

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

PENSION FUND COMMITTEE REPORT

27 JULY 2022

DIRECTOR OF FINANCE – IAN WRIGHT

Draft Annual Pension Fund Report and Accounts 2021/22

1. PURPOSE OF THE REPORT

- 1.1 To present Members with the 2021/22 draft Annual Report and Accounts for the Teesside Pension Fund.

2. RECOMMENDATION

- 2.1 That Members note the 2021/22 draft Annual Report and Accounts (Appendix A).

3. FINANCIAL IMPLICATIONS

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

4. BACKGROUND

- 4.1 The terms of reference for the Teesside Pension Fund Committee require the Annual Report and Accounts to be considered by Members. Attached to this report is the draft unaudited Report and Accounts for the year ended 31 March 2022.

5. PERFORMANCE SUMMARY

- 5.1 The overall financial performance of the Fund for the year to 31 March 2022 was for a second consecutive year very positive. The Fund's value rose to £5.073 billion, an increase over the year of approximately £514 million. This increase in value is mainly a result of equity market performance, which was positive for the year as a whole, albeit deteriorating towards the end of the year and beyond.
- 5.2 The Fund's asset value as at 31 March 2022 will be used by the Fund actuary when calculating the three-yearly valuation of the Fund. The value of the Fund's assets has risen by around a billion pounds in the three years since the last valuation, an increase of around 25% in that period compared with an expected increase (based on the actuary's assumptions) of around 14%. Although welcome news, it is important to recognise the long-term nature of the Fund and the volatility of many of its assets mean that the actuary has to look beyond just the immediate value of the assets when carrying out the valuation. In addition, the size of the Fund's

TEESSIDE PENSION FUND

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PENSION FUND COMMITTEE REPORT

liabilities (the cost of paying current and future benefits) is just as important when carrying out the valuation and setting employer contribution rates. Factors such as the actuary's view of future inflation rates, future investment returns and life expectancy expectations will play a key part in the actuary's valuation calculations.

- 5.3 The membership of the Fund has increased, with total membership at the year-end now standing at 77,895 an increase of 4,696 over last year. The number of active members has increased by 1,196 or 4.9% over the year, and increased by 9.2% over the past four years. The number of pensioners increased by 846 or 3.3% over the year, and increased by 15.2% over the past four years. The number of deferred members has increased by 2,927 or 12.6% over the year, and increased by 12.9% over the past four years. Note, most of the increase in the number of deferred members is because we are now recognising in the count of deferred members those individuals who have left employment but not yet had their benefits fully processed, this explains some of the increase in total headcount as well.
- 5.4 Every three years the Fund actuary, 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 all the other major 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.
- 5.5 The latest actuarial valuation of the Fund was as at 31 March 2019, with the final report published at the end of March 2020. 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 latest valuation the actuary was able to declare a funding level of 115%. This is particularly pleasing since it is the third time in succession that the Fund is able to declare it is fully funded. The next valuation is due to be carried out as at 31 March 2022 with the final report due to be published in March 2023 and any changes required to employer contribution rates due to come into force from April 2023.

6. FRS / IAS REPORTS

- 6.1 Financial Reporting Standards (FRS) and International Accounting Standards (IAS) require employers to disclose in their accounts their share of the assets and liabilities in the Pension scheme. The Fund's actuary, Hymans Robertson, offers to produce reports for the employers in the Teesside Pension Fund containing the figures which each needs to disclose in order to comply with the requirements of these standards.
- 6.2 Although the Fund is "actuarially" fully funded the employers still have FRS / IAS deficits because of the way the figures in the reports are calculated. It should be

TEESSIDE PENSION FUND

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PENSION FUND COMMITTEE REPORT

noted that the FRS / IAS calculations have no impact on the actual Funding Level of the Fund or the Employers within it.

7. INTERNATIONAL FINANCE REPORTING STANDARDS (IFRS)

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

8. NEXT STEPS

8.1 The Annual Report and Accounts presented here are in draft form and, whilst the main numbers and outcomes are not expected to change in any significant way, changes may be needed as further review takes place. Some gaps or text from the previous year exist in this draft where further input is required. In addition, the audit process for the Council's accounts (which include the Pension Fund accounts this Report is based on) is not complete and further changes may be required as a consequence of this. When complete the Annual Report and Accounts will be published on the Pension Fund's website.

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