



**Teesside Pension Fund**

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

**31 March 2018**

# Index

<a href="#"><u>Report of those charged with Governance</u></a> .....	3
<a href="#"><u>Membership</u></a> .....	26
<a href="#"><u>Head of Investments' Report</u></a> .....	33
<a href="#"><u>Financial Statements</u></a> .....	40
<a href="#"><u>Statement of Responsibilities for the Financial Statements</u></a> ....	41
<a href="#"><u>Auditor's Report</u></a> .....	42
<a href="#"><u>Fund Accounts and Net Assets Statement</u></a> .....	43
<a href="#"><u>Notes to the Financial Statements</u></a> .....	44
<a href="#"><u>Actuary's Statement</u></a> .....	68
<a href="#"><u>The Compliance Statement</u></a> .....	70
<a href="#"><u>Summary of LGPS Benefits</u></a> .....	72
<a href="#"><u>Contacts and further information</u></a> .....	75

# 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.

After consideration, the Teesside Pension Fund decided to partner with the Borders to Coast Pension Partnership (BCPP). BCPP has made significant progress in setting itself up as an asset management company capable of managing the investment assets for the Fund, and will be in a position to begin this task for the Fund during 2018/19.

In the 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.

The Fund made some small changes to asset allocation over the year increasing property investments slightly, decreasing investments in equities and exiting bonds completely as bond prices continues to remain at market highs.

The overall financial performance of the Fund for the year to 31 March 2018 was a positive increase. The Fund's value rose to £3.9 billion, an increase over the year of approximately £36.9 million.

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.

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 £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.

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:

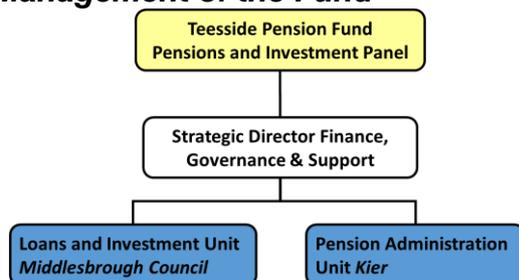
- The Local Government Pension Scheme Regulations 2013 (as amended); and
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

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 Committee Panel** which has plenary powers to make decisions without reference to the Council. This committee acts in a similar manner to the Board of Trustees of a private sector pension fund.

The day to day running of the Teesside Pension Fund is delegated to the Assistant Director Interim Finance & Investments of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pensions committee. 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 Advisers.

## The Teesside Pension Fund Pensions Committee

Committee membership and meeting attendance during the year 2017/18

Members	With voting rights	Jun	Sep	Dec	Mar
<b>Chair</b>	Councillor SE Bloundele	✓	✓	✓	✓
<b>Vice Chair</b>	Councillor J Rostron	✓	✓	✓	✓
<b>Middlesbrough Council</b>	Councillor B Brady	✓	✓	✓	✓
	Councillor DP Coupe		✓	✓	✓
	Councillor G Purvis			✓	✓
	Councillor Walters	✓		✓	✓
	Councillor L McGloin	✓	✓	✓	✓
	Councillor S Dean		✓		✓
	Councillor L Lewis		✓	✓	✓
<b>Redcar &amp; Cleveland BC</b>	Councillor C Massey		✓		✓
<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 J Rostron, D P Coupe, S Dean, L Lewis, SE Bloundele, G Purvis, P Fleck

The committee invites representatives from all the district councils in the former Cleveland County area as well as representatives from the Trade Unions. The committee held 4 quarterly meetings during the year.

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

## **Terms of Reference – Teesside Pension Fund Committee**

### Terms of Reference:

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 2013 (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 2013.
  - (xi) 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 Committee is still the main decision making committee for the Fund, whereas the Teesside Pension Board assists Middlesbrough Borough Council, as the Administering Authority, to:

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

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

3 employer representatives; and 3 scheme member representatives.

## **Fund Administrators and Advisors**

### **Administration**

Chief Finance Officer	James Bromiley
Head of Investments	Paul Campbell
Pensions Administration Manager	Mike Hopwood / Graeme Hall
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	Vacant
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. However, members making Additional Voluntary Contributions can now potentially access monies from these funds from age 55, whilst still contributing to the LGPS, or transfer to another provider.

The limits on tax relief available for pension saving have 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.

Scheduled changes to the Automatic Enrolment provisions (the government plan to ensure all eligible employees are contributing to a workplace pension) begin to take effect from April 2018 within minimum contribution rates for members and employers increasing to 3% and 2% respectively; this does not affect those members who have had the LGPS used as the scheme to which they were automatically enrolled as the scheme already exceeds the minimum contribution requirements.

### **Scheme specific changes**

On 1 April 2014 the new look LGPS came into force, reflecting the changes required to public sector schemes derived from the Public Service Pension Commission recommendations.

From 1 April 2014:

- The LGPS became a Career Average Revalued Earnings (CARE) scheme using 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.

This "new look" LGPS has been in operation for four years now and has remained free of any significant regulatory amendments since its inception.

Recently, however, changes have been introduced for those that ceased active membership of the LGPS before the introduction of the new scheme allowing them more flexibility for accessing benefits to mirror the provisions of the new scheme. These members will be able to access their deferred LGPS benefits from age 55 (subject to actuarial reduction), rather than age 60, without the need to gain their former employer's prior consent.

### **Promoting Scheme Membership**

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

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

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

With more people looking towards technology these days, we have continued to promote our Member Self Service (MSS) throughout the year. This facility allows scheme members to view their pension record(s) on-line as well as being able to run their own pension calculations. 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 Investment Strategy Statement 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, Freeths. Cash balances belonging to the Fund are invested in accordance with agreed criteria, which take into account an appreciation of risk.

### **b) Asset Risk**

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

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

### **c) Investment Risk**

One of the 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.

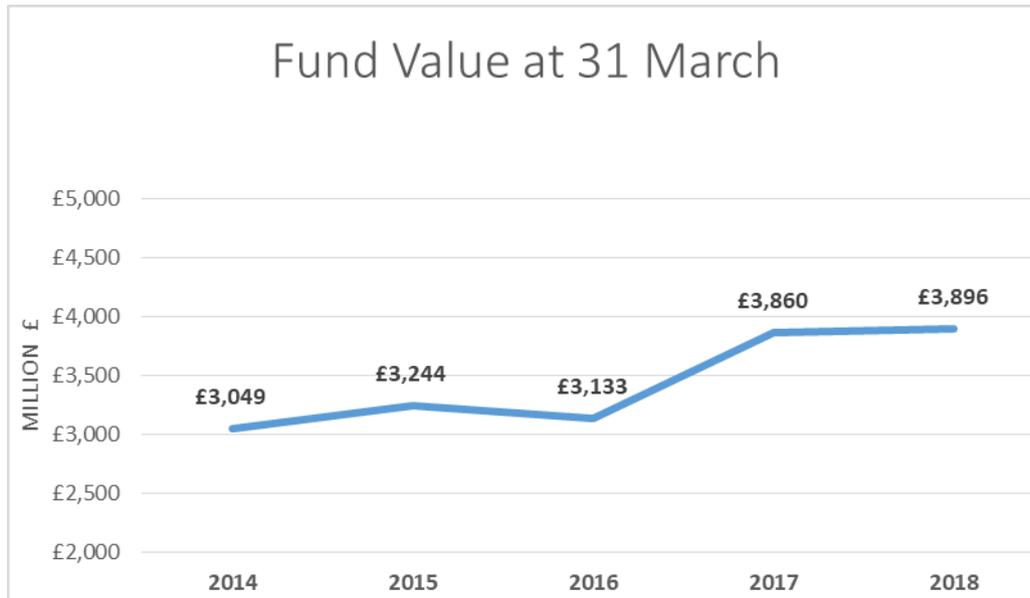
For the Fund to significantly out-perform its benchmark it needs to have an asset mix which is different from that of its benchmark. The more out-performance is required the greater the differences will need to be. In other words out-performance cannot be achieved without taking risks. Measurement of 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 Fund's Financial Statements show that the Net Asset Value has increased by 1% compared to the previous year. Over the last 5 years, from the 2013 value of £3,049 million, the value of Net Assets has increased by 28%



## Finance Performance Report

	Re-stated				
	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
Fund Value at the start of the year	2,929,601	3,049,227	3,243,794	3,133,118	3,859,589
Income	210,051	186,072	184,985	199,644	207,829
Expenditure	(121,358)	(206,109)	(131,993)	(139,542)	(146,866)
Change in Market Value of Investments	30,933	214,604	(163,668)	666,369	(24,100)
Increase/(Decrease) in Fund during the year		194,567	(110,676)	726,471	(36,863)
<b>Fund Value at the end of the year</b>	<b>3,049,227</b>	<b>3,243,794</b>	<b>3,133,118</b>	<b>3,859,589</b>	<b>3,896,452</b>
<b>Change in Fund Value %</b>	<b>4%</b>	<b>6%</b>	<b>(3%)</b>	<b>23%</b>	<b>1%</b>

### Financial Highlights

	£000	£000	£000	£000	£000
Pensions Paid	89,648	94,860	98,348	101,668	105,369
Administration Costs	1,579	1,599	1,558	1,870	1,672
Investment Management Costs	2,717	2,779	3,418	2,596	2,451
Oversight and Governance Costs	247	230	177	207	684

### Membership

	2014	2015	2016	2017	2018
	No	No	No	No	No
Active	23,734	22,566	22,637	23,791	23,295
Deferred	22,144	24,429	22,453	22,861	23,243
Pensioner	20,648	21,059	21,699	22,177	22,757
<b>Total</b>	<b>66,526</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>	<b>69,295</b>

### Fund Averages

	£	£	£	£	£
Fund value per member	45,835	47,665	46,910	56,075	56,230
Average Pension Paid	4,342	4,504	4,532	4,584	4,630
Total Investment management expenses cost per member	68	68	74	66	69
Administration Cost per member	24	23	23	27	24
Investment Management cost per member	41	41	51	38	35
Oversight and Governance costs per member	4	3	3	3	10

## 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 2017/18

Fund Account	Notes	2016/17 £ ' 000	2017/18 £ ' 000	Change
<b>Contributions and Other Income</b>				
Employers Normal & Deficit	1	59,963	63,549	6%
Employers Additional	2	31	41	32%
Employees Normal	3	25,893	26,180	1%
Transfers in	4	5,225	4,981	(5%)
Capital Costs of Early Retirements	5	5,256	4,499	(14%)
Other Income		1,126	1,185	5%
<b>Total Income</b>		<b>97,494</b>	<b>100,435</b>	<b>3%</b>
<b>Benefits and Other Expenditure</b>				
Benefits	6	101,668	105,369	4%
Benefits - Basic Lump Sum	7	21,081	23,403	11%
Benefits - Lump Sums on Death		3,036	2,771	(9%)
Individual Transfers to other Schemes	8	8,795	10,204	16%
Administrative Expenses	9	1,870	1,672	(11%)
Investment Management Expenses	10	2,596	2,451	(6%)
Oversight and Governance Costs	11	207	684	230%
Other Expenditure	12	289	312	8%
<b>Total Expenditure</b>		<b>139,542</b>	<b>146,866</b>	<b>5%</b>
<b>Return on Investments</b>				
Dividends	13	90,887	91,790	1%
Rents	14	10,293	14,042	36%
Interest	15	970	1,562	61%
Profit on Sale of Investments		124,506	249,107	100%
Unrealised gain / (loss) on Revaluation		541,863	(273,207)	150%
<b>Total Return on Investments</b>		<b>768,519</b>	<b>83,294</b>	<b>(89%)</b>
<b>Net Increase in the Fund in the Year</b>		<b>726,471</b>	<b>36,863</b>	<b>(95%)</b>

## Explanation of variances

	2016/17	2017/18	
<b>1 Employers Normal Contributions &amp; Deficit contributions - £'000</b>	59,963	63,549	increase of 6%

Employers contributions from new scheme members of £0.8m, and an increase of 0.9% in employers normal contributions of £3.7m, has been offset by a decrease in deficit contributions of £0.9m, and has given an overall increase of £3.6m in the year.

	2016/17	2017/18	
<b>2 Employers Additional Contributions - £'000</b>	31	41	increase of 32%

Continued payment of additional contributions for authorised leave and maternity has continued to increase during 2017/18.

	2016/17	2017/18	
<b>3 Employees Normal Contributions - £'000</b>	25,893	26,180	increase of 1%

Although active membership has decreased slightly during the year by 2% (2016/17 an increase of 5%), auto enrolment continues to make contributions to the scheme, and the ability for employees to pay 50% contributions continues to have a positive effect for the year.

	2016/17	2017/18	
<b>4 Transfers In - £'000</b>	5,225	4,981	decrease of (5%)

In 2017/18 142 transfers were received into the scheme at an average value of £35.1k, compared to 197 transfers at an average value of £26.5k in 2016/17.

	2016/17	2017/18	
<b>5 Capital Cost of Early Retirements - £'000</b>	5,256	4,499	decrease of (14%)

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

	Number	Total Cost	Average
Hartlepool Borough Council	27	£669,442	£24,794
Middlesbrough Council	10	£142,110	£14,211
Stockton Borough Council	54	£1,790,598	£33,159
Redcar & Cleveland Borough Council	33	£719,245	£21,795
<b>Total</b>	124	£3,321,395	£26,785

<b>6 Benefits - £'000</b>	<b>2016/17</b>	<b>2017/18</b>	<b>increase of 4%</b>
	<b>101,668</b>	<b>105,369</b>	

At the year-end there were 22,757 Pensioner Members / Dependents receiving pension benefits, at an average of £4,630 per annum. (2016/17 22,177 receiving benefits at an average of £4,584 per annum).

<b>7 Benefits - Basic Lump Sum - £'000</b>	<b>2016/17</b>	<b>2017/18</b>	<b>increase of 11%</b>
	<b>21,081</b>	<b>23,403</b>	

There has been an increase of 11% in the value of Lump Sums paid by the Fund during the year, with the number of recipients increasing to 1,045 (2016/17 1,025)

<b>8 Individual Transfers to Other Schemes - £'000</b>	<b>2016/17</b>	<b>2017/18</b>	<b>increase of 16%</b>
	<b>8,795</b>	<b>10,204</b>	

Transfers out can vary quite markedly year on year depending on both numbers and the type of people transferring. For 2017/18, the individual transfers out was £10,204k (2016/17 £8,795k), an increase from the previous year. In term of numbers, the transfers out for 2018/18 were 173 (2016/17 143)

	Number	Total Cost	Average
<b>2017/18</b>	173	£10,204,000	£58,983
<b>2016/17</b>	143	£8,795,260	£61,505

<b>9 Administrative Expenses - £'000</b>	<b>2016/17</b>	<b>2017/18</b>	<b>decrease of (11%)</b>
	<b>1,870</b>	<b>1,672</b>	

The main reason for the decrease in Administration costs arises from expenses previously charged to this category in 2016/17, now being charged to Investment Management Expenses

<b>10 Investment Management Expenses - £'000</b>	<b>2016/17</b>	<b>2017/18</b>	<b>decrease of (6%)</b>
	<b>2,596</b>	<b>2,451</b>	

A reduction in transaction costs of £466k, has been offset by a £301k increase in management fees (some of which was previously charged to Administrative Expenses).

	2016/17	2017/18	
<b>11 Oversight and Governance Costs - £'000</b>	<b>207</b>	<b>684</b>	<b>increase of 230%</b>

A one off cost relating to the transition of Hong Kong shareholdings to a pooled investment vehicle incurred a charge of £305k, together with re-charges of pooling set-up costs of £136k account for most of the increase in this expense for 2017/18.

	2016/17	2017/18	
<b>12 Other Expenditure - £'000</b>	<b>289</b>	<b>312</b>	<b>increase of 8%</b>

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

	2016/17	2017/18	
<b>13 Dividend Income - £'000</b>	<b>90,887</b>	<b>91,790</b>	<b>increase of 1%</b>

Overall Dividend Income has risen by £0.9 million (15/16 rose by £6.2million) which is due to increased income from equities, offset against a reduction in income from pooled investment vehicles, fixed interest securities and index linked securities.

	2016/17	2017/18	
<b>14 Rent - £'000</b>	<b>10,293</b>	<b>14,042</b>	<b>increase of 36%</b>

Increased rental income from additional properties purchased during the year.

	2016/17	2017/18	
<b>15 Interest - £'000</b>	<b>970</b>	<b>1,562</b>	<b>increase of 61%</b>

An increased amount of cash deposits during 2017/18, and a 0.25% increase in the base rate in October 2017 has produced a higher level of interest received compared to the previous year.

	2016/17	2017/18	
<b>16 Investments - £'000</b>	<b>3,399,180</b>	<b>3,380,191</b>	<b>decrease of (1%)</b>

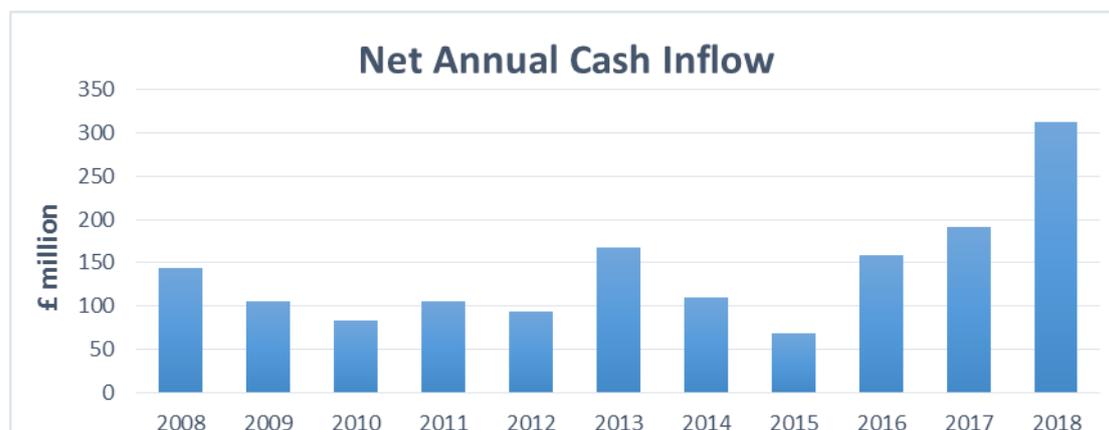
Investment values for the portfolio showed a 1% decrease in value (£19 million) for the year, reflecting a temporary world price decline in March 2018, rounding off the worst quarter for global equities in more than two years.

	2016/17	2017/18	
<b>17 Cash - £'000</b>	<b>433,799</b>	<b>501,818</b>	<b>increase of 16%</b>

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

## Cashflow Statement

	£000 2016/17	£000 2017/18
<b>Cashflow from Operating Activities</b>		
Cash received for Contributions	85,959	89,339
Cash received for Early Retirements	11,424	4,524
Cash Received from Transfers In	5,225	4,981
Cash Received from Investments	103,932	111,132
Cash Received from Sales of Investments	124,506	249,108
Cash from Other Income	1,126	1,185
<b>Total Cash Received</b>	<b>332,172</b>	<b>460,269</b>
Cash paid for Benefits	125,785	131,543
Cash paid for Transfers Out	9,084	10,516
Cash paid for Management Expenses	5,167	5,038
<b>Total Cash Paid</b>	<b>140,036</b>	<b>147,097</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>192,136</b>	<b>313,172</b>
<b>Application of Cash</b>		
Net Sales / Purchases of Investments	(132,229)	254,218
Increase in Cash with Custodian	1,114	1,746
Increase in Cash on Deposit	323,394	57,261
Decrease in Cash at Bank	(118)	34
Increase in Other Debtor Balances	414	(208)
Increase in Other Creditor Balances	(439)	(239)
	<b>192,136</b>	<b>313,172</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 2018 the actual assets compared to the benchmark as follows;

	TPF 31/03/2018	TPF Benchmark	Investment Strategy Statement Max	Investment Strategy Statement Min
Global Pooled	0%	0%	0%	0%
UK Equities	30%	30%	90%	55%
Overseas Equities	47%	40%		
Alternatives	2%	5%	10%	0%
Property	8%	10%	15%	5%
Bonds	0%	13%	40%	2%
Cash	13%	2%		
	<b>100%</b>	<b>100%</b>		

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</b> <b>£ ' 000</b>	<b>2017/18</b> <b>£ ' 000</b>
<b>Current Assets</b>		
Contributions in Respect of Employers	4,783	5,156
Contributions in Respect of Members	2,052	2,110
Amounts due in respect of early retirements	416	473
<b>Debtors due over 1 year</b>		
Amounts due in respect of early retirements	98	0
	<u><b>7,349</b></u>	<u><b>7,739</b></u>

The Contributions due are in respect of March 2018 and were received in April 2018.

### 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 1,968

Number received late 56

The following table shows the late payment history for 2017/18:-

Number of days payment was late	Number of late payments	Percentage of late payments
Less than 10	37	66.1%
Between 10 and 19	9	16.1%
Between 20 and 29	3	5.4%
Between 30 and 39	4	7.1%
More than 40	3	5.3%
<b>Total</b>	<b>56</b>	<b>100.0%</b>

### Analysis of Contribution rates and amounts received 2017/18

	Employer Rate %	Employees £000	Employers £000
Action for Children	17.00%	1	3
All Saints Academy	15.60%	22	57
Ash Trees Academy	15.60%	53	145
Beamish Museum Ltd	14.30%	153	350
Billingham Town Council	15.20%	5	13
Brougham Primary School	15.60%	20	54
Business and Enterprise Commercial Ltd	10.70%	2	56
Caldicotes Primary Academy	15.60%	7	18
Care Quality Commission	17.90%	1,332	3,137
Carillion J M Ltd	18.40%	11	36
Catecote Academy	15.60%	93	247
Caterlink - Ironstone	15.10%	8	23
Caterlink - RCBC	15.10%	23	61
Caterlink - St Oswalds	15.10%	7	19
Chandlers Ridge Academy	15.60%	7	19
Cleveland College of Art and Design	15.20%	111	265
Cleveland Fire Brigade	16.10%	229	612
Cleveland Fire Support Network	16.10%	3	6
Coast and Country Housing	17.20%	571	1,483

Community Integrated Care	23.00%	2	9
Conyers School	15.60%	70	182
Creative Management Services Ltd	17.00%	5	16
Diocese of Middlesbrough Trustee	23.60%	8	20
Durham Tees Valley Airport Limited	21.20%	57	287
Dyke House Academy	15.60%	83	210
Easterside Academy	15.60%	26	70
Ecocleen Services Ltd	20.00%	0	1
Egglescliffe Primary School	15.60%	3	7
Emmanuel School Foundation	15.60%	51	133
English Martyrs Educational Trust	15.60%	62	159
Enquire Learning Trust (Central)	15.60%	64	117
Erimus Housing	16.00%	68	158
Eskdale Academy	15.60%	14	38
Extol Academy Trust (Eldon Grove)	15.60%	27	69
Fabrick Housing Group	16.00%	839	1,983
Fleet Factors Ltd	21.40%	0	2
Fleet Factors RCBC	16.00%	1	3
Frederick Natrass Primary Academy	15.60%	19	51
Future Regeneration of Grangetown	19.60%	2	5
Galileo Multi Academy Trust	15.60%	1	1
Grangefield Academy	15.60%	35	89
Green Lane Primary Academy	15.60%	30	83
Guisborough Town Council	15.20%	5	13
Hardwick Green Primary Academy	15.60%	18	49
Harrow Gate Primary Academy	15.60%	29	78
Hartlepool Borough Council	15.20%	2,963	7,056
Hartlepool Care Services Ltd	18.80%	2	7
Hartlepool College of Further Education	15.20%	159	406
Hartlepool Sixth Form College	15.20%	35	89
Hemlington Hall Academy	15.60%	21	58
Hillsview Academy	15.60%	36	93
Holy Trinity Primary School	15.60%	6	16
Horizons Specialist Academy Trust	15.60%	168	436
Housing Hartlepool Ltd	16.00%	81	195
Ian Ramsey Church of England Academy	15.60%	45	118
Ingleby Barwick Town Council	15.20%	2	5
Ingleby Manor Free School & Sixth Form	15.60%	19	51
Jesmond Gardens Primary School	15.60%	21	57
Kader Academy	15.60%	12	33
KGB Cleaning Ltd - LJS	14.80%	1	4
Kier Business Services Ltd	15.30%	129	258

KTS Academy	15.60%	53	142
Liberata UK Ltd	0.00%	38	0
Lockwood Parish Council	15.20%	1	3
Loftus Town Council	15.20%	2	4
Macmillan Academy	15.60%	69	173
Manor Community Academy	15.60%	65	175
Mellors Catering Services Ltd (Central)	17.20%	14	43
Mellors Catering Ltd - Dormanstown	17.20%	1	4
Mellors Catering Services Ltd (Normanby)	17.20%	3	10
Middlesbrough College	15.20%	461	1,120
Middlesbrough Council	15.30%	4,069	9,936
NMRN Operations	17.00%	8	22
Normanby Primary School	15.60%	24	68
North Ormesby Primary Academy	15.60%	15	43
North Shore Academy	15.60%	42	110
Norton Primary Academy	15.60%	23	63
Nunthorpe Academy	15.60%	90	220
Nunthorpe Primary Academy	15.60%	13	36
Oak Tree Academy	15.60%	26	71
OCS Limited	16.10%	0	0
One Awards Limited	14.60%	27	65
One IT Services and Solutions Ltd	15.20%	41	97
One IT Services Ltd - Porter	17.00%	2	5
ONsite Building Trust	17.00%	3	10
Orian Solutions Ltd	17.00%	1	4
Ormesby Primary School	15.60%	13	36
Our Children 1st Academy Trust	15.60%	28	77
Our Lady & St Bede Catholic Academy	15.60%	42	113
Our Lady of Light Catholic Academy Trust - Christ the King	15.60%	12	32
Our Lady of Light Catholic Academy Trust - St Patrick's Catholic College	15.60%	29	76
Our Lady of Light Catholic Academy Trust - St Patrick's Primary	15.60%	20	56
Our Lady of Light Catholic Academy Trust - St Therese of Lisieux	15.60%	11	31
Outwood Academy Acklam	15.60%	58	156
Outwood Academy Bishopsgarth	15.60%	35	95
Outwood Academy Bydales	15.60%	30	81
Outwood Academy Ormesby	15.60%	41	109
Outwood Academy Redcar	15.60%	13	33
Pentland Academy	15.60%	16	44
Police & Crime Commissioner for Cleveland	13.60%	63	105
Redcar Academy	15.60%	13	34

Redcar and Cleveland Borough Council	16.00%	3,132	7,894
Redcar and Cleveland College	15.20%	97	237
Riverdale Primary School	15.60%	6	17
River Tees Multi Academy Trust	15.60%	37	88
Rosebrook Primary School	15.60%	40	111
Rose Wood Academy	15.60%	21	56
Rye Hills Academy	15.60%	74	191
Sacred Heart Secondary Catholic Voluntary Academy	15.60%	25	66
Saint Benedicts Primary Catholic Voluntary Academy	15.60%	15	42
Saltburn Marske and New Marske Parish Council	15.20%	3	8
Skelton and Brotton Parish Council	15.20%	3	7
Skelton Primary School	15.60%	33	81
SLM Community Leisure Charitable Trust	17.60%	38	116
SLM Fitness and Health Ltd	17.60%	2	6
SLM Food and Beverage Ltd	17.60%	2	7
SLM Charitable Trust (MBC)	15.30%	64	157
SLM Food & Beverage Ltd (MBC)	15.30%	4	11
SLM Fitness & Health Ltd (MBC)	15.30%	4	11
South Tees Development Corporation	17.00%	3	7
St_Aidans Primary School	15.60%	7	20
St_Bede's Catholic Academy	15.60%	18	48
St_Bedes Primary Catholic Voluntary Academy	15.60%	17	42
St_Gabriel's Catholic Voluntary Primary Academy	15.60%	14	38
St_Gregory's RC Academy	15.60%	20	52
St_Hilda's Catholic Academy Trust	15.60%	197	526
St_Josephs Primary Catholic Voluntary Academy	15.60%	9	26
St_Mark's Academy	15.60%	14	40
St_Margaret Clitherow's Catholic Voluntary Primary Academy	15.60%	18	50
St_Mary's Catholic Voluntary Primary Academy	15.60%	17	44
St_Michael's Catholic Academy	15.60%	34	89
St_Paulinus Primary Catholic Voluntary Academy	15.60%	11	31
St_Peter's Catholic Voluntary Academy of Maths and Computing	15.60%	37	96
St_Thomas of Canterbury MAT	15.60%	32	88
Stagecoach Transit	27.20%	5	185
Sopra Steria Ltd	13.60%	416	868
Stockton Borough Council	15.30%	4,519	10,828
Stockton Riverside College	15.20%	229	557

Stranton Academy Trust (Stranton)	15.60%	32	84
Sunnyside Academy	15.60%	47	128
Tascor Services Ltd - Custody	17.40%	2	5
Tascor Services Ltd - PFI	17.40%	2	5
Tees Active Limited	14.80%	122	279
Tees Valley Collaborative Trust	15.20%	64	162
Tees Valley Combined Authority	15.90%	188	375
Tees Valley Community Asset Preservation Trust	17.00%	2	6
Tees Valley Education Trust	15.60%	69	181
Teesside Learning Trust	15.60%	101	257
Teesside University	14.30%	1,836	4,105
The Big Life Company Ltd	17.80%	3	8
The Chief Constable for Cleveland	13.60%	727	1,466
Tristar Homes Limited	16.00%	93	226
Unity City Academy	15.60%	56	144
Vision Academy Learning Trust	15.60%	100	258
Viewley Hill Academy Trust	15.60%	15	40
West Park Primary School	15.60%	15	41
West View Primary School and Sports Academy	15.60%	49	126
Wynyard Church of England Primary School	15.60%	5	14
Yarm Primary School	15.60%	24	66
Yarm Town Council	15.20%	2	4
Zetland Primary School	15.60%	17	47
<b>Total Contributions 2017/18</b>		<b>26,183</b>	<b>63,590</b>

Note: net rate of contribution payable by each employing Organisation for the period 1 April 2017 to 31 March 2018 under the LGPS Regulations.

## Performance Monitoring

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

## Performance

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

<b>Procedure</b>	<b>Target 2017/18</b>	<b>Achieved within timescale</b>
Processing New Starters	<b>20 days</b> from receipt	<b>100%</b>
Processing Transfer Values (TV's)	<b>10 working days</b> from the date of notification	<b>100%</b>
Refund of Contributions	<b>10 working days</b> from the request date	<b>100%</b>
Estimates of Benefit Entitlements	<b>10 working days</b> from date of request	<b>99.95%</b>
Pension benefits	<b>10 working days</b> from the receipt of all relevant information	<b>100%</b>
Deferred Benefits	<b>10 working days</b> from notification of leaving	<b>98.93%</b>

### Key procedure volumes

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

<b>Procedure</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Processing New Starters	2,743	2,702	2,992
Processing Transfer Values	267	351	327
Refund of Contributions	361	375	357
Estimates of Benefit Entitlements	2,334	2,343	2,209
Pension benefits	2,589	2,275	2,013
Deferred Benefits	1,661	1,815	1,954
Deaths	475	568	575
Divorces	138	127	139
General Enquiries	1,168	1,713	1,589
<b>Total</b>	<b>11,736</b>	<b>12,269</b>	<b>12,155</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

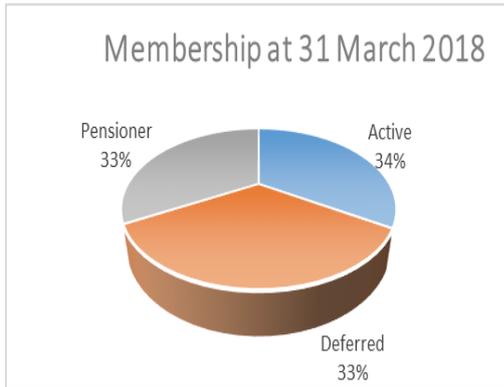
be 15.5% of Pay plus £0.79m (2017/2018), 15.7% of Pay plus £0.81m (2018/2019) and 15.9% of Pay plus £0.83m (2019/2020).

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

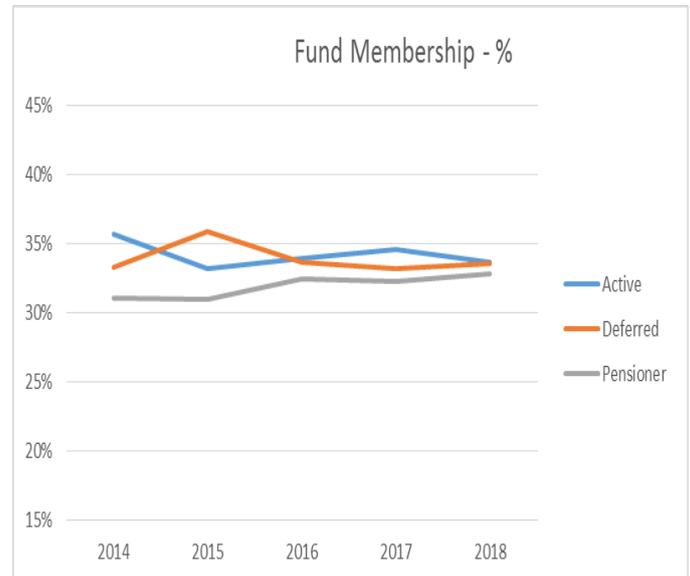
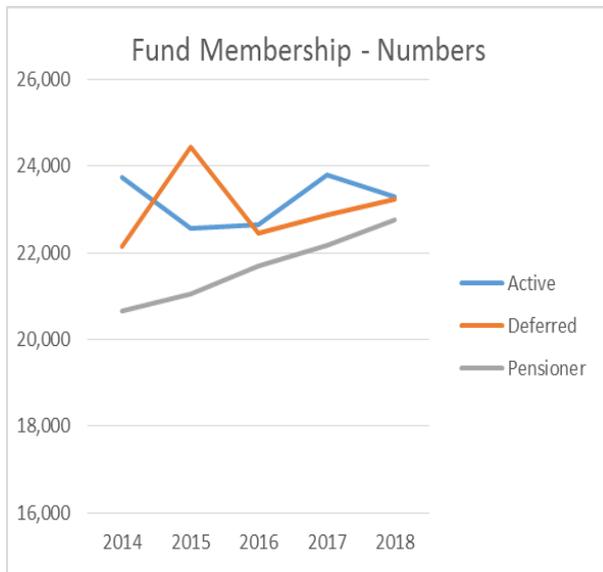
In the 2017/2018 financial year the total membership of the Fund has increased by 466 to the current total of 69,829.

The number of deferred members of the scheme has risen by 5% in the last 5 years and now forms 33% of the total membership.



### Membership Numbers

	2014	2015	2016	2017	2018
Active	23,734	22,566	22,637	23,791	23,295
Deferred	22,144	24,429	22,453	22,861	23,243
Pensioner	20,648	21,059	21,699	22,177	22,177
<b>Total</b>	<b>66,526</b>	<b>68,054</b>	<b>66,789</b>	<b>68,829</b>	<b>69,295</b>



## Summary of Membership Changes

	Active Members	Deferred Members	Pensioners Members	Dependants	Total
At 1 April 2017	<b>23,791</b>	<b>22,861</b>	<b>19,309</b>	<b>2,868</b>	<b>68,829</b>
Adjustments	(1,079)	288	156	24	(611)
New Members	2,659	4	1	251	2,915
Change in Status	(1,673)	376	1,003	(11)	(305)
Leavers	(403)	(286)	(664)	(180)	(1,533)
<b>At 31 March 2018</b>	<b>23,295</b>	<b>23,243</b>	<b>19,805</b>	<b>2,952</b>	<b>69,295</b>
% of Total at 1 April 2017	34.6%	33.2%	28.1%	4.2%	100.0%
<b>% of Total at 31 March 2018</b>	<b>33.6%</b>	<b>33.5%</b>	<b>28.6%</b>	<b>4.3%</b>	<b>100.0%</b>

During the year, 9 employers joined the scheme as scheduled bodies and 6 employers joined as admitted bodies. Also, 8 admitted employers ceased to have active members in the scheme. At the year-end the Fund had 177 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	4,430	5,355	3,282	345	13,412	13,399
2	Middlesbrough BC	3,676	4,391	2,775	268	11,110	11,040
3	Redcar & Cleveland BC	2,846	3,748	2,443	246	9,283	8,911
4	Hartlepool BC	2,783	2,949	1,706	210	7,648	7,524
5	Cleveland CC	2	640	3,301	722	4,665	4,922
6	University of Teesside	1,055	862	488	74	2,479	2,471
7	CSCI	1	409	436	27	873	879
8	Cleveland Police Authority	2	260	215	21	498	502
9	Care Quality Commission	394	137	286	7	824	825
10	Durham Tees Valley Probation Trust	3	0	0	0	3	599
11	Coast & Country Housing	316	246	196	19	777	781
12	Mouchel	3	84	155	6	248	247
13	Middlesbrough College	492	345	1354	9	980	931
14	Steria	263	69	113	3	448	465
15	Tristar Homes	202	132	119	15	468	471
16	Erimus Housing	140	84	177	9	410	417
17	Stockton Riverside College	232	130	37	1	400	462
18	Hartlepool College of FE	199	197	92	14	502	502
19	Housing Hartlepool	155	99	103	10	367	380
20	Beamish	130	41	15	1	187	182
21	Cleveland Probation	2	0	0	0	2	113
22	Cleveland Fire Authority	141	93	71	6	311	297
23	Cleveland College of Art & Design	116	83	50	7	256	243

	<b>Current Employers</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioners - Members</b>	<b>Pensioners - Dependants</b>	<b>2016/17 Total</b>	<b>2015/16 Total</b>
24	Tees Active Ltd	100	85	30	4	219	220
25	Tees Valley Leisure	4	83	19	4	110	116
26	Redcar & Cleveland College	125	117	60	3	305	308
27	Transit Stagecoach	3	11	140	21	175	186
28	Unity City Academy	65	80	22	2	169	174
29	Liberata	22	45	58	7	132	137
30	MacMillan Academy	81	62	27	4	174	177
31	Business & Enterprise NE	1	25	21	1	48	50
32	Kings Academy	66	48	32	1	147	141
33	Prior Pursglove College	5	42	29	0	76	74
34	CIC Elderly Persons Homes	4	24	58	1	87	89
35	North Shore Academy	69	55	8	1	133	125
36	Oakfield Community College	2	33	8	1	44	46
37	Fabrick Housing	82	15	17	4	118	77
38	Hartlepool 6th Form College	44	23	19	1	87	80
39	Freebrough Academy	8	18	6	0	32	70
40	Thornaby Academy	7	22	15	1	45	70
41	Carillion Integrated Solutions	18	14	11	1	44	42
42	One Awards Ltd (formerly OCN)	14	19	14	4	51	48
43	Stockton 6th Form College	10	17	15	0	42	41
44	Learning and Skills Council	2	7	4	0	13	15
45	OCS	1	2	6	0	9	9
46	Guisborough Town Council	5	2	4	0	11	10
47	Saltburn & Marske PC	3	2	1	0	6	6
48	Loftus Town Council	3	0	1	0	4	4
49	Billingham Town Council	4	3	0	0	7	5
50	Skelton & Brotton Parish Council	3	0	1	0	4	4
51	Yarm Town Council	2	1	0	0	3	2
52	Ingleby Barwick Town Council	1	0	0	0	1	1
53	Cleveland Fire Support Network	1	0	0	0	1	1
54	CMSL Ryehills Catering	2	0	1	0	3	2
55	The Big Life Company Ltd	4	4	1	0	9	9
56	Eston Park Academy	5	5	7	0	17	16
57	Brambles Academy	3	3	0	0	6	6
58	Pennyman Primary Academy	8	6	5	0	19	19
59	Chandlers Ridge Academy	17	3	2	0	22	24
60	Nunthorpe Academy	74	19	9	0	102	100
61	Ormesby School	2	15	8	0	25	25
62	KTS Academy	71	14	6	0	91	78
63	North Ormesby Primary Academy	22	5	1	0	28	29
64	Redcar Academy	23	8	11	0	42	44
65	Crime Commissioner for Cleveland	30	22	24	4	80	81
66	Conyers School	99	24	14	0	137	102

	<b>Current Employers</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioners - Members</b>	<b>Pensioners - Dependants</b>	<b>2016/17 Total</b>	<b>2015/16 Total</b>
67	All Saints Academy	26	12	2	1	41	42
68	St Gregory's Catholic Academy	29	18	5	6	58	58
69	KGB Cleaning & Supp Servs Ltd	3	1	0	0	4	5
70	SLM Community Leis Char Trust	54	8	4	0	66	77
71	SLM Food & Beverage Ltd	2	0	0	0	2	2
72	SLM Fitness & Health Limited	7	5	0	0	12	14
73	Dyke House Academy	111	15	4	0	130	124
74	Caldicotes Primary Academy	14	4	0	0	18	20
75	Tascor Services Ltd – PFI	2	0	1	0	3	3
76	Tascor Services Ltd – Custody	4	4	5	0	13	13
77	Hardwick Green Primary Academy	26	3	1	0	30	30
78	Ecocleen Services Limited	1	0	0	0	1	1
79	Extol Ac Trust (Eldon Grove)	38	7	0	0	45	40
80	Stranton Ac Trust (Stranton)	48	11	0	0	59	58
81	Eskdale Academy	18	4	2	0	24	24
82	Catcote Academy	118	29	10	0	157	135
83	Horizons Specialist Academy Tr	199	42	5	4	250	211
84	St Michael's Catholic Academy	41	9	6	0	56	54
85	Fredrick Nattrass Primary Academy	31	17	1	0	49	45
86	Oak Tree Primary Academy	64	7	6	0	77	67
87	Outwood Academy Acklam	74	2	6	0	82	64
88	Dormanstown Primary Academy	11	2	3	0	16	18
89	St Bede's Catholic Academy	36	10	0	4	50	43
90	Mellors Catering Services Ltd	38	2	5	1	46	73
91	Sunnyside Academy	78	18	6	1	103	82
92	Viewley Hill Academy Trust	24	3	1	0	28	29
93	Norton Primary Academy	46	16	4	0	66	63
94	Grangefield Academy	49	19	8	0	76	66
95	Fleet Factors (RCBC)	1	0	1	0	2	2
96	Chief Constable for Cleveland	403	48	18	0	469	408
97	One IT Solutions Ltd	18	1	1	0	20	20
98	Skleton Primary School	45	7	3	0	55	60
99	Rose Wood Academy	42	6	1	0	49	43
100	Hemlington Hall Academy	49	4	1	0	54	36
101	Yarm Primary School	47	6	3	0	56	55
102	Lockwood Parish Council	1	0	0	0	1	1
103	Diocese of Middlesbrough Trust	1	0	0	0	1	1
104	English Martyrs Ed Trust	91	34	12	0	137	128
105	Easterside Academy	53	3	0	0	56	50
106	St Margarets Clitherows CVPA	28	4	1	0	33	31
107	St Gabriels Catholic Academy	31	9	3	0	43	29
108	St Marys Catholic Academy	21	3	2	0	26	19
109	St Peters Academy M and C	64	7	3	0	74	41

	<b>Current Employers</b>	<b>Active Members</b>	<b>Deferred Members</b>	<b>Pensioners - Members</b>	<b>Pensioners - Dependants</b>	<b>2016/17 Total</b>	<b>2015/16 Total</b>
110	Green Lane Primary Academy	73	4	5	0	82	59
111	Kader Academy	21	3	0	0	24	25
112	Normanby Primary School	52	9	1	0	62	58
113	Nunthorpe Primary Academy	39	8	0	0	47	45
114	Creative Management Serv Ltd	16	9	4	0	29	36
115	Harrow Gate Primary Academy	52	4	2	0	58	60
116	Ian Ramsey CoE Academy	77	9	4	0	90	97
117	Ash Trees Academy	86	16	6	0	108	107
118	St Joseph's Primary Academy	23	10	2	0	35	28
119	St Paulinus P C V Academy	22	4	5	0	31	23
120	West View Academy	55	7	1	0	63	65
121	Outwood Academy Bydales	44	2	1	0	47	51
122	Taylor Shaw - Holy Rosary	1	1	0	0	2	1
123	Ingleby Manor Free School and 6th Form	18	0	0	0	18	20
124	Hillsview Academy	35	14	6	0	55	58
125	St Bede's Primary CV Academy	20	1	0	0	21	19
126	West Park Primary School	33	4	2	0	39	38
127	Our Lady & St Bede Academy	63	11	7	0	81	81
128	Manor Community Academy	89	10	2	1	102	116
129	KGB Cleaning Ltd – SSFC	1	0	0	0	1	1
130	Saint Benedicts PCV Academy	37	1	3	0	41	25
131	Our Lady - Christ the King	22	1	1	0	24	23
132	Our Lady - St Patricks College	36	6	2	0	44	44
133	Our Lady - St Patrick Primary	61	2	2	0	65	36
134	Our Lady St Therese of Lisieux	25	5	1	0	31	27
135	Wynyard C of E Primary School	12	1	0	0	13	6
136	Outwood Academy - Ormesby	51	10	3	0	64	43
137	Sacred Heart SCV Academy	31	8	2	0	41	31
138	Enquire Learning Trust Central	13	0	1	0	14	8
139	Kier Business Services	38	3	5	0	46	49
140	St Hilda's Catholic Academy Trust	218	23	14	0	255	250
141	Kier (Pensions Unit)	17	0	0	0	17	19
142	Mellors Catering Ltd - Dormanstown	2	0	0	0	2	2
143	KGB Cleaning Ltd – LJS	5	0	0	0	5	4
144	Tees Valley Education Trust	78	4	0	0	82	67
145	Tees Valley Combined Authority	63	5	4	0	72	53
146	SLM Charitable Trust (MBC)	70	18	0	0	88	83
147	SLM Food & Beverage Ltd (MBC)	6	3	0	0	9	10
148	SLM Fitness & Health Limited (MBC)	4	2	0	0	6	7
149	Prior Pursglove & Stockton Sixth Form College	80	13	0	0	93	69
150	River Tees Multi Academy Trust	19	1	1	0	21	0
151	St Thomas of Canterbury MAT	61	7	3	1	72	71

	Current Employers	Active Members	Deferred Members	Pensioners - Members	Pensioners - Dependants	2016/17 Total	2015/16 Total
152	ONsite Building Trust	5	0	0	0	5	5
153	NMRN Trading	7	0	1	0	8	9
154	Hartlepool Care Services Ltd	4	0	0	0	4	4
155	Brougham Primary School	30	3	0	0	33	31
156	Venn Academy Learning Trust	126	11	4	0	141	118
157	Jesmond Gardens Primary School	32	5	0	0	37	0
158	One IT Services Ltd - Porter	1	0	0	0	1	1
159	Rosebrook Primary School	57	3	0	0	60	2
160	Teesside Learning Trust	105	4	2	1	112	3
161	Ormesby Primary School	25	3	1	0	29	46
162	Zetland Primary School	32	0	0	0	32	56
163	Outwood Academy Bishopsgarth	39	3	0	0	42	3
164	Tees Valley CAPT	3	0	0	0	3	0
165	Our Children 1st Academy Trust	47	2	1	0	50	0
166	Rye Hills Academy	52	20	2	0	56	0
167	St Marks Academy	40	4	0	0	44	0
168	Pentland Academy	47	0	0	0	47	0
169	Caterlink (RCBC)	14	1	0	0	15	0
170	Caterlink (Ironstone)	5	0	0	0	5	0
171	Caterlink (St Oswalds)	10	0	0	0	10	0
172	Action for Children	2	0	0	0	2	0
173	Outwood Academy Redcar	3	0	0	0	3	0
174	Riverdale Primary School	22	0	0	0	22	0
175	St Aidans Primary School	1	0	0	0	1	0
176	South Tees Development Corporation	2	0	0	0	2	0
177	Compass Contract Services Ltd	30	1	0	1	32	0
999	Inactive employers	0	1,225	2,661	846	4,732	4,825
		<b>23,295</b>	<b>23,243</b>	<b>19,805</b>	<b>2,952</b>	<b>69,295</b>	<b>68,829</b>

## Internal Dispute Resolution Procedure

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

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

If, after the initial review, the member is still dissatisfied with the decision, they can apply via the second stage of the process to have decision reconsidered. This application must be

made within six months of the receiving the decision of the initial review. At the second stage, if the appeal concerns an employer decision, it is reviewed by the Teesside Pension Fund. If the appeal concerns the administrator, then an independent third party pension specialist is appointed.

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

### **Details of IDRPs cases processed in the year**

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

Cases started in year	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 most asset classes. Growth asset classes (Equities, Property and Alternatives) produced positive returns, particularly Japanese Equities. UK Equities fell very slightly over the year, however this is after strong performance during 2016/17 with performance in other Equity markets fairly muted compared to previous years.

Towards the end of the financial year, the Fund took the action to move some of its overseas equity investments into passive, index-tracker funds. The previous active portfolio for Japanese Equities was transitioned to a passive fund in February 2018, and most of the Asia Pacific ex Japan portfolio was transitioned in March 2018.

Property is an asset class the Fund has expanded its investment in over the past few years. The Fund has a strategy to build up the direct portfolio over time to increase the proportion of the Fund invested in this asset class to nearer 10%. Property, as an asset class performed well for the Fund last year, returning 8.4%, the second year in a row this asset class performed strongly.

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 Alternative's portfolio showed positive gains over the year returning 5%.

Bond markets also finished the year with a small negative return. The Teesside Fund has taken further advantage of increased bond prices over the past ten years and has now withdrawn from this asset class until these prices revert to more normal levels.

Against this background, cash has built up as profits were taken out of Equities and Bonds were sold down to near zero. Cash increased by approx. £65 million to approx. £515 million as at 31 March 2018.

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 with the aim of the Fund is to be 100% funded. At the March 2016 valuation the actuary was able to declare a funding level of 100%. The effects of this valuation came into force from 1 April 2017 with the next valuation carried out using data as at 31 March 2019.

The value of the Teesside Fund at 31 March 2018 was £3.9 billion, an increase of approx. £37 million on the year. The Fund is invested in a wide range of assets. This meets the requirement to have diversification of investments in a fund, so that too great a concentration of investments in one asset class does not expose the Fund to risk of underperformance should that particular asset class perform badly.

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

	Teesside Pension Fund at 31/03/2017	Teesside Pension Fund at 31/03/2018	Teesside Pension Fund Benchmark	Investment Strategy Statement Max	Investment Strategy Statement Min
Global Pooled	0.00%	0.00%	0%	0%	0%
UK Equities	31.65%	30.20%	30%	90%	55%
Overseas Equities	48.20%	46.95%	40%		
Alternatives	1.64%	1.81%	5%	10%	0%
Property	6.40%	7.91%	10%	15%	5%
Bonds	0.19%	0.00%	13%	40%	2%
Cash	11.92%	13.13%	2%		
	100.00%	100.00%	100%		

The largest 20 holdings, which make up 35.84% of the value of the portfolio as at 31 March 2018 are:

Security Description	% of Total Investments	Market value £'000
SGA MPF PAC BASIN EX-JAPAN INDEX	10.19%	344,369
SSGA MPF JAPAN EQUITY INDEX	6.97%	235,563
HSBC HLDGS ORD USD0.50(UK REG)	2.04%	68,859
BP ORD USD0.25	1.54%	52,222
BRITISH AMERICAN TOBACCO ORD GBP0.25	1.34%	45,296
SAMSUNG ELECTRONIC CO LTD KRW5000	1.26%	42,636
ROYAL DUTCH SHELL A SHS EUR0.07 (UK LIST )GBP	1.22%	41,276
ROYAL DUTCH SHELL B ORD EUR0.07	1.12%	37,766
GLAXOSMITHKLINE ORD GBP0.25	1.09%	36,941
ASTRAZENECA ORD USD0.25	1.04%	34,999
INVESCO PERPETUAL UK SMALLER CO. EQUITY FD	1.03%	34,729
DIAGEO ORD PLC	0.99%	33,406
LIONTRUST UK SMALLER CO-I	0.97%	32,925
VODAFONE GROUP SHS	0.90%	30,564
PRUDENTIAL GBP0.05	0.79%	26,659
FIDELITY EUROPEAN FUND-W-ACC	0.73%	24,668
APPLE INC COM STK	0.71%	23,935
RIO TINTO ORD GBP0.10	0.65%	22,029
NEWRIVER REIT PLC	0.64%	21,776
THREADNEEDLE INV LATIN AMERICAN GROWTH ACC 2	0.61%	20,683
	<b>35.84%</b>	<b>1,211,301</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, 5 and 10 years and to compare performance with other Local Authority Funds.

In the year 2017/2018 the Fund achieved a return of 2.5% compared to our benchmark return of 3.5%.

In the three-year period to 2017/2018 the Fund achieved a return of 7.7% per annum compared to our benchmark return of 8.1%.

In the five-year period to 2017/2018 the Fund achieved a return of 7.4% per annum compared to our benchmark return of 8.8%.

In the ten-year period to 2017/2018 the Fund achieved a return of 7.3% per annum compared to our benchmark of 7.9%.

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

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

The Fund's position regarding risk monitoring and risk control is set out in the Investment Strategy Statement, which can be viewed on-line at [www.teespen.org.uk](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.

## **INVESTMENT REFORM**

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

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

The Teesside Pension Fund made the decision to work with eleven other administering authorities as part of the Border to Coast Pension Partnership (BCPP). All of the administering authorities are considered to have a like-minded approach to investments. The Fund and BCPP submitted proposals in 2016 and Government gave approval of the proposal in the same year.

All of the administering authorities in BCPP formally approved arrangements for setting up BCPP before the end of the 2016/17 financial year. Middlesbrough Borough Council as the administering authority of the Teesside Pension Fund agreed to join at its Council meeting on 15 February 2017. This is a major collaboration between the funds with the aim of delivering improved performance, and give the Fund access to new investments and provide resilience.

During 2017/18 Border to Coast Pension Partnership Limited was established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. BCPP formed a new Board, recruited several key management and operational staff, acquired office space in Leeds and developed many of the other arrangements required to operate as an investment management company. The transfer of investment assets to BCPP will begin in 2018, with BCPP building full capacity to manage the Fund's full range of investment assets taking a number of years.

During 2017/18, the Fund incurred costs of £197,000 setting up BCPP and providing specific internal resource to assist the Fund during this set-up period. At the end of March 2018 the overall value of assets in the BCPP partner funds was approximately £46 billion.

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

## **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 Teesside Pension Fund Committee. This sets out how votes have been cast.

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

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

The Fund's Investment Strategy Statement states that:

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

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

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

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

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

In order to pursue a policy of positive engagement, the Fund is an active member of the Local Authority Pension Fund Forum, (whose website is [www.lapfforum.org](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 is:

Avon Pension Fund  
Barking and Dagenham LB  
Bedfordshire Pension Fund  
Cambridgeshire Pension Fund  
Camden LB  
Cardiff and Vale of Glamorgan  
Pension Fund  
Cheshire Pension Fund  
City and County of Swansea Pension  
Fund  
City of London Corporation  
Clwyd Pension Fund  
Croydon LB  
Cumbria Pension Scheme  
Derbyshire CC  
Devon CC  
Dorset County Pension Fund  
Durham Pension Fund  
Dyfed Pension Fund  
Ealing LB  
East Riding of Yorkshire Council  
East Sussex Pension Fund  
Enfield LB  
Environment Agency Pension Fund  
Falkirk Council  
Gloucestershire Pension Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund RB  
Gwynedd Pension Fund  
Hackney LB  
Hammersmith & Fulham LB  
Haringey LB  
Harrow LB  
Havering LB  
Hertfordshire County Council Pension  
Fund  
Hounslow LB  
Islington LB  
Lambeth LB  
Lancashire County Pension Fund  
Lewisham LB  
Lincolnshire CC  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Merton LB  
Newham LB  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire CC Pension Fund  
Northamptonshire CC  
Northumberland Pension Fund  
Nottinghamshire CC  
Oxfordshire Pension Fund  
Powys County Council Pension Fund  
Redbridge LB  
Rhondda Cynon Taf  
Shropshire Council  
Somerset CC  
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

INDEX

	Pages
1 Statement of Responsibilities for the Financial Statements	41
2 Auditor's Report	42
3 Fund Account and Net Assets Statement	43
4 Notes to the Financial Statements	44

## **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 Strategic Director, Finance, Governance and Support (Section 151 Officer) of the Council and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

### **The Strategic Director of Finance, Governance and Support Responsibilities**

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

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

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

### **Confirmation of the Statement of Accounts**

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

**26 July 2018**

**James Bromiley,**

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

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF MIDDLESBROUGH**

**COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS**

Awaiting statement from EY

**Fund Accounts for the year ended 31st March 2018**

<b>2016/2017</b>			<b>2017/2018</b>
<b>£000</b>	<b>Contributions and Benefits</b>	Note	<b>£000</b>
(85,887)	Contributions	6	(89,770)
(5,225)	Transfers in from other pension funds	7	(4,981)
(6,382)	Other income	8	(5,684)
(97,494)	<b>Total Income from Members</b>		<b>(100,435)</b>
125,785	Benefits	9	131,453
9,084	Payments to and on account of leavers	10	10,516
134,869	<b>Total Expenditure to Members</b>		<b>142,059</b>
37,375	<b>Net withdrawals from dealing with members</b>		<b>41,624</b>
4,673	Management expenses	11	4,807
42,048	<b>Net withdrawals including fund management expenses</b>		<b>46,431</b>
	<b>Returns on investments</b>		
(102,150)	Investment income	12	(107,394)
(666,369)	Profit and losses on disposal of investments and changes in the market value of investments	14	24,100
(768,519)	<b>Net returns on investments</b>		<b>(83,924)</b>
(726,471)	<b>Net increase/(decrease) in the Fund during the year</b>		<b>(36,863)</b>
3,133,118	Net assets of the Fund as at 1 April		3,859,589
<b>3,859,589</b>	<b>Net assets of the Fund as at 31 March</b>		<b>3,896,452</b>
<b>2016/2017</b>	<b>Net Assets Statement as at 31 March</b>		<b>2017/18</b>
<b>£000</b>			
3,853,887	Investments Assets	14	3,891,011
10,009	Current Assets	15	10,241
(4,307)	Current liabilities	16	(4,800)
<b>3,859,589</b>	<b>Net assets of the Fund at 31 March</b>		<b>3,896,452</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 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK local government sector.

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

### **2. Summary of Significant Accounting Policies**

#### **Accruals**

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

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

##### **Contributions income**

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

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

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

##### **Transfer values**

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

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

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

##### **Investment income**

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

**Interest Income**

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

**Dividend Income**

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

**Distributions from Pooled Funds**

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

**Property Related Income**

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

**Movement in the Net Market Value of Investments**

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

**Fund Account – Expense items****Benefits payable**

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

**Taxation**

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

**Management expenses**

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

**Administrative expenses**

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

**Oversight and Governance Costs**

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

### **Investment Management Expenses**

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

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

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

### **Property expenses**

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

### **Net Assets Statement**

#### **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2018. A financial asset is recognised in the Net Assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account.

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

#### **Market Quoted Investments**

Investments are valued at market value as at 31 March 2018 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 2018. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (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 and sales and purchases of investments in foreign currencies received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2018.

### **Outstanding Commitments**

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

### **Cash and Cash Equivalents**

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

### **Disposal of Investments**

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

### **Interest on Cash Balances**

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

### **Actuarial present value of promised retirement benefits**

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

### **Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd 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 18).

### **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.**

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

- IFRS 9 Financial Instruments - This introduces changes to the classification and measurement of financial assets and a new 'expected credit loss' model for impairing financial assets.
- IFRS 15 Revenue from Contracts with Customers - The standard specifies how and when to recognise income and also has a requirement to provide users of Financial statements with more informative and relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers.
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses - IAS 12 has been amended to clarify recognition of Deferred Tax Assets for unrealised losses related to debt instruments measured at fair value. Currently, the Fund does not hold such financial instruments.
- IAS 7 Statement of Cash Flows: Disclosure Initiative - amendments to IAS 7 will potentially require more disclosures about financing activities.

## **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 2018 was £Nil (Nil at 31 March 2017).

### **Pension Fund Liabilities**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the

valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For example, a 0.1% per annum increase in the discount factor assumption could decrease liability by around £87.57 million.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £631.6million and are relating to infrastructure, real estate, and pooled equity vehicles.
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	The effect of variations in the factors supporting the valuation would be an increase or decrease (5.66%) in the value of directly held property £14.9 million, on a fair basis of £262.7 million.

## 6. Contributions Receivable

		2016/17	2017/18
		£000	£000
Employers	Normal	(58,341)	(62,829)
	Additional Contributions	(31)	(41)
	Deficit Recovery Contributions	(1,622)	(720)
Members	Normal	(25,893)	(26,180)
	<b>Total</b>	<b>(85,887)</b>	<b>(89,770)</b>
<b>Analysis of Total Contributions</b>		<b>2016/17</b>	<b>2017/18</b>
		<b>£000</b>	<b>£000</b>
	Administering Authority – Middlesbrough Council	12,940	(14,005)
	Scheduled Bodies	57,777	(60,226)
	Admitted Bodies	15,170	(15,539)
	<b>Total</b>	<b>85,887</b>	<b>(89,770)</b>

## 7. Transfers in from Other Pension Funds

		2016/17	2017/18
		£000	£000
	Individual transfers in from other schemes	(5,225)	(4,981)
	<b>Total</b>	<b>(5,225)</b>	<b>(4,981)</b>

## 8. Other Income

		2016/17	2017/18
		£000	£000
	Capital Costs of Early Retirements	(5,256)	(4,499)
	Other Income	(1,126)	(1,185)
	<b>Total</b>	<b>(6,382)</b>	<b>(5,684)</b>

## 9. Benefits Payable

		2016/17	2017/18
		£000	£000
	Pensions	101,668	105,369
	Commutations and lump sum retirement benefits	21,081	23,403
	Lump sum death benefits	3,036	2,771
	<b>Total</b>	<b>125,785</b>	<b>131,543</b>
<b>Analysis of Total Benefits</b>			
	Administering Authority – Middlesbrough Council	27,091	21,329
	Scheduled Bodies	69,001	81,267
	Admitted Bodies	29,693	28,947
	<b>Total</b>	<b>125,785</b>	<b>131,543</b>

## 10. Payment to and on Account of Leavers

	2016/17	2017/18
	£000	£000
Refunds to members leaving service	198	222
Payments for members joining state scheme	91	90
Group transfers	0	0
Individual transfers to other schemes	8,795	10,204
<b>Total</b>	<b>9,084</b>	<b>10,516</b>

## 11. Management Expenses

	2016/17	2017/18
	£000	£000
Administrative costs	1,870	1,672
Investment management expenses	2,596	2,451
Oversight and governance costs	207	684
<b>Total</b>	<b>4,673</b>	<b>4,807</b>

## 11A. Investment Management Expenses

	2016/17	2017/18
	£000	£000
Management fees	632	933
Custody fees	11	11
Transaction costs	1,281	815
Loans & Investment support service charges	672	692
<b>Total</b>	<b>2,596</b>	<b>2,451</b>

## 12. Investment Income

	2016/17	2017/18
	£000	£000
Income from bonds	(1,038)	(93)
Income from equities	(85,854)	(87,723)
Income from pooled investment vehicles	(3,995)	(3,820)
Other Investment Income	0	0
Net rents from properties (see note below)	(10,293)	(14,042)
Interest on cash deposits	(970)	(1,562)
<b>Total</b>	<b>(102,150)</b>	<b>(107,394)</b>
	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>Rental Income and Property Expenses</b>		
Gross Rental income	(10,851)	(14,230)
Property Expenses	558	188
<b>Net Rents from Properties</b>	<b>(10,293)</b>	<b>(14,042)</b>

### 13. External Audit Costs

	2016/17	2017/18
	£000	£000
Payable in respect of external audit	28	28

### 14. Investment Assets

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

2016/17	Value at 31 March 2016	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2016
	£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 Investment Property	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>

#### 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 £249,107,611 and unrealised loss was £273,207,207. Prior year realised profit was £124,506,493 and unrealised gain was £541,862,222.

## 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 £815,029 (2016/2017 £1,280,704). 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 2017/18 the value at 31 March 2017 of the direct property portfolio was : £262,690,000
- For 2016/17 the value at 31 March 2016 of the direct property portfolio was : £204,325,000

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

The following investments represent more than 5% of the net assets of the scheme. They are both registered UK unit trusts.

Security	Market Value 31 March 2017 £'000	% of net assets of the scheme	Market Value 31 March 2018	% of net assets of the scheme £'000
SSGA MPF Pacific Basin ex- Japan Index	20,353	0.60%	344,369	10.19%
SSGA MPF Japan Equity Index	5,769	0.17%	235,563	6.97%

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

Asset Class / Security	Market Value 31 March 2017 £'000	% of asset class	Market Value 31 March 2018 £'000	% of asset class
<b>UK Fixed Interest</b>				
DNB Boligkreditt 15-17/02/2020 FRN	999	33.34%	0	0.00%
Total Cap INTL 14-01/07/2019 FRN	1,997	66.66%	0	0.00%
Canada (Govt Of) 4.25% RRB 1/L 01/12/2021 CAD1000	2,225	54.43%	0	0.00%
Sweden (Kingdom Of) 4% 1/l 1/12/2020 SEK3102	1,863	45.57%	0	0.00%
<b>UK Equities</b>				
HSBC Hldgs ORD USDO.50 (UK REG)	68,507	5.61%	68,859	5.86%
<b>Oversea Equities</b>				
SSGA MPF Pacific Basin ex-Japan Index	20,353	1.09%	344,369	18.85%

<b>Asset Class / Security</b>	<b>Market Value 31 March 2017</b>	<b>% of asset class</b>	<b>Market Value 31 March 2018</b>	<b>% of asset class</b>
SSGA MPF Japan Equity Index	5,769	0.31%	<b>235,563</b>	<b>12.89%</b>
<b>Property</b>				
Direct - Doncaster (Omega Boulevard)	0	0.00%	<b>22,800</b>	<b>7.41%</b>
Direct - Rotherham (Catcliffe Retail Park)	15,500	6.28%	<b>16,350</b>	<b>5.31%</b>
Direct - Gateshead (Team Valley Trading Estate)	0	0.00%	<b>16,250</b>	<b>5.28%</b>
Direct - Birmingham (Bromford Central)	13,925	5.64%	<b>15,500</b>	<b>5.04%</b>
Direct - Ipswich (Interchange Retail Park)	14,900	6.03%	<b>15,250</b>	<b>4.96%</b>
Direct - Rugby (Valley Park))	15,000	6.07%	<b>15,200</b>	<b>4.94%</b>
Direct - Stow-on-the-Wold (Fosse Way)	13,850	5.61%	<b>13,900</b>	<b>4.52%</b>
Direct - Cirencester (Retail Park)	13,475	5.46%	<b>12,900</b>	<b>4.19%</b>
Direct - Lutterworth (Magna Park)	11,800	4.78%	<b>12,050</b>	<b>3.92%</b>
<b>Pooled Property Investments</b>				
Standard Life Investments European Property Growth Fund	15,725	6.37%	<b>16,659</b>	<b>5.41%</b>
<b>Alternatives</b>				
Darwin Leisure Prop Units FDS Cls 'C'	17,692	27.94%	<b>19,342</b>	<b>27.46%</b>
Amedeo Air Four Plus Ltd	10,350	16.34%	<b>10,600</b>	<b>15.05%</b>
Innisfree PFI Continuation Fund	9,707	15.33%	<b>9,707</b>	<b>13.78%</b>
United States Oil Fund LP Units	7,183	11.34%	<b>7,698</b>	<b>10.93%</b>
ETFS Metal Security Physical Gold	9,106	14.38%	<b>7,675</b>	<b>10.90%</b>
Innisfree PFI Secondary Fund 2	6,880	10.86%	<b>7,052</b>	<b>10.01%</b>

## Geographical Analysis of Investments

	31/03/2017		31/03/2018	
	£000	%	£000	%
United Kingdom	1,587,257	47%	1,934,040	57%
United States	562,092	17%	571,306	17%
Japan	221,808	7%	235,563	7%
Republic of Korea	134,870	4%	135,595	4%
Germany	91,566	3%	90,097	3%
France	87,846	2%	88,750	3%
Switzerland	83,013	2%	71,466	2%
Taiwan	89,645	2%	71,170	2%
Hong Kong	167,362	5%	10,319	0%
Australia	128,704	4%	8	0%
Singapore	61,110	2%	0	0%
Others	183,907	5%	171,877	5%
<b>Total</b>	<b>3,399,180</b>	<b>100.00%</b>	<b>3,380,191</b>	<b>100.00%</b>

## Bonds and Index – Linked Securities

	31/03/2017	31/03/2018
	£000	£000
UK Public Sector quoted	0	0
UK Corporate quoted	2,995	0
Overseas Public Sector quoted	0	0
Overseas Corporate quoted	4,089	0
<b>Total</b>	<b>7,084</b>	<b>0</b>

## Equities

	31/03/2017	31/03/2018
	£000	£000
UK quoted	1,096,185	1,072,771
Overseas quoted	1,752,222	1,159,804
<b>Total</b>	<b>2,848,407</b>	<b>2,232,575</b>

## Pooled Investment Vehicles and Properties

	31/03/2017	31/03/2018
	£000	£000
UK Equity	125,304	102,409
Commodities	11,323	9,767
Pooled Property Investment Vehicles	42,667	44,999
Private Equity	0	0
Infrastructure	16,587	22,786
Other Alternative Investments	28,236	30,178
<b>UK Unit and Investment Trust Total</b>	<b>224,117</b>	<b>210,139</b>
Commodities	7,183	7,698
Overseas Equity	108,064	667,089
<b>Overseas Unit and Investment Trusts Total</b>	<b>115,247</b>	<b>674,787</b>
<b>Total</b>	<b>339,364</b>	<b>884,926</b>

## UK Properties

	31/03/2017	31/03/2018
	£000	£000
Freehold	159,650	217,365
Leasehold	44,675	45,325
<b>Total</b>	<b>204,325</b>	<b>262,690</b>

The properties were valued on the basis of Market Value as at 31 March 2018 by Cushman and Wakefield LLP acting as an External Valuer, in accordance with the RICS Valuation - Professional Standards. The valuer's opinion of the Market Value of the Fund's interests in the properties was primarily derived from analysis of recent market transactions concluded at arm's-length.

## Cash Deposits

	31/03/2017	31/03/2018
	£000	£000
Sterling Cash deposits	428,302	485,924

## Other investment balances

	31/03/2017	31/03/2018
	£000	£000
Cash deposits with custodian	14,149	15,894
Outstanding dividend entitlements	12,100	8,595
Interest due on cash deposits	156	407
<b>Total</b>	<b>26,405</b>	<b>24,896</b>

## Outstanding Commitments

As at 31 March 2018, the Fund had outstanding commitments to five investments:

	Vintage Year	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2018
		£	£	£
Innisfree PFI Continuation Fund	2006	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	2012	10,000,000	9,620,011	379,989
Hearthstone Residential Fund LP	2016	10,000,000	2,584,374	7,415,626
Gresham House British Strategic Investment Fund LP	2017	40,000,000	3,442,424	36,557,576
<b>Total</b>		<b>70,000,000</b>	<b>25,355,307</b>	<b>44,644,693</b>
		<b>USD</b>	<b>USD</b>	<b>USD</b>
Markham Rae	2016	15,000,000	225,671	14,774,329
<b>Total</b>		<b>15,000,000</b>	<b>225,671</b>	<b>14,774,329</b>

## 15. Current Assets

Receivables		31/03/2017	31/03/2018
		£000	£000
Other receivables		2,228	1,828
Sundry debtors		789	581
Contributions due in respect of	Employers	4,783	5,156

	Members	2,052	2,110
Capital cost of Early Retirements		98	473
Cash balances		59	93
<b>Total</b>		<b>10,009</b>	<b>10,241</b>
<b>Analysed by:</b>			
Other local authorities		5,454	4,445
Other entities and individuals		4,496	5,703
Add cash balances		59	93
<b>Total</b>		<b>10,009</b>	<b>10,241</b>

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

## 16. Current liabilities

Amounts due within one year	31/03/2017	31/03/2018
	£000	£000
Rents received in advance	(1,859)	(2,344)
Accrued expenses	(1,082)	(851)
Other payables	(1,366)	(1,605)
<b>Total</b>	<b>(4,307)</b>	<b>(4,800)</b>
<b>Analysed by:</b>		
Other local authorities	(827)	(349)
Other entities and individuals	(3,480)	(4,451)
<b>Total</b>	<b>(4,307)</b>	<b>(4,800)</b>

## 17. 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:

	2016/17	2017/18
	£000	£000
Support Service Recharges payable for the year	319	1,191

In prior year the amount only disclosed the value outstanding at the year end. The full value for 2016/17 was £1,184k.

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 2017/18:

Employee's contributions of £168,000

Employer's contributions of £436,000

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.

## 18. Actuarial Valuation

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

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

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

### IAS19 Disclosure

An IAS19 valuation was carried out for the Fund as at 31st March 2018 by Aon Hewitt with the following results:

	31/03/2017	31/03/2018
	£million	£million
Net Liabilities Assessment	4,642	4,865
Asset Valuation	3,860	3,898
<b>Deficit</b>	<b>(782)</b>	<b>(967)</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 2018 were:

### Funding Assumptions

RPI increases	3.2% per annum
CPI increases	2.1% per annum
Salary increases	3.1% per annum
Pension increases	2.1% 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	22.90
Women	25.00
Longevity at 65 for future pensioners :	
Men	25.10
Women	27.30

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

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

The value of AVC investments are as follows:

### Prudential AVC balances

	31/03/2017	31/03/2018
	£000	£000
With Profits and Deposit Accounts	4,093	4,332
Unit Linked Accounts	2,930	3,001
<b>Total</b>	<b>7,023</b>	<b>7,333</b>

The total value of AVC contributions paid to Prudential during the year was £1,448,964 (2016/17 £1,320,332).

## 20. Financial Instruments

### Net Gains and Losses on Financial Instruments

	2016/17	2017/18
	£000	£000
Financial Assets		
Fair Value through profit and loss account	666,369	(24,100)

### Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	31/03/2017	31/03/2017	31/03/2018	31/03/2018
	£000	£000	£000	£000
Fixed Interest Securities	2,995	2,995	0	0
Equities	2,848,407	2,848,407	2,232,575	2,232,575
Index-linked securities	4,089	4,089	0	0
Pooled Investments	339,364	339,364	839,927	839,927
Properties	204,325	204,325	307,689	307,689
	3,399,180	3,399,180	3,380,191	3,380,191
Loans and receivables	454,955	454,707	528,951	521,061
<b>Total</b>	<b>3,854,135</b>	<b>3,853,887</b>	<b>3,909,142</b>	<b>3,901,252</b>
<b>Financial Liabilities – Fair Value at Amortised Costs</b>				
Creditors	(4,307)	(4,307)	(4,800)	(4,800)
<b>Net Financial Assets</b>	<b>3,859,837</b>	<b>3,859,589</b>	<b>3,904,342</b>	<b>3,896,452</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 value of directly owned properties are valued by an independent valuer, Cushman & Wakefield, in accordance with RICS valuation professional standards (*redbook*)

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 31 March 2018</b>				
Financial assets at fair value through profit and loss account	2,337,547	148,378	631,576	3,117,501
Non-financial assets through profit and loss account	0	0	262,690	262,690
Loans and receivables	518,710	0	0	518,710
Financial Liabilities at amortised cost	(4,800)	0	0	(4,800)
<b>Total Financial Assets</b>	<b>2,861,698</b>	<b>148,378</b>	<b>894,266</b>	<b>3,904,342</b>
<b>Value as at 31 March 2017</b>				
Financial assets at fair value through profit and loss account	2,954,797	170,215	69,843	3,194,855
Non-financial assets through profit and loss account	0	0	204,325	204,325
Loans and receivables	464,964	0	0	464,964
Financial Liabilities at amortised cost	(4,307)	0	0	(4,307)
<b>Total Financial Assets</b>	<b>3,415,454</b>	<b>170,215</b>	<b>274,168</b>	<b>3,859,837</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 classifications described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

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

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

### Valuation of Financial Instrument Carried at Fair Value – 31 March 2017

	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	4.93%	16,587	17,405	15,769
<b>Total</b>		<b>274,168</b>	<b>290,536</b>	<b>257,802</b>

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

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

Trusts UK							
Property	204,325	0	619,256	(400)	1,242	0	262,690
<b>Total</b>	<b>274,168</b>	<b>0</b>	<b>619,256</b>	<b>(400)</b>	<b>1,242</b>	<b>0</b>	<b>894,266</b>

**Reconciliation of Fair Value Measurements within level 3 during 2016/17 - Restated due to re-analysis of levels 1, 2 and 3 for 2016/17**

Period 2016/17	Market Value April 2016	Transfer between levels	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/Losses	Market Value 31 March 2017 (Restated)
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	5,372	0	0	(250)	1,174	42	6,338
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	16,298	0	50	(36)	275	0	16,587
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	19,165	0	0	0	6,957	0	26,122
Pooled Property Investment - Unit & Investment Trusts UK	13,662	0	0	(508)	7,642	0	20,796
Private Equity	43	0	0	(1)	0	(42)	0
Property	184,450	0	31,219	(13,050)	(1,126)	2,832	204,325
<b>Total</b>	<b>238,990</b>	<b>0</b>	<b>31,269</b>	<b>(13,845)</b>	<b>14,922</b>	<b>2,832</b>	<b>274,168</b>

**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 2017/2018 reporting period.

<b>2017/18 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	1,072,771	7.82%	1,156,662	988,880
	Overseas	1,159,804	10.71%	1,284,019	1,035,589
	<b>Total</b>	<b>2,232,575</b>		<b>2,440,681</b>	<b>2,024,469</b>
Fixed Interest Securities	UK	0		0	0
	Overseas	0		0	0
	<b>Total</b>	<b>0</b>		<b>0</b>	<b>0</b>
Index Linked	UK	0		0	0
	Overseas	0		0	0
	<b>Total</b>	<b>0</b>		<b>0</b>	<b>0</b>
Managed and Unitised Funds	UK	598,579	7.82%	645,388	551,770
	Overseas	286,347	10.71%	317,015	255,679
	<b>Total</b>	<b>884,926</b>		<b>962,403</b>	<b>807,449</b>
Property	UK	262,690	5.66%	277,558	247,822
<b>Total</b>		<b>3,380,191</b>		<b>3,680,642</b>	<b>3,079,740</b>

<b>2016/17 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	1,096,185	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>

### 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 2018 is set out below:

<b>Asset Type at 31 March</b>	<b>2017</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	428,302	485,924
Cash balances	26,405	24,896
Bonds	2,995	0
<b>Total</b>	<b>457,702</b>	<b>510,820</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 2018</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	485,924	1,215	(1,215)
Cash balances	24,896	62	(62)
Bonds	0	0	0
<b>Total</b>	<b>510,820</b>	<b>1,277</b>	<b>(1,277)</b>

Carrying value at 31 March 2017			
Cash and cash equivalents	428,302	1,071	(1,071)
Cash balances	26,405	66	(66)
Bonds	2,995	7	(7)
<b>Total</b>	<b>457,702</b>	<b>1,144</b>	<b>(1,144)</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 2018, showing the sensitivity analysis of foreign exchange movements.

<b>Currency Risk 31 March 2018</b>	<b>Value £000</b>	<b>Change %</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
Australian Dollar	8	12.14%	9	7
Danish Krone	20,466	9.07%	22,322	18,610
Euro	249,832	9.08%	272,517	227,147
Hong Kong Dollar	10,319	10.01%	11,352	9,286
Indian Rupee	4,199	10.49%	4,639	3,759
Japanese Yen	235,563	8.71%	256,081	215,045
South Korean Won	135,595	12.01%	151,880	119,310
Norwegian Krone	9,475	14.13%	10,814	8,136
Swedish Krona	25,543	9.88%	28,067	23,019
Swiss Franc	71,466	10.51%	78,977	63,955
Taiwan Dollar	71,170	9.50%	77,931	64,409

US Dollar	589,191	9.70%	646,343	532,039
Asia Pacific ex Japan basket	344,850	11.05%	382,956	306,744
Emerging Basket	33,327	8.10%	36,026	30,628
Europe Basket	43,590	9.06%	47,539	39,641
Europe ex UK Basket	16,659	9.06%	18,168	15,150
<b>Total</b>	<b>1,861,253</b>		<b>2,045,621</b>	<b>1,676,885</b>

<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>

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

### **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers. The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is considered as part of the investment decisions made by the Investment Managers as part of their portfolio construction. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Statement of Accounts. Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31st March 2018. 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.

#### **21. Senior Employees' Remuneration**

<b>Key Management Personnel</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
Short Term Benefits	65	62
Post Employments Benefits	8	9
Other Long Term Benefits	0	0
Termination Benefits	0	0
Share Based Payments	0	0
<b>Total</b>	<b>73</b>	<b>71</b>

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

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

## ***Teesside Pension Fund***

### ***Statement of the Actuary for the year ended 31 March 2018***

#### **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'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. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of Guaranteed Minimum Pension's in public sector schemes, has made an announcement to extend the indexation of Guaranteed Minimum Pension's to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as this Actuarial Valuation Report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.
9. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.  
This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.  
Aon 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.
10. The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address:  
[http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation\\_2016.pdf](http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation_2016.pdf)

Aon Hewitt Limited

**May 2018**

## **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 Governance Policy and Compliance Statement can be seen at

[http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE\\_2](http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2)

Full details of the changes to the scheme, along with updated scheme guides, are on our website at [www.teespen.org.uk](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 in 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/index.php?name=ISS>

### **The Funding Strategy Statement**

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

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

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

The latest Funding Strategy Statement was approved by the Pensions Panel and was effective from March 2016, and can be seen at

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

## **Governance Policy**

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the Kier Business Services Ltd (previously Mouchel Business Services Ltd) 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;
- Structure of meetings;
- Membership; and
- Principles of governance.

The current policy document can be viewed at:

[http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE\\_2](http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2)

## **Communications Policy**

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

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

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

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

[http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION\\_FORM](http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FORM)

## 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>2018/19 Member Contribution Table</b> <table border="1"> <thead> <tr> <th>Pay Bands</th> <th>Contribution Rates</th> </tr> </thead> <tbody> <tr> <td>Up to £14,100</td> <td>5.5%</td> </tr> <tr> <td>£14,101 - £22,000</td> <td>5.8%</td> </tr> <tr> <td>£22,001 - £35,700</td> <td>6.5%</td> </tr> <tr> <td>£35,701 - £45,200</td> <td>6.8%</td> </tr> <tr> <td>£45,201 - £63,100</td> <td>8.5%</td> </tr> <tr> <td>£63,101 - £89,400</td> <td>9.9%</td> </tr> <tr> <td>£89,401 - £105,200</td> <td>10.5%</td> </tr> <tr> <td>£105,201 - £157,800</td> <td>11.4%</td> </tr> <tr> <td>Over £157,800</td> <td>12.5%</td> </tr> </tbody> </table>	Pay Bands	Contribution Rates	Up to £14,100	5.5%	£14,101 - £22,000	5.8%	£22,001 - £35,700	6.5%	£35,701 - £45,200	6.8%	£45,201 - £63,100	8.5%	£63,101 - £89,400	9.9%	£89,401 - £105,200	10.5%	£105,201 - £157,800	11.4%	Over £157,800	12.5%	<b>Pre 2014 member contribution table</b> <table border="1"> <thead> <tr> <th>Pay Bands</th> <th>Contribution Rates</th> </tr> </thead> <tbody> <tr> <td>Up to £13,700</td> <td>5.5%</td> </tr> <tr> <td>£13,701 - £16,100</td> <td>5.8%</td> </tr> <tr> <td>£16,101 - £20,800</td> <td>5.9%</td> </tr> <tr> <td>£20,801 - £34,700</td> <td>6.5%</td> </tr> <tr> <td>£34,701 - £46,500</td> <td>6.8%</td> </tr> <tr> <td>£46,501 - £87,100</td> <td>7.2%</td> </tr> <tr> <td>Over £87,100</td> <td>7.5%</td> </tr> </tbody> </table>	Pay Bands	Contribution Rates	Up to £13,700	5.5%	£13,701 - £16,100	5.8%	£16,101 - £20,800	5.9%	£20,801 - £34,700	6.5%	£34,701 - £46,500	6.8%	£46,501 - £87,100	7.2%	Over £87,100	7.5%
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<b>Contribution Flexibility</b>	Yes, members can pay 50% contributions for 50% of the pension benefit	No																																				

	<b>LGPS 2014</b>	<b>LGPS 2008</b>
<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>	<p>Tier 1 - Immediate payment with service enhanced to Normal Pension Age</p> <p>Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age</p> <p>Tier 3 - Temporary payment of pension for up to 3 years</p>	<p>Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65)</p> <p>Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65)</p> <p>Tier 3 - Temporary payment of pension for up to 3 years</p>
<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 55th 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>
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%
2017	1.0%

## 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	Graeme Hall  Telephone: (01642) 727344 E Mail: <a href="mailto:graeme.hall@kier-middlesbrough.com">graeme.hall@kier-middlesbrough.com</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>	
For more information on this report please contact:	Claire Wilson Senior Accounting Officer – Central Services & Pensions  Telephone: (01642) 728587 E Mail: <a href="mailto:Claire_wilson@Middlesbrough.gov.uk">Claire_wilson@Middlesbrough.gov.uk</a>
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>	