



Teesside Pension Fund

Annual Report and Accounts
for the year ended

31 March 2019

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Report of those charged with Governance

Chairman's Introduction

Welcome to the 2018/19 Annual Report and Accounts of the Teesside Pension Fund. This was a year which saw the first of the Fund's assets transfer to be managed by Border to Coast Pensions Partnership ('Border to Coast'). The Fund itself has always been primarily 'internally managed', meaning most of its investment assets (such as shares and bonds) were bought and sold by officers working for the Fund. In most other Local Government Pension Scheme (LGPS) funds this function is usually delegated to external asset management companies. Over the years this approach has proved very low cost and has produced investment returns at least as good as those of 'externally managed' LGPS funds.

Border to Coast was set up by, and is wholly owned by, twelve LGPS administering authorities each responsible for an LGPS fund. It has been established to meet central government's requirement that local government pension schemes pool their investment assets to deliver savings and improve governance. Middlesbrough Council (as administering authority for the Teesside Pension Fund) is one of the owners and customers of Border to Coast. Initial investments with Border to Coast have been in public equities (or shares) and all the Fund's UK equities transferred during the year to be managed by Border to Coast, using the same low-cost 'internally-managed' approach except delivered by the Border to Coast team based in Leeds who are working as part of a larger team of investment professionals. The Fund also made investments in Border to Coast's internally-managed overseas equity fund during the year. By the end of the year 35% of the Fund's assets were invested through Border to Coast, with this percentage expected to increase significantly over coming years.

In the markets there was a mixed performance during 2018/19, with the US stock market performing well but significantly smaller gains in other overseas markets and the UK. Despite an overall small increase in value over the financial year, markets were volatile, particularly on geopolitical news over the year. Much of this centred on speculation over the eventual outcome of US / China trade negotiations and continuing uncertainty over the UK's future relationship with the European Union.

The Fund made some small changes to asset allocation over the year increasing property investments and 'alternatives' such as private equity and infrastructure slightly and decreasing investments in equities.

The overall financial performance of the Fund for the year to 31 March 2019 was a positive increase. The Fund's value rose to £4.08 billion, an increase over the year of approximately £187 million.

The membership of the Fund has increased, with total membership at the year-end now standing at 70,068 an increase of 773 over last year. The number of active members has decreased by 571 or 2.5% over the year, but increased by 0.7% over the past four years. The number of pensioners increased by 1,226 or 5.4% over the year, and increased by 13.9% over the past four years. The number of deferred members increased last year by 118 or 0.5%, but decreased by 4.4% over the past four years.

Where a member retires early on the grounds of redundancy or business efficiency there is a cost to the Fund arising from the fact that a pension is drawn earlier than the Actuary had assumed and for these types of retirement the normal early retirement reductions do not apply. 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 employer's contribution rate, which was once the case.

In this financial year the Fund received over £4.1 million from these early retirement recharges, down on last year's figure of £4.5 million, a 9.4% decrease on last year.

Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund. The purpose is 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 all the other major 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 is particularly pleasing since it is the second time in succession that the Fund is able to declare it is fully funded. The next valuation is due to be carried out as at 31 March 2019 with the final report due to be published in March 2020 and any changes required to employer contribution rates due to come into force from April 2020.

Nature of the Scheme

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme is governed by Public Service Pensions Act 2013 and the following 'secondary' legislation (all as amended):

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;
- The Local Government Pension Scheme Regulations 2013; and
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

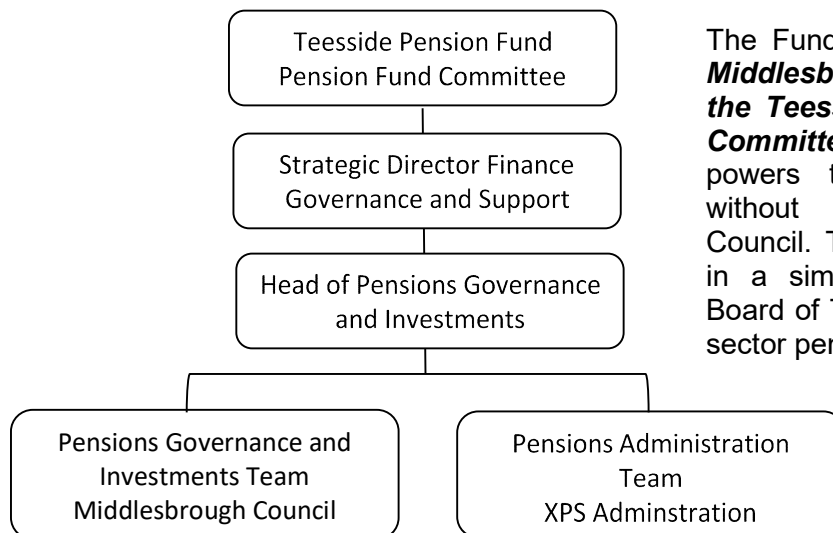
The regulations have changed over the years as the nature of the scheme has changed – the most significant recent change applied from April 2014 when the scheme moved (for future benefits) to a career average revalued earnings scheme from a final salary scheme. More information about the scheme, including updated scheme guides and details of scheme member benefits and contributions can be found on the national scheme member website www.lgpsmember.org and 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 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

funds assets, after payment of benefits, are invested as directed by the Pension Fund Committee. The Committee 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 Committee** which has plenary powers to make decisions without reference to the Council. This Committee 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 Strategic Director of Finance Governance and Support of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pension Fund Committee. Supporting the Director is the Head of Pensions Governance and Investments who oversees two groups: The Pensions Administration Team is responsible for the calculation and payment of pension benefits and for looking after employer interests in the Fund. This function is currently outsourced and is delivered by XPS Administration. The Pensions Governance and Investments Team manages the investment of the Fund in conjunction with the advice of the Fund's external Investment Advisers, as well as providing support to the Pension Fund Committee and Teesside Pension Board.

The Teesside Pension Fund Committee

Committee membership and meeting attendance during the year 2018/19

Members	With voting rights	Jun	Sep	Dec	Mar
Chair	Councillor SE Bloundele	✓	✓	✓	✓
Vice Chair	Councillor J Rostron	✓	✓	✓	✓
Middlesbrough Council	Councillor B Brady	✓		✓	✓
	Councillor DP Coupe		✓		✓
	Councillor J Mohan	✓	✓		
	Councillor D Rooney	✓	✓	✓	
	Councillor L McGloin	✓	✓	✓	✓
	Councillor M Walters	✓	✓	✓	✓

Members	With voting rights	Jun	Sep	Dec	Mar
	Councillor L Lewis	✓	✓		
Redcar & Cleveland BC	Councillor C Massey		✓		
Stockton BC	Councillor J Beall		✓	✓	
Hartlepool BC	Councillor J Black	✓			
	Without voting rights				
Trades Unions	Unison, GMB and ACTS				

Declaration of Interest

Councillor J Rostron, D P Coupe, L Lewis

The committee invites representatives from all the district councils in the former Cleveland County area as well as representatives from the Trade Unions. The committee held four quarterly meetings during the year.

The size and political make-up of the committee 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.

Terms of Reference – Teesside Pension Fund Committee

Terms of Reference:

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

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

The Pension Fund Committee has the following specific roles and functions, taking account of advice from the Chief Finance Officer (the Strategic Director of Finance Governance and Support) and the Fund's professional advisers:

- a) Ensuring the Teesside Pension Fund is managed and pension payments are made in compliance with the Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Teesside Pension Fund.

- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
 - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Middlesbrough Council and making recommendations to Middlesbrough Council about any changes to that framework.
 - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
 - iii) Investment strategy - approving the Fund's Investment Strategy Statement and Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
 - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
 - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
 - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Border to Coast; the asset pooling collaboration arrangements:
 - i) Monitoring the performance of the Border to Coast and recommending actions to the Border to Coast Joint Committee, The Mayor or his Nominee (in his role as the nominated person to exercise Shareholder rights and responsibilities), Officers Groups or Border to Coast, as appropriate.
 - ii) Undertake the role of Authority in relation to the Inter Authority Agreement, including but not limited to:
 - Requesting variations to the Inter Authority Agreement
 - Withdrawing from the Inter Authority Agreement
 - Appointing Middlesbrough Council officers to the Officer Operations Group.
- g) Considering the Fund's financial statements and the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, independent professional advisers and AVC provider.
- i) Liaison with internal and external audit, including providing recommendations in relation to areas to be covered in audit plans, considering audit reports and ensuring appropriate changes are made following receipt of audit findings
- j) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- k) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- l) Agreeing Pension Fund business plans and monitoring progress against them.
- m) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge

and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.

- n) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- o) Receiving ongoing reports from the Chief Finance Officer, the Head of Pensions Governance and Investments and other relevant officers in relation to delegated functions.

Teesside Pension Board

The Public Service Pensions Act 2013 introduced a requirement for public service pension schemes to have pension boards. The pension board for the Teesside Pension Fund is the Teesside Pension Board. The Teesside Pension Fund Committee is still the main decision making committee for the Fund, whereas the Teesside Pension Board assists Middlesbrough Borough Council, as the Administering Authority, to:

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

The Teesside Pension Board is made up of six voting members as follows:-

3 employer representatives; and 3 scheme member representatives.

Fund Administrators and Advisors

Administration

Chief Finance Officer	James Bromiley
Head of Pensions Governance and Investments	Nick Orton
Pensions Administration Manager	Graeme Hall
Solicitor to the Fund	Sam Dorchell

Advisors to the Fund

Actuary	Aon Hewitt Limited
Solicitors	Nabarro LLP & Freeth Cartwright LLP
Auditors	Ernst & Young LLP
Investment Advisors	William Bourne and Peter Moon
Property Managers	CBRE
Custodian	BNP Paribas Securities Services
AVC Providers	Prudential Assurance, Phoenix Life
Bankers	The NatWest Bank Plc

The Pensions Landscape

All of the major public sector schemes changed radically from April 2015, with new public sector schemes established and operated in accordance with the Public Service Pensions Act 2013. However, due in part to its unique ‘funded’ status amongst these schemes, the LGPS changed a year earlier from April 2014, meaning the career-average revalued earnings LGPS has now been in place for five years. More detail on how the current LGPS compares to previous versions of the scheme is contained in the “Summary of LGPS benefits” section.

Government changes to the wider pensions landscape were also introduced from April 2015, promoting “Freedom and choice” granting greater flexibility in how and when they access their pension savings. These changes largely impact upon defined contribution schemes and, due to the nature of the LGPS, do not have major impact upon the scheme or its operation. However, members making Additional Voluntary Contributions can now potentially access monies from these funds from age 55, whilst still contributing to the LGPS, or transfer to another provider.

The limits on tax relief available for pension saving have remained broadly flat over the year, with the standard annual allowance figure remaining at £40,000, but with a lower figure applied for high earners. The lifetime allowance increased from £1m to £1.25m from April 2016, but will be index-linked from 2018. The lifetime allowance limit is only breached by a very small proportion of the LGPS membership, but revisions 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.

Scheduled changes to the Automatic Enrolment provisions (the government plan to ensure all eligible employees are contributing to a workplace pension) took effect from April 2018 within minimum contribution rates for members and employers increasing to 5% and 3% respectively; this does not affect those members who have had the LGPS used as the scheme to which they were automatically enrolled as the scheme already exceeds the minimum contribution requirements.

Scheme specific changes

On 1 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 1 April 2014:

- The LGPS became a Career Average Revalued Earnings (CARE) scheme using price inflation – the Consumer Prices Index (CPI) as the revaluation factor (the previous scheme was a final salary scheme).
- The rate pension builds up $1/49^{\text{th}}$ of pensionable pay each year where the previous scheme rate was $1/60^{\text{th}}$.

- 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).
- Member contributions to the scheme are set at one of nine different contribution bands, between 5.5% and 12.5% of pensionable pay, set based on the level of actual pensionable pay the scheme member receives.
- There is a facility for members to choose to pay half contributions for half the pension. This is known as the 50/50 option (earlier schemes had no such option). The intention was to provide a lower cost option for members who were perhaps considering opting-out of the scheme.
- Members' benefits for service prior to 1 April 2014 are protected, including protecting the earliest age a scheme member could receive a pension without early retirement reductions applying. Protected past service continues to be based on final salary and age 65 NPA.

All members of the previous scheme (the 2008 scheme) automatically became members of the 2014 scheme where their employment continued beyond 31 March 2014. A summary of the 2014 scheme provisions and a comparison to the 2008 scheme is highlighted in section Summary of LGPS benefits.

This "new look" LGPS has been in operation for five years now and has remained free of any significant regulatory amendments since its inception. However there have been two sets of amending legislation in the last year which have made some changes to how the scheme operates:

The Local Government Pension Scheme (Amendment) Regulations 2018, which came into force on 14 May 2018, made a number of changes to the rules governing the scheme, the most significant of these were:

- Allowing all individuals who have left the scheme to be able to choose to draw reduced pension benefits from age 55 onwards without their former employer's consent. Previously individual who had left the scheme before April 2014 had to wait until at least age 60 before they could draw reduced pension benefits without their former employer's consent.
- Increasing the maximum Additional Voluntary Contributions (AVCs) an active scheme member can make to up to 100% of pensionable pay. Previously active members who started paying AVCs before April 2014 were only able to pay a maximum of 50% of their pensionable pay in AVCs.
- Allowing some employers who stop participating in the scheme to potentially receive an exit payment if their part of the scheme is in surplus when they leave.

The LGPS (Miscellaneous Amendment) Regulations 2018, which came into force on 10 January 2019, made further changes to the rules governing the scheme including:

- Introducing a general power for the Secretary of State to issue statutory guidance.
- Ensuring that survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows.

Promoting Scheme Membership

The Fund continues to promote Scheme membership and much of this work over the past twelve months has been directed at our newer employers and employees.

Employers have a very important role to play in the operation of the pension scheme, and in giving reassurance to their employees with regards to the scheme's short and long term benefits.

A variety of methods are used here such as workplace posters, presentations and staff briefings and also employer awareness courses that assist the employer to understand and impart general knowledge of the scheme to their staff.

With more people looking towards technology these days, we have continued to promote our Member Self Service (MSS) throughout the year. This facility allows scheme members to view their pension record(s) on-line as well as being able to run their own pension calculations.

Risk management

The Investment Strategy Statement sets out the approach of the Fund in identifying, mitigating and managing risk. The Fund's primary long term risk is that the Fund's assets do not meet its liabilities, that is, the benefits payable to its members. The aim of the Fund's investment management is to achieve the long term target rate of return with an acceptable level of risk.

There are three key forms of risk specific to the investment of assets:

- a) That associated with security of the Fund's assets.
- b) That associated with loss of value relating to those assets.
- c) That associated with the ability of those assets to provide required rates of return.

a) Security of the Fund's Assets

The Fund's Custodian, BNP Paribas, holds the majority of the Fund's Assets. An agreement is in place protecting the Fund against fraudulent loss and regular checks are made by independent auditors regarding the integrity of the Custodian's systems. In addition the Fund's Direct Property assets are registered in the name of Middlesbrough Council and the Title Deeds and documents held by the Fund's solicitors, Freeths. Cash balances belonging to the Fund are invested in accordance with agreed criteria, which take into account an appreciation of risk.

b) Asset Risk

The value of all investments can go down as well as up. Even investments in Gilts, securities issued by HM Government, are not without risk. Individual companies can cease to trade, with shareholders well down the list of creditors.

The best way to protect the Fund against asset risk is through diversification into a number of asset classes, a range of countries and a range of companies. The Teesside Pension Fund Committee ensures the Fund has sufficient diversification at their committee meetings.

c) Investment Risk

One of the Pension Fund Committee's most important duties is to make sure that the Fund has enough Assets to pay the benefits already earned by scheme members. On top of that they are looking to achieve sufficient return on those Assets to keep down the cost of building up future benefits. In order to meet these responsibilities the Pension Fund Committee sets a performance benchmark against which they can measure the progress of

the Fund's investments. Funds which outperform their benchmark can reduce costs compared with those which underperform.

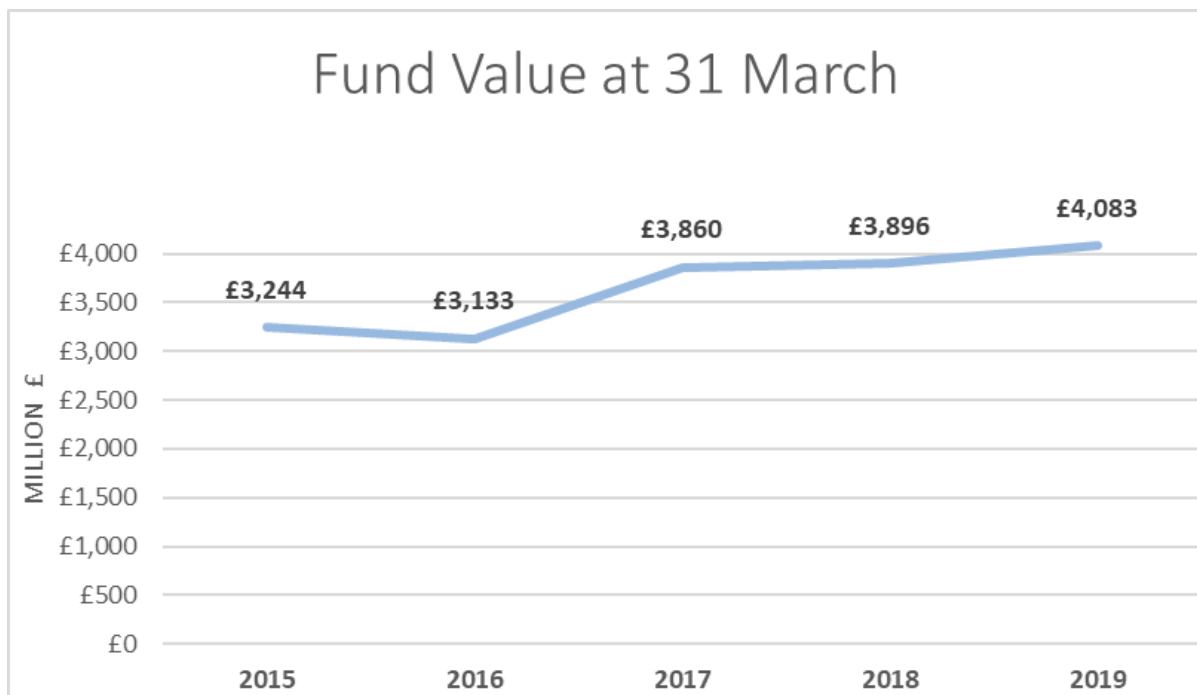
For the Fund to significantly outperform its benchmark it needs to have an asset mix which is different from that of its benchmark. The more outperformance is required the greater the differences will need to be. In other words outperformance cannot be achieved without taking risks. Measurement of risk can identify whether the risk profile is, on one hand, large enough to deliver the required relative returns or alternatively so great as to lead to the possibility of serious underperformance.

The Asset/Liability Study, carried out every three years by the Fund Actuary in conjunction with the Fund's Investment Advisors, assesses the degree of risk which the Fund needs to incorporate into its investment strategy, mainly expressed as the split between bonds and equities, in order to meet its liabilities and in particular to achieve the goal of employer contribution rates which are both low and stable.

Financial Performance Report

Income, Expenditure and Fund value

The Fund's Financial Statements show that the Net Asset Value has increased by 4.5% compared to the previous year. Over the last 5 years, from the 2015 value of £3,244 million, the value of Net Assets has increased by 20%



Finance Performance Report

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Fund Value at the start of the year	3,049,227	3,243,794	3,133,118	3,859,589	3,896,452
Income	186,072	184,985	199,644	207,829	159,467
Expenditure	(206,109)	(131,993)	(139,542)	(146,866)	(162,058)
Change in Market Value of Investments	214,604	(163,668)	666,369	(24,100)	194,231
Increase/(Decrease) in Fund during the year	194,567	(110,676)	726,471	36,863	191,640
Fund Value at the end of the year	3,243,794	3,133,118	3,859,589	3,896,452	4,088,092
Change in Fund Value %	6%	(3%)	23%	1%	5%

Financial Highlights

	£000	£000	£000	£000	£000
Pensions Paid	94,860	98,348	101,668	105,369	113,219
Administration Costs	1,599	1,558	1,870	1,672	1,692
Investment Management Costs	2,779	3,418	2,596	2,451	5,314
Oversight and Governance Costs	230	177	207	684	1,236

Membership

	2015	2016	2017	2018	2019
	No	No	No	No	No
Active	22,566	22,637	23,791	23,295	22,274
Deferred	24,429	22,453	22,861	23,243	23,361
Pensioner	21,059	21,699	22,177	22,757	23,983
Total	68,054	66,789	68,829	69,295	70,068

Fund Averages

	£	£	£	£	£
Fund value per member	47,665	46,910	56,075	56,230	58,345
Average Pension Paid	4,504	4,532	4,584	4,630	4,721
Total expenses cost per member	68	77	68	69	118
Administration Cost per member	23	23	27	24	24
Investment Management cost per member	41	51	38	35	76
Oversight and Governance costs per member	3	3	3	10	18

Analytical review of the financial year

The financial performance of pension funds can vary significantly year on year - the total fund value can undergo large movements resulting from the change in the market value of investments, and within the fund account the 'net additions (withdrawals) from dealings with members' can vary due to external factors affecting the fund itself or the principal employers within it.

The significant impact of, unforeseeable and unquantifiable, external factors have resulted in the policy of the administering authority not to set a budget for future periods for Teesside Pension Fund. It was felt that any budget would contain too many unknowable variables to be of any practical use and analysis of budget variances would contain inaccurate assumptions.

For this reason, it was felt that a much more meaningful analysis of the financial performance of the Fund could be gained from comparison with the performance in the previous year and the principal variances and movements in the financial performance of the fund in comparison with the previous year were as follows;

Summary of Analytical Review 2018/19

Fund Account	Notes	2017/18 £ ' 000	2018/19 £ ' 000	Change
Contributions and Other Income				
Employers Normal & Deficit	1	63,549	67,313	6%
Employers Additional	2	41	23	(44%)
Employees Normal	3	26,180	27,191	4%
Transfers in	4	4,981	4,972	0%
Capital Costs of Early Retirements	5	4,499	4,075	(9%)
Other Income		1,185	581	(51%)
Total Income		100,435	104,155	4%
Benefits and Other Expenditure				
Benefits	6	105,369	113,219	7%
Benefits - Basic Lump Sum	7	23,403	25,463	9%
Benefits - Lump Sums on Death		2,771	2,915	5%
Individual Transfers to other Schemes	8	10,204	11,714	15%
Administrative Expenses	9	1,672	1,692	1%
Investment Management Expenses	10	2,451	5,314	117%
Oversight and Governance Costs	11	684	1,286	81%
Other Expenditure	12	312	485	55%
Total Expenditure		146,866	162,038	10%
Return on Investments				
Dividends	13	91,790	35,315	(62%)
Rents	14	14,042	15,414	10%
Interest	15	1,562	4,583	193%
Profit on Sale of Investments		249,107	1,131,177	354%
Unrealised gain / (loss) on Revaluation		(273,207)	(936,946)	243%
Total Return on Investments		83,294	249,543	200%
Net Increase in the Fund in the Year		36,863	191,660	420%

Explanation of variances

	2017/18	2018/19	
1 Employers Normal Contributions & Deficit contributions - £'000	63,549	67,313	increase of 6%

Employers normal contributions have increased by £3.5m, and deficit contributions have increased by £0.3m, which has given an overall increase of £3.8m in the year.

	2017/18	2018/19	
2 Employers Additional Contributions - £'000	41	23	decrease of (44%)

Payments of additional contributions for authorised leave and maternity has decreased during 2018/19.

	2017/18	2018/19	
3 Employees Normal Contributions - £'000	26,180	27,191	increase of 4%

Although active membership has decreased slightly during the year by 2.5%, auto enrolment continues to make contributions to the scheme, and the ability for employees to pay 50% contributions continues to have a positive effect for the year.

	2017/18	2018/19	
4 Transfers In - £'000	4,981	4,972	decrease of (0%)

In 2018/19 201 transfers were received into the scheme at an average value of £24.7k, compared to 142 transfers at an average value of £35.1k in 2017/18.

	2017/18	2018/19	
5 Capital Cost of Early Retirements - £'000	4,499	4,075	decrease of (9%)

The number of early retirements has decreased compared to the previous year, and the average cost per retirement has increased. The retirements from the Councils processed in the year were as follows;

	Number	Total Cost	Average
Hartlepool Borough Council	18	£342,811	£19,045
Middlesbrough Council	11	£357,944	£32,540
Stockton Borough Council	21	£1,058,880	£50,423
Redcar & Cleveland Borough Council	8	£227,018	£28,377
Total	58	£1,986,653	£34,253

6 Benefits - £'000	2017/18	2018/19	increase of 7%
	105,369	113,219	

At the year-end there were 23,983 Pensioner Members / Dependents receiving pension benefits, at an average of £4,721 per annum. (2017/18 22,757 receiving benefits at an average of £4,630 per annum).

7 Benefits - Basic Lump Sum - £'000	2017/18	2018/19	increase of 9%
	23,403	25,463	

There has been an increase of 9% in the value of Lump Sums paid by the Fund during the year, with the number of recipients increasing to 1,529 (2017/08 1,045)

8 Individual Transfers to Other Schemes - £'000	2017/18	2018/19	increase of 15%
	10,204	11,714	

Transfers out can vary quite markedly year on year depending on both numbers and the type of people transferring. For 2018/19, the individual transfers out was £11,714k (2017/18 £10,204k), an increase from the previous year. In term of numbers, the transfers out for 2018/19 were 169 (2014/18 173)

	Number	Total Cost	Average
2018/19	169	£11,714,000	£69,314
2017/18	173	£10,204,000	£58,983

9 Administrative Expenses - £'000	2017/18	2018/19	increase of 1%
	1,672	1,692	

There has been a slight increase of 1% in Administration costs in 2018/19.

10 Investment Management Expenses - £'000	2017/18	2018/19	increase of 117%
	2,451	5,314	

An increase in transaction costs of £1,144k, plus £1,630k increase in management fees (some of which relate to Border to Coast start-up costs).

	2017/18	2018/19	
11 Oversight and Governance Costs - £'000	684	1,236	increase of 81%

A refund or transition cost of £224k, together with re-charges of pooling set-up costs of £769k account for most of the increase in this expense for 2018/19.

	2017/18	2018/19	
12 Other Expenditure - £'000	312	485	increase of 55%

An increase in Other Expenditure reflects the increase in refunds to leaving members.

	2017/18	2018/19	
13 Dividend Income - £'000	91,790	35,315	decrease of (62%)

Overall Dividend Income has decreased by £56.4 million (17/18 rose by £0.9million) which is due to the sale of fund equities. Equities are now mainly owned by the Fund in pooled vehicles, where dividend income is reinvested instead of being distributed.

	2017/18	2018/19	
14 Rent - £'000	14,042	15,414	increase of 10%

Increased rental income from additional properties purchased during the year.

	2017/18	2018/19	
15 Interest - £'000	1,562	4,583	increase of 193%

An increased amount of cash deposits during 2018/19, and a 0.25% increase in the base rate in August 2018 has produced a higher level of interest received compared to the previous year.

	2017/18	2018/19	
16 Investments - £'000	3,380,191	3,540,968	increase of 5%

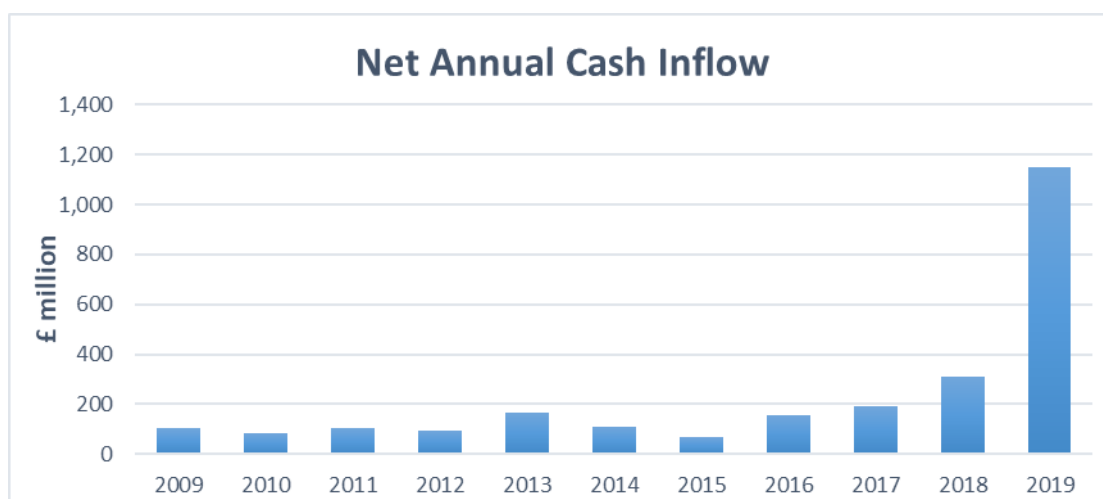
Investment values for the portfolio showed a 5% increase in value (£161 million) for the year.

	2017/18	2018/19	
17 Cash - £'000	501,818	542,261	increase of 8%

Cash has continued to build up following divestments from equities, as part of the Fund's transformation prior to pooling.

Cashflow Statement

	£000 2017/18	£000 2018/19
Cashflow from Operating Activities		
Cash received for Contributions	89,339	98,433
Cash received for Early Retirements	4,524	5,011
Cash Received from Transfers In	4,981	4,972
Cash Received from Investments	111,132	71,508
Cash Received from Sales of Investments	249,108	1,131,177
Cash from Other Income	1,185	581
Total Cash Received	460,269	1,311,682
Cash paid for Benefits	131,543	141,597
Cash paid for Transfers Out	10,516	12,194
Cash paid for Management Expenses	5,038	9,093
Total Cash Paid	147,097	162,884
Net Cash Inflow from Operating Activities	313,172	1,148,798
Application of Cash		
Net Sales / Purchases of Investments	254,218	1,101,158
Increase in Cash with Custodian	1,746	5,946
Increase in Cash on Deposit	57,621	42,000
Decrease in Cash at Bank	34	113
Increase in Other Debtor Balances	(208)	(80)
Increase in Other Creditor Balances	(239)	(339)
	313,172	1,148,798



The net annual cash flow of the Fund has, to date, always been positive and the realised profit and losses on the sale of investments can have a very significant impact in any one year.

Asset Allocation Strategy

The Investment Strategy Statement sets out how the Fund plans to invest its assets. This strategy is set for the long term and is reviewed every 3 years as part of the Fund's Asset/Liability study to ensure that it remains appropriate to the Fund's liability profile. As part of the strategy the Administering Authority has adopted a strategic benchmark representing the mix of assets best able to meet the long term liabilities of the Fund. As at 31 March 2019 the actual assets compared to the benchmark as follows;

	Pension Fund at 31/03/2019	Pension Fund Target Strategic Allocation	Investment Strategy Statement Max	Investment Strategy Statement Min
UK Equities	30%	22%	80%	40%
Overseas Equities	45%	28%		
Alternatives	3%	15%	20%	10%
Property and Property Debt	9%	15%	20%	10%
Bonds	0%	18%	40%	2%
Cash	13%	2%		
	100%	100%		

The Fund asset mix % varies slightly from the statutory accounts due to internal classification differences.

Amounts due to the Fund from Employers

	2017/18 £ ' 000	2018/19 £ ' 000
Current Assets		
Contributions in Respect of Employers	5,156	5,651
Contributions in Respect of Members	2,110	2,289
Amounts due in respect of early retirements	473	5
Debtors due over 1 year		
Amounts due in respect of early retirements	0	0
	7,739	7,945

The Contributions due are in respect of March 2019 and were received in April 2019.

Early Retirement costs

Scheduled Bodies have the option to spread early retirement costs over 5 years. The debts due over 1 year are the amounts which are receivable from 2017/2018 onwards.

Payment of Contributions to the Fund

Employers are required to pay employers and employees contributions to the Fund within 19 days of the end of the month to which they relate. The payment of contributions is monitored for timeliness and accuracy of payment.

Analysis of Contributions received

Total number of Contribution payments received 1,701

Number received late 72

The following table shows the late payment history for 2018/19 :-

Number of days payment was late	Number of late payments	Percentage of late payments
Less than 10	49	68.06%
Between 10 and 19	8	11.11%
Between 20 and 29	4	5.56%
Between 30 and 39	5	6.94%
More than 40	6	8.33%
Total	72	100.0%

Analysis of Contribution rates and amounts received 2018/19

	Employer Rate	Employees (£000)	Employer (£000)
Ad Astra Academy Trust - Brougham Primary School	16.6%	19	55
Ad Astra Academy Trust - Rosebrook Primary School	16.6%	39	115
Ad Astra Academy Trust - West Park Primary School	16.6%	14	41
Ad Astra Academy Trust - West View Primary School and Sports Academy	16.6%	50	138
All Saints Academy	16.6%	23	64
Ash Trees Academy	16.6%	55	159
Beamish Museum Ltd	15.3%	161	376
Beyond Housing	17.2%	317	814
Billingham Town Council	16.2%	8	20
Business and Enterprise North East Ltd	11.7%	2	68
Caldicotes Primary Academy	16.6%	8	22
Care Quality Commission	17.9%	1396	3277
Catcote Academy	16.6%	91	261
Caterlink - RCBC	15.1%	8	21
Caterlink - St Oswald's	15.1%	3	8

	Employer Rate	Employees (£000)	Employer (£000)
Cleveland College of Art and Design	15.2%	115	276
Cleveland Fire Brigade	16.1%	232	618
Cleveland Fire Support Network	16.1%	3	6
Coast and Country Housing	17.2%	233	600
Community Integrated Care	23%	2	8
Conyers School	16.6%	94	264
Creative Management Services Ltd	18.9%	5	18
Crooksbar Primary School	16.6%	11	34
Diocese of Middlesbrough Trustee	21.6%	8	18
Dyke House Academy	16.6%	77	211
Easterside Academy	16.6%	28	82
Ecocleen Services Ltd	25%	0	1
Egglescliffe Primary School	16.6%	6	18
Emmanuel Schools Foundation	16.6%	58	166
Endeavour Academies Trust	16.6%	104	288
English Martyrs Educational Trust	16.6%	71	193
Enquire Learning Trust (Central)	16.6%	65	114
Erimus Housing	17.2%	-5	-9
Eskdale Academy	16.6%	14	41
Extol Academy Trust (Eldon Grove)	16.6%	29	81
Fabrick Housing Group	16%	1038	2436
Fleet Factors RCBC	16%	1	3
Forward Swindon Ltd	Nil	0	413
Frederick Natrass Primary Academy	16.6%	17	49
Future Regeneration of Grangetown	20.9%	2	6
Galileo Multi Academy Trust	16.6%	195	558
Grangefield Academy	16.6%	36	99
Green Lane Primary Academy	16.6%	31	91
Guisborough Town Council	16.2%	5	14
Hardwick Green Primary Academy	16.6%	16	47
Harrow Gate Primary Academy	16.6%	28	81
Hartlepool Borough Council	15.4%	3059	7441
Hartlepool Care Services Ltd	20.6%	2	7
Hartlepool College of Further Education	15.2%	154	393
Hartlepool Sixth Form College	15.2%	24	61
Hemlington Hall Academy	16.6%	22	65
Hillsview Academy	16.6%	31	85
Holy Trinity Primary School	16.6%	15	44
Horizons Specialist Academy Trust	16.6%	168	466
Ian Ramsey Church of England Academy	16.6%	45	127
Ingleby Barwick Town Council	16.2%	2	5
Ingleby Manor Free School & Sixth Form	16.6%	33	93

	Employer Rate	Employees (£000)	Employer (£000)
Ironstone Academy Trust - Ormesby Primary School	16.6%	12	37
Ironstone Academy Trust - Zetland Primary School	16.6%	18	52
Jesmond Gardens Primary School	16.6%	24	70
Kader Academy	16.6%	14	40
KGB Cleaning Ltd – LJS	14.8%	1	3
Kier Business Services	15.3%	92	191
KTS Academy	16.6%	63	183
Legacy Learning Trust	16.6%	96	192
Liberata UK Ltd	Nil	41	0
Lockwood Parish Council	16.2%	1	3
Loftus Town Council	16.2%	2	4
Manor Community Academy	16.6%	50	142
Mellors Catering Ltd - Dormanstown	19.2%	1	4
Mellors Catering Services Ltd (Central)	19.2%	10	35
Mellors Catering Services Ltd (Normanby)	19.2%	3	10
Middlesbrough College	15.2%	434	1067
Middlesbrough Council	15.3%	4265	10319
Nicholas Postgate Catholic Academy Trust	16.6%	295	815
NMRN Trading	17%	7	21
Normanby Primary School	16.6%	27	83
North Ormesby Primary Academy	16.6%	15	47
North Shore Academy	16.6%	37	103
Norton Primary Academy	16.6%	27	78
Nunthorpe Academy	16.6%	87	231
Nunthorpe Primary Academy	16.6%	13	38
Oak Tree Primary Academy	16.6%	28	82
One Awards Limited	15.3%	30	73
One IT Services and Solutions Ltd	15.2%	48	103
One IT Services Ltd - Porter	17%	2	5
ONsite Building Trust	17%	3	10
Orian Solutions Ltd	17%	1	4
Ormesby School	16.6%	1	3
Our Children 1st Academy Trust	16.6%	28	82
Our Lady & St Bede Catholic Academy	16.6%	41	118
Our lady of Light Catholic Academy Trust - Christ the King	16.6%	6	17
Our lady of Light Catholic Academy Trust - St Patrick's Catholic College	16.6%	12	35
Our lady of Light Catholic Academy Trust - St Patrick's Primary	16.6%	10	30
Our lady of Light Catholic Academy Trust - St Therese of Lisieux	16.6%	5	16
Outwood Academy Acklam	15.3%	74	158

	Employer Rate	Employees (£000)	Employer (£000)
Outwood Academy Bishopsgarth	16.6%	39	112
Outwood Academy Bydales	16.6%	31	88
Outwood Academy Ormesby	16.6%	39	112
Outwood Academy Redcar	16.6%	27	75
Pentland Academy	16.6%	22	65
Police & Crime Commissioner for Cleveland	14.6%	81	150
Redcar and Cleveland Borough Council	16%	3078	7692
Redcar and Cleveland College	15.2%	32	78
River Tees Multi Academy Trust	16.6%	43	116
Riverdale Primary School	16.6%	10	30
Rose Wood Academy	16.6%	21	61
Rye Hills Academy	16.6%	59	157
Sacred Heart Secondary Catholic Voluntary Academy	16.6%	11	31
Saltburn, Marske & New Marske Parish Council	16.2%	3	9
Skelton and Brotton Parish Council	16.2%	3	8
Skelton Primary School	16.6%	33	90
SLM Charitable Trust (MBC)	15.3%	56	137
SLM Community Leisure Charitable Trust	17.6%	37	98
SLM Fitness & Health Ltd (MBC)	15.3%	4	9
SLM Fitness and Health Ltd	17.6%	2	6
SLM Food & Beverage Ltd (MBC)	15.3%	5	12
SLM Food and Beverage Ltd	17.6%	2	5
South Tees Development Corporation	17.00%	39	79
St Aidan's Primary School	16.6%	19	57
St Benedicts Primary Catholic Voluntary Academy	16.6%	7	19
St Hilda's Catholic Academy Trust	16.6%	86	240
St Mark's Academy	16.6%	25	73
St Thomas of Canterbury MAT	16.6%	36	106
St Bede's Catholic Academy	16.6%	16	46
St Bedes Primary Catholic Voluntary Academy	16.6%	7	20
St Gabriel's Catholic Voluntary Primary Academy	16.6%	6	18
St Gregory's RC Academy	16.6%	18	54
St Josephs Primary Catholic Voluntary Academy	16.6%	4	10
St Margaret Clitherow's Catholic Voluntary Primary Academy	16.6%	8	22
St Mary's Catholic Voluntary Primary Academy	16.6%	7	19
St Michael's Catholic Academy	16.6%	33	93
St Paulinus Primary Catholic Voluntary Academy	16.6%	5	14
St Peter's Catholic Voluntary Academy of Maths and Computing	16.6%	19	52
Stagecoach Transit	27.2%	4	179
Steria Ltd	14.6%	404	905
Stockton Borough Council	15.6%	4646	11436

	Employer Rate	Employees (£000)	Employer (£000)
Stockton Riverside College	15.2%	280	676
Stranton Academy Trust (Stranton)	16.6%	31	88
Sunnyside Academy	16.6%	48	139
Tascor Services Ltd - PFI	17.7%	1	4
Tees Active Limited	16.5%	116	289
Tees Valley Collaborative Trust	15.2%	80	220
Tees Valley Combined Authority	15.9%	252	529
Tees Valley Community Asset Preservation Trust	17%	2	6
Tees Valley Education Trust	16.6%	74	206
Teesside Learning Trust	16.6%	100	268
Teesside University	14.4%	1936	4349
The Chief Constable for Cleveland	14.6%	816	1772
Unity City Academy	16.6%	55	152
Viewley Hill Academy Trust	16.6%	15	44
Vision Academy Learning Trust	16.6%	133	360
Wynyard Church of England Primary School	16.6%	9	25
Yarm Primary School	16.6%	23	65
Yarm Town Council	16.2%	2	4
Total Contributions 2018/19		27,191	67,336

Note: net rate of contribution payable by each employing Organisation for the period 1 April 2018 to 31 March 2019 under the LGPS Regulations.

Performance Monitoring

As part of our commitment to continued service improvements we operate a system of performance monitoring. The Pensions Administration system monitors the key procedures that are performed by the administration unit. Each procedure is measured against its target and monitored on a monthly basis.

Performance

The pension administration unit aim to perform 98.5% of the procedures within each target timescale. The table below highlights the performance of the administration unit against the key procedure targets.

Procedure	Target 2017/18	Achieved within timescale
Processing New Starters	20 days from receipt	99.97%
Processing Transfer Values (TV's)	10 working days from the date of notification	98%

Refund of Contributions	10 working days from the request date	100%
Estimates of Benefit Entitlements	10 working days from date of request	100%
Pension benefits	10 working days from the receipt of all relevant information	99.93%
Deferred Benefits	10 working days from notification of leaving	100%

Key procedure volumes

The volumes of the key procedures performed by the Pensions administration unit have increased, compared to the previous year.

Procedure	2016/17	2017/18	2018/19
Processing New Starters	2,702	2,992	3,646
Processing Transfer Values	351	327	306
Refund of Contributions	375	357	399
Estimates of Benefit Entitlements	2,343	2,209	2,181
Pension benefits	2,275	2,013	1,533
Deferred Benefits	1,815	1,954	2,083
Deaths	568	575	536
Divorces	127	139	139
General Enquiries	1,713	1,589	1,571
Total	12,269	12,155	12,394

Actuarial Valuation of the Fund

Every three years the Fund is required to appoint a suitably qualified actuary to assess solvency and to measure the level of assets compared to liabilities. This process is known as a valuation and the most recent one, carried out by the actuarial firm Aon Hewitt Ltd valued the Fund as at 31 March 2016. The principal conclusions of this valuation were:

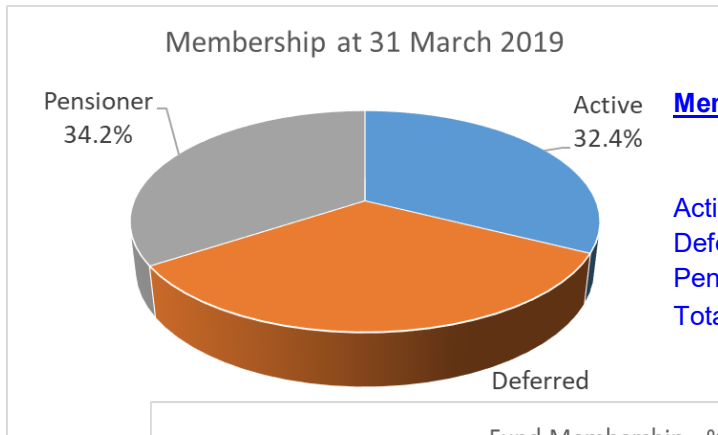
- ◆ The ongoing funding level of the Fund on 31 March 2016 was 100% (2013 – 101%).
- ◆ The surplus of assets compared to the past service liabilities was £11.1 million (2013 – surplus of assets compared to past service liabilities £37.0 m).
- ◆ The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 15.7% of pensionable pay.
- ◆ Employers will pay revised levels of contributions that will take in to account their specific circumstances and having regard to the principles set out in the funding strategy statement. The total aggregate Employer contribution rates to the Fund are anticipated to be 15.5% of Pay plus £0.79m (2017/2018), 15.7% of Pay plus £0.81m (2018/2019) and 15.9% of Pay plus £0.83m (2019/2020).

In accordance with the provisions of the Regulations the next triennial valuation of the Fund is due to be carried out as at 31 March 2019.

Membership

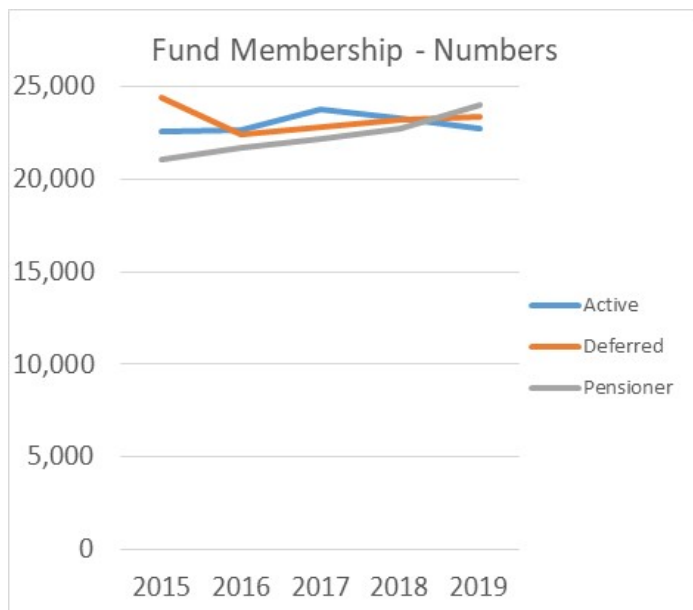
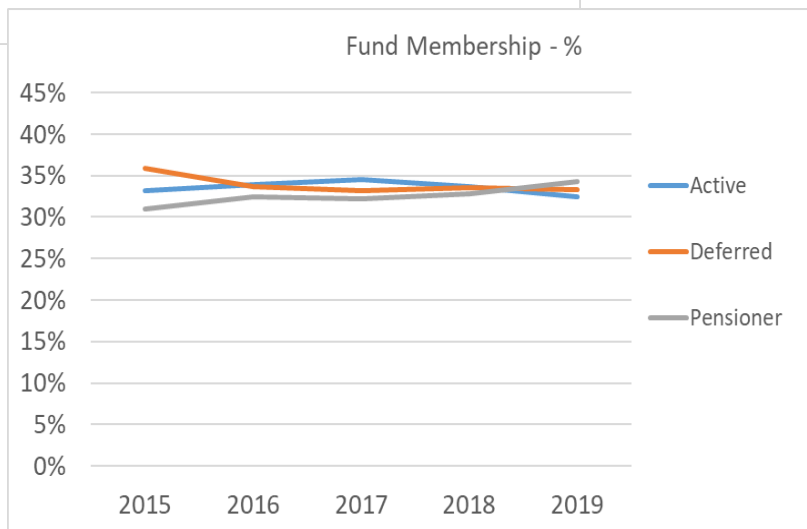
In the 2018/19 financial year the total membership of the Fund has increased by 773 to the current total of 70,068.

The number of pensioners continues to increase but proportionately the Fund membership remains broadly split between the three categories of member.



Membership Numbers

	2015	2016	2017	2018	2019
Active	22,566	22,637	23,791	23,295	22,724
Deferred	24,429	22,453	22,861	23,243	23,361
Pensioner	21,059	21,699	22,177	22,757	23,983
Total	68,054	66,789	68,829	69,295	70,068



Summary of Membership Changes

	Active Members	Deferred Members	Pensioners		Total
			Members	Dependants	
At 1 April 2018	23,295	23,243	19,805	2,952	69,295
Adjustments	(878)	(272)	363	28	(759)
New Members	3,153	1,650	1,430	243	6,476
Change in Status	(2,257)	(961)	(26)	(9)	(3,253)
Leavers	(589)	(299)	(629)	(174)	(1,691)
At 31 March 2019	22,724	23,361	20,943	3,040	70,068
% of Total at 1 April 2018	33.6%	33.5%	28.6%	4.3%	100.0%
% of Total at 31 March 2019	32.4%	33.3%	29.9%	4.3%	100.0%

During the year, 2 employers joined the scheme as scheduled bodies and 2 employers joined as admitted bodies. Also, 16 admitted employers ceased to have active members in the scheme. At the year-end the Fund had 154 employers with active members.

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

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
All Saints Academy	25	14	3	1	43
Ash Trees Academy	84	24	7	-	115
Beamish Museum Limited	115	41	23	2	181
Beyond Housing	275	247	221	23	766
Billingham Town Council	8	3		-	11
Brougham Primary School	21	5	7	-	33
Business And Enterprise Ltd	2	25	21	1	49
Caldicotes Primary Academy	17	6	1	-	24
Care Quality Commission	334	141	341	9	825
Catcote Academy	106	37	11	-	154
Caterlink - RCBC	14	1	1	-	16
Caterlink - St Oswald's	7			-	7
Chandlers Ridge Academy	5	3	2	-	10
Chief Constable For Cleveland	573	57	25	-	655
Churchill's Collaborative	1			-	1
CIC Elderly Persons Homes	3	21	62	1	87
Cleveland Fire Authority	132	88	80	6	306
Cleveland Fire Support Network	1			-	1
Cleveland Police	1	242	224	22	489

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Compass Contract Services Ltd	30			1	31
Conyers School	142	35	17	1	195
Creative Management Serv Ltd	12	9	7	-	28
Crime Commissioner Cleveland	30	24	25	4	83
Crooksbar Primary School	22	4		-	26
Diocese Of Middlesbrough	1			-	1
Dormanstown Primary	3	5	2	-	10
Dyke House Academy	83	23	5	-	111
Easterside Academy	58	4		-	62
Ecocleen Services Limited	1			-	1
Egglescliffe Primary School	13	2		-	15
Emmanuel Schools Foundation	76	58	34	1	169
Endeavour Academies Trust	127	6		-	133
English Martyrs Ed Trust	70	45	17	-	132
Enquire Learning Trust Central	14	2	1	-	17
Erimus Housing	114	79	196	13	402
Eskdale Academy	15	6	3	-	24
Extol Ac Trust (Eldon Grove)	40	9		-	49
Fleet Factors (RCBC)	1		1	-	2
Fredrick Natrass Primary Acad	23	10	4	-	37
Galileo Multi Academy Trust	312	22	3	-	337
Grangefield Academy	51	22	8	-	81
Green Lane Primary Academy	55	8	7	-	70
Guisborough Town Council	5	2	4	-	11
Hardwick Green Primary	32	3	1	-	36
Harrow Gate Primary Academy	53	8	2	-	63
Hartlepool 6th Form College	33	30	17	3	83
Hartlepool BC	2,656	2,991	1,837	219	7,703
Hartlepool Care Services Ltd	4			-	4
Hartlepool College of FE	183	204	109	13	509
Hemlington Hall Academy	49	4	1	-	54
Hillsview Academy	31	20	7	-	58
Holy Trinity Primary School	11			-	11
Horizons Specialist Academy	211	54	10	5	280
Housing Hartlepool	136	99	116	10	361
Ian Ramsey COE Academy	68	10	11	-	89
Ingleby Barwick Town Council	1			-	1
Ingleby Manor Free School	31			-	31
James Cook Learning Trust	2			-	2
Jesmond Gardens Primary	35	9		-	44
Kader Academy	24	3		-	27

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
KGB Cleaning Ltd - LJS	5			-	5
KGB Cleaning & Supp Servs Ltd	3	1		-	4
Kier Business Services	2	11	8	1	22
KTS Academy	97	14	8	1	120
Learning And Skills Council	2	7	4	-	13
Legacy Learning Trust	160	1		-	161
Liberata UK Ltd	22	41	61	7	131
Lockwood Parish Council	2			-	2
Loftus Town Council	2		1	-	3
Longlands College Of FE	1	2	2	-	5
Manor Community Academy	62	24	21	1	108
Mellors Catering -	2			-	2
Mellors Catering Services Ltd	50	1	6	2	59
Middlesbrough BC	3,495	4,390	2,970	302	11,157
Middlesbrough College	420	347	139	10	916
Mouchel	2	76	158	6	242
Nicholas Postgate Academy	881			-	881
NMRN Operations	6		1	-	7
Normanby Primary School	58	16	2	8	84
North Ormesby Primary	21	5	1	-	27
North Shore Academy	67	64	12	1	144
Norton Primary Academy	46	18	4	-	68
Nunthorpe Academy Limited	62	26	13	-	101
Nunthorpe Primary Academy	34	12		-	46
Oak Tree Primary Academy	57	13	6	-	76
One Awards Ltd (Formerly	13	18	15	4	50
One It Services Ltd - Porter	1			-	1
One IT Solutions Ltd	18	1	1	-	20
Onsite Building Trust	4			-	4
Orian Solutions Limited	4			-	4
Ormesby Primary School	24	7	1	-	32
Ormesby School	1	13	8	-	22
Our Children 1st Academy Trust	47	6	2	-	55
Outwood Academy - Ormesby	54	12	3	-	69
Outwood Academy Acklam	74	2	10	-	86
Outwood Academy	55	7	1	-	63
Outwood Academy Bydales	48	4	1	-	53
Outwood Academy Redcar	40	2	1	-	43
Overfields Primary School	25			-	25
Pennyman Primary Academy	5	5	5	-	15
Pentland Academy	44	2	1	-	47

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Prince Regent Street Trust	76			-	76
Redcar & Cleveland BC	2,233	3,720	2,657	252	8,862
Redcar Academy	2	9	11	-	22
River Tees Multi Academy Trust	40	1	2	-	43
Riverdale Primary School	16	4	2	-	22
Rose Wood Academy	42	10	3	-	55
Rosebrook Primary School	63	7		-	70
Rye Hills Academy	64	10	6	-	80
Saltburn And Marske PC	3	2	1	-	6
Skelton & Brotton Parish	3		1	-	4
Skelton Primary School	46	8	4	-	58
SLM Charitable Trust (MBC)	62	20	3	-	85
SLM Community Leis Char Trust	55	9	10	-	74
SLM Fitness & Health Limited	8	5		-	13
SLM Food & Beverage Ltd	2			-	2
SLM Food And Beverage Ltd	5	4		-	9
SLM Fitness And Health (MBC)	5	3		-	8
South Tees Development Corp	10	1		-	11
St Aidan's Primary School	9			-	9
St Bede's Catholic Academy	27	22		4	53
St Gregory's Catholic Academy	30	18	5	6	59
St Joseph's Catholic Primary	18			-	18
St Mark's Academy	49	7	1	-	57
St Michael's Catholic Academy	45	13	8	-	66
St Thomas Of Canterbury MAT	63	14	4	1	82
Steria	165	67	127	4	363
Stockton BC	4,032	5,339	3,545	375	13,291
Stockton Riverside College	322	139	58	1	520
Stranton Academy Trust	51	8	2	1	62
Sunnyside Academy	79	25	7	1	112
Tascor Services Ltd Custody	3	4	6	-	13
Tascor Services Ltd PFI	2		1	-	3
Tees Active Ltd	92	86	38	4	220
Tees Valley CAPT	1			-	1
Tees Valley Combined	88	11	6	-	105
Tees Valley Education Trust	102	13	2	-	117
Teesside Learning Trust	100	18	4	-	122
TeesValley Collaborative Trust	123	21	2	-	146
The Northern School of Art	106	81	55	8	250
Thirteen Group (Fabrck Hsg)	87	17	25	5	134
Transit Stagecoach	2	8	141	20	171

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Tristar Homes	178	136	135	16	465
Unity City Academy	59	82	23	2	166
University of Teesside	1,090	834	518	77	2,519
Viewley Hill Academy Trust	24	7	1	-	32
Vision Academy Learning Trust	238	30	8	-	276
West Park Primary School	27	8	3	-	38
West View Academy	60	9	1	-	70
Wynyard COE Primary School	17	1		-	18
XPS Administration Ltd	13			-	13
Yarm Primary School	52	7	2	-	61
Yarm Town Council	1		2	-	3
Zetland Primary School	36			-	36
Employers with no active	-	2,610	6,573	1,585	10,768
Total	22,724	23,361	20,943	3,040	70,068

Internal Dispute Resolution Procedure

In the first instance the member should contact the Teesside Pension Fund at the address shown at the end of the Annual Report. We will send a detailed guide explaining the Internal Dispute Resolution Procedure (IDRP) and how the appeal process will be handled. Any appeal must, ordinarily, be made within six months of receipt of the notification of the decision which is being disputed.

The initial review (stage 1) of each case is conducted by a person nominated by the body who made the decision (the 'adjudicator'). Where an appeal concerns the employer's decision, the adjudicator is an individual nominated by that employer, if the appeal is about the calculation of benefits, it will be reviewed by the adjudicator for the Teesside Pension Fund.

If, after the initial review, the member is still dissatisfied with the decision, they can apply via the second stage of the process to have decision reconsidered. This application must be made within six months of the receiving the decision of the initial review. At the second stage, if the appeal concerns an employer decision, it is reviewed by the Teesside Pension Fund. If the appeal concerns the administrator, then an independent third party pension specialist is appointed.

If the member is still not satisfied following the second stage decision, an appeal can be made to the Pensions Ombudsman.

Details of IDRP cases processed in the year

The vast majority of cases that reach the appeal stage continue to be where members have approached employers and former employers for the early release of benefits – often on grounds of ill health.

Cases started in year	24
Cases resolved in year	23 Cases Dismissed
Cases resolved in year	1 Cases Upheld

Head of Pensions Governance and Investments' Report

Globally stock markets saw gains over the last year but not without significant volatility during the period. The ten-year positive 'bull' market was significantly tested in the last three months of 2018, before a change of policy on raising interest rates from the US Federal Reserve in January drove markets higher towards the end of the financial year.

With global growth weakening and inflationary pressures easing, the move from the Federal Reserve was welcomed by the markets. The US stock market was by far the strongest performer over the year, with tax cuts helping to drive both economic growth and company profits. Performance in other global markets was more subdued with concerns about global trade coming to the fore, in particular in relation to the trade tensions between the US and China and (to an extent) the US and its other major trading partners Europe, Canada and Mexico. Emerging markets, in particular, came under increasing pressure as higher US interest rates resulted in a stronger dollar which raised their cost of external borrowing. Continuing uncertainty over the UK's future relationship with the European Union added to concerns over global trade. Negative views on the outlook for the global economy and global growth may impact valuations in the short to medium term.

During the year the Fund made its first investments via Border to Coast, transferring its entire UK equity portfolio of £1.23 billion during the second quarter of the financial year. The portfolio is now invested by Border to Coast's internal equity team in the Border to Coast UK Listed Equity Fund, which aims to provide a total return (income and capital) which outperforms the total return of the FTSE All Share Index by at least 1% a year over rolling 3 year periods (before management fees). Although it is early days in relation to what is expected to be a long-term investment, it is pleasing to note Border to Coast met this objective in the period to the end of the financial year.

The Fund also made a £200 million investment in Border to Coast's Overseas Developed Equity fund during the year. However, most of the Fund's overseas equities are invested in passive index-tracker funds. The process of transitioning the overseas equity portfolio into these funds was started at the end of the previous financial year and completed during the year, with assets transferring to a North America Equity Index fund and a Europe (ex-UK) Equity Index fund.

Property is an asset class the Fund has expanded its investment in over the past few years. The Fund has a strategy to build up the direct portfolio over time to increase the proportion of the Fund invested in this asset class to nearer 10% - by the year-end the Fund's allocation was 8.6%. The Fund's revised asset allocation strategy has expanded the definition to include 'Property Debt' – loans associated with and normally underwritten by property, and the combined target allocation for Property and Property Debt is 15%. UK property valuations were coming under pressure towards the end of the year, particularly in the retail sector. The quality of the assets the Fund holds in this sector should to some degree offer some protection from the full effect of any drop in asset value. Property is a long-term investment and the Fund is under no obligation to sell if the market does turn.

Alternative investments (sometimes referred to as 'private market' investments, as they are not typically traded on public markets) are an asset class that has featured much in the past, with particular press attention to infrastructure assets. Alternatives cover a number of different strategies, the main ones being private equity, hedge funds, infrastructure, and commodities. The Fund has been developing its alternative portfolio over the year, with some investments made via infrastructure and private equity managers. Currently alternatives only represent 2.6% of the Fund, but the intention is to grow this significantly as the target allocation is 15%. This is an area where Border to Coast will greatly assist the

Fund, as they will be able to gain access to high quality private markets managers and obtain better terms from these managers through the advantages of scale. Over coming years the Fund expects to make most of its investments in alternatives through Border to Coast.

The Fund did not hold any Bonds during the year and it is not expected to return to this asset class until prices revert to more normal levels.

The Fund's cash levels have fluctuated but remained high during the year. Cash built up as profits were taken out of equities and to provide some short-term protection as bonds have been sold down to zero. Cash increased by around £40 million to approximately £542 million as at 31 March 2019.

Every three years the Fund actuary carries out a full actuarial valuation of the Fund. The purpose of this is 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 LGPS is a funded scheme, this means there is a pool of investments which produces income to 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 with the aim of the Fund is to be 100% funded. At the March 2016 valuation the actuary was able to declare a funding level of 100%. The effects of this valuation came into force from 1 April 2017 with the next valuation carried out using data as at 31 March 2019. Draft results from this valuation are not expected until towards the end of the calendar year. The final report will be published in March 2020 with revised employer contribution rates taking effect from April 2020.

The value of the Teesside Fund at 31 March 2019 was £4.08 billion, an increase of approximately £187 million on the year. The Fund is invested in a wide range of assets. This meets the requirement to have diversification of investments in a fund, so that too great a concentration of investments in one asset class does not expose the Fund to risk of underperformance should that particular asset class perform badly.

The percentage amount invested in each asset class is shown below:

	Teesside Pension Fund at 31/03/2018	Teesside Pension Fund at 31/03/2019	Teesside Pension Fund Benchmark	Investment Strategy Statement Max	Investment Strategy Statement Min
UK Equities	30.20%	30.17%	22%	80%	40%
Overseas Equities	46.95%	45.38%	28%		
Alternatives	1.81%	2.56%	15%	20%	10%
Property	7.91%	8.59%	15%	20%	10%
Bonds	0.00%	0.00%	18%	40%	2%
Cash	13.13%	13.30%	2%		
	100.00%	100.00%	100%		

The largest 10 holdings (excluding property and cash), which make up 76.47% of the value of the portfolio as at 31 March 2019 are:

Security Description	% of Total Investments	Market value £'000
BORDER TO COAST UK L E-AAGBP	30.00%	1,225,311
SSGA NORTH AMR EQUITY INDEX SUB FUND	15.68%	640,191
SSGA EUR EX UK EQUITY INDEX SUB FUND	9.16%	373,959
SSGA MPF PAC BASIN EX-JAPAN INDEX	8.97%	366,254
SSGA MPF JAPAN EQUITY INDEX	5.72%	233,612
BORDER TO COAST OS DEV M-AA GBP	5.07%	206,925
STANDARD LIFE INVESTMENTS EUROPEAN PROPERTY GROWTH	0.52%	21,243
DARWIN LEISURE PROPERTY FDS CLS C	0.50%	20,577
GRESHAM HOUSE BRITISH STRATEGIC INV FD LP	0.48%	19,623
DARWIN LEISURE DEVELOP-DGBPA	0.37%	15,162
	78.33%	3,198,962

INVESTMENT MANAGERS / INVESTMENTS

As at 31 March 2019 the market value of the fund was allocated to the following investment managers / investments:

Manager / Investment	Asset class	Market Value	% of Fund
State Street Global Advisors	Global Equities	£1,614,036,816	39.52%
Border to Coast Pensions Partnership	UK Equities	£1,225,311,456	30.00%
	Global Equities	£206,924,956	5.07%
Internal Team	Cash	£543,011,195	13.30%
	Global Equities	£41,410,255	1.01%
	UK Equities	£89,425	0.00%
CBRE - Direct Property Portfolio	Property and Property Debt	£300,700,000	7.36%
Darwin Leisure	Alternatives	£35,739,148	0.88%
Standard Life Aberdeen	Property and Property Debt	£21,242,663	0.52%
Gresham House	Alternatives	£19,622,734	0.48%
Innisfree	Alternatives	£17,354,103	0.42%
Legal and General	UK Equities	£6,740,830	0.17%
	Property and Property Debt	£5,684,042	0.14%
Royal London	Property and Property Debt	£10,697,632	0.26%
Access Capital Partners	Alternatives	£10,483,266	0.26%
LGT Capital	Global Equities	£9,920,795	0.24%
Hermes	Property and Property Debt	£4,621,575	0.11%

Manager / Investment	Asset class	Market Value	% of Fund
CCLA Investment Management Limited	Property and Property Debt	£4,149,261	0.10%
Threadneedle	Property and Property Debt	£3,725,933	0.09%
Hearthstone	Alternatives	£2,513,066	0.06%
Total		£4,083,979,151	100.00%

PERFORMANCE

Fund performance is measured by Portfolio Evaluation Limited, a leading provider of performance measuring services to the public and private sector. The return the Fund achieves is one of the factors which the Fund Actuary takes into account when fixing the employer's contribution rate. Any increase in the contribution rate would mean less money to pay for other services. The benefits of scheme members of the Local Government Pension Scheme are related to their salary and length of service, not the value of the Fund.

As Pension Fund investment is a long-term business, it is appropriate that longer-term measures of performance are viewed as more important than short-term measures. It has become standard practice to report the performance of the Fund over 1, 3, 5 and 10 years and to compare performance with the Fund's benchmark – the return that would be expected based on the mix of assets the Fund is invested in.

In the year 2018/2019 the Fund achieved a return of 7.5% compared to our benchmark return of 6.6%.

In the three-year period to 2018/2019 the Fund achieved a return of 11.2% per annum compared to our benchmark return of 10.3%.

In the five-year period to 2018/2019 the Fund achieved a return of 8.2% per annum compared to our benchmark return of 8.6%.

In the ten-year period to 2018/2019 the Fund achieved a return of 10.2% per annum compared to our benchmark of 10.9%.

Further detail of the performance of each asset class the Fund holds is shown below:

Asset class	Performance measurement period					
	One Year			Three Years		
	Fund return	Benchmark return	Excess	Fund return	Benchmark return	Excess
UK Equities	15.5%	6.4%	9.1%	12.6%	9.5%	3.1%
Overseas Equities	7.6%	7.9%	-0.3%	14.2%	14.2%	0.0%
Property	5.5%	5.6%	-0.1%	7.3%	6.9%	0.5%
Alternatives	3.0%	4.9%	-1.9%	6.7%	5.2%	1.4%
Cash	3.6%	0.5%	3.1%	1.4%	0.3%	1.1%
Total Fund	7.5%	6.6%	0.9%	11.2%	10.3%	0.9%

Asset class	Performance measurement period					
	Five Years			Ten Years		
	Fund return	Benchmark return	Excess	Fund return	Benchmark return	Excess
UK Equities	7.4%	6.1%	1.3%	12.0%	11.1%	0.8%
Overseas Equities						
Property	9.1%	10.0%	-0.9%	7.4%	10.0%	-2.6%
Alternatives	2.6%	5.4%	-2.9%	3.3%	6.6%	-3.4%
Cash	1.0%	0.3%	0.7%	0.9%	0.4%	0.5%
Total Fund	8.2%	8.6%	-0.5%	10.2%	10.9%	-0.7%

The benchmarks used for each asset class and for the total Fund are as follows:

Asset Class	Benchmark
UK Equities	FTSE All Share Index
Overseas Equities	30% S&P 500 Index 30% FTSE Dev Asia Pacific Ex Japan Index 27.5% EuroStoxx 600 Ex UK Index 12.5% Topix 500 Index
Property	IPD Property Index (GBP)
Alternatives	Actuary rate of return: +4.7%
Cash	LIBID 7 day
Total Fund Benchmark	30% FTSE All Share Index 12% S&P 500 Index 11% EuroStoxx 600 Ex UK Index 12% FTSE Dev Asia Pacific Ex Japan Index 5% Topix 500 Index 7% FTSE All Stock Gilt Index 4% FTSE Index Linked > 5 Years Index 2% UK RPI Index 10% IPD Property Index 2% LIBID 7 Day 5% Actuary rate of return +4.7%

Ordinarily, the key to good performance is to get the big asset allocation decisions right. The weightings between equities and bonds, in particular, will go a long way to determining performance. The Teesside Fund continues to be under-represented in bonds when compared to our customised benchmark and other Funds. Central Bank policies and their programmes of quantitative easing have helped bonds performance over past years, continuing a “bull-run” in bond prices lasting over two decades.

The Teesside Fund continues to invest for long term returns in order to remain fully funded and continue to meet its future liabilities. The Fund continues to promote the view that the best way for the Fund to achieve the level of returns required to meet the liabilities of the Fund is to invest in growth assets over protection assets.

The Fund's position regarding risk monitoring and risk control is set out in the Investment Strategy Statement, which can be viewed on-line at www.teespen.org.uk. This is principally concerned with the three forms of risk:

- that associated with security of the Fund's assets,
- that associated with loss of value relating to those assets, and
- that associated with the ability of those assets to provide the required rates of return.

As the Fund is largely managed on an in-house basis, appropriate measures are in place to manage investment risk and the Strategic Director Finance, Governance and Support determines the limits on delegation to individual managers.

INVESTMENT POOLING

In the July 2015 Budget the Chancellor announced the Government's intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015:

- Asset pools achieve the benefits of scale (£25 billion as a minimum).
- Strong governance and decision making.
- Reduced cost and excellent value for money, with savings made across the LGPS.
- Improved capacity to invest in infrastructure.

The Teesside Pension Fund made the decision to work with eleven other administering authorities as part of the Border to Coast Pensions Partnership ("Border to Coast"). All of the administering authorities in BCPP formally approved arrangements for setting up BCPP before the end of the 2016/17 financial year. It represents a major collaboration between the funds with the aim of giving access to new investments and providing resilience. The twelve LGPS funds that are part of Border to Coast are: Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, Northumberland, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire.

During 2017/18 Border to Coast Pension Partnership Limited was established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. Border to Coast formed a new Board, recruited several key management and operational staff, acquired office space in Leeds and developed many of the other arrangements required to operate as an investment management company.

During 2018/19 the transfer of investment assets to Border to Coast began – all the Fund's UK equities were transferred to Border to Coast to manage and further investments during the year were made to Border to Coast's overseas equity fund. Significant set-up work was completed to allow Border to Coast to provide access to private markets investments (such as private equity and infrastructure) and the Fund will make investments through Border to Coast in these areas in coming years. Over time it is expected that investing in private markets via Border to Coast will, through the advantages of economies of scale, be possible at a significant saving to the costs the Fund incurs investing in these areas as an individual entity.

Although savings are expected over the medium to long term, there are costs associated with setting up and running Border to Coast and transferring assets to be managed by the new company. During 2018/19, the Fund incurred costs of £1,616,578 setting up, transferring assets to, and funding the ongoing management of assets by Border to Coast.

By the end of 2018/19 Border to Coast had over 60 employees and was managing £8.8 billion of assets within four different sub-funds. The expectation is that Border to Coast will have over £30 billion of assets under management by the end of 2021.

As part of the governance arrangements for Border to Coast and its partner funds, a Joint Committee comprising of the Chairs of each Pension Committee has an oversight role over the arrangements of Border to Coast.

SHAREHOLDER GOVERNANCE

Since the 1980s the policies of the Fund have promoted the view that it is not sufficient to simply hold shares in companies in which it invests. As a responsible shareholder the Fund has sought to influence those companies on a range of issues through dialogue and by voting at AGMs in order to promote shareholder value.

The Fund's policy is to vote at all AGMs and EGMs for UK listed companies where the Fund is a shareholder. An Annual Report on Shareholder Governance is presented to the Teesside Pension Fund Committee. This sets out how votes have been cast.

All Local Authority Pension Funds are required to produce an Investment Strategy Statement (ISS) setting out the Fund's position on a range of issues, including the need to state to what extent, if any, social, environmental and ethical considerations are taken into account in the fund's investment policy and the formulation of a policy on the exercise of voting rights attached to share ownership.

The Fund's ISS can be viewed on the Fund's website www.teespen.org.uk. The ISS has been amended to take into account the recommendations of the Myners Report on Institutional Investment.

The Fund's Investment Strategy Statement states that:

“As a responsible investor, the Teesside Pension Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders. The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those of society as a whole. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues, consistent with the Fund's fiduciary responsibilities.

Responsible investment aims to incorporate ESG factors into investment decisions to better manage risks and generate long term returns, as part of the Fund's fiduciary duty. As a result, ESG factors are incorporated into the investment process and the Fund takes non-financial considerations, including climate change risks and opportunities, into account when making investments, and engages with companies in which we invest to ensure that they are minimising the risks and maximising the opportunities presented by non-financial considerations, including climate change and climate policy. The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard. However, the overriding consideration for any investment is whether it

generates an acceptable risk-adjusted return for the Fund, meeting the Fund's fiduciary duty.

It is considered that the Pensions Committee represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The Fund has adopted the Institutional Shareholders' Committee Statement of Principles and members will agree and periodically review its implementation.

In accordance with this policy, the Fund will seek where necessary through its own efforts and in alliances with other investors to pursue these goals. To this end the Fund is an active member of the Local Authority Pension Fund Forum."

In order to pursue a policy of positive engagement, the Fund is an active member of the Local Authority Pension Fund Forum, (whose website is www.lapfforum.org) which has 80 Local Authority funds as members. Five of the eight LGPS asset pools including Border to Coast are also members of the Forum.

The Forum works by concentrating on a number of key long-term campaigns, covering corporate governance and corporate responsibility issues, as well as being able to mobilise support for campaigns relating to individual companies. The Forum produces a quarterly Research and Engagement report which highlights latest engagement news.

Going forward, much of this engagement work will be carried out on the Fund's behalf by Border to Coast. Border to Coast has worked with its partner funds to develop jointly agreed Corporate Governance & Voting Guidelines and a Responsible Investment Policy. These can be found on Border to Coast's website: <https://www.bordertocoast.org.uk/sustainability/>

Financial Statements

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Statement of Responsibilities for the Financial Statements

Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through an independent Board of Trustees and relevant sub-committees;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Strategic Director, Finance, Governance and Support (Section 151 Officer) of the Council and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

The Strategic Director of Finance, Governance and Support Responsibilities

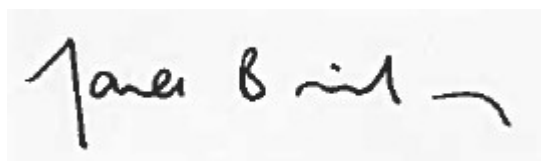
The Strategic Director of Finance, Governance and Support is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Strategic Director of Finance, Governance and Support has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2018 and of its income and expenditure for the year then ended.



James Bromiley

**Strategic Director of Finance,
Governance and Support**

24 May 2019.

Auditor's Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF MIDDLESBROUGH

COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

Awaiting statement from EY

Fund Accounts and Net Asset Statements

Fund Accounts for the year ended 31st March 2019

2017/2018			2018/2019
£000	Contributions and Benefits	Note	£000
(89,770)	Contributions	6	(94,529)
(4,981)	Transfers in from other pension funds	8	(4,972)
(5,684)	Other income	9	(4,656)
(100,435)	Total Income from Members		(104,155)
131,453	Benefits	7	141,597
10,516	Payments to and on account of leavers	10	12,194
142,059	Total Expenditure to Members		153,792
41,624	Net withdrawals from dealing with members		49,637
4,807	Management expenses	11,20	8,266
46,431	Net withdrawals including fund management expenses		57,903
	Returns on investments		
(107,394)	Investment income	12	(55,312)
24,100	Profit and losses on disposal of investments and changes in the market value of investments	13	(194,231)
(83,924)	Net returns on investments		(249,543)
(36,863)	Net increase/(decrease) in the Fund during the year		(191,640)
3,859,589	Net assets of the Fund as at 1 April	14	3,896,452
3,896,452	Net assets of the Fund as at 31 March	14	4,088,095
2017/18	Net Assets Statement as at 31 March		2018/19
3,891,011	Investments Assets	13	4,083,229
10,241	Current Assets	16	10,013
(4,800)	Current liabilities	17	(5,147)
3,896,452	Net assets of the Fund at 31 March	14	4,088,095

The notes on the following pages form part of the Financial Statements.

Notes to the Pension Fund Accounts

1. Basis of Preparation

The statement of accounts summarises the fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK local government sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Summary of Significant Accounting Policies

Accruals

The accounts have been prepared on an accruals basis. The exception to this accruals basis, is individual transfer values which are recognised on a cash transfer basis.

Fund Account – Revenue Recognition

Contributions income

Normal contributions, from both the members and the employers, are accounted for on an accruals basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end is accrued, according to the accruals threshold.

Transfer values

Transfer values represent the capital sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfers either in or out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis within transfers in. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

Interest Income

Interest income is recognised in the Fund Account when it is received and is accrued at year end, using the effective interest rate.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a cash collection basis.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense items**Benefits payable**

Pensions and lump sums benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its Pension fund management expenses in accordance with CIPFA's guidance, "*Accounting for Local Government Pension Scheme Management Expenses (2016)*".

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for Actuarial, Audit and Legal fees are paid directly by the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The costs of the council's in-house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Property expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2019. A financial asset is recognised in the Net Assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account.

The value of investments as shown in the Net Assets Statement have been determined as follows:

Market Quoted Investments

Investments are valued at market value as at 31 March 2019 as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned has been accrued within investment income receivable.

Unquoted Investments

Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.

Freehold and Leasehold properties

Properties are shown as valued at 31 March 2019. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition).

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, the BNP Paribas Securities Services. Exceptions to this are directly owned properties, money markets cash deposits and specified unquoted investments, which would be registered in the name of the administering authority.

Where the Custodian does not provide a custody service in their own right, they utilise third party Sub Custodians, who are appointed by the Custodian.

The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result or action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Financial Instruments

A Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair value measurement

This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The fund complies currently complies with this standard.

Foreign Currency Transactions

Foreign income and sales and purchases of investments in foreign currencies received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2018.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Disposal of Investments

Profits and losses on the disposal of investments are realised when the transactions are legally complete.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 18.

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC providers by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year.

The AVCs are not reflected in the Fund's accounts in accordance with regulation 4(2) b of the Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a Note only (Note 18).

Contingent Liabilities

The McCloud Judgement

In December 2018 the Court of Appeal ruled against the Government in the McCloud/Sargeant Judgement, which found that the transitional protection arrangements put in place when the firefighter' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has the implication for all public sector schemes which were reformed around the same time and could lead to member who were discriminated against being compensated.

The Government Actuary's Department (GAD) under instruction of the LGPS Scheme Advisory Board has calculated a potential IAS 19 accounting liability of (Expected to be 0.5% to 1.0%) of defined benefit obligation should the government be unsuccessful in its application to appeal or if the Court of Appeal's judgement is upheld by the Supreme Court and the agreed remedy for the LGPS is to extend the 'underpin' protections to all members. This estimate is at Scheme level encompassing a range of different assumptions typically used by employers to report pension costs. The eventual impact of Teesside Pension Fund accounts will depend on the remedy chosen by the government to compensate members(which may not be the scenario modelled by GAD), the membership profile (age/sex/salary) of Teesside Pension Fund's membership and the assumptions used to report pension costs at time of recognition.

Value Added Tax

Expenses and property purchase costs are charged net to the Pension fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

3. Accounting standards that have been issued but not yet been adopted.

The following new standards and amendments to existing standards have been issued but not yet adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

IFRS 16 Leases - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

IAS 40 Investment Property -Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies

IFRS 9 Financial instruments - prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

4. Critical Judgements, Sensitivities and Accounting Estimates

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the

investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of unquoted private equities at 31 March 2019 was £9,920,795.08 (Nil at 31 March 2018).

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of the Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other several factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% per annum increase in the discount factor assumption could decrease liability by around £94.07 million.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £3,047 billion and are relating to infrastructure, real estate, and pooled equity vehicles.
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	The effect of variations in the factors supporting the valuation would be an increase or decrease (9.44%) in the value of directly held property £28.3 million, on a fair basis of £300.7 million.

6. Contributions Receivable

		2017/18	2018/19
		£000	£000
Employers	Normal	(62,829)	(66,290)
	Additional Contributions	(41)	(23)
	Deficit Recovery Contributions	(720)	(1,025)
Members	Normal	(26,180)	(27,191)
	Total	(89,770)	(94,529)
Analysis of Total Contributions		2017/18	2018/19
		£000	£000
	Administering Authority – Middlesbrough Council	(14,005)	(14,583)
	Scheduled Bodies	(60,226)	(64,709)
	Admitted Bodies	(15,539)	(15,237)
	Total	(89,770)	(94,529)

7. Benefits Payable

		2017/18	2018/19
		£000	£000
	Pensions	105,369	113,219
	Commutations and lump sum retirement benefits	23,403	25,463
	Lump sum death benefits	2,771	2,915
	Total	131,543	141,597
Analysis of Total Benefits			
	Administering Authority – Middlesbrough Council	21,329	23,482
	Scheduled Bodies	81,267	86,096
	Admitted Bodies	28,947	32,019
	Total	131,543	141,597

8. Transfers in from Other Pension Funds

		2017/18	2018/19
		£000	£000
	Individual transfers in from other schemes	(4,981)	(4,972)
	Total	(4,981)	(4,972)

9. Other Income

		2017/18	2018/19
		£000	£000
	Capital Costs of Early Retirements	(4,499)	(4,075)
	Other Income	(1,185)	(581)
	Total	(5,684)	(4,656)

10. Payment to and on Account of Leavers

	2017/18	2018/19
	£000	£000
Refunds to members leaving service	222	284
Payments for members joining state scheme	90	200
Individual transfers to other schemes	10,204	11,710
Total	10,516	12,194

11. Management Expenses

	2017/18	2018/19
	£000	£000
Administrative costs	1,672	1,692
Investment management expenses	2,451	5,314
Oversight and governance costs	684	1,236
Total	4,807	8,242

Investment Management Expenses

	2017/18	2018/19
	£000	£000
Management fees	933	2,563
Custody fees	11	21
Transaction costs	815	1,959
Loans & Investment support service charges	692	771
Total	2,451	5,314

12. Investment Income

	2017/18	2018/19
	£000	£000
Income from bonds	(93)	0
Income from equities	(87,723)	(31,643)
Income from pooled investment vehicles	(3,820)	(3,595)
Other Investment Income	(154)	(77)
Net rents from properties (see note below)	(14,042)	(15,414)
Interest on cash deposits	(1,562)	(4,583)
Total	(107,394)	(55,312)
	2017/18	2018/19
	£000	£000
Rental Income and Property Expenses		
Gross Rental income	(14,230)	(15,270)
Property Expenses	188	(144)
Net Rents from Properties	(14,042)	(15,414)

13. Investment Assets

2018/19	Value at 31 March 2018	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	2,232,575	18,925	(2,405,369)	185,364	31,495
Pooled Investment Vehicles	839,927	3,561,141	(1,205,275)	7,859	3,158,652
Pooled Property Investments	44,999	4,407	(413)	1,128	50,121
Properties	262,690	40,532	(2,403)	(119)	300,700
	3,380,191	3,625,005	(3,658,460)	194,231	3,540,968
Cash Deposits	485,924				527,454
Other Investment Balances	24,896				14,807
	3,891,011				4,083,229

2017/18	Value at 31 March 2017	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	7,084	0	(6,903)	(181)	0
Equities	2,848,407	134,710	(718,318)	(32,224)	2,232,575
Pooled Investment Vehicles	296,697	913,444	(370,730)	516	839,927
Pooled Investment Property	42,667	0	(413)	2,745	44,999
Properties	204,325	53,321	0	5,044	262,690
	3,399,180	1,101,475	(1,096,364)	(24,100)	3,380,191
Cash Deposits	428,302				485,924
Other Investment Balances	26,405				24,896
	3,853,887				3,891,011

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised profit was £1,131,177,145 and unrealised loss was £936,945,685. Prior year realised profit was £249,107,611 and unrealised loss was £273,207,207.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1,959,054 (2017/2018 £815,029). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

The Fund has moved during the course of the year from being mainly managed in-house to being mainly managed externally. UK equities are managed through Border to Coast,

overseas equities are predominantly managed passively through State Street Global Advisers and the direct property portfolio continues to be managed by CBRE Limited.

- For 2018/19 the value at 31 March 2019 of the direct property portfolio was :
£300,700,000
- For 2017/18 the value at 31 March 2018 of the direct property portfolio was :
£262,690,000

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31 March 2018	% of net assets of the scheme	Market Value 31 March 2019	% of net assets of the scheme
	£'000		£'000	
Border to Coast OS DEV M-AA GBP	0	0.00%	206,925	5.07%
Border to Coast UK L E-AA GBP	0	0.00%	1,225,311	30.00%
SSGA MPF Pacific Basin ex- Japan Index	344,369	10.19%	366,254	8.97%
SSGA MPF Japan Equity Index	235,563	6.97%	233,612	5.72%
SSGA MPF North America Equity Index Sub Fund	0	0.00%	640,191	15.68%
SSGA MPF Euro Ex UK Equity Index Sub Fund	0	0.00%	373,959	9.16%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund Committee.

Asset Class / Security	Market Value 31 March 2018	% of asset class	Market Value 31 March 2019	% of asset class
	£'000		£'000	
Global Equities				
Border to Coast OS DEV M-AA GBP	0	0.00%	206,925	100.00%
UK Equities				
Border to Coast UK L E-AA GBP	0	0.00%	1,225,311	99.45%
Overseas Equities				
SSGA MPF Pacific Basin ex-Japan Index	344,369	18.85%	366,254	22.25%
SSGA MPF Japan Equity Index	235,563	12.89%	233,612	14.19%
SSGA MPF North America Equity Index Sub Fund	0	0.00%	640,191	38.89%
SSGA MPF Euro Ex UK Equity Index Sub Fund	0	0.00%	373,959	22.71%
Property				
Direct - Doncaster (Omega Boulevard)	22,800	7.41%	23,850	6.80%

Asset Class / Security	Market Value 31 March 2018	% of asset class	Market Value 31 March 2019	% of asset class
Direct - Exeter (The Meridian Centre)	0	0.00%	22,100	6.30%
Direct - Birmingham (Bromford Central)	15,500	5.04%	17,100	4.87%
Direct - Gateshead (Team Valley Trading Estate)	16,250	5.28%	16,850	4.80%
Direct - Rotherham (Catcliffe Retail Park)	16,350	5.31%	15,750	4.49%
Direct - Rugby (Valley Park))	15,200	4.94%	15,500	4.42%
Pooled Property Investments				
Standard Life Investments European Property Growth Fund	16,659	5.41%	21,243	6.06%
Alternatives				
Darwin Leisure Prop Units FDS Cls 'C'	19,342	27.46%	20,577	19.64%
Gresham House British Strategic Inv FD LP	0	0.00%	19,623	18.73%
Darwin Leisure Develop-DGBPA	0	0.00%	15,162	14.47%
ACIF Infrastructure	0	0.00%	10,483	10.01%
Crown Co Investment Opp II PLC	0	0.00%	9,921	9.47%
Innisfree PFI Continuation Fund	9,707	13.78%	9,644	9.21%
Amedeo Air Four Plus Ltd	10,600	15.05%	9,000	8.59%
Innisfree PFI Secondary Fund 2	7,052	10.01%	7,710	7.36%

Geographical Analysis of Investments

	31/03/2018		31/03/2019	
	£000	%	£000	%
United Kingdom	1,934,040	57%	1,645,949	46%
United States	563,608	17%	732,996	21%
Asia Pacific Ex Japan	0	0%	459,809	13%
Europe Ex UK	0	0%	447,090	13%
Japan	235,563	7%	254,305	7%
Republic of Korea	135,595	4%	0	0%
Germany	90,097	3%	0	0%
France	88,750	3%	0	0%
Switzerland	71,466	2%	0	0%
Taiwan	71,170	2%	0	0%
Hong Kong	10,319	0%	0	0%
Australia	8	0%	0	0%
Singapore	0	0%	0	0%
Others	179,575	5%	819	0
Total	3,3380,191	100.00%	3,540,968	100.00%

Equities

	31/03/2018	31/03/2019
	£000	£000
UK quoted	1,072,771	17
Overseas quoted	1,159,804	31,478
Total	2,232,575	31,495

Pooled Investment Vehicles and Properties

	31/03/2018	31/03/2019
	£000	£000
UK Equity	102,409	1,232,124
Commodities	9,767	0
Pooled Property Investment Vehicles	44,999	50,121
Infrastructure	22,786	94,828
Other Alternative Investments	30,178	0
UK Unit and Investment Trust Total	210,139	1,377,073
Commodities	7,698	0
Overseas Equity	667,089	1,831,700
Overseas Unit and Investment Trusts Total	674,787	1,831,700
Total	884,926	3,208,773

UK Properties

	31/03/2018	31/03/2019
	£000	£000
Freehold	217,365	232,625
Leasehold	45,325	68,075
Total	262,690	300,700

The properties were valued on the basis of Market Value as at 31 March 2019 by Cushman and Wakefield LLP acting as an External Valuer, in accordance with the RICS Valuation - Professional Standards. The valuer's opinion of the Market Value of the Fund's interests in the properties was primarily derived from analysis of recent market transactions concluded at arm's-length.

Cash Deposits

	31/03/2018	31/03/2019
	£000	£000
Sterling Cash deposits	485,924	527,454

Other investment balances

	31/03/2018	31/03/2019
	£000	£000
Cash deposits with custodian	15,894	13,147
Outstanding dividend entitlements	8,595	42
Interest due on cash deposits	407	1,618
Total	24,896	14,807

Outstanding Commitments

As at 31 March 2019, the Fund had outstanding commitments to five investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2019
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	9,620,011	377,989
Hearthstone Residential Fund LP	2016	10,000,000	2,959,250	7,040,750
Gresham House British Strategic Investment Fund LP	2017	40,000,000	19,506,024	20,493,976
Total		70,000,000	41,795,783	28,204,217
		EUR	EUR	EUR
ACIF Infrastructure	2017	23,000,000	10,346,956	12,653,044
Total	2017	23,000,000	10,346,956	12,653,044
		USD	USD	USD
Crown-Co Investments Opportunities II	2017	30,000,000	132,000	29,868,000
Total		30,000,000	132,000	29,868,000

14. Financial Instruments

Net Gains and Losses on Financial Instruments

	2017/18	2018/19
	£000	£000
Fair Value through profit and loss account	(24,100)	(194,231)

Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value 31/03/2018 £000	Carrying Value 31/03/2018 £000	Fair Value 31/03/2019 £000	Carrying Value 31/03/2019 £000
Fixed Interest Securities	0	0	0	0
Equities	2,232,575	2,232,575	31,495	31,495
Index-linked securities	0	0	0	0
Pooled Investments	839,927	839,927	3,158,652	3,158,652
Properties	307,689	307,689	350,821	350,821
	3,380,191	3,380,191	3,540,968	3,540,968
Loans and receivables	528,951	521,061	520,707	552,274
Total	3,909,142	3,901,252	4,061,675	4,093,242
Financial Liabilities – Fair Value at Amortised Costs				
Creditors	(4,800)	(4,800)	(5,147)	(5,147)
Net Financial Assets	3,904,342	3,896,452	4,056,528	4,088,095

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on **observable market data**.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31st March annually. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of Financial Instruments Carried at Fair Value

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Value as at 31 March 2019				
Financial assets at fair value through profit and loss account	1,463,803	78,787	1,697,678	3,240,268
Non-financial assets through profit and loss account	0	0	300,700	300,700
Loans and receivables	520,707	0	0	520,707
Financial Liabilities at amortised cost	(5,147)	0	0	(5,147)
Total Financial Assets	1,979,363	78,787	1,998,378	4,056,528
Value as at 31 March 2018				
Financial assets at fair value through profit and loss account	2,337,547	148,378	631,576	3,117,501
Non-financial assets through profit and loss account	0	0	262,690	262,690
Loans and receivables	518,710	0	0	518,710
Financial Liabilities at amortised cost	(4,800)	0	0	(4,800)
Total Financial Assets	2,861,698	148,378	894,266	3,904,342

Sensitivity of assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classifications described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Valuation of Financial Instrument Carried at Fair Value – 31 March 2019

	Assessed valuation range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments – UK Equity	9.47%	6,740	7,378	6,102
Pooled Investments – Overseas Equity	9.91%	1,614,037	1,773,988	1,454,086
Property Pooled Investments	9.44%	26,927	29,469	24,385
Direct Property	9.44%	300,700	329,086	272,314
Pooled Infrastructure	7.30%	49,974	53,622	46,326
Total		1,998,378	2,193,544	1,803,213

Valuation of Financial Instrument Carried at Fair Value – 31 March 2018

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments – UK Equity	7.82%	6,713	7,238	6,188
Pooled Investments – Overseas Equity	10.71%	579,931	642,042	517,820
Property Pooled Investments	5.66%	22,146	23,400	20,893
Direct Property	5.66%	262,690	277,558	247,822
Pooled Infrastructure	5.94%	22,786	24,140	21,433
Total		894,266	974,378	814,156

Reconciliation of Fair Value Measurements within level 3 during 2018/19

Period 2018/19	Market Value April 2018	Transfer between levels	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/Losses	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,714	0	0	0	26	0	6,740
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	22,785	0	55,090	(14,391)	(13,510)	0	49,974

Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	579,931	0	2,071,221	(1,038,579)	1,464	0	1,614,037
Pooled Property Investment - Unit & Investment Trusts UK	22,146	0	4,407	(413)	787	0	26,927
Property	262,690	0	40,532	(2,281)	(241)	0	300,700
Total	894,266	0	2,171,250	(1,055,664)	(11,474)	0	1,998,378

Reconciliation of Fair Value Measurements within level 3 during 2017/18

Period 2017/18	Market Value April 2017	Transfer between levels	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/Losses	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,338	0	0	0	376	0	6,714
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	16,587	0	6,700	0	(502)	0	22,785
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	26,122	0	559,235	0	(5,426)	0	579,931
Pooled Property Investment-Unit & Investment Trusts UK	20,796	0	0	(400)	1,750	0	22,146
Private Equity	204,325	0	619,256	(400)	1,242	0	262,690
Property	274,168	0	619,256	(400)	1,242	0	894,266

Nature and extent of exposure to risk arising from financial instruments

Risk and risk Management

The fund's primary long term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Teesside Pension Fund and Investment Panel. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pensions operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Investment Panel.

Other Price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

Other Price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/2019 reporting period.

2018/19 Price Risk Asset Type	Region	Value	Change	Value on Increase	Value on Decrease
		£000	%	£000	£000
Equities	UK	17	9.47%	19	15
	Overseas	31,478	9.91%	34,597	28,359

	Total	31,495		34,616	28,374
Managed and Unitised Funds	UK	1,377,073	9.47%	1,507,482	1,246,664
	Overseas	1,831,700	9.91%	2,013,221	1,650,179
	Total	3,208,773		3,520,703	2,896,843
Property	UK	300,700	9.44%	329,086	272,314
Total		3,540,968		3,884,405	3,197,531

2017/18 Price Risk Asset Type	Region	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Equities	UK	1,072,771	7.82%	1,156,662	988,880
	Overseas	1,159,804	10.71%	1,284,019	1,035,589
	Total	2,232,575		2,440,681	2,024,469
Managed and Unitised Funds	UK	598,579	7.82%	645,388	551,770
	Overseas	286,347	10.71%	317,015	255,679
	Total	884,926		962,403	807,449
Property	UK	262,690	5.66%	277,558	247,822
Total		3,380,191		3,680,642	3,079,740

Interest Rate risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below:

Asset Type at 31 March	2018 £000	2019 £000
Cash and cash equivalents	485,924	527,454
Cash balances	24,896	14,807
Total	510,820	542,261

Interest Rate Risk

Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+25 BPS	-25 BPS
Carrying value at 31 March 2019	£000	£000	£000
Cash and cash equivalents	527,454	1,319	(1,319)
Cash balances	14,807	37	(37)
Total	542,261	1,356	(1,356)

Carrying value at 31 March 2018			
Cash and cash equivalents	485,924	1,215	(1,215)
Cash balances	24,896	62	(62)
Total	510,820	1,277	(1,277)

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Investment Panel is informed quarterly of the Fund's currency exposure.

The following tables summarise the fund's currency exposure as at 31 March 2018 and as at 31 March 2019, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31 March 2019	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	8	12.14%	9	7
Euro	51,868	9.51%	56,801	46,935
Japanese Yen	254,305	11.73%	284,135	224,475
Taiwan Dollar	31,469	12.53%	35,412	27,526
US Dollar	732,996	10.62%	810,840	655,152
Asia Pacific ex Japan basket	428,232	11.73%	478,575	378,089
Emerging Basket	819	8.10%	885	753
Europe ex UK Basket	395,222	9.51%	432,808	357,636
Total	1,895,019		2,099,465	1,690,573

Currency Risk by Currency at 31 March 2018	Value £000	Change %	Value on Increase	Value on Decrease
Australian Dollar	8	12.14%	9	7
Danish Krone	20,466	9.07%	22,322	18,610
Euro	249,832	9.08%	272,517	227,147
Hong Kong Dollar	10,319	10.01%	11,352	9,286
Indian Rupee	4,199	10.49%	4,639	3,759
Japanese Yen	235,563	8.71%	256,081	215,045
South Korean Won	135,595	12.01%	151,880	119,310
Norwegian Krone	9,475	14.13%	10,814	8,136
Swedish Krona	25,543	9.88%	28,067	23,019
Swiss Franc	71,466	10.51%	78,977	63,955
Taiwan Dollar	71,170	9.50%	77,931	64,409
US Dollar	589,191	9.70%	646,343	532,039
Asia Pacific ex Japan basket	344,850	11.05%	382,956	306,744

Emerging Basket	33,327	8.10%	36,026	30,628
Europe Basket	43,590	9.06%	47,539	39,641
Europe ex UK Basket	16,659	9.06%	18,168	15,150
Total	1,861,253		2,045,621	1,676,885

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the council considers the likely volatility associated with foreign exchange rate movements to be as shown above. A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as highlighted above.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers. The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is considered as part of the investment decisions made by the Investment Managers as part of their portfolio construction. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Statement of Accounts. Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31st March 2019. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The Teesside Pension Fund and Investment Panel must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

Collateral and other credit enhancement

The pension fund does not use collateral and other credit enhancement.

Liquidity Risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations as they fall due.

The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. With the exception of investments in private equity and infrastructure partnerships, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity and infrastructure partnership capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

15. Actuarial Valuation

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. An Actuarial Valuation was carried out as at 31st March 2016 using the 'Projected Unit Method' which produced the following results;

	31/03/2013	31/03/2016
	£million	£million
Net Liabilities Assessment	2,919	3,122
Asset Valuation	2,956	3,133
Surplus	37	11
Funding Level	100%	100%

IAS19 Disclosure

An IAS19 valuation was carried out for the Fund as at 31st March 2019 by Aon Hewitt with the following results:

	31/03/2018	31/03/2019
	£million	£million
Net Liabilities Assessment	4,865	5,039
Asset Valuation	3,898	4,084
Deficit	(967)	(955)

These figures are presented for the purposes of IAS19 only. They are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension legislation.

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2019 were:

Funding Assumptions

RPI increases	3.3% per annum
CPI increases	2.2% per annum
Salary increases	3.2% per annum
Pension increases	2.2% per annum
Discount rate	2.4% per annum

Life expectancy from age of 65 (years) assumptions

Mortality Assumptions:	
Longevity at 65 for current pensioners:	Years
Men	22.20
Women	24.10
Longevity at 65 for future pensioners :	
Men	23.90
Women	25.90

16. Current Assets

Receivables		31/03/2018	31/03/2019
		£000	£000
Other receivables		1,828	1,360
Sundry debtors		581	501
Contributions due in respect of	Employers	5,156	5,651
	Members	2,110	2,289
Capital cost of Early Retirements		473	5
Cash balances		93	206
Total		10,241	10,013
Analysed by:			
Other local authorities		4,445	4,364
Other entities and individuals		5,703	5,442
Add cash balances		93	206
Total		10,241	10,013

Scheduled Bodies have the option to pay the capital cost of Early Retirements over five years.

17. Current liabilities

Amounts due within one year		31/03/2018	31/03/2019
		£000	£000
Rents received in advance		(2,344)	(3,203)
Accrued expenses		(851)	0
Other payables		(1,605)	(1,944)
Total		(4,800)	(5,147)
Analysed by:			
Other local authorities		(349)	(454)
Other entities and individuals		(4,451)	(4,693)
Total		(4,800)	(5,147)

18. Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The value of AVC investments are as follows:

Prudential AVC balances

	31/03/2018	31/03/2019
	£000	£000
With Profits and Deposit Accounts	4,332	4,610
Unit Linked Accounts	3,001	3,083
Total	7,333	7,693

The total value of AVC contributions paid to Prudential during the year was £1,512,925 (2017/18 £1,448,964).

19. Related Party Transactions

The Fund is administered by Middlesbrough Council which is a related party as defined by International Accounting Standard 24 (IAS 24) 'Related Party Disclosures'. IAS 24 requires disclosure of information on related party transactions.

In its position as Administering Authority Middlesbrough Council has recharged scheme administration services to the Fund as follows:

	2017/18	2018/19
	£000	£000
Support Service Recharges payable for the year	1,191	1,202

The Strategic Director of Finance Governance and Support is a director of Horizons Special Academy Trust which made the following contributions to the Pension Fund in 2018/19:

Employee's contributions of £168,000

Employer's contributions of £466,000

The following Members of the Pensions Investments Panel are all receipt of a pension from the Teesside Pension Fund Cllr J Beall, Cllr B Brady and J Rostron.

20. External Audit Costs

	2017/18	2018/19
	£000	£000
Payable in respect of external audit	28	24

21. Senior Employees' Remuneration

	2017/18	2018/19
	£000	£000
Key Management Personnel		
Short Term Benefits	62	68
Post Employments Benefits	9	10
Total	71	78

22. Events after the Balance Sheet Date

There are no adjusting events after the end of the reporting period which will impact on the accounts.

Teesside Pension Fund

Statement of the Actuary for the year ended 31 March 2019

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Teesside Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £3,133.1M) covering 100% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the theoretical aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
 - 15.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Less

- 0.1% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017 (the secondary rate).
3. In practice, each individual Employer's or group of Employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the Employers.
 4. The funding plan adopted in assessing the contributions for each individual Employer or group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual Employers' recovery periods were agreed with the Administering Authority reflecting the Employers' circumstances.
 5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates/ were as follows.

Discount rate	4.7% p.a.
Rate of pay increases	3.0% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the Employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):
 - **Increases to GMPs:**

HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.
 - **Cost Management Process and McCloud judgement:**

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.
9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.
10. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation

provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Middlesbrough Borough Council, the Administering Authority of the Fund, in respect of this Statement.

11. The actuarial valuation report is available on the Fund's website at the following address:

http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation_2016.pdf

Aon Hewitt Limited

May 2019

The next actuarial valuation is due as at 31st March 2019 and results will be reported during 2019/2020.

The Compliance Statement

Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;

The Local Government Pension Scheme Regulations 2013; and

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

Full details of the Governance Policy and Compliance Statement can be seen at

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

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

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee and published in February 2019 and contains statements on:

- Investment responsibilities sets out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
 - The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<http://www.teespen.org.uk/documents/index.php?name=ISS>

The Funding Strategy Statement

The Local Government Pension Scheme (Amendment) Regulations 2013, established the requirement of each Administering Authority, to produce a Funding Strategy Statement, setting out a long term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - Take a prudent longer term view of funding liabilities.

- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pension Fund Committee and was effective from February 2019, and can be seen at

<http://www.teespen.org.uk/documents/index.php?name=FSS>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the XPS group (previously Kier Business Services Ltd) as administrator and the Pension Fund Committee to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Pension Fund Committee;
- Structure of meetings;
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all of its stakeholders, including the members, the employers and other external organisations. For example we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members, this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FORM

Summary of LGPS benefits and comparison to previous versions of the scheme

	LGPS 2014	LGPS 2008	LGPS pre-2008
Basis of pension	Career Average Revalued Earnings (CARE)	Final salary	
Accrual rate	1/49 th	1/60 th	1/80 th pension with separate 3/80 th lump sum
Revaluation rate (active members)	Consumer Price Index (CPI)	Based on final salary	
Pensionable pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours	
Scheme member contributions	9 bands between 5.5% and 12.5%: rate paid is based on actual pensionable pay	7 bands between 5.5% and 7.5%: rate paid based on whole-time equivalent pensionable pay	6% of pensionable pay 5% pensionable pay for some former manual workers
Contribution flexibility	Members can pay 50% for 50% of the benefits	None	
Normal pension age	Individual member's state pension age (min 65)	65	65 but benefits can be paid without reductions from age 60 with enough service (25 years)
Lump sum option	Yes, £12 for each £1 of pension		
Death benefits	Yes, lump sum of 3 x pensionable pay and survivor pension based on 1/160 th accrual		
Indexation of pension in payment	Consumer Prices Index (CPI)	CPI (Retail Prices Index (RPI) for pre 2011 increases)	RPI
Qualifying period for benefits	2 years	3 months	3 months (2 years before 2004)

Pension Increases

Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975. With effect from April 2011 increases are based on the Consumer Price Index for September each year and are paid the following year from the first Monday in the new financial year.

Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began. Those Pensions payable under age 55 on ill health grounds may have increases applied subject to meeting certain additional criteria. Other pensions are subject to the increase (including backdating) from the member's 55th birthday.

The following table shows the rate of pension increases that have applied during the last 10 years.

From April	Increase %
2009	5.0%
2010	0.0%
2011	3.1%
2012	5.2%
2013	2.2%
2014	2.7%
2015	1.2%
2016	0.0%
2017	1.0%
2018	3.0%

Contacts and further information

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A copy of this report, and those for previous years, is available on our web site at www.teespen.org.uk	