Pensions, Governance and Investments **Timescale**: 30th June 2025

Agreed action

To have bi-annual meetings with the Council's Risk and Insurance Officer to review the Fund's risk register.

Responsible officer: Head of Pensions, Governance and Investments **Timescale**: 30th June 2025

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

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Audit Completion Report

Teesside Pension Fund – year ended 31 March 2024

February 2025

Contents

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.
Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

01

Executive Summary

Executive summary

The scope of our audit and implications of the backstop arrangements

Our audit of the financial statements

The detailed scope of our work as your appointed auditor for 2023/24 is set out in the National Audit Office's (NAO) Code of Audit Practice ('the Code'). Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ("the 2014 Act") and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) ("auditing standards") and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Audit Strategy Memorandum, which we presented to you on 25 July 2025. The government has introduced measures intended to resolve the local government financial reporting backlog. Amendments to the Accounts and Audit Regulations require the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, we are required to provide our audit report in sufficient time to enable the Council to meet these responsibilities, whether the audit is completed or not.

Auditing standards require auditors to consider whether they have obtained sufficient appropriate assurance that the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Where the auditor determines they have been unable to obtain sufficient appropriate assurance, they must consider the implications of this on their audit report.

As a result of the backstop arrangements, we have determined that there is insufficient time to complete our audit procedures so as to obtain sufficient appropriate evidence, and, in our view, the effects of the resulting lack of assurance is both pervasive and material to the financial statements as a whole. As a result, we intend to issue a disclaimer of opinion on the Pension Fund's financial statements. We have included our proposed audit report in Appendix B.

When an opinion is disclaimed the auditor does not express an opinion on the financial statements and, consequently, no assurance is provided on the financial statements. Members will note that the form and content of this report differs substantially from the report which they will have seen in previous years. We provide more details on this in section 3.

Internal control recommendations and misstatements

Despite our intention to issue a disclaimer of opinion, where matters come to our attention through the course of our audit, we may be required to report these to you. Section 3 sets out any internal control recommendations we have made and any misstatements identified in the draft financial statements and how these have been addressed by management.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts. No such correspondence has been received.

02

Audit Approach

Audit Approach

Changes since we issued our Audit Strategy Memorandum

Section 1 of this report explains the implications of the backstop arrangements introduced by the recent amendments to the Accounts and Audit Regulations and confirms that we intend to issue a disclaimer of opinion on the Fund's financial statements. As a result, we have not completed our planned procedures to respond to the significant and enhanced risks which we previously reported to you.

Materiality

We are required to determine materiality and report this to you, irrespective of whether we are disclaiming our opinion.

Our provisional materiality at the planning stage of the audit was set at £54.735m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the Fund Account of £18.251m at the planning stage of the audit using a benchmark of benefits payable.

We received a revised set of draft accounts on 10 January 2025, updated to reflect amendments from the audited accounts presented to audit committee in December 2024. Our provisional materiality was updated to £55.290m with no change made to provisional specific materiality for the Fund Account.

Based on the financial statement figures and other qualitative factors, performance materiality was set at £27.645m; the trivial threshold was set at £1.659m and the final specific performance materiality for the Fund Accounts was £9.126m.

Summary of Risks

There have been no changes to the risks identified which we communicated in our Audit Strategy Memorandum, issued on 24 July 2024.

Whilst we planned our audit to address the risks of material misstatement we identified at the planning stage, we will not have completed our work in advance of the backstop date and as such do not provide any assurance over individual areas of the financial statements or the financial statements as a whole, nor do we provide assurance over any of the identified risks. These risks are summarised below.

Significant risks

We identified the following significant risks:

- management override of controls; and
- valuation of unquoted (Level 3) investments.

Enhanced risks / areas of significant management judgement

We did not identify any enhanced risks or areas of significant management judgement.

Although we are unable to provide any assurance over the areas of risks we have identified, where matters have come to our attention during the course of the audit that we consider to be important to bring to your attention, we have included these in section 3 of this report.

03

Significant findings

Significant findings

Background and modification of the audit opinion

As we outlined earlier in this report, as a result of the backstop arrangements, we have not been able to complete sufficient audit procedures to enable us to provide an unmodified opinion on the Fund's financial statements. As we have determined that the pervasive effects, or potential pervasive effects on the financial statements of the lack of sufficient appropriate assurance are both pervasive and material, we will be issuing a disclaimer of opinion. This means we are expressing no opinion on the financial statements.

Appendix B sets out our draft audit report which explains the basis of our disclaimer of opinion being the introduction of the backstop arrangements which require the Council to publish its audited 2024/25 financial statements by 28 February 2025.

Members will note that the draft audit report does not report on other matters that would usually appear in an unmodified audit report. These include:

- the use of the going concern assumption in the preparation of the financial statements; and
- the consistency of the other information presented with the financial statements.

Although we are disclaiming our audit opinion, auditing standards require us to report matters to you that have come to our attention during the course of our audit, which we include in this section of this report.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2023/24 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No statutory objections have been made.

Significant matters discussed with management

As part of our audit, we sought and obtained information from management in relation to actual or suspected non-compliance with laws and regulations, and any actual or suspected fraud which could materially impact upon the financial statements.

Based on our review of the information received, we have no matters to report in relation to fraud and the Fund's compliance with laws and regulations. We have not undertaken any further work in these areas and do not provide any assurance that the financial statements are free from material error.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Our observations on internal control

As part of our planning procedures, we obtained an understanding of the Pension Fund's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and to determine the nature, timing and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of the Pension Fund's internal controls, we are required to evaluate any deficiencies in internal control that come to our attention, even though we intend to issue a disclaimer of opinion.

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- a necessary control to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit, as originally planned before the backstop arrangements came into force, was to express an opinion on the financial statements. The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified through the audit procedures we were able to complete before the backstop date. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported. Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency are of sufficient importance to merit the attention of the Audit Committee.

The significant deficiencies in the Pension Fund's internal controls that we have identified as at the date of this report are in set out on the following pages.

Other observations on internal control

We also report to you, our observations on the Pension Fund's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

Whether internal control observations merit attention by the Audit Committee and/ or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

Our observations on internal control

Significant deficiencies in internal control

Deficiencies identified in 2022/23

In the 2022/23 audit completion report presented to the December 2024 audit committee, the predecessor auditor identified internal control recommendations in the following areas:

- Recording of assets valuations
- Production of financial statements
- Reconciliation to custodian reports
- Support for sensitivity disclosures
- Review of submissions to the Actuary
- Retention of Fund Membership Data

We have discussed these matters with management, who have had limited time to make changes since the report was presented at the last audit committee. We understand that work is currently ongoing to respond to identified internal control recommendations and these will be implemented for the 2024/25 accounts.

Deficiencies identified in 2023/24

In our view, the deficiencies in internal control set out in this section result in a potential for financial loss, damage to reputation, or a loss of information. This may have implications for the achievement of business strategic objectives. Our recommendations should be considered for immediate action.

Description of deficiency

For the financial year 2023/24, we reviewed the meeting minutes and attendance records of committee members as listed on the Middlesbrough Council website. We identified three instances where the client could not provide declarations of interest for individuals who attended the meetings as non-councillor members. According to the Middlesbrough Council constitution, “voting rights are held by all members, including scheme member representatives, as long as they are not employees of Middlesbrough Council.” This means a member could potentially vote on a motion without declaring their interest.

We note from discussion with the Pension Fund that members are asked to declare their interests at the beginning of all Pension Fund committee meetings and are appraised at induction training for potential conflicts of interest.

Potential effects

Committee members may vote on agenda items in which they have an undeclared personal interest, leading to potential conflicts of interest.

Recommendation

The Monitoring Officer should ensure that the register of interests is regularly checked throughout the year.

Management response

The Monitoring Officer will conduct a regular review of members of the Pension Fund Committee and ensure that all members attending meetings have provided an up-to-date declaration of interest form.

Summary of amendments to the financial statements

The Interim Director of Finance (s151 Officer) authorised the Council's draft financial statements for issue on 24 September 2024.

Although we intend to issue a disclaimer of opinion, we still report any amendments which management have made to the draft financial statements, identified either through the audit procedures that we have undertaken, or separately by management.

This information is provided to the Audit Committee for information and to support it to discharge its responsibilities. It is important for members to note that, given we are issuing a disclaimer of opinion, we provide no assurance over the material accuracy of the amendments that have been made to the draft financial statements which are summarised in this section.

Amendments to the financial statements

Management has processed the amendments set out in the table below:

Details of amendment	Fund Account		Net Assets Statement	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: Change in Market Value of Investments	39,164			
Cr: Pooled investments – Private Equity				20,621
Cr: Pooled Investments – Private Infrastructure				18,288
Cr: Pooled investments – Climate Opportunities				255
Being an amendment to reflect the valuation of private market investments with fund manager, Border to Coast Pensions Partnership (BCPP) at 31 March 2024.				
Aggregate effect of amendments	**39,164**	**0**	**0**	**39,164**

Unadjusted misstatements

When we issue a disclaimer of opinion as a result of the backstop arrangements, auditing standards require us to consider whether we are aware of any matter that would have otherwise required a modification to our opinion. Such matters may include, for example, material misstatements that have been identified which have not been amended by management in the final financial statements. We confirm that no such matters have come to our attention.

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

1. Amendments to 2022/23 figures disclosed in the revised draft accounts following completion of the 2022/23 audit

The misstatements included within this section reflect differences between the prior year comparator figures in the revised draft accounts (received January 2025) following the completion of the 2022/23 audit in December 2024.

- **Fund Account:** relates to profits and losses on disposal of investments and changes in market values of investments and net assets of the scheme at 31 March 2023.
- **Note 4 - Critical Judgement, Sensitivities and Accounting Estimates:** relates to the value of unquoted investments at 31 March 2024.
- **Note 7 - Benefits Payable:** relates to a misclassification of benefits paid by the administering authority, scheduled bodies and admission bodies.
- **Note 11 - Management Expenses:** relates to a restatement of oversight and governance costs.
- **Note 13 - Investment Assets – transactions costs disclosure:** restatement of disclosure for transaction costs incurred on purchases and sales transactions in 2022/23.
- **Note 13 - Investment Assets – investments more than 5% of asset class or security disclosure:** relates to changes in values to various investments within the note, reflecting amendments from audit work performed by the predecessor auditor.
- **Note 13 – Investment Assets - geographical analysis of investments disclosure:** relates to a change in presentation of the note to represent UK and overseas geographical areas.
- **Note 13 – Investment Assets – pooled investment vehicles and properties:** relates to changes to the underlying values of investment asset classes disclosed in the main section of the investment assets note.
- **Note 14 - Financial Instruments - net gains and losses on financial instruments:** relates to net gains/losses on financial instruments during 2022/23.
- **Note 14 - Financial Instruments - fair value of financial instruments:** relates to changes in market values of pooled investments, loans, directly held private equity, and sundry creditors.
- **Note 14 - Financial Instruments - valuation of financial instruments carried at fair value at 31 March 2023:** relates to changes in the market values for investments disclosed in the main investment assets disclosure note and to reflect any changes to the classification of investment assets.
- **Note 14 - Financial Instruments - reconciliation of fair value measurements within level 3 during 2022-23:** relates to changes to purchases and unrealised gains/losses across private equity, directly held private equity, infrastructure and other debt investments.
- **Note 14 - Financial Instruments - price risk:** relates to the simplification of the price risk associated with managed and unitised funds, and to separately disclose the values and price risk associated with directly held private equity investments.
- **Note 14 - Financial Instruments - currency risk:** relates to the removal of references to currency risk associated with investments denominated in Japan/Asia Pacific and to reflect changes in the values of investments denominated in Euros and US dollars.
- **Note 18 - Additional Voluntary Contributions:** relates to changes in the values of balances invested in profits & deposit accounts and unit linked accounts.
- **Note 21 - Senior Employee's Remuneration:** relates to the value of short-term benefits and post-employment benefits.

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

2. Amendments to 2023/24 figures disclosed in the revised draft accounts following completion of the 2022/23 audit

The amendments included within this section reflect any changes made by management to the current year figures in the revised draft accounts (received January 2025) following the completion of the 2022/23 audit in December 2024 i.e., to update the 23/24 figure to reflect any amendments to figures amended for 2022/23.

- **Introduction:** relates to amendments to the membership of the Fund disclosure to match figures disclosed in previous years of accounts.
- **Fund Account:** reflects amendment to profits and losses on disposal of investments and changes in the market value of investments, the net assets of the scheme, and the value of investment assets.
- **Note 1 - Basis of Preparation:** minor disclosure amendment to reflect a change in the value of net assets of the fund at 31 March 2024 (arising following identified misstatements in 2022/23 audited accounts).
- **Note 4 - Critical Judgements, Sensitivities and Accounting Estimates:** minor disclosure amendment to reflect a change in the value of liquid assets available to pay benefits (arising due to impairment of investment asset in 2022/23).
- **Note 5 - Assumptions made about the Future and Other Major Sources of Estimation Uncertainty:** amended to reflect changes to the value of level 3 investments at 31 March 2024 (amended following completion of audit procedures and identified misstatements in the 22/23 audited accounts).
- **Note 7 - Benefits Payable:** relates to a misclassification of benefits paid by the administering authority, scheduled bodies and admission bodies (updated to be comparable to prior year disclosures).
- **Note 13 - Investment Assets - reconciliation of movement in investments:** updated to reflect amendments to the changes in market values for pooled investment vehicles, pooled property investments and directly held private equity (to reflect misstatements identified in investment assets balances identified in 22/23 and the corresponding change in market value).
- **Note 13 - Investment Assets - geographical analysis of investments:** updated to reflect a change in presentation of the note to represent UK and overseas geographical areas.
- **Note 13 - Investment Assets - quoted equities:** updated to correct disclosure of overseas quoted equities held at 31 March 2024.
- **Note 13 - Investment Assets - pooled investment vehicles and properties:** relates to changes to the underlying values of investment asset classes disclosed in the main section of the investment assets note.
- **Note 14 - Financial Instruments - net gains and losses on financial instruments:** updated to reflect amendments to the changes in market values for pooled investment vehicles, pooled property investments and directly held private equity (to reflect misstatements identified in investment assets balances identified in 22/23 and the corresponding change in market value).
- **Note 14 - Financial Instruments - fair value of financial instruments:** updated to separately disclose directly held private equity and loans balances, and to reflect amendments made to the values of investment assets following identification of misstatements by the predecessor auditor.
- **Note 14 - Financial Instruments - valuation of financial instruments carried at fair value at 31 March 2024:** updated to reflect the reclassification of investment assets between level 1 and 3 of the fair value hierarchy.
- **Note 14 - Financial Instruments - reconciliation of fair value measurements within level 3 during 2023-24:** updated to separately disclose directly held private equity, and to update purchases, sales and unrealised gains/losses made on various classes of investment.
- **Note 14 - Financial Instruments - price risk:** updated to simplify disclosure of price risk associated with managed and unitised funds, and to separately disclose the values and price risk associated with directly held private equity investments.
- **Note 14 - Financial Instruments - currency risk:** relates to the removal of references to currency risk associated with investments denominated in Japan/Asia Pacific and to reflect changes in the values of investments denominated in Euros and US dollars.

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

3. Amendments to 2023/24 figures disclosed in the revised draft accounts arising from current year audit procedures

The amendments included within this section reflect any changes made by management to the current year figures in the revised draft accounts (received January 2025) following the completion of audit procedures in the current year.

- **Introduction - Membership:** relates to amendments to the membership of the Fund disclosure to match figures disclosed in previous years of accounts.
- **Fund Account:** amended to correct one casting error, and to reflect correct heads disclosed in the CIPFA Code of Practice.
- **Note 1 - Basis of Preparation:** amendment made to disclosures relating to the going concern assumption and to reflect ‘operational existence for the foreseeable future’.
- **Note 2 - Accounting Standards issued but not yet adopted:** disclosure narrative added to note to make clear expected impact on accounts.
- **Note 3 - Significant Accounting Policies:** various disclosure amendments added/removed to reflect significant financial statements areas within the accounts and management’s accounting treatment.
- **Note 5 - Assumptions made about the Future and Other Major Sources of Estimation Uncertainty:** disclosure updated to clarify the estimation uncertainty associated with pooled investment vehicles and freehold/leasehold properties
- **Note 5 - Assumptions made about the Future and Other Major Sources of Estimation Uncertainty:** disclosure updated to reflect changes to the value of private market investments with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).
- **Note 7 - Benefits Payable:** disclosure amended to reflect 2022/23 benefits paid figures for the split between administering authority, scheduled bodies and admission bodies to agree to underlying working papers.
- **Note 13 - Investment Assets - reconciliation of movement in investments:** updated to reflect the impairment to the GB Bank investment in 2022/23.
- **Note 13 – Investments Assets – PIVs and properties disclosure:** updated to amend disclosures for the market values of private equity, infrastructure and other alternatives investments with Border to Coast Pensions Partnership at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).
- **Note 13 - Investment assets – disclosures:** multiple disclosures removed as not required by the CIPFA Code of Practice.
- **Note 14 - Financial Instruments – net gains/losses on financial instruments:** updated to reflect the restated change in market value of investments in the Fund Account.
- **Note 14 - Financial Instruments – net gains/losses on financial instruments:** updated to reflect the amendment to the change in market value of investments with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).
- **Note 14 - Financial Instruments - fair value of financial instruments:** updated to correct internal inconsistencies with Note 13, and to remove references to assets/liabilities not held at fair value.
- **Note 14 - Financial Instruments - fair value of financial instruments:** updated to amend the value of pooled investments held with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).
- **Note 14 - Financial Instruments - valuation of financial instruments:** updated to amend the financial assets at fair value through profit and loss disclosure for investments held with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).
- **Note 14 - Financial Instruments - valuation of financial instruments carried at fair value at 31 March 2024:** updated to amend the value of level 3 investments held with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatement disclosed earlier in this report).

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

3. <u>Amendments to 2023/24 figures disclosed in the revised draft accounts arising from current year audit procedures</u>

Continued from previous slide

- **Note 14 - Financial Instruments - reconciliation of fair value measurements within level 3 during 2023-24:** updated to correct a miscalculation of total value of decrease in investments at 31 March 2023.
- **Note 14 - Financial Instruments - reconciliation of fair value measurements within level 3 during 2023-24:** updated to amend the value of level 3 private equity, infrastructure and other alternatives investments held with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatements disclosed earlier in this report).
- **Note 14 - Financial Instruments - reconciliation of fair value measurements within level 3 during 2023-24:** updated to correct a miscalculation of total value of decrease in investments at 31 March 2023.
- **Note 14 - Financial Instruments – interest rate risk:** revised to reflect change to the base rate used for the period to 31 March 2024.
- **Note 14 - Financial Instruments – price risk sensitivity analysis:** updated to correct the values for other alternatives held with Border to Coast Pensions Partnership (BCPP) at 31 March 2024 (associated with the adjusted misstatements disclosed earlier in this report).
- **Note 15 - Actuarial Valuation:** updated to separate the funding arrangement and actuarial present value of promised retirement benefits and to add additional disclosures for the assumptions at the triennial date.
- **Note 15 - Actuarial Valuation:** update to include a disclosure for the Virgin Media case.
- **Note 18 - Additional Voluntary Contributions:** relates to changes in the values of balances invested in profits & deposit accounts and unit linked accounts at 31 March 2023 (updated to agree to provider statements from Prudential)
- **Note 19 – Related Party Transactions:** disclosure note updated to include additional details for members, and any related party transactions involving Middlesbrough Council as the administering authority.
- **Note 20 – External Audit Costs:** disclosure amended to include audit costs associated with IAS19 assurance in previous years.
- Minor trivial disclosure amendments, including spelling, punctuation and grammar.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Confirmation of our independence

Appendix A: Draft management representation letter

Mark Kirkham
Partner
Forvis Mazars
5th Floor
3 Wellington Place
Leeds
LS1 4AP

[Date]

Dear Mark,

Teesside Pension Fund - Audit for Year Ended 31 March 2024

This representation letter is provided in connection with your audit of the financial statements of Teesside Pension Fund (the Fund) for the year ended 31 March 2024. I note that you intend to intend to issue a disclaimer of opinion in respect of your audit. I understand I am still required to provide the representations set out in this letter so you can complete your audit in accordance with relevant auditing standards.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted unrestricted access to individuals within the Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Fund's financial position, financial performance and cash flows.

Appendix A: Draft management representation letter

Accounting estimates, including those measured at current or fair value
I confirm that the methods, significant assumptions and the data used by the Fund in making the accounting estimates, including those measured at current and/or fair value, are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code, as amended by the Code Update and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Fund involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code, as amended by the Code Update and applicable law.

I have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and investment assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All the Fund's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

The Fund has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2023/24 in relation to the Fund's service concession arrangements that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, as amended by the Code Update and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Specific Representation of Level 3 investments

Level 3 investments are included in the Net Assets Statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, that the valuations are materially correct, and am not aware of any subsequent events that would have a material impact on the estimated value of the level 3 investments.

Yours faithfully,

Andrew Humble
Director of Finance

[Date]

Appendix B: Draft audit report

Independent auditor's report to the Members of Middlesbrough Council

Report on the audit of the financial statements

Disclaimer of opinion on the financial statements of Teesside Pension Fund

We were appointed to audit the financial statements of Teesside Pension Fund ('the Pension Fund') for the year ended 31 March 2024, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We do not express an opinion on the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 ('The Amendment Regulations') came into force. The Amendment Regulations require the Council to publish its Accountability Statements, which include the Pension Fund's financial statements, and auditor's opinion for the year ended 31 March 2024, by 28 February 2025 ('the backstop date').

The backstop date introduced by the Amendment Regulations has impeded our ability to obtain sufficient appropriate evidence for the valuation of level 3 investments, which forms part of Investment Assets in the Net Assets Statement, and the associated change in market value of investments in the Fund Account. We are therefore unable to form an opinion on the financial statements as there has been insufficient time to perform all necessary audit procedures

Responsibilities of the Director Finance for the financial statements

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Director of Finance is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct our audit in accordance with International Standards on Auditing (UK), the Code of Audit Practice, the Local Audit and Accountability Act 2014 and applicable law, and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. In reaching this judgement we have complied with the requirements of the Code of Audit Practice and have had regard to the Local Audit Reset and Recovery Implementation Guidance published by the National Audit Office and endorsed by the Financial Reporting Council.

We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix B: Draft audit report

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice, to give an opinion on whether other information published together with the audited financial statements, is consistent with the financial statements. Because of the matter described in the Basis for Disclaimer of Opinion section we do not express an opinion on the financial statements. We also do not express an opinion on whether other information published together with the audited financial statements is consistent with the financial statements.

Use of the audit report

This report is made solely to the Members of Middlesbrough Council, as a body and as administering authority for the Teesside Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Mark Kirkham
Partner
For and on behalf of Forvis Mazars LLP

5th Floor
3 Wellington Place
Leeds
LS1 4AP

[Date]

Appendix C: Confirmation of our independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

forv/s mazars

Contact

Forvis Mazars

Mark Kirkham
Partner
Tel: 0113 294 2000
Mark.kirkham@mazars.com

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 13

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