Middlesbrough
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Legal and Governance

TEESSIDE PENSION BOARD

Date: Monday 26th February, 2024
Time: 2.00 pm
Venue: Spencer Room

AGENDA

11. Any other urgent items which in the opinion of the Chair, may be considered

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Friday 16 February 2024

MEMBERSHIP

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

STATEMENT OF PURPOSE

The Board is responsible for assisting the Administering Authority:

a) to 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. The Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension 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.

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, susan_lightwing@middlesbrough.gov.uk

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 13 November 2023.

PRESENT: Councillor N Walker
P Thompson (Chair) and J Bell

ALSO IN ATTENDANCE: G Hall (XPS Administration)

OFFICERS: N Orton, J McNally

APOLOGIES FOR ABSENCE: Councillor Massey
J Stubbs

23/11 **WELCOME AND EVACUATION PROCEDURE**

The Chair opened the meeting, welcomed those present and explained the Building Evacuation Procedure.

23/12 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Jeff Bell	Non Pecuniary	Member of Teesside Pension Fund

23/13 **MINUTES - TEESSIDE PENSION BOARD - 11 SEPTEMBER 2023**

The minutes of the meeting of the Teesside Pension Board held 11 September 2023 were taken as read and approved as a correct record.

A member queried why the At Ease newsletter had still not been published. The Board was advised that the company who published the newsletter had failed security checks and therefore data could not be shared with them. Negotiations were taking place with a third party to post the newsletter and it would be published by the end of the year.

23/14 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 28 JUNE 2023**

A copy of the minutes of the meeting of the Teesside Pension Fund Committee held on 28 June 2023 was submitted for information.

NOTED

23/15 **TEESSIDE PENSION FUND COMMITTEE - 27 SEPTEMBER 2023 - UPDATE**

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 27 September 2023.

Members were advised that the Fund had completed the purchase of a Retail Park located in St Albans, an affluent south-east commuter town. The Retail Park was currently let to B&Q, Aldi and Costa. The property totalled 67,757 square feet and was let for an average unexpired term of 15.8 years. It was acquired for £30.5 million reflecting 5.27% net initial yield.

Members were advised that the overall financial performance of the Fund for the year to 31 March 2022 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million.

Members were informed that State Street had changed their approach to investments excluding companies such as UN Global Compact Violators and controversial weapons companies and they were proposing to exclude tobacco companies. A meeting had been arranged to discuss this proposal.

AGREED that the information provided was received and noted.

23/16 **UPDATE ON WORK PLAN ITEMS**

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

The item scheduled for consideration in the work plan for this meeting was the draft Pension Fund Annual Report and Accounts. This was included as a separate agenda item.

As discussed at the previous Board meeting, the Board's statutory responsibilities and Pensions Dashboards had been added as additional topics on the work plan.

The work plan at Appendix A set out the planned activity for the Board. This was brought to each Board meeting and would be updated in line with suggestions from the Board and to take account of any changes to best practice or the regulations and guidance for the Scheme.

AGREED that the information provided was received and noted.

23/17 **DRAFT ANNUAL PENSION FUND REPORT AND ACCOUNTS 2022/23**

A report of the Interim Director of Finance was presented to provide Members of the Teesside Pension Board (the Board) with the 2022/23 draft unaudited Annual Report and Accounts for the Teesside Pension Fund.

A copy of the draft unaudited Report and Accounts for the year ended 31 March 2023 was attached to the submitted report at Appendix A. A version of these accounts was presented to the Pension Fund Committee meeting on 27 September 2023.

The overall financial performance of the Fund for the year to 31 March 2023 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million. Performance was muted but positive overall across equities, but property assets were negative, showing a -9% return over the year, largely because of revaluations following challenging economic conditions in some sectors.

Membership of the Fund continued to increase, with total membership at the year-end now standing at 80,338 an increase of 2,443 over last year. The number of active members had increased by 764 or 3.0% over the year and increased by 15.3% over the past four years. The number of pensioners increased by 703 or 2.7% over the year and increased by 12.2% over the past four years. The number of deferred members had increased by 976 or 3.7% over the year and increased by 16.5% over the past four years.

The Fund's latest triennial valuation, which looked at the Fund's assets and liabilities as at 31 March 2022, during the year and the final report was published at the end of March 2023. Headlines from the valuation were an increase of around £1 billion in assets from around £4 billion at the 31 March 2019 valuation to around £5 billion. However, this was accompanied by an increase in the value of the Fund's liabilities – the estimated cost of meeting the pension promises it had made – primarily because the actuary increased their long-term inflation assumption and also became more pessimistic about the outlook for future investment returns. Overall, the Fund's funding level increased slightly from 115% to 116% but the estimated cost of providing future benefits increased as well, leading to contribution rate increases for some employers taking effect during the three year period starting 1 April 2023.

This year's Pension Fund Annual Report and Accounts included some additional information in relation to asset pooling. This was shown starting at page 40 of the Report, and set out details Border to Coast had collated in consultation with its eleven Partner Funds (including Teesside) to show the costs and benefits of investment pooling so far.

For the Teesside Fund, the initial decision to pool assets was difficult to justify financially as the Fund's internal investment arrangements had proved over time to be both successful and value for money. The decision to pool assets as part of Border to Coast was largely taken to comply with central government directives, and to deliver greater resilience to the Fund's investment approach. There were other advantages to pooling, including developing a collective resource to assist the Partner Funds in areas such as Responsible Investment. Border to Coast was also able to leverage economies of scale to obtain better rates from external organisations such as private markets investment managers. This latter point had increased in significance for the Fund as it had committed more assets to Border to Coast's private markets investments (private equity, infrastructure and climate opportunities), to the extent that in 2022-23 the Fund was showing a net gain (in year) in respect of pooling – this was anticipated to translate into a net overall gain in the next few years.

The Annual Report and Accounts were presented in draft form and, whilst the main numbers and outcomes were not expected to change in any significant way, changes might be needed as further review took place. Some highlighted text from the previous year existed in the draft where further input was required. In addition, the audit process for the Council's accounts (which included the Pension Fund accounts this Report was based on) was not complete and further changes might be required. When complete, the Annual Report and Accounts would be published on the Pension Fund's website.

AGREED that the Teesside Pension Fund draft unaudited Annual Report and Accounts 2022/23 was received and noted.

23/18 **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 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 following issues were highlighted:

Membership was currently as follows:
Active – 25,747
Deferred – 28,313
Pensioner – 24,118
Dependants – 3420

Annual Benefit Statements had been sent out at the end of August. Every active and deferred member should have received their statement by 31 August 2023.

A new Contact Centre had been developed to ensure that members' queries could be dealt with quickly and efficiently.

AGREED that the information provided was received and noted.

23/19 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.

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TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 27 September 2023.

PRESENT: Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, D Coupe, J Kabuye, D McCabe, J Beall, (Stockton Council), M Fairley (Redcar and Cleveland Council)
Ms J Flaws and Mr T Watson

ALSO IN ATTENDANCE: P Mudd (XPS Administration), W Bourne (Independent Adviser), S Law (Hymans Robertson), J Baillie (Hymans Robertson), W Baxter (CBRE), A Owen (CBRE), A Peacock (CBRE), D Knight (Border to Coast), M Kerr (Border to Coast), J Whitfield (FW Capital)

M Mason (EY) joined the meeting virtually

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors T Furness, S Hill and R Creevy, (Hartlepool Council)
P Moon

22/14 **WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE**

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

22/15 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor J Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor D Coupe	Non pecuniary	Member of Teesside Pension Fund
Councillor J Ewan	Non pecuniary	Member of Teesside Pension Fund
Councillor J Rostron	Non pecuniary	Member of Teesside Pension Fund

22/16 **SUSPENSION OF COUNCIL PROCEDURE RULE 4.13.2 - ORDER OF BUSINESS**

In accordance with Council Procedure Rule No. 4.57, the Committee agreed to vary the order of business to deal with the agenda items in the following order: Agenda Item 16, Agenda Items 4 -15, Agenda Items 17 and 18.

22/17 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following item 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.

22/18 **LOCAL INVESTMENT PROPOSAL UPDATE**

A report of the Interim Director of Finance was presented to provide an update on a Local Investment Proposal.

ORDERED as follows that the:
1. information provided was received and noted.
2. recommendation as set out at paragraph 2.1 of the submitted report was approved.

22/19 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the resolution to Exclude Press and Public was lifted and the meeting continued in public session.

22/20 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 28 JUNE 2023**

The minutes of the meeting of the Teesside Pension Fund Committee held on 28 June 2023 were taken as read and approved as a correct record.

22/21 **INVESTMENT ACTIVITY REPORT**

A report of the Interim Director of Finance was presented to inform Members of the how the Investment Advisors' recommendations were being implemented.

A detailed report on the transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's valuation was included, as well as a report on the treasury management of the Fund's cash balances and the latest Forward Investment Programme.

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 investments in Bonds at this time.

The cash level at the end of June 2023 was 4.34%.

Investment in direct property where the property had a good covenant, yield and lease terms would continue. The Fund had purchased one property in the quarter for £30.5m – St Albans Retail Park.

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 had costly management fees and investing capital could be a slow process. An amount of £66m was invested in the quarter.

It was a requirement that all transactions undertaken were reported to the Committee. Appendix A to the submitted report detailed transactions for the period 1 April 2023–30 June 2023.

There were net purchases of £174m in the period, compared to net purchases of £84m in the previous reporting period.

As at 30 June 2023, the Fund had £218 million invested with approved counterparties. This was a decrease of £117 million over the last quarter. The graph at Appendix B to the submitted report showed 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 June 2023, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,051 million. A summary analysis of the valuation showed the Fund’s percentage weightings in the various asset classes as at 30 June 2023 compared with the Fund’s customised benchmark. The detailed valuation was attached at Appendix C to the submitted report and was also available on the Fund’s website www.teespen.org.uk. This compared with the last reported valuation, as at 31 March 2023 of £5,060 million.

As at the 30 June 2023 the Fund’s equity weighting was 62.27% compared to 61.23% at the end of March 2023. As cash levels reduced the team were looking at cashflow projections to determine if and when equity redemptions might be required. A summary of equity returns for the quarter 1 April 2023-30 June 2023 were shown at paragraph 8.4 of the submitted report.

With regard to the Fund’s Local Investments, a further payment of £13.5m was made in August to GB Bank as the Bank received regulatory approval to exit mobilisation.

As at 31 August 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,927m and details were provided at paragraph 8.8 of the submitted report.

ORDERED that the information provided was received and noted.

22/22 **EXTERNAL MANAGERS' 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). The report also provided Members with details of proposed changes to:

- The method Border to Coast used to apportion its costs between its investors (the Partner Funds).
- The benchmarks State Street used for their passive equity funds.

As at 30 June 2023 the Fund had investments in the Border to Coast UK Listed Equity, Overseas Developed Markets and Emerging Markets Equity Funds. For all three sub funds the return target was expected to be delivered over rolling 3 year periods, before calculation of the management fee. The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. To date, total commitments of £900 million had been made to these sub-funds (£500m to infrastructure and £400m to private equity) with around 33% of this commitment invested so far. In addition, a commitment to invest £80 million over a three year period to the Border to Coast Climate Opportunities Fund had been made.

The Border to Coast report showed the market value of the portfolio at 30 June 2023 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had also provided additional information within an appendix to that report in relation to the Overseas Developed Markets Equity Fund, giving a breakdown of key drivers of and detractors from performance in relation to each of its four regional elements. Market background information and an update of some news items related to Border to Coast were also included. Border to Coast's UK Listed Equity Fund had achieved returns of 0.80% above benchmark over the last year, just under its 1% overachievement target, whereas the Overseas Developed Markets Equity Fund had achieved returns of 2.35% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund had delivered performance of 0.93% a year above benchmark, slightly below its long-term target, and the overseas fund has delivered performance of 1.49% above benchmark, above its long-term target. The performance of the Emerging Markets Equity Fund had been below benchmark throughout much of the period of the Fund's investment – although performance over the quarter and year to 30 June 2023 was above benchmark, albeit still below the 1.5% over benchmark target.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report, attached at Appendix B to the submitted report, showed the market value of the State Street passive equity portfolio and the proportions invested in each region at 30 June 2023. Performance figures were also shown in the report over a number of time periods and from inception – the date the Fund started investing passively with State Street in that region.

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. As the State Street investments were passive and closely tracked the appropriate regional equity indices, the portfolio's rating in these terms closely matched the benchmark indices ratings.

The latest report showed performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufactured controversial weapons. As expected for a passive fund, performance closely matched the performance of the respective indices.

State Street had recently advised that it would be making further changes to its passive equity indices and would be excluding additional sectors. The Fund had been notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in would apply screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies would be any involved in production of tobacco or tobacco products and companies that extract thermal coal or have thermal coal power generation and this activity represented 10% or more of revenues. This was in addition to the current screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications were that across the four State Street Sub-Funds these changes would cover around 0.36% of the current assets (tobacco) and 0.88% of the current assets (thermal coal) that the Fund invested via State Street.

A Member asked whether, by excluding companies, the Pension Fund could potentially be in breach of new legislation in the Boycotts, Divestment and Sanctions Bill. The Head of Pensions Governance and Investments commented that it would probably not have a significant impact on how the Fund chose to operate or invest, although he had not seen any detailed guidance. Teesside Pension Fund did not normally exclude companies but preferred to work with them.

It was highlighted that the Fund used State Street as its equity manager as it enabled the Fund to have the right regional allocation. If the Fund felt that the advantages were outweighed by the changes to the index, it would need to take a view on that.

Another Member was pleased to note State Street's decision to divest from tobacco and it was calculated that the amount currently invested was approximately £18 million.

Appendix C to the submitted report 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.

When Border to Coast was established over 5 years ago its Partner Funds set out an approach to apportion the costs of setting up and running the different investment propositions (sub-funds) Border to Coast provided. To ensure adequate funding for each of the new propositions, the initial cost-sharing approach included apportioning some ongoing management charges based on the assets Partner Funds had identified as likely to transfer into the pool. Whilst it was acknowledged that over time charging most costs on an 'assets under management' basis would be fairest, at the outset this would cause anomalies and might in some circumstances make it more expensive for those Partner Funds that were committing a greater proportion of their assets to pooling.

Now that Border to Coast had reached a stage where the majority of the sub-funds originally envisaged had been created, it was an appropriate time to revisit the way costs were apportioned. Over the next few months Partner Funds (or their administering authorities) would be asked to agree to make some changes to the agreements that set up Border to Coast to allow cost apportionment from the coming year to be based primarily on an 'assets under management' basis. This would not change the costs that Border to Coast charges, it would just apportion them differently – in a way that more fairly represented how Partner Funds were invested. More information on the proposed change was shown in the briefing note recently shared with the Border to Coast Officer Operations Group (OOG), a copy of which was attached at Appendix D to the submitted report.

ORDERED that the information provided was received and noted.

22/23 **BORDER TO COAST PRESENTATION - INVESTMENTS SUMMARY AND UPDATE**

The Head of Client Relationship Management gave a presentation to provide the Committee with a summary and update of the Fund's investments with Border to Coast.

The presentation included information on the following:

- The Fund's Investments with Border to Coast:
- Listed Investments as at 30 June 2023.

- Commitment to Border to Coast's Private Market Strategies.
- Market Overview – Q2 2023.
- Listed Investments – Performance to Q2 2023.
- Private Markets Update: Capital Deployment (Fund Level).
- Private Markets: New Commitments for Q2 2023.
- Border to Coast Update.
- Private Equity/Infrastructure – Internal Rate of Return (IRR) and Total Value to Paid-in Capital (TVPI) Definitions.

83% of Partner Fund assets were pooled, £40.3bn of which Border to Coast were directly responsible for. £8.3bn of this was now invested in assets supporting the transition to Net Zero. A new programme of engagement on Just Transition, which enabled investors to address systemic threats to long-term stability and support the transition to Net Zero, had just been announced.

A Member commented that whilst inflation was reducing, the price of oil was rising and this could in turn lead to further inflation. The Head of Client Relationship Management commented that there were still a lot of risks around inflation even though it was reducing around the world. Energy prices were a factor of uncertainty going forward. It was difficult to predict the outlook as it depended on local macro-economics and local regulation. However, volatility would begin to affect inflation levels.

The Fund's Advisor stated that interest rates and volumes had gone up and given that the Fund could get 5% on cash asked whether returns were rising.

The Head of Client Relationship Manager confirmed that return objectives had been increasing reflecting the fact that base rates were higher. When the design of private market solutions had been considered in the past BCP had discussed whether the potential was there to generate higher returns or whether it was preferable to keep a stable return target and achieve that with lower risk. Past preference had been to maintain a regular return but this was still to be discussed for next year.

The Fund's Advisor also noted that the valuations of long-term assets had been affected by the rise in bond yields and asked whether BCP was confident in the valuations it was being given.

The Head of Client Relationship Manager confirmed that all assets in the private market fund were valued quarterly and there had been a draw down in values this year. As part of due diligence, BCP would dive into their valuation processes look at their previous launches and how accurate investment managers had been on their valuations. BCP also had regular calls with investment managers to test and understand their valuations.

ORDERED that the information provided was received and noted.

22/24 **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.

William Bourne provided further commentary at the meeting and highlighted that inflation was falling and interest rates were peaking. Central banks had raised interest rates to keep inflation down but also been generous in terms of using their balance sheets – quantitative easing. This had hidden some of the stresses in the market. A further stress was about much higher bond yields and the effect on valuations. It was likely they would rise higher as governments would need to issue a lot of debt. UK debt was 99% of GPD. Whilst this was not unprecedented it was usually around 40%. There was also a lack of growth globally and the likelihood of US and UK elections in the next few months.

William advised that at some point in the future the Committee should consider investing more into gilt linked bonds and government debt as these provided the best protection against inflation.

ORDERED that the information provided was received and noted.

22/25 **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.

Q2 and Q3 had been relatively quiet with low volumes of trading in the property market. There had been uncertainty as to when prices would peak and interest rates had an impact on pricing. The situation was becoming more stable as it appeared that interest rates had peaked and there was beginning to be more activity on the market.

There was still a healthy demand for industrial and logistics, although not as much development as previously. Potentially this offered an opportunity to buy in that market at good value. Good quality offices were required for the continued return to office based working following the pandemic. In the retail sector there was still uncertainty about how much space was required. CBRE continued to look for the best quality and locations.

There would be opportunities as the market re-priced and the Fund would be able to invest at the right prices. Once there was more certainty, there would be more competition for property.

Regarding any difference in growth between retail property in town centres and sub regional shopping centres it was a difficult market to assess. It was down to the individual asset as to whether it was good or not. Values for retail were often not a large enough investment for the Teesside Fund..

In relation to the Portfolio, the current void rate was less than 1%.

The Fund had purchased a retail park in St Alban's for £30.5 m which was currently let to B & Q, Aldi and Costa. The purchase of a 346,465 sq ft industrial unit in Washington had also now completed and would be let to BAE.

In relation to asset management it was highlighted that a lease renewal had been completed with Costa in Ipswich and further discussions were taking place with B&M, Congleton to agree a lease renewal.

The total Collectable Arrears on the entire portfolio was £229,492 as at 8 September 2023.

All existing loans were performing in line with their loan agreements. All were covenant compliant and all interest and amortisation payments had been made on time.

In respect of Responsible Investments it was confirmed that Teesside Pension Fund's property Portfolio currently complied with MEES regulation. The Fund had undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulation in 2025.

ORDERED that the information provided was received and noted.

22/26 **LGPS 'NEXT STEPS ON INVESTMENT' CONSULTATION**

A report of the Interim Director of Finance was submitted, the purpose of which was to:

- Advise the Members of the Pension Fund Committee (the Committee) of an ongoing government consultation: "Local Government Pension Scheme (England and Wales): Next steps on investments" which set out a proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

- Explain the process being followed in relation to the Pension Fund and Border to Coast Pensions Partnership ('Border to Coast') responding to the consultation.

- Ask the Committee to agree and provide any comments on a draft response to the consultation on behalf of the Fund.

The Teesside Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership ('Border to Coast'). Border to Coast was acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that existed between the pool members and with the pool company. Border to Coast and its Partner Funds had also largely delivered the original pooling objectives the government set out in 2015.

The government had issued a consultation on next steps for LGPS investments in England and Wales which looked to build and accelerate progress towards greater LGPS pooling. The stated objective was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging/requiring all LGPS funds to complete the pooling process with their current pool and then reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document was attached at Appendix A to the submitted report.

Other aspects, as well as accelerating the pace and scale of pooling were also covered in the consultation which addressed the following five areas:

• "First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

• Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.

• Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.

• Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.

• Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations."

Border to Coast, together with its Partner Funds, had been working to develop a joint response to the consultation. The response was due to be approved by Border to Coast's Joint Committee on 28th September 2023. Alongside this joint response, which all Partner Funds would be signing up to, each Partner Fund would also be submitting a response to government. These individual responses may emphasise particular aspects or cover areas of special concern to each Fund but were not expected to contradict the general collective approach being developed by all the pool participants. A draft response from the Teesside Fund was attached at Appendix B to the submitted report for the Committee's comments and approval. A table at paragraph 5.3 of the submitted report set out the questions from the consultation together with some summary comments on the collective response that would be given from Border to Coast and its Partner Funds, also consistent with the draft response from the Teesside Pension Fund.

Much of what the Government was proposing was in line with the approach to pooling that had already been adopted by Border to Coast and its Partner Funds. For example, on the requirement to pool all listed assets by 31 March 2025, the Fund had to a large degree already achieved this – all the Fund's actively managed equities were invested by Border to Coast (over £2.5 billion as at 30 June 2023) with only the Fund's passive equities managed elsewhere (by State Street Global Advisors – around £0.6 billion as at 30 June 2023).

The areas the Fund emphasised in its response to the consultation included the following:

• Re-iterating resistance to the Government's continuing attempts to direct Funds as to how to allocate their assets. The 2015 consultation started with a drive to use LGPS Funds to pay for UK infrastructure projects, the latest iteration looks to leverage LGPS assets to help pay for the Government's 'levelling-up' agenda.

• Caution around the drive to invest in private assets – although private market performance has been very good over recent years, past performance is no guarantee of future outcomes, and with an era of 'cheap money' seemingly coming to an end there is a risk Funds could be directed inappropriately into illiquid investments that may not deliver expected outcomes.

• The consultation blithely suggests the 'deadline' for the transfer of non-listed assets into Funds could easily be 31 March 2025 as well. In fact, there are significant barriers associated with transferring these assets. One in particular the Government could alleviate would be to allow the transfer of property assets from a Fund to a Pool without incurring stamp duty.

The consultation period would close on 2 October 2023. The Fund's response would finalised following this meeting and submitted by the deadline. The expectation was that the Government may either announce the outcome of the consultation or give a strong steer as to its likely announcement in the Autumn Statement (expected to be in November). The Committee would be kept up to date with future developments on the guidance and/or regulations relating to LGPS investment pooling.

ORDERED as follows that the:
1. the information provided was received and noted.
2. Fund's response to the consultation was approved.

22/27 **FUNDING LEVEL UPDATE**

The Head of Pensions Governance and Investments provided an update on the funding level. The Fund's funding objectives were to keep employer contributions as low and stable as possible, for as long as possible with a comfortable level of prudence. To achieve these objectives, the Fund took a long-term view (20 years) when setting contribution rates for tax-payer backed employers but required at least a 75% likelihood they would be at least fully funded at the end of this period. It was noted that the Fund invested in assets that could change in value considerably day-to-day. As a result, the funding level and any surplus or deficit could change significantly from one day to the next. Taking a long-term view on risk was core to fulfilling the Fund's objective of keeping rates as stable as possible.

Over the period from 2016 to 2022, the observed improvements in funding levels had been driven by higher than anticipated investment returns. Over this period, the Fund's investments returned nearly 80%, however, this was damped by low interest rates which depressed market expectations for future returns. Since the 2022 valuation, returns on the Fund's investments had been slightly less than anticipated. In essence, the Fund was holding approximately the same amount of assets today as it did on 31 March 2022 for every £ of pension it expected to pay out. However, increasing interest rates had increased market expectations for long term future returns which had reduced the estimated value placed on the benefits (liabilities). Therefore, a shift had occurred where increases in funding level were previously being driven by actual returns, whereas recent increases were being driven by the promise of greater future returns.

As at the end of July 2023, the Funding Level had risen to 154%. The main risks to the Funding Level were inflation and regulatory changes.

Members asked whether there were any implications in terms of contributions to the scheme from employers, especially given the current economic climate. It was clarified that the figures presented were a snapshot part way through the valuation cycle and the next contribution rate review was not due to take place with Employers until April 2026.

ORDERED that the information provided was received and noted.

22/28 **PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS**

A report of the Interim Director of Finance was presented to provide Members with the 2022/23 draft 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. A copy of the draft unaudited Report and Accounts for the year ended 31 March 2023 was attached to the submitted report.

The overall financial performance of the Fund for the year to 31 March 2023 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million. Performance was muted but positive overall across equities, but property assets were negative, showing a -9% return over the year, largely because of revaluations following challenging economic conditions in some sectors.

The membership of the Fund continued to increase, with total membership at the year-end now standing at 80,338 an increase of 2,443 over last year. The number of active members had increased by 764 or 3.0% over the year and increased by 15.3% over the past four years. The number of pensioners increased by 703 or 2.7% over the year and increased by 12.2% over the past four years. The number of deferred members had increased by 976 or 3.7% over the year and increased by 16.5% over the past four years.

The actuary carried out the Fund's latest triennial valuation, which looked at the Fund's assets and liabilities as at 31 March 2022, during the year and the final report was published at the end of March 2023. Headlines from the valuation were an increase of around £1 billion in assets from around £4 billion at the 31 March 2019 valuation to around £5 billion. However, this was accompanied by an increase in the value of the Fund's liabilities – primarily because the actuary increased their long-term inflation assumption and also became more pessimistic about the outlook for future investment returns. Overall, the Fund's funding level increased slightly from 115% to 116% but the estimated cost of providing future benefits increased as well, leading to contribution rate increases for some employers taking effect during the three year period starting 1 April 2023.

The Annual Report and Accounts presented were in draft form and, whilst the main numbers and outcomes were not expected to change in any significant way, changes might be needed as further review takes place. Some highlighted text from the previous year existed in the draft where further input was required. In addition, the audit process for the Council's accounts (which included the Pension Fund accounts) was not yet complete, and further changes might be required as a consequence.

Once finalised the Annual Report and Accounts would be published on the Pension Fund's website.

Responding to a query regarding an exit payment to an Employer, the Head of the Pensions Governance and Investment explained that the Employer had exited the scheme as it no longer had any active members. The Employer had been in the scheme for many years and had a surplus and that was the reason for the expenditure.

Members' attention was drawn to the shortfall between the net spending of £68 million and the investment income of £58 million. This shortfall was currently being met from the cash deposits held by the Fund. The fund also sold equities to top up the cash balance. The Fund Advisor confirmed that since the Fund was overweighted in equities it was acceptable to sell equities in order to get back to the weighting.

ORDERED that the information provided was received and noted.

22/29 **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
- Member Movement
- Member Self Service
- Pension Regulator Data Scores
- Customer Service
- Completed Cases Overview
- Completed Cases by Month
- Complaints

The following issues were highlighted:

XPS was currently putting together a proposal to complete the necessary additional work arising from the McCloud judgement.

In relation to the Pensions Dashboards a revised staging timetable would be set out in guidance and all schemes in scope would now need to connect by 31 October 2026.

XPS was promoting a digital first approach in respect of Member Self Service. The Middlesbrough based Contact Centre had been live for twelve months and as part of any contact with Members they would be taken through the process of joining the online portal.

Pensions regulator scores showed that 95.91% of all the data around the common items were validated as present and correct. Scheme specific data review had been temporarily paused because of work required for McCloud. XPS would work with the actuaries using a data valuation tool to check for any gaps in data and thus enable more accurate calculations.

The next newsletter would be issued in October month and there would be a new system for people to provide feedback at any time rather than when they retired.

"Opting out" was currently the top search term on the website and this was potentially due to the cost of living crises and members seeking to make their money go further. This was of concern as members could opt out at any time. XPS was not able to provide financial advice but tried to tailor communications to advise against opting out.

Employer liaison work was ongoing and unfortunately XPS had not been informed about a significant number of leavers from the Fund. Each Employer would be contacted and information requested to ensure the database was correct and up to date. This lack of information had impacted the issue of Annual Benefit Statements which were due by 31 August 2023 and equated to around 2657 members. Pension statements would be sent out next week.

ORDERED that the information provided was received and noted.

22/30 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

22/31 **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.

22/32 **LOCAL INVESTMENT UPDATE**

A report of the Interim Director of Finance was presented to request further investment in a local scheme.

ORDERED as follows that the:

1. information provided was received and noted.
2. recommendation as set out in the report at paragraph 2.1 of the submitted report was

approved.

22/33 **SELECTION CRITERIA**

Representatives from Border to Coast and CBRE left the meeting at this point.

At this point in the meeting Councillor Coupe declared a disclosable personal interest as a Non-Executive Director of Border to Coast Pensions Partnership Limited.

A report on Selection Criteria was presented for the Committee's information.

ORDERED that the information provided was received and noted.

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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 provide any comments or suggestions in relation the proposed work plan.

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 (see Appendix A). 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.

4.2 The two items scheduled for consideration in the work plan for this meeting are Internal controls and managing risks and the Fund's approach to cyber security, these are covered in the rest of this report.

5 INTERNAL CONTROLS AND MANAGING RISKS

5.1 The Pensions Regulator's recently published 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.

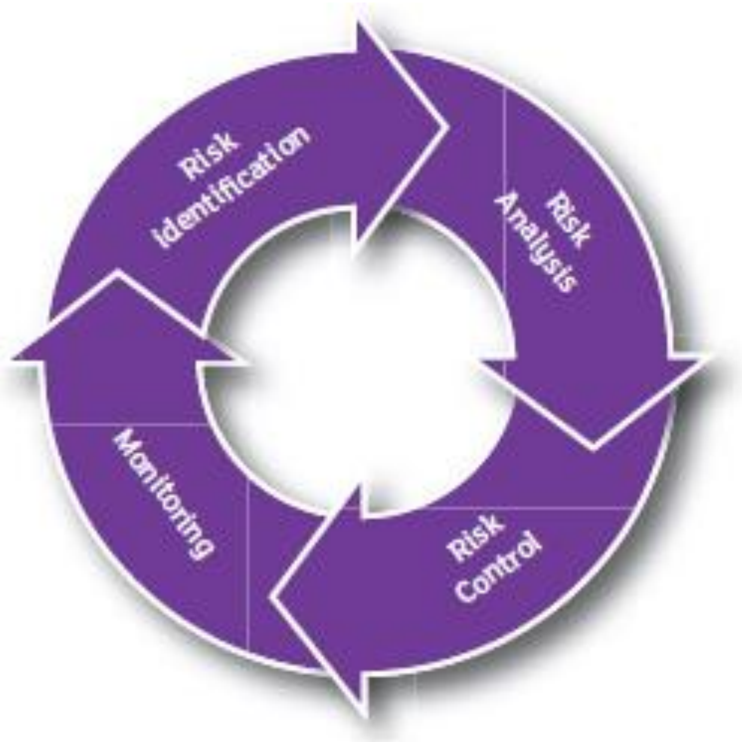
5.4 In relation to understanding and monitoring risk, the Administering Authority aims to:

- 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 Codes 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 (see attached Appendix C), 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.

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 (for the 2022/23 audit £50 million) is used 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 CYBER SECURITY

6.1 The Fund is responsible for the personal data of over 80,000 scheme members, ongoing payments to almost 27,000 pensioners and maintaining secure financial records in relation to around £5 billion of assets. All the Fund's transactions are carried out electronically and all of its records are held electronically. This means cyber security – the security of those records, transactions and the systems that facilitate them – is of prime importance.

6.2 In maintaining secure systems and data, the Fund relies on the systems and processes the Council (as Administering Authority for the Fund) has in place, the security around some third-party systems (such as NatWest's Bankline) and also in the systems in processes maintained by its key partners such as XPS Pensions Administration ('XPS') our outsourced pensions administrator. Looking at each in turn:

6.3 <u>Council Cyber Security</u>

6.3.1 The Council's Information and Communication Technology (ICT) team has robust systems and procedures in place to ensure the Council's network is secure and that access to it is strictly controlled. Across the Council, staff are categorised according to the degree of contact they have with systems and data in the course of their daily work, and appropriate training is provided accordingly. For example, staff who have regular contact with personal data and/or management of staff and/or have access to a broad range of network ICT applications are required to carry out advanced level data protection and cyber security training, and to have regular refresher training.

6.3.2 The Council has a robust business continuity plan, and each functional area is required to consider how it could continue to operate in the event of widespread network issue or unavailability.

6.3.3 The Fund has set up and maintains a business continuity plan setting out how it can continue to function in the event some or all of its systems became unavailable. The functionality relating to pension administration – the collection of contributions and the calculation and payment of benefits – is covered by XPS's business continuity plan. The remaining functionality, such as the requirement to continue maintaining the Fund's investments, making payments and receiving income appropriately is covered in the Fund's business continuity plan, which is reviewed and (if necessary) updated twice a year.

6.4 Third Party Systems Cyber Security

6.4.1 The Fund relies on a number of external third-party software systems to carry out essential functions. One of the most significant of these is the Bankline system provided by NatWest, the Council's and so the Fund's bank, which is used to facilitate payments to and from the Fund's account. These payments are both ongoing transactional payments, such as receipt of contributions and payment of benefits, as well as payments made and received in respect of the Fund's investments.

6.4.2 Bankline is a secure system which can only be accessed using the smartcards and card readers allocated to each user. The system is set up to allow further security to be applied by the organisation using it. This security has been utilised to ensure every payment from the Fund requires a different inputter and authoriser and every payment above £10 million requires an additional authoriser. Defined procedures have been set up and are followed in relation to payments, with a requirement for the inputter and authoriser to always check back to source documentation to verify amounts and account details. In addition, there is an audit trail built into the Bankline software which records the details of who makes any changes made to the details set up on the system and when those changes are made.

6.5 XPS Cyber Security

6.5.1 XPS has a comprehensive approach to cyber security and have achieved certification under information security management standard ISO27001. Their approach is summarised in the Information Security Summary document included in Appendix D, which covers:

- Information Governance and Risk Management
- Infrastructure & Application Security
- User Awareness & Phishing
- Malware Prevention

- Data Loss Prevention Controls
- Secure Configuration
- Access Control
- Home and Mobile Working
- Threat Intel & Monitoring, and
- Incident Management

6.5.2 XPS also has comprehensive business continuity plans in place, these are also summarised in Appendix D. XPS carefully control access to data, ensuring users only have access to the minimum level of data they require to carry out their role.

6.5.3 Also included within Appendix D is a copy of an Administration Update & Security presentation setting out some further aspects of XPS's approach to cyber security.

7. NEXT STEPS

7.1 Further updates on internal controls and managing risk and on cyber security will be provided to the Board as required or as scheduled in the Work Plan.

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 list)**	**Suggested activities (including from the Scheme Advisory Board guidance)**
July 2021 Draft Report and Accounts		
November 2021 Annual Review of Board Training	Pension board conflict of interest	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 2022	Reporting breaches Maintaining contributions Reporting duties	Review procurements carried out by Fund
April 2022 Annual Board Report	Internal controls and managing risks	Review the complete and proper exercise of employer and administering authority discretions.
July 2022 Draft Report and Accounts	Record keeping Resolving internal disputes	Review performance and outcome statistics Review handling of any cases referred to Pensions Ombudsman
November 2022 Annual Review of Board Training	Regulator Code of Practice Gap Analysis	Review the outcome of actuarial reporting and valuations.
February 2023		Review the outcome of actuarial reporting and valuations.
April 2023 Annual Board Report	Communicating to members Publishing scheme information	Review standard employer and scheme member communications
September 2023 Annual Review of Board Training	Pension board conflict of interest	Review the arrangements for the training of Board members
November 2023 Draft Report and Accounts		
February 2024	Internal controls and managing risks	Review the Fund's approach to cyber security
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

Teesside Pension Fund

Risk Management Policy 2021

Risk Management Policy

Introduction

This is the Risk Management Policy of the Teesside Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Middlesbrough Council ("the Administering Authority"). The Risk Management Policy 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.

The Administering Authority recognises that 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 Administering Authority 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.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Fund Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions Governance and Investments.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

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.

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 and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. For example, the Fund's investment strategy shows a strong preference for growth assets, which involves accepting a level of risk. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator's Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

> ***"249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> *(a) in accordance with the scheme rules, and*
>
> *(b) in accordance with the requirements of the law.*
>
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
>
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Teesside Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions Governance and Investments is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Fund Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Teesside Pension Fund Risk Management Process

The Administering Authority'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:

1. 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.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Fund Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.
- legal determinations, including from the Pensions Ombudsman, Pensions Regulator and court cases

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

2. Risk Analysis & Evaluation

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, as illustrated in Middlesbrough Council's Risk Matrix on the next page.

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

Risk/Impact Type	**Impact**				
Financial	<£2.0m	£2m - £8m	£8m - £17m	£17m - £50m	>£50m
Reputation	No publicity	Adverse internal publicity	Local media coverage	National media < 3 day coverage	National media > 3 day coverage
Health and Safety	No/minor injury	Superficial injuries, minor cuts and bruises, nuisance and irritation, ill health leading to temporary minor disability	Occupational deafness, dermatitis, allergy, WRULDs, RSIs, VWF, ill health leading to permanent minor disability. HSE Enquiry	Amputations, permanent loss of eyesight, major fractures, poisonings and gassings, severe/multiple/fatal injuries Long term disability or need for redeployment	Multiple fatalities
Data		Business critical information compromised	Serious breach of information confidentiality	Temporary loss of business critical information	Indefinite loss of business critical information
Staff Morale	Passing Problem, Days	Short term issue (weeks)	Staff morale – longer term issue (months)	Staff morale – significant problem (>12 months)	Staff morale – major breakdown/loss of staff confidence or management authority
Business Targets	Occasional missing of business targets by more than 20%	Frequent missing of business targets by more than 30%	Frequent missing of business targets by more than 40%	Frequent missing of business targets by more than 50%	Frequent missing of all business targets
Operational	Operational inconvenience not affecting quality of service	Service disruption causing operational inconvenience for up to 12 hours	Service interrupted and/or work area unusable, necessitating temporary working arrangements for up to 24 hours	Services curtailed for up to 48 hours and/or areas beyond the directorate affected	Services curtailed for more than 48 hours
Partnership	Weak partnerships – general inconvenience only	Weak partnerships – minor issues readily overcome	Significant weakness in partner relationships	Unreliable partner(s) in contracts	Partnership performance so bad needs dissolving
Legal		Minor out-of-court settlement	Civil action – no defence	Class action	Criminal prosecution – no defence

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.

3. Risk Response

The Head of Pensions Governance and Investments will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Fund Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **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.

4. Risk Monitoring & Review

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Committee will consider 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.

5. Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis 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.

As a matter of course, the local 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.

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 local 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 could also be included in the Council's Risk Register.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Fund Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Fund Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks

- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

Costs

All costs related to this Risk Policy are met directly by the Fund.

Approval, Review and Consultation

This Risk Policy will presented to the Teesside Pension Fund Committee meeting on 15th December 2021. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

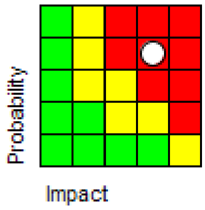
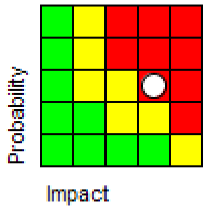
Nick Orton, Head of Pensions Governance and Investments

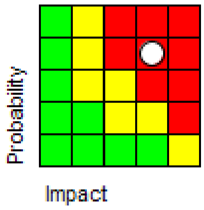
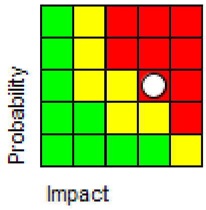
Middlesbrough Council
PO Box 506, Civic Centre
Middlesbrough, TS1 9GA

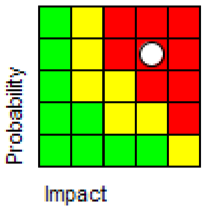
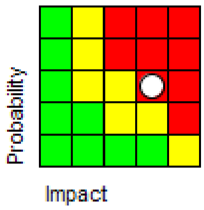
Email: nick_orton@middlesbrough.gov.uk
Telephone: 01642 729040

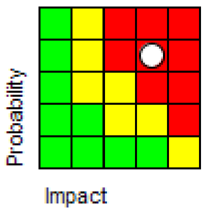
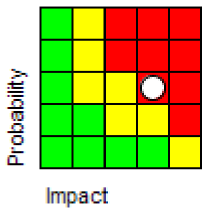
Further information on the Teesside Pension Fund can be found at:
www.teespen.org.uk.

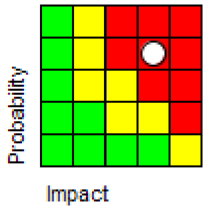
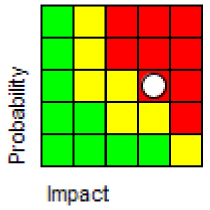
Appendix C - Teesside Pension Fund Risk Register

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	

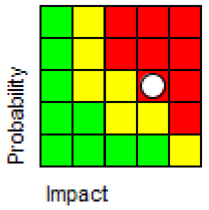
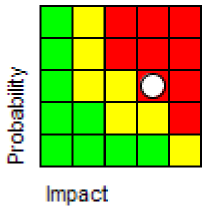
Code	Title	Original Score		Current Score	
TPF002	ADVERSE ACTUARIAL VALUATION Impact of increases to employer contributions following the actuarial valuation. Fund & Reputation Impact-3 Employers Impact-5 Member Impact-1		20		15
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Interim 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	

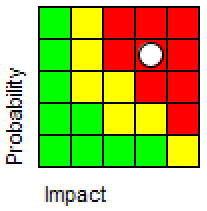
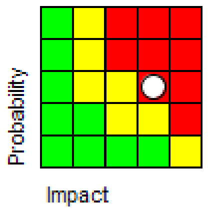
Code	Title	Original Score		Current Score	
TPF004	POLITICAL RISK Significant volatility and negative sentiment in investment markets following the outcome of adversely perceived political changes. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		20		15
Current Mitigation		**Future Mitigation**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

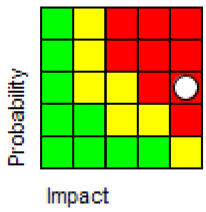
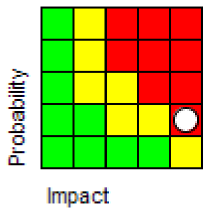
Current Mitigation	Future Mitigation	Responsible Officer
Increasing investment diversification will allow the Fund to be better placed to withstand this type of market class failure. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.		Head 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

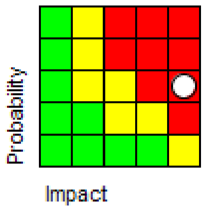
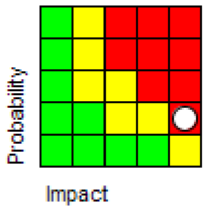
Current Mitigation	Future Mitigation	Responsible Officer
Ongoing monitoring by officers and advisors		Head of Pensions Governance and Investments

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

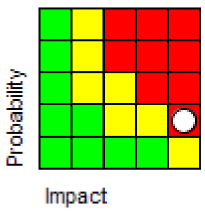
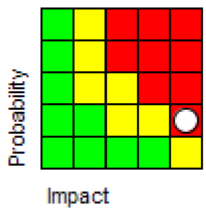
Current Mitigation	Future Mitigation	Responsible Officer
In relation to the funding implications, the administering authority keeps the effect of climate change on future returns and demographic experience, eg. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF009	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		21		14

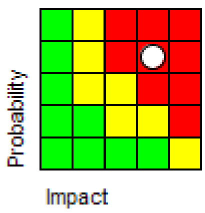
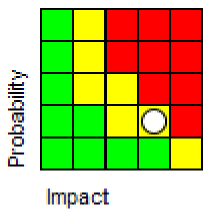
Current Mitigation	Future Mitigation	Responsible Officer
Border to Coast's budget is set annually with the agreement of at least 9 of the 11 partner funds. Expenditure is monitored and reported to the Officer Group and Joint Committee meetings. Tenders for suppliers ensure value for money ethos applies.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF010	INADEQUATE POOLING TRANSPARENCY Lack of transparency around investment pooling arrangements. Fund & Reputation Impact-7 Employers Impact-1 Member Impact-1		21		14

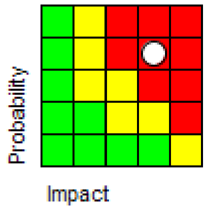
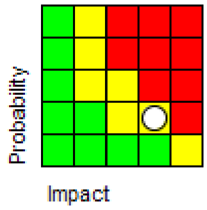
Current Mitigation	Future Mitigation	Responsible Officer
With the pooling of investment assets TPF staff work closely with Border to Coast sub-fund asset managers and Border to Coast management to gain full clarity of performance, with training provided to TPF staff as required.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF021	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		14		14

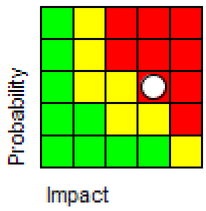
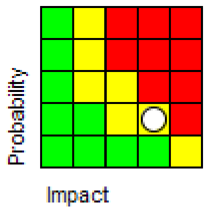
Current Mitigation	Future Mitigation	Responsible Officer
This is mitigated by the Triennial Valuation and the engagement of Two Independent Investment Advisors.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF007	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		20		10

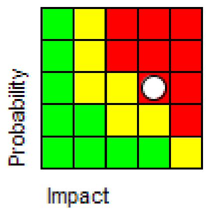
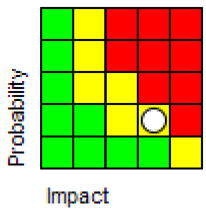
Current Mitigation	Future Mitigation	Responsible Officer
Two Deputy positions were created in 2018/19 (although one remains to be filled). These act to support deputise as required for the Head of Investments, Governance and Pensions.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF008	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		20		10

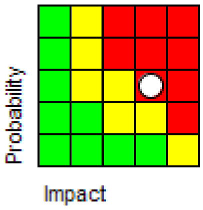
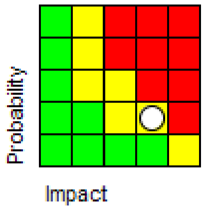
Current Mitigation	Future Mitigation	Responsible Officer
In preparation for the pooling of investment assets to Border to Coast, the team was expanded and has a total complement of 9 staff (albeit with two current vacancies). With a new investment strategy of passive rather than active management, investment transaction volumes have significantly reduced.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF011	UNANTICIPATED PAY RISES Increases are significantly more than expected for employers within the Fund. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		15		10

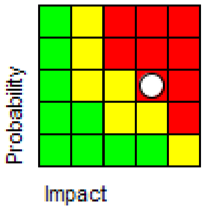
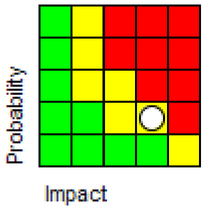
Current Mitigation	Future Mitigation	Responsible Officer
1) Fund employers will monitor own experience. 2)Triennial Actuarial valuation Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) will be long term assumptions, any employer specific assumptions 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.		Head of Pensions Governance and Investments

Code	Title	Original Score		Current Score	
TPF013	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		15		10

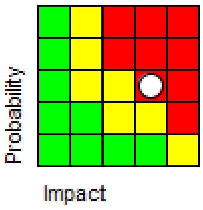
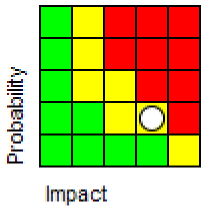
Current Mitigation	Future Mitigation	Responsible Officer
Appropriate due diligence is carried out regarding the structure, targets, diversification and risk approach for each sub-fund before investment. In addition, The Pensions Head of Service and Section 151 officer, will closely monitor and review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

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

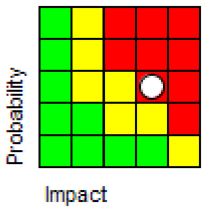
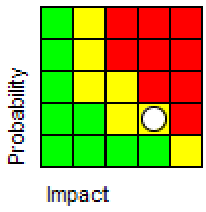
Current Mitigation	Future Mitigation	Responsible Officer
In assessing the member longevity and pension liabilities, the Triennial Actuary assumptions made for longevity are "conservatively" set based on the latest life expectancy economic data. They are reviewed and updated at each three-year Actuarial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

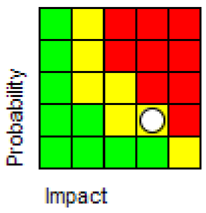
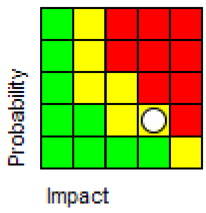
Code	Title	Original Score	Current Score
TPF017	BULK TRANSFER VALUE DISPUTE Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights are acquired for transferring members. Fund & Reputation Impact-3 Employers Impact-5 Member Impact-1	 15	 10

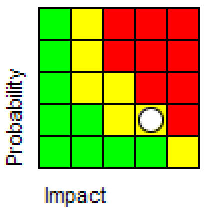
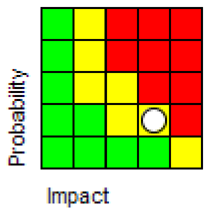
Current Mitigation	Future Mitigation	Responsible Officer
A mechanism exists within the regulations to resolve such disputes - this should reduce the financial impact of any such event.		Head of Pensions Governance and Investments

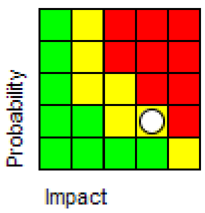
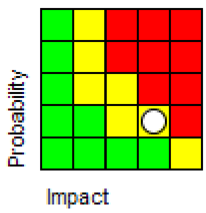
Code	Title	Original Score	Current Score
TPF018	TPF INVESTMENT UNDERPERFORMANCE Investment Managers fail to achieve performance targets over the longer term: a shortfall of 1% on the investment target will result in an annual impact of £50m. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1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

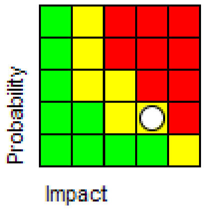
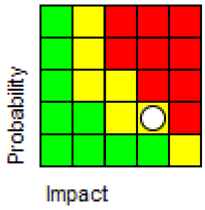
Current Mitigation	Future Mitigation	Responsible Officer
1) The asset allocation made up of equities, bonds, property, alternatives, cash etc. funds, is sufficiently diversified to limit exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to 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

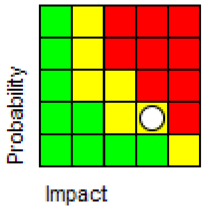
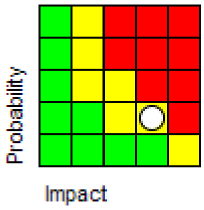
Code	Title	Original Score		Current Score	
TPF019	TPF GOVERNANCE SKILLS SHORTAGE Lack of knowledge of Committee & Board members relating to the investment arrangement and related legislation and guidance. Fund & Reputation Impact-5 Employers Impact-3 Member Impact-1		15		10
Current Mitigation		**Future 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	

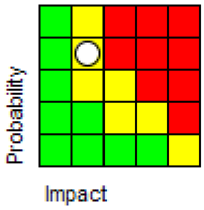
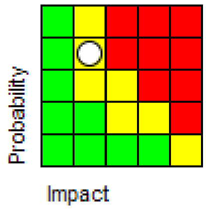
Code	Title	Original Score		Current Score	
TPF025	OUTSOURCED MEMBER ADMIN FAILURE XPS Administration service fails to the point where it is unable to deliver its contractual services to employers and members. Fund & Reputation Impact-1 Employers Impact-1 Member Impact-5		10		10
Current Mitigation		**Future 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	

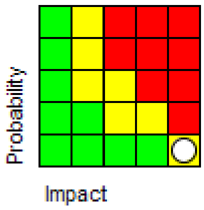
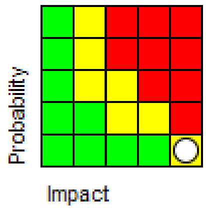
Code	Title	Original Score		Current Score	
TPF026	INSECURE DATA Failure to hold personal data securely - i.e data stolen. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-5		10		10
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
XPS Administration have advised they have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

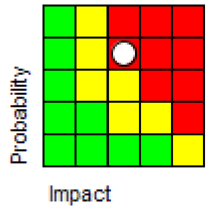
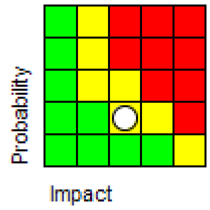
Code	Title	Original Score		Current Score	
TPF028	INADEQUATE POOLING INVESTMENT EXPERTISE Inadequate, inappropriate or incomplete investment expertise exercised over the pooled assets. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		10		10
Current Mitigation		**Future Mitigation**		**Responsible 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

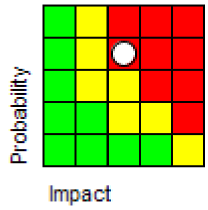
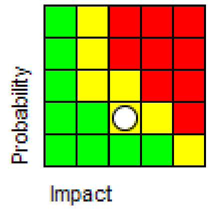
Code	Title	Original Score	Current Score
TPF031	INTERNAL COMPLIANCE FAILURES Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator. Fund & Reputation Impact-5 Employers Impact-1 Member Impact-1	 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

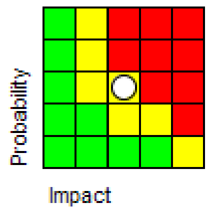
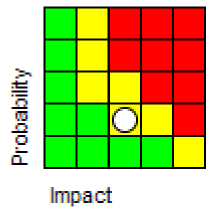
Code	Title	Original Score	Current Score
TPF039	BORDER TO COAST FAILURE Failure of the operator itself, or its internal risks and controls failure of corporate governance, responsible investment, or the failure to exercise voting rights according to policy. Fund & Reputation Impact-7 Employers Impact-4 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

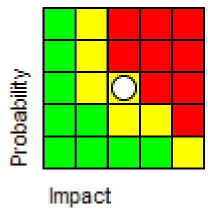
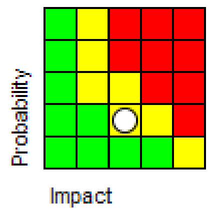
Current Mitigation	Future Mitigation	Responsible Officer
1) Fund employers should monitor own experience. 2) Triennial Actuarial Assumptions will account for the possibility of employer(s) failure (for the purposes of IAS19/FRS102 and actuarial valuations). Any employer specific assumptions above the 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

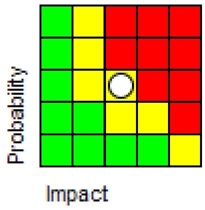
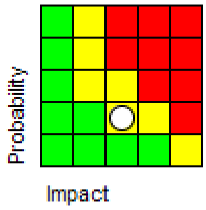
Current Mitigation	Future Mitigation	Responsible Officer
The process of legislative change and the actuarial valuation cycle means any such change would be flagged up well in advance. The actuary has scope to mitigate any contribution increase in respect of most Fund employers.		Head of Pensions Governance and Investments

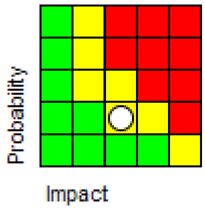
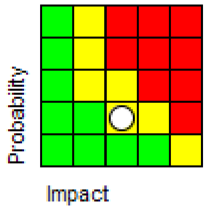
Code	Title	Original Score		Current Score	
TPF022	GDPR COMPLIANCE Non-compliance with GDPR regulations. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1		9		6

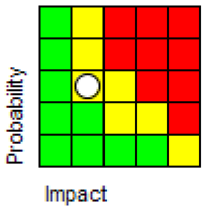
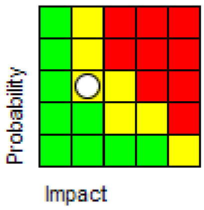
Current Mitigation	Future Mitigation	Responsible Officer
Data protection privacy notices have been distributed by XPS Administration. The Council has established GDPR-compliant processes and procedures.		Head of Pensions Governance and Investments

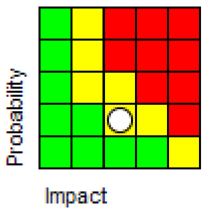
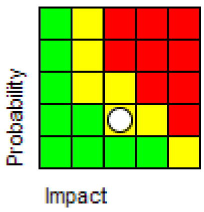
Code	Title	Original Score		Current Score	
TPF023	INACCURATE DATA RECORD COLLATION Failure to maintain proper, accurate and complete data records leading to increased errors and complaints. Fund & Reputation Impact-1 Employers Impact-3 Member Impact-3		9		6

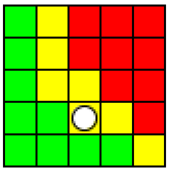
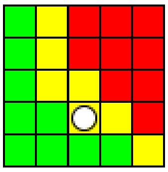
Current Mitigation	Future Mitigation	Responsible Officer
Administration data quality is being assessed as part of the triennial valuation process, as well as being assessed regularly in order to meet Pensions Regulator requirements on scheme data.		Head of Pensions Governance and Investments

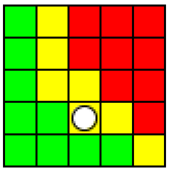
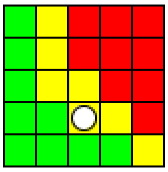
Code	Title	Original Score	Current Score
TPF024	STRUCTURAL CHANGES TO EMPLOYER MEMBERSHIP Risk that TPF are unaware of structural changes to an employer's membership, or changes (e.g. closing to new entrants) meaning the individual employer's contribution level becomes inappropriate. Fund & Reputation 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

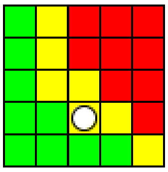
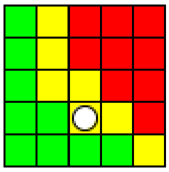
Code	Title	Original Score	Current Score
TPF032	INADEQUATE POOLING DATA Inability to gather robust, quality or timely information from Border to Coast. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
TPF staff work closely 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.			

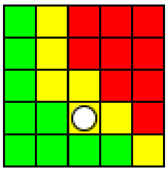
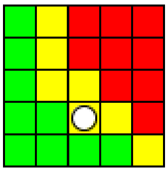
Code	Title	Original Score	Current Score
TPF033	ESG REPUTATIONAL DAMAGE Insufficient attention to environmental, social and governance (ESG) leads to reputational damage. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**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

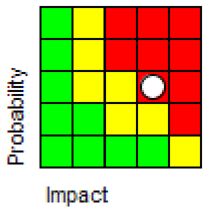
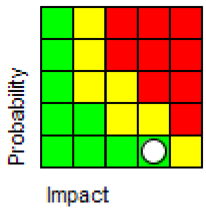
Code	Title	Original Score	Current Score
TPF034	THIRD PARTY SUPPLIER FAILURE Financial failure of third party supplier results in service impairment and financial loss. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	 6	 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
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

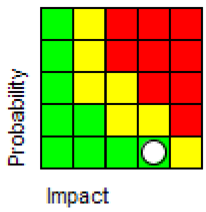
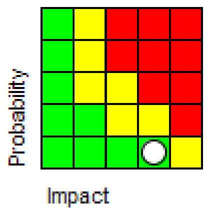
Code	Title	Original Score	Current Score
TPF035	PROCUREMENT PROCESS CHALLENGES Procurement processes may be challenged if seen to be non-compliant with procurement regulations. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1	Probability  Impact 6	Probability  Impact 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Advice sought from Council's procurement specialist on regulatory compliance,			Head of Pensions Governance and Investments

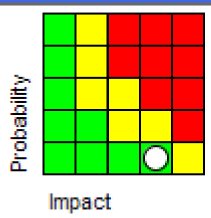
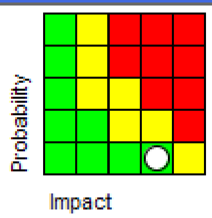
Code	Title	Original Score	Current Score
TPF036	ASSET POOLING TRANSITION RISK Loss or impairment as a result of Asset transition. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	Probability  Impact 6	Probability  Impact 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Listed assets already transferred			Head of Pensions Governance and Investments

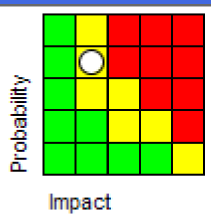
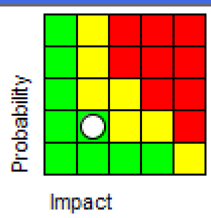
Code	Title	Original Score	Current Score
TPF037	COMPLIANCE FAILURES Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests, Code of Practice 14. Fund & Reputation Impact-3 Employers Impact-2 Member Impact-0	Probability  Impact 6	Probability  Impact 6
Current Mitigation		**Future Mitigation**	**Responsible Officer**
Advice sought where needed on compliance e.g. ISS, FSS			Head of Pensions Governance and Investments

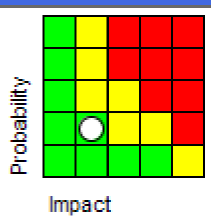
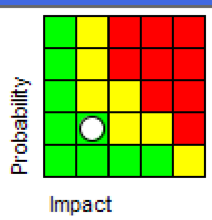
Code	Title	Original Score	Current Score
TPF038	CUSTODY DEFAULT The risk of losing economic rights to pension fund assets, when held in custody or when being traded. The risk might arise from missed dividends or corporate actions (e.g. rights issues) or problems arising from delays in trade settlements.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

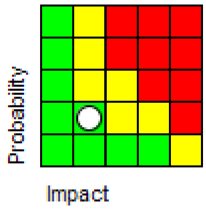
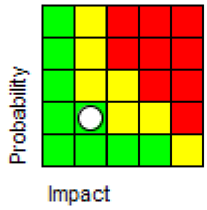
Code	Title	Original Score		Current Score	
TPF020	INADEQUATE BORDER TO COAST OVERSIGHT Insufficient resources to properly monitor pooling & Border to Coast. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		15		5
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Sufficient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

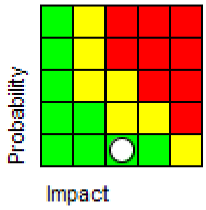
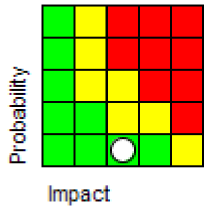
Code	Title	Original Score		Current Score	
TPF043	CASH INVESTMENT FRAUD Financial loss of cash investments from fraudulent activity. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1		5		5
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Approval processes and systems				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	

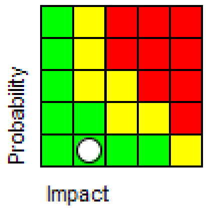
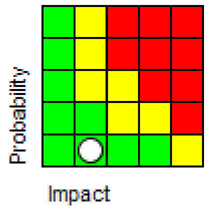
Code	Title	Original Score		Current Score	
TPF040	INACCURATE FUND INFORMATION In public domain leads to damage to reputation and loss of confidence. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1		4		4
Current Mitigation		**Future Mitigation**		**Responsible Officer**	
Checking and reviewing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

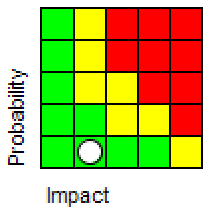
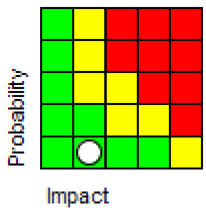
Current Mitigation	Future Mitigation	Responsible Officer
Daily monitoring of cash position, cash-flow planning		Head of Pensions Governance and Investments

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

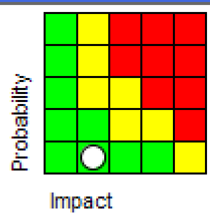
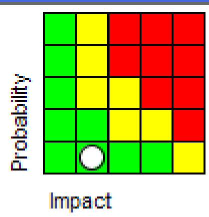
Current Mitigation	Future Mitigation	Responsible Officer
Disaster recovery plans		Head of Pensions Governance and Investments

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

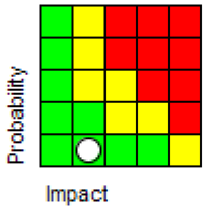
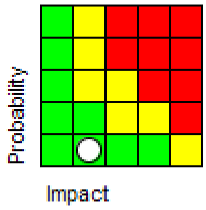
Current Mitigation	Future Mitigation	Responsible Officer
Process is in place and operating effectively.		Head of Pensions Governance and Investments

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

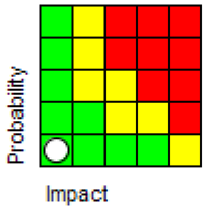
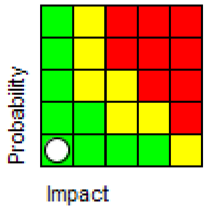
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF048</td><td>POOLING CUSTODIAN FAILURE

Failure to ensure safe custody of assets.

Fund & Reputation Impact-2
Employers Impact-2
Member Impact-1</td><td> 2</td><td> 2</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 custodian is financially secure and keeps pool’s assets segregated.</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

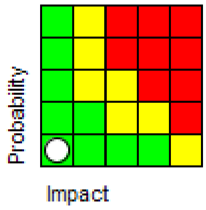
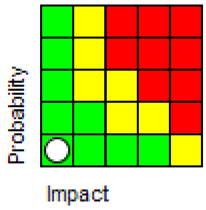
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF049</td><td>OFFICER FRAUD

Fraud by administration staff.

Fund & Reputation Impact-5
Employers Impact-1
Member Impact-1</td><td> 1</td><td> 1</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2">Approval processes, verification on transactions, restricted options in place re payments</td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

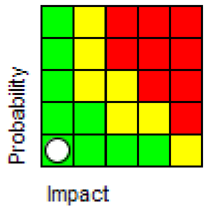
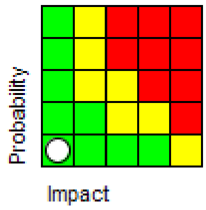
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF050</td><td>EXCESSIVE ADMIN COSTS

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</td><td> 1</td><td> 1</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2"></td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

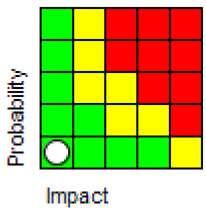
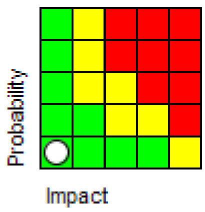
<table>
<tr><th>Code</th><th>Title</th><th>Original Score</th><th>Current Score</th></tr>
<tr><td>TPF051</td><td>ERRONEOUS MEMBER BENEFIT CALCS

Risk of incorrect calculation of members benefits.

Fund & Reputation Impact-1
Employers Impact-1
Member Impact-2</td><td> 1</td><td> 1</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2"></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>TPF052</td><td>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</td><td> 1</td><td> 1</td></tr>
<tr><th colspan="2">Current Mitigation</th><th>Future Mitigation</th><th>Responsible Officer</th></tr>
<tr><td colspan="2"></td><td></td><td>Head of Pensions Governance and Investments</td></tr>
</table>

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XPS Pensions Group

Information Security

February 2024

Information Security

XPS Pensions Group have a comprehensive information security programme designed to provide a layered defence so that all tools work together to protect both XPS Pensions Group and our clients' data.

Bitsight provides real time and independent security assessments against industry benchmarks.

Abnormal provides enhanced protection against email attacks, using state of the art behavioural analysis, AI, and natural language processing (NLP) capabilities.

CYBER ESSENTIALS CERTIFIED PLUS

Information Governance and Risk Management

- XPS Pensions Group are certified to ISO27001 covering all business activities provided by the Group. All information security risks are reported into a group level Audit & Risk Committee, held in a central risk register, and the committee meet on a quarterly basis to review all risks across the business. The Audit & Risk Committee report directly to the board. In addition, we hold the UK government Cyber Essentials Plus certification.
- All security policies are reviewed on an annual basis and whenever there is a policy change to ensure that they meet customer, regulatory and data protection requirements.
- XPS Pensions Group use a number of 3rd party suppliers to provide services to both clients and the business. Where these providers have access to personal data, we conduct annual security reviews.
- As part of our recruitment and on boarding process all employees are subject to vetting which includes a criminal background and credit check before they are employed, with ongoing checks against existing staff completed every two years or annually for higher risk or FCA regulated roles.
- Annual AAF01/20 audits are conducted for XPS Administration as recommended by The Pensions Regulator.

Infrastructure & Application Security

- System alerts and logs are sent to centrally managed Security Information & Event Management (SIEM) platform Microsoft Sentinel. This is monitored 24/7 by a managed security service. This service triages/prioritises security events and escalates to internal XPS security team as required.
- Site-to-site traffic is secured using SD WAN. Personal and confidential data sent externally is encrypted in transit and at rest.
- The perimeter is secured with Cisco managed firewalls, Network Security Groups (NSGs) and supplemented by a SonicWall Intrusion Detection/Intrusion Prevention System (IDS/IPS). Web facing applications are further secured by Cloudflare Web Application Firewall to protect against web threats and denial of service attacks.
- Endpoints are configured with host based firewalls to restrict traffic and further reduce the risk of lateral movement. Laptops use Windows Firewall and servers use Illumio Adaptive Security Platform.
- Network traffic is analysed using Darktrace Enterprise Immune system, a next generation AI (artificial intelligence) and machine learning technology. The system learns all traffic (patterns of life) to detect suspicious activity and Darktrace Antigena provides a recommended response to mitigate the threat.
- Email security is provided at the gateway by Mimecast Advanced Threat Prevention configured to filter incoming/outgoing mail to reduce spam, archive email and prevent attacks in malicious email attachments. This is further enhanced by Azure Advanced Threat Protection and Abnormal email security.

Abnormal uses behavioural analysis, AI and natural language processing (NLP) to detect and automatically remediate email attacks. This is augmented by a Cofense Phishing Detection and Response platform for triaging xpsgroup.com and autonomously responding to email threats.

- Wireless Security is provided using Meraki wireless access points. Corporate networks are hidden (restricted to domain authenticated devices/users) and secured with WPA2 encryption.
- Access to the internet is controlled using Zscaler cloud-based internet proxy which blocks all access to social media, cloud-based storage, and webmail.

User Awareness & Phishing

- Security training is provided to all new joiners via KnowBe4 platform. All users are required to undertake annual refresher training.
- Bi-monthly phishing tests are conducted from KnowBe4 platform.
- Security bulletins are issued on a routine basis to provide additional security guidance and training.

Malware Prevention

- All clients and servers are configured with Microsoft Defender for Endpoint. This is AI-powered advanced threat protection designed and tested to stop Ransomware.

Data Loss Prevention Controls

- Mimecast cloud-based email security is configured for DLP and enforces encryption where explicitly required.
- Access to USB is restricted via group policy and disabled for all users by default.

Secure Configuration

- All laptops are configured with Windows 11 and are encrypted with Microsoft BitLocker.
- Regular monthly updates to servers and computer devices (e.g., laptops, PCs etc.) are implemented using Windows Server Update Service, Microsoft Intune, and Patch My PC.
- Penetration testing of our perimeter IP addresses and applications is conducted annually.
- Tenable.IO is used to conduct daily perimeter and monthly internal scans to detect and manage vulnerabilities.
- All hardware and software changes are managed through Best Practice ITIL change control processes; therefore, all changes require technical and security approval before implementation.
- Standard hardened images are used for all system builds.

Access Control

- All user accounts are controlled by Microsoft Default Domain Policy and Group Policy Objects to provide least privilege access to data and resources.
- Access is granted using the policy of 'least privilege' and includes regular reviews for all users.
- Accounts are secured with strong authentication and multi-factor authentication wherever possible.
- Delinea Secret Server is used for administrative password management which helps to prevent uncontrolled storage of passwords and provide easy password auditing.
- LastPass is used for password management of all non-administrative users to securely store and access credentials.

Home and Mobile Working

- Remote connectivity is secured via Microsoft AoVPN, SonicWall GVPN and Cisco AnyConnect VPNs.
- Microsoft Intune is configured to provide mobile device management (MDM) and enforces encryption on mobile devices.

Threat Intel & Monitoring

- Bitsight is used to provide an external security rating and measure ourselves against industry benchmarks.
- Quarterly threat workshops are conducted to assess cyber risks.
- Proactive threat monitoring is conducted via NCSC Early Warning System. Spiderfoot HX is used to detect indications of compromise and/or XPS data found on the internet/darkweb.

Incident Management

- Fully documented and updated Incident Management processes exist to manage security incidents which includes standing up a Cyber Incident Response Team (CIRT). Action is taken immediately following a cyber security incident or data breach. CIRT escalate all significant incidents to Incident Management Team (IMT) within 1 hour.
- Systems are backed up and replicated to Azure using Commvault and Zerto. Backup Solution can be used to recover systems if there is a virus or ransomware attack.
- BCP, DR and Cyber incident Response plans are fully implemented and tested on at least an annual basis.

For further information

If you would like further details about XPS's approach to Information Security please contact XPS Information Security Team or your client account manager.

@xpsgroup

0118 918 5015

company/xpsgroup

it.security@xpsgroup.com

XPS Group

XPS Pensions Group Business Continuity Summary

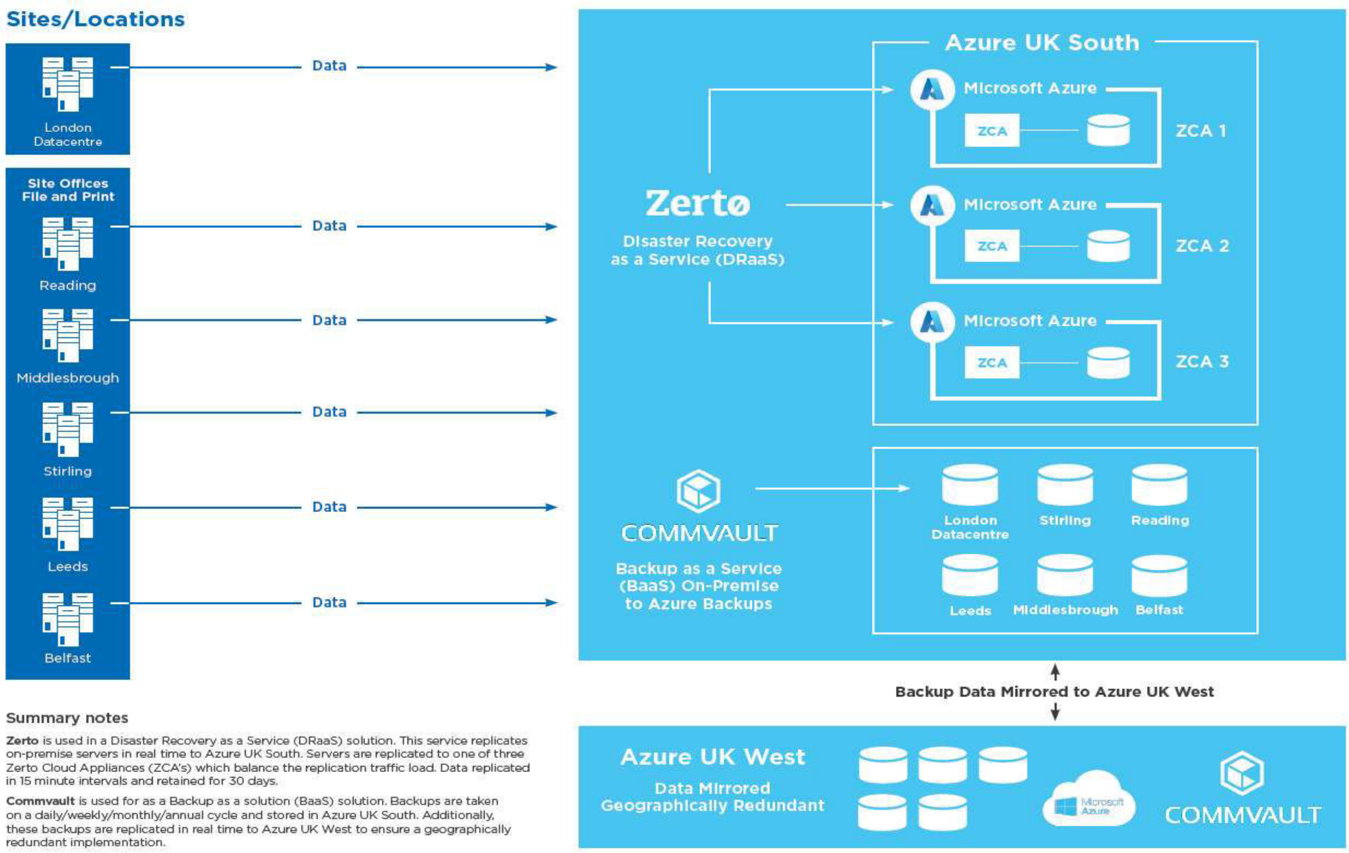
Business Continuity Management (BCM) is fundamental to the risk management strategy of XPS Pensions Group. The Board recognises that the risk of a serious unplanned interruption needs to be effectively managed. By doing this we can ensure full compliance with all regulatory requirements and maintain the level of service you, our clients, require.

BCM is managed centrally, with the Group Board, supported by the Audit and Risk Committee and the Risk Management Committee having oversight of the framework and its ongoing maintenance. Our BCM programme is aligned to ISO22301 and the Business Continuity Institute's Good Practice Guidelines. The primary objective is for all business-critical functions and processes to be prioritised and recovered within predetermined timeframes in the event of a major operational disruption.

Our Business Continuity Policy ensures that each business maintains up to date Business Recovery Plans (BRP), so that they can continue to provide all key client services if affected by a business interruption incident.

The Group currently operates using a tier three equivalent hosted data centre (DC). Our primary DC is located in London and has been designed to ensure it provides high levels of operational resilience. Data is replicated from the DC to a secondary "Disaster Recovery" Microsoft Azure tenant managed by our DRaaS partners, Databarracks. This data is replicated in near-real-time (every 5-10 secs), so were there to be an event impacting the primary DC, we can switch to the "Disaster Recovery" DC and maintain operations as normal from there with minimal interruption. Both the primary DC and the "Disaster Recovery" Azure DCs are monitored continuously to ensure that the design operates as expected, with a rolling testing program in place. This ensure they continue to deliver the capabilities required.

The chart below provides a technical overview of our DR and Backup as a Service



Summary notes

Zerto is used in a Disaster Recovery as a Service (DRaaS) solution. This service replicates on-premise servers in real time to Azure UK South. Servers are replicated to one of three Zerto Cloud Appliances (ZCA's) which balance the replication traffic load. Data replicated in 15 minute intervals and retained for 30 days.

Commvault is used for as a Backup as a solution (BaaS) solution. Backups are taken on a daily/weekly/monthly/annual cycle and stored in Azure UK South. Additionally, these backups are replicated in real time to Azure UK West to ensure a geographically redundant implementation.

When an incident impacts the Group, the Group Incident Management Team is invoked to provide strategic direction to Tactical Recovery Team(s) within the affected business area. This approach ensures strategic, prioritised recovery of critical processes, and enables clear communications to all stakeholders including our clients.

The centralised BCM framework requires plans to be reviewed and tested, and where applicable updated, on at least an annual basis. Business Recovery Plans are tested twice annually, once focusing on IT Disaster Recovery Elements and once focusing on business operations. During 2023 we have successfully completed a "Pay the Pensioner" test, our annual staff rapid notification test and additionally in September 2023 a Cyber Incident Response team test and tabletop exercise with the Plc Board. Findings from all of these tests have been recorded and actioned with enhancements to our testing plans logged and completed.

Our plans are updated following a Business Impact Assessment (BIA) which includes the identification of key personnel. Our flexible working strategy supports staff to work either from home or an office to suit business requirements, which provides a robust displacement capability in the event of any office being inaccessible for more than half a day.

We consider Business Continuity capabilities as part of our third-party selection and ongoing monitoring processes, with alternative suppliers identified for critical services wherever possible.

The Group moved to a formal flexible working environment following the pandemic with all staff issued with corporate laptops, and the ability to work from all XPS locations as well as from home. Our controls are consistent across any location with staff using VPN capabilities when working outside of an XPS office.

Scenario planning also considers new and emerging threats which may arise during the year.

For further information please contact . Head of Risk

Administration Update & Security

January 2024

XPS Pensions Group

We are the largest pure pensions consultancy in the UK, specialising in actuarial, covenant, investment consulting, and administration.

1,700+
Staff members

15
Locations around the UK

45
years in providing pensions advice

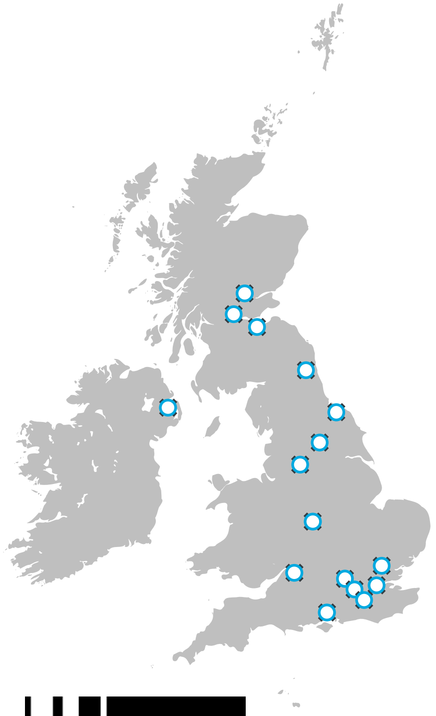
1,600+
Pension schemes and sponsoring employers

£165m
revenue p.a.

26
clients in the FTSE 250

We advise over
81
schemes with over **£1bn** in assets

90%
client-facing staff



JOHN LEWIS & PARTNERS

CompassPensions

AVIVA

PRUDENTIAL

IBM

LISTED

London Stock Exchange

XPS Administration

Long-term commitment to the administration market

We provide pensions administration to:

600+
schemes

1,022,513
members

0
services provided from outside the UK

40+
years providing scheme administration services

12
administration locations around the UK

900+
staff dedicated to administration

XPS have over 200 staff dedicated to our public sector clients administering over 300,000 members, 37 Public Sector clients covering LGPS, Police, Fire, and Ministry of Justice.

Professional Pensions UK Pensions Awards 2022 — WINNER — Third-Party Administrator of the Year — XPS Pensions Group

Professional Pensions UK Pensions Awards 2021 — HIGHLY COMMENDED — Third-Party Administrator of the Year — XPS Pensions Group

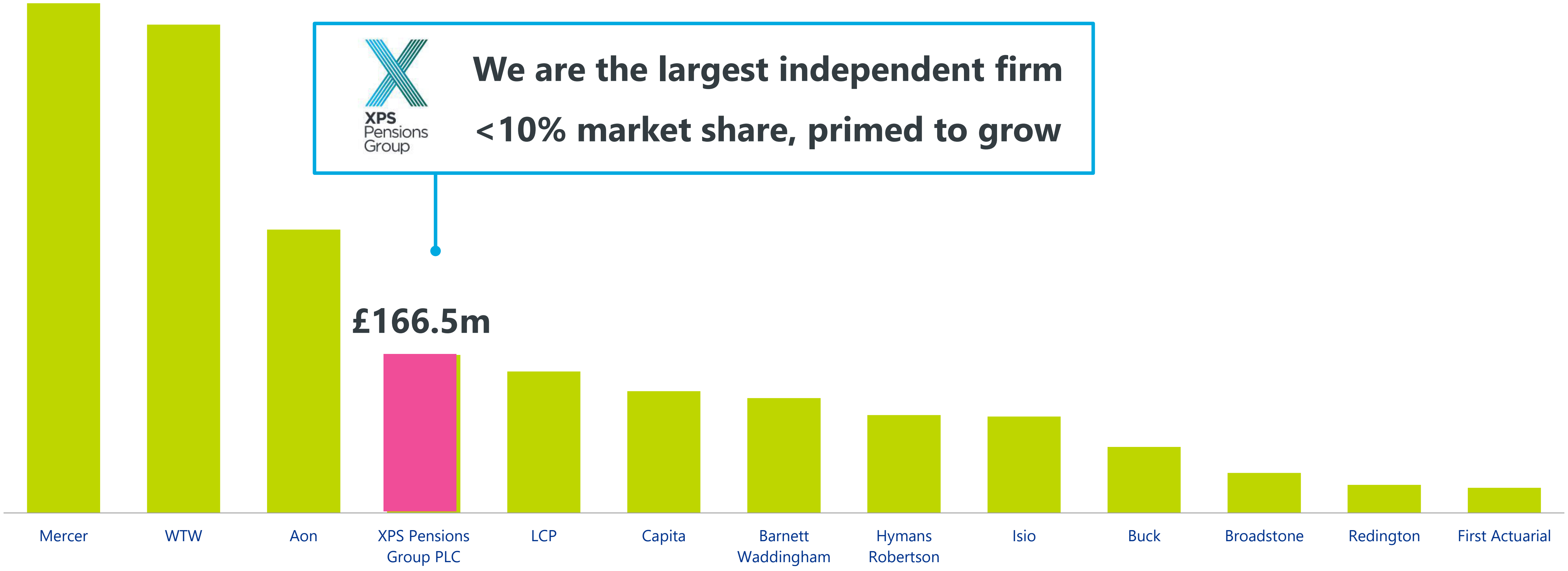
Professional Pensions UK Pensions Awards 2020 — WINNER — Third-Party Administrator of the Year — XPS Pensions Group

Professional Pensions UK Pensions Awards 2019 — WINNER — Third Party Administrator of the Year

No. 1 rated TPA

No.1 Third Party Administrator 2019 2018 2017 2016 2014

Market Landscape



PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2022 25 ANNIVERSARY
WINNER
Actuarial/Pensions Consultancy of the Year
XPS Pensions Group

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2022 25 ANNIVERSARY
WINNER
Investment Consultancy of the Year
XPS Pensions Group

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2022 25 ANNIVERSARY
WINNER
Third-Party Administrator of the Year
XPS Pensions Group

1.8m
pieces of work a year

In excess of
450k calls

Circa 5.1m
pension payments pa

Across **38,000**
payrolls

And in addition,
we protect Members
against transfer scams

3,900 transfers FY24
4% with
Regulatory Red Flags

Security

Risk Governance

- XPS Culture supports and encourages strong Risk Management as it sees it as essential to a successful business.
- Audit and Risk Committee in place with accountability to PLC Board.
- 'Three Lines of Defence Model' used to ensure risks are controlled effectively with appropriate oversight and review frameworks in place.
- Risk and Legal & Compliance Teams support second line.
- PwC currently support internal audit under co-sourced model.

Board Of Directors/Audit & Risk Committee

Senior Management/Risk Management Committee

Key activities

Operational Management First Line	Operational Management Second Line	Operational Management Third Line
Implement governance, risk and control frameworks	Design governance, risk and control framework	Review framework application objectively
Measure and manage project performance	Monitor adherence to framework	Offer independent oversight of first and second lines.
Manage risk (within agreed risk appetite)	Provide timely, balanced information	

Outcome

Control of risks	Confirmation of control effectiveness	Strategic overview of controls

Information Security Governance

Executive Board Committee

Overall business strategy, ambition, and objectives

Risk Management Committee

Information Security Risk Management

IS Governance Committee

Operational control

- ISMS performance review
- Information security risks
- Internal audit
- Strategic overview of controls

Frequency:

Fortnightly

Attendees:

CIO, Head of Risk, Head of Cyber Security, IT Operations Director, Head of IT Development.

Purpose:

Oversight of cyber security incidents, cyber education, market cyber security events, cyber security projects, cyber security policy/ strategy and cyber security key performance metrics.

External certifications

Certified to ISO 27001:2013

Six-monthly surveillance audits by LRQA

Cyber Essentials Plus

Annual recertification by NCC Group

AAF 01/20 Internal controls audit

Annual audit by RSM

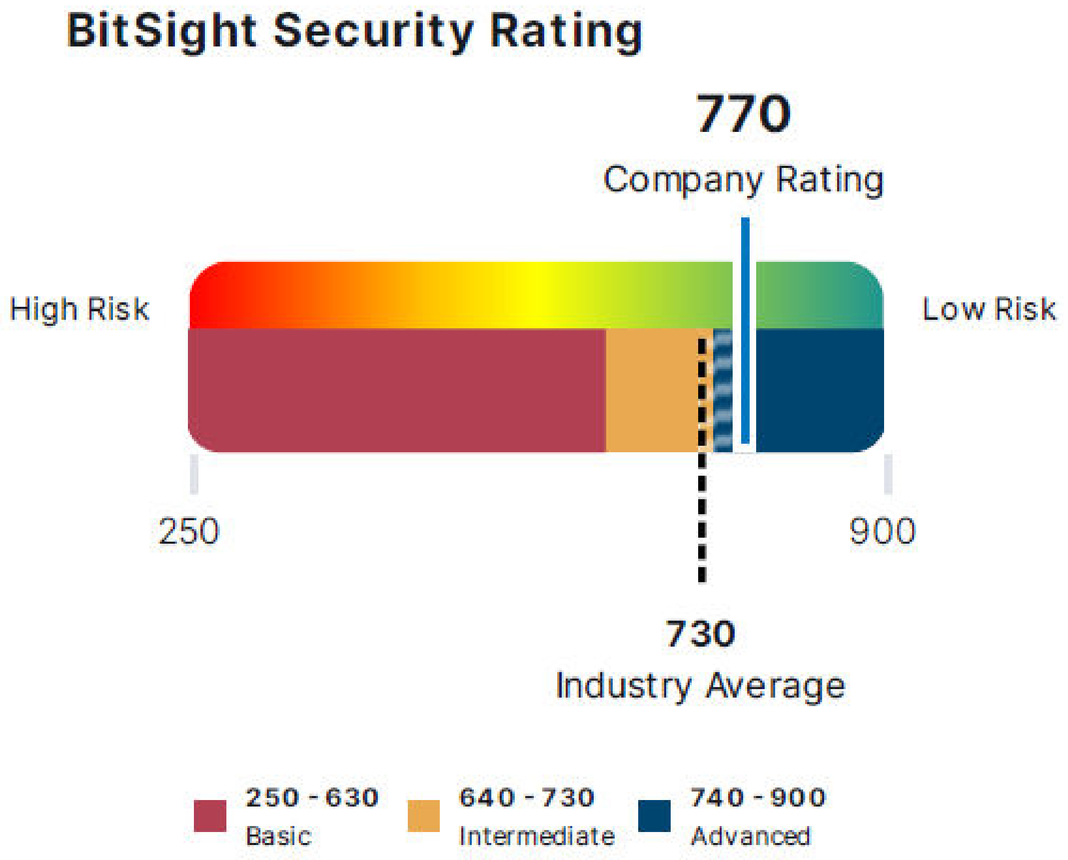
BITSIGHT

External security rating

XPS currently has a BitSight score of 770 (Advanced).

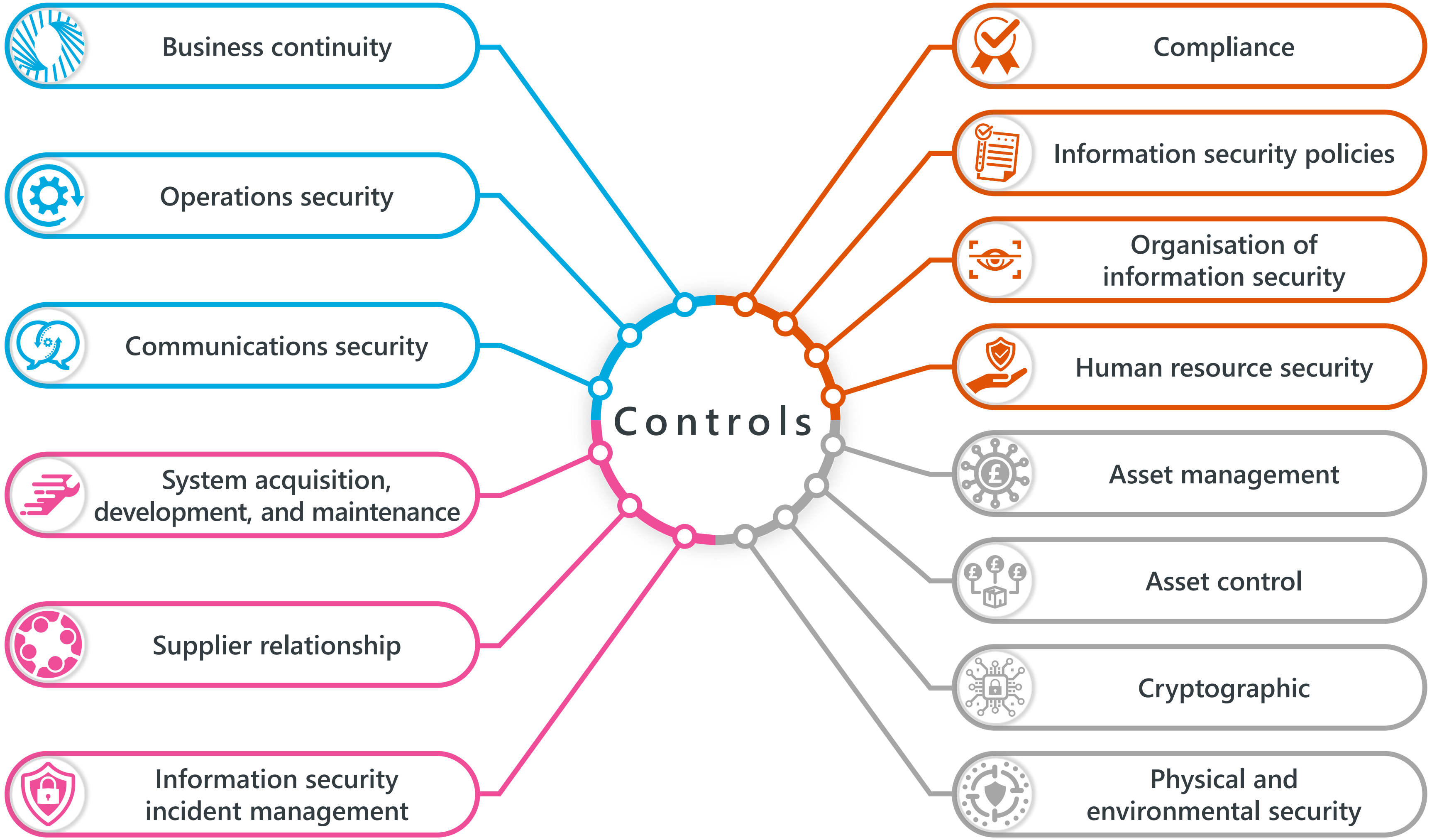
Recent ransomware attacks were at companies with a score below 640 (intermediate), many significantly lower.

- BitSight statistics:
  - Likelihood of Ransomware – Half as likely as <750 company.
  - Likelihood of Data Breach – Half as likely as <700 company.



Cyber Controls

- Recognised as a KEY RISK for Group as we pay pensions for over 450,000 people every month.
- Managed using the Information Security Management Framework aligned with the ISO27001 standard.
- Recognising the technical nature of the risk it is managed by the Information Security Steering Committee who report to the RMC and ultimately the ARC via cyber risk dashboard.
- Dedicated IT Security team supports the Defence in Depth approach used with a range of complimentary technical controls in place.
- Business continuity framework ensures requirement/capabilities reviewed and tested regularly.



Cyber Security improvements

- Renewed Cyber Essentials Plus certification in June 2022.
- Implemented BitSight and made changes to get 780 (Advanced) rating.
- Rollout of Microsoft Intune for all laptops and mobiles.
- Implemented Cloudflare Web Application Firewall for all externally facing web apps.
- Rolled out Delinea Privileged Access Management System to Security & IT Teams.
- Increased phishing testing to bi-monthly (six per year).
- Implemented Cofense – phishing detection and response platform.
- Increased internal security resources from 3 FTE to 6 FTE (Management, Engineering, and Operations).
- New DRaaS and BaaS capability implemented.

Cyber phishing and ransomware

Our framework for protecting our information

The current risk landscape

- Significant increase in identified and prevented phishing attacks, in line with industry.
- Recognition these attacks are increasingly being used to support ransomware attacks, not just steal data.
- Response reflects need to mix people and technology controls to manage the risks.

XPS control framework

- Regular staff phishing awareness training and exercises.
- All staff now use Group issued laptops to access network via VPN and MFA implemented where possible.
- Cyber Essentials Plus Certification recertified in Q2 2022.
- Annual Purple Team Testing.
- New DRaaS and BaaS capability provides enhanced ransomware protection.
- Implementing next generation email security, e.g., behavioural analysis and natural language processing.

KnowBe4 mimecast Abnormal COFENSE TRIAGE Databarracks

Award-winning

Pensions advisory

Administration

Investment

Technology

Culture and sustainability

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Contact us

xpsgroup.com

Belfast
t 028 9032 8282
1st Floor – Flax House
83–91 Adelaide Street
Belfast
BT2 8FE

Birmingham
t 0121 752 6610
1 Colmore Row
Birmingham
B3 2BJ

Bristol
t 0117 202 0400
One Temple Quay
Temple Back East
Bristol
BS1 6DZ

Chelmsford
t 01245 673 500
Priory Place
New London Road
Chelmsford
CM2 0PP

Edinburgh
t 0131 370 2600
3rd Floor West Wing
40 Torphichen Street
Edinburgh
EH3 8JB

Guildford
t 01483 330 100
Tempus Court
Onslow Street
Guildford
GU1 4SS

Leeds
t 0113 244 0200
1 City Square
Leeds
LS1 2ES

London
t 020 3967 3895
11 Strand
London
WC2N 5HR

Manchester
t 0161 393 6860
Chancery Place
50 Brown Street
Manchester
M2 2JG

Middlesbrough
t 0164 272 7331
Second Floor
Centre Square
Middlesbrough
TS1 2BF

Newcastle
t 0191 341 0660
4th Floor
Wellbar Central Gallowgate
Newcastle
NE1 4TD

Perth
t 01738 503 400
Saltire House
3 Whitefriars Crescent
Perth
PH2 0PA

Portsmouth
t 02394 311 166
One Port Way
Port Solent
Portsmouth
PO6 4TY

Reading
t 0118 918 5000
Phoenix House
1 Station Hill
Reading
RG1 1NB

Stirling
t 01786 237 042
Scotia House
Castle Business Park
Stirling
FK9 4TZ

Wokingham
t 0118 313 0700
Albion
Fishponds Road
Wokingham
RG41 2QE

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TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

Pooling Consultation – Government Response

1. PURPOSE OF THE REPORT

1.1 The purpose of the report is to provide the Members of the Teesside Pension Board (the Board) with details of the Government's recently published response to a consultation exercise: "Local Government Pension Scheme (England and Wales): Next steps on investments" which indicates the Government's proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

2. RECOMMENDATION

2.1 That the Board notes this report and that any subsequent guidance in relation to LGPS investment pooling will be reported to future Pension Fund Committee and Board meetings as it becomes available.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 In 2015 the Government published criteria and guidance on the pooling of LGPS assets. This guidance set out four criteria:

A. Asset pool(s) that achieve the benefits of scale (pools of at least £25 billion).
B. Strong governance and decision making (for example: appropriate resources, governance structures, reporting, collective policies on how environmental, social and governance issues are taken into account when investing).
C. Reduced costs and excellent value for money (reporting on fees, transition costs and savings, appropriate justification for using active management).
D. An improved capacity to invest in infrastructure.

4.2 Once this guidance was published, LGPS administering authorities went through a process which eventually resulted in eight asset pools being set up across England and Wales (Scotland was not covered by the pooling guidance). None of these pools are identical in structure or approach and the level of asset pooling that has actually taken place has varied between pools and between the constituent Pension Funds within those pools.

4.3. As the Board will be aware, the Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership ('Border to Coast'). Border to Coast is acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that exist between the pool members and with the pool company. Border to Coast and its Partner Funds has also largely delivered the original pooling objectives the government set out in 2015.

4.4 The government issued a consultation on next steps for LGPS investments in England and Wales last year which looked to build and accelerate progress towards greater LGPS pooling. The stated objective of the consultation was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging / requiring all LGPS funds to complete the pooling process with their current pool and then reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document, along with details of the response being drafted on behalf of the Fund was presented to the 11 September 2023 Board. The Fund's full response was shared with the 27 September 2023 Pension Fund Committee.

5. CONSULTATION OUTCOME

5.1 On 22 November 2023 the Government issued its response to the consultation, the final consultation outcome (enclosed as Appendix A), which confirmed that it would produce guidance and/or regulations to enact most of the changes proposed in the consultation document. The Government will progress its reform of the LGPS to accelerate and expand pooling, and to increase investment in levelling up and in private equity.

5.2 The consultation response sets out a number of expectations for LGPS Funds and Pools, the main outcomes are summarised in paragraph 9 of the document as follows:

"After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their Investment Strategy Statements (ISS) assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity."

5.3 The Government also confirms that pools should seek scale and should reduce in number in the medium to long term from the current 8 to probably around 4 or 5. This number is pools is implied in the document though reference to a Government Actuary's Department (GAD) projection that the LGPS in England and Wales could have assets of around £950 billion, at which point the expected pool size would be around £200 billion. The Government wishes to see greater collaboration between pools in the meantime.

5.4 Much of the detail of implementing the proposals will be set out in guidance which is expected to be released during the first half of this year. Although there are asset allocation targets set out within the response, namely the 10% allocation to (global) private equity and the 5% allocation to UK 'levelling up' assets, the Government has stated these targets will (initially at least) be voluntary:

"Guidance will not mandate investment in any particular assets, and the government's strong preference [is] for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns." (consultation outcome, paragraph 7)

6. IMPLICATIONS FOR THE FUND

6.1 Through Border to Coast, the Fund has already made significant progress towards asset pooling and so to compliance with the requirements set out in the consultation outcome. As at 30 September 2023 55.7% of the Fund's assets are invested through Border to Coast. This is the approximate split of the remaining 44.3%:

Asset class	Percentage of Fund at 30 September 2023	Pooling position
Listed Equities	11.7%	Passive equity – not offered by Pool, unlikely to be cost effective to do so in future
Alternatives (Private Equity/Infrastructure/Other)	18.1%	Not cost effective / practical to transfer to Pool. Will reduce to minimal amount over time (5 to 10 years)
Direct UK Property	9.6%	The 13 December 2023 Pension Fund Committee decided not to transfer the Fund's directly held real estate portfolio to Border to Coast, principally for reasons relating to cost and risk.
Indirect Property Funds	1.2%	Small proportion could potentially transfer, remainder not possible to transfer
Cash	3.7%	Always expect to retain cash for working capital (perhaps 2% of Fund). Cost effective to manage cash at Fund.

6.2 The Fund will continue to work with Border to Coast and its Partner Funds to consider whether and how the unpooled assets could be transferred to pool management when it is cost effective, and in the Fund's best interests, to do so.

6.3 On the 10% private equity target, as at 30 September 2023 the Fund had already broadly met this, with an allocation of around 10% and an expectation that this allocation will grow in the short to medium term as more commitments already made to private equity managers are drawn.

6.4 On the 5% ‘levelling up’ target – the Fund currently invests a small proportion (under 1%) of its assets in local investments which would fit the definition of UK ‘levelling up’ investments. Border to Coast it currently working with its Partner Funds to develop a private markets UK Opportunities sub-fund. Should the Fund choose to make a commitment to that sub-fund in future, any investment would be likely to meet the ‘levelling up’ definition.

6.5 On governance, the consultation response sets out proposals to ensure pensions committee members are appropriately trained in order to carry out their role, and that this is reported on and monitored. This is in line with the current requirement for Board members to be trained. Paragraph 56 states:

“We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.”

7 NEXT STEPS

7.1 The Board will be kept up to date with future developments as and when the expected guidance is produced. In the meantime, the Fund will continue to work with Border to Coast and its other Partner Funds to ensure we can respond appropriately to Government directions whilst continuing to prioritise the fiduciary duty we have to our own stakeholders and beneficiaries.

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

TEL NO: 01642 729024

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Consultation outcome

Local Government Pension Scheme (England and Wales): Next steps on investments - government response

Contents

Summary

1. The UK has the largest pension market in Europe, worth over £2.5 trillion. It plays a critical role in providing safe retirement income as part of the social contract between generations. At the Chancellor's Mansion House speech on 10 July 2023, the government announced a series of measures to reform the pensions landscape, increase investment in UK businesses and improve UK capital market competitiveness.

2. Alongside the Local Government Pension Scheme England and Wales (LGPS) consultation, government announcements include: an industry-led

Mansion House Compact to drive greater investment into high growth companies from Defined Contribution schemes; a consultations on small pots and decumulation; a consultation response on a new Value for Money Framework for Defined Contribution schemes; and the issuance of two calls for evidence on productive investment by Defined Benefit funds and the role of the Pension Protection Fund and on pension trustee skills, capability and culture.

3. Following extensive engagement with external stakeholders, at Autumn Statement the government is announcing a comprehensive package of pension market reform that will provide better saver outcomes, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio. The decisions set out in this response to the LGPS consultation form part of this wider package.

4. On the LGPS specifically, the key aims are realising the benefits of scale and seeking opportunities for returns in the United Kingdom with secondary beneficial effects. In our consultation we sought views on proposals in five areas:

- First, the government set out proposals to accelerate and expand pooling, with administering authorities setting out how they are investing their funds and why. We also proposed a deadline for asset transition to the pools by March 2025 and set out a direction of travel towards pools of at least £50 billion in assets to maximise benefits of scale.
- Second, the government proposed to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) while providing good returns to the scheme.
- Third, the government proposed an ambition to increase investment into high growth companies via private equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government sought views about proposed amendments to regulations to implement requirements on pension funds that use investment consultants.
- Finally, the government proposed to make a technical change to the definition of investments in LGPS regulations.

5. We received 152 responses from across the sector and have carefully considered all responses. We are grateful for all the time and thought of respondents in commenting on our proposals.

6. The consultation received a broad range of responses; it is clear that across the sector there is a collective commitment to making pooling work well and realising the benefits of greater scale and expertise. In addition, it is clear that LGPS investors are willing to seek out and invest in projects which have benefits for local communities where they make sense for the pension fund, and that this is in practice already taking place. It is also clear that there is an appetite to invest in high-growth sectors to the extent that this supports a fund's investment objectives. Proposals to increase the training requirements for the pension committees of LGPS funds, and to improve reporting and transparency of the scheme received wide support.

7. There were some proposals on which many or most responses expressed concern, notably the transition deadline of March 2025, aspects of the preferred model of pooling, and the 10% ambition for private equity allocation. The government's view is that setting clear and up to date expectations in guidance on these matters is essential to securing a step change in progress on pooling and associated benefits of scale, and does not cut across the fiduciary duties of funds. Guidance will not mandate investment in any particular assets, and the government's strong preference for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns.

8. The government also views the LGPS as being in a favourable position to make a greater contribution to UK growth. Scheme members are protected as their benefits are guaranteed in law and do not depend on investment returns. Many LGPS funds are in surplus, and the LGPS has over 2 million active members and remains open to new members. As a result, the LGPS has the freedom to invest for growth over the long term, unlike many private sector comparators. We encourage funds to consider what this should mean for their risk appetite and investment strategy, and to review the investment opportunities, particularly in private markets, which are available to them. We look to successes in Canada and Australia, where good pension outcomes have aligned with societal and economic benefits.

9. After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation.
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy.
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark.
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling.
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity.

10. We will also amend regulations to require funds to set objectives for investment consultants and correct the definition of investment in the 2016 investment regulations. As proposed in the consultation, the Scheme Advisory Board (SAB) plans to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. We will work closely with the SAB and relevant committees of the SAB to develop changes to regulations and revised guidance on investment strategy statements, pooling, governance, and annual reports.

11. More widely, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost, and performance.

Chapter 1: Introduction

12. On 11 July 2023, as part of a package of measures to reform the pensions landscape, the government launched a consultation on proposals relating to the next steps for investments in the LGPS. The LGPS scheme is one of the world's largest funded pension schemes and a key player in global markets, investing around £359 billion worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency.

13. The government believes that whilst long term stable returns in order to pay pensions for its members are the primary purpose of the investments, there is scope at the same time to deliver substantial benefits to the UK as a whole.

14. The consultation focussed on five key areas which could have the greatest impact on the scheme and enable the LGPS to deliver these significant national benefits. The five areas were asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The consultation also covered increased scale, governance and decision making, as well as transparency and accountability.

15. The consultation closed on 2 October 2023 and we received 152 responses, including responses from 82 administering authorities, 14 individuals, 13 asset managers, 12 union responses, 9 advisors, 8 industry bodies, 8 asset pools, 4 campaign groups, 1 local authority which is not an administering authority and 1 law firm.

16. We are grateful for the helpful, detailed and informed responses from across the sector which have greatly assisted government in analysing our proposals and, going forward, will be valuable for informing the next steps for implementation. There were a wide range of views expressed around our proposals and further details of the responses to each question are set out in the document below.

17. The consultation responses were carefully considered, and this response summarises the comments received on each topic and outlines how we intend to proceed.

Chapter 2: Asset pooling in the LGPS

18. The government’s view is that accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS effectively uses its scale to deliver on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. The government wishes to see existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. We set out in the consultation proposals to drive greater scale, improve governance and decision making and deliver better transparency and accountability.

Driving greater scale through fewer pools

19. In question 1, the government asked for views on alternative approaches to pooling in the LGPS to that set out in the consultation. The proposed approach included setting a long-term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.

Summary of responses

20. There were 140 responses to this question. Many respondents commented positively about the broad direction of travel of the consultation and recognised that the scheme needed to evolve to meet new challenges and opportunities. Respondents noted the importance of a well-funded, well managed and sustainable scheme, to which excellent value for money and net performance were critical. Respondents further noted achieving improved delivery and efficiencies create tangible benefits for scheme employers, and for taxpayers.

21. Some respondents felt that it was too soon to consider moving to fewer pools given their relatively short history, and they should be given longer to demonstrate their worth to the sector. A small number of respondents also questioned the transparency of decision making and the level of local accountability and scrutiny of pools, particularly larger pools. Other responses proposed that government should focus on supporting those organisations that had yet to make significant progress.

22. A number of respondents commented that reducing the number of pools could potentially have a negative impact. Particular concerns were raised around potential further transition costs and administrative burdens involved in a further merger of pools. A number of respondents said that greater collaboration between pools to provide suitable investment mandates, and the specialisation of some pools in specific areas of investment, should be seen as an alternative to amalgamation.

23. Respondents also said that pools will need to demonstrate value for money not only in relation to investment management fees but also in relation to the quality of the service they provide in areas such as reporting, responses to queries and other day-to-day work with funds. Respondents also said that funds themselves will also need to have adequate capability and resources with good governance, training and resourcing being key.

24. There were mixed views regarding the case for increasing pool scale. Some supported the drive to greater scale as a means of reducing costs, with several referring to the CEM research (PDF, 1,722 KB) paper “A Case for Scale: How the world’s largest institutional investors leverage scale to

deliver real outperformance" showing that lower fees were achieved at greater scale. Several responses argued that the case for scale was more effective where pools operate in-house management, referring to successes achieved by RailPen and the Universities Superannuation Scheme (USS), and to the academic research (PDF, 6.9 MB) paper "Scale Economies, Bargaining Power, and Investment Performance: Evidence from Pension Plans" (Devries, Kalfa, Timmermann and Wermers, 2023). Others pointed to the increased cost associated with internal management. There was a broad consensus that quality of governance was more important than scale at both the pool and fund level.

25. A small number of responses suggested that different models should be considered. This included a view by some respondents that imposing fund mergers would rapidly increase scale and decrease complexity. These responses pointed to the fact that each administering authority has its own administrator, advisors (legal, actuarial, investment, etc) and Local Pensions Board, which adds cost.

Our response

26. The government welcomes the detailed and wide-ranging responses to this question. A wide range of views were expressed with the majority of views supporting a strengthening of the current pooling model, rather than moving to a significantly different approach. We welcome the emphasis placed on the capability and resources of pools and funds and intend to strengthen the framework of guidance.

27. We understand the concerns expressed on moving to fewer pools and underline that there is no intention to take steps to mandate a move to fewer pools in the immediate term. The government's view is that the focus in the short term should remain on accelerating transition of assets, improving governance and ensuring greater transparency and accountability. But in the long term the government considers that transition of assets alone will not deliver the full benefits of pooling, as the benefits of scale are present in the £50-75 billion range and improve as far as £100 billion.

28. The Government Actuary's Department estimate that the LGPS could reach around £950 billion in assets in 2040. We should therefore look towards a smaller number of pools with assets under management averaging £200 billion in the future and government will work with funds and pools over the medium to long term to consider the pathway. In the meantime, we would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation,

building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication.

A timetable for transition

29. In question 2, the government sought views on the setting of a deadline in Investment Strategy Statement (ISS) guidance for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We considered that a reasonable timeframe for liquid assets to be transferred was by 31 March 2025, which is the end of the current local fund valuation period. We also proposed that transition of all assets should be targeted by this date, as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

30. Under the proposals, funds would work with their pool to ensure that they fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS if the asset would not be pooled by March 2025.

Summary of responses

31. There were 141 responses to this question, of which 18% were supportive, 26% were broadly in favour but said the March 2025 deadline was too soon, 40% were opposed and 16% were neutral.

32. Among those who were supportive there were a range of comments. Some said this proposal would create momentum to deliver the benefits of pooling including professionalism. Others suggested we could go further, for example by mandating or closely monitoring progress. One suggested pooling could be achieved in months, not years. Many suggested that focus should be on funds who were failing to take advantage of opportunity, rather than punishing those who had put in place adequate plans. Some argued that low expertise among some pension committees, overreliance on external investment consultants, and organisational inertia were holding the LGPS back from realising the potential gains from pooling.

33. Those who were broadly in favour but felt that March 2025 was too soon made a range of comments. Firstly, several responses pointed out that the next actuarial valuation will take place with an effective date of 31 March 2025, and normally an investment strategy review would take place following the valuation. Their view was that requiring changes to be made by March 2025 would mean making changes within the life of the existing ISS. Some said that the pools themselves may not have capacity or sub-

funds to properly absorb the additional assets. Others suggested that an unrealistic timing could have a detrimental impact on funds, as the need to meet the deadline would force suboptimal decisions to be made. A small number pointed out that if all funds are competing for similar investments at the same time the competition could have a market impact, increasing prices.

34. There were other constructive comments from those who were broadly supportive of the proposal. These included a request for clarity on the definition of listed assets and the government's expectations with respect to unlisted assets. Several suggested "as soon as practically possible" was a more suitable wording given the different obstacles faced by funds, and others suggested that banning appointment of new listed asset managers would be more effective. Others pointed out there may be more benefits to focussing on unlisted assets, and that by prioritising listed assets the government is missing an opportunity. Many responses said that jointly procured passive funds were already managed with low fees, and as such would not benefit from transition.

35. Those who were altogether opposed had a broad range of views. Some responses argued that a fund's fiduciary duty means they should already be seeking the best opportunities which are available to them, and that it was inappropriate for government to be influencing their decision making. They argued that the government's attention should be more focussed on what funds felt was not provided by their pool, and that government should not assume that funds are reluctant. Many respondents said that the right investments were not always readily available in their pool and that upfront transition costs could outweigh any long-term benefits of pooling. Others challenged the case for scale and argued that the guidance should be based on a more strongly evidenced case.

36. Some respondents felt that funds should be permitted to invest a small proportion, not normally more than 5%, of a fund's assets outside the pool in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. These responses argued that these investments should not be subject to any guidance requiring transition by 2025. We comment on this in our answer to Question 9.

Our response

37. Having carefully considered responses, the government will draft guidance to implement the proposal. The proposals set out in the consultation were to have a requirement in Investment Strategy Statement (ISS) guidance to either transition assets by March 2025, or to set out a

detailed rationale for each asset remaining outside the pool including value for money considerations. This is effectively a “comply or explain” regime, which does not mandate particular investment choices.

38. The government accepts that a March 2025 deadline will be a significant challenge for some pools and funds to achieve but our view is that a step change is necessary to deliver the benefits that greater scale will deliver. A delay to March 2026, as proposed by some respondents, would risk pushing significant action on transition into the next valuation period.

39. The government also accepts that for certain assets transition will difficult or undesirable by March 2025. This may include jointly procured passive funds. In those cases, a detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by March 2025. The rationale should include why it is not appropriate to pool the asset by March 2025, and the plan with regard to pooling that asset. We would also expect the rationale to set out when the decision will be reviewed on each asset and what the plan is to transition by a later date.

Governance and decision making

40. In question 3, the government sought views on revising guidance on pooling to ensure all funds participate in a strong partnership with their pool and with other partner funds, and delegate effectively to their pool. The government’s view is that delegation of strategy implementation and manager selection will allow the pool to deliver the benefits of scale. We do not propose any change to the responsibility of funds for setting investment strategies.

41. We proposed revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also proposed that guidance should set out a model of pooling including a number of aspects which we consider key to progress. The summary below covers the responses to the question and the comments on each characteristic.

Summary of responses

42. There were 140 responses to this question. There were several parts to the proposal with varying levels of support, but on the broad question of whether guidance should recommend a model of pooling 62% were opposed, 17% supportive and 21% neutral. Many supported the proposal to issue revised guidance regarding pool and fund interaction. Many referred to the model we proposed as a fiduciary management model, and some respondents suggested that while fiduciary management could be appropriate and successful for some funds it was not appropriate for all. Several responses said that guidance was not a legally enforceable means of delivering the government's objectives. Others felt that the proposals were unbalanced, largely targeting administering authorities, rather than pools.

43. There were a wide range of views on the aspects of the proposed model of pooling, set out below for each aspect.

Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

44. This characteristic was broadly supported by most respondents. Most respondents agreed that pools should act in the sole interests of their partner funds, and some noted that this was an important prerequisite for exemption from the requirement to run a public procurement under the Public Contracts Regulations 2015. A minority were concerned that other considerations such as responsible investment would be excluded from pool decision making. Some respondents viewed inter-pool competition as desirable, arguing that funds would benefit from cross pool investment, and that inter-pool competition might help to reduce the number of pools in the long run. Some responses interpreted "single entity" as implying a specific model of pooling centred on a pool company owned by the participating funds which they did not support.

Pools should be actively advising funds regarding investment decisions, including investment strategies.

45. A majority of responses were opposed to this proposal. Some suggested that it would be improper for pools to advise as they would have a conflict of interest, or that pools would have difficulty in advising appropriately. Some suggested that it was important to use a broad range of advisors. Several argued that a fund's right to seek its own sources of advice was part of its fiduciary duty. Some said that not all pools had the requisite Financial Conduct Authority permissions to provide advice. Some were concerned that the Competition and Markets Authority (CMA) would

raise questions on the lack of a public procurement process to ensure competitive provision.

Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.

46. Responses were divided in relation to this point. Many welcomed the clarity that strategic decision making should remain the responsibility of administering authorities, and that the pools should be capable of implementing the required investment strategy. Some said that we should be more specific that manager selection should be left to pools. However, some suggested that the distinction between strategic decision making by funds and implementation by pools was not clear cut, and that administering authorities might respond by setting more detailed strategies.

Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.

47. A broadly even number of responses supported and opposed this characteristic. Many were sympathetic to increasing efficiencies by encouraging a smaller number of sub-funds. However, some argued that pools may not always offer suitable choices, that transaction costs would outweigh the savings, or that a bias in favour of existing sub-funds would lead to suboptimal decisions. One pool argued that reducing the number of external investment managers, not the number of sub-funds, created efficiencies. Others suggested this point would run counter to the statutory requirement to invest in a diverse portfolio of assets.

Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

48. There were few comments on this point. Several sought clarity that such decisions should only be made by the pool within the delegated remit of the administering authority and in respect of investments within pool vehicles. Several respondents argued that such decisions should not be delegated to pools.

Our response

49. Having considered responses carefully, the government has decided to revise guidance on pooling as proposed. This will set a clear direction for all funds to move towards delegation of strategy implementation and manager selection, in order to deliver the benefits of scale for all. We recognise there are several current models of pooling, and that all have some benefits, but the government's view is that in the medium and longer term certain key characteristics are essential for progress, although there may be transitional costs for some pools. Progress towards this model will be monitored and reviewed.

50. The revised guidance will therefore include a preferred model of pooling which we will expect pools to adopt over time. This model will be based on characteristics and outcomes rather than prescribing particular structures and will make clear that inter-pool collaboration is encouraged to deliver further benefits of scale. The partner funds will remain in control of their pool, and this will be important in ensuring that it delivers the products and services which the funds wish to have, and the financial and non-financial benefits of scale for all. The requirement to act in the best interests of funds will not prevent pools from adopting policies for example on responsible investment where at least a majority of partner funds agree. Progress towards this model will be monitored with ministers taking a role in reviewing change and engaging pools as necessary.

51. The government does not consider that it would be a conflict of interest for the pool companies owned by LGPS funds to provide advice on investments, or that a public procurement is required, as they controlled by their partner funds, exist to provide services to the funds and do not benefit financially if funds take their advice. Where there is an external pool operator, pools may procure investment advice through a separate contractor to avoid a conflict of interest.

Improving training for pensions committee members

52. In question 4, the government sought views on proposals to set out in guidance that administering authorities should have a training policy for pensions committee members and report against it. The government's aim is to help authorities ensure that pension committee members have appropriate knowledge and skills to make decisions and to make good use of professional advisors.

Summary of responses

53. There were 136 responses to this question of which 91% were supportive of the proposal with many respondents commenting that the proposals would be welcomed across the scheme. Respondents commented that increasing training amongst pension committee members would be of benefit to committees, enhance scrutiny, better inform decision making, and build confidence with scheme members. Some responses pointed out that under the existing statutory guidance for annual reports (issued by CIPFA in 2019) funds should already be reporting the training undertaken by pensions committee members.

54. Many funds stated that they already have well established training plans in place and have made training mandatory for committee members, but that this is not universal. A number of respondents reported issues around recruitment, retention and high turnover of members which could risk the effective administration and oversight roles of committees.

55. A number of respondents commented that any proposed guidance should refer to existing requirements and best practice, including the CIPFA Knowledge and Skills Framework and Guidance, MiFID II requirements, and the requirements for local pension board members. The Scheme Advisory Board encouraged the government to set out a timetable for the implementation of its recommendations on training and pensions expertise, and many other respondents endorsed this approach.

Our response

56. We will revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.

Transparency and accountability

57. In question 5, we sought views on increasing transparency of asset allocation, pooling, returns and savings, in order to provide transparency on progress of pooling by fund, by pool and across the scheme. The proposals also aimed to provide the consistency needed to support an overall view of

asset allocation across the scheme and to minimise the burden of reporting on funds.

Annual reports and LGPS statistics

58. This consultation sought views on proposals to revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation, a comparison between actual and strategic asset allocation, a report of the net savings from pooling, through a standardised data return. We sought views on whether to require funds to report the returns achieved by each asset class against a benchmark across funds.

59. We also proposed to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

Summary of responses

60. There were 136 responses to this question and most were supportive of the proposals. On the proposal that funds should report basic asset classes in a consistent way there was broad support, with 81% supportive and 12% expressing opposition. Most agreed it would be helpful to have consistent reporting between funds to promote transparency and to enable the collation of a scheme-wide report. Some said the template should be drafted with the help of fund practitioners and the Scheme Advisory Board. Others said it would be important to ensure that the categories are not ambiguous to help ensure consistency and ease of completion. Some suggested using the same categories as private Defined Contribution and Defined Benefit schemes, as external fund managers are already familiar with these reporting regimes. We identified no objections to the proposal to require compare actual and strategic asset allocations.

61. On the proposal that funds should report the assets pooled, there was broad support, with 67% supportive and 19% expressing opposition. Several expressed concern that funds with a low proportion pooled would be considered to be under-performing, even if there were valid reasons not to pool. A frequent example was jointly procured passive arrangements, where management fees are already very low and there would be little to be gained by transferring to an asset pool. Others suggested that the categories “pooled”, “under pool management” and “not pooled” were not clear. Some suggested other categorisations, such as dividing assets between discretionary and advisory mandates.

62. With regards to the proposal that funds should report savings from pooling there was also broad support, with 63% supportive and 17% expressing opposition. However, many respondents felt that savings should be calculated by comparing costs against those achievable in the current market, rather than a historic baseline. Several respondents referred to the work of the SAB Cost Transparency Initiative as a good example of best practice. Several felt that there was already too much focus on the cost savings generated by pools, where there should be more focus on pool performance in a broader sense including returns.

63. Some respondents expressed concerns over the additional reporting burden. However, others pointed out that funds are largely already reporting this data in their annual reports and other data provided to the government.

64. The second part of the question sought views on whether funds should report on asset returns against an appropriate and consistent benchmark. There was a consensus that such an approach would be highly difficult to implement fairly, and 55% of respondents were opposed compared to 32% supportive. The primary reason for the opposition was that a consistent benchmark would not take account of the different objectives of different investment strategies. Some suggested that benchmarking could influence decision making in an unhelpful way by incentivising strategies to closely track the benchmark. Others pointed out that even a fair benchmark for each asset class would be an incomplete measure of good performance as it would not capture the suitability of the strategy, only the performance against the strategy. For this reason, some suggested that a more appropriate benchmark would be the actuarial return required by their funding strategy applied to the whole fund return, as this would encapsulate the overall performance of the fund at macro level including the strategy. There was no clear consensus on an alternative approach.

65. Others felt we could go further on promoting good practice and transparency. Several suggested that transparency should focus on two key questions, the suitability of the strategy and the ability of the fund to implement the strategy. Several suggested there should be a means of showing pool performance, including a dashboard approach centred on the value for money delivered by the pool.

Our response

66. We will revise guidance to implement the proposed changes working with the Scheme Advisory Board. We believe that these measures will ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between

LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability. The government will collaborate with the Scheme Advisory Board to consider the design of the annual return, noting the preference for consistency with other defined benefit and defined contribution schemes. This will include consideration of reporting on exposure to UK and global markets.

67. Where passively managed funds are held by funds outside the pool, we will expect funds to set out in their investment strategies, the nature of the arrangement, the value for money case for retaining outside the pool, and the date when the arrangement will be reviewed. If there is oversight by the pool, funds should set out how that oversight is exercised. Funds should report assets held in passive arrangements with pool oversight as under pool management.

68. We also asked for views on whether to require funds to report returns achieved by each asset class against a consistent benchmark and on how this could be implemented. In the light of responses highlighting the difficulties of setting benchmarks across the scheme, we intend to require funds to report performance for each asset class against the benchmark of their choice in their annual reports but not to seek to establish consistent benchmarks.

Scheme Annual Report

69. In question 6, the government sought views on our proposals for the Scheme Advisory Board (SAB) to expand their Scheme Annual Report to provide a report on the progress of pooling and on asset allocation across the LGPS. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports to provide a single source of information for members, employers and other stakeholders.

Summary of responses

70. There were 130 responses to this question, of which 79% supported the proposals and 4% were opposed. Respondents responded positively to the proposal to expand the Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS. Respondents also commented that consistent reporting across all funds will make the production of Scheme Annual Reports easier and will provide a helpful picture of LGPS-wide asset allocation. A number of respondents

said that it would be important to ensure that the SAB is sufficiently resourced to undertake the work.

Our response

71. We welcome the comments received in response to this question. We believe that expanding the content of the Scheme Annual Report to include an update on pooling will be useful for stakeholders and that the single standard set of data discussed above support this.

72. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category as well as by pooling status (pooled, not pooled or under pool management).

Chapter 3: LGPS investments and levelling up

73. In the Levelling Up White Paper (LUWP) the government set out its aim to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level of more prosperous areas. One way in which this can be achieved is by ensuring that some of the funds managed by institutional investors such as the LGPS flow into projects that help deliver levelling up projects while also offering attractive returns.

74. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Definition of levelling up investments

75. In question 7, we asked for views on a proposed definition of levelling up investments. The definition was intended to help LGPS funds and pools in considering how they could invest in a way that promotes growth, supports levelling up, and supports them to pay pensions.

76. The proposed definition was that an investment would meet the levelling up requirement if:

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

Summary of responses

77. There were 138 responses to this question, and 64% were supportive of the definition. Supportive comments welcomed the broad definition as it includes investments across a wide range of asset classes, within diverse investment strategies. Others welcomed the aim of levelling up in the UK by spreading opportunities more equally across the country and bringing communities left behind up to the level of more prosperous areas through boosting productivity, growing the economy and raising living standards across the UK.

78. However, several respondents felt that the definition was too vague, open to interpretation and inconsistencies in its application, in particular by external fund managers. These responses asked for clarity by defining what constitutes a "measurable contribution" and what the term 'local' means, and whether deprived areas should be prioritised. Some said that we should say explicitly that investments which support the transition to renewable energy would qualify. A number of respondents noted that many levelling up investments would be too small scale for pool investments and suggested that they should be made outside the pool.

79. Some respondents referred to the idea of "levelling up bonds," a suggestion made by the Scheme Advisory Board to stimulate investment by replicating the green gilts model. Green gilts are issued by the UK Debt Management Office to help fund projects to tackle climate change, rebuild natural ecosystems and support jobs in green sectors, and raised £9.9 billion in 2022-23. Respondents argued that the success of this model could be replicated with a levelling up focus.

Our response

80. The government welcomes the broadly positive response on the definition of levelling up. We note the requests for additional clarity and will ensure to address this in guidance. However, we will also maintain the principle that a broad definition allows administering authorities to seek out opportunities which they feel will have beneficial impacts. We note the comment that the definition is not one that investment managers are currently working with. Government's view is that the definition is sufficiently broad to allow administering authorities to work with fund managers and agree mandates which suit them. Some responses suggested the creation of "levelling-up bonds" but we do not consider that a new financial instrument is necessary. The government's aim is principally to increase investment in levelling up projects which are more difficult to fund through listed markets.

81. We recognise that some levelling up investments in local projects may be below the necessary scale to attract pool investment, and so some funds may wish to continue to invest outside the pool. However, pools also may be able to conduct due diligence with the benefits of scale and may help funds to manage any potential conflicts of interest arising from investing locally. We therefore encourage funds to consider investing in projects which support levelling up through their pool.

82. We will work with the Scheme Advisory Board to develop draft guidance for further consultation.

Enabling investment to support levelling up

83. In question 8, the government asked for views on whether funds should be able to invest through their own pool in another pool's investment vehicle. Some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, we proposed that funds should be able to invest through their own pool in investment vehicles provided by other pools.

Summary of responses

84. There were 144 responses to this question, of which 65% supported the proposal. Respondents cited the benefit of having access to an increased number of investment products, in addition to a wider range of specialist investment expertise. Similarly, respondents were supportive of increased collaboration between pools and thought that this would support an increase in the rate of assets being pooled. Many responses said that pools cannot be experts in all areas in a way which is cost effective, so allowing cross-pool investment in this way would support specialisation and efficiency.

85. A number of responses were supportive of the principle of investing in another pool but would prefer to allow direct investment in another pool's fund in order to reduce layers of fees and complexity.

86. Some respondents raised concerns around the potential for conflicts of interest to arise for pools, between serving their partner funds and attracting business from other pools. Some respondents suggested that there should be a focus on developing the expertise and range of products available within current pools, and only when there is no other option should a fund invest in another pool.

Our response

87. We will revise guidance on pooling to set out the circumstances in which it would be appropriate for LGPS funds to invest through their pool in another pool's investment vehicle. We note that some respondents expressed a preference to invest in a different pool directly, but the government's view is that investment in other pools should be made only through a fund's own pool in order to prevent potentially wasteful and costly competition between pools. Allowing investment in pools other than their own by without going through their pool could also undermine the relationship between pools and their partner funds and reduce pools' incentive to act in the interests of their partner funds.

Requirement to publish plans for increasing local investment

88. In question 9, the government asked for views on the proposed requirements for the plan to invest up to 5% of assets under management in projects that support levelling up across the UK. This would be published by LGPS funds under proposals set out in the Levelling Up White Paper (LUWP).

89. We proposed that the plan should take account of the fund's investment and funding strategy statements and be reviewed at least every three years in line with the local valuation cycle. We also proposed that the plan should include:

- the fund's current level of investment in levelling up investments
- a plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- the fund's approach to working with their pool to reach their chosen allocation

Summary of responses

90. There were 138 responses to this question, of which 53% were opposed and 25% were in favour. Many responses were on the principle of setting an expectation for funds on investing in levelling up. Many responses said that levelling up investments could form part of a diversified portfolio and that social impact was already an important consideration for funds.

91. Some argued that appropriate investments were already permissible and indeed being made but considered that any requirement to invest in levelling up could cut across funds' fiduciary duties. Some respondents were concerned that setting an expectation on investing in levelling up could result in lower quality investment or investment at higher prices unless the supply of investable opportunities could be increased to meet the demand.

92. Most responses on the proposed requirements for the plan preferred the suggestion that the Levelling Up plan could be part of the Investment Strategy Statement (ISS) rather than a standalone document. Some responses questioned whether funds could adopt a target either lower or higher than 5% in their plans.

93. Many pointed out that levelling up assets can come from a number of different asset classes including property, infrastructure, private equity and private credit. They said that such assets should be considered for investment on the same criteria as other assets within the same class. Some respondents said that levelling up assets did not share similar characteristics in the same way as an asset class and could not form part of an investment strategy as a result.

Our response

94. We will revise guidance on investment strategy statements to require funds to have a plan to invest up to 5% in levelling up projects. These investments are generally expected to provide good returns but may include investments with lower returns made under existing guidance on non-financial factors in investment. The government considers that public markets investments in providers such as housebuilders, construction, utilities companies would generally not eligible.

95. The 5% is not intended to be a maximum, and funds may invest more than 5% if they consider it appropriate within a diversified strategy. They may invest less than 5% if they do not consider there are sufficient opportunities for good returns. The purpose of the expectation is to act as a guide and encourage funds to consider for themselves what an appropriate allocation would be.

96. We have considered the concerns raised on fiduciary duty, but the government's view is that the requirement to set a plan to invest in levelling up does not mandate investment and does not cut across fiduciary duty. We agree with respondents that levelling up is not an asset class, and different types of investment could support the goals of levelling up. Funds

should consider the suitability of levelling up assets in the same way they consider other assets of the relevant asset class.

Reporting requirements on levelling up investments

97. In question 10, the government asked for views on the proposed reporting requirements on levelling up investments. These were to require funds to report annually on their progress against their plan in their annual report, to provide transparency and accountability on investments made by funds. The section of the annual report on levelling up would be expected to include:

- the percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- the amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool
- a narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

Summary of responses

98. There were 134 responses to this question, of which 42% were opposed and 37% were in favour. Some said that improved transparency was beneficial for members and employers and could help funds to make sure that their investments were delivering levelling up in line with objectives. Some suggested that funds should adopt best practice via the Place Based Impact Reporting Framework.

99. Many respondents were concerned about the burden of additional reporting requirements and suggested that these reporting requirements could be phased in over a longer, potentially a 3-year period. Some argued that it would be difficult for external fund managers to know the exact proportion of assets in their fund which fulfilled the criteria. Respondents pointed out that there would be costs associated with the proposal including procurement and training.

Our response

100. We will revise guidance on annual reports to include guidance on reporting progress against the fund's plan. Given the concerns raised on the additional burden and the need for clarity to assist data collection, we

will expect data to be reported on a best endeavours basis and will work closely with the SAB and practitioners to design a reporting template.

Chapter 4: Investment opportunities in private equity

101. In question 11, we asked for views on whether funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio. We also asked whether there are barriers to investment in growth equity and venture capital for the LGPS which could be removed. The government proposed that LGPS funds and pools should double their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition would help drive investment, in a way that allows everyone in the UK to benefit from growth, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

102. We proposed that LGPS funds should consider such private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement. The new ambition would be set out in revised guidance on investment strategy statements.

Summary of responses

103. There were 144 responses to this question and 84% were opposed to the proposal including many who thought that the government was proposing to mandate investment in private equity. The most cited reason for opposing the proposal was a perceived conflict with funds' fiduciary duties. Numerous respondents said that a government ambition of 10% investment in private equity, even if not mandatory, was inappropriate and that local funds should be free to make their own choices locally, after considering their individual circumstances and risk appetites. Several respondents also expressed concern about private equity as a higher risk asset class, and about impacts on investment costs and liquidity.

104. The definition of private equity was a concern to some respondents. Some respondents assumed that the ambition would only include UK private equity. Some considered that a broader set of private markets investments should be included in order to support UK growth more effectively, and in particular that private debt also provided good returns to funds while providing companies the valuable capital they need to scale up.

105. Most respondents did not identify particular barriers which were preventing investment in private equity in addition to high cost or risk. Some said that suitable investments in private equity were not available, or that there was insufficient scale or pipeline of opportunities in the UK market to attract greater investment. Others pointed out that as funding levels have recently improved at the 2022 actuarial valuation, some funds would be more inclined to de-risk their asset allocations.

106. Many responses indicated that private equity was an important asset class for their fund, and that a significant amount of private market investment was made through asset pools. Some reported that these investments were made as parts of diversified portfolios and that they supported local projects which could be categorised as levelling up.

Our response

107. The government is committed to unlocking capital to support growth businesses whilst improving returns for pension funds. This forms part of a wider package of measures to reform the pensions landscape which aims to improve outcomes for pension savers, strengthen the diversification of pension fund investments and increase the finance available for the high-growth companies in all parts of the UK.

108. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. The government believes the LGPS is therefore well placed to benefit from these more illiquid but potentially higher-return investments, with a view to improving the financial stability of local councils over the long term.

109. The government wishes to ensure that LGPS investments reflect an appropriate long-term balance of risk and return for a large open scheme with members mainly employed by tax-backed employers. A prudent adjustment in risk appetite on a proportion of investments is necessary in order to secure higher returns as well as contributing to UK growth. Investment in the UK is particularly welcome but it is not proposed to restrict this ambition to investments in private equity in the UK.

110. The government has carefully considered the responses to the consultation. However, setting an ambition to invest 10% in private equity would not mandate investment. Administering authorities would be under the same requirement as currently to act in the interests of members under their fiduciary duty. Investments in private equity should only be made as part of an appropriate and diversified investment strategy which aims to

provide good returns in the interests of scheme members, employers and local taxpayers.

111. The government will therefore set a new ambition for funds to invest 10% of assets in private equity in revised guidance on investment strategy statements. This will help improve access to finance for high-growth companies all across the UK, including areas where businesses face particular challenges accessing the capital they need to grow. LGPS investment into innovative local companies stands to increase potential returns while boosting growth and jobs in local areas.

112. Whilst the 10% ambition relates to private equity allocations, the government recognises the broader opportunities in private markets including, for example, private debt which may also provide good returns for funds whilst contributing capital for companies seeking to grow. It is for LGPS funds to decide what other investments outside of this ambition are appropriate for them in line with their risk management and fiduciary responsibilities.

British Business Bank

113. In question 12, the government sought views on whether the LGPS should be supported to collaborate with the British Business Bank (BBB). The BBB is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

Summary of responses

114. There were 128 responses to this question, and just over half (57%) supported the proposal. The British Business Bank was widely recognised as an effective organisation with a good investing track record in the UK, though some felt its track record was too short. Many said that they would only consider working with the BBB if it could offer suitable investment products. Some respondents pointed out that the BBB's offer was likely to be more suited to pools than administering authorities. Some respondents asked why the government's focus in the consultation was on the BBB and not other organisations.

Our response

115. To support LGPS in delivering against the 10% ambition, we will encourage LGPS pools to develop and strengthen partnerships with the BBB to explore opportunities in venture capital and growth equity. As the

Chancellor announced at Mansion House this year, the BBB is in the process of engaging industry to test the case for a government-led investment vehicle to support pension fund investment into high-growth companies by providing access to the BBB's pipeline of investment opportunities.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

116. In question 13, the government sought views about proposed amendments to regulations and guidance to require LGPS funds to set and review strategic objectives for any investment consultants which they use. This would bring requirements on LGPS funds under LGPS regulations and guidance into line with requirements under an order made by the Competition and Markets Authority (CMA) in 2019 which already apply to the LGPS.

Summary of responses

117. There were 118 responses to this question, of which 94% were in favour of the proposal and 4% were opposed. Respondents commented positively that the proposals would be a prudent and valuable addition to LGPS regulations, promote transparency, accountability, and effective engagement with investment consultants. A number of respondents also noted that transferring the requirement from the CMA Order to the LGPS regulations would ensure a more consistent approach to investment consultancy services across the LGPS.

118. A number of responses noted that pool companies owned by LGPS funds are treated as in-house providers and are exempt from the CMA order, which excludes in house or wholly owned providers of investment consultancy or fiduciary management. Respondents questioned whether these pool companies should remain exempt in LGPS regulations and guidance. A few respondents requested clarity on whether investment advisers that are not part of FCA authorised entities or who are independent would be covered. Respondents also requested further guidance on the scope of the services that independent investment advisors may advise on.

Our response

119. We will bring forward amendments to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance to implement requirements on LGPS funds that use

investment consultants. With regard to the application of the requirements to pool companies owned by LGPS funds, we that it would be good practice to set objectives for all investment consultancy providers including pools, and will set this out in revised guidance. The guidance will also make clear that all providers of investment consultancy services are covered including independent advisers and that such services include advice on investments, investment strategy statements, strategic asset allocation and manager selection.

Chapter 6: Updating the LGPS definition of investments

120. In question 14, we asked for views on a proposed technical change to the definition of investments within regulation 3(1)(b) and 3(4) of the 2016 regulations. This would correct an inconsistency in the definition of investment that the Joint Committee on Statutory Instruments identified in the 2016 regulations.

121. We proposed to add the word ‘partnership’ to regulation 3(1)b as follows:

- Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership.

122. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 3(4), where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Summary of responses

123. There were 83 responses to this question of which, 89% agreed that the technical change would help clear up ambiguity in the regulations. A number of respondents considered that such investment vehicles were too high-risk and inappropriate for the LGPS.

Our response

124. We will bring forward amendments to the regulations to make a technical change to the definition of investments within regulation 3(1)(b) and regulation 3(4) of the 2016 regulations. The proposed amendment provides consistency and clarity and fulfils a commitment the department has made to update the definition of investment as set out above at the earliest opportunity.

Chapter 7: Public sector equality duty

125. In question 15, the government asked for views on impact on any particular groups with protected characteristics, in order to help us ensure that the impact of any changes on groups with protected characteristics is properly considered, with proper regard to our obligations under the public sector equality duty.

Summary of responses

126. Of the 152 responses, 7% suggested a particular group with a protected characteristic would be affected. Several responses indicated that there were groups who could benefit from the proposals on levelling up, including older people via social housing investment, and people in deprived areas.

127. Some responses pointed out that the LGPS provides vital income to millions of people including high proportions a disproportionately high number of females, part-time workers, ethnic minorities and low-income workers. They argued it is therefore vital that the LGPS is well run for the protection of member benefits and expressed concern that future benefits could be affected if investment returns were lower as a result of changes to investments via the cost-control mechanism.

128. A number of respondents asked why the government had not prepared an Equality Impact Assessment alongside the consultation.

Our response

129. Most of the responses which expressed concern suggested that member benefits could be at risk as a result of the proposals. This is not the case as member benefits are guaranteed in statute and are unaffected by the performance of any LGPS fund.

130. Some referred to the cost-control mechanism, which is the process designed to ensure a fair balance of risk between scheme members and employers which can result in changes to the benefits members accrue. The cost-control mechanism does not depend on either historic or future investment returns, so scheme members should be reassured that the proposals in this consultation will not affect their pension benefits.

131. We believe that the reforms set out above will not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect

benefit to protected groups who live in deprived areas which benefit from levelling up investments. The changes relate to the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

Pensions Regulator General Code of Practice

1. PURPOSE OF THE REPORT

1.1 The purpose of the report is to provide the Members of the Teesside Pension Board (the Board) with details of the Pensions Regulator's recently published General Code of Practice, expected come into force from 27 March 2024.

2. RECOMMENDATION

2.1 That the Board notes this report and that information on compliance with the General Code of Practice will be provided to future Pension Fund Committee and Board meetings.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

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

4.2. The TPR produces guidance in relation to the governance and administration (but not the investment or funding) of public service pension schemes. Much of this up to now has been contained within a separate 'code to practice' document – "Code 14: Governance and administration of public service pension schemes".

4.3 TPR has been through an exercise to merge its existing codes of practice into a single new code, the General Code of Practice. Consultation on the creation of the general code took place on 2021 and the new General Code of Practice was laid in

Parliament on 10 January 2024, expected to come into force after 40 days on 27 March 2024.

4.4 The General Code of Practice is a 171-page document that can be found on TPR's website at the following link:

https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/general-code-laid-january-2024.ashx

(Hard copy available on request).

5. THE GENERAL CODE OF PRACTICE

5.1 The following ten codes have been consolidated into the General Code of Practice:

- Reporting breaches of the law
- Early leavers
- Late payment of contributions (occupational pension schemes)
- Late payment of contributions (personal pension schemes)
- Trustee knowledge and understanding
- Member nominated trustees/member-nominated directors putting arrangements in place
- Internal controls
- Dispute resolution reasonable periods
- DC code
- Public service code

5.2 The General Code of Practice is divided into five sections (shown in bold below). Also shown below are the new modules included in the General Code of Practice (not present in the existing codes of practice). Some of these (asterisked and shown in italics) will not directly apply to the LGPS but where this is the case, compliance will usually be viewed as 'best practice' by TPR.

The governing body

- Meetings and decision-making
- *Remuneration and fee policy **
- *Managing advisers and service providers **
- *Scheme continuity planning **
- *Own risk assessment **

Funding and investment

- *Investment governance **
- *Investment monitoring **

- *Climate change **

Administration

- Planning and maintaining administration
- Financial transactions
- Transfers out
- Record-keeping
- Data monitoring and improvement
- Maintenance of IT systems
- *Cyber controls **

Communications and disclosure

- General principles for member communications
- Scams

Reporting to TPR

5.3 The Local Government Association (LGA) and LGPS Scheme Advisory Board (SAB) have provided the following initial comments in relation to the General Code of Practice:

> "The SAB's Secretariat is studying the Code closely to identify any new requirements for administering authorities and how the Code's requirements align with items on the SAB workplan, such as the SAB's 2021 Good Governance recommendations.
>
> TPR's research on governance and administration shows that the LGPS already has high standards of governance in place. The Code provides an opportunity for funds to review current practices, but also presents challenges during what is already a busy time for the LGPS. Clarity is required on which parts of the Code apply to the LGPS, what these mean for administering authorities and how they should be applied in practice. The SAB will support authorities in understanding any new requirements in the Code and, where needed, will produce new or update existing guidance to help authorities with their responsibilities.
>
> The SAB's LGPS live webinar taking place on 6 March 2024 at 3.30pm will focus on the Code and the requirements and challenges it presents for the LGPS."

5.4 Although the General Code of Practice is expected to take effect before the end of March, TPR has indicated that it does not expect schemes to be able to demonstrate full compliance with all the provisions of the Code from that date. However, what is expected that schemes will have an awareness of where there are potential gaps in compliance and, ideally, a plan setting out how and when these gaps will be filled.

6. NEXT STEPS

6.1 The Fund already had a good level of compliance with TPR's governance and administration requirements set out in the existing 'old' codes of practice. An exercise is underway to consider to what degree the Fund complies with the new elements of the code, including those deemed 'best practice' for the LGPS. Updates, including a plan for achieving full compliance with all relevant elements of the General Code of Practice will be shared with future Board (and Pension Fund Committee) meetings.

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

TEL NO: 01642 729024

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 10

TEESSIDE PENSION BOARD REPORT

26 FEBRUARY 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

XPS ADMINISTRATION REPORT

1. PURPOSE OF THE REPORT

1.1 To provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

2. RECOMMENDATIONS

2.1 That Board Members note the contents of the paper.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications for the Fund.

4. BACKGROUND

4.1 To enable the Board to gain an understanding of the work undertaken by XPS Administration and whether they are meeting the requirements of the contract. The report is contained within Appendix A.

CONTACT OFFICER: Graeme Hall (Operations Manager, XPS Administration)

TEL. NO.: (01642) 030643

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XPS Administration

Teesside Pension Fund

Performance Delivery Report

2023-2024

Contents

01 Overview

Regulations and Guidance

Confirmation of annual revaluation, earnings and pensions increase

On 25 January 2024, HM Treasury (HMT) published a written ministerial statement confirming the rates of annual revaluation, earnings and pensions increase due to apply from April 2024. The statement confirms that public service pensions and career average benefits within the LGPS will increase by 6.7% alongside the Consumer Price Index from the prior September.

2024/25 employee contribution bands

The 2024/2025 Employee contribution bandings have been released which are effective from 1 April 2024. These are calculated by increasing the 2023/24 employee contribution bands by the September 2023 CPI figure of 6.7 percent and then rounding down the result to the nearest £100. A bulletin to all employers will be issued shortly to confirm these.

DLUHC publishes response on investment reforms

On 22 November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the consultation on investment reforms. The response largely adopts the measures the Government originally consulted on. The Government will now implement proposals to accelerate and expand pooling and increase investment in levelling up and private equity. It will do this by:

• setting out in revised investment strategy statement (ISS) guidance that funds should transfer all assets to their pool by 31 March 2025. Funds should also set out which assets are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled

• issuing revised pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation

• implementing a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy

• issuing revised guidance on annual reports to include: − a standard asset allocation and the proportion of assets pooled − a comparison between actual and strategic asset allocation

net savings from pooling − net returns for each asset class against their chosen benchmark.

net savings from pooling − net returns for each asset class against their chosen benchmark.

• making changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling

• amending regulations to require funds to set a plan to invest up to 5 per cent of assets in levelling up the UK and to report annually on progress against the plan

• issuing revised ISS guidance to require funds to consider investments to meet the Government's ambition of a 10 per cent allocation to private equity

HMT confirms LTA abolition from April 2024

The Finance Bill 2023 confirms the lifetime allowance (LTA) will be abolished from 6 April 2024. HMRC have issued a Lifetime Allowance guidance newsletter found at https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-december-2023/lifetime-allowance-guidance-newsletter-december-2023 giving further information and several updates are provided within the HMRC Pension Schemes newsletter 155 found at https://www.gov.uk/government/publications/pension-schemes-newsletter-155-january-2024.

The lifetime allowance is being replaced with new tax rules which broadly seeks to maintain the current treatment for the PCLS, that it is limited to the lower of 25% of the member's benefits crystallising, or so much of the member's lump sum allowance or lump sum death benefit allowance available when the member becomes entitled to the lump sum.

Governance and administration Survey 2022-23 results

TPR published the results of its survey on governance and administration practices among public service pension schemes on 27 November 2023. The survey was carried out online from January to March 2023 and received responses from 191 of 204 public service pension schemes. The survey covered topics such as risk management, annual benefits statements, breaches of the law and dashboards. It also asked LGPS administering authorities about actions in relation to climate related risks and opportunities.

SAB issues statement on surpluses

The Scheme Advisory Board issued a statement on surpluses on 20 December 2023. The statement was drafted with the input from members of the working group on surpluses. The report can be found at https://lgpsboard.org/images/Other/SAB_Statement_on_Surpluses.pdf

SAB commissions report on the LGPS and Sharia law

In 2022, the Board received legal advice from Lydia Seymour (Counsel) on members opting out of the LGPS on the basis of their (principally Islamic) religious belief, and whether this might constitute unlawful discrimination. The Board commissioned Mufti Faraz Adam of Amanah Associates, an Islamic finance expert, to produce a report on Sharia law and the LGPS. The report concludes that as a part of the contractual arrangement between employer and employees, Muslim employees can continue to contribute to, and benefit from, the excellent benefits offered by the LGPS. More information can be found on the SAB website - https://lgpsboard.org/index.php/welcome

02 Membership Movement

	Actives		Deferred		Pensioner		Widow/Dependent	
Q3 2023/24	26,040	▲	28,101	▼	24,321	▲	3,427	▲
Q2 2023/24	25,921	▼	28,186	▲	24,136	▲	3,424	▲
Q1 2023/24	27,074	▲	27,542	▲	23,834	▲	3,392	▲
Q4 2022/23	26,194	▲	27,284	▲	23,581	▲	3,344	▲
Q3 2022/23	25,868	▲	27,002	▲	23,468	▲	3,311	▲

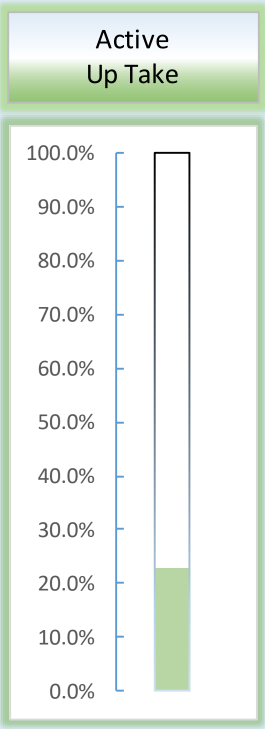
03 Member Self Service

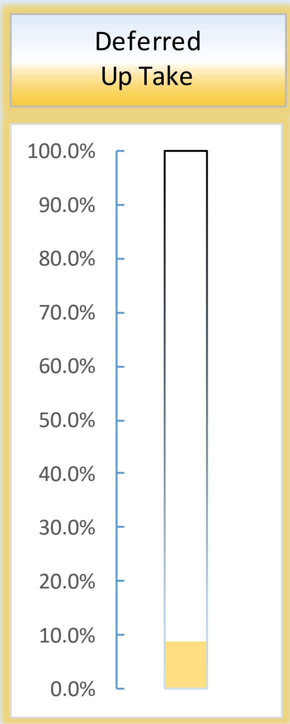
Below is an overview on the activity and registration of the Member Self Service System:

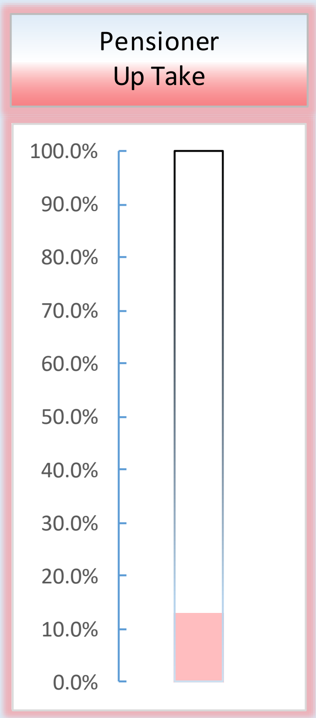
XPS Administration

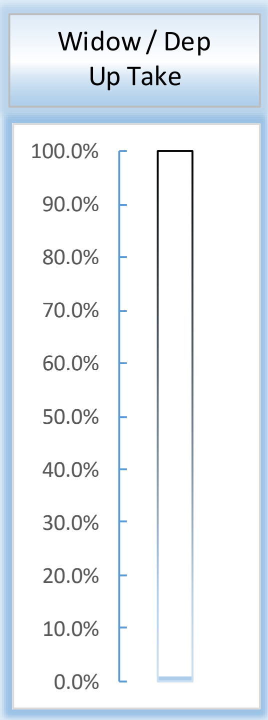
Member Self Service
User Statistics For:
Teesside Pension Fund

Quarter 3	REGISTERED	ACCOUNT DISABLED	ACTIVATION LINK SENT	NOT REGISTERED	TOTAL	Percentage Uptake
Actives	4,615	66	832	20,449	**20,449**	**22.9%**
Deferred	1,877	15	355	21,287	**21,287**	**8.9%**
Pensioner	2,715	71	313	21,315	**21,315**	**13.1%**
Widow/Dep	19	0	1	2,252	**2,252**	**0.8%**
Total	**9,226**	**152**	**1,501**	**65,303**	65,303	**14.4%**









04 **Pension Regulator Data Scores**

Common Data

Data Item	Teesside Pension Fund		
	Max Population	Total Fails	% OK
NINo	81,071	182	99.78%
Surname	81,071	0	100.00%
Forename / Inits	81,071	0	100.00%
Sex	81,071	0	100.00%
Title	81,071	164	99.80%
DoB Present	81,071	0	100.00%
Dob Consistent	81,071	0	100.00%
DJS	81,071	0	100.00%
Status	81,071	0	100.00%
Last Status Event	81,071	663	99.18%
Status Date	81,071	1,804	97.77%
No Address	81,071	427	99.47%
No Postcode	81,071	587	99.28%
Address (All)	81,071	4,887	93.97%
Postcode (All)	81,071	4,946	93.90%
Common Data Score	**81,071**	**3,317**	**95.91%**
Members with Multiple Fails	**81,071**	**485**	**99.40%**

Scheme Specific Data

In readiness for the pensions dashboard, there is a minimum requirement pension schemes bust be able to demonstrate against as required and defined by the Pensions Regulator.

This standard is available to XPS through a product used by our central team, and we are currently undertaking a data mapping exercise in order to be able to carry out the necessary tests. Once this work has been completed, we will be able to report a data score in accordance with the Pensions Regulator standards.

Public sector pension schemes need to be able to connect to the Dashboard by October 2026, so in advance of this, the scheme data must be tested and where necessary, brought up to the requisite standards required.

05 **Customer Service**

Since December 2016, XPS Administration, Middlesbrough have included a customer satisfaction survey with the retirement options documentation.

A summary of the main points are as follows:

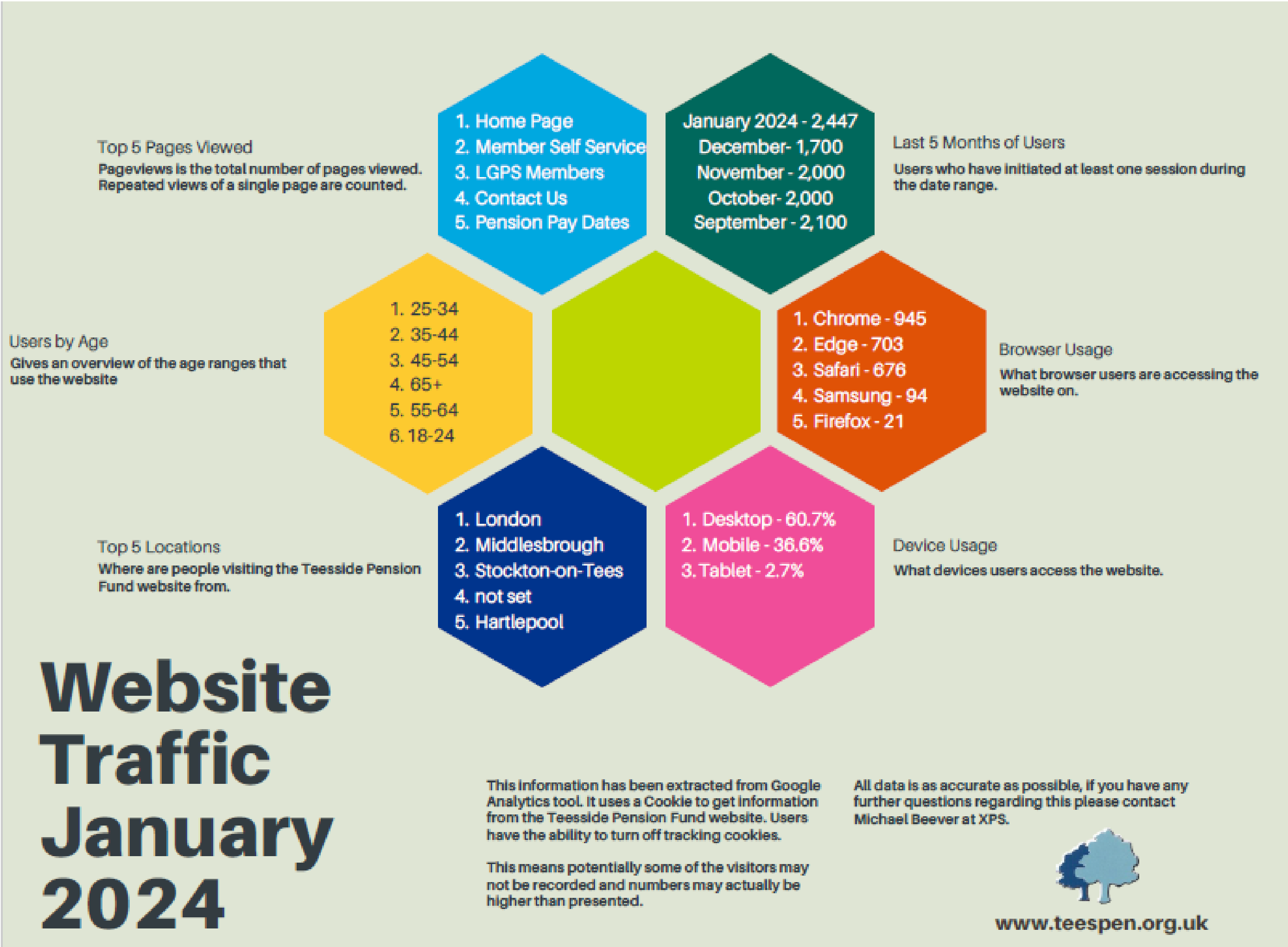
Issued	Returned	%
16,162	3,066	18.97

Question	Previous Response*	Current Response*
1. It was easy to see what benefits were available to me	4.27	4.26
2. The information provided was clear and easy to understand	4.19	4.19
3. Overall, the Pensions Unit provides a good service	4.29	4.29
4. The retirement process is straight forward	4.04	4.04
5. My query was answered promptly	4.45	4.45
6. The response I received was easy to understand	4.44	4.43
7. Do you feel you know enough about your employers retirement process	76.68%	76.75%
8. Please provide any reasons for your scores (from 18/05/17)		
9. What one thing could improve our service		
10. Did you know about the www.teespen.org.uk website? (from 18/05/17)	47.75%	46.21%
11. Did you use the website to research the retirement process? (from 18/05/17)	27.59%	26.45%
12. Have you heard of Member Self Service (MSS)? (from 18/05/17)	23.80%	22.25%

*scoring is out 5, with 5 being strongly agree and 1 being strongly disagree

Communications

A new website was launched to Scheme Members and Employers on the 5th May 2021 which is underpinned with a raft of analytical data which serves to tell us limited information about the audience. This allows us to target news and important items to pages we now know people are viewing and searching for. The following chart provides an overview of the information we have collected.



We can learn a lot from this data, and we will of course be trying to increase footfall to the site by strategically linking the site with participating employers.

As well as these above analytics, we are testing the website regularly to prove its structural and technical integrity. This ensures that people see exactly what we want them to see, regardless of what browser or device they use. We can test these levels and do so several times per week to ensure the web coding is robust and modern. It all helps with the overall Member and Employer experience and allows web indexation to be that much better. This promotes the website in something like a google search.

Next Steps

XPS are currently reviewing processes to enable a move to monthly contribution postings which should lead to greater efficiencies, and more up to date information on member records. The initial stage is currently underway and we have a number of employers who have agreed to undertake the initial rollout. This will help ensure starters, leavers and variations are provided in a timely manner and current data is held to speed up the calculation process.

The next steps will include the recruitment of at least one further member of staff to assist with the processing of the data.

Performance

Following discussions with both the Pension Board and Committee, XPS Administration are investigating a way to report the time between a member being entitled to a benefit and it being finalized (e.g. time between date of leaving and deferred benefit statement being issued or pension being brought into payment).

XPS Administration are therefore investigating whether sufficient reporting tools already exist within the pension administration system or whether bespoke reports are required to be developed (either internally or via the administration software providers).

The Pension Committee will be kept updated on the progress to provide this information.

Employer Liaison

Employers & Members

Pension awareness sessions and employer training sessions continue with a positive uptake and response. Sessions on tax will commence shortly now the Pension Saving Statements have been issued. Processing of new admissions to the fund is ongoing with the new standardised passthrough approach being adopted.

Late Payment Analysis

This table shows analysis of contributions received from participating employers.

We do chase these on a monthly basis and an e-mail has been sent to regular offenders asking them to explain why contributions are being paid across late. Health Checks have been initiated with these employers.

Date	Late Payments	Expected Payments	% Late	<10 Days Late	>10 Days Late
Jun-22	3	142	2.00%	2	1
Jul-22	2	142	1.00%	0	2
Aug-22	4	140	3.00%	1	3
Sep-22	2	140	1.00%	0	2
Oct-22	8	139	6.00%	8	0
Nov-22	2	140	1.00%	1	1
Dec-22	3	140	2.00%	3	0
Jan-23	3	140	2.00%	0	3
Feb-23	5	140	4.00%	1	4
Mar-23	4	140	3.00%	0	4
Apr-23	10	140	7.00%	6	4
May-23	4	140	3.00%	1	3
Jun-23	7	142	5.00%	5	2
Jul-23	3	144	2.00%	0	3
Aug-23	3	144	2.00%	0	3
Sep-23	4	143	3.00%	0	4
Oct-23	6	143	5.00%	2	4
Nov-23	4	143	3.00%	0	4
Dec-23	3	143	3.00%	0	3

06 Completed Cases Overview

Teesside Pension Fund	Cases completed	Cases completed within target	Cases completed outside target	Cases: % within target
LG Team – Admin Manager Mathew Spurrell				
April	416	416	0	100.00%
May	417	417	0	100.00%
June	450	450	0	100.00%
Quarter 1	**1,283**	**1,283**	**0**	**100.00%**
July	382	382	0	100.00%
August	497	496	1	99.80%
September	532	528	4	99.25%
Quarter 2	**1,411**	**1,406**	**5**	**99.65%**
October	529	528	1	99.81%
November	586	586	0	100.00%
December	489	489	0	100.00%
Quarter 3	**1,604**	**1,603**	**1**	**99.94%**
January	582	582	0	100.00%
February				
March				
Quarter 4	**582**	**582**		**100.00%**
Year - Total	**4,880**	**4,874**	**6**	**99.88%**

07 **Completed Cases by Month**

October 2023

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	4.51	104	0	104	104	
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100.00%	7	51	0	51	51	
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	22	0	22	22	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	99.7%	5	352	1	352	351	
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A			
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A			
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A			
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A			
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A			

November 2023

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	3.72	179	0	179	179	
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	33	0	33	33	
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	47	0	47	47	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	327	0	327	327	
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A			
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A			
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A			
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A			
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A			

December 2023

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Day	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (A	Average Case Time (day	Number of Cases	Over targ	TOTAL (case	Within Targ	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	2.86	155	0	155	155	
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	26	0	26	26	
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	14	0	14	14	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	294	0	294	294	
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A			
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A			
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A			
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A			
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A			

January 2024

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target	Comments
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	2.11	157	0	157	157	
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	44	0	44	44	
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	27	0	27	27	
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	398	0	398	398	
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A			
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A			
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A			
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A			
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A			

08 **Complaints**

Overview	Outcome
IDRP Stage 1 Case - Disinvestment of AVC’s took longer than expected due to request not being received by AVC provider.	XPS and Prudential agreed to pay the compensation suggested by the IDRP1 adjudicator.

Graeme Hall
Operations Manager
01642 030643

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