

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

INVESTMENT PANEL REPORT

27 SEPTEMBER 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

REPORT – DRAFT ANNUAL REPORT AND ACCOUNTS 2016/17

1. PURPOSE OF THE REPORT

- 1.1 To present to Members the 2016/17 Draft Annual Report and Accounts for the Teesside Pension Fund.

2. RECOMMENDATION

- 2.1 That Members adopt the 2016/17 Annual Report and Accounts (Appendix A).

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

- 4.1 The terms of reference for the Teesside Pension Fund and Investment Panel requires the Annual Report and Accounts to be received by members. Attached to this report is the Draft Report and Accounts for the year ended 31 March 2017.

5. PERFORMANCE SUMMARY

- 5.1 In the markets, the two main and key events from 2016/17 were the outcome of the EU Referendum and US Presidential Elections. In both cases, the early polls were wrong and the expected results affected the markets positively.
- 5.2 The Teesside Pension Fund portfolio benefited in two ways over the year. Equity markets rallied to the new of these key results and with the Fund heavily invested in this asset class, the Fund's valuation also benefited. In addition, over past years, the Fund has been increasing its allocation to overseas assets. Following the result of the EU Referendum, the GB Pound's value weakened against other major currencies, which in turn increased the valuation of the overseas assets when converted back to our currency.
- 5.3 The overall financial performance of the Fund for the year to 31 March 2017 was a positive increase. The Fund's value rose to £3.9 billion, an increase over the year of approximately £727 million.

- 5.4 The membership of the Fund has increased, with total membership at the year-end now standing at 68,829, an increase of 2,040 over last year. The number of active members has increased by 1,154 (5.1%) over the year, and increased by 0.5% over the past five years. The numbers of pensioners increased by 478 (2.2%) over the year, and increased by 10.5% over the past five years. The number of deferred members increased last year by 408 (1.7%), and increased by 9.3% over the past five years.
- 5.5 Where a member retires early there is a cost to the Fund arising from the fact that Contributions are no longer being received for the member, and a Pension is drawn earlier than the Actuary had assumed. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;
- 1 the impact of retirement decisions is transparent; and
 - 2 the cost is invoiced separately rather than being recovered in the employers Contribution Rate, which was once the case.
- 5.6 In this financial year the Fund received over £5.3 million from these early retirement recharges, down on last year's figure of £2.2 million, a 141% increase on last year.
- 5.7 Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund, with calculations performed during this year for assets and liabilities as at 31 March 2016. 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 most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level.
- 5.8 The aim of the Fund is to be 100% funded, and at this valuation the actuary was able to declare a funding level of 100%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation is due to be carried out in March 2019.

6. FRS17 / IAS19 REPORTS

- 6.1 Financial Reporting Standard 17 (FRS17) Retirement Benefits and International Accounting Standard 19 (IAS19) Employee Benefits – require employers to disclose in their accounts their share of the assets and liabilities in the Pension scheme. The Fund's actuary, Aon Hewitt, produces reports for the employers in the Teesside Pension Fund containing the figures which each needs to disclose in order to comply with the requirements of these standards.

6.2 Although the Fund is “actuarially” fully funded the employers still have FRS17 / IAS19 deficits because of the way the figures in the reports are calculated. It should be noted that the FRS17 / IAS19 calculations have no impact on the actual Funding Level of the Fund or the Employers within it.

7. INTERNATIONAL FINANCE REPORTING STANDARDS (IFRS)

7.1 The Council adopted International Finance Reporting Standards (IFRS) from 1 April 2010. The Pension Fund, accounts comply with the reporting standards.

8. BACKGROUND PAPERS

8.1 The following papers were used in the preparation of the report:

- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
- Financial reports of Pension Schemes – A Statement of Recommended Practice 2015
- Closure of Accounts working papers.
- Full draft copy of the statement of accounts.

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