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Efficiencies in Local Government and the management of Local Government Pension Scheme (LGPS) funds

Middlesbrough Council ('the Council') is responsible for the delivery of LGPS pensions in its capacity as the Administering Authority for the Teesside Pension Fund ('the Fund'). As of 31 March 2024, the Fund had assets of around £5.5 billion, a total membership of over 80,000 and around 140 different employers have active members in the Fund. The Fund is one of the eleven Partner Funds that make up the Border to Coast Pensions Partnership pooling arrangement. The following is in response to the questions in the (then) Minister for Local Government's letter of 15th May 2024.

How your fund will complete the process of pension asset pooling to deliver the benefits of scale.

What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?

As at 31 March 2024, 57% of the Fund is invested through Border to Coast. The remainder comprises 17% in illiquid legacy investments, 12% in pooled passive equity funds (see below), 10% in real estate which is not currently expected to transfer to the pool and 4% in cash.

Not all the Fund's listed assets are likely to be pooled by March 2025. This is because the Fund currently invests around 12% of its assets in passive equities. Border to Coast, in common with all other LGPS pool companies, does not provide 'standard' passive equity investment as an option, principally because it would not be able to deliver this type of passive equity investment in as cost-effective a way as the large private-sector passive equity providers. However, these providers did noticeably reduce their fees in response to collective pressure from LGPS funds and pool companies around the time the investment pooling project was initiated. Consequently, the low fees we pay for passive equity investment are in part a result of the LGPS pooling project.

Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pensions investment strategy?

Yes – Border to Coast already provides useful reporting information for our Fund in respect of the assets we have under its management. We are working with Border to Coast and our Partner Funds to consider how the partnership can be further developed across several areas, including increased reporting scope and (for those Partner Funds that require it) assistance in investment strategy development.

What is your expenditure on pensions investment consultancy?

Our Fund does not retain an investment consultant. Typically, every three years (around the time of each actuarial valuation) we commission a piece of work to assist with our strategic asset allocation review, at a cost of £20,000 to £30,000. The Fund also retains

the services of two independent investment advisors, at a current cost of around £40,000 a year.

Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight? If not, what steps are you taking to make your pool's governance more effective?

Border to Coast has an effective, modern governance structure which is likely to meet the criteria of the preferred model of pooling which the government stated it would issue in (yet to be published) revised guidance on pooling. Border to Coast's Partner Funds jointly and equally own and oversee the company as shareholders and investors. The partnership and its governance continue to evolve, and collectively the Partner Funds and the company continue to identify and investigate ways to work collectively for the ultimate benefit of the Partner Funds' beneficiaries and stakeholders.

How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.

Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?

As confirmed in the Council's recently revised constitution, our Fund is managed by the Council's Pension Fund Committee, which meets five times a year, and overseen by the Pension Board, which meets four times a year. Both these bodies receive support and advice from suitably qualified officers. The Committee also received advice from two independent investment advisors and meetings are also attended by investment manager representatives, including from Border to Coast, and by representatives from the outsourced pensions administration provider. Investment and administration performance figures are shared and discussed with the Committee and Board, and are subject to scrutiny, discussion and challenge in these meetings, and by officers and advisors outside of the meetings.

Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

This has not been specifically considered by the Council. The significant steps we have already made towards pooling are starting to pay off from a financial perspective. The Council had an in-house investment management approach which meant it was already low cost, meaning the payback period for the set-up costs involved in investment pooling was always anticipated to be a number of years. Nevertheless, pooling has already delivered significant non-financial benefits, such as the ability to help develop and utilise a dedicated responsible investment team and fully integrating responsible investment into investment decision-making, as well as the resilience that a larger team provides in delivering in-house investment management. Further scale could potentially provide additional benefits however, any opportunity presented would need to be examined in detail from a cost-benefit and risk-reward perspective and the need to ensure that it does not compromise our ability to provide the best service for our members, employers and taxpayers, as a key and visible part of the local community.

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Director of Finance

Middlesbrough Council (administering authority for the Teesside Pension Fund)