

**TEESSIDE PENSION BOARD**

A meeting of the Teesside Pension Board was held on Monday 11 April 2022.

**PRESENT:** Councillor B Cooper and P Thompson

**ALSO IN ATTENDANCE:** P Mudd, XPS

**OFFICERS:** S Lightwing, N Orton and I Wright

**APOLOGIES FOR ABSENCE:** were submitted on behalf of J Bell

21/31 **WELCOME AND EVACUATION PROCEDURE**

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

21/32 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor B Cooper	Non pecuniary	Member of Teesside Pension Fund

21/33 **MINUTES - TEESSIDE PENSION BOARD - 21 FEBRUARY 2022**

The minutes of the meeting of the Teesside Pension Board meeting held on 21 February 2022 were taken as read and approved as a correct record.

21/34 **MINUTES - TEESSIDE PENSION FUND COMMITTEE -15 DECEMBER 2021**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 15 December 2021 was submitted for information.

**NOTED**

21/35 **TEESSIDE PENSION FUND COMMITTEE -16 MARCH 2022**

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 16 March 2022. Items considered by the Committee included:

- Investment Activity Report - The Fund continued to favour growth assets over protection assets and currently had no investments in Bonds. The cash level of the Fund at the end of December 2021 was approximately 11% which was in the maximum agreed level of 20%, although it had increased since then. The value of the Fund was just over £5 billion at the end of December 2021 although it had since fallen back. The Fund's equity weighting was 67.1% compared to 70.9% at the end of September 2021. Border to Coast (BCP) had just launched its second series of Alternatives and the Fund had committed to £150 million for infrastructure, £100 million for private equity and £80 million to the Climate Opportunities Fund.
- Reports from the External Managers.
- Presentation from Hymans Robertson – The new Actuary explained the purpose of the valuation, key decisions, outlook and timetable for the valuation. The next step would be for Hymans Robertson to finalise their financial assumptions for the valuation. A further report with the outcomes would be presented to the Committee.
- Pension Fund Business Plan.

- Breaches Log.

#### EXEMPT ITEMS:

- Presentation from the Chief Executive of Border to Coast (BCP) - It was confirmed that the Teesside Pension Fund has investments in Russia through the BCP Emerging Markets Equity Fund. Prior to the invasion of Ukraine the Fund had approximately £5 million invested. BCP would be looking to divest, when that was possible, and in the meantime would be writing that asset down to zero.
- Border to Coast's (BCP) Environmental Social and Governance (ESG) reports.
- Three local investments – this report would be presented to the next meeting of the Committee.

**AGREED** that the information provided was received and noted.

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#### **PROPOSED CHANGE TO PENSION BOARD TERMS OF REFERENCE**

A report of the Director of Finance was presented to propose a change to the Board's Terms of Reference to allow greater flexibility in appointing Board members.

At present, the Board's Terms of Reference sets out that the Board should have six members, three drawn from the scheme employers and three from scheme members.

Recent attempts to fill Board vacancies have had mixed results. A pensioner representative was successfully appointed following a selection process after four applicants responded to an article placed in the newsletter sent to the Fund's pensioners. However, despite emails to all relevant employers, followed by a further more targeted email to all the larger employers in that group, no volunteer had come forward to take up the "other scheme employers" place on the Board and a vacancy remained.

The proposed amendment to the Terms of Reference was as follows:

Add the following sentence to paragraph 22 of the existing Terms of Reference:

"In circumstances where no suitable volunteers apply from a particular employer or membership group and a Board vacancy remains, the selection panel is able to appoint another suitable individual to that vacancy from outside that particular membership group, always ensuring that only scheme member representatives are appointed to a scheme member vacancy and only scheme employer representatives are appointed to a scheme employer vacancy."

The amended paragraph 22 was shown in context in a 'tracked changes' version of the Terms of Reference attached at Appendix A to the submitted report.

If agreed by the Board, the proposed amendment would be submitted to the Annual Council meeting on 25 May 2022 for approval.

The Head of Pensions Governance and Investments would continue to work with colleagues in XPS Administration to identify suitable individuals in the Other Employers group who might wish to join the Board.

**AGREED** as follows that the:

1. report was received and noted.
2. Teesside Pension Board's Terms of Reference would be amended with the following addition to paragraph 22: "In circumstances where no suitable volunteers apply from a particular employer or membership group and a Board vacancy remains, the selection panel is able to appoint another suitable individual to that vacancy from outside that particular membership group, always ensuring that only scheme member representatives are appointed to a scheme member vacancy and only scheme employer representatives are appointed to a scheme employer vacancy."
3. amended Terms of Reference would be submitted to Council for approval.

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**PENSION FUND BUSINESS PLAN**

The Head of Pensions Governance and Investments presented the annual Pension Fund Business Plan 2022/2025, including the 2022/2023 Pension Fund budget, for information. The Plan had been approved at the March meeting of the Teesside Pension Fund Committee.

The 2022/23 forecast income and expenditure was set out in the Business Plan, and summarised at paragraph 3.1 of the submitted report. It was highlighted that income was expected to be about £62 million less than expenditure and there were additional administration and management expenses of £7.5 million. Estimated investment income was £56 million, leaving a shortfall of around £12 million in the year. This was not of great concern currently as the Fund continued to hold large amounts of cash - anticipated to be over £700 million by the end of March 2022.

A copy of the Business Plan for 2022/25 was attached at Appendix 1 to the submitted report. The Business Plan included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (Appendix A).
- The current governance arrangements for the Fund.
- The performance targets for the Fund for 2022/23, and a summary of the performance for 2021/22 (Appendix B).
- The arrangements in place for managing risk and the most up to date risk register for the Fund (see Appendix C).
- Membership, investment and funding details for the Fund.
- An estimated outturn for 2021/22 and an estimate for income and expenditure for 2022/23 (see Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2022/23 and an outline work plan for 2022–2025.

The Head of Pensions Governance and Investments highlighted that income was expected to be about £62 million less than expenditure and there were additional administration and management expenses of £7.5 million. The estimated on investments was £56 million, leaving a shortfall of around £12 million in the year. However, the Fund anticipated holding around £800 million in cash at the year end. It was important to keep this under review and consider where future income would come from.

A query was raised in relation to increasing Membership of the Fund. In terms of the membership split it was roughly a third (pensioner/active/deferred) with the number of active members slightly higher. The number of pensioners was steadily increasing as the Fund was a maturing scheme. The Fund needed to plan to be more cash negative going forward.

The Council had been promoting the benefits of the Fund to employees and auto enrolment began in April. It was acknowledged that the current cost of living crisis could impact on people's decision-making as to whether they could afford to join the Fund.

**AGREED** that the Pension Fund Business Plan 2022/2025 was received and noted.

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**TEESSIDE PENSION BOARD ANNUAL REPORT 2021/22**

The Head of Pensions Governance and Investments presented the Teesside Pension Board's Annual Report 2021/22 for information.

The report included information in relation to the Board's Activity 2021-2022, Work Plan, Board Membership and Attendance.

**AGREED** that the information provided was received and noted.

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**UPDATE ON CURRENT ISSUES**

The Head of Pensions Governance and Investments updated the Board on the Amendment to the Public Service Pensions and Judicial Offices Bill.

The Government was progressing this Bill through Parliament which was primarily designed to

remove unlawful discrimination in the protections introduced when public sector schemes were changed in 2014 and 2015. Robert Jenrick MP, proposed an amendment to the Bill which, supported by the government, was subsequently accepted that would add an additional unconnected provision directly affecting the Local Government Pension Scheme (LGPS).

The amendment changed the Public Service Pensions Act 2013 to give the Secretary of State the explicit power to issue guidance or directions to administering authorities on investment decisions which it was not proper for the scheme manager to make in light of UK foreign and defence policy.

It was disappointing that the amendment to this Bill allowed the Secretary of State to gain potentially significant additional power to direct how LGPS funds could invest, without appropriate consultation with the LGPS itself. Also, without sight of the guidance, it was not clear how this new power would work.

Further information would be provided to the Board and Committee when available.

**AGREED** that the information provided was received and noted.

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## **UPDATE ON WORKPLAN ISSUES**

A report of the Director of Finance was presented to provide Members of the Teesside Pension Board with information on items scheduled in the Work Plan for consideration at the meeting.

At a meeting on 19 July 2021 the Board agreed an updated work plan that set out areas for the Board to discuss or consider at subsequent meetings. A copy of the work plan was attached at Appendix A to the submitted report. These were typically areas that the Pensions Regulator and/or the Scheme Advisory Board had identified as important for Local Pension Boards to consider.

### Internal Controls and Managing Risk

The Fund's approach to managing risk was detailed within its Risk Management Policy which was included for information at Appendix B to the submitted report. A summary of the approach was also presented in the Fund's Business Plan.

It was not possible, or even desirable, to completely eliminate risk and some level of risk in (for example) investments, was necessary to achieve the Fund's long term objectives. It was important that risks were identified and managed, and the Fund's approach to this was summarised in the section on risk management philosophy on page 3 of Appendix B.

One important output of the Fund's risk management approach was the Fund's Risk Register, which listed and assessed the main risks to the Fund. The Risk Register was presented to the Committee and the Board at least once a year as part of the annual Pension Fund Business Plan. As the Business Plan was being presented to this meeting, Members had the opportunity to review and comment on the current risk register.

### Discretions within the Local Government Pension Scheme (LGPS) Regulations

Administering authorities and employers within the LGPS had a number of areas where the regulations governing the scheme allowed them to exercise choices. In some cases the administering authority or employer had to have a stated policy on how they would exercise this discretion, in others they could choose whether to make a statement of policy or not.

This was a complex area which had grown more complicated as the LGPS regulations had changed over the years. When new regulations applied, they sometimes applied only in relation to future service or would not apply to those who had already left active service. This meant the old regulations remained relevant in relation to some individuals, so administering authorities and employers would continue to have policies and/or exercise discretions in relation to several sets of old regulations as well as the new regulations.

The Local Government Association (LGA) had produced a full list of discretionary policies to be determined upon by scheme employers, administering authorities and other parties. Some

of the main discretions employers had that impacted directly on scheme members included:

- Whether to allow late requests to aggregate LGPS benefits or transfer in benefits from another scheme ('late' in this context meant over a year after a member joined the LGPS).
- Whether to waive early retirement reductions (and if so, in what circumstances).
- Whether to award additional pension to scheme members on retirement.
- Whether to allow flexible retirement.
- Allowing people to have a shared cost AVC additional voluntary contributions.

XPS Administration carried out an exercise several years ago to collect information from all scheme employers in relation to LGPS discretions. This exercise was likely to be repeated in future. XPS Administration also ensured that appropriate employer approval was received whenever an event that required the exercise of an employer discretion took place.

With reference to the discretion to allow employees to aggregate after twelve months of joining, this was to be extended for anyone who had joined since March 2020 in order that they were not disadvantaged due to the Covid 19 pandemic.

In relation to benefits for widows and widowers, the Head of Pensions Governance and Investments indicated that a report in relation to legal discrimination on benefits would be brought to a future Board meeting. There were currently 3,214 widowers or dependents in the Fund.

**AGREED** that the information provided was received and noted.

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## **XPS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration. The following items were highlighted:

- Headlines
- Membership Movement.
- Member Self-Service.
- Complaints.
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development.
- Performance.
- Employer Liaison
- Performance Charts.

XPS had assessed pensioner payments in light of the conflict in Ukraine and established that there were no payments to bank accounts or anyone living in Russia.

The 2021/2022 financial year was currently being closed down and work continuing on 2022/2023. Pensioners would be notified of a 3.1% increase and would receive a payslip and P60 this month. XPS had written to 160 employers to advise them of the new rates and salary ranges to enable them to allocate the correct contribution band to each member and also remind them of their own contribution rate.

Work had started on reviewing the age profile of those members signed up to self-service and further information would be brought to a future meeting. The re-designed website was now a year old and feedback would be sought from members.

The additional work on the Guaranteed Minimum Pension had not moved on since the last meeting due to difficulties obtaining data from HMRC.

There were no new complaints and one of the IDRPCs had gone to stage 2.

Common Data scores remained static and discussions were underway with private companies around services they could provide and costs. The proposal was to address the postcode and address failures which mainly related to deferred members. XPS was

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looking at the mortality screen and one company subscribed to certain registers and information sources that enabled them to tap into that data and check that people were still alive and where they resided. This would enable a higher rate for the deferred benefit statements for this year in June/July.

There was no progress on Conditional Data and an update would be presented at the next meeting.

There was a very small number of fails on KPIs – only 3 under 1400 items which was a healthy performance.

A new Employer Liaison Leader had been appointed from 1 May 2022. This was an internal appointment that would bring technical benefits into the team as well as legislation knowledge. This would enhance the current offering to Employers.

The next At Ease newsletter would include an introduction to the new pensioner representative on the Board and a feedback form would be included on the website to enable some interaction between pensioners and their new representative.

**AGREED** that the information provided was received and noted.

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

None.