

TEESSIDE PENSION FUND: ANNUAL REPORT TO COUNCIL

INTRODUCTION

Middlesbrough Borough Council is the Administering Authority for the Teesside Pension Fund, which covers the four Local Authorities in the former Cleveland County area and various other employers both locally and nationally. The Fund is part of the Local Government Pension Scheme (LGPS) and is governed by the LGPS Regulations. The Teesside Pension Fund has over 70,000 members, comprising current employees, pensioners and deferred beneficiaries across over 150 employers.

The strategic direction and policies adopted by the Fund are managed by the Teesside Pension Fund Committee (the Committee), which is made up of elected members from Middlesbrough Council, elected members from the other Local Authorities, an elected representative of the other employers, and two Trade Union representatives.

Responsibility for the day to day operation of the Fund is delegated to the Strategic Director Finance, Governance and Support. He is responsible for implementing the strategies and policies set by the Committee. Supporting the Director are two distinct units:

- The Pensions Administration Unit, under the control of the Head of Pensions (Kier Business Services), is responsible for the calculation and payment of pension benefits and for looking after both employer and employee interests in the Fund. This function is delivered as part of the strategic partnership with Kier Group.
- The Loans and Investments Unit, under the control of the Head of Investments & Treasury Management, manages the investments of the Fund. The Fund is managed largely on an in-house basis, primarily by the Fund Manager and his team of investment managers.

SUMMARY

The value of the Fund has risen from £3.68 billion as at 31 December 2016 to £4.07 billion as at 31 December 2017.

The Fund Actuary undertakes a full actuarial valuation every three years. This determines the extent to which the Fund's liabilities are covered by assets. The latest valuation showed that at 31 March 2016 the Teesside Fund continued to be fully funded at 100%. Since the triennial Valuation, and Interim Valuation was carried out and showed an improvement in the Fund's funding ratio to 118%, although it is recognised that this is purely for information and guidance and the calculation has not been through the same rigour as the triennial Valuation.

Over the past few years, the Fund's investment strategy continued to favour growth assets, such as equities and property over protection assets such as bonds, however while equity markets have risen strongly in 2017 cash has increased as the opportunity arose to reduce equity investments.

In common with other public sector schemes, the Government is proposing significant reforms to the LGPS and has undertaken various consultations on investment reform. The Government has also set the criteria and issued guidance for pooling assets. During 2017, the Fund put in place preparations for adjusting to moving investment assets to the pooling asset management company and setting up the new staffing structure required by the Fund after pooling has taken place.

KEY REPORTS RECEIVED IN 2017/18

During the year the Investment Panel received a number of key reports and presentations:

1. Statement of Accounts

The Accounting Services Manager presented the Fund Statement of Accounts and associated Letter of Representation. These were approved by the Investment Panel, and were subsequently signed off by the Fund Auditor, EY LLP.

2. Audit Report

The Fund Auditor presented the annual Audit Plan and Audit Report. The report reviewed the Fund's financial statements and whether the Fund had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Audit reported no significant issues and no weaknesses to bring to members' attention.

3. Performance Report (Investments)

The Head of Investment and Treasury Management presented the annual report on the performance of the Fund's investments. The report showed that the Fund produced another year of positive returns, the fifth year in a row. The Fund outperformed its benchmark for 2016 but for the past three and ten years performance, the Fund had underperformed its targets.

4. Business Plan

The Head of Investments and Treasury Management presented the Fund's annual Business Plan, setting out the estimated income and expenditure for 2018/19, the key objectives for the Fund and the work programme for the next three years.

5. Shareholder Governance

The annual report on compliance with the Shareholder Governance policy was presented to the Investment Panel in December 2016.

6. Investment Reform

The final proposal from Border to Coast Pension Partnership (BCPP), the pooling solution chosen by the Fund was agreed in June 2016. During 2017, the Fund became a shareholder in BCPP and continued to assist and support the new company as it builds the capacity and capability to manage investments assets for the Fund.

7. Review of the Fund's Governance Arrangements

A major review of the Fund's governance arrangements was undertaken, resulting in new terms of reference for the Teesside Pension Fund Committee and Teesside Pension Board, and key policies were developed and agreed to bring the Fund up to date with compliance with the latest LGPS Regulations.

8. Local Investments

The Fund agreed and approved a Memorandum of Understanding with the Tees Valley Combined Authority to assist it to increase investments in "local investment schemes".