

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

14 NOVEMBER 2022

DIRECTOR OF FINANCE – HELEN SEECHURN

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 (SAB) had identified as important for Local Pension Boards to consider.

5. ANNUAL REVIEW OF BOARD TRAINING

- 5.1 The Pension Fund Committee agreed at its March 2021 meeting to agree to a training programme following the participation in the National Knowledge Assessment. This is set out in Appendix B.
- 5.2 Some areas of the plan have been covered previously – in particular Environmental Social and Governance issues and how they interact with investment objectives has been addressed through a presentation to the Pension Fund Committee from colleagues at Border to Coast, and through Border to Coast's annual conference which had Responsible Investment issues as its theme. Also, the issue of McCloud and its potential impact has been covered through 'current issues' agenda items. Other areas remain to be addressed – in particular the role of pension administration. This can be picked up through working with colleagues in XPS Administration.

- 5.3 There has been significant changes of membership at the Board and consequently some issues and training areas may need to be revisited, either through the induction training for new members or through ongoing training.
- 5.4 Since 1 June 2022 Pension Fund Committee and Teesside Pension Board members have been able to access Hymans Robertson's Local Government Pension Scheme (LGPS) Online Learning Academy. The Learning Academy allows members to access a suite of short training videos explaining different aspects of the pension scheme, covering administration, governance and investments as well as current pension issues such as measuring the carbon exposure of the Fund's investments and other responsible investment issues. It is intended to cover all of the 'knowledge and understanding' requirements that Board members are legally required to obtain (and Pension Fund Committee members are strongly encouraged to obtain).
- 5.5 There are a lot of topics covered within the Learning Academy it is recommended that members set aside some time each week to work through them at their own pace. There are short quizzes included to ensure the training is working, and certificates are available for completion of different sections.
- 5.6 Going forwards, the intention is that the Learning Academy will form a key aspect of training delivery for the Board and the Pension Fund Committee. As with all training, participation and feedback will be key to ensuring it is useful effective and relevant.

6. REGULATOR CODE OF PRACTICE GAP ANALYSIS

- 6.1 The Pensions Regulator is the UK regulator of workplace pension schemes, it defines as follows: "We protect the UK's workplace pensions. We make sure employers, trustees, pension specialists and business advisers can fulfil their duties to scheme members." It publishes Codes of Practice to help provide those who manage pension schemes with practical guidance on the exercise of functions under pensions legislation, and set out the standards of conduct and practice expected from those who exercise those functions.
- 6.2 For public service pension schemes (like the LGPS) the relevant Code of Practice is Code 14: Governance and administration of public service pension schemes. This came into force on 1 April 2015 and gives guidance aimed at scheme managers and pension board members on governing schemes, managing risk, administration and resolving issues. The full guidance document can be found at the following link: <https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice>
- 6.3 In July 2018 the Fund commissioned AON to carry out a comprehensive assessment on compliance against Code of Practice 14. The outcome was reported to the 23 July 2018 Board meeting and the full document can be found here: <https://moderngov.middlesbrough.gov.uk/CeListDocuments.aspx?Committeed=1151&MeetingId=7064&DF=23%2f07%2f2018&Ver=2>

6.4 Overall compliance was assessed as good, although several areas for development or further consideration were identified. These are listed in the table below alongside comments on progress since that assessment was made:

Code of Practice analysis – areas identified as ‘red’ or not compliant in the 2018 exercise	Current position - update
Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	The Fund participated in the National Knowledge Assessment towards the end of 2020/21 and the intention is to carry this out again during 2022/23
Are records of learning activities being maintained?	Yes – the Fund has access to the Hymans Robertson LGPS On-line Learning Academy, which records progress and completion of modules. The Council also maintains a record of attendance at meetings where training is delivered.
Does the Fund have a conflicts register and it is circulated for ongoing review and published?	The Council maintains and publishes a register of interests in respect of its own elected members. All Committee and Board members are asked to consider and declare conflicts of interest at the start of each meeting and this is minuted and published.
Is appropriate information included in the register?	Yes
Is a data improvement plan in place which is being monitored with a defined end date?	XPS has been developing its data monitoring approach, and is still working on full reporting on scheme-specific data elements. The recent triennial valuation exercise has highlighted some data issues, which the Fund actuary and XPS have worked together to resolve to ensure the valuation can progress. Further work and analysis will continue on this, and on what data improvements are necessary / possible once the valuation work is complete.
Has an annual benefit statement been provided to all members with AVCs within the required timescales?	XPS have been in recent dialogue with Prudential (the Fund’s primary AVC provider) on this issue. Prudential has advised their deadline for submitting annual benefits statement information to scheme members with AVCs is 1 November each year. They also advised that their process for producing these reports is under review and some delays in provision of the information were possible this year. The Pensions Regulator is aware of this potential delay and the Fund will also be advised when the position is clearer. Members with AVCs are still able to access up to date information about their fund values through the Prudential’s online facility.

6.5 The Pensions Regulator consulted last year on significant changes to the content and format of its various codes of practice. Recognising that the current set of codes were not always readily accessible and it was not always clear which codes (or parts of

codes) apply to which types of pension scheme, a new 'single code of practice' was proposed and consulted on. Much of the 'single code of practice' will apply to public service pension schemes like the LGPS and it will introduce some new requirements for LGPS scheme managers and board to consider.

- 6.6 The consultation ended in May 2021 and an interim consultation response was issued on 24 August 2021. The final version of the 'single code' has not been published – the Pensions Regulator's website currently has the following statement about timing, which is clearly now a little out of date:

"We do not currently have a firm final publication date for the new code. However, we do not expect to lay the new code in Parliament before spring 2022. It is, therefore, unlikely to become effective before summer 2022."

- 6.7 Based on the initial consultation and the response to this, it looks likely that pension schemes will have the following additional requirements under the single code of practice:

- **Establish an "effective system of governance" (ESOG)**

This is an enhancement from the current requirement for pension schemes to have an "adequate" system of governance, which originated from the Pensions Act 2004. A scheme's ESOG will need to be "proportionate to the size, nature and complexity" of the scheme and comply with 17 specific modules identified by the Pensions Regulator.

- **Carry out an "Own Risk Assessment" (ORA)** – Not the normal risk assessment process already carried out by pension schemes, but an assessment of how well the ESOG is working and the way potential risks are being managed.
- **Have a written remuneration policy** – A new policy document covering anyone who is involved in running the scheme, carries out key functions or whose activities materially impact the scheme's risk profile. The remuneration policy should include an explanation of how the levels of remuneration were arrived at and why they are appropriate and should be reviewed at least every three years.
- **Write a policy on the appointment of advisors and service providers**
- **Consider climate change in their governance systems** - maintain and document processes for identifying and assessing climate change risks and opportunities.
- **Build robust cyber security systems** – schemes should implement policies for ensuring all scheme data is held securely, including assessing the cyber resilience of third-party administrators. There should also be a cyber incident response plan.

- 6.8 In addition to the imminent changes expected to the Pensions Regulator's Code of Practice, the government has also recently indicated that it will be implementing the LGPS Scheme Advisory Board's 'Good Governance' recommendations. These recommendations (which were also reported to the April 2021 Board meeting) have some overlap with the Code of Practice proposed changes, and in summary are as follows:

- A.1 the Secretary of State will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
- A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund (“the LGPS senior officer”).
- A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.
- B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
- B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB
- C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
- D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
- D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
- E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution, and be consistent with role descriptions and business processes.
- E.2 Each administering authority must publish an administration strategy.
- E.3 Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service

- E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
- F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
- F.2 LGA to consider establishing a peer review process for LGPS Funds.

6.9 In the light of the proposed changes expected to both the Code of Practice and the LGPS regulations or guidance covering the governance of the scheme, it makes sense to carry out a further gap analysis to consider how the Fund complies with the expected regulations and where development is required. As these changes are not implemented or documented in their final form it will be more cost-effective to commission any assistance with this analysis once the final format of the new Code of Practice and Good Governance arrangements have been made public.

7. REVIEW THE OUTCOME OF ACTUARIAL REPORTING AND VALUATIONS

- 7.1 As Members will be aware, the latest triennial valuation of the Fund (as at 31 March 2022) is currently in progress. Reports have been brought to the last and the current Board meeting outlining progress – these have been in the private agenda owing to commercial sensitivity around draft information and the intellectual capital contained in the reports. The Board will continue to be kept informed throughout the valuation process, with the final report due to be published by the end of March 2023.
- 7.2 The Board will have the opportunity to discuss the final valuation outcome and report at its April 2023 meeting.

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 (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
July 2023 Draft Report and Accounts		

Suggested Training Plan

We have put together a summarised training plan below, picking out the key areas for development based on participant assessment results and the training requests. We would further advise that the Fund remains flexible with the training topics chosen and that regular reviews of the most pertinent training given assessed at regular (monthly) intervals. By keeping track at this level of frequency, the Fund can properly assess its progress against its Training plan and training strategy.

2021/22 – Q2	<ul style="list-style-type: none"> Pensions administration, which as well as being low scoring for the Board and Committee, was also the second most requested topic. It might also be beneficial to include McCloud as part of the session.
2021/22 – Q3	<ul style="list-style-type: none"> The impact of COVID-19 on the Fund + investment performance and Environmental, Social & Governance topic(s). We would also suggest that some time is included to discuss the SAB Good Governance project.
2021/22 – Q4	<ul style="list-style-type: none"> For the Board – procurement and relationship management and pension administration For the Committee – the role of the committee which was one of the lower scoring areas and is arguably one of the most important areas for the Committee to understand. We would also advise a session is devoted to pension administration.
2022/23 – Q1	<ul style="list-style-type: none"> For the Committee – actuarial methods For the Board – financial markets and product knowledge.
2022/23 – Q2	<ul style="list-style-type: none"> Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.
2022/23 – Q3	<ul style="list-style-type: none"> Pensions governance