TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 21 February 2022.

PRESENT: Councillor Cooper (Chair)
J Bell
P Thompson

ALSO IN ATTENDANCE: P Mudd, XPS

OFFICERS: W Brown, S Lightwing, N Orton, I Wright

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor W Ayre and J Cook

21/21 **APOLOGIES FOR ABSENCE**

21/22 **DECLARATIONS OF INTEREST**

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

21/23 **APPOINTMENT OF DEPUTY CHAIR**

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

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

ORDERED that Paul Thompson was appointed Deputy Chair of the Teesside Pension Board for a period of two years from the date of this meeting.

21/24 **MINUTES - TEESSIDE PENSION BOARD - 15 NOVEMBER 2021**

The minutes of the meeting of the Teesside Pension Board held on 15 December 2021 were taken as read and approved as a correct record.

21/25 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 8 OCTOBER 2021**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 8 October 2021 was submitted for information.

NOTED

21/26 **TEESSIDE PENSION FUND COMMITTEE - 15 DECEMBER 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 15 December 2021. Items considered by the Committee included:

- Investment Activity Report
- External Managers' Reports
- Border to Coast Update
- Investment Advisors' Reports
- CBRE Property Report
- Risk Register Review
- Border to Coast Responsible Investments and Voting Policies

- Governance Policies Review
- XPS Pensions Administration Report

In terms of Investment Activity, the Fund continued to favour growth over protection. Cash levels were approximately 11% which was high given inflation was currently 5-6%, although the maximum agreed limit was 20%. Cash was being held as a protection asset on the advice of the Fund's Independent Advisers. The value of the Fund had increased to £4.87 billion and had actually gone above £5 billion for the first time during December, although it had now fallen back.

A Board member highlighted that the Fund was not currently meeting its asset allocation strategy. The Head of Pensions Governance and Investments explained that the Committee had discussed this issue and made a commitment to reduce from its position of 72% listed equities to 65% by the end of March 2022. The Fund was on target to meet that figure. The Independent Advisers challenged the Fund regularly on this point and the Asset Allocation Strategy would be reviewed again as part of the actuarial valuation. Fund Managers were constantly seeking opportunities to invest in suitable asset classes.

The Border to Coast update included discussion about China. BCP emphasised that going forward, China was expected to be a growth story and its own region, rather than being included with emerging markets. It was highlighted that the Fund would only invest where proper due diligence had been completed in terms of Environmental, Social and Governance issues.

CBRE had acted as advisor on a real estate loan to a retail park. Over a 4 year period the Fund would receive a 3.7% return. The loan was secured on the property itself.

Climate Change had been added as a new risk to the Risk Register. This addition was welcomed by Board Members.

Following a suggestion by the External Auditor, the Committee had reviewed and updated some of its policies including Communication, Compliance, and the Pension Admin Strategy. A Charging Policy had been added to the Admin Strategy which could be used as a tool to encourage Employers to provide accurate information when requested. It was stressed however that the Fund preferred to work in partnership with Employers rather than fine them.

Finally the outcome of the procurement process for a new actuary was reported and Hymans Robertson had been appointed.

AGREED that the information provided was received and noted.

21/27 **UPDATE ON CURRENT ISSUES**

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

The following issues were highlighted:

- LGPS and 'Levelling Up'
- Government Actuary's Department Section 13 Report – Main Findings
- Government Actuary's Department Section 13 Report – Fund Comparisons
- Triennial Actuarial Valuation as at 31 March 2022
- Department for Work and Pensions (DWP) Consultation on the Draft Pensions Dashboard Regulations 2022

<u>LGPS and Levelling Up</u>

The Government published its "Levelling up the United Kingdom" White Paper on 2 February 2022. The scope of the White Paper was broad: its stated objective was to take radical steps to improve UK prosperity by "tackling the regional and local inequalities that unfairly hold back communities and to encourage private sector investment right across the UK".

The White Paper included information about the role the Local Government Pension Scheme will be expected to play with a number of references to Local Government Pension Scheme (LGPS) Funds being used to support local investment.

There was huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently held UK pension assets of over £3.5tn. Within that, the LGPS had total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of those funds were currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment.

The detail of the White Paper's aims in respect of LGPS investment in local areas was expected to be included in a forthcoming consultation document expected later in the year. There were however some significant issues that needed clarifying which were outlined in the submitted report.

Since 2016 the Pension Fund had put in place a protocol to enable local investment opportunities to be considered and, where suitable, approved by the Pension Fund Committee. The Fund defined "local" within the context of its own geographical area, so local investments in this context were those within the Teesside area (the areas covered by Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-on-Tees Councils).

The Fund's investment approach allowed up to 5% of its assets to be invested in local projects. One of the important criteria for assessing any potential local investment was to ensure it had the right risk and return characteristics to meet the Fund's financial objectives. Any local investment in itself needed to generate an acceptable economic return for the Fund. The Fund could not factor into its calculations, secondary benefits, such as social or any other non-economic benefits that did not provide direct investment return. Having an appropriate governance structure around the investment was also very important, as was the need for the Fund to acquire and act on appropriate specialist advice as required when deciding whether to progress with a local investment.

Over the last six years the Fund had made a total of £41m in commitments to the following three ongoing local investments with different risk/return profiles: GB Bank, The Ethical Housing Company and WasteKnot. This commitment represented around 0.8% of the Fund's assets (based on the Fund's 31 December 2021 valuation). This was some way short of the 5% potential local investment allocation, and reflected in part the difficulty of sourcing appropriate local investments for the Fund within the Teesside area.

A consultation document was expected later in the year which should provide more clarity on the government's ambition for LGPS Funds to invest 5% of their assets in projects that support local areas, and on whether this would be implemented through statutory guidance or legislation.

Government Actuary's Department Section 13 Report – Main Findings

On 16 December 2021 the Government Actuary's Department (GAD) published its Section 13 Report on the actuarial valuations carried out across the LGPS as at 31 March 2019. The Report was named after Section 13 of the Public Service Pensions Act 2013 which required the government to commission a report after each triennial valuation to assess whether the following four aims had been achieved: compliance, consistency, solvency and long term cost efficiency.

The Report is broadly positive about the LGPS and acknowledged that since the 31 March 2016 valuation, market value of the scheme's assets increased from £217 billion to £291 billion and its aggregate funding position on prudent local bases had increased from 85% to 98%.

GAD added a note of caution about potential funding issues in the future: "the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes."

As regards the four aims, a summary of the report's findings was included in the submitted report.

Government Actuary's Department Section 13 Report – Fund Comparisons

In producing the Report, GAD compared each LGPS Fund's 31 March 2019 valuation on a single standard basis which was typically less prudent than the Fund's own basis but allowed better comparison between Funds.

An extract from the Report's appendix including several relevant graphs was attached at Appendix A to the submitted report.

The main points to note from the comparison graphs were as follows:

- The Fund had the second highest funding level in the LGPS on a local valuation basis but was only the twentieth highest on a Scheme Advisory Board standard basis.
- The Fund had the sixth smallest percentage difference between the funding level it reported in its valuation report and the standard basis funding level.
- The Fund had the 22nd highest pre-retirement discount rate and the 10th highest assumed asset outperformance within its discount rate. This was an assessment by GAD of the degree of investment return the Fund is assuming compared with 'risk-free' (government bonds) investment taking inflation into account.

These points indicated that the Fund may have probability of funding success that could be lower than average, and may also be anticipating a higher return from its assets than the average LGPS Fund. However this needed to be considered in the context of the Fund's asset mix which, at the last valuation, was significantly more heavily weighted towards equities than the average LGPS Fund.

By its nature, GAD's Report was primarily backward looking, although the recommendations would be considered and taken into account, where relevant, by the Fund's actuary as the 31 March 2022 valuation was undertaken.

Triennial Actuarial Valuation as at 31 March 2022

2022 was a valuation year for the LGPS. Every three years the Fund's assets and liabilities were valued as at the 31 March by the Fund actuary, with the resulting report (expected to be published in final form in March 2023) showing the Fund's funding level and setting employer contribution rates for the next three years from 1 April 2023 onwards.

The Fund, in common with the rest of the LGPS, was a long term investor, whose pension liabilities were largely backed by secure employers with very strong covenants. This meant the actuary was able to take a long term view when setting the financial and demographic assumptions for the valuation. However shorter term volatility in asset values had to be recognised as part of the valuation process, and the starting point for the valuation would be the actual market value of the Fund's assets on the valuation effective date (31 March 2022).

The Fund had recently appointed Hymans Robertson as its actuary from 1 January 2022 and had been working with Pension Fund officers and with XPS to ensure there would be a smooth exchange of data required for the valuation, and to finalise a valuation timetable. The new Fund actuary was expected to be providing further information on the pending valuation to the 16 March 2022 Pension Fund Committee, including a short training session on valuations, which Board Members would be able to attend.

Department for Work and Pensions (DWP) Consultation on the Draft Pensions Dashboards Regulations 2022

On 31 January 2022 the DWP published a consultation document on draft regulations designed to implement pensions dashboards. Pensions dashboards would be an internet-based service which allowed individuals to access information about their pensions, ideally from all sources (private sector, public sector and state pension) all in one place. The intention was that pensions dashboards would put individuals in control of planning for their retirement by bringing together their pensions information from multiple sources, including information on their State Pension, which could be accessed at a time of their choosing.

The consultation and the draft regulations set out what steps pension schemes and dashboards would be required to take, and proposed introducing the obligation to connect with, and supply data to, the dashboards systems. This was expected to happen in a staged way starting from April 2023. Public service pension schemes (including the LGPS) would be compelled to connect no earlier than October 2023.

The consultation set out details of the type and format of data pension schemes and dashboard that providers would be required to use to validate and process requests from scheme members, along with the potential penalties for those organisations who did not comply.

The type of information the LGPS would initially be expected to provide on a pensions dashboard was similar to that already provided through annual benefit statements. However the introduction of pensions dashboards might increase interaction with scheme members, as well as putting even greater emphasis on the importance of data quality and timely processing.

Consultation responses were required by 13 March 2022. The Local Government Association (LGA) has said it will prepare a response to the consultation and will share this with LGPS Funds prior to the response deadline. The Head of Pensions Governance and Investments would consider whether a separate response is required from the Fund and, if so, will submit this after consultation with the Chair and Vice Chair of the Pension Fund Committee.

AGREED that the:
1. information provided was received and noted.
2. Head of Pensions Governance and Investments would submit a response to the Draft Pensions Dashboards Regulations 2022 consultation, if required, in consultation with the Chair and Vice Chair of the Pension Fund Committee.

21/28 **UPDATE ON WORK PLAN ITEMS**

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

Reporting Breaches

Under the Pensions Act 2004 certain categories of people involved with a pension scheme had a duty to make a report to the Pensions Regulator where they had reasonable cause to believe that:

a) a legal duty relating to the administration of the scheme had not been or was not being complied with; and
b) the failure to comply was likely to be of material significance to the Pensions Regulator.

This duty applied to the following people:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who was otherwise involved in the administration of an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who was otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

The Fund had a policy on reporting breaches, which was reviewed and approved by the Pension Fund Committee at a meeting held on 15 December 2021 and was enclosed at Appendix B to the submitted report. The policy included information on how to report a suspected breach of regulations and how a reported breach was evaluated to assess how it should be dealt with, and whether it should be reported to the Pensions Regulator. The procedure, and the requirement to report breaches had been in place since 2015.

The current Breaches Log was attached as Appendix C to the submitted report. This contained one recent addition relating to the provision of benefit statements to deferred members. A significant number of deferred members had not received their annual benefits statements. The entry in the Breaches Log outlined the position, and explained that a decision had been taken to record but not to report this breach, as it had a straightforward explanation, did not result in a loss to the individual, and steps were being taken to address the issue.

Initial discussions had taken place with XPS regarding actions that could be taken to trace people who had gone away. However, there was a cost and typically people made themselves known when they were ready to claim their pension. It was a common problem across pension schemes. If the issue continued next year, the Fund would need to reconsider whether or not to report it as a breach.

The Breaches Log would be brought to future Pension Board and Committee meetings. A useful summary of dealing with breaches of the law in the LGPS produced by Hymans Robertson in 2019 was enclosed at Appendix D to the submitted report for information.

Pension Fund Procurements

Over the last year the Pension Fund had carried out one procurement exercise. This was in relation to the Pension Fund actuary. The previous actuarial contract, awarded to AON, had been for six years from 2013, and this was subsequently extended for two additional years. The first extension was to ensure there was continuity of actuary as the last triennial valuation was completed, and the second to allow the Fund to make use of the newly developed framework for procuring actuarial services. Although there were no issues or concerns with the quality of service provided by AON it was appropriate to undertake tendering exercises to ensure continued value for money was obtained for the Pension Fund.

For several years, Norfolk County Council had provided the procurement, legal and project management support to the National Local Government Pension Scheme (LGPS) Procurement Frameworks, which were set up to allow LGPS Funds to collaborate effectively in procuring a wide range of services, thereby improving efficiency and value for money. The Actuarial, Benefits and Governance Consultancy Framework was refreshed in 2021 with the assistance of a number of founder LGPS Funds, including the Teesside Pension Fund.

The four firms who currently acted as fund actuaries in the LGPS were all on the Framework, namely: AON, Barnett Waddingham, Hymans Robertson and Mercer.

The Head of Pensions Governance and Investments, working with colleagues from within his team and the Council's Procurement Team, developed a specification, a set of questions and a scoring system for the actuary procurement, based around the Framework documentation. An 80/20 quality/cost split was applied to the evaluation, in order to reflect the importance of obtaining the best quality actuarial advice and support for the Fund and its employers.

Three of the four firms on the Framework provided submissions. The quality evaluation was carried out independently by two members of the Pensions team and coordinated and scored during a meeting led by one of the Council's procurement specialists. The cost evaluation was assessed in line with the methodology devised by the Head of Pensions Governance and Investments based on typical actuarial activity expected during the contract period.

The quality of submissions was very good, and all three of the firms that applied demonstrated that they would have been able to deliver the contract effectively – evidenced by the fact all three submissions scored over 80% of the total possible marks. Hymans Robertson's submission had a combination of very high quality with lower price which allowed it to beat the other two applicants.

Hymans Robertson included an outline transition plan within their submission, explaining how they would work to ensure an effective transfer from one actuarial firm to another. As part of this process, the Head of Pensions Governance and Investments has had regular meetings with the two experienced LGPS actuaries, who were the senior contacts for the Pension Fund at Hymans Robertson. Hymans Robertson had also liaised directly with AON to ensure relevant information had been transferred as seamlessly as possible.

Work had commenced for the upcoming triennial valuation of the Fund, as at 31 March 2022. As part of this process Hymans Robertson was working with XPS Administration, as well as with the Pensions team and colleagues in Finance.

Future pension fund procurement exercises due later this year included a procurement in relation to the Global Custodian as well as a more complex procurement exercise in relation to the Pension Administration provider.

AGREED that the information provided was received and noted.

21/29 **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:

- Membership Movement.
- Member Self-Service.
- Additional Work – Guaranteed Minimum Pension reconciliation exercise.
- Complaints.
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development.
- Performance.
- Employer Liaison.
- Annual Benefit Statements.
- Performance Charts.

There had been increases across each cohort on Membership which was good news in terms of size and cash flow.

Efforts continued to promote membership self-service and a video clip had been produced which would be referenced in all correspondence to pension fund members. Board members suggested member self-service could also be promoted at exit interviews and training days or information sessions for employees.

There were currently two complaints at the Internal Dispute Resolution Process stage and one with the Pensions Ombudsman.

In relation to Customer Service, the scores remained static and showed a good level of service experienced by scheme members.

The lead person on Employer Liaison had moved to other employment and XPS was currently recruiting to fill this position.

Details of the Annual Benefit Statements issued for deferred members was included in the report.

AGREED that the information provided was received and noted.

21/30 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.