

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 19 July 2021.

PRESENT: C Monson (Chair), J Cook, Councillor B Cooper and P Thompson

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor W Ayre

21/1 **DECLARATIONS OF INTEREST**

| Name of Member | Type of Interest | Item/Nature of Interest |
|-----------------------|-------------------------|---------------------------------|
| J Cook | Non pecuniary | Member of Teesside Pension Fund |
| Councillor B Cooper | Non pecuniary | Member of Teesside Pension Fund |
| C Monson | Non pecuniary | Member of Teesside Pension Fund |

21/2 **MINUTES - TEESSIDE PENSION BOARD - 19 APRIL 2021**

The minutes of the meeting of the Teesside Pension Board held on 19 April 2021 were taken as read and approved as a correct record.

21/3 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 10 MARCH 2021**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 10 March 2021 was submitted for information.

NOTED

21/4 **TEESSIDE PENSION FUND COMMITTEE - 23 JUNE 2021**

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 10 March 2021.

Items considered by the Committee included:

- Investment Activity Report.
- External Managers' Reports.
- Border to Coast Update.
- Revised Funding Strategy Statement/Employer Flexibilities.
- Investment Advisors' Reports.
- CBRE Property Report.
- XPS Pension Administration Report.
- Local Investment Proposals (Exempt).

It was highlighted that Border to Coast were employing more staff than originally anticipated and it was queried whether this would lead to any financial implications for the Teesside Pension Fund. It was clarified that Border to Coast were employing more staff as they were investing more money. Ultimately the cost of employing staff was spread across investments and therefore there should not be any significant impact.

A concern was raised regarding the potential impact of increasing inflation on the triennial valuation of the Fund. The Actuary would take a long term view of inflation and if appropriate could alter their assumptions, which could in turn increase the cost of the Fund's liabilities.

Responding to a query regarding how quickly the Fund could change its approach to investments, it was confirmed that the Section 151 Officer had delegated powers to take action if needed, although that was not the preferred approach.

AGREED that the information provided was received and noted.

21/5

PENSION BOARD MEMBERSHIP

A report of the Director of Finance was presented, the purpose of which was to:

- ask the Chair to appoint a Deputy Chair from the Employer representatives;
- update the Members of the Teesside Pension Board (the Board) on progress and proposals to fill vacancies on the Board;
- remind the Board that the Deputy Chair will become the Chair (by rotation) by the next meeting.

The Chair informed the Committee that Gary Whitehouse, the previous Deputy Chair and also a former Chair, had recently resigned from the Board. The Chair placed on record his thanks to Gary for his contributions to the Board. The Chair reported that he had invited Councillor Cooper to be Deputy Chair of the Board, and he was pleased to report that Councillor Cooper had accepted.

Under the Board's terms of reference, the role of Deputy Chair was appointed by the Chair. The Deputy Chair would become the Chair by the next meeting through rotation, which happened every two years as set out in the terms of reference. The new Chair would then be required to select a Deputy Chair from the scheme-member Board representatives at the next meeting.

There was currently a vacancy for an employer-nominated Board member from the 'other employers' constituency. All employers had been written to asking for expressions of interest but no responses had been received to date. An additional targeted attempt would be made concentrating on the larger employers who had more involvement and connection with the Fund.

The current pensioner representative and Board Chair's term of office would end in July 2021. All Fund pensioners would be given the opportunity to apply for the pensioner representative role which would be publicised online and also through a pensioner newsletter scheduled to go out during late summer/early autumn.

The Head of Pensions Governance and Investments would coordinate the recruitment process and report back on progress to the next Board meeting.

As this was the current Chair's last meeting, Members of the Board thanked Colin Monson for his contributions and support to the Committee as both Deputy Chair and Chair, since its inception.

AGREED as follows that:

- the report was noted.
- Members noted the appointment of Councillor Cooper as Deputy Chair of the Teesside Pension Board.

21/6

FUNDING STRATEGY STATEMENT CONSULTATION

The Head of Pensions Governance and Investment presented a report to advise Members of the Teesside Pension Board of a consultation on proposed changes to the Funding Strategy Statement which took into account recently published guidance on flexibilities available to employers in the Fund in relation to contribution rates, including contributions due when an employer exited the Fund.

The Funding Strategy Statement set out how the administering authority attempted to balance the conflicting aims of affordable contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The Funding Strategy Statement was reviewed at least every three years, as part of the Fund's actuarial valuation, and was

also subject to review when changes to the regulations or guidance governing the Local Government Pension Scheme (LGPS) required.

A copy of the revised Funding Strategy Statement was enclosed at Appendix A to the submitted report and the substantive changes from the previous version were as follows:

- The Statement explained how Deferred Employers and their liabilities would be treated. For example for most Deferred Employers the expectation was the funding target for employers with orphan liabilities would be used, as usually no employer would be supporting their liabilities once their deferred debt agreement ended.
- Any employer exits calculated after 23 June 2021 would include an allowance for the cost management process and the proposed remedy for the 'McCloud' discrimination as set out in MHCLG's consultation on draft regulations, as well as an allowance for payment of increases on Guaranteed Minimum Pensions (GMPs) at the full rate of CPI (price inflation) for members with a State Pension Age after 5 April 2016, consistent with the Government's policy intention. This was currently expected to result in an increase in exit liabilities of approximately 0.7%.
- The factors to be considered when considering allowing payment of exit debt in instalments and/or entering into a deferred debt arrangement were set out - such as employer covenant and whether any security or guarantee were available.
- Details of how the process for reviewing an employer's contribution rate between valuations would operate, including dealing with an employer-generated request in relation to this. This included clarification that an employer request based purely on a change in market conditions affecting the value of assets and or liabilities would not be allowed. Detail of an appeals process – separate and in addition to the existing dispute resolution procedure which the Fund operates – was also included.
- The section on risks and control had been updated, adding risks relating to climate change and Covid-19 and updating the regulatory risks wording.

AGREED as follows:

1. that Members note that the enclosed revised Funding Strategy Statement had been approved by the Pension Fund Committee and circulated to Fund employers for comment.
2. If there were any substantive changes following this consultation, the revised wording would be taken back to the Committee for approval, otherwise the document would be published on the Fund's website after the consultation period.

21/7

DRAFT ANNUAL PENSION FUND REPORT AND ACCOUNTS 2020/2021

The 2020/21 draft unaudited Annual Report and Accounts for the Teesside Pension Fund were presented to the Board for noting.

The terms of reference for the Teesside Pension Fund Committee required the Annual Report and Accounts to be considered by Members. The draft unaudited Report and Accounts for the year ended 31 March 2021 were attached to the submitted report which would be presented to the Pension Fund Committee meeting on 28 July 2021.

The Head of Pensions Governance and Investment highlighted the positive financial performance of the Fund and the membership movement. Questions were raised in relation to increased administrative costs and how the performance of Border to Coast could be compared to other pools.

The Annual Report and Accounts presented were in draft form and, whilst the main numbers and outcomes were not expected to change, although changes might be needed as further review took place. In addition, the audit process was not complete and further changes may be required as a consequence. When complete and fully audited the Annual Report and Accounts will be published on the Pension Fund's website.

AGREED that the 2020/21 draft unaudited Annual Report and Accounts were noted.

21/8

UPDATE ON CURRENT ISSUES

The Head of Pensions Governance and Investments presented a report to provide Members of the Teesside Pension Board (the Board) with an update on current issues affecting the

Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

The following issues were highlighted:

- Review of the Cost Control Mechanism.

The Government Actuary had provided a final report to HM Treasury, which had issued a consultation document proposing three changes to the cost control mechanism:

- Moving to a reformed scheme only design: to remove any allowance for legacy schemes in the cost control mechanism, so the mechanism only considered past and future service in the reformed schemes. This ensured consistency between the set of benefits being assessed and the set of benefits potentially being adjusted;
- Widening the corridor: to widen the corridor from 2% to 3% of pensionable pay. This aimed to achieve a better balance between stability and responsiveness of the cost control mechanism; and
- Introducing an economic check: currently the mechanism did not include changes in long-term economic assumptions and therefore could not consider the actual cost to the Government of providing the pension benefits. The Government proposed introducing an economic check so that a breach of the mechanism would only be implemented if it would still have occurred had the long-term economic assumptions been considered.

The impact on the LGPS if these proposals took effect was currently unclear and at the current time there was no detail on whether the Scheme Advisory Board mechanism would be amended in line with any of the consultation's proposals.

- Climate Change Disclosures

The government published a response to its January 2021 consultation on "Taking action on climate risk: improving governance and reporting by occupational pension schemes" on 2 July 2021. The outcome of the consultation confirmed that by 1 October 2021, private sector schemes with assets in excess of £5 billion, and by 1 October 2022, private sector schemes with assets in excess of £1 billion, would need to have appropriate governance arrangements in place to identify, assess and manage climate-related risks and opportunities and be preparing to publish annual reports setting out climate-related metrics, targets and transition plans in line with the Task force on Climate-related Financial Disclosures (TCFD).

Whilst none of this directly applied to the LGPS, the government had indicated that a consultation would be issued soon (followed by regulations) to bring the LGPS into line with private sector schemes in this area. The Fund was in ongoing discussions with Border to Coast and with its partner Funds in Border to Coast to investigate whether there was an opportunity for collaboration or joint working in measuring carbon exposure and meeting the TCFD reporting requirements. The Fund had also made initial contact with all its investment managers to understand what reporting details would be initially available in respect of each of the Fund's investments.

Further updates would be provided to the Board on both issues as appropriate.

AGREED that the information provided was noted.

21/9

WORK PLAN UPDATE

A report of the Director of Finance was presented to request Members of the Teesside Pension Board (the Board) to agree a future work plan framework.

Details of the Board's Terms of Reference and Duties were included in the submitted report.

A copy of the Teesside Board Work Plan was attached at Appendix A to the submitted report. The items on the work plan would be delivered mainly through reports provided at future Board meetings.

It was noted that a training budget of up to £40K was available for Committee and Board members.

AGREED that the information provided was received and noted.

21/10

XPS ADMINISTRATION REPORT

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The following items were highlighted:

- 2020 LGPS Scheme Annual Report.
- DWP Consultation on pension scams.
- Prudential.
- Covid-19 – XPS update.
- Membership Movement.
- Member Self-Service.
- Complaints.
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development
- Performance.
- Employer Liaison.

Following easing of lockdown restrictions, there had been an increase in staff returning to the office. XPS had released a new working model called “My XPS, My Choice” which would trial from August 2021. Staff could decide whether they wanted to be office based, home based, or work flexibly between the two.

Employer Health Checks had continued, as well as some face to face employer training which had been extremely well received. XPS staff were currently working on the year end exercise to ensure that the Annual Benefits Statements would be sent by 31 August 2021.

There had been a 42% increase in website traffic on the Teesside Pension Fund’s updated website and a 15.5% increase in new users. A website accessibility tool had recently been added to the website.

XPS were currently reviewing processes to enable a move to monthly contribution postings which should lead to greater efficiencies, and more up to date information on member records. It was expected that this would happen during the 2021/22 financial year.

The Chair noted that XPS had been working on a method to report Conditional Data for some time and progress appeared slow. Discussions were still ongoing with Aquila Heywood on a cost for this reporting function along with investigation on whether this could be achieved internally. Of the 22 data fields that should be reported on, currently only 6 were reported, as detailed in the submitted report. It was suggested that XPS should aim to add 2 additional reporting fields per month as a way to work towards reporting on the full 22 as quickly as possible.

XPS had achieved 100 percent on the KPIs and details were attached at Appendix A to the submitted report.

AGREED that as follows:

1. the information provided was received and noted.
2. the Committee requested that the current work on Conditional Data reporting was progressed as quickly as possible.

21/11

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

None.

