# TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 20 February 2023.

**PRESENT:** Councillor S Walker, (Chair), J Bell, J Stubbs, and P Thompson (Vice-Chair)

**ALSO IN ATTENDANCE:** P Mudd (XPS Administration)

**OFFICERS:** W Brown, S Lightwing and N Orton

**APOLOGIES FOR ABSENCE:** None received.

22/26 **WELCOME AND EVACUATION PROCEDURE**

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

22/28 **DECLARATIONS OF INTEREST**

| Name of Member | Type of Interest | Item/Nature of Interest |
|---|---|---|
| J Bell | Non pecuniary | Member of Teesside Pension Fund |

22/29 **MINUTES - TEESSIDE PENSION BOARD - 14 NOVEMBER 2022**

The minutes of the meeting of the Teesside Pension Board held on 14 November 2022 were taken as read and approved as a correct record.

In relation to two actions from the minutes, the Head of Pensions Governance and Investment provided the following update:

- The issue of Cyber Security would be added to the Board's Work Plan.
- Contact had been made with the Scheme Advisory Board regarding the timescale for legislative changes following the outcome of the Goodwin Employment Tribunal. A copy of the emails would be forwarded to all Board Members. It was agreed that an article highlighting the issue would feature in a copy of the At Ease Newsletter to inform pension fund members and invite comments.

**NOTED**

22/30 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 21 OCTOBER 2022**

A copy of the minutes of the meeting of the Teesside Pension Fund Committee held on 21 October 2022 were submitted for information.

22/31 **TEESSIDE PENSION FUND COMMITTEE - 14 DECEMBER 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 14 December 2022.

A report was presented to advise the Committee of recent changes made by Border to Coast Pensions Partnership (BCPP) to its Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy. The amended documents were approved by the Committee.

The total value of all investments as at 30 September 2022, including cash, was £4,812 million. The Fund was holding around £600 million in cash at the end of September but had purchased three new properties.

Border to Coast had recently appointed a new Investment Officer and now employed around 120 staff. BCPP would be launching two new funds over the next year or so – a Global Real Estate Fund and a UK Property Fund.

The Investment Advisers had given their views on the economic outlook and suggested that inflation would not drop as quickly as predicted by the Bank of England. The Advisers were comfortable with the current investment approach but had suggested that the Fund might consider whether to invest in Bonds if the conditions were right.

A local investment proposal had been discussed and it had been agreed that due diligence would be carried out and further information brought back to the Committee.

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

22/32 **UPDATE ON CURRENT ISSUES**

A report of the Director of Finance was presented to the Board on items scheduled in the work plan for consideration at the current meeting.

Cost Control Consultation

The benefit structure of the Local Government Pension Scheme (LGPS) was last radically reformed in 2014, taking it from a scheme providing a pension of 1/60th of final salary to one that (going forward) provided a pension of 1/49th of career average pay. When these changes were introduced the Government put in place two 'cost control' mechanisms designed to ensure the cost of providing the scheme benefits remained within a specific range. One was scheme-specific and was run by the LGPS Scheme Advisory Board (SAB), the other was applied by HM Treasury, which applied a cost control mechanism across all public service pension schemes. The concept behind cost control was that if the scheme looked to be significantly cheaper than expected in the long run the benefits could potentially be increased and/or member contributions reduced. Conversely if the scheme looked to be significantly more expensive than expected in the long run, future benefits would potentially be reduced and/or member contributions increased.

To date the mechanism had produced some potentially surprising outcomes – assessments were carried out every four years, with the first undertaken as at 31 March 2016. This showed that the cost of the scheme was below target, mainly because of a reduction in assumed future pay increases and a reduction in assumed life expectancy. This would have led to an increase in scheme member benefits and/or a reduction in scheme member contributions if the whole process had not been put on hold while the outcome of the legal challenge in relation to the McCloud case was resolved. This case resulted in the Government making a commitment to extend the protections put in place when the new LGPS was introduced to cover scheme members of all ages, not just older scheme members as that original approach was deemed to be unlawful discrimination. As the Government determined that the cost of correcting this discrimination should be a 'scheme member cost' the final assessment of the cost of the scheme under the cost control mechanism was that it fell within appropriate parameters and the scheme benefits should not be changed.

The Government was facing a legal challenge from trade unions in relation to deciding the cost of remedying the discrimination should be a scheme member cost. The outcome of the court case was not yet known and, should it be appealed to the Supreme Court, may not be finalised until towards the end of this year.

In the meantime the Government had issued a consultation on changes to the cost management process with the intention of better aligning the two cost control mechanisms that applied to the LGPS by updating the SAB mechanism to align with the HM Treasury cost control valuations and give the SAB more flexibility in how it managed any cost variations. A copy of the consultation document was enclosed at Appendix A to the submitted report.

The Fund's Actuary, had stated that it will respond to the consultation and share its response with administering authorities. Given the technical nature of this subject matter it was appropriate for the Fund to take the Actuary's comments into account before deciding whether to produce a response. The closing date for the consultation was 24 March 2023. Any Board member who wished to comment could contact the Head of Pensions Governance and Investments.

Change to Revaluation Date Consultation

When the LGPS moved to a career average scheme in 2014, under the regulations governing the scheme, the pension an individual earned was revalued on 1 April every year in line with the annual Consumer Prices Index (CPI) as at the previous September. The tax year ran from 6 April to 5 April and it was the growth in the value of an individual's pension benefits over this period that was measured against the 'annual allowance' (currently set at £40,000) – if an individual exceeded this annual allowance they were potentially liable to a tax charge on the excess.

In order to allow for individuals' benefits increasing in line with inflation, this was taken into account when calculating whether someone had exceeded the annual allowance. Unfortunately, the slight difference between revaluation date in the LGPS (the 1 April) and the start of the tax year (the 6 April) led to a mismatch and an earlier year was used when determining the increase in benefits that was permitted without incurring a tax charge. This year, owing to an increase in CPI from 3.1% in September 2021 to 10.1% in September 2022, that mismatch was significant and meant many more individuals in the LGPS would be subject to an annual allowance charge as the allowance for inflation for determining whether they would exceed the annual allowance would be 3.1%, but their career average LGPS benefits would increase by 10.1%.

The Government was proposing to correct this by moving the revaluation date in the LGPS to 6 April each year (bringing it in line with the tax year) and making other consequential amendments to ensure nobody was disadvantaged by this proposed change. This should ensure the number of peopled impacted by the annual allowance charge was more in line with that for a normal year, and should also prevent this issue arising in future.

A copy of the consultation document was attached at Appendix B to the submitted report. There was a tight timescale for this consultation, as administration and software changes would be required to implement it before the April revaluation. The consultation was issued on 10 February with responses due by 24 February. It was proposed that the Head of Pensions Governance and Investments would discuss the practicalities of this proposed change with XPS Administration and issue a response to the consultation.

Investment Pooling – Potential Withdrawal of a London Borough

The Royal Borough of Kensington and Chelsea (RBKC), which was nominally part of the London CIV pool, was considering formally withdrawing from the London CIV. This was significant as it would represent the first time an LGPS administering authority had withdrawn from an investment pool and as such was a potential challenge to the Government's pooling agenda.

At the time of writing the report it was not clear whether RBKC would vote to leave the London CIV. It should be noted that although the fund had around £1.5 billion in assets it appeared none was invested in any of the London CIV's funds, instead it invested its equities through passive vehicles and its other assets via other managers. Nevertheless, RBCK had been paying a governance charge for membership of the London CIV.

Should a decision be taken to leave, the response from the Government would be closely watched. It could be argued however, that RBCK had not been meaningfully participating in pooling for the last three years and no Government action had been forthcoming.

Future Consultations

A number of consultations in relation to the LGPS were expected from the Government in the coming months – several had been awaited for some time. The current list included the following:

- McCloud Regulations.
- Goodwin Regulations.

- Pooling Guidance.
- Good Governance.
- Anti-Boycotts, Divestments and Sanctions.

**AGREED** as follows:
1. That the report was received and noted.
2. The Head of Pensions Governance and Investments would issue a response to the consultation on the proposed change to revaluation date on behalf of the Fund.

22/33 **UPDATE ON WORK PLAN ITEMS**

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 current meeting.

The latest triennial valuation of the Fund (as at 31 March 2022) was currently in progress. Reports were brought to the last two Board meetings outlining progress. The reports had been exempt owing to commercial sensitivity around draft information and the intellectual capital contained within. The Board would continue to be kept informed throughout the valuation process, with the final report due to be published by the end of March 2023.

At present almost all Pension Fund employers had been provided with details of their draft valuation outcome, setting out the employer contribution rates they would be required to pay over the three year period commencing 1 April 2023. Although these were presented as 'draft' results, the outcome was unlikely to change unless some material discrepancy was identified in the data used to prepare the report, or if the employer proposed a realistic alternative contribution pattern that was acceptable to the Pension Fund that would achieve the same funding objective.

An example draft valuation outcome report together with a Briefing Note from the actuary which was also sent to employers was enclosed at Appendix B to the submitted report.

As part of the communication process around the valuation, all employers were invited to an online Employer Forum held on 10 February 2023 where the actuary gave a presentation explaining more about the valuation process and outcomes and also took questions from attendees. A copy of the slides used at this presentation was attached at Appendix C to the submitted report. Employers were encouraged to contact the Head of Pensions Governance and Investments if they wanted to discuss their valuation outcome. The Board would have the opportunity to discuss the final valuation outcome and report at the next meeting.

A Pensions Dashboard would be introduced by Government which would enable people to see all their pension information in one place online. By October 2024 each pension fund was required to submit information to the Dashboard in a format that could be uploaded and matched with other records. This would be a complex process involving cleansing data and working with other organisations to ensure it could be shared in the correct format. This exercise was likely to generate a lot of enquiries to XPS. It was confirmed that XPS would continue to issue paper annual statements and deal with enquiries by phone for those people who could not access information online.

This issue of staff who were transferred to other organisations via TUPE was raised and in particular the advice they received around transferring their pensions. It was clarified that employers who had taken the staff from a trust or school and had obligations to continue to provide the Local Government Pension Scheme for those existing members as well as those who were not in the scheme but were eligible to join if they wished. XPS could provide pensions awareness sessions if required.

**AGREED** that:
1. the information provided was received and noted.
2. Pensions Dashboard and Cyber Security would be added to the Work Plan.

22/34 **XPS ADMINISTRATION REPORT**

A report was presented to provide an update on administration services provided to the Teesside Pension Fund by XPS Administration. The report provided information on the following:

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

The Overview provided information on a number of issues across the year. The main item to highlight was the McCloud case and the remedy. A new set of regulations was due to be issued in October 2023 which would provide a remedy to ensure that there was no discrimination.

There had been an increase in active, deferred and pensioner members.

The activity and registration of the Member Self Service System was static. XPS would write to all Members during the course of the year to encourage people to come online. However, if there was a preference for other methods of contact such as phone or paper, XPS would continue to provide that service.

Common Data scoring was good at 95.91%. In readiness for the Pensions Dashboard XPS was undertaking a data mapping exercise in order to be able to carry out the necessary tests. Once this work had been completed, XPS would be able to report a data score in accordance with the Pensions Regulator standards. Public sector pension schemes had to connect to the Dashboard by October 2024, so in advance of this, the scheme data had to be tested and where necessary, brought up to the requisite standard required. The Actuary had flagged some data which was not in required parameters which had allowed XPS to focus on some specific data sets in readiness. It was clarified that AVCs would also be visible and it was confirmed that all pension schemes would be mandated to provide the required information.

The Head of Pensions Governance and Investments commented that discussions had taken place with XPS regarding potential additional workloads from the implementation of the McCloud remedy and the Pensions Dashboard in particular.

With regard to customer service, the questionnaire for retired members continued to show a high rate of satisfaction. A customer survey would appear in the next newsletter which could be accessed via a weblink. Anyone without access to the internet could contact XPS directly to provide feedback. The website traffic was steady and any changes in regulations were regularly updated.

The Employer Liaison team had been delivering sessions in person on both the Scheme and Pensions Tax along with Employer Health Checks. Feedback had been excellent and XPS was in the process of arranging further sessions. The Year End Submission documentation was sent to all employers at the beginning of February and confirmed the submission deadline of 15 May 2023. In addition to the standard guides, a virtual drop-in session was proposed, if uptake was positive, in order to offer clarification and training on the submission requirements.

In respect of the late payment analysis there were three Employers in this category, although all had paid within 10 days of the statutory time. Reasons given for late payment tended to be changes to the payment or finance systems. There was an error in the report on the November figure which should have been 99.6%, giving and overall total of 95.8%. Overall it was an excellent performance by the Administration Team.

No new complaints had been received.

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

22/35 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.