

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

Chairman's Introduction

Over the past few years, there has been increasing scrutiny over the Local Government Pension Scheme (LGPS). The Hymans Robertson report of 2013 was followed up after this year's General Election with a number of key speeches from the Chancellor of the Exchequer. Each LGPS fund was asked to group themselves with partners to a scale of £25 billion or greater and for the partnership to present initial proposals for pooling assets and managing them on behalf of the fund from April 2018 onwards. After consideration, the Teesside Pension Fund decided to partner with the Borders to Coast Pension Partnership, a group of thirteen funds from across the country and a total size of £36 billion.

In the markets, the last twelve months has seen a mixed bag of performance across equity, bond and property markets. Equity markets were volatile again, with negative newsflow out of China over falling growth rates, devaluation of their currency and monetary stimulus, which finally settled markets down at lower levels than the start of the year. The other issue concerning investors, and inevitably causing volatility, was the timing of a quarter point US rate increase. It appears that everyone knew their rates would rise for most of 2015, but it only happened late in the year. When converted to GB pounds, most markets fell over the year, with the exception of the US, the Far East fell furthest out of the major markets by a considerable margin.

Bond markets ended the year relatively flat. This is probably inevitable given some Governments started to issue bonds with negative interest rate last year; there cannot be much more upside afterwards. UK property markets continued to perform, particularly in London, an attractive market to foreign investors.

A big financial story from last year, was the rapid demise of the oil price. The price of Brent Crude fell from over \$100 a barrel to \$55 at 31 March 2015. Volatility continued over 2015/16 too, with the oil price ending up \$40 a barrel.

The overall financial performance of the Fund for the year to 31 March 2016 was slightly negative. The Fund's value fell to £3.1 billion, a decrease over the year of approximately £100 million.

The membership of the Fund continues to increase, with total membership at the year end now standing at 69,775, an increase of 1,721 over last year. The number of active members has increased by 520 (2.3%) over the year, and decreased by 3.2% over the past five years. The number of pensioners increased by 558 (2.7%) over the year, and increased by 11.5% over the past five years. The number of deferred members increased last year by 643 (2.6%), and increased by 27% over the past five years.

Where a member retires early there is a cost to the Fund arising from the fact that Contributions are no longer being received for the member, and a Pension is drawn earlier than the Actuary had assumed. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;

- 1 the impact of retirement decisions is transparent; and
- 2 the cost is invoiced separately rather than being recovered in the employers Contribution Rate, which was once the case.

In this financial year the Fund received £2.2 million from these early retirement recharges, down on last year's figure of £5.5 million, an 60% decrease on last year.

Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund. The purpose of this was to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level. The aim of the Fund is to be 100% funded, and at the last valuation the actuary was able to declare a funding level of 100%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation is due to be carried out in March 2016.

Nature of the Scheme

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme. From April 2015 the scheme was governed by new regulations, as follows;

- The Local Government Pension Scheme Regulations 2013 (as amended); and,
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

These regulations replaced the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008.

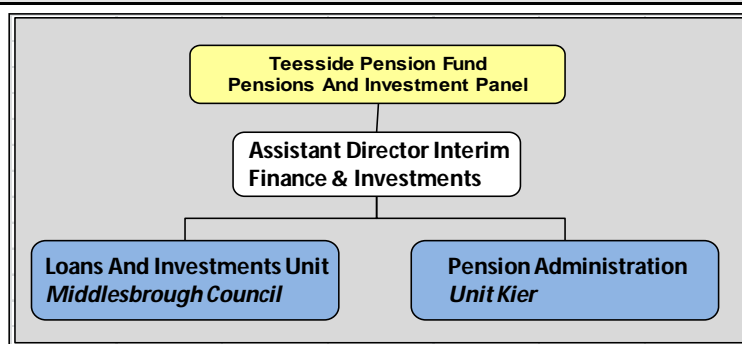
Full details of the changes to the Scheme, along with updated scheme guides, are on our website at www.teespen.org.uk.

The Regulations specify the pensions and other benefits payable and fix the rates of member contributions. Employer contributions are set every three years by the Fund's Actuary. The purpose of the Fund is to provide retirement benefits for local authority employees in the Teesside area and other bodies admitted by agreement. The Fund is administered by Middlesbrough Council on behalf of all participating employers. A full list of participating organisations is given in the Membership section below.

The Fund is financed by way of contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from Fund investments. The surplus funds, after payment of benefits, are invested by an Investment Panel. The Panel comprises elected members of Middlesbrough Council, representatives of the other unitary authorities, the Trade Unions and the Fund's Investment Advisers.

Management of the Fund

The Fund is administered by Middlesbrough Council via the Teesside Pension Fund Pensions and Investment Panel which has plenary powers to make decisions without reference to the Council. This panel acts in a similar manner to the Board of Trustees of a private sector pension fund.



The day to day running of the Teesside Pension Fund is delegated to the Assistant Director Interim Finance & Investments of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pensions and Investment Panel. Supporting him is a team of staff split into two units. The Pensions Administration Unit is responsible for the calculation and payment of pension benefits and for looking after employer interests in the Fund. The Loans and Investment Unit manages the investment of the Fund in conjunction with the advice of the Fund's external Investment Advisers.

The Teesside Pension Fund Pensions and Investment Panel

Panel membership during the year;

Members

Chair

Vice Chair

Middlesbrough Council

Redcar & Cleveland BC

Stockton BC

Hartlepool BC

Other Employers

Trades Unions

With voting rights

Councillor SE Bloundele

Councillor J Rostron

Councillor R Brady

Councillor JG Cole

Councillor DP Coupe

Councillor J Culley

Councillor N Hussain

Councillor D McCabe

Councillor G Purvis

Councillor J Rathmell

Councillor A Shan

Councillor N Bendelow

Councillor J Beall

Councillor J Lindridge

Mr P Fleck

Without voting rights

Unison, GMB and ACTS

The current Panel consists of representatives from all the district councils in the former Cleveland County area as well as representatives from the Trade Unions. The Panel held 4 quarterly meetings during the year.

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

The size and political make-up of the Panel is determined annually by Middlesbrough Council, and the Councillors are then nominated by each political party. Representatives of the other district Councils are nominated by them. The 'Other Employers' representative is chosen by election by the admitted bodies of the Fund.

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

Terms of Reference – Teesside Pension Fund & Investment Panel

Terms of Reference

1. For Members of the Council to act as Trustees of the Fund.
2. To have delegated powers to manage the investments of the Fund within the requirements of the Local Government Pension Scheme Regulation as amended from time to time.
3. To manage the Fund in accordance with the Management Agreement:
 - (i) To ensure that the Fund complies with the Local Government Pension Scheme Regulations 1997 (as amended), the Inland Revenue requirements for Pension Funds and any other relevant statutory provision.
 - (ii) The selection, appointment and dismissal of investment managers, scheme administrators, independent advisors and adhoc advisors.
 - (iii) The formulation of investment strategy and risks strategy for the Fund under its stewardship, after receiving advice from its independent advisors and the Loans and Investment Manager.
 - (iv) Setting investments targets and monitoring the investment performance and financial control of the Funds' assets and commissioning the preparation of actuarial valuations and accounts.
 - (v) Ensuring that value for money is achieved from all the specialists supplying services to the Fund through a competitive and qualitative selection process and through budgetary control.
 - (vi) Commissioning any actuarial valuation and taking appropriate action in the light thereof.
 - (vii) Receiving and agreeing the annual report and accounts.
 - (viii) Ensuring effective communication with scheme members and pensioners.
 - (ix) Receiving and dealing with general complaints from scheme members and pensioners.
 - (x) To determine the exercise of the discretions allowed to the administering authority, as laid down in the Local Government Pension Scheme Regulations 1997.
 - (xii) Any other responsibilities delegated to it by the Authority.
 - (xii) To submit an annual report to Council.

Fund Administrators and Advisors

Administration

Assistant Director (Interim) Finance & Investment	Mr Mark Taylor
Head of Investments	Mr Paul Campbell
Pensions Administration Manager	Mr Mike Hopwood
Solicitor to the Fund	Mr Bryn Roberts

Advisors to the Fund

Actuary	Aon Hewitt Ltd
Solicitors	Nabarro LLP & Freeth Cartright LLP
Auditors	Ernst & Young LLP
Investment Advisors	Mr Peter Moon
	Mr Fred Green
Property Managers	CBRE
Custodian	BNP Paribas Securities Services
AVC Providers	Prudential Assurance, Phoenix Life
Bankers	The NatWest Bank plc

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

The Pensions Landscape

All of the major public sector schemes will face change from April 2015, with the new public sector schemes established and operated in accordance with the Public Service Pensions Act 2013. However, due to its unique 'funded' status amongst these schemes, the LGPS changed a year earlier, avoiding increases to contribution rates ahead of April 2015 which the other schemes imposed. More detail on how the current LGPS compares to the earlier (2008) Scheme is contained in the, "Summary of LGPS benefits section".

Government changes to the wider pensions landscape are also introduced from April 2015, promoting "Freedom and choice" whereby people will have greater flexibility in how and when they access their pension savings. These changes announced will largely impact upon defined contribution schemes and, due to the nature of the LGPS, should not have a major impact upon the scheme or its operation.

The overall limits on tax relief available for pension saving have reduced further, with the annual allowance figure now set at £40,000 and the lifetime allowance reducing to £1 million from April 2016. The lifetime allowance limit is only breached by a very small proportion of LGPS membership, but the reduction to the annual allowance will mean that more members could face a potential tax charge in the future.

The introduction of the new Single Tier State Pension from April 2016 also marked the end of, "contracting out" for public sector schemes like the LGPS. Previously, schemes such as the LGPS were allowed to contract-out of the additional element of the State Pension (meaning that members paid reduced national insurance contributions) in return for providing benefits at least equal to those that the state would have provided if the higher contribution rate had been paid.

Scheme specific changes

On 1st April 2014, the new look LGPS came into force, reflecting the changes required to public sector schemes derived from the Public Service Pension Commission recommendations.

From 1st April 2014;

The LGPS became a Career Average Revalued Earnings (CARE) scheme using the CPI as the revaluation factor (the previous scheme was a final salary scheme).

The scheme accrual rate is 1/49th, where the previous scheme was 1/60th.

There is no fixed scheme pension age, instead each member's Normal Pension Age (NPA) is their State Pension Age, with a minimum of 65 (the former scheme had a fixed pension age of 65).

Average member contributions to the scheme remain at 6.5% with the rate determined on actual pay (previously, part-time contributions were based on full time equivalent pay). While there is no change to average member contributions, the lowest paid pays the same or less and the highest paid pays higher contributions on a more progressive scale after tax relief.

There is a facility for members considering opting out of the scheme to instead elect to pay half contributions for half the pension. This is known as 50/50 option (earlier schemes had no such option).

Members' benefits for service prior to 1st April are protected, including remaining "Rule of 85 protection". Protected past service continues to be based on final salary and age 65 NPA.

Membership

In the 2015/2016 financial year the total membership of the Fund has increased by 1,721 to 69,775

The number of deferred members of the scheme has risen by 27% in the last 5 years and now forms almost 36% of the total membership.

Membership Numbers					
	2012	2013	2014	2015	2016
Active	23,856	23,908	23,734	22,566	23,086
Deferred	19,717	20,738	22,144	24,429	25,072
Pensioner	19,389	19,850	20,648	21,059	21,617
Total	62,962	64,496	66,526	68,054	69,775

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

Summary of Membership Changes

	Active Members	Deferred Members	Pensioners Members	Dependants	Total
At 1st April 2015	22,566	24,429	18,376	2,683	68,054
Adjustments	(44)	37	118	32	143
New Members	2,593	5	0	195	2,793
Change in Status	(1,645)	767	879	0	1
Leavers	(384)	(166)	(506)	(160)	(1,216)
At 31st March 2016	23,086	25,072	18,867	2,750	69,775
% Of Total at 1 April 2015	33.2%	35.9%	27.0%	3.9%	100.0%
% Of Total at 31 March 2016	33.1%	35.9%	27.0%	3.9%	100.0%

During the year, 18 employers joined the scheme as scheduled bodies, and 3 employers joined as admitted bodies. Also, 1 scheduled and 3 admitted employers ceased to have active members in the scheme. At the year end the Fund had 150 employers with active members.

A full list of participating employers and their membership numbers is as follows

Membership by Employer at 31 March 2016

	Current Employers	Active Members	Deferred Members	Pensioners - Members	Pensioners - Dependants	2015/16 Total	2014/15 Total
1	Stockton BC	4,826	5,893	2,943	294	13,956	14,449
2	Middlesbrough BC	4,002	4,743	2,541	222	11,508	11,874
3	Redcar & Cleveland BC	2,775	4,166	2,266	216	9,423	10,079
4	Hartlepool BC	2,824	3,112	1,568	150	7,654	8,001
5	Cleveland CC	2	773	3,645	755	5,175	5,427
6	University of Teesside	1,033	887	459	70	2,449	2,379
7	CSCI	1	444	419	23	887	1,025
8	Cleveland Police Authority	1	278	217	16	512	519
9	Care Quality Commission	498	139	192	4	833	826
10	Durham Tees Valley Probation Trust	511	106	0	0	617	617
11	Coast & Country Housing	366	222	170	11	769	778
12	Mouchel	3	94	154	4	255	629
13	Middlesbrough College	463	342	112	8	925	923
14	Steria	354	50	69	1	474	480
15	Tristar Homes	233	125	103	12	473	474
16	Erimus Housing	176	85	148	7	416	418
17	Stockton Riverside College	176	193	76	5	450	412
18	Hartlepool College of FE	209	219	83	14	525	484
19	Housing Hartlepool	199	91	86	9	385	382
20	Beamish	127	52	13	1	193	315
21	Cleveland Probation	2	112	0	0	114	114
22	Durham and Tees Valley Airport	32	46	32	0	110	229
23	Cleveland Fire Authority	127	85	69	5	286	266

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

24	Cleveland College of Art & Design	100	85	52	6	243	239
25	Tees Active Ltd	110	93	26	2	231	233
26	Tees Valley Leisure	16	92	18	4	130	132
27	Redcar & Cleveland College	105	126	58	3	292	271
28	Transit Stagecoach	12	17	141	18	188	183
29	Unity City Academy	62	89	21	2	174	157
30	Liberata	27	56	51	6	140	141
31	MacMillan Academy	96	67	24	1	188	175
32	Business & Enterprise NE	2	28	21	1	52	83
33	Kings Academy	81	50	17	1	149	146
34	Prior Pursglove College	47	45	26	0	118	107
35	CIC Elderly Persons Homes	4	33	55	2	94	94
36	North Shore Academy	65	54	5	1	125	107
37	Oakfield Community College	15	36	8	0	59	59
38	Fabrick Housing	39	11	14	4	68	65
39	Hartlepool 6th Form College	35	23	12	1	71	71
40	Freebrough Academy	45	15	6	0	66	60
41	Thornaby Academy	38	26	13	1	78	78
42	Carillion Integrated Solutions	20	13	10	1	44	45
43	One Awards Ltd (formerly OCN)	23	16	9	4	52	47
44	Stockton 6th Form College	20	19	15	0	54	50
45	Carillion Government Services	10	3	5	0	18	18
46	Learning and Skills Council	4	7	4	0	15	15
47	OCS	1	3	5	0	9	10
48	Guisborough Town Council	4	2	4	0	10	11
49	Forward Swindon	3	1	0	0	4	4
50	Saltburn & Marske PC	3	2	1	0	6	6
51	Future Reperation of Grangetown	1	4	1	0	6	6
52	Loftus Town Council	3	0	1	0	4	4
53	Billingham Town Council	2	2	0	0	4	4
54	Skelton & Brotton Parish Council	3	1	0	0	4	4
55	Yarm Town Council	1	0	0	0	1	1
56	Ingleby Barwick Town Council	1	0	0	0	1	1
57	Cleveland Fire Support Network	1	0	0	0	1	1
58	Fleet Factors Ltd	1	0	0	0	1	1
59	CMSL Ryehills Catering	5	2	1	0	8	7

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

60	Capita Managed IT Solutions Ltd	6	1	0	0	7	6
61	Wolseley UK Ltd	1	2	1	0	4	4
62	The Big Life Company Ltd	6	2	1	0	9	9
63	4Children	2	1	0	0	3	3
64	Eston Park Academy	7	7	6	0	20	39
65	Brambles Academy	15	4	0	0	19	19
66	Pennyman Primary Academy	33	9	5	0	47	46
67	Chandlers Ridge Academy	19	3	1	0	23	23
68	Nunthorpe Academy	65	20	7	0	92	87
69	Ormesby School	43	16	8	0	67	62
70	KTS Academy	41	11	2	0	54	54
71	North Ormesby Primary Academy	21	4	1	0	26	20
72	Redcar Academy	26	10	7	0	43	41
73	Crime Commissioner for Cleveland	39	22	21	4	86	71
74	Conyers School	71	23	9	0	103	109
75	All Saints Academy	25	10	2	0	37	33
76	St Gregory's Catholic Academy	32	13	4	6	55	49
77	KGB Cleaning & Supp Servs Ltd	5	1	0	0	6	7
78	SLM Community Leis Char Trust	46	4	3	0	53	53
79	SLM Food & Beverage Ltd	2	0	0	0	2	2
80	SLM Fitness & Health Limited	3	3	0	0	6	7
81	Dyke House Academy	109	6	2	0	117	100
82	Caldicotes Primary Academy	13	4	0	0	17	16
83	Tascor Services Ltd – PFI	3	0	0	0	3	3
84	Tascor Services Ltd – Custody	11	2	1	0	14	14
85	Hardwick Green Primary Academy	15	2	1	0	18	18
86	Ecocleen Services Limited	1	0	0	0	1	1
87	Extol Ac Trust (Eldon Grove)	31	6	0	0	37	31
88	Stranton Ac Trust (Stranton)	52	8	0	0	60	42
89	Eskdale Academy	11	0	2	0	13	13
90	Catcote Academy	113	21	6	0	140	131
91	Horizons Specialist Academy Trust	156	22	4	0	182	169
92	St Michael's Catholic Academy	34	8	2	0	44	36
93	Fredrick Natrass Primary Academy	38	2	1	0	41	31

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

94	Oak Tree Primary Academy	58	4	1	0	63	60
95	Outwood Academy Acklam	36	5	2	0	43	42
96	Dormanstown Primary Academy	28	1	2	0	31	31
97	St Bede's Catholic Academy	32	10	0	0	42	33
98	Mellors Catering Services Ltd	75	2	1	0	78	76
99	Sunnyside Academy	63	14	2	0	79	69
100	Viewley Hill Academy Trust	22	2	1	0	25	22
101	Norton Primary Academy	41	9	1	0	51	47
102	Grangefield Academy	47	12	5	0	64	64
103	Teesside Development Corporation	1	7	8	1	17	17
104	Fleet Factors (RCBC)	2	0	0	0	2	2
105	Chief Constable for Cleveland	311	32	8	0	351	323
106	One IT Solutions Ltd	20	0	0	0	20	18
107	Skelton Primary School	48	17	0	0	65	63
108	Rose Wood Academy	38	7	0	0	45	44
109	Hemlington Hall Academy	26	5	1	0	32	27
110	Yarm Primary School	41	7	1	0	49	48
111	Lockwood Parish Council	1	0	0	0	1	2
112	Diocese of Middlesbrough Trust	1	0	0	0	1	1
113	English Martyrs Ed Trust	114	4	3	0	121	103
114	Easterside Academy	41	4	0	0	45	34
115	St Margarets Clitherows CVPA	27	4	0	0	31	23
116	St Gabriels Catholic Academy	22	6	2	0	30	28
117	St Marys Catholic Academy	19	1	0	0	20	15
118	St Peters Academy M and C	35	4	1	0	40	36
119	Green Lane Primary Academy	51	4	0	0	55	45
120	Kader Academy	23	3	0	0	26	21
121	Normanby Primary School	42	6	0	0	48	42
122	Nunthorpe Primary Academy	28	6	0	0	34	26
123	Creative Management Serv Ltd	26	4	0	0	30	31
124	Harrow Gate Primary Academy	43	3	0	0	46	6

Section 7 :Teesside Pension Fund Statements of Account - DRAFT

125	Ian Ramsey CoE Academy	74	2	1	0	77	2
126	Ash Trees Academy	67	5	2	0	74	2
127	St Joseph's Primary Academy	30	0	0	0	30	1
128	St Paulinus P C V Academy	21	0	1	0	22	0
129	West View Academy	57	2	0	0	59	3
130	Outwood Academy Bydales	30	3	0	0	33	8
131	Taylor Shaw - Holy Rosary	1	0	0	0	1	0
132	Ingleby Manor Free School and 6th Form	3	0	0	0	3	0
133	Hillsview Academy	41	1	1	0	43	0
134	St Bede's Primary CV Academy	15	0	0	0	15	0
135	West Park Primary School	30	1	0	0	31	0
136	Our Lady & St Bede Academy	75	4	3	0	82	0
137	Manor Community Academy	90	5	0	0	95	0
138	KGB Cleaning Ltd – SSFC	1	0	0	0	1	0
139	Saint Benedicts PCV Academy	1	1	0	0	2	0
140	Our Lady - Christ the King	3	0	0	0	3	0
141	Our Lady - St Patricks College	3	0	0	0	3	0
142	Our Lady - St Patrick Primary	2	0	0	0	2	0
143	Our Lady St Therese of Lisieux	1	0	0	0	1	0
144	Wynyard C of E Primary School	3	0	0	0	3	0
145	Outwood Academy - Ormesby	2	0	0	0	2	0
146	Sacred Heart SCV Academy	1	0	0	0	1	0
147	Enquire Learning Trust Central	3	0	0	0	3	0
148	Kier Business Services	93	2	0	0	95	0
149	St Hilda's Catholic Academy Trust	15	4	1	0	20	0
150	Kier (Pensions Unit)	22	0	0	0	22	0
	Inactive employers	0	1,334	2,733	854	4,921	1,554
		23,086	25,072	18,867	2,750	69,775	68,054