

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

## PENSION FUND COMMITTEE REPORT

12 JUNE 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

BORDER TO COAST 2030 STRATEGY

### 1. PURPOSE OF THE REPORT

- 1.1 To provide Members with an update on the development strategy our pooling company, Border to Coast, has been collectively developing with the Teesside Pension Fund and our other ten Partner Funds within the pensions partnership.

### 2. RECOMMENDATION

- 2.1 That Members note the report.

### 3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications resulting from this report.

### 4. SUMMARY

- 4.1 As a public sector pension fund we are committed to operating in a sustainable and cost-effective manner. The complex system in which the Local Government Pension Scheme (LGPS) currently operates is evolving. External factors, such as changes to the wider pensions and investment industry, changing ways of working, political and regulatory change and continued uncertainty across investment markets, are likely to be significant over the coming period and in many instances beyond the control of LGPS. Recognising this and building greater resilience into the system will be important for our long-term success.
- 4.2 There is an opportunity to build upon the partnership we have established with Border to Coast Pensions Partnership. Working with our other ten LGPS Partners, we believe that we have the opportunity to strengthen our capacity and resilience through the further development of common solutions through Border to Coast.
- 4.3 Based on our joint needs, we have worked with Border to Coast to help them to develop a strategy to 2030. This considers how Border to Coast will evolve as a centre of investment expertise to help deliver the propositions and services we need to support Partner Funds to pay pensions in a cost effective and sustainable manner.

- 4.4 This strategy is in the final stages of refinement and will be subject to formal shareholder review and approval later in the summer. The implementation of the strategy will be covered through the annual business planning process, which is reviewed and approved by the Partner Funds as shareholders on an annual basis.

## **5. BACKGROUND**

- 5.1. Our responsibilities as part of the Local Government Pension Scheme (LGPS) are wide and include engaging with over 140 employers who are part of our Fund, managing the administration of over 80,000 members, and managing over £5 billion of investments.
- 5.2. As an open defined benefit (DB) pension fund mainly funded through the taxpayer, we are committed to operating in a sustainable and affordable manner. As such, our focus is on delivering effective outcomes.
- 5.3. Since 2018 we have been part of a strategic partnership with 10 other LGPS funds through Border to Coast Pensions Partnership, of which the 11 Partner Funds are shareholders. While we joined Border to Coast formally in response to the 2015 Government's objectives to pool, for us and our partnership, there was a strong belief that working together through the pool, we could achieve more together than we could individually.
- 5.4. Since 2018, we have collectively built and matured an organisation that is responsible for managing over £45bn of our collective assets. This has provided significant value to us, having developed, and launched many of the propositions needed for us implement our investment strategies.
- 5.5. In March 2023 the Committee received an update on the strategic work the Fund has been involved in through the wider Border to Coast partnership. In this update the Committee was briefed on the following key areas.

### **The changing nature of the system we operate in**

The LGPS is one of the few remaining open pre-funded DB schemes left in the UK. The regulatory focus and associated industry capacity (such as investment consultants) is moving away from DB and towards Defined Contribution and the Retail / Wealth industries, limiting the capacity and capability to effectively support the LGPS. Meanwhile the reporting requirements imposed on the LGPS is increasing significantly, and the investment landscape is increasing in complexity.

### **Challenges faced by the LGPS Funds**

Pension Funds within the LGPS face several common challenges. Given the changes in the wider sector, we face increasing challenges to recruit and attract new talent as our existing teams approach retirement. We also need to consider how we manage the increasing regulation and reporting requirements being imposed on the LGPS. And, not least, how do we evolve how we operate to ensure we have efficient and effective access to the right investment capabilities and services.

- 5.6 Over the last two years we have been examining these challenges and exploring how we can deliver a sustainable solution to ensure we have the capacity, capability, and resilience to deliver our remit in a cost-effective manner over the long term.

### **Strengthening our capacity, capability, and resilience**

- 5.7 There are three strands to the Border to Coast 2030 strategy:
- 1) delivering its current remit as efficiently and effectively as possible,
  - 2) developing additional capabilities to further support Partner Funds, and
  - 3) enabling Partner Funds to take advantage of, and manage potential risks of, additional scale opportunities. The remainder of this paper considers the second of these strands.
- 5.8 Given the challenges we face in the medium term, there is an opportunity to develop solutions through Border to Coast which add capacity, capability, and resilience for our Fund. There is significant strategic value in building capabilities within Border to Coast that enables us to reduce our dependence on external third parties, many of which are moving away from supporting open DB pension schemes.
- 5.9 Over the next five years, we will be working with Border to Coast to consider how we can build their capacity and capabilities to support us in five key areas:

#### **5.9.1 Strategy & Policy**

Developing Border to Coast's capabilities to support our decision-making on investment strategy and policy could potentially add significant value and reduce costs of the system. This strategic area will work to structure an advisory offering from Border to Coast (alongside independent advisors, and Pension Fund actuaries for the provision of liability data) that can be considered as an optional service for adoption.

#### **5.9.2 Investment Implementation**

To provide our Fund with increased operational resilience by further building on services already undertaken (partially) by Border to Coast, looking to extend implementation options for Partner Funds in areas such as cashflow management, rebalancing, dynamic asset allocation and hedging.

#### **5.9.3 Investment Related Reporting**

To provide our Fund with more of the investment related reporting that has proliferated in recent years, by further building on the information sharing and reporting already undertaken by Border to Coast. The pool will assess developing capabilities to efficiently deliver output such as whole of fund performance, portfolio risk, scenario analysis and further Responsible Investment & Environmental Social & Governance reporting.

#### **5.9.4 Oversight**

This area will look to evolve our model in the shorter term by evaluating, designing and implementing a more efficient and effective framework for oversight of Border to Coast by us, as a customer. In the medium to long term we will evolve this framework to provide us with the assurances we require to evaluate all the propositions and services Border to Coast delivers on our behalf.

#### **5.9.5 Training**

To develop a common approach to support training for Pensions Committees and Officers across all 11 LGPS pension funds in the partnership to ensure we have the knowledge and skills to be able to undertake our roles.

- 5.10 Each of these areas will be assessed for detailed design, development, and delivery in the period to 2030. Significant areas of capability delivery would be subject to specific business case development and evaluation, with each of Border to Coast's Partner Funds involved in the process. This replicates the current approach Border to Coast and Partner Funds take when building investment propositions.
- 5.11 Once each area has been developed, it will remain the right of each Pension Fund to choose whether they wish to utilise the services or offerings developed by Border to Coast. We will consider this on a case-by-case basis depending on our own needs and challenges.
- 5.12 In addition to the work outlined above regarding the Border to Coast 2030 Strategy, we continue to engage with our fellow pension funds on options to work more closely together on non-investment areas to support and share learning.

### **6. NEXT STEPS**

- 6.1. The 2030 Strategy will be recommended by the Border to Coast Board to shareholders for approval over the Summer of 2024. It will also be discussed at the Border to Coast Annual Conference in mid-July 2024.
- 6.2. Border to Coast engagement with our Fund (alongside the other 10 Pension Funds) on implementing the 2030 Strategy will continue throughout the period of the next strategic phase.

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