

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

13 NOVEMBER 2023

INTERIM DIRECTOR OF FINANCE – DEBBIE MIDDLETON

Draft Annual Pension Fund Report and Accounts 2022/23

1. PURPOSE OF THE REPORT

- 1.1 To present Members of the Teesside Pension Board (the Board) with the 2022/23 draft unaudited Annual Report and Accounts for the Teesside Pension Fund.

2. RECOMMENDATION

- 2.1 That Members note the 2022/23 draft unaudited 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 2023, a version of these accounts was presented to the Pension Fund Committee meeting on 27 September 2023.

5. PERFORMANCE SUMMARY

- 5.1 The overall financial performance of the Fund for the year to 31 March 2023 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million. Performance was muted but positive overall across equities, but property assets were negative, showing a -9% return over the year, largely because of revaluations following challenging economic conditions in some sectors.
- 5.3 The membership of the Fund continues to increase, with total membership at the year-end now standing at 80,338 an increase of 2,443 over last year. The number of active members has increased by 764 or 3.0% over the year and increased by 15.3% over the past four years. The number of pensioners increased by 703 or 2.7% over the year and increased by 12.2% over the past four years. The number of deferred

members has increased by 976 or 3.7% over the year and increased by 16.5% over the past four years.

- 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 actuary carried out the Fund's latest triennial valuation, which looked at the Fund's assets and liabilities as at 31 March 2022, during the year and the final report was published at the end of March 2023. Headlines from the valuation were an increase of around £1 billion in assets from around £4 billion at the 31 March 2019 valuation to around £5 billion. However, this was accompanied by an increase in the value of the Fund's liabilities – the estimated cost of meeting the pension promises it has made – primarily because the actuary increased their long-term inflation assumption and also became more pessimistic about the outlook for future investment returns. Overall, the Fund's funding level increased slightly from 115% to 116% but the estimated cost of providing future benefits increased as well, leading to contribution rate increases for some employers taking effect during the three year period starting 1 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 will have different outcomes to their valuations on an FRS / IAS accountancy basis because of the way the figures in the reports are calculated and the different assumptions that are used. It should be 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. ADDITIONAL INFORMATION ON POOLING

- 8.1 This years' Pension Fund Annual Report and Accounts includes some additional information in relation to asset pooling. This is shown starting at page 40 of the Report, and sets out details Border to Coast has collated in consultation with its eleven

Partner Funds (including our Fund) to show the costs and benefits of investment pooling so far.

- 8.2 For our Fund, the initial decision to pool assets was difficult to justify financially as the Fund's internal investment arrangements had proved over time to be both successful and value for money. The decision to pool assets as part of Border to Coast was largely taken to comply with central government directives, and to deliver greater resilience to the Fund's investment approach. There are other advantages to pooling, including developing a collective resource to assist the Partner Funds in areas such as Responsible Investment. Border to Coast is also able to leverage economies of scale to obtain better rates from external organisations such as private markets investment managers. This latter point has increased in significance for the Fund as it has committed more assets to Border to Coast's private markets investments (private equity, infrastructure and climate opportunities), to the extent that in 2022-23 the Fund is showing a net gain (in year) in respect of pooling – this is anticipated to translate into a net overall gain in the next few years.

9. NEXT STEPS

- 9.1 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 highlighted 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 because of this. When complete the Annual Report and Accounts will be published on the Pension Fund's website.

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