Tyne and Wear Pension Fund

Pensions Service Plan 2025 - 2028

Tyne and Wear Pension Fund

South Tyneside Council providing pension services for the Tyne and Wear Pension Fund

South Tyneside Council

Contents

About the Service Plan

Introduction

1. This plan sets out the aims, objectives and actions that we need to achieve in the three-year period from 2025/26 to 2027/28 to meet our vision.

2. The plan is reviewed annually and builds on the plans prepared for earlier years.

3. The Vision Statement is reviewed annually and updated if appropriate.

4. The objectives and actions that underpin the Vision Statement have been developed from year to year.

5. Where appropriate, this plan is supplemented by operational plans that describe in greater detail how we intend to achieve our objectives and actions.

Purpose

6. We have prepared the Service Plan to:

   - ensure compliance with statutory requirements, codes of practice and best practice,
   - monitor and improve performance against the aims, objectives and actions,
   - inform stakeholders about the Fund and support our accountability to them,
   - ensure continuous improvement to the service, and
   - help provide the service our customers expect.

Contact for Further Information

7. If you would like further information, please contact us at pensions@southtyneside.gov.uk or contact the Pensions Helpline on 0191 424 4141 during office hours.

Vision Statement

8. Our goal is to provide an efficient, affordable and attractive pension arrangement that is regarded by employers and members as being an important and valued part of the employment package and to be recognised as being amongst the leading UK pension funds.

We will aim to:

- promote membership of the Fund,
- keep contributions as low and as stable as possible through effective management of the Fund,
- invest the assets in a responsible manner,
- work with our partners to provide high quality services to employers and members, and
- make pension issues understandable to all.

We will know we are succeeding when:

- we are consistently achieving our investment objective,
- there is sufficient money in the Fund to cover all benefits, and
- we are consistently achieving our standards of service to employers and members.

Service Profile

Background

9. South Tyneside Council is the Administering Authority and Scheme Manager for the Local Government Pension Scheme in the administrative areas of Tyne and Wear and Northumberland. Membership of the Fund is open to employees of the five district councils in Tyne and Wear, Northumberland County Council and a wide range of other bodies that provide a service in these areas.

Merger of Northumberland County Council Pension Fund into the Tyne and Wear Pension Fund

10. In January 2018, South Tyneside Council entered a shared service arrangement with Northumberland County Council to provide pension administration services.

11. Shortly after the shared service arrangement was established, discussions commenced about merging the Northumberland County Council Pension Fund into the Tyne and Wear Pension Fund, with South Tyneside Council as the administering authority for the newly merged fund.

12. This merger process was completed in early June 2020, with the effective date being backdated to 1st April 2020.

Shared Pensions Administration Service with the Teesside Pension Fund

13. In 2024, South Tyneside Council was successful in a competitive tender process to provide pensions administration services on behalf of the Teesside Pension Fund. It has been agreed with Middlesbrough Borough Council (the administering authority for the Teesside Pension Fund) that this contract will operate as a shared service. The contract is expected to come into operation from 1 June 2025.

14. Teesside Pension Fund will remain its own sovereign and legally separate pension fund, operating with its own Pensions Committee and Local Pension Board. The shared service is largely restricted to pensions administration and does not extend to investments.

Investment Pooling

15. In November 2015, the Government issued an Investment Reform Criteria and Guidance document inviting proposals for asset pooling. On 1st November 2016, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Investment Regulations”) came into force. These Regulations required that the then

89 separate Local Government Pension Scheme Funds in England and Wales combined their assets into a small number of investment pools.

16. The Guidance issued with the Investment Regulations stated that each LGPS administering authority must commit to a suitable pool to achieve benefits of scale and confirm that their chosen investment pool met the Investment Reform Criteria and Guidance issued in November 2015. The Secretary of State has direction and intervention powers if not satisfied that an administering authority is complying with its obligations in relation to the Investment Regulations.

17. In response to this initiative, the Fund joined with 11 other administering authorities (including Northumberland County Council) to create a Financial Conduct Authority (FCA) regulated asset management company in order to pool the pension fund assets of all these administering authorities. The company created is called Border to Coast Pensions Partnership Limited (Border to Coast). On set up, each administering authority was a one-twelfth owner of this company.

18. The merger of the Northumberland County Council Pension Fund into the Tyne and Wear Pension Fund resulted in a need to amend the ownership structure of Border to Coast. Northumberland County Council withdrew from Border to Coast and each remaining administering authority became a one-eleventh owner of the company. These changes to the ownership structure were completed in 2020.

19. The first assets to be transferred to Border to Coast from the Fund were UK equities in 2018/19. Since then, global equities, actively managed regional equities, emerging market equities, corporate bonds, UK commercial real estate, and assets invested in multi asset credit have transferred and are being managed by Border to Coast. In addition, the Fund has committed to and invested in the private markets programmes at Border to Coast covering private equity, infrastructure, private debt, climate opportunities, UK opportunities and global property. Further assets will follow in 2025/26 which will largely complete the transition of assets to the pool.

20. The 11 funds which form Border to Coast are:

- Tyne and Wear Pension Fund,
- Bedfordshire Pension Fund,
- Cumbria Pension Fund,
- Durham County Council Pension Fund,
- East Riding Pension Fund,

- Lincolnshire Pension Fund,
- Teesside Pension Fund,
- North Yorkshire Pension Fund,
- South Yorkshire Pensions Authority,
- Surrey Pension Fund, and
- Warwickshire County Council Pension Fund.

19. By the end of December 2024, around £40 billion of the assets from all 11 funds were under the management of Border to Coast. This includes around £6.7 billion from Tyne and Wear.

20. In addition to the assets being directly managed by Border to Coast, the Fund has indirectly benefited from pooling by undertaking a collective procurement of some of its passive investments alongside the other funds in Border to Coast. The value of these passive assets as at the end of December 2024 was £3.6 billion.

21. Therefore, overall, the Fund has around £10.3 billion, or 77%, of its assets which are either directly pooled or are under pool management.

22. In November 2024, Central Government issued the "LGPS: Fit for the Future" consultation. This consultation sets out the Government's vision for the LGPS with a particular focus on asset pooling. Proposals include a requirement to complete the transition of assets to the pool and full delegation of investment implementation. The consultation remains ongoing at the time of writing. Fund Officers will actively engage with Government and ensure the Fund is positioned to respond to future requirements and policy objectives.

Structure

23. South Tyneside Council (the Council) has set up a Pensions Committee to govern the Fund and a Local Pension Board to assist the Committee in this role.

24. The Council is organised into a number of directorates. The Fund is administered by the Pensions Service, which is part of the Business and Resources Directorate.

25. In recent years, the Pensions Service has undertaken a structural review. This was to ensure it could meet the ever increasing demands on the Service with an increased focus on governance, funding and service delivery.

26. The first phase of the restructure was to create a new Governance and Funding Office, alongside the existing Investment Office and Pensions Office. The second phase focussed on the Pensions Office where the team structure changed from multi disciplinary teams to teams with a greater focus in certain areas. This also included the creation of specialist teams for member and employer services.

27. The Fund has a long-term staffing establishment of 86 full time equivalent posts. This excludes any apprentice posts, although any costs for such posts are included in the budget.

28. The Pensions Service staff have a wide range of experience and professional and management skills, including financial, investment, money market, pensions, communications, legal, governance and ICT.

29. The Head of Pensions oversees the overall running of the Fund.

30. The Service is organised into the Investments Office, the Pensions Office and the Governance and Funding Office. A summary of the key responsibilities of each office is as follows:

31. The Investments Office is responsible for:

- devising, implementing and keeping under review the investment policy and investment management structure. The assets were valued at £13.4 billion as at December 2024,

- monitoring the performance of Border to Coast, the investment managers and custodians and, when appropriate, reviewing and replacing those organisations,

- implementing the Government’s initiative on pooling investments and the transfer of assets to Border to Coast,

- the financial management of the Pensions Service, including preparation of the budget, budget monitoring, final accounts and production of the Annual Report and Accounts,

- the financial administration for the investment of the Fund, including settling transactions, reconciling portfolios and ensuring that all investment income and recoverable tax is received,

- the financial administration of pensions for over 300 employers, including the collection and reconciliation of employer and employee contributions from around 180 employers in relation to 61,500 active members.

32. The Investments Office is also responsible for the money market and borrowing related aspects of South Tyneside Council's Treasury Management function.

33. The responsibilities of the Pensions Office include:

- the payment of pension benefits to over 67,000 pensioner members and their dependents.
- the maintenance and security of records in relation to 180,000 members,
- the provision of annual benefit statements,
- ensuring compliance with statutory requirements and timescales on the payment of benefits and communications with members,
- maintaining an effective and efficient pensions administration system,
- scheme member and employer engagement and service delivery,
- devising and delivering training, consultation and communication strategies for the employers and members, and
- devising, implementing and keeping under review the Additional Voluntary Contribution arrangements.

34. The Governance and Funding Office is responsible for:

- managing the funding strategy and the actuarial valuations to ensure that employers pay an appropriate contribution,
- managing the admission and withdrawal of employers as well as overseeing the procedures relating to transfers of staff between employers. Maintaining the employer database,
- ensuring appropriate safeguards are in place in respect of employers by monitoring the covenant strength of employers on an ongoing basis and ensuring appropriate bonds and/or guarantees are in place,
- oversight and co-ordination of the overall governance framework for the Fund,
- co-ordinating the management of risk within the Pensions Service,

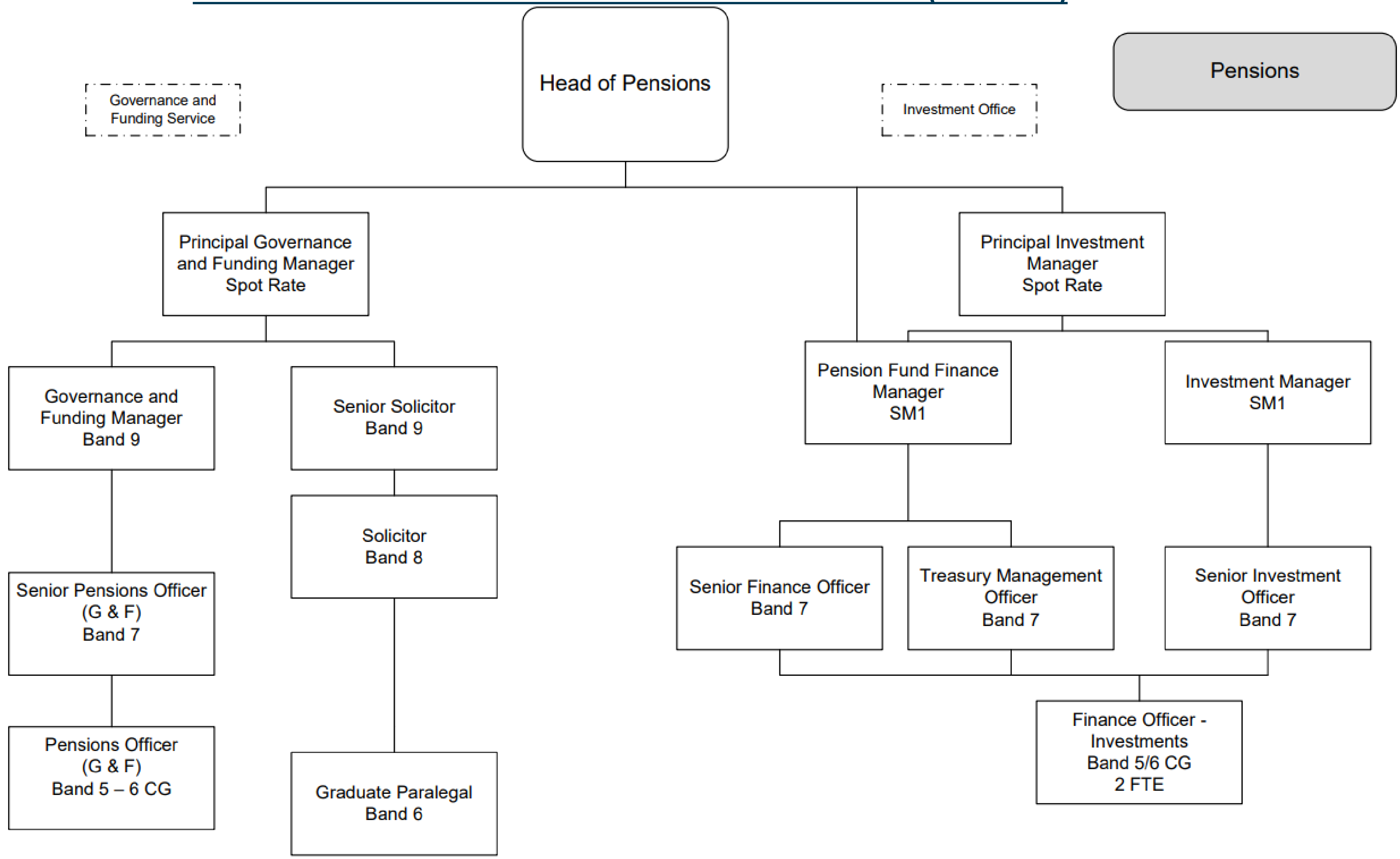
- monitoring and ensuring compliance with appropriate regulations, codes of practice and other best practice standards,
- the provision of an internal legal service,
- overseeing appropriate engagement by the Fund in respect of consultation exercises by Central Government, Scheme Advisory Board, the Pensions Regulator or other appropriate bodies,
- the training and communication strategy for the Pensions Committee and the Local Pension Board.

35. The long-term staffing establishment is shown on the following two pages.

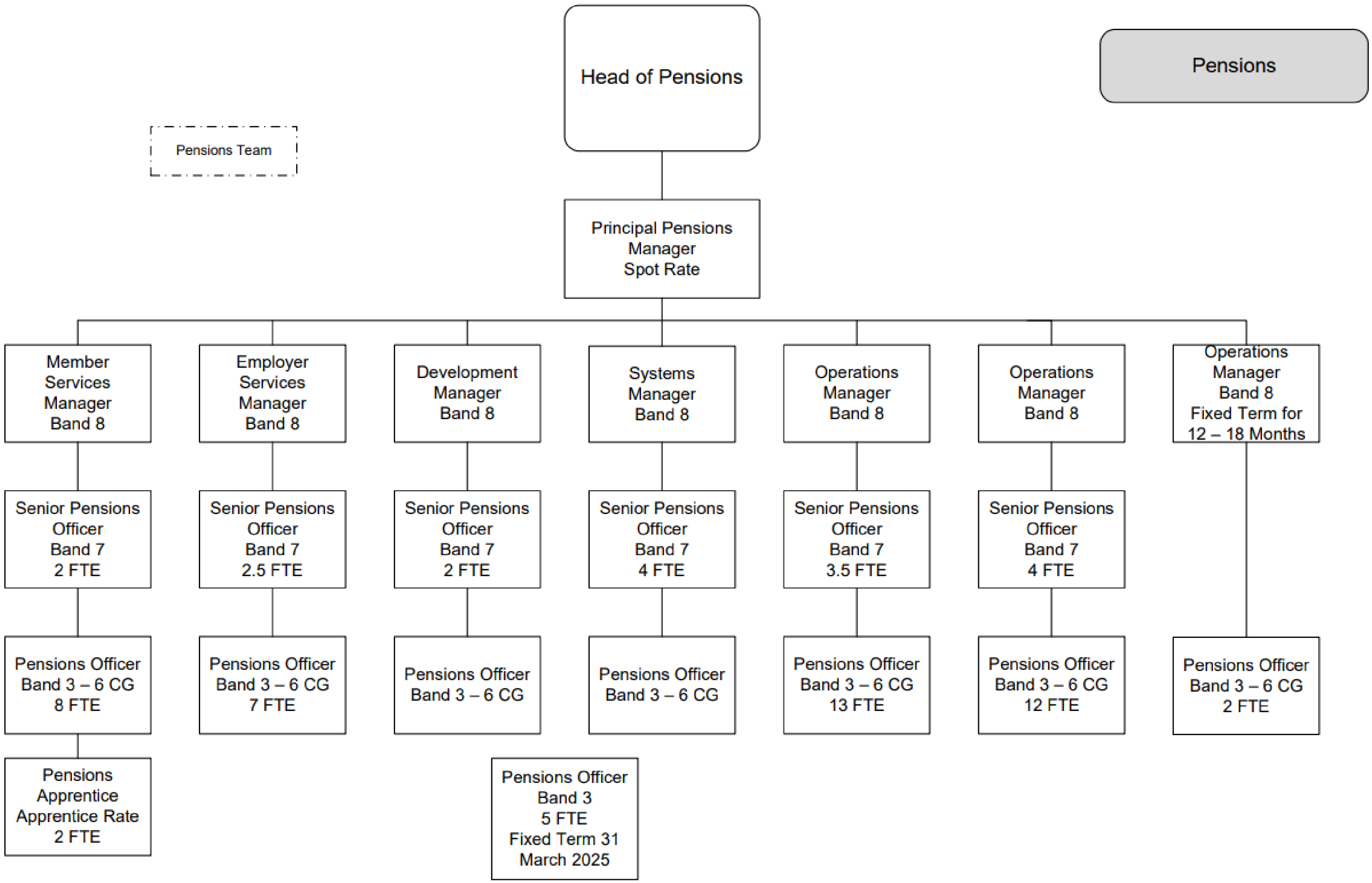
36. In addition to the permanent long-term staffing establishment, the Fund can and does utilise temporary staff in order to address backlogs of work and / or to deliver specific projects.

37. The staffing establishment will be added to as part of the shared service arrangement with the Teesside Pension Fund. The structure for the Pensions Service will be reviewed in 2025/26.

TYNE AND WEAR PENSION FUND – ORGANISATIONAL CHART (PART ONE)



TYNE AND WEAR PENSION FUND – ORGANISATIONAL CHART (PART TWO)



Budget

38. The Scheme Regulations allow the cost of the Pensions Service to be charged against the Fund.

39. We have prepared a three year financial plan that provides for the delivery of the aims identified in this plan.

40. A breakdown of the budget is shown below. The total cost shown is very much a provisional figure because the largest single component is the investment management fees which are dependent on the performance and market value of the Fund.

Year	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m
Investment M'gmt Expenses	207.178	222.707	233.617	248.685
Investments Office	1.498	1.428	1.426	1.433
Pensions Office	4.348	4.791	4.900	4.746
Governance & Funding Office	1.1	1.162	1.093	1.120
Total	**214.124**	**230.088**	**241.036**	**255.984**

41. For 2025/26, the cost of running the Fund has been estimated at £230.088 million. The cost excluding Investment Management Expenses is £7.381 million.

42. The budget has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) best practice guidance for local government pension scheme accounting.

43. The Budget is split over four main areas, as follows:

- Investment Management Expenses. This dominates the overall budget. This budget has been compiled in line with industry best practice and is considered to be a full estimate of fees, expenses and costs associated with the investment management of the Fund.

- Investments Office. This covers the costs of investing the Fund and monitoring and controlling the investment assets of the Fund. This budget also covers those costs from pooling that do not directly relate to the management of assets with Border to Coast.

- Pensions Office. This budget covers those costs associated with providing the pensions administration service to all members and employers.

- Governance and Funding Office. This covers all costs around governance, funding and valuation issues, the provision of an internal legal service and includes the running costs of the Pensions Committee and the Local Pension Board.

44. The budget for 2025/26 shows an increase of £15.964 million over the 2024/25 budget. Further increases are forecast of £10.948 million in 2026/27 and £14.948 million in 2027/28.

45. These increases are largely attributed to increased investment management expenses related to private market investments. These typically attract higher fees than quoted assets, but also have produced greater investment returns net of fees. The Fund is continuing to increase its use of these type of investments.

46. As in previous years, the standstill pressure increases relate mainly to staffing costs and other inflationary increases included within contracts. Most of the changes in the budget relate to regulatory changes, essential development or contractual inflation and as such they are included as standstill pressures. In 2025/26, there is pressure on the actuarial budget due to it being a valuation year. There is also the impact of increased employers National Insurance.

47. The growth in the IT budget mainly relates to a potential move to SQL, which will reduce dependence on network servers and increase resilience. There is also an increase of seven posts in pensions administration staff . These new posts are needed to meet the growing demands on the service with increasingly complex pensions processing following legislative changes. The additional staff will help improve service delivery and enhance resilience.

Strategic Context: PEST and SWOT Analysis

48. To assist with the production of this Service Plan, a detailed analysis has been undertaken of the main external influences affecting the Fund. This is set out in the PEST Analysis which can be found in Annex A of the Service Plan.

49. In addition to the PEST Analysis, a detailed assessment has been undertaken of the strengths, weaknesses, opportunities and threats for the Fund. This is set out in the SWOT Analysis which can be found in Annex B of the Service Plan.

Aims, Objectives and Actions

Introduction

50. The five aims of the Vision Statement can be found on page 2 of this Service Plan. Objectives and actions are then set for each of the aims.

51. This part of the Service Plan sets out the objectives and actions that the Service will undertake over the three year period. A summary of the aims, objectives and actions can be found in Annex C to the Service Plan.

Promoting Membership

Aim 1 – Promote membership of the Fund

52. All of our actions seek to enhance the value of the Fund to employers and members and thereby contribute towards the first aim of promoting membership. However, Objective 1 will make a particular contribution towards meeting this aim.

Objective 1 - Promote membership of the Fund to new and existing employers and members

53. The PEST analysis refers to the ongoing reorganisation of public services and the impact that declining active membership could have on the Fund and on the Scheme as a whole. We must counteract this by promoting new or continuing membership of the Fund as an attractive benefit to employers and members.

54. The Fund's approach to communication is set out in its Communications Policy Statement, which refers to the promotion of the Scheme to prospective members and their employer.

55. The requirement to automatically / contractually enrol certain staff into the Scheme and auto enrolment are of importance to this area, as is the co-operation and support of employers.

56. The Fund endeavours to take a customer focussed approach to provide members and employers with confidence in the Fund and the Scheme. The review of the organisational structure in 2022 led to the creation of a specific Employer Services Team and a Member Services Team. This recognises the difference between the two main categories of "customers" and ensures that a bespoke service can be developed for each. This should assist in promoting the benefits of the Fund to both employers and members.

57. HM Treasury introduced 'Fair Deal for staff pensions: staff transfer for central government' in October 2013 (widely referred to as 'New Fair Deal'). This non-statutory policy guidance removed the option of a 'broadly comparable' pension provision when staff were compulsorily transferred from central government. Instead, continuation in the same public service pension scheme was to be required upon staff transfer. Whilst New Fair Deal has been in place for a number of years, the impact has been fairly limited in the LGPS. This is mainly because New Fair Deal is largely applicable to central and not local government.

58. The Best Value Pensions Direction 2007 continues to apply to local government which gives 'best value' employers (including local government) the option of a broadly comparable scheme, as well as continued LGPS membership, when a contractual outsourcing results in the compulsory transfer of staff. Whilst Best Value continues to apply in local government, it must be noted that the Ministry of Housing Communities and Local Government (MHCLG) consulted on extending Fair Deal to the LGPS in early 2019 which, if introduced, would see the removal of the broadly comparable option for many outsourcing employers who participate in the LGPS. It is currently unclear whether Government intends to move ahead with the proposals.

Aim 2 - Keep contributions as low and as stable as possible through effective management of the Fund

59. Our approach to meeting this aim is set out below under the headings of:

- Review of the Funding Level.
- Valuation Process and the setting of Employers' Contributions.
- Investment Strategy and the Investment Management Structure.

Review of the Funding Level

60. The PEST Analysis and the SWOT Analysis identify the cost of the Scheme as a potential issue for employers.

61. A pension fund is a long-term entity. The decisions that are taken at any point in time can have a long-term impact on a fund and on the participating employers and members. The employers' contributions are set by triennial valuations.

62. It is important to review and understand the causes of the past movements in the funding level.

63. The 1989 valuation showed a funding level of 118%, with this surplus being due to actual investment returns having greatly exceeded expected returns. This overfunded position led to the scheduled employers taking a contributions holiday.

64. A significant change was made to the cost of the scheme in April 1990 when pension funds took over from employers the liability to pay pensions increases. This, combined with the contributions holiday, led to the surplus quickly eroding.

65. The funding level at the 1992 valuation was 98%. The contributions holiday was ended and an employers' contribution for the scheduled employers was phased in.

66. The 1995 and 1998 valuations both resulted in funding levels of 87%. The 1998 result was adversely affected by the removal of the tax credit that was attached to UK equity dividends, which took effect from the July 1997 budget.

67. The 2001 valuation revealed a deterioration in the funding level from 87% to 82%. This fall was attributable to:

- improving longevity,

- employer-specific factors such as pay awards, restructurings, ill-health retirements and early retirements, and

- the investment returns in the inter-valuation period being below the levels assumed in the 1998 valuation, although this was alleviated in part by the Fund's performance being stronger than the peer group return.

68. The bear market in equities between 2000 and 2003 led to a further and significant fall in the funding level. The 2004 valuation revealed a funding level of 64% based on our core assumptions. This was largely attributable to investment returns being below the level assumed in the 2001 valuation although, again, it was alleviated in part by the Fund's performance being stronger than the peer group return.

69. Administering authorities and employers across the Scheme recognised that the falls in funding levels had led to employers' contributions rising from April 2005.

70. The 2007 valuation showed that the funding level had improved to 79% based on our core assumptions. This was attributable to investment returns in the three year period covered by the 2004 valuation being materially above the expected long-term returns. However, factors such as improving longevity put upward pressure on employers' contributions, which were increased for most employers from April 2008.

71. The global financial crisis damaged the asset base and funding level of pension schemes. Again, this was alleviated slightly by the Fund's performance being above the peer group return. The funding strategy was reviewed at the 2010 valuation to address the lower funding level. This involved adopting less stringent core assumptions for the employers with a stronger covenant and a greater reliance on guarantees for some employers with a weaker covenant. It was stated that the assumptions would be strengthened at later valuations. Following these changes to the funding strategy, the funding level at the 2010 valuation was 79% based on the new less prudent core assumptions.

72. The funding strategy was reviewed at the 2013 valuation and the assumptions were strengthened. The funding level was 81%.

73. The 2016 valuation showed that the funding level had improved further to 85%. The core assumptions used were broadly comparable to those used in the 2013 valuation.

74. On the back of very strong investment performance following the 2016 valuation, the funding level improved significantly to 106% at the 2019 valuation. This was achieved at the same time as increasing the prudence to the core assumptions. At the 2019 valuation, the majority, though not all, of the Fund's employers were in surplus.

75. The 2022 valuation saw a further improvement in the funding level to 110%. Whilst the core assumptions remained broadly the same as at the 2019 valuation, a short-term inflation factor was introduced on the back of extremely high levels of inflation in 2022. This was the first valuation undertaken on behalf on the Fund following the merger of the Northumberland County Council Pension Fund into the Tyne and Wear Pension Fund.

76. Whilst the majority of the Fund's employers are in surplus, it needs to be recognised that some employers, remain in deficit.

Valuation Process and the Setting of Employers' Contributions

77. The Fund has to prepare, maintain and publish a Funding Strategy Statement (FSS) that sets out the funding strategy, having consulted with appropriate persons when preparing the strategy.

78. During 2022 the Funding Strategy Statement (FSS) was updated to reflect the approach being taken at the 2022 valuation and the setting of contribution rates. The most significant changes included:

- a change to the approach of automatically using gilt yields as a reference point for assessing liabilities, including in exit valuations and for the valuations for orphan bodies. The approach now adopted provides for increased flexibility to amend this approach when gilt yields are at extreme lows, and

- continuing the evolution in the approach to valuing the liabilities and setting contribution rates for colleges and universities.

79. The Fund's strategy includes:

- ensuring that all employers pay an appropriate contribution rate,
- for most employers, breaking down the total contribution into a future service rate, calculated as a percentage of pay, and
    - if the employer is in deficit, an appropriate past service payment calculated as a lump sum, or in some cases, re-expressed as a percentage of pay, or,
    - if the employer is in surplus (above a set level), a reduction in the contribution rate expressed as a percentage of pay,
- where appropriate, stepping in changes to contribution rates,
- setting the discount rates and deficit recovery periods with reference to the strength of each employer's covenant, which may take the availability of bonds and guarantees into account,
- a reliance on bonds and guarantees for employers with a weaker covenant,
- the use of grouped rates for certain employers,
- a robust policy for the recovery of Strain on the Fund costs arising from early payment of benefits, and
- backing exit valuations with appropriate assets.

Objective 2 – The Fund has an appropriate Funding Strategy

80. The funding strategy continues to be kept under review. This is to ensure that the strategy adopted remains appropriate, targetting solvency whilst managing the cost of the Scheme to employers.

81. The next triennial valuation will be carried out as at 31 March 2025. Work for the 2025 valuation has commenced and will increase throughout 2025/26. New employer contribution rates will become payable from 1 April 2026.

82. The Fund is maturing with an increase in pensioner and deferred membership. This, and the improved funding level, is leading to a fall in contribution income and an increase in pension payments. The Fund's cashflow is being monitored to ensure that it is managed efficiently in relation to the payment of benefits and the investment strategy. The cashflow is also being selectively monitored at employer level, allowing the funding position of employers to be kept under review.

83. In the years between valuations, the Fund makes use of the Fund Actuary's (Aon) Risk Analyzer system to monitor estimated Fund level movements in the funding level and reports the results to the Pensions Committee. The monitoring to date shows a modest improvement in the funding level, although we remain in volatile times and the situation can change quickly.

84. Further work in relation to the funding strategy will include:

- introducing new employers into the Fund,
- managing employer exits from the Fund and ensuring that their liability to the Fund is met,
- monitoring the position on employer covenant,
- maintaining the employer database to ensure that all necessary data on each employer is in one place and in a format capable of being transmitted to the Actuary when required,
- considering the position of colleges following Government providing a guarantee to the LGPS.

Investment Strategy and the Investment Management Structure

85. A key part of improving the funding position is ensuring that the Fund has an appropriate investment strategy in place. We must ensure the Fund's assets are invested effectively and appropriately in light of its financial position, liabilities and opportunities in investment markets.

86. The investment objectives are summarised in the Investment Strategy Statement. The Fund is required to keep this Investment Strategy Statement under review. The standard practice is to review it at least annually.

87. The Fund's investment objectives are:

- to invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits, and

- to keep contributions as low and as stable as possible through effective management of the assets.

88. In addition, the Fund has agreed a set of investment beliefs, which are set out in the Investment Stategy Statement. The investment beliefs on Environmental, Social and Governance issues in general and climate change in particular, have been stengthened in recent years.

89. As stated in the PEST Analysis and the SWOT Analysis, the Fund is compliant with the six Investment Principles that cover the areas of effective decision making, investment objectives, risk and liabilities, performance assessment, responsible ownership and transparency and reporting.

90. Since 2000, the Fund's strategic benchmark has been derived from asset liability studies that examine the financial position, the membership profile, the nature of the liabilities and analysis on the expected range of outcomes from differing investment policies. A full asset liability study is undertaken around the same time as each valuation. Desktop reviews or "healthchecks" have been carried out in the intervening years to ensure that this approach remains appropriate.

91. The current investment strategy was based upon an asset liability study carried out in 2022 which used the liability data from the 2022 valuation. The 2022 investment strategy could be summarised as a 5% switch from Growth to Income assets. This is a continuation of the Fund's longer term de-risking of the strategy which commenced in 2019. This has been driven by the increased funding level and the need for greater income given the fall in contribution income and the maturing of the Fund. Income assets should provide for more stable returns going forward.

92. The 2022 strategy also involved a 3% allocation to a climate opportunities fund from Border to Coast, and a further 3% increase in the allocation to other private market asset classes, which the Fund's carbon footprinting suggests have improved carbon and climate metrics, all funded from quoted equities.

93. A health check of the 2022 investment strategy was undertaken in 2023/24. This confirmed that the current investment strategy remains appropriate, although there is scope for increased commitments to the second series of climate opportunities and the new UK opportunities mandate developed by Border to Coast.

94. The 2025 review of the Investment Strategy commenced in 2024/25 and this will complete in 2025/26. The strategy review will again be based upon asset liability modelling. Once

completed, steps will be taken to implement the outcome of the approved strategy review.

95. Aside from completing the 2025 Investment Strategy Review, there will also be a focus on completing the transition of the Fund's assets to Border to Coast in 2025/26. Good progress was made in 2024/25 with the Fund transferring its UK commercial real estate portfolio to Border to Coast as well as transitioning into Border to Coast's internally managed Overseas Developed Equity Fund. The Fund is also expected to transfer the assets currently held in the LGIM RAFI mandate into a multi-factor equities mandate operated on behalf of Border to Coast ahead of 2025/26.

96. By 2025/26, the Fund is likely only to have passive mandates and legacy private market mandates outside of the pool. Under proposals in the LGPS Fit for the Future Consultation, the Fund is likely to be required to ensure these mandates are under pool management by 31 March 2026.

97. As part of the Investment Strategy Review, and the expected Fit for the Future requirements, the Fund will also need to consider its position in respect of the passively managed corporate bonds and gilts mandates. Both mandates are currently managed by LGIM but alternative mandates in Border to Coast will need to be considered. This will likely include the expected global Green, Social and Sustainable bonds mandate which is planned for development by Border to Coast in 2025/26.

98. The Fund is also considering its position in respect of place based and impact investment. Fund Officers have been working closely with the North East Combined Authority and Border to Coast on this. Notwithstanding this, any investment, local or otherwise, must meet the risk and return requirements of the Fund and will need due diligence to be undertaken by a suitably experienced investment manager or advisor. It should be recognised that local investments also come with a potential conflict of interest and for this reason suitable governance structures would need to be in place.

99. The detailed work of the Investments Office, and any changes to the investment structure, will be set out in operational plans.

Objective 3 - Ensure that the Fund has an appropriate strategic benchmark and investment management structure

100. We will continue to ensure that the Fund has an appropriate strategic benchmark and investment management structure.

101. As noted above, an asset liability study and review of the investment strategy was last undertaken in 2022 with a subsequent health check undertaken in 2023/24. The outcome of the health check was to confirm that the 2022 strategy remained appropriate.

However, it also identified some opportunities to commit to the second series of climate opportunities and the new UK opportunities mandate.

102. The process of implementing the 2022 strategy remains ongoing and will continue into 2025/26 and likely beyond. It is recognised that it will take several years to build up the allocations to private market assets.

103. As stated above, the 2025 review of the investment strategy commenced in 2024/25 and will be undertaken alongside the 2025 valuation. Any changes made will need to consider the impact on pooling and the climate change targets set by the Fund. Any revisions to the strategy will be reflected in an update to the Investment Strategy Statement.

104. We will:

- implement the outcome of the 2022 review of the investment strategy,
- complete the 2025 review of the investment strategy and update the Investment Strategy Statement,
- undertake an interim health check of the investment strategy at an appropriate time,
- consider enhancements and changes to the management structure and individual mandates,
- monitor the performance of all managers and the custodian. This will also include investments with Border to Coast,
- keep under review the approach to local investments,
- ensure that the fees payable on alternative investments are justified by the net returns,
- maintain financial control over all portfolios on a monthly monitoring cycle, and
- manage the Fund level cashflow.

Objective 4 – Ensure other areas related to the investment of the Fund operate efficiently and effectively

105. We will continue to examine other areas that are related to the investment of the Fund, taking into account the future impact of pooling, on the following areas:

- the application of the tactical asset allocation mechanism,

- the custody arrangements,
- performance and risk management services,
- gross and net performance reporting,
- the payment, recovery and filing obligations in relation to UK and overseas tax, and
- transaction cost monitoring and commissions paid. This will need to take account of the changes to the method of charging for research under MiFID II.

Objective 5 - Examine ways of providing employers, at their request and at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities

106. The strategic benchmark and investment management structure is based upon an analysis of liabilities at the Total Fund level, resulting in employers being offered a "one size fits all" investment strategy.

107. We can examine ways of providing employers, at their request and at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities.

108. Such an approach could be of interest to employers that wish to adopt a lower risk strategy or that have a finite membership in the Fund such as contractors, or to employers whose liabilities differ markedly from the Total Fund liabilities.

109. The strong asset returns in recent years have meant that the funding level for the majority of employers is in excess of 100%, some materially so. Others still remain in deficit. This may result in some employers becoming more interested in an employer-specific investment strategy if the total Fund strategy is no longer considered to be appropriate for their funding position and risk profile.

110. To assist in this area, the Fund, in conjunction with Aon, the Fund's Actuary, has "unitised" the Fund. This provides more accurate tracking of cashflow for each individual employer, which in turn provides a more accurate funding position. It also has the benefit that it can be used to offer a more tailored investment strategy.

111. The position will be monitored to establish whether there is interest in this approach from employers. To implement such an approach would require an employer to request this and to meet the costs of implementation.

Objective 6 – Implement the Government's initiative on the pooling of investments

112. As noted in the Service Profile section above, and in the PEST Analysis, the Fund and 10 other LGPS funds have joined together to create an investment management company called Border to Coast Pensions Partnership Ltd, to jointly pool and invest the assets of the respective funds.

113. As at 31st March 2024 the combined assets of the funds participating in Border to Coast were valued at over £60 billion.

114. A significant amount of work has been undertaken in creating Border to Coast and the transition of the Fund's quoted assets started in 2018/19.

115. In November 2024, the Government launched its LGPS Fit for the Future consultation. Included within the consultation was a proposal for all assets to be pooled by March 2026. The Fund is well-positioned in respect of transferring assets to the pool, and most, if not all, assets will be transitioned to the pool ahead of the deadline

116. The most significant change with the move to pooling is that the Fund is no longer responsible for appointing and monitoring individual managers. The Fund does, however, remain responsible for determining its strategic asset allocation and monitoring the performance of Border to Coast and other managers (as appropriate).

117. To date, the Fund has invested in UK equities, global equities, emerging market equities, Overseas Developed equities, corporate bonds, UK commercial real estate and multi asset credit with Border to Coast. The Fund has also made committments to the private equity, infrastructure, private debt, global property, UK opportunities and climate opportunities programmes with Border to Coast. The Fund is expected to transition out of its LGIM RAFI mandate and into a multi-factor ESG mandate managed on behalf of Border to Coast late in 2024/25.

118. The Fund will work with Border to Coast in respect of assets currently outside of the pool. This will include legacy private market mandates and passively managed equities, bonds and gilts mandates. Legacy private market mandates and passively managed equity mandates will likely remain with the current external managers but be managed on an advisory basis by Border to Coast. The Fund will look at alternative solutions within Border to Coast, including GSS bonds, for the passively managed bonds and gilts mandates (both of which are currently managed by LGIM).

119. Whilst some of the manager-related activities described above in Objectives 3 and 4 will gradually be subsumed into Border to Coast, the Fund has developed a number of actions which fall within this specific objective on pooling.

120. Consequently, we will need to:

- continue to work with the partner funds within Border to Coast, and Border to Coast itself, to develop appropriate monitoring arrangements and review corporate governance arrangements,
- consider the options for investing the Fund’s non-pooled assets,
- continue to work with Border to Coast and the other partner funds to ensure that other appropriate sub-funds are available for the Fund to invest in,
- assist in the appointment of a transition manager, where appropriate, for each transition and have active input into any asset transfer,
- monitor the evolving position on asset pooling and comply with legal requirements, and
- monitor the ongoing costs and savings resulting from pooling.

Aim 3 – Invest the Assets in a Responsible Manner

121. This aim is to ensure that the Fund’s assets are invested responsibly.

122. Responsible investment (RI) is the integration of environmental, social and corporate governance (ESG) considerations into investment processes and ownership practices in the belief that these may impact both risks and returns.

123. The terms RI and ESG are used interchangeably. RI is a term that has increased in use more recently, and ESG is referred to in the LGPS Investment Regulations, but they are concerned with the same issues.

124. The Fund’s approach to managing ESG or RI related issues is likely to come under increased scrutiny at a time when there is an increased focus on this within the investment industry. The Fund is working closely with Border to Coast and its other managers on these issues and undertakes an annual review of its approach to Responsible Investment.

125. The Fund’s approach to ESG is described in the Investment Strategy Statement, where it is “recognised that ESG factors can influence long-term investment performance and the ability to achieve long-term sustainable returns.” The key points are that the Fund:

- considers the financial impact of ESG factors on investments,
- acts as a responsible and active investor/owner, through shareholder voting and company engagement as part of the investment process, and

- has a specific policy in relation to ESG factors.

126. The Fund has a range of investment beliefs, a number of which relate to ESG as follows:

    - Well run companies will produce superior returns for shareholders over the long-term. There should be a focus on governance and engagement over disposal.
    - ESG issues can represent long-term financial risks to the Fund and its holdings. Climate Change is one of the most significant of these risks, reflecting the changing nature of the world we live in. The investment strategy includes approaches to addressing these issues for both actively and passively managed assets.
    - Effective Oversight of Responsible Investment requires monitoring of ESG and Climate Related Metrics.
    - It is not just through the shareholding in public companies, but also holdings in bonds, property and private market investments that can influence and effect improved outcomes over the longer term.
    - Engagement with companies on climate related issues can be effective in creating change to protect shareholder value.
    - Climate change provides investment opportunities as well as risks.
    - Asset owners and managers have a responsibility to ensure there is effective engagement on climate related issues.

127. The Fund has a Corporate Governance and Responsible Investment Policy that sets out the Fund's aproach to RI. This is reviewed annually.

128. One of the key approaches to managing ESG risks is through engagement with the companies in which it invests. Engagement is a resource intensive exercise and it can be ineffective to undertake it on a standalone basis. For these reasons, the Fund's engagement is undertaken:

    - on its behalf by its investment managers, including Border to Coast and Legal and General, and
    - through the Local Authority Pension Fund Forum (LAPFF).

129. The move to pooling has provided additional resources, enabling direct involvement by Border to Coast in engagement and voting. This is considered to strengthen the Fund's approach.

130. In an attempt to strengthen the industry approach to RI, and ensure that asset owners and investment managers take their responsibilities seriously, the Financial Reporting Council (FRC) has established a Stewardship Code

131. The Stewardship Code sets high expectations of those investing money on behalf of UK savers and pensioners. In particular, the Code establishes a clear benchmark for stewardship. Organisations wanting to become signatories to the Code will be required to produce an annual Stewardship Report explaining how they have applied the Code. The Fund is currently a signatory to the Code but will need to make an annual submission for approval by the FRC.

Approach to Managing Climate Change Risks and Opportunities

132. Climate change is recognised as a significant financial risk, which provides both opportunities and threats to the assets in the Fund. It is important that the Fund is able to manage these risks and opportunities appropriately and respond. A considerable amount of work has been undertaken by the Fund in this area and this will continue over the coming years, as this area is a key priority for the Fund.

133. The Fund first introduced a Climate Change Policy and set net zero commitents in 2021. At the time of doing so, less than 10% of UK pension funds had set net zero commitments. The commitments made in 2021 were for the investment portfolio to be net zero emissions by “2050, or sooner” and, to assist with this, interim targets were also set. The interim targets were for reductions in emissions of between 30 – 35% by 2025 and by 50-60% by 2030. The Fund committed to reviewing progress against these targets on an annual basis, and the suitability of the net zero commitments are to be revistited on a triennial basis.

134. It is important that action is taken to drive change and reduce carbon emissions within the investment portfolio on an ongoing basis. To assist with this, the Fund has adopted a range of climate metrics and developed a roadmap of actions needed in order to deliver against the agreed targets. The primary metric adopted in 2021 was the Weighted Average Carbon Intensity (WACI) metric as this was considered to have the most robust data at the time

135. As part of its Net Zero Roadmap, the Fund has commmited to undertaking an annual carbon footprint assessment in respect of the investment portfolio. The latest assessment was undertaken as at 31 March 2024 and this shows that excellent progress is being made. The assessment undertaken as at 31 March 2024 showed a reduction in the carbon footprint of 42.4% against the 2019 baseline (based on scope 1 and scope 2 emissions). The Fund is therefore well ahead of the interim targets set in 2021.

136. The Fund continues to report on its decarbonisation progress under the Taskforce on Climate-Related Financial Disclosures (TCFD) on a voluntary basis. Whilst Government had

previously considered making TCFD reporting mandatory in the LGPS, this has been delayed as Government has instead focused on the Pensions Investment Review and the resultant LGPS Fit for the Future consultation.

137. In November 2024, the Fund reviewed its net zero commitments to ensure they remained appropriate. After detailed consideration, the Fund decided to retain its headline net zero commitment of the investment portfolio being net zero by “2050, or sooner”. Despite the excellent progress made by the Fund to date, the research undertaken showed that global efforts to reduce greenhouse gas emissions had not progressed in the way that had been assumed and hoped in 2021. Consequently, achieving net zero for the investment portfolio by 2050 is now considered more challenging than it was in 2021.

138. Whilst the headline net zero commitment has been retained, the Fund did make a number of changes in 2024 to ensure its commitments and monitoring remained appropriate. The key changes made included moving away from the use of WACI as the primary metric and instead to use the Enterprise Value Including Cash (EVIC) metric. The EVIC metric is considered to be better suited to institutional investors, such as the Fund, as it directly links emissions to capital commited.

139. By changing to a new primary metric (EVIC), it was also necessary to reset the baseline to 2022 (previously this was 2019). 2022 being the first year the Fund had sufficiently reliable data for EVIC to form a baseline position. Having reset the baseline, it was also necessary to change the interim targets. Two new targets were therefore set which are to cut the emissions of the investment portfolio by 40-45% by 2030 and by 65-75% by 2036. These new targets are comparable in terms of ambition to those set in 2021.

140. The targets set, and the baseline position, are all on the basis of scope 1 and scope 2 emissions only. Despite progress being made, the data for use of scope 3 emissions is not yet sufficient. This position will be reviewed again at the next triennial review in 2027.

141. The Fund is committed to managing climate risks through tracking progress against its net zero targets and collective engagement. Another very important part of managing risk, and benefitting from opportunities, is through capital deployment. The following pargapraphs provide examples of capital deployment which help with the Fund achieving its net zero commitments and, crucially, delivering the risk adjusted returns that the Fund needs:

142. During 2020, the Fund invested into a range of ESG focussed passive funds with Legal and General. These are called Future World funds. They now take account of a range of 34 different ESG factors, and tilt weightings in individual companies to those that have good scores in these areas. It is believed that, over time, companies who are good at managing ESG risks and opportunities will outperform. These funds also have the benefit of reducing the Fund’s exposure to carbon intensive companies.

143. The 2022 review of the investment strategy showed that some small changes could be made to increase the allocations to lower carbon asset classes, which would be supportive of the Fund's carbon reduction targets. In summary, the changes which should assist in delivering the carbon reduction targets are set our below:

- Investing in the new Climate Opportunities Fund developed by Border to Coast. This will seek to identify investment opportunities to help with the transition to a low carbon economy. Over time, the allocation to these type of investments is targeted to reach 3% of the total Fund. The Fund made a £465 million commitment to this product in March 2022. A further commitment of £200 million was made in March 2024.

- Allocating a further 3% of the Fund's assets to other private market asset classes, which the Fund's carbon footprinting suggests will improve the climate metrics. The additional commitments to private markets is to be funded from quoted equities.

- Consider transitioning out of the Fund's current single factor fund into a multi factor product with strong ESG and climate change credentials. Work on this has progressed during 2024/25 and this is expected to complete in early 2025.

- Review the options for investing in more ESG and climate friendly bond products. These are often referred to as "green bonds".

144. As well as those areas identified above, the Fund has significant commitments to renewables and other climate solutions through the private markets programme, particularly the infrastructure programme and UK opportunities. Most Border to Coast mandates are typically underweight in exposure to oil and gas companies.

Objective 7 – Ensure the Fund has an appropriate approach to managing ESG factors and climate change risks and opportunities.

170. In terms of the approach to ESG and RI the Fund will:

- undertake an annual review of the approach to managing ESG and RI issues. This includes an annual update of the Corporate Governance and Responsible Investment Policy,

- actively participate in the ongoing development of the Border to Coast approach to RI and voting,

- submit an annual Stewardship Report to the FRC for approval, and

- report on the Fund's approach to RI matters and the voting record in the Annual Report and Accounts.

171. The work undertaken by the Fund on climate change in recent years, with the development of the Climate Change Policy and carbon reduction targets, puts the Fund in a good position to respond to future challenges and opportunities. During 2025/26 we will:

- Consider further opportunities to reduce greenhouse gas emissions in the investment portfolio and finance renewables and other climate solutions as part of the 2025 investment strategy review,
- Incorporate climate scenario analysis into the 2025 investment strategy review,
- undertake an annual review of the Climate Change Policy,
- undertake an annual review of the climate change roadmap and set out the progress against the actions,
- undertake an annual carbon footprint and report against the Fund's agreed carbon metrics,
- continue to assess the role of private markets in managing climate risk,
- continue to assess the implications of an exclusion policy if engagement is not working,
- actively engage with managers to ensure that they are appropriately addressing the climate change related risks, opportunities and threats,
- produce an annual report on the Taskforce on Climate-Related Financial Disclosures (TCFD),
- monitor the position on the consultation from Government on introducing a regulatory requirement to produce a TCFD report and adapt the Fund's approach to accommodate these requirements, and
- participate in the development of Border to Coast's Green, Social and Sustainable Bonds mandate.

Aim 4 – Work with our partners to provide high quality services to employers and members.

172. Our fourth aim is *"to work with our partners to provide high quality services to employers and members"*. The objectives and actions are set out under the headings of:

- Organisational Structure and Other Staffing Issues,
- Joint Working with Other Administering Authorities,
- Pensions Systems,
- Pensions Processing,
- Data Security,
- Performance Management,
- Financial Management,
- Risk Management, and
- Equality, Diversity and Inclusion.

Organisational Structure and Other Staffing Issues

173. The establishment of the Pensions Service is monitored to ensure that it is capable of delivering the service required.

174. The factors that impact on the structure include:

- any joint working with other administering authorities,
- the increasing demands in respect of governance for pension funds and the oversight from the Pensions Regulator,
- the LGPS is complex, combining a CARE Scheme for post 2014 membership and a final salary scheme pre-2014,
- the need to evolve the service provision for members and employers, and to maximise the use of technology in these areas,
- an increase in the number of employers in the Fund,

- an increase in the number and complexity of employer admissions and the ongoing management of employers. This is as a result of a range of factors, including the creation of academies, the requirements in relation to bonds and guarantees as set out in the Local Government Pension Scheme Regulations 2013, the restructuring of employers and admission agreements and withdrawals from the Fund. A robust system must be in place for this area of work, which is largely managed by the Governance and Funding Office,

- changes to the number of members and type of membership due to ongoing financial pressure on public sector bodies, including local government,

- auto enrolment and auto re-enrolment,

- changes in legislation that have led to an increase in the number of the more complex pensions processing queries and transactions,

- more members are requiring information on their pension options and tax position,

- improvements to the pensions administration system which should lead to more efficient processing,

- outstanding processing volumes,

- the quality of member data,

- financial reporting and control have become more complex, and the volume of work is increasing,

- the investment of the Fund has become more complex, with an increased focus on Responsible Investment,

- the implications and implementation of asset pooling,

- the extent to which the Fund can adopt flexible working arrangements, such as home working and the increased use of technology.

175. In 2022, the Pensions Service completed and implemented a review of the organistional structure. The process to complete this review took a couple of years and was driven by the ever increasing demands on the Service, with an increased focus on governance, funding and service delivery. This restructure has been generally well received by staff.

176. The first phase of the restructure started in 2020/21 and involved the creation of a Governance and Funding Office to deliver initiatives in these areas. This coincided with the merger of the Fund with the Northumberland County Council Pension Fund.

177. The second phase was completed and implemented in October 2022. This phase was largely centred around the Pensions Office and service delivery reflecting the different requirements for scheme members and employers and the need to constantly evolve and to drive projects, process improvements and efficiencies.

178. During the restructure, there was a very limited change to the Investment Office. It is noticeable that in recent years, there has been an increased focus on Responsible Investment and Climate Change. The Service has responded positively to this and materially enhanced its approach to Climate Change in particular. This is however, adding additional workload pressures on the Investment Office and a new post has been created to assist with this.

179. Further details on the organisational struture and the changes made are set out earlier in the Service Plan.

180. In addition to the permanent staffing structure, the Pensions Service also makes use of temporary staff to deal with higher levels of workload over the shorter term. This has proven to be very successful in recent years with many temporary staff applying for permanent posts when they become available.

181. There is a section below on Pensions Processing and this notes that there has been an increase in lower priority oustanding processes in recent years. This was driven by factors including staffing / resource challenges, the demands of implementing the McCloud remedy and the challenges flowing from the Covid-19 pandemic.

Objective 8 - Keep the staffing structure under review and ensure it is fit for purpose.

182. The structure of the Pensions Service will need to be reviewed in 2025/26 to ensure the service is best positioned to deliver the pensions administration shared service with the Teesside Pension Fund.

183. The Fund will also develop a workforce strategy to cover issues such as recruitment, retention and succession planning.

184. The Fund will actively contribute to the Council’s modern workplace programme on longer term flexible working arrangements and implement changes as required.

Objective 9 - Continue to develop training for and communication with staff.

185. We will continue to address the delivery of training and communication with staff. The Council has an employee annual review process in place which is used by the Pensions Service.

186. The CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been implemented. This Code has recently been updated and the recommendations for senior staff adopted.

187. The career grade for Pensions Office staff was subject to a full review in 2015/16. Some changes in approach were made in 2024/25 but this will need to be kept under review.

188. We understand the need for effective communication with staff to ensure that they are kept up to date on corporate matters, legislation and working practices.

189. Managers need to ensure there is a depth and breadth of knowledge within and across Teams and Offices to provide cover for absences, staff progression and departures.

Objective 10 - Apply the Sickness Management Procedure and achieve the sickness target.

190. The Service applies the Council's Sickness Absence Procedure and has a target set annually for days lost to sickness.

191. The Service has a target for sickness absence of 6 days per employee.

192. We will continue to implement the Sickness Absence Procedure.

Joint Working with Other Administering Authorities.

193. The Fund set up a pensions administration shared service arrangement with Northumberland County Council Pension Fund in January 2018. Shortly after this, discussions commenced around merging the funds. Following two years of planning, the merger was concluded in June 2020. The shared service and the merger delivered efficiencies for both parties.

194. Following a competitive tender process over the summer of 2024, the Fund was awarded the contract for providing the pensions administration services for the Teesside Pension Fund. Following discussions with Middlesbrough Borough Council (the Administering Authority of the Teesside Pension Fund), this service will be provided on a commercial basis but also as a shared service arrangement. Work on implementing the shared service is underway with a proposed commencement date of 1 June 2025.

195. The investment pooling arrangement that exists, with 11 funds being joint owners of Border to Coast Pensions Partnership Ltd, is also a form of joint working that is delivering efficiencies and providing additional resources for the partner funds to use.

196. As the pooling initiative has developed, the Fund is already working more closely with the funds involved in Border to Coast. It is expected that this will provide further opportunities to get involved in other selective joint working on appropriate areas of investment and also potentially pensions administration, governance and valuation work. The Fund will need to ensure it is appropriately placed to take advantage of any opportunities.

197. In addition to formal joint working initiatives, we use the Scheme-wide framework agreements for procurement. The available frameworks include:

- Actuarial, Benefits and Governance Consultancy Services,
- Global Custody Services,
- Investment Management Consultancy Services,
- Legal Services,
- Pensions Administration Systems,
- Pensions Administration Operational Support Services,
- Stewardship Services,
- Investment Management Performance and Cost Monitoring and Reporting Services, and
- Transition Management and Implementation Management.

198. We work with the Local Government Association on the communication strategy for the Scheme, the development of material and the use of social media for the communications strategy.

199. We engage widely with other funds across the LGPS through various working groups, and also have representation on Scheme and industry bodies such as the PLSA and LAPFF.

Objective 11 – Joint Working Opportunities

200. With regard to joint working we will:

- implement and then operate the shared service arrangement with the Teesside Pension Fund,
- continue to explore and consider opportunities for joint working with other administering authorities and organisations, and
- maximise the use of framework agreements when tendering services.

Pensions Systems

201. The development work on systems and ongoing maintenance is undertaken largely within the Systems Team, working alongside the other teams in the Pensions Office.

202. The contract on the pensions administration system was reviewed in 2021 and a seven year contract, with the option to extend for a further three years, was awarded to Civica, for their UPM system. The new contract commenced in April 2022. The award of this contract followed a procurement process that was undertaken through a framework agreement.

203. The Fund's move to monthly contribution posting and data submission is progressing. It is known that the Pensions Regulator favours this approach as it is believed that this also improves data quality. The move to monthly contribution posting and data submission may be more labour-intensive initially, but it could provide for longer term efficiencies and improvements in data quality. The move of employers to monthly contribution posting is underway but progress is likely to be gradual as this is a significant piece of work.

204. Increased automation of processes will be essential to the future development of the service, with a number of projects under consideration. Priority has been given to those that can deliver the greatest efficiencies and/or service improvements.

205. Management information is key to the Fund improving performance. At the current time, much of the provision of this data is subject to manipulation outside of the main pensions administration system. To improve the provision of this information and make the whole process more streamlined, the Fund is looking to adopt the new management information model within the UPM system. The Development Team will work with the Systems Team to deliver improvements in this area.

206. Pensions Dashboards are set to be introduced across the industry to allow individuals to be able to see all their pensions savings and benefits in one place. The Fund will need to ensure that it can develop its service to be able to deliver the information required in the necessary format. This will also have an impact on resourcing.

207. The UPM system currently uses an Oracle database and the Fund will need to move away from this. A move to SQL is considered appropriate and consideration will also need to be given as to whether to move to a “hosted” and / or cloud based platform. Progressing this will be a priority area in 2025/26 although the full project may take up to three years.

Objective 12 - Develop the pensions administration systems to enhance the service to members and employers

208. The development work on systems to be undertaken in 2025/26 will include:

- increased automation of individual processing, including data validation, and
- scoping the conversion from Oracle to SQL and exploring further whether to move to a “hosted” platform.

209. Further develoments scheduled for 2026/27 include:

- increased automation of the pensioner payroll, and
- retire online for certain groups of members.

210. The Fund has reconciled each individual member’s Guaranteed Minimum Pension entitlement to records held by HMRC. Work remains ongoing to rectify and resolve all differences and update members records.

211. In addition to the reconcilliation work and the rectification of individual records, the Fund will be required to equalise male and female members’ benefits and transfer out payments, in respect of the GMP element made to members who left the Scheme between 17 May 1990 and 5 April 1997. At the current time, however, the necessary guidance from Government has not yet been received. In the absence of this guidance, the work needed on this is yet to be quantified. The position will continue to be monitored.

212. The ongoing development of processes in UPM is continuing. The Pensions Office is delivering a number of initiatives, including:

- the use of more efficient working practices,
- a review of key administration processes,
- improved online help and guidance notes, and
- a review of and improvement to online forms.

213. On request, the Fund exercises its discretion to make trivial commutation payments. Consideration will be given to proactively contacting members and offering this facility. Historical cases will be looked at in future years.

Pensions Processing

214. From 2014 through to early 2020, the Fund had significant backlogs in pensions processing work. These backlogs originated from the materially delayed release of the LGPS Regulations 2013 and associated guidance, combined with the increased complexity of the 2014 career average scheme. These backlogs were however, largely eliminated in early 2020, immediately before the Covid-19 pandemic hit.

215. During 2020/21, the number of outstanding processes rose, mainly as a result of reduced operational efficiency on the back of Covid-19, although the increase was not material.

216. The increases in outstanding processes has continued in recent years. The usual pattern is that processes increase early in the year around the time of the annual contribution posting exercise, but this is then caught up later in the year. However, the anticipated fall has not occurred as expected more recently. This has resulted in processing backlocks being at a high level. Tackling these backlogs is a priority area.

217. Due to the risk based approach to processing work, resources have been devoted to the higher priority work, including putting pensions into payment, deaths and other key life events. Therefore, the outstanding work is largely in the lower priority work.

218. Dealing with these backlogs has in the past severely impacted on systems development work and processing.

219. Pensions processing has traditionally been carried out within the Pensions Office, by two teams, each of which specialises in specific processes. This specialism helps to improve efficiency. The work of the teams is set out in operational plans. During 2024/25, a Pensions Processing Taskforce was established to reduce the processing backlog. The Taskforce will continue into 2025/26 with a view to removing, or at least significantly reducing, the processing backlog.

220. UPM is used by the employers via a secure web portal to submit member information, notify the Fund of joiners, leavers and new retirements, review records and carry out estimates of their employees’ benefits.

221. When the 2014 scheme was introduced there were a range of protections put in place to ensure that members over a certain age did not suffer any detriment in the value of their benefits at retirement. In 2019, following a court case known as “McCloud” it was

determined that these protections amounted to age discrimination. In mid-2020 the Government announced its proposals for remedying the age discrimination issues in the Scheme. The new Regulations became effective from October 2023.

222. The Fund has worked with employers to collect data and continues to update member records. It has been a significant exercise to review and update members records in preparation of revising any benefit payments as appropriate. Although the McCloud remedy has now been implemented into the LGPS, the late implementation of the Regulations meant there were delays in the development of the software solution by Civica. This has impacted on the ability to update member records and calculate benefits for those new members now in scope. This work will run into 2025/26.

223. The expected introduction of pensions dashboards should give individuals a better understanding of their pensions and support their retirement planning. There will be significant resourcing issues in delivering the work on this project. The Government has recognised this and has delayed the staging date for the LGPS to September 2025.

Objective 13 - Introduce improved working practices across pensions processing and ensure compliance with legislation

224. Pensions legislation sets out timescales within which many processes are to be completed. We have derived timescales and targets for processing that are based on this legislation. These are referred to in the Employers' Guide and in the Pensions Administration Strategy.

225. The Fund has developed a range of performance indicators based on the timescales and processes set out in pensions legislation. Performance against these standards is reported to the Committee and the Local Pension Board on a quarterly basis.

226. The Scheme Advisory Board for the LGPS has introduced a set of standard performance indicators for LGPS funds. The Fund has adopted these indicators for 2024/25 and ongoing performance in overseen by the Committee and Board.

227. As noted above outstanding processing volumes have increased recently. Therefore, the timetable for processing in 2025/26 has been prepared with the aims of:

- reducing the processing volumes to ensure outstanding work is at an appropriate level,
- improving performance against processing targets,
- providing the annual update to pensioners by the internal deadline of 16th April,
- completion of the contribution posting exercise by 30th June,
- maximising the number of completed benefits statements,

- achieving the statutory deadline of 31st August for the production of deferred and active annual benefits statements, and
- issuing the pensions savings statements by 6th October.

228. The quality of data flows from employers is a key factor in controlling costs and achieving processing deadlines. The Employer Services Team has developed an Employer Engagement Strategy to help improve the quality and timeliness of data through:

- mailshots,
- employer training,
- the Employers' Guide and the Pensions Administration Strategy, which sets out the timescales and targets for processing,
- performance indicators that measure the timeliness and quality of the submission of data,
- targeting those employers that are experiencing particular difficulties, and
- increasing data validations with electronic processing.

229. The Fund will need to work towards being "Dashboard Ready", by the staging date of September 2025.

230. Currently an annual data scoring exercise is undertaken on common and scheme-specific data. This results in the production and implementation of a data improvement plan. This will ensure that final enhancements to the LGPS standard scheme-specific data scoring and reporting module are implemented. The Fund is planning to move towards monthly data scoring.

231. The Fund also undertakes a member tracing exercise for all members with whom we have lost contact.

Data Security

232. Data and cyber security continues to be very high on the agenda. This is especially the case with the General Data Protection Regulations (GDPR) which came into force on 25th May 2018 and the continued threat of cyber attacks.

233. The Fund sits within the Council's ICT Information and Governance framework. As the Fund is administered by South Tyneside Council, it shares the same legal entity and forms part of the Council's Data Protection registration.

234. The Fund has worked with the Council to ensure that appropriate controls are in place, the requirements of GDPR are met and cyber security controls are in place. The Fund participates in a cross-service working group that has been established by the Council.

235. The Committee, the Local Pension Board and staff have all been briefed on the requirements of GDPR and cyber security. The Fund has taken all the necessary actions in this area. Committee and the Board have asked for further training on data and cyber security and this will be provided in 2025/26.

Objective 14 – Ensure Appropriate Data Security is in Place

236. To ensure appropriate data security arrangements are in place the Fund is reliant on the controls and processes of the Council.

237. To comply with GDPR, and cyber security controls the Fund will:

- work with the Council and industry wide working groups to ensure that the requirements of GDPR continue to be met,
- work with the Council and industry wide working groups to ensure that the requirements of cyber security continue to be met,
- report on and monitor data breaches, and
- ensure all staff undertake appropriate training courses provided by the Council.

Performance Management

238. The main ways in which we know whether we are meeting our vision and aims are through:

- an annual self-assessment of the performance of the Committee, Local Pension Board, the Officers and the Investment Consultant,
- quarterly and annual monitoring reports to Pensions Committee and the Local Pension Board,
- monitoring performance against our aims, objectives and actions,

- monitoring processing against targets set out in pensions legislation,
- monitoring against performance indicators,
- external monitoring of investment performance and risk,
- external monitoring of investment fees,
- comparisons with peer group data
- the level and outcome of referrals to The Pensions Advisory Service (TPAS), the Internal Disputes Resolution Procedure, the Pensions Regulator and the Pensions Ombudsman,
- reports from the Internal Audit Service, Isio and Ernst & Young, and
- consultation with our stakeholders to get their views on the service we provide.

Objective 15 – Ensure the Fund has appropriate performance management processes

239. A regular monitoring exercise shows how we are performing against the aims, objectives, actions and performance indicators. We will continue to review these areas to ensure that we use indicators that have the most relevance to our activities and which will drive improvements to the service.

240. Whilst the Fund has a well-developed approach to performance management, consideration should be given to enhancing this, if appropriate. In particular, the Pensions Office is looking to enhance its performance reports.

241. We participate in a number of benchmarking exercises that provide comparative data on our costs and performance, as well as ideas to develop the service. We will continue to make use of such exercises to develop the service and to become more efficient and effective.

Financial Management

242. We prepare a three year financial plan and ensure that budget holder responsibilities are clearly defined and understood by managers.

243. In addition, budgets are monitored monthly and reported to Pensions Committee quarterly.

Objective 16 - Maintain financial control and meet the requirements for the final accounts and annual report

244. We will continue to maintain tight financial control over the entire Fund.

245. The statutory deadlines for the closedown of the Council's accounts are: end of June for the draft accounting statements and the end of January for the publication of the Council's Report and Accounts. The Fund is required to include its own financial statements within the Council's accounts.

246. In addition, the Fund is required to produce its own comprehensive Report and Accounts. The statutory deadline for this is 1st December each year.

247. However, it should be noted that, as a result of systemic national audit delays the Council's Report and Accounts for 2023/24 have not yet completed the audit process.

248. CIPFA and the Scheme Advisory Board produce a range of guidance on what needs to be included in the Report and Accounts. The Fund will look to comply with these requirements.

249. We intend to closedown the 2024/25 accounts by the deadlines set out above and obtain an unqualified audit opinion.

250. In relation to the Annual Report and Accounts, the Scheme Regulations set out:

   - requirements on the content,
   - the need to follow MHCLG guidance on the content,
   - a statutory deadline of 1st December following the year end for publication.

251. We will meet the statutory and best practice requirements for the content of the Fund's Annual Report and Accounts.

Risk Management

252. The Fund meets the requirements for the identification and control of risk by using a specific framework that is appropriate to the nature of the risks we face.

253. A Risk Register is maintained and is available on the Fund's website.

254. Isio has been appointed to undertake and develop the more specialised work in the internal audit programme.

255. Pensions Committee receives an annual report on the content of the Risk Register.

256. The Local Pension Board reviews the Risk Register each quarter.

257. The Local Pension Board reviews at least two specific risks in detail each quarter.

258. The Committee and the Board receive training on Risk Management.

259. In 2021, an audit was undertaken on the Fund's approach to risk management and was given a rating of "Full Assurance". This is the highest control rating that Internal Audit use.

Objective 17 - Fully embed a risk management framework

260. The Service must understand and manage the strategic and operational risks that it is exposed to. We must ensure that:

- the Risk Register is kept up to date and is acted upon,
- the Business Continuity Plan is up to date,
- workplace risk assessments are reviewed at least annually, are up to date and actions are implemented,
- hybrid working risk assessments have been undertaken and outstanding items actioned by managers,
- the Service is represented on appropriate risk management groups,
- staff have attended appropriate training courses on health and safety issues, and
- we work with Internal Audit and Isio to develop and achieve the internal audit programme.

Equality and Diversity and Inclusion

261. The issue of equality, diversity and inclusion (EDI) has increased in profile and importance over the past few years.

Objective 18 – Ensure the Fund has an appropriate approach to Equality, Diversity and Inclusion and this is considered in shaping the service delivered

262. The Council has an EDI working group and is refreshing its EDI vision. The Fund is represented on the Council working party.

263. A survey was undertaken of the Fund's membership in 2023/24 and the results have helped to inform service delivery.

264. The diversity of the Pensions Committee and Local Pension Board has been considered in recent years. Whilst there is little that can be done about this (on the basis that other parties nominate potential representatives), EDI has been flagged as a consideration for employers and trade unions to take into account.

265. We carry out a regular equality check to ensure we are compliant with the Equality Act 2010.

Aim 5 – Make pensions issues understandable to all

266. We will meet our fifth aim, "to make pensions issues understandable to all", through our approach to governance, consultation, communications and training.

267. The issues to be addressed are set out below:

- the Fund must have an appropriate governance structure,
- with regard to consultation, we need to have robust systems to assess the views of stakeholders,
- it is important that the Fund communicates with its stakeholders in a clear, purposeful and timely manner using plain English and in a manner that works for them, and
- We must ensure that we have provided appropriate training for stakeholders.

268. The Fund's communications strategy is set out in our Communications Policy Statement.

269. The objectives and actions that will assist us to meet this aim are set out below under the headings of:

- Governance Structure,
- Communications,
- Communicating with Employers, and
- Communicating with the Membership.

Governance Structure

270. The governance structure is the system by which the Fund is directed and controlled. The structure is determined by the Local Government Pension Scheme Regulations and the Fund's internal governance structure.

271. The structure, including the format of meetings and the training programme, is kept under review by the Pensions Committee.

272. The governance structure is set out in the Governance Compliance Statement, which was last reviewed formally by the Pensions Committee in January 2025. The high level structure is set out in the Council's Constitution.

273. There has been an increased focus on governance in the LGPS in recent years. The LGPS Fit for the Future consultation, published in November 2024, sets out enhanced governance requirements for LGPS funds. The Fund is considered to be well-positioned to respond to the enhanced requirements, but further work will be needed in 2025/26.

274. The Pensions Regulator's General Code was introduced in March 2024. This is a consolidated version of former codes of practice and introduced some new requirements for LGPS funds. The Fund is compliant with most areas of the new Code and is working towards full compliance.

275. As stated in the PEST Analysis and the SWOT Analysis, the Fund is compliant with all six Investment Principles as set out in the Myners report. The relevance of these principles is likley to diminish if the recommendations of the Good Governance Review are adoped by Government.

276. The Fund commissions an annual review of governance arrangements from Isio. This focuses on the Investment Principles as set out in the Myners report but also covers the wider governance arrangements and relevant guidance from MHCLG.

277. The Fund first introduced a Pensions Committee training policy in 2002 and this is updated annually. A joint training policy for the Committee and the Local Pension Board was formally adopted by the Committee in June 2024 and the Local Pension Board in July 2024. This training policy will need to be reviewed should the LGPS Fit for the Future proposals be introduced.

278. The Fund again took part in the National Knowledge Assesment co-ordinated by Hymans Robertson to assess the level of knowledge and understanding of the Committee and the Local Pension Board in 2024. This was a valuable exercise and will help inform the future training programme.

279. The training programme for the Pensions Committee is led by the Head of Pensions, with assistance from the Governance and Funding Office.

280. The training programme for the Local Pension Board is led by the Lead Officer, with assistance from the Governance and Funding Office.

281. The Fund has purchased an online training toolkit from Hymans Robertson to assist the overall training offering. In addition, members of the Committee and the Board are offered training opportunities from Border to Coast and are also directed to additional training and support materials from the Fund and the Pensions Regulator.

282. We consult the Pensions Committee and Local Pension Board by way of reports and direct contact.

Objective 19 - Governance Structure

283. We will:

- keep the governance structure, including the format of meetings and training, under review,
- review and implement changes, as appropriate, from the LGPS Fit for the Future consultation,
- work towards full compliance with the Pensions Regulator's General Code,
- continue our best practice approach to the training programme, enhancing this where appropriate,
- assess the training delivered against the new CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills and use this to identify gaps in any training delivered, and
- review the online training package available from Hymans Robertson (and any other packages that are available) and take a view whether it should be used in 2026/26.

Communications

284. The Scheme Regulations require administering authorities to prepare, publish and maintain a written statement setting out its policy concerning communication with employers and scheme members.

285. The Fund's Communications Policy Statement, was last approved by Committee in January 2025.

286. One of the challenges for the Fund going forward is to transition the communications strategy and approach to a more digital world with an increased use of technology and electronic communications.

Communicating with Employers

287. Whilst the co-ordination of the communication with employers is primarily through the Employer Services Team within the Pensions Office, the Governance and Funding Office has an important role to play, especially around governance, admissions and terminations and funding issues.

288. We have a range of initiatives in place for consulting, communicating with and offering training to current and prospective employers. These are set out below:

- we conduct surveys, generally annually, to ensure that we are aware of employers' views on the service we offer,
- we undertake an annual survey to seek information that might impact on the status of each employer's admission to the Fund,
- we hold an annual meeting with employers to discuss strategic matters such as the valuation, funding position and investment strategy,
- we provide three places on the Pensions Committee for employer representatives to sit in an advisory, non-voting capacity,
- the Local Pension Board has four places for employer representatives to assist the Pensions Committee to ensure the effective running of the Fund,
- there is a programme of meetings/seminars with employers to cover pension administration issues such as regulatory changes, communication initiatives and processing,
- an online Employers Guide provides detailed background information on the Scheme, the Fund and our processing systems,
- regular mailshots are sent out. All employers receive this information by e-mail,
- training seminars and workshops are offered to employers and are well received,

- the website is available as a medium to provide and receive information, and
- we work with the Local Government Association and other funds to develop communications initiatives, including Scheme guidance booklets.

Objective 20 - Develop communication with and training for current and prospective employers

289. During 2025/26 we will:

- review the role of the website in communications,
- enhance the training programme,
- conduct a survey to ensure that we are aware of employers' views on the service we offer,
- undertake an annual survey to seek information that might impact on the status of each employer's admission to the Fund, and
- increase the use of video conferencing for meetings and training.

Communicating with the Membership

290. The Member Services Team within the Pensions Office co-ordinates all communications with members.

291. Crucial to the success of the communications strategy for members is the increased use of electronic communications. During 2019, the Fund fully implemented a member web and moved to providing electronic annual benefit statements, payslips and P60's. This has since been enhanced and updated to make the service more interactive and intuitive.

292. We have developed a range of initiatives for consulting and communicating with the members of the Fund.

293. Our past practice has been to survey each year one of the three categories of membership and this has generally taken place in a paper form. The move to introduce member web and increased electronic communication is providing the opportunity for surveys across the wider membership to be undertaken electronically and to introduce event-based surveys.

294. During 2025/26, it is planned to undertake an holistic review of member engagement. This will include considering our approach to member engagement and member representation on the Committee and Board.

295. Our current initiatives are set out below:

- we provide three places on the Pensions Committee for trade union representatives to sit in an advisory, non-voting capacity,
- the Local Pension Board has four places for scheme member representatives to assist the Pensions Committee to ensure the effective running of the Fund,
- we provide a helpline that managed around 45,500 calls in 2024,
- We responded to nearly 7000 online queries in 2024,
- Information is available via the website and as hard copy,
- We provide an electronic annual benefits statement to active and deferred members and electronic annual pensions updates, P60's and payslips to pensioner members. On request we send out paper copies of this documentation,
- A tracing service is used at the Fund's expense to seek to establish contact with lost members,
- "What if" calculations can be undertaken by members on their online mypension account,
- We work with the Local Government Association to develop communications initiatives, and
- We keep the Additional Voluntary Contributions arrangements under ongoing review and work with our providers to ensure effective member communication.

296. We encourage members to communicate with us through secure messaging from their online accounts.

297. Despite encouraging members to contact the Fund through secure messaging, the Helpline remains one of the main sources of contact with members. During 2021 we introduced a

new helpline system which has enhanced the offering to members and provides valuable management information to help improve the service.

298. The public website provides a good database of information to members and employers and access to the member web. The appearance of the website was refreshed in 2022 to help make it more user friendly and intuitive. A follow up review will be undertaken on the content. The Fund now has a presence on Facebook and will consider a greater presence on social media in 2025/26.

299. Consideration will be given to introducing chat facilities in the near future. System development work has been included in the work programme for the next three years.

300. Given the expected introduction of pensions dashboards, the Fund will need to ensure that it can develop its service to be able to deliver the information required to scheme members in the necessary format. An action to ensure that the Fund is "dashboard ready" by September 2025 is covered earlier in the Service Plan.

Objective 21 - Develop communications with members

301. Initiatives for this period of the plan include:

- continuing to develop, enhance and roll out the use of electronic communications to provide and receive information,
- working with scheme employers to join up communications and promote online services and improve the take up,
- continued improvements to member self-service,
- the delivery of the 2025 annual benefits statements in an electronic format,
- the delivery of the 2025 pensioners' annual updates in an electronic format,
- communicate the implications of McCloud with members,
- consider increasing the use of social media,
- achieving the annual statutory deadline of 31 August for the provision of the deferred and active annual benefit statements,
- undertake a review of the AVC provider and provision, for the Fund's members,

- enhance the public website,
- consider the use of online chat facilities,
- continue to develop new management information for the Helpline, and
- work with the Local Government Association and the National Communications Group to develop the National LGPS website and deliver standard guides, documents and communications across the LGPS.

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