TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 15 November 2021.

PRESENT: Councillor B Cooper, (Chair), J Cook, and P Thompson

ALSO IN ATTENDANCE: P Mudd, XPS

OFFICERS: W Brown, S Lightwing, C Lunn, N Orton and I Wright

APOLOGIES FOR ABSENCE: None submitted

21/12 **DECLARATIONS OF INTEREST**

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

21/13 **MINUTES - TEESSIDE PENSION BOARD - 19 JULY 2021**

The minutes of the meeting of the Teesside Pension Board held on 19 July 2021 were taken as read and approved as a correct record.

The Head of Pensions Governance confirmed that a report on membership and appointment of a Deputy Chair of the Board would be presented to the next meeting, when it was anticipated that the current vacancies would be filled.

21/14 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 23 JUNE 2021**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 23 June 2021 was submitted for information.

NOTED

21/15 **TEESSIDE PENSION FUND COMMITTEE - 8 OCTOBER 2021**

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 8 October 2021.

Items considered by the Committee included:

- Investment Activity Report.
- External Managers' Reports.
- Border to Coast (BCP) Update including Real Estate Proposal.
- CBRE Property Report.
- Internal Audit Reports.

The total value of investments was £4.7billion as at 30 June 2021 which was an increase on the previous quarter and had continued to increase since then.

The transfer of passive funds from State Street to Border to Coast had been completed in May 2021 being a total of £1.3 billion. Approximately 60% of the Fund's assets were now invested with Border to Coast.

With regard to the three Local Investments:

- GB Bank – the £20 million investment had been called in full and a further investment would be made subject to certain criteria being met. GB Bank had achieved the first step of authorisation and it was anticipated that the Bank would be fully authorised by the Banking Regulator in nine months' time.
- Ethical Housing Company - £5 million investment had been made but only £361,000 had been called to date. This slow-down was partly to do with the unexpected increase in property prices recently.
- Waste Knot - £1 million investment had been made but had not been called as yet.

Border to Coast's real estate proposal was presented with a view to pooling the directly held property portfolios of the various Funds, including Teesside. There was also a proposition for a Global Investment, which Teesside was perhaps more likely to invest in. The Committee would be involved in the final decision making.

A report on the Risk Register had been deferred to the next meeting due to the Committee meeting becoming inquorate before that agenda item was considered.

AGREED that the information provided was received and noted.

21/16 **UPDATE ON CURRENT ISSUES**

A report of the Director of Finance was presented to provide Members of the Teesside Pension Board (the Board) with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general, as follows:

<u>LGPS Cost Management Process Concluded</u>

The outcome of the latest process based on data from the 2016 valuation revealed that the average overall cost of the scheme was 19% of pensionable pay, which was 0.5% of pensionable pay lower than the target cost for the LGPS of 19.5% of pensionable pay.

Consequently, the Scheme Advisory Board developed proposals to improve scheme benefits and reduce employee contributions to bring the cost of the scheme back up to the target level.

However, the proposals were not enacted and the cost management process was paused when the Government lost a high court case in December 2018 (the McCloud case) which had been brought by members of the Judges' pension scheme and the Firefighters' Pension Scheme, arguing that the protections put in place when changes were made to those schemes were age discriminatory, as they only protected older scheme members. The case had implications for all public service pension schemes, including the LGPS.

The Government sought to appeal the case but the Supreme Court denied the Government leave to appeal in a decision on 27 June 2019. The Government subsequently confirmed that it would make changes to the LGPS regulations to ensure it corrected the discrimination identified. The cost of making these changes, when factored in to the cost management process as on the employee benefit side of the equation, meant that no additional changes were required to LGPS benefits or contributions as a result of the 2016 cost management process.

The Scheme Advisory Board confirmed that they would not be recommending any changes to the benefit structure of the LGPS based on the outcome of their 2016 cost management process. This was good news for employers, who would have seen an increase in their costs if benefits had been improved, and for scheme administrators, as any improvements would have been backdated to April 2019 causing administrative complexity.

The Scheme Advisory Board also stated that it would separately look at potentially revising the third tier of ill health provision in the scheme and at contribution rates for the lowest paid members. These were two of the benefit changes that had been considered when it looked likely that the cost management process would lead to improvements for scheme members.

McCloud Outcome – The Revised Underpin

A ministerial statement was made on 13 May 2021 confirming how the LGPS regulations would be changed to address the discrimination identified through the McCloud Case.

The full statement was included at Appendix A to the submitted report and the key points were highlighted as follows:

- Underpin protection would apply to LGPS members who were active in the scheme on 31st March 2012 and subsequently had membership of the career average scheme without a continuous break in service of more than five years.
- The period of protection would apply from 1st April 2014 to 31st March 2022 but would cease earlier where a member left active membership or reached their final salary scheme normal retirement age (normally 65) before 31st March 2022.
- Where a member stayed in active membership beyond 31st March 2022, the comparison of their benefits would be based on their final salary when they left the LGPS, or when they reached their final salary scheme normal retirement age, if earlier.
- Underpin protection would apply to qualifying members who left active membership of the LGPS with an immediate or deferred entitlement to a pension.
- A 'two stage process' would apply for assessing the underpin so that, where there was a gap between a member's last day of active membership and the date they took their pension, members could be assured they were getting the higher benefit.
- Scheme regulations giving effect to the above changes would be retrospective to 1st April 2014.

Once the regulations were introduced, everyone who was an active member of the LGPS on 1 April 2012 who had membership of the LGPS from 1 April 2014 onwards (without a continuous break of more than 5 years) would have their benefits calculated based on the better of the following two methods:

a) Based on the current rules, with final salary benefits and career average benefits calculated separately and added together and;

b) Based on their having remained earning final salary benefits beyond March 2014.

This outcome had been anticipated for some time but did cause significant administrative Issues, which were detailed at paragraph 5.4 of the submitted report.

HM Revenue and Customs recently announced a number of measures in connection with the McCloud remedy. This included an intention to introduce regulations to ensure that where an individual's benefits were retrospectively increased, this did not lead to a tax charge for exceeding the annual allowance or the lifetime allowance. Further detailed regulations were expected within months. In the meantime, XPS Administration was working with its software provider to collect information from employers and consider how best to communicate with scheme members in relation to the revised underpin.

Employers in the Fund had already been advised to act with caution in respect of any payments made to individuals who were subject to the £95,000 cap. However, XPS had advised that they were not aware of anyone who had left employment from a Fund employer since 4 November 2020 who would have been subject to the (now revoked) £95,000 cap regulations.

It was confirmed that XPS would contact any members affected and that the revised underpin protection would be applied retrospectively to those already in receipt of their pension.

Climate Change Regulation Consultation Imminent

The Government was expected to consult on regulations that would require LGPS Funds to report on climate change risk, primarily in relation to their investments. Legislation had already been introduced to require private sector schemes to report on this, with larger schemes required to report sooner than smaller schemes. The expectation was that the requirement for the LGPS would be introduced at the same time for all LGPS Funds and was likely to take effect from the financial year starting 1 April 2022.

The requirements for LGPS Funds were likely to be very similar to those the Government had already set out for trustees of private sector pension schemes, and would be based in part on recommendations from the Task Force on Climate Related Disclosures (TCFD).

Further information would be provided to the Board when available. In the meantime, Appendix B, attached to the submitted report, contained information on assessing and reporting on climate change risk for trustees of private sector pension schemes (taken from the Government's website). This provided a useful indication of the issues LGPS schemes were likely to be asked to consider.

AGREED that the information provided was received and noted.

21/17 **RISK REGISTER REVIEW**

The Head of Pensions Governance and Investments presented a report to advise Members of the Teesside Pension Board (the Board) of an additional risk that had been added to the Pension Fund Risk Register and also to provide Members with an opportunity to review the Risk Register

The Pension Fund's Risk Register was an attempt to document the various investment, funding, governance, administration, demographic, economic and other risks there were that could prevent or make it harder for the Fund to achieve its long term objectives. The Pension Fund Committee was presented with a copy of the Risk Register at its March meeting each year as part of the Pension Fund's Business Plan and the Board reviewed this each year as part of its April meeting.

When the Fund's Funding Strategy Statement was updated in June this year, an additional risk was added in relation to climate change and the impact that could have on the Fund's assets and liabilities. This risk had now been formally included within the Fund's Risk Register, an updated copy of which was attached at Appendix A to the submitted report.

Climate change had the potential to have wide-ranging impacts on all aspects of human society, including economies, trade, the value of companies and all classes of financial assets. As such, it was sensible to include it as a separate stand-alone risk instead of allowing it to be covered by existing risks like "Global Financial Instability" or "Investment Class Failure".

The full description of the climate change risk was as follows:

"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 took climate change into account in relation to its investments was set out in its Investment Strategy Statement and Responsible Investment Policy. In relation to the funding implications, the administering authority kept the effect of climate change on future returns and demographic experience, for example longevity, under review and would commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

Likely sources and risk triggers were: Global climate change, the financial impact of both the change, and the policies implemented to tackle the change.

Potential impacts and consequences of this risk were: Significant changes to valuations of assets and asset classes. Potential for some assets owned by companies to become effectively worthless 'stranded assets', significantly impacting company valuations. Opportunities would also arise, for example in respect of sectors seen as positively contributing to the transition to a low carbon economy.

The Risk Register would continue to be presented to the Committee and Board at least on an annual basis. In relation to climate change risk, the Fund will continue to work with its advisers and investment managers (including Border to Coast) in order to better understand its exposure to this risk, how this could be mitigated and how to take advantage of any opportunities that might arise as global markets increasingly took account of this risk.

AGREED that the information provided was received and noted.

21/18 **UPDATE ON WORK PLAN ITEMS**

The Head of Pensions Governance and Investment presented a report to provide Members of the Teesside Pension Board (the Board) with information on items scheduled in the work plan for consideration at the current meeting.

At its meeting on 19 July 2021 the Board agreed an updated work plan which set out areas for the Board to discuss or consider at subsequent meetings. These were typically areas that the Pensions Regulator and/or the Scheme Advisory Board had identified as important for Local Pension Boards to consider.

The Pension Regulator's Code of Practice 14 "Governance and administration of public service pension schemes" explained the legal requirement certain individuals had in relation to reporting breaches of the law in connection with public service pension schemes.

The Board's terms of reference included the following about conflicts of interest:

"30. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

31. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.

32. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Board Secretary, with the assistance of the Monitoring Officer if required, shall ensure that any potential conflict is effectively managed in line with both the requirements of the Board's conflicts policy and the requirements of the Code".

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

The Pension Fund Committee agreed at its March meeting earlier this year to agree to a training programme following the participation in the National Knowledge Assessment. The details were set out in Appendix B to the submitted report. Some areas of the plan had been covered, including Environmental Social and Governance issues and how they interacted with investment objectives. This topic had been addressed through a presentation to the Pension Fund Committee from colleagues at Border to Coast, and also through Border to Coast's annual conference which had Responsible Investment issues as its theme. The issue of McCloud and its potential impact had also been covered through 'current issues' agenda items. Other areas, such as the role of pension administration had not yet been addressed and this would be picked up through working with colleagues in XPS Administration.

AGREED that the information provided was received and noted.

21/19 **XPS ADMINISTRATION REPORT**

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

The following items were highlighted:

- Headlines
- Membership Movement.
- Member Self-Service.
- Complaints.
- Common Data.
- Conditional Data.

- Customer Service.
- Service Development.
- Performance.
- Employer Liaison
- Annual Benefit Statements.
- Pension Saving Statements.
- Performance Charts.

The statutory Scheme Return had been submitted to the Pensions Regulator on behalf of the Pension Fund prior to the deadline of 10 November 2021.

With regard to Membership Movement, consistent with the last quarter's report, there had been an increase in the number of active, deferred and pensioner members.

Members' Self Service was still quite low in terms of uptake, with 11.9% of the active membership registered for the online services. Initiatives to increase the take up were ongoing and a short 30 second animation had been produced which would be sent to employers to forward to scheme members. Whilst the intention was always to increase online usage, it would not be mandated and other forms of communication would remain open to all members. Leaflets and posters promoting membership of the Fund had recently been produced that contained QR codes. The QR code could be scanned with a mobile phone which then linked the person directly to the website.

Responding to a query regarding Additional Voluntary Contributions (AVCs) it was clarified that the Prudential was the Fund's AVC provider. Further information was available on the Teesside Pension Fund website and the Council's weekly bulletin board.

There were no complaints during the last quarter but there were two going through the Internal Dispute Resolution Process.

KPIs for the quarter were all at 100%.

The Annual Benefits Statements and the Pension Savings Statements projects had been carried out. Twenty three and a half thousand active members were due to receive an annual statement and just over 6% did not receive them on time. The Employer Liaison Team was working hard to get the information required to send those statements out as quickly as possible. Approximately 100 Pensions Savings Statements were issued. It was confirmed that all Members received a paper copy of the Statements as well as them being available online.

AGREED that the information provided was received and noted.

21/20 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.