

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 18 July 2022.

PRESENT: Councillor S Walker (Chair) and P Thompson (Vice-Chair)

ALSO IN ATTENDANCE: P Mudd (XPS Administration)

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of J Bell

22/1 **WELCOME AND EVACUATION PROCEDURE**

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

22/2 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

22/3 **APPOINTMENT OF CHAIR**

The Head of Pensions Governance and Investments presented a report which set out the Board's Terms of Reference in relation to the role of Chair

In accordance with the Terms of Reference, the Board was asked to appoint a Chair from the Board's current employer representatives.

Whoever the Board appointed as Chair would serve the remainder of the employer representative's two year term of office as Chair, which would end on 14 November 2023.

ORDERED that Councillor S Walker was appointed Chair of the Teesside Pension Board until 14 November 2023.

Councillor Walker chaired the meeting from this point.

22/4 **MINUTES - TEESSIDE PENSION BOARD - 11 APRIL 2022**

The minutes of the meeting of the Teesside Pension Board held on 11 April 2022 were taken as read and approved as a correct record.

22/5 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 16 MARCH 2022**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 16 March 2022 was submitted for information.

22/6 **TEESSIDE PENSION FUND COMMITTEE - 29 JUNE 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 29 June 2022.

The Investment Advisors had provided their views on the current economic situation and outlook. Inflation was showing more persistence than originally expected which could impact on the Fund. The Fund was holding over £800m in cash and higher inflation would potentially devalue it. About £100m would be utilised over the next month and officers continued to look for suitable investments rather than holding cash in the bank with only 1% return.

The Advisors had slightly different views on investment strategy, with one recommending equities in the long term and the other suggesting the Fund might consider Bonds.

Two representatives from Hymans Robertson were present at the meeting and gave a presentation in relation to the actuarial valuation process, timetable and some of the assumptions in the valuation.

There was some discussion in relation to investments in Russia, however the position had not changed since March 2022. The Fund had around £5m invested in six different companies through Border to Coast and the value had been written down to zero.

AGREED that the information provided was received and noted.

22/7

DRAFT ANNUAL PENSION FUND REPORT AND ACCOUNTS 2021/22

A report was provided to present Members of the Teesside Pension Board (the Board) with the 2021/22 draft unaudited Annual Report and Accounts for the Teesside Pension Fund.

The terms of reference for the Teesside Pension Fund Committee required the Annual Report and Accounts to be considered by Members. The draft unaudited Report and Accounts for the year ended 31 March 2022 were attached to the submitted report and an updated version would be presented to the Pension Fund Committee meeting on 27 July 2022.

The overall financial performance of the Fund for the year to 31 March 2022 was very positive for a second consecutive year. The Fund's value rose to £5.073 billion, an increase over the year of approximately £514 million. This increase in value was mainly a result of equity market performance, which was positive for the year as a whole, albeit deteriorating towards the end of the year and beyond.

The Fund's asset value as at 31 March 2022 would be used by the Fund Actuary when calculating the three-yearly valuation of the Fund. The value of the Fund's assets had risen by around a billion pounds in the three years since the last valuation, an increase of around 25% in that period compared with an expected increase (based on the Actuary's assumptions) of around 14%. Although welcome news, it was important to recognise the long-term nature of the Fund and the volatility of many of its assets meant that the Actuary had to look beyond just the immediate value of the assets when carrying out the valuation.

In addition, the size of the Fund's liabilities (the cost of paying current and future benefits) was just as important when carrying out the valuation and setting employer contribution rates. Factors such as the Actuary's view of future inflation rates, future investment returns and life expectancy expectations played a key part in the Actuary's valuation calculations.

The membership of the Fund had increased, with total membership at the year-end standing at 77,895. This was an increase of 4,696 over last year. The number of active members had increased by 1,196 or 4.9% over the year, and increased by 9.2% over the past four years. The number of pensioners increased by 846 or 3.3% over the year, and increased by 15.2% over the past four years. The number of deferred members had increased by 2,927 or 12.6% over the year, and increased by 12.9% over the past four years. It was highlighted that most of the increase in the number of deferred members was due to those individuals who had left employment but had not yet had their benefits fully processed now being recognised in the count of deferred members. This also explained some of the increase in total headcount.

Every three years the Fund Actuary, carried out a full actuarial valuation of the Fund. The purpose was to calculate how much employers in the scheme needed to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, would be covered. Unlike all the other major public sector schemes the Local Government Scheme is a funded scheme. That meant there was a pool of investments producing income which met a significant part of the liabilities.

The latest actuarial valuation of the Fund was as at 31 March 2019, with the final report published at the end of March 2020. The Actuary calculated to what extent the Fund's assets met its liabilities and this was presented as a Funding Level. The aim of the Fund was to be 100% funded. At the latest valuation the Actuary was able to declare a funding level of 115%. This was particularly pleasing since it is the third time in succession that the Fund was able to declare it was fully funded. The next valuation was due to be carried out as at 31 March 2022,

with the final report due to be published in March 2023 and any changes required to employer contribution rates due to come into force from April 2023.

Financial Reporting Standards (FRS) and International Accounting Standards (IAS) required employers to disclose their share of the assets and liabilities in the Pension scheme in their accounts. The Fund's actuary, Hymans Robertson, offered to produce reports for the employers in the Teesside Pension Fund containing the figures which each needed to disclose in order to comply with the requirements of these standards.

Although the Fund was actuarially fully funded, the Employers still had FRS/IAS deficits due to the way the figures in the reports were calculated. However, it was clarified that the FRS/IAS calculations had no impact on the actual Funding Level of the Fund or the Employers within it.

The Annual Report and Accounts presented to the Board were in draft form and, whilst the main numbers and outcomes were not expected to change, changes might be needed as further review took place. Some gaps or text from the previous year existed in this draft where further input was required and some charts remained to be updated. An updated draft would be presented to the Pension Fund Committee later this month. In addition, the audit process was not complete and further changes might be required as a consequence. When complete and fully audited, the Annual Report and Accounts would be published on the Pension Fund's website.

AGREED that the 2021/22 draft unaudited Annual Report and Accounts were noted.

22/8

UPDATE ON CURRENT ISSUES

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

The following issues were highlighted:

LGPS and Levelling Up

Since this issue was last reported to the Board, the Fund, along with other LGPS Funds and pooling companies (including Border to Coast) had been trying to obtain further detail in relation to these plans. As yet, nothing was confirmed but the current expectation was that the Government would not be expecting LGPS Funds to report on investments made within their specific local area, but was looking to leverage LGPS assets to invest further in projects across the UK (or possibly across England and Wales) – primarily infrastructure but possibly private equity investments as well. Further updates would be provided when available.

Scheme Advisory Board Annual Report 2021/2022

The Scheme Advisory Board (SAB) published its ninth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales recently. The report could be found on the SAB website at the following link: <https://lgpsboard.org/index.php/foreword-2021>

The report emphasised that the LGPS is one of the largest defined benefit (DB) schemes in the world and was the largest DB scheme in England and Wales, with 14,448 active employers, 6.2m members and assets of £342bn.

Key highlights for the LGPS were listed as follows:

- Total membership of the LGPS grew by 66,624 (1.08%) to 6.226 m members in 2021 from 6.160 m in 2020.
- The total assets of the LGPS increased to £342bn (a change of 23.4%). These assets were invested in pooled investment vehicles (66.2%), public equities (13.4%) bonds (4.6%), direct property (2.3%), as well as other asset classes (8.7%).
- The Local Authority net return on investment over 2020/21 was 20.56%. This was reflective of the market conditions during the year and set against the UK equities return of 30%.
- The scheme maintained a positive cash-flow position overall, including investment

income.

- Over 1.8m pensioners were paid over the year.
- CoViD-19 significantly impacted life expectancy - with a drop of 0.9 years and 0.5 years for males and females respectively (2019 figures v 2020).
- Total management charges increased by £196m (+12.9%) from £1,517m. This was primarily driven by a £193m (14.9%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable.

The main activity for the SAB during the year ending 31 March 2021 was listed as dealing with issues relating to the McCloud discrimination case, the good governance project, the government's introduction of the £95k exit payment cap (subsequently removed) and responsible investment guidance. In addition, the SAB directed a large part of its resources to responding to the Covid-19 crisis and supporting the sector through that and the ensuing changes in ways of working.

LGPS On-Line Learning Academy

The Fund has recently purchased Hymans Robertson's LGPS On-Line Learning Academy and has ensured that every Pension Fund Committee and Teesside Pension Board member had access to it. The Learning Academy provided a suite of short training videos explaining different aspects of the pension scheme, covering administration, governance and investments as well as current pension issues such as measuring the carbon exposure of the Fund's investments and other responsible investment issues. It was intended to cover all of the knowledge and understanding requirements that Pension Board members were legally required to obtain.

There were a lot of topics covered within the Learning Academy it was recommended that Board Members set aside some time each week to work through them at their own pace. There were short quizzes included to ensure the training was effective, and certificates were available for completion of different sections.

Appendix A to the submitted report contained a few introductory slides showing what Members could expect from the Learning Academy. Members were requested to provide feedback at any point in relation to the product.

AGREED that the information provided was received and noted.

22/9

WORK PLAN UPDATE

A report of the Director of Finance was presented to provide Board Members with information on items scheduled in the work plan for consideration at the current meeting. A copy of the work plan was attached at Appendix A to the submitted report.

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 had identified as important for Local Pension Boards to consider.

Record Keeping

The Pensions Regulator's website contained the following overview of what record keeping means for pension scheme trustees and those running public service pension schemes: "As a pension trustee or someone running a public service scheme you are responsible for making sure the scheme has good records. This is still the case if you use a third party administrator.

To manage a scheme properly you need to make sure it has accurate, complete and up-to-date records. You should have controls and processes in place to maintain these standards. Failure to maintain complete and accurate records means you are at risk of not meeting your legal obligations. Poor record-keeping can have a huge impact on members and can be very expensive for your scheme if things go wrong due to bad or missing data." (www.thepensionsregulator.gov.uk/en/trustees/contributions-data-andtransfers/record-keeping).

The Regulator recommended that those responsible for pension schemes (in the case of

Teesside Pension Fund - Middlesbrough Council as administering authority) undertook the following actions in relation to record keeping:

- Regularly review scheme data, notify the Pensions Regulator about data quality through the annual scheme return;
- Work with the administrator to improve data where it is not good enough to run the scheme effectively;
- Take an active role in monitoring data quality and accuracy and the controls around it.
- Discuss record-keeping at meetings.

The Regulator emphasised that good record keeping was vital so that:

- Defined benefit schemes (such as the Local Government Pension Scheme (LGPS)) had accurate funding plans in place.
- Defined contribution schemes could process core financial transactions promptly and accurately (this had some relevance to the LGPS in relation to Additional Voluntary Contributions which were provided on a defined contribution basis).
- All schemes could meet pensions dashboards requirements.

The types of records required to be kept included those relating to:

- Meetings and decisions of the body/bodies responsible for running the scheme.
- Scheme documents including trust deeds and rules (for the LGPS these are regulations, not trust deeds and rules), and details of any rule (regulation) changes.
- Scheme member information, including common data and scheme-specific data.
- All contributions received.
- All other payments to and from the scheme.
- Transfers of members' benefits and related assets.

The Council, as administering authority for the Fund, was responsible for maintaining all of the types of records. With the exception of records of meetings and decisions (which were maintained by the Council's Democratic Services team and, where possible, published on the Council's website) and the scheme regulations (which were maintained on the national LGPS website www.lgpsregs.org), the other records were maintained on the Council's behalf by XPS Administration (XPS), the outsourced pensions administration provider.

XPS provided an administration report every quarter to the Pension Fund Committee and the Teesside Pension Board which included information on data quality regarding details of common data and scheme specific data and any late contributions received from scheme employers.

Areas of improvement to data quality had been raised with XPS and discussed by the Committee and Board, including engaging a third party specialist provider to assist in finding correct home addresses in relation to 'gone away' deferred scheme members, and continuing to work to improve the coverage of scheme specific data. XPS was also due to launch monthly data exchange with scheme employers, piloting this with a small number of employers initially. This would improve the quality and accuracy of the member data held by the Fund and help prepare the Fund for submitting data to pensions dashboards.

Resolving Internal Disputes

Where an individual was unhappy with a decision made or an act or omission by a scheme employer or the administering authority in relation to their rights or benefits in the Fund, they could formally raise a dispute under the two stage Internal Dispute Resolution Procedure.

The leaflet attached at Appendix B set out the full details of the Procedure. The Procedure was summarised in the submitted report.

XPS provided information on complaints, dispute cases and any cases referred to the Pensions Ombudsman within their quarterly administration update to the Pension Fund Committee and the Teesside Pension Board.

AGREED that the information provided was received and noted.

22/10

XPS ADMINISTRATION REPORT

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration. The report was presented in a new format and Members were invited to provide feedback on it. The report provided information into the following sections:

- Overview.
- Membership Movement.
- Member Self Service.
- Pension Regulator Data Scores.
- Customer Service.
- Completed Cases Overview.
- Completed Cases by Month.
- Complaints.

XPS continued to encourage use of Member Self Service with a view to dispensing with paper Annual Benefit Statements where appropriate and issuing them online only. XPS was still awaiting some information from a single employer to enable this year's Statements to be completed. This was being chased up and measures were in place so that if it was not forthcoming it would not impact on the actuarial valuation, so far as other Employers were concerned.

A new admin tool called I-Connect was being introduced and some testing would take place with Employers. I-Connect would help ensure that pensions information would be more accurate and up to date and should provide a more efficient service for Members.

The pension data scores were complete and accurate and all had correct data. There was a good common data score and XPS worked on trying to improve it. As well as addresses there was a mortality screen.

In relation to scheme specific data XPS was trying to build these tests in house. Seven tests had been built to date and there was an ambition to provide an updated score on all tests.

Customer Service: Members were requested to complete a questionnaire on retirement. The results had been consistent over the last 5 years. This facility would move online. XPS would listen and learn from the feedback provided.

Analytics on website usage were provided on page 12 of the submitted report. XPS continued to develop the website and seek feedback from Employers.

Details of late payments from Employers were included in the submitted report. It was confirmed that some of these were from the same Employers and one reason was issues with financial systems. It was anticipated that the issues would be resolved in the near future.

Administration Team performance: out of 1024 cases there had been two fails across the quarter. They were estimates of benefit but nothing that affected the scheme members. The estimates were completed as quickly as possible and usually only a day or so outside of the required time.

There were no complaints in the last quarter. There were a couple of cases at IDR stage which would be reported back to the Board when complete.

AGREED that the information provided was received and noted.

22/11

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

None.

22/12

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.

22/13

ACTUARIAL VALUATION UPDATE

A report of the Director of Finance was presented to update the Board on progress on the ongoing triennial actuarial valuation of the Pension Fund as at 31 March 2022.

AGREED that the information provided was received and noted.