



**Teesside Pension Fund**

**Annual Report and Accounts**  
**for the year ended**

**31st March 2017**

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# Report of those charged with Governance

## Chairman's Introduction

Over the past few years, there has been increasing scrutiny over the Local Government Pension Scheme (LGPS). As previously reported, each LGPS Fund was asked to group itself with partners to a scale of £25 billion or greater and for the partnership to present initial proposals for pooling assets and managing them on behalf of the Fund from April 2018 onwards. During this year legislation was passed which requires all LGPS Funds to participate and declare which pool they are partnering with. After consideration, the Teesside Pension Fund decided to partner with the Borders to Coast Pension Partnership.

In the markets, the two key events for 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.

The Teesside Pension Fund portfolio benefited in two ways over the year. Equity markets rallied to the news of these key results and with the Fund heavily invested in equities, the Fund's valuation also benefited. In addition, over past years, the Fund has been increasing its allocation to overseas assets. As a 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.

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.

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.

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

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

In this financial year the Fund received over £5.3 million from these early retirement recharges, up on last year's figure of £2.2 million, a 241% increase 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 most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities.

The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level. The aim of the Fund is to be 100% funded, and at the last valuation the actuary was able to declare a funding level of 100%. This 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 in March 2019.

## **Nature of the Scheme**

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme. From April 2014 the scheme is governed by:

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

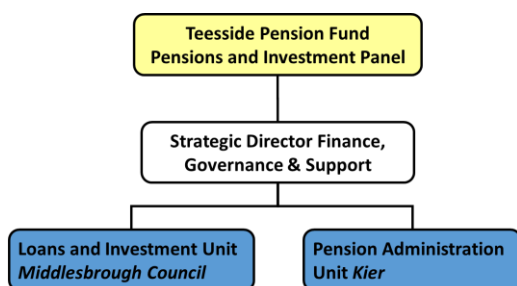
These regulations replaced the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008. Full details of the changes to the Scheme, along with updated scheme guides, are on our website at: [www.teespen.org.uk](http://www.teespen.org.uk).

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 surplus funds, after payment of benefits, are invested by an Investment Panel. The Panel comprises elected members of Middlesbrough Council, representatives of the other unitary authorities, the Trade Unions and the Fund's Investment Advisers.

### ***Management of the Fund***

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



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

### The Teesside Pension Fund Pensions and Investment Panel

#### Panel membership and meeting attendance during the year 2016/17

Members	With voting rights	29 Jun	28 Sep	7 Dec	8 Mar
<b>Chair</b>	Councillor SE Bloundele	✓	✓	✓	✓
<b>Vice Chair</b>	Councillor J Rostron	✓	✓	✓	✓
<b>Middlesbrough Council</b>	Councillor B Brady	✓	✓		✓
	Councillor JG Cole	✓	✓	✓	
	Councillor DP Coupe	✓	✓	✓	✓
	Councillor G Purvis	✓		✓	✓
	Councillor D McCabe				
	Councillor L Young	✓			
	Councillor Sharrocks			✓	
	Councillor Walters			✓	
	Councillor J Blyth				✓
	Councillor T Lawton				
<b>Redcar &amp; Cleveland BC</b>	Councillor C Massey		✓		
<b>Hartlepool BC</b>	Councillor G Hall				✓
<b>Stockton BC</b>	Councillor J Beall	✓	✓		✓

<b>Rep for Other Employers</b>	Mr P Fleck	✓			
	<b>Without voting rights</b>				
<b>Trades Unions</b>	Unison, GMB and ACTS	✓	✓	✓	

## Declaration of Interest

Councillor C Massey, J Rostron, B Brady, J Beall, SE Bloundele, P Fleck

### Note

Councillor McCabe resigned on 18/07/2016  
 Councillor Young took position on 11/05/16  
 Councillor Sharrocks took position on 11/05/16  
 Councillor Walters took position on 07/09/16  
 Councillor Blyth took position on 07/09/16  
 Councillor Lawton took position on 30/11/16

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

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

## Terms of Reference – Teesside Pension Fund & Investment Panel

Terms of Reference:

1. For Members of the Council to act as Trustees of the Fund.
2. To have delegated powers to manage the investments of the Fund within the requirements of the Local Government Pension Scheme Regulation as amended from time to time.
3. To manage the Fund in accordance with the Management Agreement:
  - (i) To ensure that the Fund complies with the Local Government Pension Scheme Regulations 1997 (as amended), the Inland Revenue requirements for Pension Funds and any other relevant statutory provision.

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

## **Teesside Pension Board**

The Public Service Pensions Act 2013 set out changes to the governance arrangements for all public sector pension schemes. The Teesside Pension Fund and Investment Panel 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:

- a) Three Employer representatives; and
- b) Three Scheme Member representatives.

## **Fund Administrators and Advisors**

### **Administration**

Chief Finance Officer	James Bromiley
Head of Investments	Paul Campbell
Pensions Administration Manager	Mike Hopwood
Solicitor to the Fund	Bryn Roberts

### **Advisors to the Fund**

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

## **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 to its unique ‘funded’ status amongst these schemes, the LGPS changed a year earlier, avoiding increases to contribution rates ahead of April 2015 which the other schemes imposed. More detail on how the current LGPS compares to the earlier (2008) Scheme is contained in the “Summary of LGPS benefits” section.

Government changes to the wider pensions landscape 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.

The limits on tax relief available for pension saving have reduced further, with the standard annual allowance figure now set at £40,000, but with a lower figure applied for high earners. The lifetime allowance reduced to £1m 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.

### **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 CPI as the revaluation factor (the previous scheme was a final salary scheme).
- The scheme accrual rate is 1/49<sup>th</sup>, where the previous scheme was 1/60<sup>th</sup>.
- There is no fixed scheme pension age, instead each member's Normal Pension Age (NPA) is their State Pension Age, with a minimum of 65 (the former scheme had a fixed pension age of 65).
- Average member contributions to the scheme remain at 6.5% with the rate determined on actual pay (previously, part-time contribution rates were based on full time equivalent pay). While there is no change to *average* member contributions, the lowest paid pays the same or less and the highest paid pays higher contributions on a more progressive scale after tax relief.
- There is a facility for members considering opting out of the scheme to instead elect to pay half contributions for half the pension. This is known as the 50/50 option (earlier schemes had no such option).
- Members' benefits for service prior to 1 April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and age 65 NPA.

All existing 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.

## **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 are pleased to be launching our Member Self Service (MSS) in April. This facility allows scheme members to view their pension record(s) on-line as well as being able to run their own pension calculations. Roll out is still in its infancy, but our expectations of this facility meeting our members' needs are high.

Our pension scheme newsletters continue to develop, in that more steps have been taken recently to ask members what they would like feature content-wise. In addition, we have offered our retired members alternative formats, particularly our partially-sighted members, as well as emailing a link to the electronic newsletter for those few retired members who have registered for MSS. This meets their needs better as well as cutting down on the paper we produce.

## **Risk management**

The Statement of Investment Principles which is now superseded by the Investment Strategy 2016, sets out the approach of the Fund in identifying, mitigating and managing risk.

Risk

There are three forms of risk:

- 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, Freeth Cartwright. 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 & Investment Panel ensures the Fund has sufficient diversification at their committee meetings.

### **c) Investment Risk**

One of the Trustees' 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 Trustees set 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 under-perform.

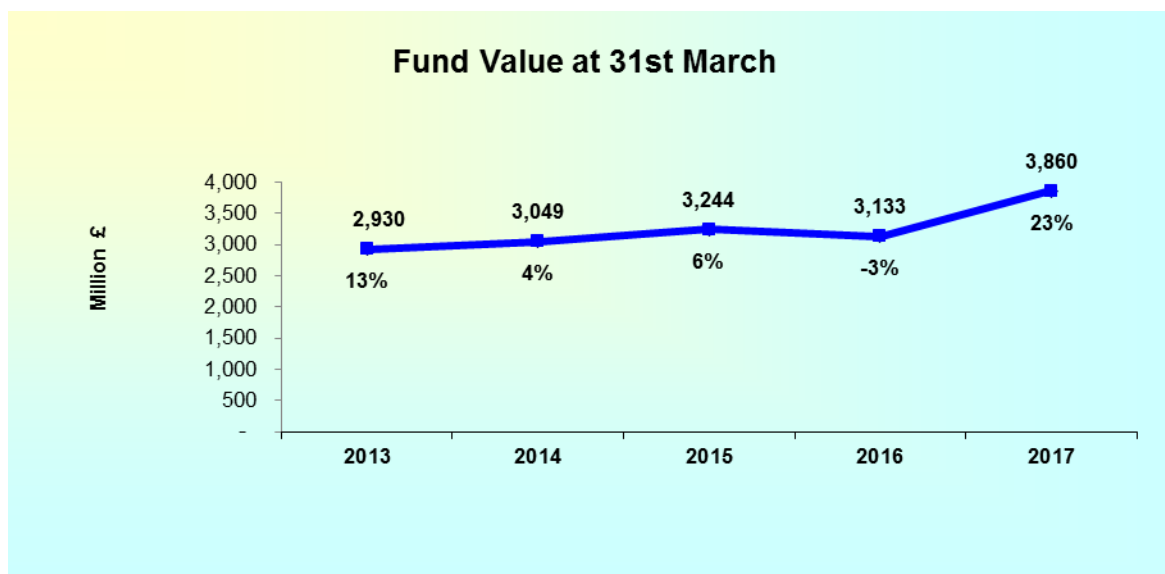
For the Fund to significantly out-perform its benchmark it needs to have an asset mix which is different from that of its benchmark. The more out-performance is required the greater the differences will need to be. In other words out-performance cannot be achieved without taking risks. Measurement of 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 Funds Financial Statements shows that the Scheme net asset value has increased by 23%, compared to the previous year. Over the last 5 years, from 2012 value of £2,597 million, the value of the fund net assets has increased by 48%.



## Finance Performance Report

	Re-stated				
	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Fund Value at the start of the year	2,596,664	2,929,601	3,049,227	3,243,794	3,133,118
Income	182,219	210,051	186,072	184,985	199,644
Expenditure	(113,604)	(121,358)	(206,109)	(131,993)	(139,542)
Change in Market Value of Investments	264,322	30,933	214,604	(163,668)	666,369
Increase/(Decrease) in Fund during the year	332,937	119,626	194,567	(110,676)	726,471
<b>Fund Value at the end of the year</b>	<b>2,929,601</b>	<b>3,049,227</b>	<b>3,243,794</b>	<b>3,133,118</b>	<b>3,859,589</b>
<b>Change in Fund Value %</b>	<b>13%</b>	<b>4%</b>	<b>6%</b>	<b>-3%</b>	<b>23%</b>

### Financial Highlights

	£000	£000	£000	£000	£000
Pensions Paid	83,943	89,648	94,860	98,348	101,668
Administration Costs *	1,565	1,579	1,599	1,558	1,870
Investment Management Costs	1,367	2,717	2,779	3,418	2,596
Oversight and Governance Costs		247	230	177	207

### Membership

	2013	2014	2015	2016	2017
	No	No	No	No	No
Active	23,908	23,734	22,566	22,637	23,791
Deferred	20,738	22,144	24,429	22,453	22,861
Pensioner	19,850	20,648	21,059	21,699	22,177
<b>Total</b>	<b>64,496</b>	<b>66,526</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>

## Fund Averages

	£	£	£	£	£
Fund value per member	45,423	45,835	47,665	44,903	54,523
Average Pension Paid	4,229	4,342	4,504	4,550	4,584
Total Investment management expenses cost per member	0	68	68	74	66
Administration Cost per member	24	24	23	22	26
Investment Management cost per member	21	41	41	49	37

\* Excluding Actuarial , Legal and Audit costs

### Note

Administration costs, Investment management costs, oversight and Governance costs have changed since prior year due to change in the management cost presentation as required by CIPFA guidance.

## 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 2016/17

Fund Account	Notes	2016/17 £ ' 000	2015/16 £ ' 000	Change
<b>Contributions and Other Income</b>				
Employers Normal & Deficit	1	59,963	59,349	1%
Employers Additional	2	31	16	94%
Employees Normal	3	25,893	25,691	1%
Transfers in	4	5,225	2,285	229%
Capital Costs of Early Retirements	5	5,256	2,199	239%
Other Income		1,126	1,133	-1%
<b>Total Income</b>		<b>97,494</b>	<b>90,673</b>	<b>8%</b>
<b>Benefits and Other Expenditure</b>				
Benefits	6	101,668	98,348	3%
Benefits - Basic Lump Sum	7	21,081	19,364	9%

Benefits - Lump Sums on Death		3,036	2,075	46%
Individual Transfers to other Schemes	8	8,795	6,758	30%
Administrative Expenses	9	1,870	1,558	20%
Investment Management Expenses	10	2,596	3,418	-24%
Oversight and Governance Costs	11	207	177	17%
Other Expenditure	12	289	295	-2%
<b>Total Expenditure</b>		<b>139,542</b>	<b>131,993</b>	<b>6%</b>
<b>Return on Investments</b>				
Dividends	13	90,887	84,672	7%
Rents	14	10,293	8,999	14%
Interest	15	970	641	51%
Profit on Sale of Investments		124,506	109,112	14%
Unrealised gain / (loss) on Revaluation		541,863	(272,780)	299%
<b>Total Return on Investments</b>		<b>768,519</b>	<b>(69,356)</b>	<b>1208%</b>
<b>Net Increase in the Fund in the Year</b>		<b>726,471</b>	<b>(110,676)</b>	<b>756%</b>

### Explanation of variances

	2016/17	2015/16	
<b>1 Employers Normal Contributions &amp; Deficit contributions - £'000</b>	<b>59,963</b>	<b>59,349</b>	<b>Increase of 1%</b>

There has been a slight increase in employers' normal contributions of 1% in the year, which is mainly as a result of an increase in the number of Academies/Academy Trust contributions offset by contribution decreases from the largest 7 employers.

	2016/17	2015/16	
<b>2 Employers Additional Contributions - £'000</b>	<b>31</b>	<b>16</b>	<b>Increase of 94%</b>

In 2016/17 there were a number of employers which paid additional contributions for example for authorised leave and maternity, this has risen though in comparison to the previous year.

	2016/17	2015/16	
<b>3 Employees Normal Contributions - £'000</b>	<b>25,893</b>	<b>25,691</b>	<b>Increase of 1%</b>

Active membership has increased by 3% in 2016/17 (increase of 2.3% in 2015/16) with total employee contributions making a slight increase in the year. Auto-enrolment continues to make contributions to the scheme and the ability for employees to pay 50% contributions continues to have a positive effect in the year.

	2016/17	2015/16	
<b>4 Transfers In - £'000</b>	<b>5,225</b>	<b>2,285</b>	<b>Increase of 229%</b>

In 2016/17 197 transfers were received into the scheme at an average value of £26.5k, compared to 118 transfers at an average value of £ 19.3k in 2015/16

2016/17	2015/16
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<b>5 Capital Cost of Early Retirements - £'000</b>	<b>5,256</b>	<b>2,199</b>	<b>Increase of 239%</b>
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The number of early retirements has increased significantly compared to the previous year, although the average cost per retirement has only marginally increased. The retirements from the Councils processed in the year were as follows;

	Number	Total Cost	Average
Hartlepool Borough Council	30	£949,918	£31,664
Middlesbrough Council	56	£1,713,534	£30,599
Stockton Borough Council	54	£1,227,122	£22,724
Redcar & Cleveland Borough Council	12	£339,065	£28,255
<b>Total</b>	<b>152</b>	<b>£4,229,639</b>	<b>£27,827</b>

	<b>2016/17</b>	<b>2015/16</b>	
<b>6 Benefits - £'000</b>	<b>101,668</b>	<b>98,348</b>	<b>Increase of 3%</b>

Total cost has increased by 3% in the year. There were 932 pensioners retired in the year (2015/16, 908) to whom pensions of £2.7 million were paid (2015/16 £2.8 million).

	<b>2016/17</b>	<b>2015/16</b>	
<b>7 Benefits - Basic Lump Sum - £'000</b>	<b>21,081</b>	<b>19,364</b>	<b>Increase of 9%</b>

There has been an increase in the value of Lump Sums paid by 9% in the year with the number of recipients increasing to 1,025 (2015/16 940).

	<b>2016/17</b>	<b>2015/16</b>	
<b>8 Individual Transfers to Other Schemes - £'000</b>	<b>8,795</b>	<b>6,758</b>	<b>Increase of 30%</b>

Transfers out can vary markedly year on year depending on both numbers and the type of people transferring. For 2016/17, the individual transfer out value was £8,795k (2015/16 £6,758k) a significant increase from the previous year. The number of transfers out are 143 in 2016/17 (2015/16 133)

	Number	Total Cost	Average
<b>2016/17</b>	143	£8,795,260	£61,505
<b>2015/16</b>	133	£6,758,153	£50,813

	<b>2016/17</b>	<b>2015/16</b>	
<b>9 Administrative Expenses - £'000</b>	<b>1,870</b>	<b>1,558</b>	<b>Increase of 20%</b>

There has been an increase in the year, which is mainly due to Kier partnership costs. 2016/17 and 2015/16 figures are stated according to the CIPFA guidance on accounting for management

expenses.

	2016/17	2015/16	
<b>10 Investment Management Expenses - £'000</b>	<b>2,596</b>	<b>3,418</b>	<b>Fall of 24%</b>

There has been a decrease in investment management expenses in 2016/17 due to a significant fall in transaction costs.

	2016/17	2015/16	
<b>11 Oversight and Governance Costs - £'000</b>	<b>207</b>	<b>177</b>	<b>Increase of 17%</b>

There has been a rise in costs of 17% in the year for oversight and governance transaction costs. Both 2016/17 and 2015/16 figures are including costs as designated by the new CIPFA guidance on accounting for management expenses.

	2016/17	2015/16	
<b>12 Other Expenditure - £'000</b>	<b>289</b>	<b>295</b>	<b>Fall of 2%</b>

There has been a fall in other expenditure in the year as a result of decreased refunds to leaving members.

	2016/17	2015/16	
<b>13 Dividend Income - £'000</b>	<b>90,887</b>	<b>84,672</b>	<b>Increase of 7%</b>

Overall Dividend Income has risen by £6.2 million (15/16 £4.9 million) which is due to increased income from equity and pooled investment vehicles offset against a reduction in income from fixed interest securities and index linked securities.

	2016/17	2015/16	
<b>14 Rent - £'000</b>	<b>10,293</b>	<b>8,999</b>	<b>Increase of 14%</b>

The Fund owns 24 properties at 31/03/2017, on which the net income earned has increased by £1,294k in the year. The rise in rental income is mainly as a result of rent reviews as part of the future leasing arrangements.

	2016/17	2015/16	
<b>15 Interest - £'000</b>	<b>970</b>	<b>641</b>	<b>Increase of 51%</b>

A higher level of average cash on deposit in 2016/2017 which produced a higher level of interest compared to the previous year

	2016/17	2015/16	
<b>16 Investments - £'000</b>	<b>3,399,180</b>	<b>2,989,756</b>	<b>Increase of 14%</b>

There has been a significant increase in Investment values reflecting the recovering World's investment markets during 2016/17, particularly in equities where the Fund has approximately 80% of its assets



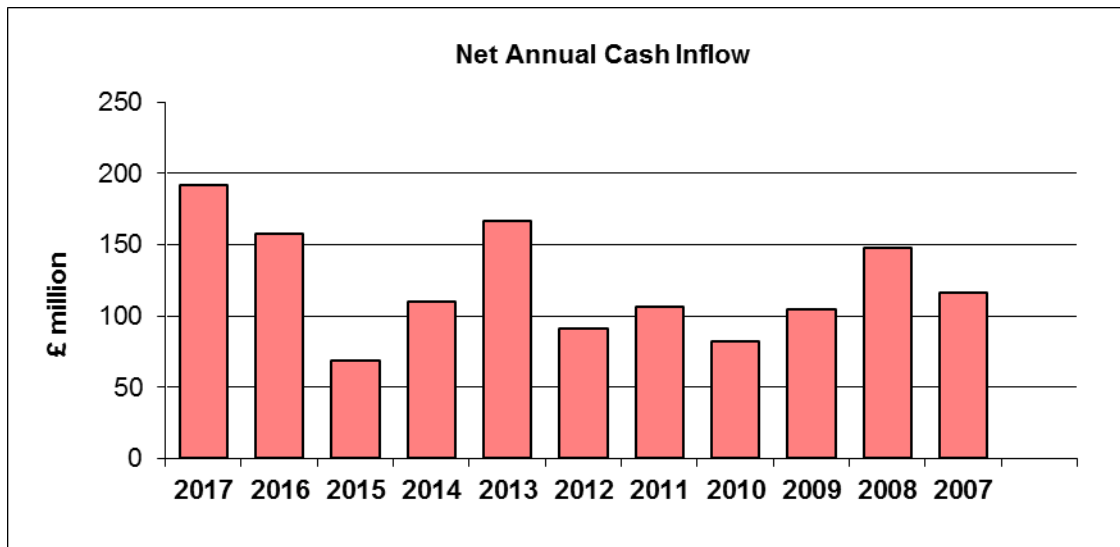
invested.

	2016/17	2015/16	
<b>17 Cash - £'000</b>	<b>433,799</b>	<b>109,290</b>	<b>Increase of 297%</b>

The increase in investment cash balances is due to a higher level of funds placed on short term deposit. At the year-end £428.3 million was on short term deposit compared to £104.9 million at 31/03/2016.

## Cash flow Statements for the year ended 31 March 2017

	£000
<b>Cash flow from Operating Activities</b>	
Cash received for Contributions	85,959
Cash received for Early Retirements	11,424
Cash Received from Transfers In	5,225
Cash Received from Investments	103,932
Cash Received from Sales of Investments	124,506
Cash from Other Income	1,126
<b>Total Cash Received</b>	<b>332,172</b>
Cash paid for Benefits	125,785
Cash paid for Transfers Out	9,084
Cash paid for Management Expenses	5,167
<b>Total Cash Paid</b>	<b>140,036</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>192,136</b>
<b>Application of Cash</b>	
Net Sales of Investments	(132,229)
Increase in Cash with Custodian	1,114
Increase in Cash on Deposit	323,394
Decrease in Cash at Bank	(118)
Increase in Other Debtor Balances	414
Increase in Other Creditor Balances	(439)
	<b>192,136</b>



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 Funding Strategy Statement sets out the Investment Strategy of the Fund. 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 2017 the actual assets compared to the benchmark as follows;

	<b>Fund Assets % 31.03.2017</b>	<b>Benchmark %</b>	<b>Fund Assets % 31.03.2016</b>
UK Equities	32	30	36
Overseas Equities	48	40	48
Bonds & Cash	12	15	7
Property	6	10	7
Alternatives	2	5	2

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

### Amounts due to the Fund from Employers

	<b>2016/17 £ ' 000</b>	<b>2015/16 £ ' 000</b>
<b>Current Assets</b>		
Contributions in Respect of Employers	4,783	4,812
Contributions in Respect of Members	2,052	2,095

Amounts due in respect of early retirements	416	752
<b>Debtors due over 1 year</b>		
Amounts due in respect of early retirements	98	60
	<u>7,349</u>	<u>7,719</u>

The Contributions due are in respect of March 2017 and were received in April 2017.

### **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 2016/2017 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	<u>1,741</u>
Number received late	<u>4</u>

### **Details of late receipts**

#### **Creative Management Ltd**

Four payments were received late. December 2016 was paid on 20<sup>th</sup> January, January 2017 was paid on the 13<sup>th</sup> March, February 2017 was paid on the 31<sup>st</sup> March and March 2017 was paid on 5<sup>th</sup> May.

**Analysis of Contribution rates and amounts received 2016/17**

	<b>Employer Rate %</b>	<b>Employees £000</b>	<b>Employers £000</b>
4Children	13.40%	1	2
All Saints Academy	14.60%	21	51
Ash Trees Academy	14.60%	50	130
Beamish Museum Ltd	13.30%	149	313
Billingham Town Council	14.10%	5	11
Brougham Primary School	14.60%	15	39
Business and Enterprise North East Ltd	9.70%	2	58
Caldicotes Primary Academy	14.60%	7	16
Capita Managed IT Solutions Ltd	13.00%	5	10
Care Quality Commission	17.00%	1,480	3,298
Carillion J M Ltd	16.60%	14	41
Catcote Academy	14.60%	86	211
Chandlers Ridge Academy	14.60%	12	31
Cleveland College of Art and Design	13.60%	96	208
Cleveland Fire Authority	14.90%	214	487
Cleveland Fire Support Network	14.90%	3	5
Coast and Country Housing	16.40%	603	1,482
Community Integrated Care	23.00%	2	9
Conyers School	14.60%	59	143
Creative Management Services Ltd	15.10%	7	19
Diocese of Middlesbrough Trustee	25.60%	8	21
Durham Tees Valley Airport Limited	21.20%	80	233
Dyke House Academy	14.60%	89	214
Easterside Academy	14.60%	25	63

English Martyrs Educational Trust	14.60%	66	161
Enquire Learning Trust (Central)	14.60%	16	36
Erimus Housing	17.90%	260	705
Eskdale Academy	14.60%	16	40
Extol Academy Trust (Eldon Grove)	14.60%	22	54
Fabrick Housing Group	15.30%	125	248
Fleet Factors Ltd	20.40%	1	4
Fleet Factors RCBC	20.50%	1	4
Forward Swindon Ltd	19.20%	2	15
Frederick Natrass Primary Academy	14.60%	19	49
Freebrough Academy	14.60%	25	59
Future Regeneration of Grangetown	18.30%	2	4
Grangefield Academy	14.60%	40	94
Green Lane Primary Academy	14.60%	30	76
Guisborough Town Council	14.10%	5	11
Hardwick Green Primary Academy	14.60%	16	40
Harrow Gate Primary Academy	14.60%	30	76
Hartlepool Borough Council	14.20%	2,930	6,565
Hartlepool Care Services Ltd	17.00%	2	7
Hartlepool College of Further Education	13.60%	164	375
Hartlepool Sixth Form College	13.60%	40	87
Hemlington Hall Academy	14.60%	18	47
Hillsview Academy	14.60%	43	107
Horizons Specialist Academy Trust	14.60%	154	372
Housing Hartlepool Ltd	14.80%	342	780
Ian Ramsey Church of England Academy	14.60%	46	114
Ingleby Barwick Town Council	14.10%	2	5
Ingleby Manor Free School & Sixth Form	14.60%	13	30
Jesmond Gardens Primary School	14.60%	10	24
Kader Academy	14.60%	13	34
KGB Cleaning Ltd - LJS	15.10%	1	3
KGB Cleaning and Support Services Ltd	15.00%	1	2
Kier Business Services Ltd	14.40%	127	251
Kings Academy	14.60%	66	163
KTS Academy	14.60%	47	116
Liberata UK Ltd	0.00%	41	0
Lockwood Parish Council	14.10%	1	2
Loftus Town Council	14.10%	1	3
Macmillan Academy	14.60%	73	172
Manor Community Academy	14.60%	74	181
Mellors Catering Services Ltd (Central)	15.10%	14	36
Mellors Catering Ltd (Dormanstown)	15.10%	1	3
Mellors Catering Services Ltd (Normanby)	15.00%	3	8
Middlesbrough College	13.60%	470	1,019
Middlesbrough Council	14.40%	3,942	8,997
NMRN Trading	17.00%	7	20

Normanby Primary School	14.60%	24	63
North Ormesby Primary Academy	14.60%	14	37
North Shore Academy	14.60%	46	111
Norton Primary Academy	14.60%	24	62
Nunthorpe Academy	14.60%	87	198
Nunthorpe Primary Academy	14.60%	13	32
Oak Tree Academy	14.60%	26	66
OCS Limited	14.90%	1	2
One Awards Limited	13.60%	41	88
One IT Services and Solutions Ltd	14.20%	40	89
One IT Services and Solutions Ltd - Porter	17.00%	1	3
Onsite Building Trust	17.00%	2	8
Orian Solution Ltd	17.00%	1	3
Ormesby Primary School	14.60%	6	17
Our Lady & St Bede Catholic Academy	14.60%	44	111
Our Lady of Light Catholic Academy Trust – Christ the King	14.60%	12	30
Our Lady of Light Catholic Academy Trust - St Patrick's Catholic College	14.60%	28	70
Our Lady of Light Catholic Academy Trust - St Patrick's Primary	14.60%	19	49
Our Lady of Light Catholic Academy Trust - St Therese of Lisieux	14.60%	11	28
Outwood Academy Acklam	14.60%	53	132
Outwood Academy Bishopsgarth	14.60%	14	34
Outwood Academy Bydales	14.60%	25	62
Outwood Academy Ormesby	14.60%	47	114
Police & Crime Commissioner for Cleveland	12.60%	59	89
Prior Pursglove College	13.60%	4	9
Prior Pursglove and Stockton Sixth Form College	13.60%	55	123
Redcar Academy	14.60%	26	62
Redcar and Cleveland Borough Council	15.10%	3,157	8,182
Redcar and Cleveland College	13.60%	88	195
River Tees Multi Academy Trust	14.60%	35	75
Rosebrook Primary School	14.60%	18	45
Rose Wood Academy	14.60%	20	51
Sacred Heart Secondary Catholic Voluntary Academy	14.60%	25	61
Saint Benedicts Primary Catholic Voluntary Academy	14.60%	15	39
Saltburn Marske & New Marske Parish Council	14.10%	3	7
Skelton and Brotton Parish Council	14.10%	3	6
Skelton Primary School	14.60%	32	78
SLM Community Leisure Charitable Trust	16.60%	44	123
SLM Fitness and Health Ltd	16.60%	3	7
SLM Food and Beverage Ltd	16.60%	2	6
SLM Charitable Trust (MBC)	14.40%	77	178
SLM Food and Beverage Ltd (MBC)	14.40%	6	16
SLM Fitness & Health Ltd (MBC)	14.40%	5	12

St Bede's Catholic Academy	14.60%	18	45
St Bedes Primary Catholic Voluntary Academy	14.60%	15	36
St Gabriel's Catholic Voluntary Primary Academy	14.60%	12	30
St Gregory's Roman Catholic Academy	14.60%	19	48
St Hilda's Catholic Academy Trust	14.60%	201	496
St Josephs Primary Catholic Voluntary Academy	14.60%	11	30
St Margaret Clitherow's Catholic Voluntary Primary Academy	14.60%	17	45
St Mary's Catholic Voluntary Primary Academy	14.60%	14	34
St Michael's Catholic Academy	14.60%	32	80
St Paulinus Primary Catholic Voluntary Academy	14.60%	11	28
St Peter's Catholic Voluntary Academy of Maths and Computing	14.60%	34	82
St Thomas of Canterbury MAT	14.60%	31	80
Stagecoach Transit	27.20%	8	198
Sopra Steria Ltd	12.60%	453	883
Stockton Borough Council	14.30%	4,706	10,497
Stockton Riverside College	13.60%	213	459
Stockton Sixth Form College	13.60%	1	3
Stranton Academy Trust (Stranton)	14.60%	26	66
Sunnyside Academy	14.60%	45	113
Tascor Services Ltd - Custody	16.40%	9	22
Tascor Services Ltd - PFI	16.40%	3	7
Taylor Shaw - Holy Rosary	15.00%	1	2
Tees Active Limited	13.10%	127	258
Tees Valley Combined Authority	19.80%	119	417
Tees Valley Education Trust	14.60%	71	172
Teesside Learning Trust	14.60%	49	117
Teesside University	13.30%	1,761	3,710
The Big Life Company Ltd	14.50%	3	8
The Chief Constable for Cleveland	12.60%	648	1,215
Thornaby Academy	14.60%	18	42
Tristar Homes Limited	14.80%	392	1,142
Unity City Academy	14.60%	53	130
Venn Academy Learning Trust	14.60%	54	131
Viewley Hill Academy Trust	14.60%	15	38
West Park Primary School	14.60%	15	39
West View Primary School and Sports Academy	14.60%	42	102
Wolseley UK Ltd	22.00%	1	29
Wynyard Church of England Primary School	14.60%	3	7
Yarm Primary School	14.60%	24	62
Yarm Town Council	14.10%	1	2
Zetland Primary School	14.60%	8	21

Note: net rate of contribution payable by each employing Organisation for the period 1 April 2016 to 31 March 2017 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 97.5% of the procedures within each target timescale. The table below highlights the performance of the administration unit against the key procedure targets.

Procedure	Target 2016/17	Achieved within timescale
Processing New Starters	20 days from receipt	99.93%
Processing Transfer Values (TV's)	10 working days from the date of notification	92.31%
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	100%
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	2015/16	2014/15
Processing New Starters	2,702	2,743	2,759
Processing Transfer Values (TV's)	351	267	157
Refund of Contributions	375	361	220
Estimates of Benefit Entitlements	2,343	2,334	2,432
Pension benefits	2,275	2,589	2,024
Deferred Benefits	1,815	1,661	1,700
Deaths	568	475	521
Divorces	127	138	119
General Enquiries	1,713	1,168	1,143
<b>Total</b>	<b>12,269</b>	<b>11,736</b>	<b>11,075</b>

### 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:

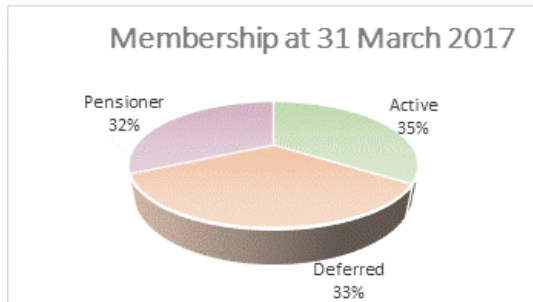
- ◆ The ongoing funding level of the Fund on 31 March 2016 was 100% (2013 – 101%).
- ◆ The surplus of assets compared to the past service liabilities was £11.1 million (2013 – surplus of assets compared to past service liabilities £37.0 m).
- ◆ The average cost of accruing benefits payable by the employers, 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

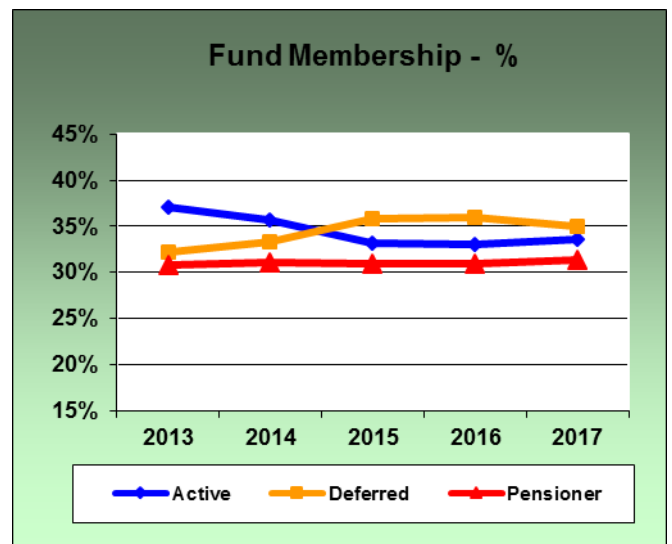
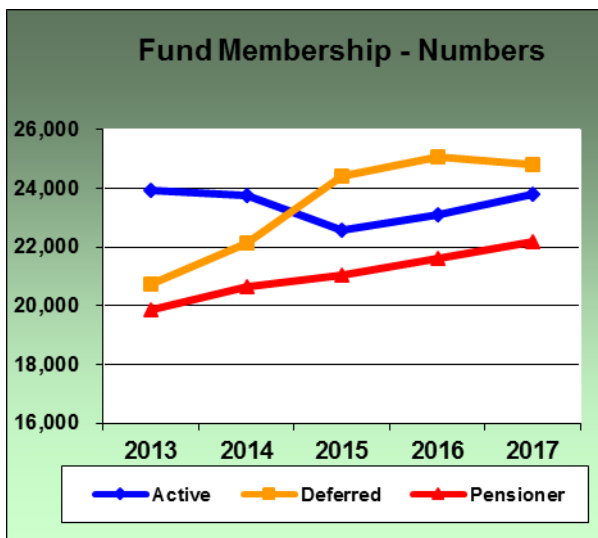
In the 2016/2017 financial year the total membership of the Fund has decreased by 940 to the current total of 68,829.

The number of deferred members of the scheme has risen by 20% in the last 5 years and now forms 35% of the total membership.



### Membership Numbers

	2013	2014	2015	2016	2017
Active	23,908	23,734	22,566	22,637	23,791
Deferred	20,738	22,144	24,429	22,453	22,861
Pensioner	19,850	20,648	21,059	21,699	22,177
<b>Total</b>	<b>64,496</b>	<b>66,526</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>



## Summary of Membership Changes

	Active Members	Deferred Members	Pensioners Members	Dependants	Total
At 1 <sup>st</sup> April 2016	22,637	22,453	18,949	2,750	66,789
Adjustments	925	262	40	31	1,258
New Members	2,257	3	0	252	2,512
Change in Status	(1,620)	386	942	(10)	(320)
Leavers	(408)	(243)	(622)	(155)	(1,428)
<b>At 31<sup>st</sup> March 2017</b>	<b>23,791</b>	<b>22,861</b>	<b>19,309</b>	<b>2,868</b>	<b>68,829</b>
% of Total at 1 <sup>st</sup> April 2016	33.1%	35.9%	27.0%	4.0%	100.0%
<b>% of Total at 31<sup>st</sup> March 2017</b>	<b>34.6%</b>	<b>33.2%</b>	<b>28.1%</b>	<b>4.2%</b>	<b>100.0%</b>

During the year, 12 employers joined the scheme as scheduled bodies and 11 employers joined as admitted bodies. Also, 3 admitted employers ceased to have active members in the scheme. At the year-end 31 March 2017, the Fund had 170 employers with active members.

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

	Current Employers	Active Members	Deferred Members	Pensioners - Members	Pensioners - Dependants	2016/17 Total	2015/16 Total
1	Stockton BC	4,646	5,320	3,114	319	13,399	13,408
2	Middlesbrough BC	3,750	4,386	2,660	244	11,040	10,987
3	Redcar & Cleveland BC	2,851	3,495	2,339	226	8,911	8,687
4	Hartlepool BC	2,789	2,928	1,621	186	7,524	7,307
5	Cleveland CC	2	687	3,484	749	4,922	5,162
6	University of Teesside	1,096	839	463	73	2,471	2,388
7	CSCI	1	420	435	23	879	882
8	Cleveland Police Authority	2	264	217	19	502	507
9	Care Quality Commission	453	135	232	5	825	829
10	Durham Tees Valley Probation Trust	510	89	0	0	599	601
11	Coast & Country Housing	337	246	183	15	781	766
12	Mouchel	2	85	155	5	247	251
13	Middlesbrough College	480	322	120	9	931	885
14	Steria	294	64	105	2	465	465
15	Tristar Homes	214	134	109	14	471	470
16	Erimus Housing	156	86	165	10	417	413
17	Stockton Riverside College	198	181	78	5	462	424
18	Hartlepool College of FE	213	194	84	11	502	492
19	Housing Hartlepool	174	103	94	9	380	383
20	Beamish	127	40	14	1	182	179
21	Cleveland Probation	2	111	0	0	113	113
22	Durham and Tees Valley Airport	31	45	34	0	110	109
23	Cleveland Fire Authority	135	85	71	6	297	284

24	Cleveland College of Art & Design	105	83	48	7	243	238
25	Tees Active Ltd	106	80	30	4	220	209
26	Tees Valley Leisure	9	84	19	4	116	121
27	Redcar & Cleveland College	125	121	59	3	308	277
28	Transit Stagecoach	12	12	144	18	186	184
29	Unity City Academy	72	78	22	2	174	162
30	Liberata	24	50	56	7	137	140
31	MacMillan Academy	88	60	25	4	177	170
32	Business & Enterprise NE	2	26	21	1	50	52
33	Kings Academy	71	45	24	1	141	139
34	Prior Pursglove College	3	42	29	0	74	113
35	CIC Elderly Persons Homes	4	26	58	1	89	91
36	North Shore Academy	65	53	6	1	125	122
37	Oakfield Community College	3	35	8	0	46	59
38	Fabrick Housing	46	11	16	4	77	67
39	Hartlepool 6th Form College	44	19	16	1	80	69
40	Freebrough Academy	48	16	6	0	70	63
41	Thornaby Academy	35	21	13	1	70	73
42	Carillion Integrated Solutions	20	11	10	1	42	41
43	One Awards Ltd (formerly OCN)	14	16	14	4	48	51
44	Stockton 6th Form College	8	18	15	0	41	53
45	Carillion Government Services	1	3	5	0	9	18
46	Learning and Skills Council	3	8	4	0	15	15
47	OCS	1	2	6	0	9	8
48	Guisborough Town Council	4	2	4	0	10	10
49	Saltburn & Marske PC	3	2	1	0	6	4
50	Future Reperation of Grangetown	1	4	1	0	6	6
51	Loftus Town Council	3	0	1	0	4	4
52	Billingham Town Council	2	3	0	0	5	3
53	Skelton & Brotton Parish Council	3	1	0	0	4	4
54	Yarm Town Council	2	0	0	0	2	1
55	Ingleby Barwick Town Council	1	0	0	0	1	1
56	Cleveland Fire Support Network	1	0	0	0	1	1
57	Fleet Factors Ltd	1	0	0	0	1	1
58	CMSL Ryehills Catering	1	0	1	0	2	7
59	Capita Managed IT Solutions Ltd	1	2	0	0	3	7
60	The Big Life Company Ltd	6	2	1	0	9	8
61	4Children	2	1	0	0	3	3
62	Eston Park Academy	4	5	7	0	16	18
63	Brambles Academy	3	3	0	0	6	18
64	Pennyman Primary Academy	8	6	5	0	19	46
65	Chandlers Ridge Academy	21	2	1	0	24	22
66	Nunthorpe Academy	73	18	9	0	100	90
67	Ormesby School	2	15	8	0	25	67

68	KTS Academy	62	12	4	0	78	51
69	North Ormesby Primary Academy	25	3	1	0	29	26
70	Redcar Academy	27	7	10	0	44	42
71	Crime Commissioner for Cleveland	31	23	23	4	81	84
72	Conyers School	66	23	13	0	102	100
73	All Saints Academy	27	13	1	1	42	36
74	St Gregory's Catholic Academy	33	15	4	6	58	54
75	KGB Cleaning & Supp Servs Ltd	4	1	0	0	5	5
76	SLM Community Leis Char Trust	67	7	3	0	77	52
77	SLM Food & Beverage Ltd	2	0	0	0	2	2
78	SLM Fitness & Health Limited	9	5	0	0	14	6
79	Dyke House Academy	110	11	3	0	124	115
80	Caldicotes Primary Academy	17	3	0	0	20	16
81	Tascor Services Ltd – PFI	3	0	0	0	3	3
82	Tascor Services Ltd – Custody	5	3	5	0	13	13
83	Hardwick Green Primary Academy	27	2	1	0	30	18
84	Ecocleen Services Limited	1	0	0	0	1	1
85	Extol Ac Trust (Eldon Grove)	32	7	0	1	40	37
86	Stranton Ac Trust (Stranton)	47	10	1	0	58	60
87	Eskdale Academy	21	1	2	0	24	13
88	Catcote Academy	116	11	8	0	135	131
89	Horizons Specialist Academy Tr	179	25	6	1	211	177
90	St Michael's Catholic Academy	42	8	4	0	54	43
91	Fredrick Nattrass Primary Academy	38	6	1	0	45	41
92	Oak Tree Primary Academy	54	8	5	0	67	63
93	Outwood Academy Acklam	62	0	2	0	64	38
94	Dormanstown Primary Academy	14	2	2	0	18	31
95	St Bede's Catholic Academy	32	7	0	4	43	39
96	Mellors Catering Services Ltd	68	3	1	1	73	77
97	Sunnyside Academy	69	11	1	1	82	75
98	Viewley Hill Academy Trust	26	2	1	0	29	25
99	Norton Primary Academy	47	12	4	0	63	50
100	Grangefield Academy	41	17	8	0	66	61
101	Fleet Factors (RCBC)	2	0	0	0	2	2
102	Chief Constable for Cleveland	356	40	12	0	408	350
103	One IT Solutions Ltd	20	0	0	0	20	20
104	Skeleton Primary School	54	6	0	0	60	51
105	Rose Wood Academy	39	4	0	0	43	39
106	Hemlington Hall Academy	32	3	1	0	36	31
107	Yarm Primary School	47	6	2	0	55	48
108	Lockwood Parish Council	1	0	0	0	1	1
109	Diocese of Middlesbrough Trust	1	0	0	0	1	1
110	English Martyrs Ed Trust	106	15	7	0	128	121
111	Easterside Academy	49	1	0	0	50	41

112	St Margarets Clitherows CVPA	29	2	0	0	31	28
113	St Gabriels Catholic Academy	21	6	2	0	29	29
114	St Marys Catholic Academy	17	0	2	0	19	19
115	St Peters Academy M and C	36	4	1	0	41	39
116	Green Lane Primary Academy	56	1	2	0	59	53
117	Kader Academy	22	3	0	0	25	26
118	Normanby Primary School	52	6	0	0	58	45
119	Nunthorpe Primary Academy	39	6	0	0	45	33
120	Creative Management Serv Ltd	31	2	3	0	36	28
121	Harrow Gate Primary Academy	55	5	0	0	60	46
122	Ian Ramsey CoE Academy	88	6	3	0	97	76
123	Ash Trees Academy	98	7	2	0	107	71
124	St Joseph's Primary Academy	28	0	0	0	28	30
125	St Paulinus P C V Academy	20	1	2	0	23	22
126	West View Academy	60	5	0	0	65	58
127	Outwood Academy Bydales	48	2	1	0	51	31
128	Taylor Shaw - Holy Rosary	1	0	0	0	1	1
129	Ingleby Manor Free School and 6th Form	20	0	0	0	20	3
130	Hillsview Academy	54	2	2	0	58	43
131	St Bede's Primary CV Academy	19	0	0	0	19	15
132	West Park Primary School	36	1	1	0	38	31
133	Our Lady & St Bede Academy	68	8	5	0	81	80
134	Manor Community Academy	106	8	1	1	116	91
135	KGB Cleaning Ltd – SSFC	1	0	0	0	1	1
136	Saint Benedicts PCV Academy	24	0	1	0	25	1
137	Our Lady - Christ the King	21	1	1	0	23	3
138	Our Lady - St Patricks College	36	7	1	0	44	3
139	Our Lady - St Patrick Primary	32	3	1	0	36	2
140	Our Lady St Therese of Lisieux	24	3	0	0	27	1
141	Wynyard C of E Primary School	6	0	0	0	6	3
142	Outwood Academy - Ormesby	41	0	2	0	43	2
143	Sacred Heart SCV Academy	27	2	2	0	31	1
144	Enquire Learning Trust Central	8	0	0	0	8	3
145	Kier Business Services	42	4	3	0	49	95
146	St Hilda's Catholic Academy Trust	235	8	7	0	250	20
147	Kier (Pensions Unit)	19	0	0	0	19	22
148	Taylor Shaw - Riverdale	4	0	0	0	4	0
149	Mellors Catering Ltd - Eston	0	0	0	0	0	0
150	Mellors Catering Ltd - Dormanstown	2	0	0	0	2	0
151	KGB Cleaning Ltd - LJS	4	0	0	0	4	0
152	Tees Valley Education Trust	65	2	0	0	67	0
153	Tees Valley Combined Authority	49	1	3	0	53	0
154	SLM Charitable Trust (MBC)	77	6	0	0	83	0
155	SLM Food & Beverage Ltd (MBC)	9	1	0	0	10	0

156	SLM Fitness & Health Limited (MBC)	5	2	0	0	7	0
157	Prior Pursglove & Stockton Sixth Form College	64	5	0	0	69	0
158	River Tees Multi Academy Trust		0	0	0	0	0
159	St Thomas of Canterbury MAT	63	6	1	1	71	0
160	Onsite Building Trust	5	0	0	0	5	0
161	NMRN Trading	9	0	0	0	9	0
162	Hartlepool Care Services Ltd	4	0	0	0	4	0
163	Brougham Primary School	30	1	0	0	31	0
164	Venn Academy Learning Trust	115	3	0	0	118	0
165	One IT Services Ltd - Porter	1	0	0	0	1	0
166	Rosebrook Primary School	2	0	0	0	2	0
167	Teesside Learning Trust	3	0	0	0	3	0
168	Ormesby Primary School	46	0	0	0	46	0
169	Zetland Primary School	56	0	0	0	56	0
170	Outwood Academy Bishopsgarth	3	0	0	0	3	0
	Inactive employers	7	1,153	2,654	852	4,689	4,946
		<b>23,791</b>	<b>22,861</b>	<b>19,309</b>	<b>2,868</b>	<b>68,829</b>	<b>67,139</b>

## Internal Dispute Resolution Procedure

In the first instance the member should contact the Teesside Pension Fund at the address shown on page 74. 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. However, advice must first have been sought from the Pensions Advisory Service before the Ombudsman will consider the case.

Details of IDRP cases processed in the year

Cases started in year	10
Cases resolved in year	10 Cases Dismissed
Cases resolved in year	0 Cases Upheld

## Head of Investments' Report

Over the past year, markets saw positive returns in all asset classes. Growth asset classes (Equities, Property and Alternatives) produced positive returns, particularly UK Equities, which saw strong gains following the outcomes of the UK's EU Referendum and US Election, and Overseas Equities which also benefitted from a weaker Pound.

Property is an asset class the Fund has expanded its investment in the year. 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%. Property, as an asset class performed well for the Fund last year, returning 8%, despite some volatility just after the EU Referendum when overseas investors were seeking to reduce their exposure to this market and the Pound.

Alternative investments 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 Teesside Fund's alternative portfolio is a very small part of the whole Fund and contains some infrastructure, commodities and other assets that are considered to be uncorrelated to equity and bond markets and over the long term will produce an absolute return. The Fund's portfolio showed strong gains over the year returning over 12%.

Bond markets also finished the year with strong returns. The Teesside Fund has taken further advantage of increased bond prices and almost completely withdrawn from this asset until these prices revert to more normal levels.

Against this background of strong, rising markets, cash has built up as profits were taken out of Equities and Bonds were sold down to near zero. Cash increased by approx. £320 million to approx. £450 million as at 31 March 2017.

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, i.e. 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. 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.

The value of the Teesside Fund at 31 March 2017 was £3.860 billion, an increase of approx. £730 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:

	<b>Teesside Fund</b>	<b>TPF Benchmark</b>	<b>Investment Strategy Statement Max.</b>	<b>Investment Strategy Statement Min.</b>
Global Pooled	0.00%	0.00%	0.00%	0.00%
UK Equity	31.65%	30.00%	90.00%	55.00%
Overseas Equity	48.20%	40.00%	10.00%	0.00%
Alternatives	1.64%	5.00%	15.00%	5.00%
Property	6.40%	10.00%	40.00%	2.00%
Bonds	0.19%	13.00%		
Cash	11.92%	2.00%		
	<b>100.00%</b>	<b>100.00%</b>		

The largest 20 holdings, which make up 17.90% of the value of the portfolio as at 31 March 2017 is:

<b>Security Description</b>	<b>% Total Assets</b>	<b>Market Value (£000's)</b>
HSBC HLDGS ORD USD0.50(UK REG)	1.78%	68,507
BRITISH AMERICAN TOBACCO ORD GBP0.25	1.43%	55,120
BP ORD USD0.25	1.33%	51,017
GLAXOSMITHKLINE ORD GBP0.25	1.14%	43,977
SAMSUNG ELECTRONIC CO LTD KRW5000	1.11%	42,719
ROYAL DUTCH SHELL A SHS EURO.07 (UK LIST )GBP	1.01%	38,725
ROYAL DUTCH SHELL B ORD EURO.07	0.94%	36,232
ASTRAZENECA ORD USD0.25	0.90%	34,388
CHINA MOBILE LTD HKD0.10	0.89%	34,350
VODAFONE GROUP SHS	0.87%	33,296
DIAGEO ORD PLC	0.83%	31,912
INVESCO PERPETUAL UK SMALLER CO. EQUITY FD	0.81%	30,967
LIONTRUST UK SMALLER CO-I	0.73%	28,152
PRUDENTIAL GBP0.05	0.69%	26,521
APPLE INC COM STK	0.61%	23,553
FIDELITY EUROPEAN FUND-W-ACC	0.59%	22,853
UBS GBL ASSET LIFE SMALLER COMP EQUITY TRACKER B	0.59%	22,566
BARCLAYS ORD GBP0.25	0.57%	21,721
NATIONAL GRID ORD GBP0.113953	0.54%	20,777
IMPERIAL BRANDS PLC	0.53%	20,495
	<b>17.90%</b>	<b>687,848</b>

## 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 and 10 years and to compare performance with other Local Authority Funds.

In the year 2016/2017 the Fund achieved a return of 24.9% compared to our benchmark return of 21.7%.

In the three-year period to 2016/2017 the Fund achieved a return of 10.4% per annum compared to our benchmark return of 11.1%.

In the ten-year period to 2016/2017 the Fund achieved a return of 7.1% per annum compared to our benchmark of 7.0%.

Ordinarily, the key to good performance is to get the big 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 has continued to help bonds performance over past years, continuing a “bull-run” in bond prices lasting over two decades.

The Fund's position of being overweight in growth assets, such as equities, and underweight in protection assets, provided the Fund with a performance boost this year; equity markets in particular ended this financial year strongly. In addition, the performance was equally assisted by good stock selection from the internal management team, helping the Fund outperform its benchmark by over 3% over the year.

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's investment advisors continue 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](http://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.

## **SHAREHOLDER GOVERNANCE**

Since the 1980's 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 AGM's in order to promote shareholder value.

The Fund's policy is to vote at all AGM's and EGM's for UK listed companies where the Fund is a shareholder. An Annual Report on Shareholder Governance is presented to the Investment Panel. This sets out how votes have been cast.

All Local Authority Pension Funds are required to produce an Investment Strategy Statement 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 Statement can be viewed on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). The Statement 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](http://www.lapfforum.org)) a grouping of over 70 Local Authority funds as members.

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.

LAPFF Membership as at 31 March 2017:

Avon Pension Fund	Ealing LB
Barking and Dagenham LB	East Riding of Yorkshire Council
Bedfordshire Pension Fund	East Sussex Pension Fund
Cambridgeshire Pension Fund	Enfield LB
Camden LB	Environment Agency Pension Fund
Cardiff and Vale of Glamorgan Pension Fund	Falkirk Council
Cheshire Pension Fund	Gloucestershire Pension Fund
City and County of Swansea Pension Fund	Greater Gwent Fund
City of London Corporation	Greater Manchester Pension Fund
Clwyd Pension Fund	Greenwich Pension Fund RB
Croydon LB	Gwynedd Pension Fund
Cumbria Pension Scheme	Hackney LB
Derbyshire CC	Haringey LB
Devon CC	Harrow LB
Dorset County Pension Fund	Hertfordshire County Council Pension Fund
Durham Pension Fund	Hounslow LB
Dyfed Pension Fund	Islington LB
	Lambeth LB

Lancashire County Pension Fund  
Lewisham LB  
Lincolnshire CC  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Newham LB  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire CC Pension Fund  
Northamptonshire CC  
Northumberland Pension Fund  
Nottinghamshire CC  
Powys County Council Pension Fund  
Redbridge LB  
Rhondda Cynon Taf  
Shropshire Council  
Somerset CC  
Sheffield City Region Combined  
Authority

South Yorkshire Pensions Authority  
Southwark LB  
Staffordshire Pension Fund  
Strathclyde Pension Fund  
Suffolk County Council Pension Fund  
Surrey CC  
Sutton LB  
Teesside Pension Fund  
Tower Hamlets LB  
Tyne and Wear Pension Fund  
Waltham Forest LB  
Wandsworth LB  
Warwickshire Pension Fund  
West Midlands ITA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC

## Financial Statements

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## **Statement of Responsibilities**

### **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 Chief Financial Officer (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 Chief Financial Officer's Responsibilities**

The Chief Finance Officer 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 Chief Finance Officer 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.

### **Certification of the Statement of Accounts**

I confirm that the Teesside Pension Fund Statement of Accounts from page 41 to 66 gives a true and fair view of the financial position of the Fund at 31 March 2017 and of its income and expenditure for the year then ended.

**28 September 2017**

**James Bromiley, Strategic Director, Finance, Governance & Support (section 151 Officer)**

### **Approval of the Statement of Accounts**

In accordance with the Accounts and Audit (England) regulations 2011, I confirm that the Teesside Pension Fund Statement of Accounts was approved by the Pension Board

**28 September 2017**

**Colin Monson, Chair of the Teesside Pension Fund Board**

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF MIDDLESBROUGH  
COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS**

We have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the;

- Fund Account
- Net Assets Statement; and
- Related notes 1 to 21

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Chief Finance Officer and Auditor**

As explained more fully in the Statement of The Chief Financial Officer's Responsibilities set out on page 38, the Chief Finance Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Middlesbrough Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We also read the other information contained in the pension fund annual report and consider the implications of our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of:

- Report of Those Charged with Governance
- Membership
- Head of Investments' Report
- Financial Statements
- Statement of Responsibility for the Financial Statements
- Actuary's Statement
- The Compliance statement
- Summary of LGPS Benefits
- Contacts and further information

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.



## **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Middlesbrough Council for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

**Careen Gray (Senior Statutory Auditor)**  
**for and on behalf of Ernst & Young LLP, Appointed Auditor**  
**Newcastle upon Tyne**  
**28 September 2017**

### Fund Accounts for the year ended 31st March 2017

2015/2016			2016/2017
£000	Contributions and Benefits	Note	£000
85,056	Contributions	6	85,887
2,285	Transfers in from other pension funds	7	5,225
3,332	Other income	8	6,382
90,673	Total Income from Members		97,494
(119,787)	Benefits	9	(125,785)
(7,053)	Payments to and on account of leavers	10	(9,084)
(126,840)	Total Expenditure to Members		(134,869)
(36,167)	<b>Net additions/(withdrawals) from dealing with members</b>		(37,375)
(5,153)	Management expenses	11	(4,673)
(41,320)	<b>Net additions/(withdrawals) including fund management expenses</b>		(42,048)
	<b>Returns on investments</b>		
94,312	Investment income	12	102,150
(163,668)	Profit and losses on disposal of investments and changes in the market value of investments	13	666,369
(69,356)	<b>Net returns on investments</b>		768,519
(110,676)	<b>Net increase/(decrease) in the Fund during the year</b>		726,471
3,243,794	Net assets of the Fund as at 1 April		3,133,118
<b>3,133,118</b>	<b>Net assets of the Fund as at 31 March</b>		<b>3,859,589</b>
<b>2015/2016</b>	<b>Net Assets Statement as at 31 March</b>		<b>2016/2017</b>
<b>£000</b>			<b>£000</b>
3,120,363	Investments Assets	13	3,853,887
15,893	Current Assets	14	9,911
60	Receivables due over 1 year		98
(3,198)	Current liabilities	15	(4,307)
<b>3,133,118</b>	<b>Net assets of the Fund at 31 March</b>		<b>3,859,589</b>

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 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*, 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**

The accounts have been prepared on an accruals basis, and the accruals threshold set by management is £100k. The exception to this accruals basis, is individual transfer values which are recognised on a cash transfer basis.

#### **Fund Account – Revenue Recognition**

##### **a) 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.

##### **b) 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.

### **c) 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 of the financial instrument as at the date of acquisition.

#### **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 and insurance. 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**

##### **d) 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.

##### **e) 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.

##### **f) 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 rents from Properties.

### **Net Assets Statement**

Financial assets are included in the net assets statement on a fair value basis as at 31<sup>st</sup> March 2017. 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<sup>st</sup> March 2017 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 2017. Properties are valued annually by an independent external valuer on a fair basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9<sup>th</sup> 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 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 2017.

### **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 and Phoenix Life PLC as the current providers. 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 19).

### **Contingent Liabilities**

The Pension Fund has no contingent liabilities.

### **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.**

There are no accounting standards that have been issued but not yet adopted.

### **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 2017 was £Nil (£42,586 at 31 March 2016).

### **Pension Fund Liabilities**

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18. These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment growth and short-term yield/return.

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
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 £83.56 million.
Pooled Investment Vehicles	Private Equity investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European	Unobservable market values amount to £16,587k and are relating to infrastructure, real estate, and pooled equity vehicles.



	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.	
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 (5.59%) in the value of directly held property £11.4 million, on a fair basis of £204.3 million.

## 6. Contributions Receivable

		2015/16	2016/17
		£000	£000
Employers	Normal	57,747	58,341
	Additional Contributions	16	31
	Deficit Recovery Contributions	1,602	1,622
Members	Normal	25,691	25,893
	<b>Total</b>	<b>85,056</b>	<b>85,887</b>
<b>Analysis of Total Contributions</b>		<b>2015/16</b>	<b>2016/17</b>
		<b>£000</b>	<b>£000</b>
	Administering Authority	13,272	12,940
	Scheduled Bodies	54,925	57,777
	Admitted Bodies	16,859	15,170
	<b>Total</b>	<b>85,056</b>	<b>85,887</b>

## 7. Transfers in from Other Pension Funds

		2015/16	2016/17
		£000	£000
	Individual transfers in from other schemes	2,285	5,225
	<b>Total</b>	<b>2,285</b>	<b>5,225</b>

## 8. Other Income

	2015/16	2016/17
	£000	£000
Capital Costs of Early Retirements	2,199	5,256
Other Income	1,133	1,126
<b>Total</b>	<b>3,332</b>	<b>6,382</b>

## 9. Benefits Payable

	2015/16	2016/17
	£000	£000
Pensions	98,348	101,668
Commutations and lump sum retirement benefits	19,364	21,081
Lump sum death benefits	2,075	3,036
<b>Total</b>	<b>119,787</b>	<b>125,785</b>
<b>Analysis of Total Benefits</b>		
Administering Authority	25,163	27,091
Scheduled Bodies	70,243	69,001
Admitted Bodies	24,381	29,693
<b>Total</b>	<b>119,787</b>	<b>125,785</b>

## 10. Payment to and on Account of Leavers

	2015/16	2016/17
	£000	£000
Refunds to members leaving service	177	198
Payments for members joining state scheme	118	91
Group transfers	0	0
Individual transfers to other schemes	6,758	8,795
<b>Total</b>	<b>7,053</b>	<b>9,084</b>

## 11. Management Expenses

	2015/16	2016/17
	£000	£000
Administrative costs	1,558	1,870
Investment management expenses	3,418	2,596
Oversight and governance costs	177	207
<b>Total</b>	<b>5,153</b>	<b>4,673</b>

## 11A. Investment Management Expenses

	2015/16	2016/17
	£000	£000
Management fees	629	632
Custody fees	15	11
Transaction costs	2,069	1,281
Loans & Investment support service charges	705	672
<b>Total</b>	<b>3,418</b>	<b>2,596</b>

## 12. Investment Income

	2015/16	2016/17
	£000	£000
Income from fixed interest securities	2,498	793
Dividends from equities	77,916	85,854
Income from Index-Linked Securities	473	245
Income from pooled investment vehicles	3,689	3,995
Other Investment Income	96	0
Net rents from properties (see note below)	8,999	10,293
Interest on cash deposits	641	970
<b>Total</b>	<b>94,312</b>	<b>102,150</b>
	2015/16	2016/17
	£000	£000
<b>Rental Income and Property Expenses</b>		
Gross Rental income	9,255	10,851
Property Expenses	(256)	(558)
<b>Net Rents from Properties</b>	<b>8,999</b>	<b>10,293</b>

## 12A. External Audit Costs

	2015/16	2016/17
	£000	£000
Payable in respect of external audit	28	28

### 13. Investment Assets

	Value at 31 March 2016	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Bonds	92,460	0	(88,964)	3,588	7,084
Equities	2,397,104	155,839	(305,318)	600,782	2,848,407
Pooled Investment Vehicles	275,367	15,731	(49,013)	54,612	296,697
Pooled Property Investments	40,375	0	(548)	2,840	42,667
Properties	184,450	31,230	(15,902)	4,547	204,325
	<b>2,989,756</b>	<b>202,800</b>	<b>(459,745)</b>	<b>666,369</b>	<b>3,399,180</b>
Cash Deposits	104,908				428,302
Other Investment Balances	25,699				26,405
	<b>3,120,363</b>				<b>3,853,887</b>

	Value at 31 March 2015	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Bonds	162,830	10,664	(78,446)	(2,588)	92,460
Equities	2,430,944	386,142	(260,195)	(159,787)	2,397,104
Pooled Investment Vehicles	329,736	18,303	(63,591)	(9,081)	275,367
Pooled Investment Property	39,046	0	(1,333)	2662	40,375
Properties	169,630	25,890	(16,196)	5,126	184,450
	<b>3,132,186</b>	<b>440,999</b>	<b>(419,761)</b>	<b>(163,668)</b>	<b>2,989,756</b>
Cash Deposits	73,803				104,908
Other Investment Balances	26,597				25,699
	<b>3,232,586</b>				<b>3,120,363</b>

#### 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 £124,506,493 and unrealised gain was £541,862,222. Prior year realised profit was £109,112,233 and unrealised loss was £272,780,233.

## 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 £1,280,704 (2015/2016 £2,068,647). 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 is mainly in-house managed with the only exception being the direct property portfolio managed by CBRE Limited.

- For 2016/2017 the value at 31 March 2017 of the direct property portfolio was:£204,325,000
- For 2015/2016 the value at 31 March 2016 of the direct property portfolio was:£184,450,000

The remainder of the Fund is all managed in-house.

The Fund does not have any single investment over 5% of the net assets of the scheme. 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 and Investment Panel.

Asset Class / Security	Market Value 31 March 2016 £'000	% of asset class	Market Value 31 March 2017 £'000	% of asset class
<b>UK Fixed Interest</b>				
DNB Boligkreditt 15-17/02/2020 FRN	0	0.00%	999	33.34%
Total Cap INTL 14-01/07/2019 FRN	0	0.00%	1,997	66.66%
BAT INTL FINANCE 7.25% MTN 12/03/24 GBP	3,424	6.55%	0	0.00%
HSBC BANK FRN 16/05/2016	3,001	5.74%	0	0.00%
NEXT PLC 5.875%-06-12/10/2016	2,045	3.91%	0	0.00%
TREASURY 1.75% 07/09/22 GBP0.01	3,352	6.42%	0	0.00%
TREASURY 4.25% 07/09/39 GBP0.01	2,731	5.23%	0	0.00%
TREASURY 5% 07/03/2025 GBP100	2,530	4.84%	0	0.00%
<b>UK Index-Linked</b>				
NAT GRID GAS PLC 4.1875%/IDX LKD BDS 14/12/2022	1,498	9.20%	0	0.00%
TESCO 1.982%-IDX/LKD 24/03/36 GBP	2,272	13.95%	0	0.00%
TREASURY 2.5% I/L 17/07/24 GBP	2,657	16.31%	0	0.00%
TREASURY 2% I/L 26/01/35 GBP0.01	3,532	21.68%	0	0.00%
TREASURY 0.125% I/L 22/03/44 GBP	3,539	21.73%	0	0.00%
TREASURY 0.125% I/L 22/11/55 GBP	2,790	17.13%	0	0.00%
<b>Overseas Bonds</b>				
ALTRIA GROUP INC 4.25% DUE 08-09-2042	3,247	13.57%	0	0.00%

ANGLO AMERICAN CAPITAL 9.375% GTD 04/19 USD REGS	2,177	9.10%	0	0.00%
AUST & NZ BANK 5.25% 14-13/03/2019	1,524	6.37%	0	0.00%
AUSTRALIA (CMNWLTH) 6% BDS 15/02/2017 AUD 1000	2,545	10.64%	0	0.00%
CANADA (GOVT OF) 1.5% 01/06/23	1,335	5.58%	0	0.00%
CANADA (GOVT OF) 4.25% RRB 1/L 01/12/21 CAD1000	2,047	8.56%	2,225	54.43%
DAIMLER 3% 10/07/2018	1,737	7.26%	0	0.00%
DIAGEO CAPITAL 3.875% 29/04/2043	1,403	5.87%	0	0.00%
IMPERIAL TOBACCO FINANCE 2.05% 11/02/2018	2,094	8.75%	0	0.00%
NEW ZEALAND I/L 2% 20/09/25 NZD	1,760	7.36%	0	0.00%
Reynolds America 8.125% 15-01/05/2040	2,245	9.39%	0	0.00%
SWEDEN (KINGDOM OF) 4% 1/L 1/12/2020 SEK 3102	1,808	7.56%	1,863	45.57%
<b>UK Equity</b>				
HSBC Hldgs ORD USDO.50 (UK REG)	48,380	4.35%	68,507	5.61%
<b>Property</b>				
Direct - Stow-on-the-Wold (Fosse Way)	13,850	6.16%	13,850	5.61%
Direct - Birmingham (Bromford Central)	13,600	6.05%	13,925	5.64%
Direct - Cirencester (Retail Park)	13,800	6.14%	13,475	5.46%
Direct - Lutterworth (Magna Park)	12,050	5.36%	11,800	4.78%
Direct - Ipswich (Interchange Retail Park)	15,000	6.67%	14,900	6.03%
Direct – Rotherham (Catcliffe Retail Park)	0	0.00%	15,500	6.28%
Direct – Rugby (Valley Park)	0	0.00%	15,000	6.07%
Standard Life Investments European Property Growth Fund	13,662	6.08%	15,725	6.37%
<b>Alternatives</b>				
Amedeo Air Four Plus Ltd	5,000	8.14%	10,350	16.34%
Darwin Leisure Prop Units FDS Cls 'C'	15,900	25.88%	17,692	27.94%
ETFS Metal Security Physical Gold	7,472	12.16%	9,106	14.38%
Innisfree PFI Continuation Fund	9,487	15.44%	9,707	15.33%
INNISFREE PFI SECONDARY FUND 2	6,811	11.08%	6,880	10.86%
NIMROD SEA ASSETS LTD	2,192	3.57%	0	0.00%
UNITED STATES OIL FUND LP UNITS	5,737	9.34%	7,183	11.34%

## Geographical Analysis of Investments

	2015/16		2016/17	
	£000	%	£000	%
United Kingdom	1,524,081	51%	1,587,257	47%
United States	433,401	14%	562,092	17%
Hong Kong	143,895	5%	167,362	5%
Japan	174,641	6%	221,808	7%
Australia	111,170	4%	128,704	4%
Germany	75,157	3%	91,566	2%
Switzerland	71,525	2%	83,013	2%
Republic of Korea	96,558	3%	134,870	4%
Singapore	49,343	2%	61,110	2%
France	73,788	2%	87,846	3%
Taiwan	68,790	2%	89,645	2%
Others	167,407	6%	183,907	5%
<b>Total</b>	<b>2,989,756</b>	<b>100%</b>	<b>3,399,180</b>	<b>100%</b>

## Bonds and Index – Linked Securities

	2015/16	2016/17
	£000	£000
UK Public Sector	19,401	0
UK Corporate	49,135	2,995
Overseas Public Sector	9,496	0
Overseas Corporate	14,428	4,089
<b>Total</b>	<b>92,460</b>	<b>7,084</b>

## Equities

	2015/16	2016/17
	£000	£000
UK quoted	1,004,761	1,096,185
Overseas quoted	1,392,343	1,752,222
<b>Total</b>	<b>2,397,104</b>	<b>2,848,407</b>

## Pooled Investment Vehicles and Properties

	2015/16	2016/17
	£000	£000
UK Equity	108,272	125,304
Commodities	9,116	11,323
Pooled Property Investment Vehicles	40,375	42,667
Private Equity	43	0
Infrastructure	16,298	16,587
Other Alternative Investments	23,092	28,236
<b>UK Unit and Investment Trust Total</b>	<b>197,196</b>	<b>224,117</b>
Commodities	12,896	7,183
Overseas Equity	105,650	108,064
<b>Overseas Unit and Investment Trusts Total</b>	<b>118,546</b>	<b>115,247</b>
<b>Total</b>	<b>315,742</b>	<b>339,364</b>

## UK Properties

	2015/16	2016/17
	£000	£000
Freehold	139,800	159,650
Leasehold	44,650	44,675
<b>Total</b>	<b>184,450</b>	<b>204,325</b>

The properties were valued on the basis of Market Value as at 31 March 2017 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

	2015/16	2016/17
	£000	£000
Sterling Cash deposits	104,908	428,302

## Other investment balances

	2015/16	2016/17
	£000	£000
Cash deposits with custodian	4,382	14,149
Outstanding dividend entitlements	21,291	12,100
Interest due on cash deposits	26	156
<b>Total</b>	<b>25,699</b>	<b>26,405</b>

## Outstanding Commitments

As at 31 March 2017, the Fund had outstanding commitments to three investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2017
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	8,946,441	1,053,559
Markham Rae	2016	15,000,000	92,618	14,907,382
<b>Total</b>		<b>35,000,000</b>	<b>18,747,557</b>	<b>16,252,443</b>

## 14. Current Assets

<b>Receivables</b>		2015/16	2016/17
		£000	£000
Other receivables		8,434	2,228
Sundry debtors		375	789
Contributions due in respect of	Employers	4,812	4,783
	Members	2,095	2,052
Cash balances		177	59
<b>Total</b>		<b>15,893</b>	<b>9,911</b>
<b>Analysed by:</b>			
Other local authorities		5,910	5,356
Other entities and individuals		9,806	4,496
Add cash balances		177	59
<b>Total</b>		<b>15,893</b>	<b>9,911</b>



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

## 15. Current liabilities

<b>Amounts due within one year</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Rents received in advance	695	1,859
Accrued expenses	1,576	1,082
Other payables	927	1,366
<b>Total</b>	<b>3,198</b>	<b>4,307</b>
<b>Analysed by:</b>		
Other local authorities	989	827
Other entities and individuals	2,209	3,480
<b>Total</b>	<b>3,198</b>	<b>4,307</b>

## 16. 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:

	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Support Service Recharges payable for the year and outstanding at the year end	133	319

Middlesbrough Council has a 7 year Partnership with Kier Business Services for the provision of support services which expires in 2022.

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 2016/17:

Employees contributions of £154,000

Employers contributions of £372,000.

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. Additionally Pension Board Members Mr C Monson and Cllr B Woodhouse also receive a pension from the Fund.

## 17. 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;

	<b>2016/17</b>
	<b>£million</b>
Net Liabilities Assessment	3,122
Asset Valuation	3,133
<b>Surplus</b>	<b>11</b>
<b>Funding Level</b>	<b>100%</b>

### **IAS19/26 Disclosure**

Following the introduction of International Financial Reporting Standards (IFRS) the Fund is now required, under International Accounting Standard (IAS) 26 "Accounting and Reporting by Retirement Benefit Plans" to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS19 "Employee Benefits". An IAS26/19 valuation was carried out for the Fund as at 31st March 2017 by Aon Hewitt with the following results;

	<b>2015/16</b>	<b>2016/17</b>
	<b>£million</b>	<b>£million</b>
Net Liabilities Assessment	3,961	4,642
Asset Valuation	3,130	3,860
<b>Deficit</b>	<b>(831)</b>	<b>(782)</b>

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 2017 were:

### **Funding Assumptions**

RPI increases	3.1% per annum
CPI increases	2.0% per annum
Salary increases	3.0% per annum
Pension increases	2.0% per annum
Discount rate	2.6% per annum

### **Life expectancy from age of 65 (years) assumptions**

Mortality Assumptions:	
Longevity at 65 for current pensioners:	<b>Years</b>
Men	22.80
Women	24.90
Longevity at 65 for future pensioners :	
Men	25.00
Women	27.20

## 18. Additional Voluntary Contributions (AVC's)

### Prudential AVC balances

	2015/16	2016/17
	£000	£000
With Profits and Deposit Accounts	3,885	4,093
Unit Linked Accounts	2,482	2,930
<b>Total</b>	<b>6,367</b>	<b>7,023</b>

The total value of AVC contributions paid to Prudential during the year was £1,320,332 (2015/16: £1,370,207).

## 19. Financial Instruments

### Net Gains and Losses on Financial Instruments

	2015/16	2016/17
	£000	£000
Financial Assets		
Fair Value through profit and loss account	(163,668)	666,369

### Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	2016	2016	2017	2017
	£000	£000	£000	£000
Bonds	70,556	70,556	2,995	2,995
Equities	2,397,104	2,397,104	2,848,407	2,848,407
Index-linked securities	21,904	21,904	4,089	4,089
Pooled Investments	315,742	315,742	339,364	339,364
Properties	184,450	184,450	204,325	204,325
	2,989,756	2,989,756	3,399,180	3,399,180
Loans and receivables	130,615	130,607	454,955	454,707
<b>Total</b>	<b>3,120,371</b>	<b>3,120,363</b>	<b>3,854,135</b>	<b>3,853,887</b>

### 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 fund of 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 31 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
<b>Value as at 31st March 2017</b>				
Financial assets at fair value through profit and loss account	2,946,091	232,177	16,587	<b>3,194,855</b>
Non-financial assets through profit and loss account	0	0	204,325	<b>204,325</b>
Loans and receivables	454,955	0	0	<b>454,955</b>
<b>Total Financial Assets</b>	<b>3,401,046</b>	<b>232,177</b>	<b>220,912</b>	<b>3,854,135</b>
<b>Value as at 31st March 2016 re-stated</b>				
Financial assets at fair value through profit and loss account	2,561,736	189,030	54,540	<b>2,805,306</b>
Non-financial assets through profit and loss account	0	0	184,450	<b>184,450</b>
Loans and receivables	130,615	0	0	<b>130,615</b>
<b>Total Financial Assets</b>	<b>2,692,351</b>	<b>189,030</b>	<b>238,990</b>	<b>3,120,371</b>

### 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 methods 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 2017.

### Valuation of Financial Instrument Carried at Fair Value

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments – UK Equity	6.05%	6,338	6,722	5,955
Pooled Investments – Overseas Equity	9.88%	26,122	28,703	23,541
Property Pooled Investments	5.59%	20,796	21,959	19,634
Direct Property	5.59%	204,325	215,747	192,903
Pooled Infrastructure Investments	4.93%	16,587	17,405	15,769
<b>Total</b>		<b>274,168</b>	<b>290,536</b>	<b>257,802</b>

### Transfers between hierarchies

Freehold and leasehold property has been transferred from level 2 to level 3 due to the introduction of new CIPFA guidance in 2016/17.

### Reconciliation of Fair Value Measurements within level 3

Period 2016/17	Market Value 1 April 2016	Transfer out of Level 3	Purchase	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000
UK unit Trusts (a)	5,372	(5,372)	0	0	0	0	0
Overseas Unit (a)	19,165	(19,165)	0	0	0	0	0
Pooled Property (a)	13,662	(13,662)	0	0	0	0	0
Private Equity	43	0	0	(1)	0	(42)	0
Infrastructure	16,298	0	50	(36)	275	0	16,587
Property	184,450	0	31,219	(13,050)	(1,126)	2,832	204,325
<b>Total</b>	<b>238,990</b>	<b>(38,199)</b>	<b>31,269</b>	<b>(13,087)</b>	<b>(851)</b>	<b>2,790</b>	<b>220,912</b>

(a) Transferred from level 3 to level 2 due to a reappraisal of valuation techniques

## **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 2016/2017 reporting period.

<b>2016/17 Price Risk Asset Type</b>		<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
	<b>Region</b>				
Equities	UK	1,096,185	6.05%	1,162,504	1,029,866
	Overseas	1,752,222	9.88%	1,925,342	1,579,102
	<b>Total</b>	<b>2,848,407</b>		<b>3,087,846</b>	<b>2,608,968</b>
Fixed Interest Securities	UK	2,995	2.08%	3,057	2,933
	Overseas	0	11.10%	0	0
	<b>Total</b>	<b>2,995</b>		<b>3,057</b>	<b>2,933</b>
Index Linked	UK	0	7.58%	0	0
	Overseas	4,089	11.10%	4,543	3,635
	<b>Total</b>	<b>4,089</b>		<b>4,543</b>	<b>3,635</b>
Managed and Unitised Funds	UK	224,117	6.05%	237,676	210,558
	Overseas	115,247	9.88%	126,633	103,861
	<b>Total</b>	<b>339,364</b>		<b>364,309</b>	<b>314,419</b>
Property	UK	204,325	5.59%	215,747	192,903
<b>Total</b>		<b>3,399,180</b>		<b>3,675,502</b>	<b>3,122,858</b>

<b>2015/16 Price Risk Asset Type</b>		<b>Value</b>	<b>Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>Region</b>	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
Equities	UK	1,004,761	10.59%	1,111,165	898,357
	Overseas	1,392,343	10.19%	1,534,223	1,250,463
	<b>Total</b>	<b>2,397,104</b>		<b>2,645,388</b>	<b>2,148,820</b>
Fixed Interest Securities	UK	52,248	5.85%	55,305	49,191
	Overseas	18,308	8.37%	19,840	16,776
	<b>Total</b>	<b>70,556</b>		<b>75,145</b>	<b>65,967</b>
Index Linked	UK	16,289	8.07%	17,604	14,974
	Overseas	5,615	8.37%	6,085	5,145
	<b>Total</b>	<b>21,904</b>		<b>23,689</b>	<b>20,119</b>
Managed and Unitised Funds	UK	197,196	10.59%	218,079	176,313
	Overseas	118,546	10.19%	130,626	106,466
	<b>Total</b>	<b>315,742</b>		<b>348,705</b>	<b>282,779</b>
Property	UK	184,450	1.00%	186,295	182,606
<b>Total</b>		<b>2,989,756</b>		<b>3,279,222</b>	<b>2,700,291</b>

### 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 2017 and 31 March 2016 is set out below

<b>Asset Type at 31 March</b>	<b>2016</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	104,908	428,302
Cash balances	25,699	26,405
Fixed interest securities	70,556	2,995
<b>Total</b>	<b>201,163</b>	<b>457,702</b>

### 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.



<b>Asset Type</b>		<b>+25 BPS</b>	<b>-25 BPS</b>
<b>Carrying value at 31 March 2017</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	428,302	1,071	(1,071)
Cash balances	26,405	66	(66)
Fixed interest securities	2,995	7	(7)
<b>Total</b>	<b>457,702</b>	<b>1,144</b>	<b>(1,144)</b>

<b>Carrying value at 31 March 2016</b>			
Cash and cash equivalents	104,908	262	(262)
Cash balances	25,699	64	(64)
Fixed interest securities	70,556	176	(176)
<b>Total</b>	<b>201,163</b>	<b>502</b>	<b>(502)</b>

### 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 2017 and as at 31 March 2016, showing the sensitivity analysis of foreign exchange movements.

<b>Currency Risk by Currency at 31 March 2017</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
Australian Dollar	128,704	11.39%	143,363	114,045
Canadian Dollar	2,225	9.39%	2,434	2,016
Danish Krone	17,764	9.04%	19,370	16,158
EURO	250,756	9.06%	273,474	228,038
Hong Kong Dollar	167,362	10.01%	184,115	150,609
Indian Rupee	7,070	12.39%	7,946	6,194
Japanese Yen	221,809	12.85%	250,311	193,307
South Korean Won	134,870	11.11%	149,854	119,886
Malaysian Ringet	1,523	13.39%	1,727	1,319
Norwegian Krone	11,002	9.40%	12,036	9,968
New Zealand Dollar	4,282	10.97%	4,752	3,812
Swedish Krona	29,444	9.07%	32,115	26,773
Singapore Dollar	61,110	9.23%	66,750	55,470
Swiss Franc	83,013	12.39%	93,298	72,728
Taiwan Dollar	89,645	9.01%	97,722	81,568
US Dollar	580,273	9.08%	632,962	527,584
Asia Pacific ex Japan basket	20,353	10.69%	22,529	18,177
Emerging Basket	32,589	11.94%	36,480	28,698
Europe Basket	39,282	9.04%	42,833	35,731
Europe ex UK Basket	15,725	9.04%	17,147	14,303
<b>Total</b>	<b>1,898,801</b>		<b>2,091,218</b>	<b>1,706,384</b>

<b>Currency Risk by Currency at 31 March 2016</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
Australian Dollar	111,170	9.26%	121,464	100,876
Canadian Dollar	3,382	7.89%	3,649	3,115
Danish Krone	18,871	6.83%	20,160	17,582
EURO	206,213	6.77%	220,174	192,252
Hong Kong Dollar	143,895	7.67%	154,932	132,858
Indian Rupee	5,860	10.28%	6,462	5,258
Japanese Yen	174,641	11.68%	195,039	154,243
South Korean Won	96,558	7.22%	103,529	89,587
Malaysian Ringet	1,548	10.24%	1,707	1,389
Norwegian Krone	13,788	9.40%	15,084	12,492
New Zealand Dollar	6,926	11.02%	7,689	6,163
Swedish Krona	31,876	7.65%	34,315	29,437
Singapore Dollar	49,343	6.17%	52,387	46,299
Swiss Franc	71,525	9.95%	78,642	64,408
Taiwan Dollar	68,790	6.59%	73,323	64,257
US Dollar	444,708	7.78%	479,306	410,110
Asia Pacific ex Japan basket	14,820	6.52%	15,786	13,854
Emerging Basket	27,888	6.79%	29,782	25,994
Europe Basket	54,190	4.39%	56,569	51,811
Europe ex UK Basket	13,662	6.46%	14,545	12,779
<b>Total</b>	<b>1,559,654</b>		<b>1,684,544</b>	<b>1,434,764</b>

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 Annual Report. 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 31 March 2015. 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.

### **20. Senior Employees' Remuneration**

	<b>2015/16</b>	<b>2016/17</b>
<b>Key Management Personnel</b>	<b>£000</b>	<b>£000</b>
Short Term Benefits	58	65
Post Employments Benefits	9	8
Other Long Term Benefits	0	0
Share Based Payments	0	0
<b>Total</b>	<b>67</b>	<b>73</b>

### **21. Events after the Balance Sheet Date**

There were no adjusting events after the end of the reporting period which would impact on the accounts.

## ***Teesside Pension Fund***

### ***Statement of the Actuary for the year ended 31 March 2017***

#### **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 Hewitt Limited, 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 slightly 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 aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
  - 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 reduce 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 pool of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited'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 pool 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. 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. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, 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 Hewitt Limited 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.

9. The report on the actuarial valuation as at 31 March 2016 is available from the Pension Services team at [pensionsunit@Kier.co.uk](mailto:pensionsunit@Kier.co.uk)

Aon Hewitt Limited

**May 2017**

## **The Compliance Statement**

### **Local Government Pension Scheme Regulations**

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

*The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (amendment) (Governance) Regulations 2015 and The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.*

Full details of the changes to the scheme, along with updated scheme guides, are on our website at [www.teespen.org.uk](http://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 on March 2017 and contains statements on:

- Investment responsibilities sets out the key responsibilities of the Teesside Pension Fund and Investment Panel, 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 and the extent of the Fund's commitment to pooling the investment management function.
- 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/content/2017/Investment\\_Strategy\\_Statement\\_2017-03.pdf](http://www.teespen.org.uk/documents/content/2017/Investment_Strategy_Statement_2017-03.pdf)

### **The Funding Strategy Statement**

The Local Government Pension Scheme (Amendment) Regulations 2013 established the requirement for 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. to 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 Pensions Panel and was effective from March 2016 and can be seen at:

<http://www.teespen.org.uk/contacts/content/pdf/Governance%20Compliance%20Statement%202011.pdf>

### **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 Kier Business Services (previously Mouchel Business services) and administrator and the Teesside Pension Fund & Investment Panel to act in a similar manner to a Board of Trustees.

The policy also sets out the:

- Terms of reference of the Teesside Pension Fund and Investment Panel;
- Frequency of meetings (minimum of 4 times a year);
- Structure of meetings;
- Membership; and
- Principles of governance

The current policy document can be viewed at:

[http://www.teespen.org.uk/documents/content/2010/governance/PDF/Governance%20Compliance%20Policy%20May%2009%20updated\\_.pdf](http://www.teespen.org.uk/documents/content/2010/governance/PDF/Governance%20Compliance%20Policy%20May%2009%20updated_.pdf)

## 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 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 their financial planning.

We also provide newsletters twice a year to all 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/content/2010/201008%20Communication%20Strategy%20Teesside%20Pension%20Fund.pdf>

## Summary of LGPS benefits and comparison to previous scheme

	LGPS 2014	LGPS 2008
<b>Basis of Pension</b>	Career Average Revalued Earnings (CARE)	Final Salary
<b>Accrual Rate</b>	1/49 <sup>th</sup>	1/60 <sup>th</sup>
<b>Revaluation Rate</b>	Consumer Prices Index (CPI)	Based on Final Salary
<b>Pensionable Pay</b>	Pay including non-contractual overtime and additional hours	Pay excluding non-contractual overtime and non-pensionable additional hours



<b>Employee Contribution Rates</b>	<b>2017/18 Member Contribution Table</b>		<b>Member Contribution Table</b>	
	<b>Pay Bands</b>	<b>Contribution Rates</b>	<b>Pay Bands</b>	<b>Contribution Rates</b>
	Up to £13,700	5.5%	Up to £13,700	5.5%
	£13,701 - £21,400	5.8%	£13,701 - £16,100	5.8%
	£21,401 - £34,700	6.5%	£16,101 - £20,800	5.9%
	£34,701 - £43,900	6.8%	£20,801 - £34,700	6.5%
	£43,901 - £61,300	8.5%	£34,701 - £46,500	6.8%
	£61,301 - £86,800	9.9%	£46,501 - £87,100	7.2%
	£86,801 - £102,200	10.5%	Over £87,100	7.5%
£102,201 - £153,300	11.4%			
Over £153,300	12.5%			
<b>Contribution Flexibility</b>	Yes, members can pay 50% contributions for 50% of the pension benefit		No	
<b>Normal Pension Age</b>	Equal to the individual member's State Pension Age		65	
<b>Lump Sum Trade Off</b>	Trade £1 of pension for £12 lump sum		Trade £1 of pension for £12 lump sum	
<b>Death in Service Lump Sum</b>	3 x Pensionable Pay		3 x Pensionable Pay	
<b>Death in Service Survivor Benefits</b>	1/160th accrual based on Tier 1 ill health pension enhancement		1/160th accrual based on Tier 1 ill health pension enhancement	

<b>Ill Health Provision</b>	Tier 1 - Immediate payment with service enhanced to Normal Pension Age  Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age  Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65)  Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65)  Tier 3 - Temporary payment of pension for up to 3 years
<b>Indexation of Pension in Payment</b>	CPI	CPI (RPI for pre-2011 increases)
<b>Vesting Period</b>	2 years	3 months

## 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 55<sup>th</sup> birthday.

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

<b>From April</b>	<b>Increase %</b>
2003	1.7%
2004	2.8%
2005	3.1%
2006	2.7%
2007	3.6%
2008	3.9%
2009	5.0%
2010	0.0%
2011	3.1%
2012	5.2%
2013	2.2 %
2014	2.7%
2015	1.2%
2016	0.0%

## Contacts and further information

<b>Contacts</b>	
Pensions Unit <i>For General and Benefit Entitlement enquiries</i>	Kier Pensions Unit Teesside Pension Fund PO Box 340 Middlesbrough TS1 2XP  Telephone: (01642) 727777 E Mail: <a href="mailto:pensionsunit@kier.co.uk">pensionsunit@kier.co.uk</a>
Pensions Manager	Mike Hopwood  Telephone: (01642) 727778 E Mail: <a href="mailto:mike.hopwood@kier.co.uk">mike.hopwood@kier.co.uk</a>
Head of Investments	Paul Campbell  Telephone: (01642) 729024 E Mail: <a href="mailto:paul_campbell@middlesbrough.gov.uk">paul_campbell@middlesbrough.gov.uk</a>
Teesside Pension Fund Web Site	<a href="http://www.teespen.org.uk">www.teespen.org.uk</a>
Employers Web Site	<a href="http://www.employers.teespen.org.uk">www.employers.teespen.org.uk</a>
<b>Further Information</b>	
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Further copies of this report can be obtained from:	Kier Pensions Unit Teesside Pension Fund PO Box 340 Middlesbrough TS1 2XP  Telephone: (01642) 727777 E Mail: <a href="mailto:pensionsunit@kier.co.uk">pensionsunit@kier.co.uk</a>
<b>A copy of this report, and those for previous years, is available on our web site at <a href="http://www.teespen.org.uk">www.teespen.org.uk</a></b>	