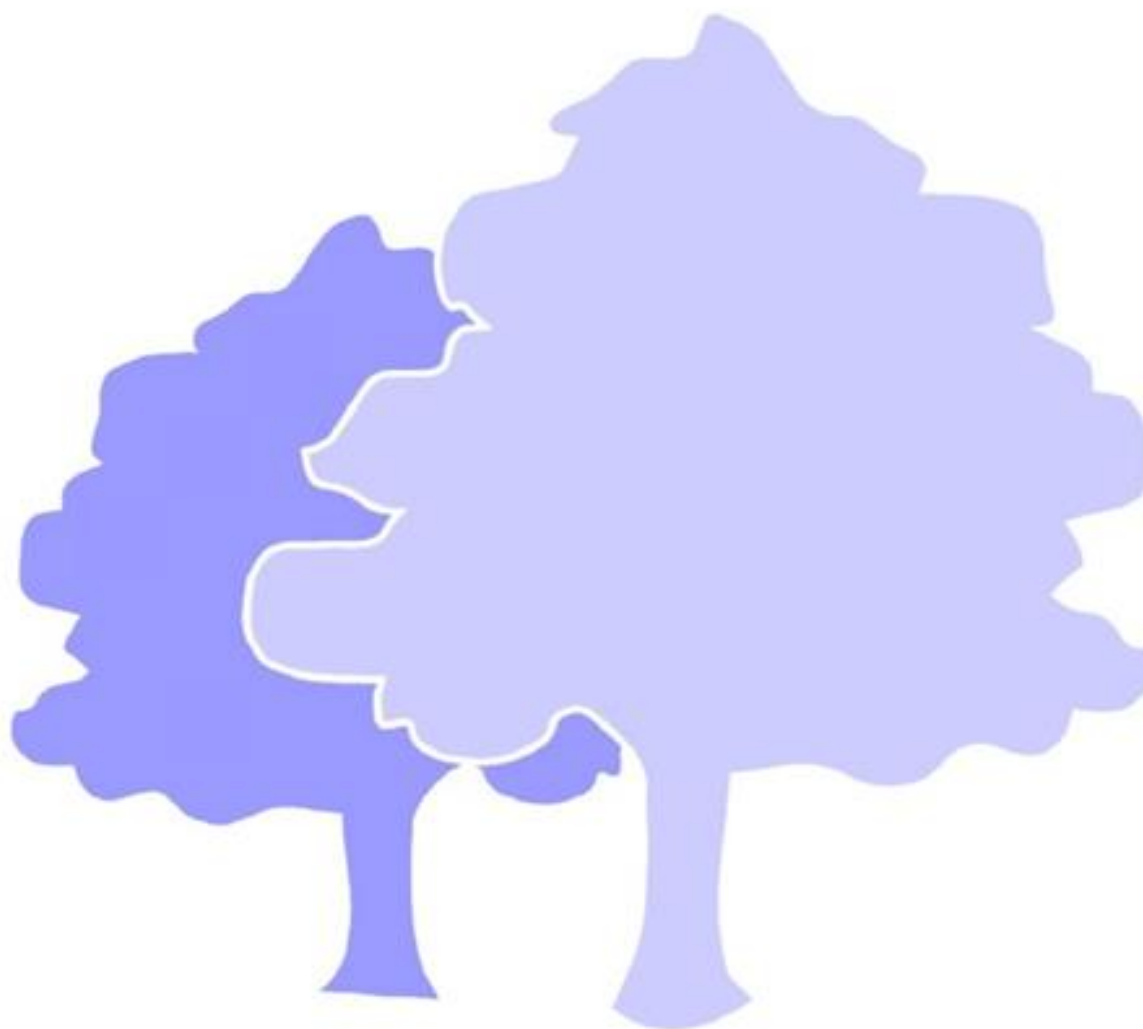


Business Plan

2021 – 2024



Teesside Pension Fund

EXECUTIVE SUMMARY

The purpose of this Business Plan is to outline the Fund's objectives and provide a plan of action as to how key priorities will be achieved in order to further these objectives.

Over the last few years the Fund has faced increasing complexities and there has been and continues to be new legislation that has fundamentally changed the way in which we work and our relationship with our stakeholders. The complexities have stemmed from but are not limited to the following;

- Asset Pooling
- The Public Service Pensions Act 2013
- Increased risk monitoring
- Funding pressures resulting from longevity risk and volatile financial markets
- Overriding HMRC legislation
- Increased diversity of scheme employers resulting from alternative service provision models
- Changing Local Government Pension Scheme regulations

To manage these challenges the Fund needs to be flexible and responsive to adapt in a timely and effective manner.

This Business Plan also outlines the expected non-investment related Fund receipts and payments for the financial year 2020-21, and projections for 2021-22, as well as the administration and investment expenses.

The Business Plan also details the key performance indicators by which the Fund's performance will be measured. A full listing of these indicators can be found in section 5.

Officers will update the Pensions Committee and the Pension Board on the progress made against all aspects of the Business Plan in update reports presented at future meetings.

INTRODUCTION

Middlesbrough Borough Council is the Administering Authority for the Teesside Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit pension scheme providing ongoing benefits on a career average revaluated earnings (CARE) basis, with most benefits earned before April 2014 calculated on a final salary basis. It is principally funded by contributions from its constituent employers and members and by investment income.

The Fund currently has over 70,000 scheme members from over 150 employer bodies, including four Local Authorities.

At the last Actuarial Valuation, as at March 2019, the assets worth £4.088 billion, were sufficient to meet 115% of the Fund's liabilities.

PURPOSE OF THE FUND

Mission Statement

"To provide an efficient and effective pension scheme for all scheme members and employers in accordance with the requirements of the regulations and legislation for the Local Government Pension Scheme."

Purpose

The Fund is a vehicle by which scheme benefits are delivered. The purpose of the Fund is to:

- Receive monies in respect contributions from employers and employees, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

Aims

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled and admission bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the

risk profile of the fund and employers, and the risk exposure policies of the administering authority and employers alike.

- Seek returns on investments within reasonable risk parameters.

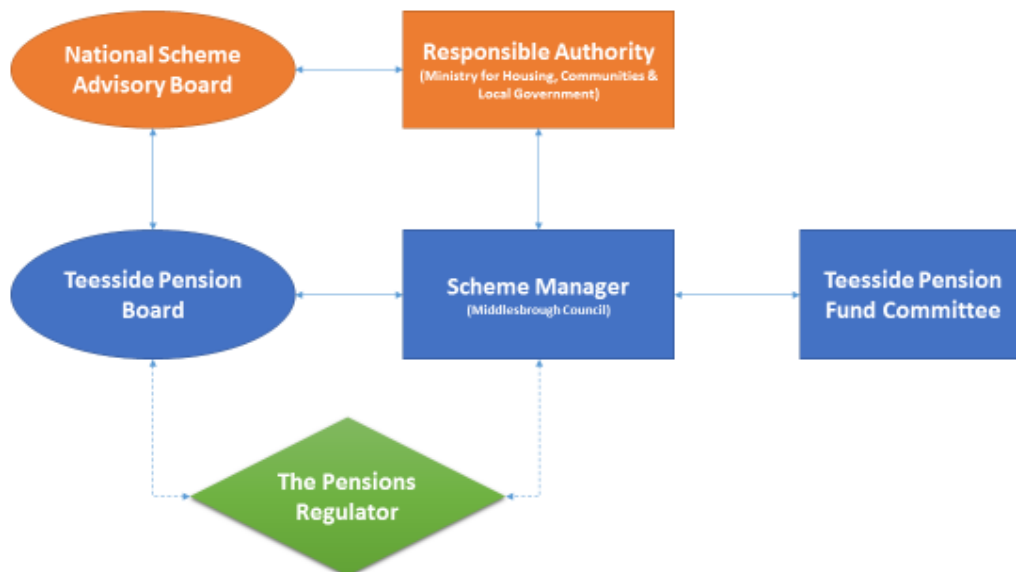
Service Promise

“We will provide a customer-focused pension service meeting the needs of members and employers, and manage the investments of the Fund to achieve solvency and long-term cost efficiency for our customers.”

The full service promise is attached as Appendix A, and sets out the promises to the four key stakeholders of the Fund.

GOVERNANCE ARRANGEMENTS

The Public Service Pensions Act 2013 updated the national and local governance framework for all public sector pension schemes, including the LGPS. The interaction of the various bodies is shown below.



Responsible Authority

For the LGPS, this is the Ministry of Housing, Communities and Local Government (MHCLG); its primary roles being:

- The LGPS Scheme ‘sponsor’;
- Ensuring affordability of the LGPS for members and employing authorities;
- Developing policy for the operation of the LGPS to reflect government policy and LGPS specific experience; and

- Commissioning and updating legislation and actuarial guidance.

National Scheme Advisory Board

The Local Government Pension Scheme Advisory Board (SAB):

- Advises on policy, best practice, and governance issues;
- Reporting responsibility;
- Single source of information for LGPS stakeholders on general and specific health of the LGPS; and
- Liaison role with the Pensions Regulator.

Further information on the Scheme Advisory Board, its role and operation can be found at the SAB website: <http://www.lgpsboard.org/> .

The Pensions Regulator

The statutory objectives of the Pension Regulator are:

- Protect member benefits (although they accept that in the LGPS these are effectively guaranteed); and
- Promote and improve understanding of good administration.

Please visit The Pensions Regulator website for more information:

<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx> .

In addition to the national bodies, each individual LGPS Fund has a single employing authority designated as the administering authority for its geographic area. Middlesbrough Council was appointed the Administering Authority for the Teesside Pension Fund by the Secretary of State, replacing the former Cleveland County Council Fund following Local Government Reorganisation in 1996.

Each administering authority is responsible for the financial and administrative functions of their Fund. For the Teesside Fund, this function is delegated to the Teesside Pension Fund Committee, which is assisted by the Teesside Pension Board.

Teesside Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Middlesbrough Council as the Scheme Manager and Administering Authority for the Teesside Pension Fund in accordance with Local Government Pension Scheme and any other relevant legislation.

In its role as the administering authority, Middlesbrough Council owes fiduciary duties to the employers and members of the Teesside Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pension Fund Committee and its members must not compromise this with their own individual interests.

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Finance Officer and the Fund's professional advisers:

- a) Ensuring the Teesside Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs (HMRC)'s requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Teesside Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
 - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Middlesbrough Council and making recommendations to Middlesbrough Council about any changes to that framework.
 - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and any interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
 - iii) Investment strategy - approving the Fund's Investment Strategy Statement and Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
 - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
 - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
 - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.

- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Border to Coast Pensions Partnership ('Border to Coast'); the Asset Pooling Collaboration arrangements:
 - i) Monitoring of the performance of Border to Coast and recommending actions to the Joint Committee, The Mayor or his Nominee (in his role as the nominated person to exercise Shareholder rights and responsibilities), Officers Groups or Border to Coast, as appropriate.
 - ii) Undertake the role of Authority in relation to the Border to Coast Inter Authority Agreement, including but not limited to:
 - Requesting variations to the Inter Authority Agreement
 - Withdrawing from the Inter Authority Agreement
 - Appointing Middlesbrough Council officers to the Officer Operations Group.
- g) Considering the Fund's financial statements and the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension fund administrator, independent professional advisers and Additional Voluntary Contribution (AVC) provider.
- i) Liaison with internal and external audit, including providing or agreeing recommendations in relation to areas to be covered in audit plans, considering audit reports and ensuring appropriate changes are made following receipt of audit findings
- j) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- k) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- l) Agreeing Pension Fund business plans and monitoring progress against them.
- m) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- n) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- o) Receiving ongoing reports from the Chief Finance Officer, the Head of Pensions Governance and Investments and other relevant officers in relation to delegated

functions.

No matters relating to Middlesbrough Council's responsibilities as an employer participating within the Teesside Pension Fund are delegated to the Pension Fund Committee.

Teesside Pension Board

The Board is responsible for assisting the Administering Authority:

- a) To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
- b) To ensure the effective and efficient governance and administration of the Scheme.

The Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund. The Board makes recommendations and provides assurance to assist in the management of the Fund.

Teesside Pension Officer Support

In order to support the Teesside Pension Fund Committee and Teesside Pensions Board and enable them to fulfil their obligations under the LGPS investment regulations administering authorities are required to take proper advice. "*Proper advice*" is defined in the LGPS Investment Regulations 2016 as "*the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters.*"

Advice is taken from internal and external sources:

- Internal advice comes from the **Director of Finance**, who has Section 151 responsibilities. It is the Director who is responsible for ensuring that adequate expertise is available internally and, where he deems that not to be the case, he will advise when external advice should be sought. Internal expertise and advice is provided by:
 - The **Head of Legal Services** on legal matters pertaining to the Fund.
 - The **Head of Pensions Governance and Investments** on investment and LGPS governance issues.
 - The **Head of Pensions (XPS Administration)** on fund administration and regulatory issues.
 - The **Head of Finance and Investment** on issues relating to the Statement of Accounts.
- External advice is provided by:
 - The **Fund's Investment Advisors** on asset allocation and investment matters.

- The **Fund's Actuary**, Aon, on actuarial matters.
- The **Fund's Solicitors**, Nabarro, on regulatory and administrative matters, and Freeths LLP, on legal matters relating to the Fund's property investments.
- The **Fund's Auditor**, EY LLP, regarding auditing the accounts and internal controls and systems.
- Other external advisors as the Director of Finance shall see fit to recommend.

PROCEDURE FOR THE REVIEW OF MANAGERS AND ADVISORS

The Fund's management arrangements, the arrangements for the appointment of advisors and other external service providers and the regular review of those arrangements have been determined by the Committee.

- The LGPS (Management and Investment of Funds) Regulations 2016 included the requirement for all LGPS Funds to pool their assets. The Fund is one of eleven Funds who are shareholder partners in Border to Coast Pension Partnership Limited ('Border to Coast') and is moving to a position where Border to Coast will manage the majority of investment assets for the Fund.
- Initial asset transfers took place during 2018-19 which resulted in all the Fund's UK equities being transferred to be under Border to Coast's management, and the Fund has also bought some units in Border to Coast's overseas equity sub-fund. However, for risk management reasons, most of the Funds overseas equities are currently managed passively by State Street Global Advisors – this position is under review.
- There are a number of investment assets which will remain with the Fund to manage, either because they will never transfer to Border to Coast, e.g. cash or local investments, or their transfer is delayed until Border to Coast is in a position begin management of these assets, e.g. property. These will continue to be managed by an internal team.
- Fund Investment Advisor arrangements were reviewed during 2018-19 and following a procurement exercise two independent Investment Advisors were appointed.
- The contract to provide Custodian Services to the Fund is carried out by Northern Trust – the contract started on 1 May 2019.
- Pension Administration Services are provided by XPS Administration (formerly Kier Group) under the terms of a contract for a period of ten years commencing 1 June 2001. This arrangement was approved by the Investment Panel on 2 March 2001. A five year extension to this contract was approved by the Investment Panel on 3 March 2010 and another five year extension was also approved on 17 June 2015. XPS

Administration bought the Kier pension administration function with effect from November 2018, and the contract, staff and software to administer the Teesside Pension Fund transferred to XPS Administration as part of that sale.

- The contract to provide Actuarial Services to the Fund was tendered in 2012/13. Aon Hewitt was appointed on 12 December 2012 for a period of seven years. This contract was extended by 6 months to allow for the completion of the actuarial work for the 31 March 2019 valuation (published on 31 March 2020). The contract was extended by a further 12 months to allow a replacement contract to be put in place using a refreshed framework during 2021.
- Fund Additional Voluntary Contribution (AVC) provision was reviewed by the Investment Panel on 12 July 2002 and the Prudential Assurance Company Ltd were appointed. The long-term nature of AVC provision does not lend itself to the regular review of providers.

PERFORMANCE TARGETS

Targets are set for each of these key areas to monitor the performance of the Fund.

Funding

The Funding Strategy Statement sets out a comprehensive strategy for the whole Fund, balancing and reconciling the many interests which arise from the nature of the Scheme and the requirements to fund benefits now and in the future. The Funding Strategy Statement was last updated and published in March 2020.

The funding target of the Fund is to achieve fully funded status, i.e. the assets of the Fund match, exactly, its liabilities. This is expressed as a percentage, with fully funded status represented as 100% funded. The Fund's Actuary, AON Hewitt, carries out a full actuarial valuation every three years, with the last valuation undertaken based on the assets and membership at 31 March 2019 – the final valuation report was published on 31 March 2020.

Investments

The Investment Strategy Statement sets out the Fund's strategy asset allocation (also known as the customised benchmark), a tailor made mix of investments which is reached after an Actuarial Valuation and subsequent Asset/Liability Study. The strategic asset allocation was last reviewed in September 2018. The Investment Strategy Statement was last reviewed and published in February 2019.

Monitoring investment performance is one way in which Members can assess how well the Fund is being managed. Performance is measured against the tailor-made mix of

investments which should produce returns over the medium and long term to meet the Fund’s liabilities; the strategic asset allocation and customised benchmark.

The Fund's investment performance is measured by Portfolio Evaluation Limited (PEL), a leading provider of performance services to public and private sector pension schemes. Investment performance is reported as part of the Fund’s Annual Report & Accounts and to the Pension Fund Committee each year.

Investment performance is measured against the customised benchmark over three time periods; one year, three year and ten year (i.e. short, medium and long term performance).

Pensions Administration

Key Performance Indicators (KPIs) relating to pensions administration are included within the terms of the contract with XPS Administration and performance against those KPIs is monitored as part of that contract. The current KPIs and targets are:

| Pension Administration KPI | Target |
|---|---------------|
| All new entrant processed within eighteen working days of receipt of notification being received by pensions. | 98.50% |
| Transfer Values - To complete the process within one month of the date of receipt/request for payment. | 98.50% |
| Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being received. | 98.75% |
| Statements issued within ten working days - Estimate of benefits (of receipt of request) and Deferred Benefits (of receipt of all relevant information). (Formerly F68 and F72) | 98.25% |
| Pension costs to be recharged monthly to all employers. | 98.75% |
| Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year. | 98.75% |
| Payment of retirement grant payment to be made within 6 working days of the later of the payment due date and the date of receiving all of the necessary information. | 98.75% |
| Pay eligible pensioners a monthly pension on the dates specified by the Council. | 100.00% |
| All calculations and payments are correct. | 98.75% |

These KPIs will be reviewed as part of the process for retendering the pensions administration contract, with a view to updating them and the target rates. Results against these KPIs are reported to each meeting of the Pension Fund Committee and the Pension Board.

Accounting

The Fund's Annual Report and Accounts are prepared in line with the current guidelines and reported to the Teesside Pension Fund Committee. The Annual Report and Accounts are audited by the Fund's External Auditors (EY LLP). EY present their audit findings to the Teesside Pension Fund Committee and provide their audit opinion based on the findings of the report. The target is for the External Auditors to report that the Annual Report & Accounts show a true and fair view of the transactions the Fund.

To ensure there are adequate internal controls in place to manage and administer the Fund effectively, Internal Audit carry out an independent audit review every year, and the final reports are presented to the Teesside Pension Board. Internal Audit report their findings and an audit assurance level. The target for both internal audits is to receive an assurance level of a strong control environment.

Governance

In addition to the Funding Strategy Statement and Investment Strategy Statement, the Fund is required to have in place a number of other key governance documents to allow the Fund to run effectively and smoothly. These additional governance documents are:

- Governance Policy and Compliance Statement
- Training Policy
- Conflicts of Interest Policy
- Risk Management Policy
- Procedures for Reporting Breaches of the Law
- Communication Policy
- Pension Administration Strategy and Employer Guide
- Discretions Policy and Fund Officers' Scheme of Delegation

All governance documents should be reviewed at least every three years to ensure they are still relevant and represent best practice.

A summary of performance against all targets is presented in Appendix B of this report.

RISK MANAGEMENT

The Fund's Risk Management Policy details 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.

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

- 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.

The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims 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 will aim to comply with:

- The CIPFA Managing Risk publication.

- The Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risk Analysis & Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating.

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

Risk Response

The extent to which the identified risks are covered by existing internal controls is reviewed to determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Fund Committee approval may be

required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

Risk Monitoring & Review

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Committee considers whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to be learned for the future assessment and management of risks.

Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Fund Committee – see attached Appendix C. The Pension Fund Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review will be carried out at least twice a year.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it will be included in the Risk Register.

Risk Matrix

The risk matrix is adapted from the one used by the Council and the External Auditor's assessment of materiality (for the 2020/21 audit £37.4 million) is used as a very high fund value for the purposes of scoring the identified risks.

| | | | | | | | |
|-------------------|----------|-----------------------------------|----------------------|----------------|-----------------|----------------|----------------|
| Likelihood | 5 | Almost Certain >80% | Low (5) | Medium (10) | Medium (15) | High (25) | High (35) |
| | 4 | Likely 51% - 80% | Low (4) | Low (8) | Medium (12) | High (20) | High (28) |
| | 3 | Possible 21% - 50% | Low (3) | Low (6) | Medium (9) | Medium (15) | High (21) |
| | 2 | Unlikely 6- 20% | Low (2) | Low (4) | Low (6) | Medium (10) | Medium (14) |
| | 1 | Rare <6% | Low (1) | Low (2) | Low (3) | Low (5) | Low (7) |
| | | | 1 | 2 | 3 | 5 | 7 |
| | | | Insignificant | Minor | Moderate | Major | Extreme |

TRAINING PLAN

The Fund has adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. It is a requirement of the Code that an annual statement on compliance must be included in the Fund's Statement of Accounts.

Investment Officers are required to acquire, by examination, the Investment Management Certificate (IMC) or relevant qualification. Officers without the relevant qualification and with less than five years relevant experience must undergo a minimum of twenty hours relevant training.

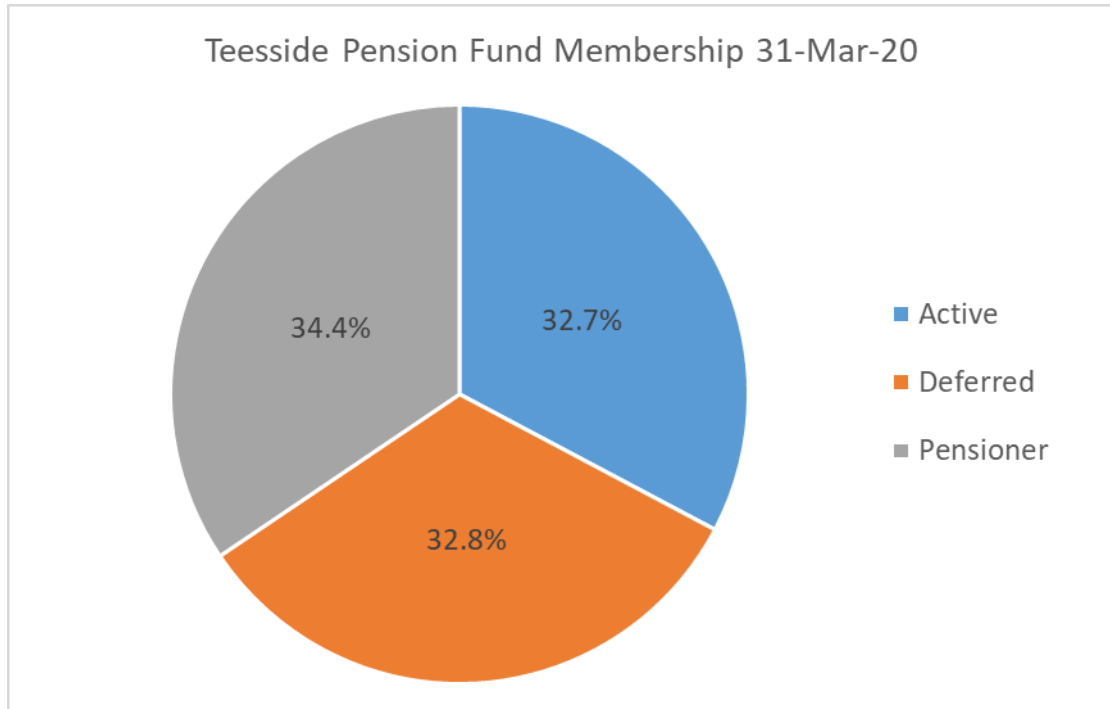
The Principles included in the Myners Review of Institutional Investment included a requirement under "Effective Decision Making" that Trustees should have sufficient expertise and be offered appropriate training.

It is a requirement that all Members serving on the Teesside Pension Fund Committee and those who may act as substitute received adequate training. This facility is extended to also include non-Middlesbrough Council members of the Committee . All Teesside Pension Board Members have received training and undertaken the Pension Regulator's toolkit.

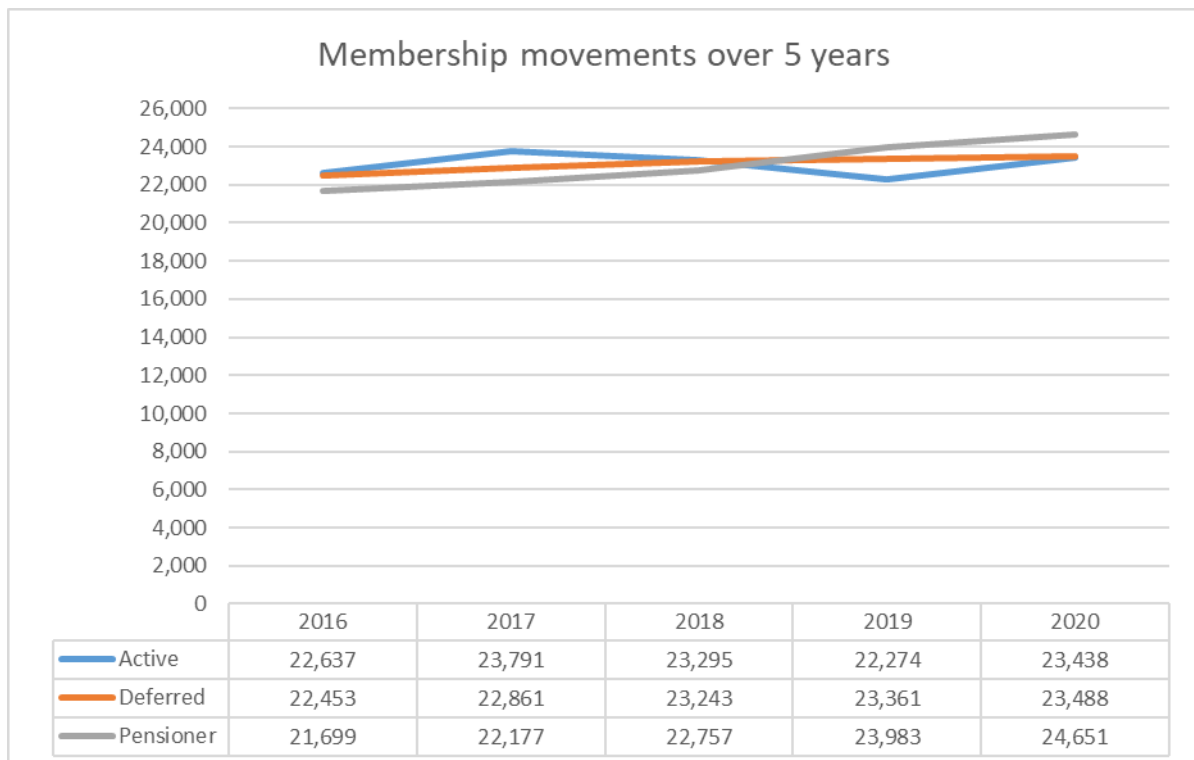
Training for Members and the staff employed by the Fund is essential as the Fund is moving to a position where it is effectively managing two critically important outsourcing contracts with Border to Coast managing the majority of the Fund's investment assets, and XPS Administration managing the Fund's pension administration service.

MEMBERSHIP DATA

The total scheme membership for the Fund as at 31 March 2020 was 71,577 made up of the following membership types:

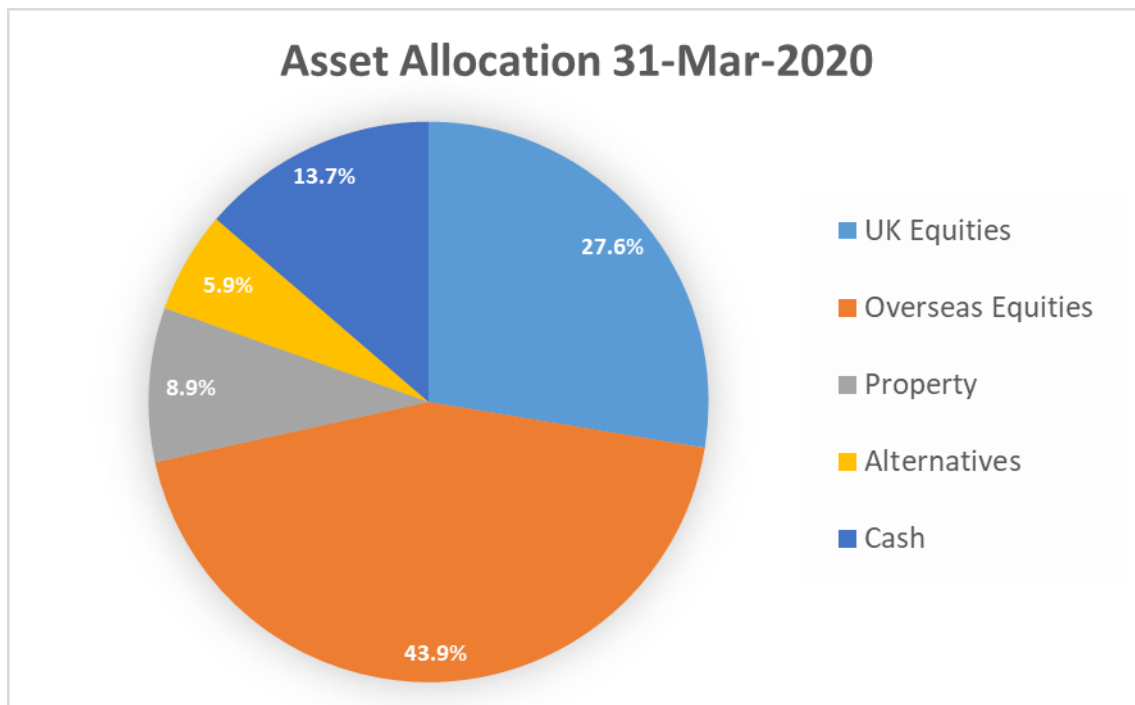


The changes to the scheme membership types is shown below. Whilst the total membership has increased by approx. 3,000 members over the period, the numbers of active members has fluctuated but increased slightly, whereas the numbers of deferred and pensioner members have increased more steadily over the period.

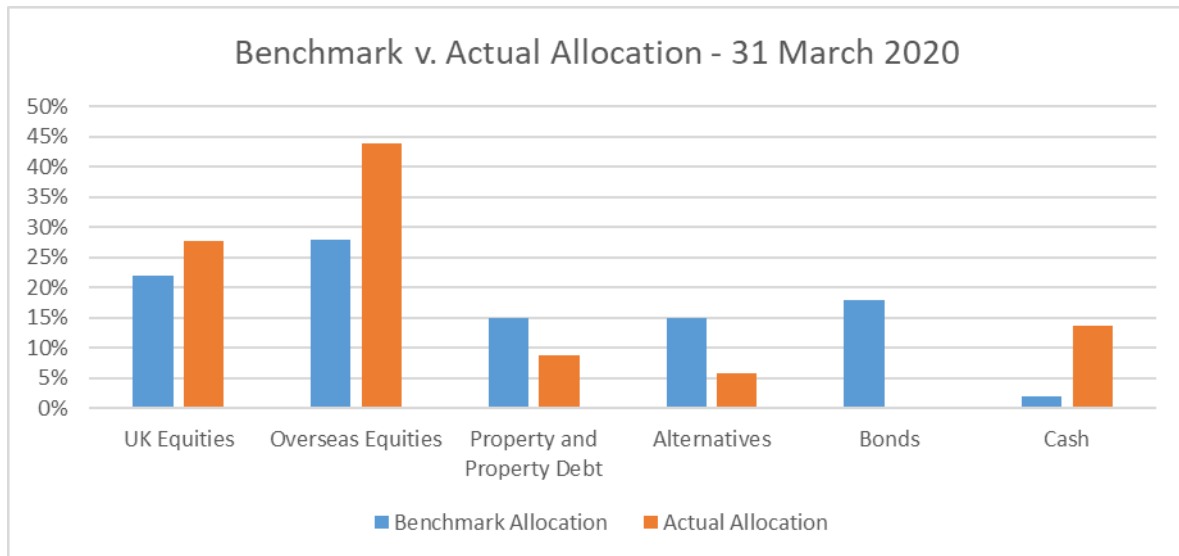


INVESTMENTS AND FUNDING

The Pension Fund invests in a wide range of asset classes and regularly reviews its asset allocation policy to ensure that it remains appropriate for the Fund.



The Fund's Investment Strategy Statement sets out the Asset Allocation Strategy. This strategy is set for the long term and is reviewed every 3 years as part of the Fund's Asset/Liability study to ensure that it remains appropriate to the Fund's liability profile. As part of the strategy the Administering Authority has adopted a strategic benchmark representing the mix of assets best able to meet the long term liabilities of the Fund. A revised strategic benchmark was agreed by the Pension Fund Committee at its September 2018 meeting, and this revised benchmark was used to update the Investment Strategy Statement. As at 31 December 2019 the actual assets compared to the revised strategic benchmark as follows:



Actuarial valuations are carried out every three years with the last completed valuation dated 31 March 2019. These valuations calculate the value of the Fund’s liabilities and compare them to the market value of the assets to determine a funding ratio. At the 2019 valuation, there was a surplus of £527.3 million, which corresponded to a funding ratio of 115%.

The next triennial valuation (as at 31 March 2022) will be published by 31 March 2023. The result of that valuation will be implemented from 1 April 2023, with any changes to employer contribution rates due to take effect then.

FUND ACCOUNT, INVESTMENT AND ADMINISTRATION COSTS

The following table provides a summary of the fund account, investment and administration income and expenditure:

| Description | 2019-20 Actual £'000s | 2020-21 <i>Estimate</i> £'000s | 2021-22 <i>Estimate</i> £'000s |
|---|-----------------------------|--------------------------------------|--------------------------------------|
| Contributions | -99,421 | -97,125 | -98,000 |
| Transfers in from other pension funds | -8,546 | -3,313 | -5,000 |
| Other income | -3,985 | -7,713 | -5,000 |
| Total income from members | -111,952 | -108,151 | -108,000 |
| Benefits payable | 146,259 | 153,100 | 156,000 |
| Payments to and on account of leavers | 13,683 | 8,000 | 14,000 |
| Total expenditure to members | 159,942 | 161,100 | 170,000 |
| Management expenses | 7,455 | 6,623 | 8,000 |
| Total income less expenditure | 55,445 | 59,572 | 70,000 |
| Investment income | -40,980 | -28,255 | -25,000 |
| Change in Asset Market Value | 368,157 | 0 | 0 |
| Net return on investments | 327,177 | -28,255 | -25,000 |
| Net (increase) / decrease in net assets available for benefits during the year | 382,622 | 31,317 | 45,000 |

Further detail behind the above summary is attached in Appendix D.

ANNUAL PLAN FOR RECEIVING REPORTS

The Teesside Pension Fund Committee meets four times each year, with an additional meeting to approve the Annual Report & Accounts. These should be before the end of:

- June;
- July;
- September;
- December; and
- March.

This allows for the presentation of key reports, which are needed to meet statutory deadlines:

| | |
|-----------|---|
| June | Fund Performance Report |
| July | Annual Report & Accounts Audit Report |
| September | Interim Actuarial Valuation Report (where relevant) |
| December | Shareholder Governance Annual Report |
| March | Business Plan Annual External Audit Plan |

FORWARD PLAN FOR KEY DECISIONS

A number of reviews and reports have been scheduled as a result of earlier Pension Fund Committee decisions and the requirement to put out to external tender services provided to the Fund. It may be necessary to delay non-contractual elements of the Plan, depending on resources available.

2021/22:

Pooling of Investment Assets:

- Continue to commit assets to Border to Coast's private equity and infrastructure funds as they become available.
- Commit assets to Border to Coast's emerging markets equity fund, subject to appropriate due diligence.

Pension Fund Governance:

- Complete the remaining part of the review of the Fund's Governance Arrangements (ensure the policies are in line with Regulations and the

Pension Regulator’s Code of Practise (Code 14), develop a new training plan for Investment Panel/Pension Board Members and implement new reporting processes after the review).

Pension Investments:

- Review management of Property assets – assess whether to pool direct property investment through Border to Coast.
- Implement the asset allocation instructions from the Pension Fund Committee.
- Monitor and report investment performance of the Fund, as measured against the Fund's customised benchmark.
- Continue to review and assess opportunities for investment in ‘alternatives’
- Assess any local investment opportunities that arise, with a view to making recommendations to the Pension Fund Committee where appropriate.
- Continue to monitor the Fund’s overweight equity position against its strategic asset allocation, and assess and implement protection approaches if appropriate.

Pension Administration:

- Continue to implement customer service improvements – updated website, better liaison with scheme employers
- Commence retendering exercise for pension administration

Funding:

- Continue to work with scheme employers to improve data quality prior to 31 March 2022 valuation.
- Review and update the Investment Strategy Statement if required.
- Re-tender actuary contract

2022/23:

- Asset/Liability Study.
- Review of the Governance Policies.
- Continue / complete transfer of investment assets to Border to Coast.
- Actuarial Valuation – work with actuary to determine and understand outcomes

2023/24:

- Transfer of property assets to Border to Coast (subject to value for money assessment)
- Assess Border to Coast’s performance