

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

19 JULY 2021

DIRECTOR OF FINANCE – IAN WRIGHT

Draft Annual Pension Fund Report and Accounts 2020/21

1. PURPOSE OF THE REPORT

- 1.1 To present Members of the Teesside Pension Board (the Board) with the 2020/21 draft unaudited Annual Report and Accounts for the Teesside Pension Fund.

2. RECOMMENDATION

- 2.1 That Members note the 2020/21 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 2021 which will be presented to the Pension Fund Committee meeting on 28 July 2021.

5. PERFORMANCE SUMMARY

- 5.1 Global equity markets saw a very strong recovery from the severe drop in markets towards the end of 2019/20 triggered by the Covid-19 pandemic and concerns about its financial impact. The recovery was particularly strong in the US, where the stock market recovered to pre-pandemic levels in the first half of the financial year and continued to new record levels during the remainder of the year. The recovery was less strong in other markets, most noticeably in the UK, where although there was a significant market recovery, stock indices were still around 10% below pre-pandemic highs by the end of the financial year.
- 5.2 Much of the recovery in financial markets was a consequence of the quick and significant intervention from governments across the world in an effort to support global markets, economies and businesses deal with the financial consequences of

the pandemic and the social, economic and trade restrictions put in place to deal with it. Market sentiments were also boosted by the significant rapid scientific achievement of the development and distribution of a number of different effective vaccines against Covid-19, giving the prospect of a return to social and economic normality in the near future (at least for some parts of the world).

- 5.3 The overall financial performance of the Fund for the year to 31 March 2021 was very positive. The Fund's value rose to £4.553 billion, an increase over the year of approximately £847 million. This increase in value served to offset what was a negative performance in the previous year, and puts the Fund broadly on track with expectations at the last triennial valuation of the Fund, details of which are set out below.
- 5.4 The membership of the Fund has increased, with total membership at the year-end now standing at 72,926 an increase of 1,349 over last year. The number of active members has increased by 800 or 3.4% over the year, and increased by 1.9% over the past four years. The number of pensioners increased by 715 or 2.9% over the year, and increased by 14.4% over the past four years. The number of deferred members decreased last year by 166 or 0.7%, but has increased by 2.0% over the past four years.
- 5.5 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 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.
- 5.6 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 the third time in succession that the Fund was able to declare it was 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, Aon Hewitt, produces reports for the employers in the Teesside Pension Fund containing the figures which each needs to disclose in order to comply with the requirements of these standards.

6.2 Although the Fund is “actuarially” fully funded the employers still have FRS / IAS deficits because of the way the figures in the reports are calculated. 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. 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, changes may be needed as further review takes place. In addition, the audit process is not complete and further changes may be required as a consequence of this. When complete and fully audited the Annual Report and Accounts will be published on the Pension Fund’s website.

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