

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 26 February 2024.

PRESENT: P Thompson, Chair, J Stubbs and J Bell
Councillors C Massey (Deputy Chair) and N Walker

ALSO IN ATTENDANCE: P Mudd (XPS Administration)

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: None received.

23/20 **WELCOME AND EVACUATION PROCEDURE**

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

23/21 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
J Bell	Non pecuniary	Member of Teesside Pension Fund
Councillor C Massey	Non pecuniary	Deferred Member of Teesside Pension Fund

23/22 **MINUTES - TEESSIDE PENSION BOARD - 13 NOVEMBER 2023**

The minutes of the meeting of the Teesside Pension Board held on 13 November 2023 were taken as read and approved as a correct record.

It was highlighted that the At Ease Newsletter had not been published due to unresolved issues with the printing provider as previously minuted. The Head of Pensions Governance and Investments agreed to prioritise this with XPS and inform Board Members when the next issue would be published.

NOTED

23/23 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 27 SEPTEMBER 2023**

A copy of the minutes of the meeting of the Teesside Pension Fund Committee held on 27 September 2023 was submitted for information.

NOTED

23/24 **TEESSIDE PENSION FUND COMMITTEE - 13 DECEMBER 2023**

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 13 December 2023.

Following a lengthy debate in relation to the Fund transferring its property portfolio to Border to Coast, from which press and public were excluded, the Committee had agreed, on a vote being taken, not to pool its property investments at this time. It was noted that if the Government forced the Fund to pool at a later date there would be a tax charge and the Fund would have to justify why its property assets had not been transferred.

It was noted that Board Members were unable to access exempt reports online that had been submitted to the Committee. The Head of Pensions Governance and Investments agreed that exempt reports could be provided to Board Members on request.

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At the end of September 2023, the total value of all investments, including cash, was £5,100 million. The Fund's equity weighting at 60% was slightly above the long-term target and £100 million in equities had been sold during the last quarter. The Fund Advisers had raised concern in relation to the percentage of illiquid asset holdings which was at 36%. The Advisers had suggested that the Fund might need to de-risk and put money into bonds at some point in the future. It had also been highlighted that the Fund had low risk assets that produced low returns and needed a higher return from higher risk assets. The Teesside Pension Fund had lower employer contributions than a lot of other Local Government Pension Scheme Funds and therefore needed to generate higher income.

CBRE, the Fund's property advisers, had informed the Committee that the Fund had bought an industrial unit in Washington, let to BAE for £50million and this was now the largest asset in the portfolio. The Fund had also built an industrial unit in Yeovil which would be rented out as a warehouse for helicopter parts for Leonardo, and would produce significant returns.

Border to Coast had provided an annual refresh of its Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy which were noted by the Committee.

A Member queried whether, for example, 150 redundancies could have a significant impact on employer contribution rates. The Head of Pensions Governance and Investments explained that the Actuary considered such events as part of the valuation every 3 years and that a relatively small number of redundancies should not have a dramatic impact.

It had been reported that Middlesbrough Council was selling some of its assets and a Member asked whether the Teesside Pension Fund would consider buying any. The Head of Pensions Governance and Investments confirmed that consideration would be given to any assets that met the criteria for inclusion in the property portfolio.

AGREED as follows that:

1. The information provided was received and noted.
2. Exempt Committee reports would be emailed to Board Members on request.

23/25

UPDATE ON WORK PLAN ITEMS

A report of the Director of Finance was presented to provide information on items scheduled in the work plan for consideration at the current meeting which were: internal controls and managing risks and the Fund's approach to cyber security.

Internal Controls and Managing Risks

The Pensions Regulator's recently published General Code of Practice provided 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."

The Fund's Risk Management Policy (attached at Appendix B to the submitted report) detailed 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.

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Effective risk management was an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Fund could:

- 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.

In relation to understanding and monitoring risk, the Administering Authority aimed 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 aimed 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.

The Fund's risk management process was in line with that recommended by CIPFA and was a continuous approach which systematically looked at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management were identified as Risk Identification, Risk Analysis, Risk Control and Monitoring.

Progress in managing risks was monitored and recorded on the risk register, which would be provided at least annually to the Pension Fund Committee. A copy of the Risk Register was attached at Appendix C to the submitted report. The Pension Fund Committee would be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review would be carried out at least twice a year.

As a matter of course, the Teesside Pension Board will be provided with the same information that was provided to the Pension Fund Committee and would be able to provide comment and input to the management of risks. In order to identify whether the objectives of this policy were being met, the Administering Authority would review the delivery of the requirements of the Policy on an annual basis taking into consideration any feedback from the Teesside Pension Board.

The risks identified were of significant importance to the Pension Fund. Where a risk was identified that could be of significance to the Council it would be included in the Risk Register. The risk matrix was adapted from the one used by the Council and the External Auditor's assessment of materiality.

It was queried whether the issuing of a Section 114 notice by a Council would be included in the Risk Register. The Head of Pensions Governance and Investments commented that the risk on the Pension Fund would be low and it was incredibly unlikely that a Council would stop paying pension contributions. Tax raising bodies were secure as if they went into administration they would still be underwritten by the Government. Admission bodies were structured so that any liability would fall back on the original body.

There had been some pressure from local authorities to look at whether the Teesside Fund could look at reducing contribution rates because investments were doing well and liabilities had changed. However, after consulting the Actuary and the Funding Strategy Statement it was decided that there was no scope to change rates in between valuations.

Cyber Security

The Fund was 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 were carried out electronically and all of its records were held electronically. This meant cyber security – the security of those records, transactions and the systems that facilitated them – was of prime importance.

In maintaining secure systems and data, the Fund relied on the systems and processes the Council (as Administering Authority for the Fund) had 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') the outsourced pensions administrator.

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

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

The Fund maintained a business continuity plan setting out how it would 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 – was 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 was covered in the Fund's business continuity plan, which was reviewed and (if necessary) updated twice a year.

The Fund relied on a number of external third-party software systems to carry out essential functions. One of the most significant of these was the Bankline system provided by NatWest, which was used to facilitate payments to and from the Fund's account. These payments were 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.

Bankline was a secure system which could only be accessed using the smartcards and card readers allocated to each user. The system was set up to allow further security to be applied by the organisation using it. This security had been utilised to ensure every payment from the Fund required a different inputter and authoriser and every payment above £10 million required an additional authoriser. Defined procedures had been set up and were 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 was an audit trail built into the Bankline software which recorded the details of who made any changes to the details set up on the system and when those changes were made.

XPS had a comprehensive approach to cyber security and had achieved certification under information security management standard ISO27001. Their approach was summarised in the Information Security Summary document included in Appendix D, which covered:

- Information Governance and Risk Management
- Infrastructure and Application Security
- User Awareness and Phishing
- Malware Prevention
- Data Loss Prevention Controls
- Secure Configuration
- Access Control
- Home and Mobile Working

- Threat Intel and Monitoring
- Incident Management

XPS also had comprehensive business continuity plans in place, which were summarised in Appendix D to the submitted report. XPS carefully controlled access to data, ensuring users only had access to the minimum level of data they required to carry out their role. Appendix D also included a copy of an Administration Update and Security presentation setting out some further aspects of XPS's approach to cyber security.

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

AGREED that the information provided was received and noted.

23/26

POOLING CONSULTATION - GOVERNMENT RESPONSE

A report of the Director of Finance was submitted to provide Members of the Teesside Pension 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 indicated the Government's proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

The final consultation outcome (attached at Appendix A to the submitted report), confirmed that the Government would produce guidance and/or regulations to enact most of the changes proposed in the consultation document. The Government would progress its reform of the LGPS to accelerate and expand pooling, and to increase investment in levelling up and in private equity.

The consultation response set out a number of expectations for LGPS Funds and Pools, the main outcomes were 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.

The Government also confirmed 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 of pools was implied in the document through 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 wished to

see greater collaboration between pools in the meantime.

Much of the detail of implementing the proposals would be set out in guidance which was expected to be released during the first half of this year. Although there were 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 had stated these targets would (initially at least) be voluntary.

Through Border to Coast, the Fund had 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 were invested through Border to Coast. The remaining 44.3% was split between Listed Equities, Alternatives, Direct UK Property, Indirect Property Funds and Cash.

The Fund would 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 was cost effective, and in the Fund's best interests, to do so.

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

On the 5% 'levelling up' target – the Fund currently invested a small proportion (under 1%) of its assets in local investments which would fit the definition of UK 'levelling up' investments. Border to Coast was 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.

On governance, the consultation response set out proposals to ensure pensions committee members were appropriately trained in order to carry out their role, and that this was reported on and monitored. This was in line with the current requirement for Board members to be trained and they would be included in any training provided to Committee members.

The Board would be kept up to date with future developments as and when the expected guidance was produced. In the meantime, the Fund would continue to work with Border to Coast and its other Partner Funds to respond appropriately to Government directions whilst continuing to prioritise the fiduciary duty to stakeholders and beneficiaries.

AGREED that the information provided was received and noted.

23/27

PENSIONS REGULATOR - SINGLE CODE OF PRACTICE

A report of the Director of Finance was presented to provide Members of the Teesside Pension Board with details of the Pensions Regulator's (TPF) recently published General Code of Practice, which was expected come into force from 27 March 2024.

TPR had 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.

The General Code of Practice was a 171-page document that could 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>

The following ten codes had 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

The General Code of Practice was divided into five sections and several new modules had been included. Some of these would not directly apply to the LGPS but where this was the case, compliance would usually be viewed as 'best practice' by TPR.

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

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 was underway to consider to what degree the Fund complied with the new elements of the code, including those deemed 'best practice' for the LGPS. A Board Member highlighted that an LGPS Compliance Checker was available to assist Funds but it was also noted that it cost approximately £12,000. Updates, including a plan for achieving full compliance with all relevant elements of the General Code of Practice would be shared with future Board and Teesside Pension Fund Committee meetings.

AGREED that the information provided was received and noted.

23/28

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:

Public service pensions and career average benefits within the LGPS would increase by 6.7% alongside the Consumer Price Index from the previous September. Employers had been requested to submit a scheme and a financial return to allow XPS to capture data in relation to scheme Members.

The 2024/2025 Employee contribution bandings had been released which were effective from 1 April 2024. Bands were updated in line with CPI so that members were not forced into higher bands due to pay increases.

The Finance Bill 2023 confirmed the lifetime allowance (LTA) would be abolished from 6 April 2024 and HMRC had issued a Lifetime Allowance guidance newsletter.

In relation to Membership movement there had been an increase in actives and a decrease in deferred.

There had been little change in the Self-Service statistics. XPS continued to encourage members to sign up and make sure requests were up to date in the system.

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An overview of the information collected from the website was included in the report. Typically users searched for: Opt Outs, When Can I Retire and Flexible Retirement.

With regard to the Employer Liaison Team, pension awareness sessions and employer training sessions continued with a positive uptake and response. Sessions on tax would commence shortly now the Pension Saving Statements had been issued. Processing of new admissions to the fund was ongoing with the new standardised passthrough approach being adopted.

Performance statistics for XPS for January and details of one complaint that had been processed were also included in the report.

AGREED that the information provided was received and noted.

23/29

ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

It was confirmed that the Border to Coast Annual Conference was scheduled to be held on 18 and 19 July 2024.

NOTED