

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

## TEESSIDE PENSION BOARD REPORT

11 APRIL 2022

DIRECTOR OF FINANCE – IAN WRIGHT

### 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.

#### 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 had identified as important for Local Pension Boards to consider.

#### 5. INTERNAL CONTROLS AND MANAGING RISK

- 5.1 The phrase “internal controls” encompasses the whole approach the Council (as administering authority of the Fund) takes to ensuring the appropriate administration, management and investment of the Fund. More formally, it is defined in the Pensions Act 2004 as follows:

“internal controls” means—

- (a) arrangements and procedures to be followed in the administration and management of the scheme,
- (b) systems and arrangements for monitoring that administration and management, and
- (c) arrangements and procedures to be followed for the safe custody and security of the assets of the scheme;”

- 5.2 Internal controls in the context of managing risk are the policies, procedures and practice that are applied by the Fund to dealing with the myriad different external and internal issues that can put the delivery of the Fund's objectives in doubt.
- 5.3 The Fund's approach to managing risk is detailed within its Risk Management Policy which is included for information at Appendix B. A summary of the approach is also presented in the Fund's Business Plan, which is a separate agenda item at today's Board meeting.
- 5.4 It is not possible, or even desirable, to completely eliminate risk and some level of risk in (for example) investments is necessary to achieve the Fund's long term objectives. It is important that risks are identified and managed, and the Fund's approach to this is summarised in the section on risk management philosophy on page 3 of Appendix B, which is also repeated below:

5.5 **"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."

- 5.6 One important output of the Fund's risk management approach is the Fund's Risk Register, which lists and assesses the main risks to the Fund. The Risk Register is

presented to the Committee and the Board at least once a year as part of the annual Pension Fund Business Plan. As the Business Plan is being presented to this meeting, Members have the opportunity to review and comment on the current risk register.

## **6. DISCRETIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATIONS**

- 6.1 Administering authorities and employers within the LGPS have a number of areas where the regulations governing the scheme allow them to exercise choices. In some cases the administering authority or employer has to have a stated policy on how they will exercise this discretion, in others they can choose whether to make a statement of policy or not.
- 6.2 This is a complex area which has grown more complicated as the LGPS regulations have changed over the years. When new regulations apply, they sometimes apply only in relation to future service or will not apply to those who have already left active service. This means the old regulations remain relevant in relation to some individuals, so administering authorities and employers will continue to have policies and/or exercise discretions in relation to several sets of old regulations as well as the new regulations.
- 6.3 The Local Government Association (LGA) has produced a full list of discretionary policies to be determined upon by scheme employers, administering authorities and other parties – this comprehensive document that runs to 53 pages can be found at the following web link:
- <https://www.lgpslibrary.org/assets/gas/ew/DISCLv1.10c.doc.pdf>
- 6.4 Some of the main discretions employers have that impact directly on scheme members include:
- Whether to allow late requests to aggregate LGPS benefits or transfer in benefits from another scheme ('late' in this context means over a year after a member joins the LGPS)
  - Whether to waive early retirement reductions (and if so, in what circumstances)
  - Whether to award additional pension to scheme members on retirement
  - Whether to allow flexible retirement
- 6.5 XPS Administration carried out an exercise several years ago to collect information from all scheme employers in relation to LGPS discretions. This exercise is likely to be repeated in future. XPS Administration also ensure that appropriate employer approval is received whenever an event that requires the exercise of an employer discretion takes place.

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<b>Teesside Pension Board Work Plan</b>		
<b>Date of Board meeting and any standard items scheduled</b>	<b>Suggested areas of focus (from the Pensions Regulator's list)</b>	<b>Suggested activities (from the Scheme Advisory Board guidance)</b>
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
July 2023 Draft Report and Accounts		