

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

## TEESSIDE PENSIONS BOARD REPORT

23 JULY 2018

### STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

#### REPORT – DRAFT ANNUAL REPORT AND ACCOUNTS 2017/18

#### 1. PURPOSE OF THE REPORT

- 1.1 To present to Members the 2017/18 Draft Annual Report and Accounts for the Teesside Pension Fund.

#### 2. RECOMMENDATION

- 2.1 That Members note the 2017/18 Annual Report and Accounts (Appendix A).

#### 3. FINANCIAL IMPLICATIONS

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

#### 4. BACKGROUND

- 4.1 The terms of reference for the Teesside Pension Fund Committee requires the Annual Report and Accounts to be received by Members. Attached to this report is the Draft Report and Accounts for the year ended 31 March 2018 which will be presented to the Committee on 26 July 2018.

#### 5. PERFORMANCE SUMMARY

- 5.1 In the financial markets, after such a strong performance in 2016/17, 2017/18 was a much more muted year. Despite markets small increase in value over the financial year, markets were volatile, particularly on geopolitical news over the year. Much of this centred on negotiations between the UK and Europe over “Brexit” and US-centred political news affecting markets.
- 5.2 The overall financial performance of the Fund for the year to 31 March 2018 was a small positive increase. The Fund’s value remained at approximately £3.9 billion, a small increase over the year of approximately £37 million.
- 5.3 The membership of the Fund has increased, with total membership at the year-end now standing at 69,295, an increase of 466 over last year. The number of active members has increased by 382 (0%) over the year, and decreased by 1.85% over the past five years. The number of pensioners increased by 580 (2.6%) over the year,

and increased by 9.3% over the past five years. The number of deferred members increased last year by 382 (1.7%), and increased by 4.3% over the past five years.

- 5.4 Where a member retires early there is a cost to the Fund arising from the fact that Contributions are no longer being received for the member, and a Pension is drawn earlier than the Actuary had assumed. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;
- 1 the impact of retirement decisions is transparent; and
  - 2 the cost is invoiced separately rather than being recovered in the employers Contribution Rate, which was once the case.
- 5.5 In this financial year the Fund received over £4.5 million from these early retirement recharges, down on last year's figure of £5.3 million, a 14.4% decrease on last year.
- 5.6 Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund, with calculations performed during this year for assets and liabilities as at 31 March 2016. The purpose is to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike most other Public Sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level.
- 5.7 The aim of the Fund is to be 100% funded, and at this valuation the actuary was able to declare a funding level of 100%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation is due to be carried out in March 2019.

## **6. FRS17 / IAS19 REPORTS**

- 6.1 Financial Reporting Standard 17 (FRS17) Retirement Benefits and International Accounting Standard 19 (IAS19) Employee Benefits – require employers to disclose in their accounts their share of the assets and liabilities in the Pension scheme. The Fund's actuary, Aon Hewitt, produces reports for the employers in the Teesside Pension Fund containing the figures which each needs to disclose in order to comply with the requirements of these standards.
- 6.2 Although the Fund is "actuarially" fully funded the employers still have FRS17 / IAS19 deficits because of the way the figures in the reports are calculated. It should be noted that the FRS17 / IAS19 calculations have no impact on the actual Funding Level of the Fund or the Employers within it.

## **7. INTERNATIONAL FINANCE REPORTING STANDARDS (IFRS)**

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

## **8. BACKGROUND PAPERS**

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

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

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