

Teesside Pension Fund  
Annual Report for the year ended  
31 March 2013

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# Report of those charged with Governance

## *Chairman's Introduction*

Looking back over the last twelve months, the equity markets were again volatile but ended the year on positively, with some at all time highs. Investors' continuing concerns over euro zone weighed heavily on equity markets in the early part of the year. That was until the head of the European Central Bank, Mario Draghi, promised to do "*whatever it takes*" to save the Euro and made a pledge of potentially unlimited bond purchases. This stabilised the equity markets and the year ended strongly as investors returned to equity markets seeking better returns on their investments than the safe-haven of bonds.

The financial performance of the Fund for the year to 31 March 2013 was positive. The Fund's value rose to £2,930 million, an increase over the year of £333 million or 12.8%. The rise was due to the strong equity markets, in which the Fund is largely invested, and investment income.

## *Membership Information*

2012/13 was also busy with tender exercises carried out for both global custody services and actuarial services. This resulted in changes to in both and the Fund welcomes BNP Paribas Securities Services as the Fund's new Custodian and Aon Hewitt as the new Actuary. The Fund also transferred the scheme records to a new and more efficient administration system.

This next year is an important one for the Fund. Every three years and actuarial valuation of the Fund is carried out. The purpose of the valuation is to calculate the "Funding Level" of the Fund – the extent to which the Fund's assets are able to meet its liabilities – and to set the contribution rates to be paid by the employers in the Fund. Our new Actuary, Aon Hewitt, and the administration staff are currently working on the valuation and the results are expected towards the end of 2013.

Chairman of the Teesside Pension Fund Pensions and Investment Panel June 2013

## Nature of the Scheme

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme. From April 2008 the scheme was governed by new regulations, as follows;

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- The Local Government Pension Scheme (Administration) Regulations 2008; and
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008.

Full details of the Scheme rules, along with updated scheme guides and newsletters, 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's 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.

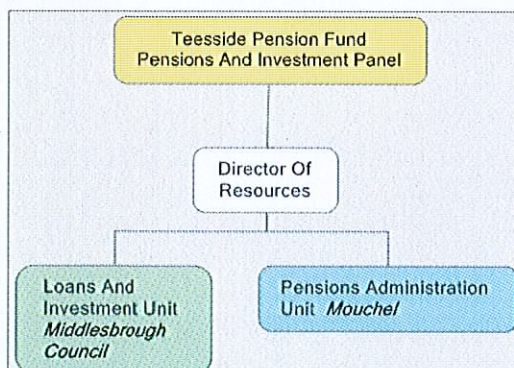
The Fund is financed by contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from Fund investments. The surplus funds, after payment of benefits, are invested by an Investment Panel. The Panel comprises elected members of Middlesbrough Council, representatives of the other unitary authorities and admission bodies the Trades Unions and the Fund's Investment Advisers.

Investments are regulated by the Trustees Act 1961, and the Local Government Act 1972, as amended by Local Government Pension Regulations.

### Management of the Fund

The Fund is administered by **Middlesbrough Council** via **the Teesside Pension Fund Pensions and Investment Panel** which has plenary powers to make decisions without reference to the Council. This panel 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 **Director of Resources** of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pensions and Investment Panel. 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 and Investment Panel

### Panel membership and meeting attendance during the year;

Members	With voting rights	20 Jun	19 Sep	12 Dec	13 Mar
<b>Chair</b>	Councillor SE Bloundele	√	√	√	√
<b>Vice Chair</b>	Councillor J Rostron	√	√	√	√
<b>Middlesbrough Council</b>	Councillor R Brady		√	√	√
	Councillor J Budd	√	√	√	√
	Councillor JG Cole				
	Councillor BA Hubbard		√		
	Councillor J Hobson			√	
	Councillor N Hussain	√	√	√	√
	Councillor S Khan	√		√	√
	Councillor P Sharrocks	√	√		
	Councillor N Walker			√	
		.	.	.	.
<b>Redcar &amp; Cleveland BC</b>	Councillor V Jeffries	√		√	√
<b>Stockton BC</b>	Councillor R Gibson	√		√	
<b>Hartlepool BC</b>	Councillor P Jackson		√		√
<b>Other Employers</b>	Mr P Fleck	√			
	<b>Without voting rights</b>				.
<b>Trades Unions</b>	Unison, GMB and ACTS				

#### Declarations of Interest

Councillors B Brady, BA Hubbard, J Rostron and Mr P Fleck are Fund members

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

## Terms of Reference – Teesside Pension Fund & Investment Panel

### 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 1997 (as amended), the HMRC 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 1997.
  - (xii) Any other responsibilities delegated to it by the Authority.
  - (xii) To submit an annual report to Council.

## Fund Administrators and Advisors

### Administration

Director of Resources	Mr Paul Slocombe
Head of Investments	Mr. Paul Campbell
Pensions Administration Manager	Mr Mike Hopwood
Solicitor to the Fund	Mr Richard Long

### Advisors to the Fund

Actuary	Aon Hewitt Limited
Solicitors	Nabarro LLP/Freeth Cartwright LLP
Auditors	Deloitte LLP
Investment Advisors	Mr Peter Moon Vacant
Property Managers	CBRE
Custodian	BNP Paribas
AVC Providers	Prudential Assurance, Century Life
Bankers	National Westminster Bank The Co-Operative Bank Plc

## The Pensions Landscape

Following recommendations made by the Public Service Pension Commission, headed by Lord Hutton, the Government is to reform the Local Government Pension Scheme (LGPS), along with other public service schemes.

All of the major public sector schemes will face change from April 2015. However, due to its unique 'funded' status amongst these schemes, the LGPS will change from April 2014. This early application of reform means that LGPS members do not face contribution increases ahead of April 2015 which the other schemes are imposing.

Much is already known about the basic structure of the new scheme; in brief, from 2014:

- The LGPS will become a Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
- The scheme accrual rate will be 1/49th (the current scheme is 1/60th).
- There will be no normal scheme pension age, instead each member's Normal Pension Age (NPA) would be their State Pension Age (the current scheme has an NPA of 65).
- Average member contributions to the scheme will be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there is no change to average member contributions, the lowest paid would pay the same or less and the

highest paid would pay higher contributions on a more progressive scale after tax relief.

- There will be 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 (the current scheme has no such option).
- Current scheme members' benefits for service prior to 1st April are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.

Although the basic scheme design is set, no final regulations have yet been issued on the details of LGPS 2014. Draft regulations for the structure of the new LGPS, and for protections for existing members, have been subject to consultation with stakeholders across the LGPS over previous months. Further consultation on draft regulations covering scheme governance and finance (including any cost-sharing mechanisms) are due to follow.

## **Promoting Scheme Membership**

The number of scheme members continues to grow, and we expect to start seeing an increase to the Fund's active member profile as a result of the Governments Auto Enrolment programme. This requires employers to automatically enrol employees from specific staging dates. Hopefully, this boost of new members will assist in keeping the employer contribution rates low, stable and affordable.

Often it is not until a member starts contributing to the scheme do they realise how tax relief and reduced national insurance contributions bring down the actual cost of membership quite significantly.

We have again been active in the promotion of the scheme membership, not only administering the current benefit structure but also trying to manage expectations of the new LGPS which will be effective from 1<sup>st</sup> April 2014.

It is natural for people to assume that the scheme will be made worse after a government review but this is not necessarily the case. The vast majority of scheme members will not be negatively impacted due to the changes, both in terms of the level of contributions they pay and the level of benefits they receive.

Attendance at induction, pension awareness and pre retirement sessions for employees are excellent ways to get the message across and we are seeing a rise in the popularity of these.

Redundancy continues to be prevalent across the membership of the fund due to the overriding budget restraints many employers are having to deal with and the Unit works with employers and employees to help manage the pensions side of this, ensuring everyone knows the impact these employment decisions can have on both the Employer and Employee.



## **Risk management**

The Statement of Investment Principles 2010 sets out the approach of the Fund in identifying, mitigating and managing 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, Freeth Cartwright. 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 by diversifying into a number of asset classes, a range of countries and a range of companies. The Local Government Pension Scheme (LGPS) Regulations 1986 imposed certain limits on the proportion of the value of the Fund which could be invested in different types of investment. The LGPS (Management and Investment of Funds) Regulations 1998, revised in 2004, introduced changes to these limits, subject to certain conditions being met. The Investment Panel on 11 March 2004 decided that advantage should not be taken of the increased flexibility provided by the changes.

### **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 Teesside Pension Fund has an asset mix, which varies significantly from that of the average fund (as at 31 March 2013):

The Fund asset mix % may vary slightly from the statutory accounts due to internal classification differences.

	Fund %	Average %
UK Equities	38	26
Overseas Equities	41	38
Bonds	8	17
Property	5	7
Cash	5	4
Alternatives	3	8
Total	100	100

The result of holding an asset mix, which differs significantly from that of the average, is that investment performance returns can be volatile compared with those achieved by the average fund. This could result in periods of 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.

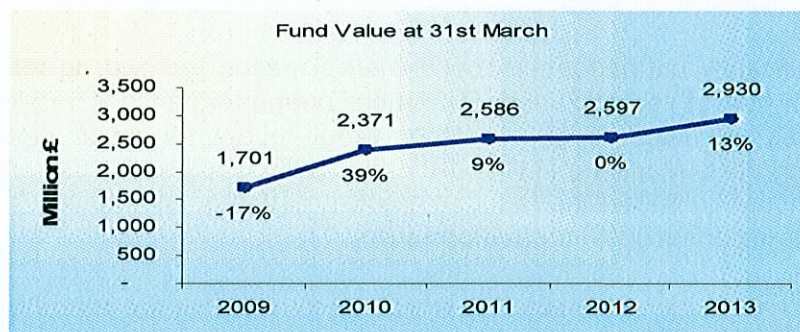
The Fund's Funding Strategy Statement sets out the assumed real rate of return, that is the rate of return above the return on Government Index-linked bonds, on the various categories of investment:

	Return per annum %
UK Equities	3.0
Overseas Equities	3.0
Bonds	2.5
Property	3.5
Cash	1.0

## Financial Performance Report

### Income, Expenditure and Fund value

The Funds Financial Statements show that the net assets of the Scheme have increased by 12.8 % compared to the previous year and by 43 % over the last 5 years from the 2008 value of £ 2,048 million.



## Finance Performance Report

	2008/09	2009/10	2010/11	2011/12	2012/13
Fund Value at the start of the year	2,047,928	1,700,866	2,371,622	2,586,495	2,596,664
Income	184,019	183,435	183,264	184,988	182,219
Expenditure	(101,741)	(107,385)	(114,705)	(109,841)	(113,604)
Change in Market Value of Investments	(429,340)	594,706	146,314	(64,978)	264,322
Increase / (Decrease) in Fund during the year	(347,062)	670,756	214,873	10,169	332,937
Fund Value at the end of the year	1,700,866	2,371,622	2,586,495	2,596,664	2,929,601
<b>Change in Fund Value %</b>	<b>-17%</b>	<b>39%</b>	<b>9%</b>	<b>0%</b>	<b>13%</b>

## Financial Highlights

Pensions Paid	59,397	65,268	70,532	77,256	83,943
Administration Costs *	1,329	1,454	1,479	1,531	1,565
Investment Management Costs	878	1,191	1,253	1,222	1,367

## Membership

	2009	2010	2011	2012	2013
Active	25,718	24,831	24,341	23,856	23,908
Deferred	16,044	17,320	18,609	19,717	20,738
Pensioner	16,736	17,438	18,438	19,389	19,850
<b>Total</b>	<b>58,498</b>	<b>59,589</b>	<b>61,388</b>	<b>62,962</b>	<b>64,496</b>

## Fund Averages

Fund value per member	£ 29,076	£ 39,800	£ 42,134	£ 41,242	£ 45,423
Average Pension Paid	£ 3,549	£ 3,743	£ 3,825	£ 3,985	£ 4,229
Administration Cost per member	£ 23	£ 24	£ 24	£ 24	£ 24
Investment Management cost per member	£ 15	£ 20	£ 20	£ 19	£ 21

\* Excluding Actuarial , Legal and Audit Costs

## Analytical review of the financial year

The financial performance of pension funds can vary markedly 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.

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 2012/13

Fund Account	Notes	2012/13 £ ' 000	2011/12 £ ' 000	Change
<b>Contributions and Other Income</b>				
Employers Normal	1	62,546	64,246	-3%
Employers Special	2	0	373	-100%
Employees Normal	3	25,663	26,739	-4%
Transfers in	4	9,649	10,743	-10%
Capital Costs of Early Retirements	5	4,336	5,472	-21%
Other Income		125	33	279%
<b>Total Income</b>		<b>102,319</b>	<b>107,606</b>	<b>-5%</b>
<b>Benefits and Other Expenditure</b>				
Benefits	6	83,943	77,256	9%
Benefits - Basic Lump Sum	7	17,678	23,172	-24%
Benefits - Lump Sums on Death		2,800	2,439	15%
Individual Transfers to other Schemes	8	6,074	4,159	46%
Administrative Expenses	9	1,713	1,597	7%
Other Expenditure		29	(4)	-825%
<b>Total Expenditure</b>		<b>112,237</b>	<b>108,619</b>	<b>3%</b>
<b>Return on Investments</b>				
Dividends	10	72,567	69,208	5%
Rents	11	6,204	6,876	-10%
Interest	12	1,129	1,298	-13%
Profit on Sale of Investments		102,433	15,346	567%
Unrealised gain / (loss) on Revaluation		161,889	(80,324)	-302%
Investment Management Expenses		(1,367)	(1,222)	12%
<b>Total Return on Investments</b>		<b>342,855</b>	<b>11,182</b>	<b>2966%</b>
<b>Net Increase in the Fund in the Year</b>		<b>332,937</b>	<b>10,169</b>	<b>3174%</b>

## Explanation of variances (k= £'000)

1	<b>Employers Normal Contributions - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 3%</b>
		62,546	64,246	

Pensionable pay of the 7 largest employers fell in the year by 3%, and there has been no change to the additional employers contributions from the previous year.

2	<b>Employers Special Contributions - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 100%</b>
		0	373	

No employers special contributions related to 2012/13.

3	<b>Employees Normal Contributions - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 4%</b>
		25,663	26,739	

Follows the same pattern as Employers Contributions

4	<b>Transfers In - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 10%</b>
		9,649	10,743	

In 2012/13 105 transfers were received into the Scheme at an average value of £91k, compared to 184 transfers at an average value of £49k in 2011/12. The main increase in the year was due to the bulk transfer in from Durham county county (£2.3 mill) and Tyne & Wear Council (£3.2 mill)

5	<b>Capital Cost of Early Retirements - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 21%</b>
		4,336	5,472	

The number of early retirements has decreased compared to the previous year and the average cost per retirement has increased due to

	Number	Total Cost	Average
2012/13	215	£4,278,935	£19,902.0
2011/12	302	£5,472,074	£18,119.0

The number of early retirements has reduced but the overall average value has increased because there were some high earners who retired from Middlesbrough Council and Redcar & Cleveland BC in 2012/13.

The retirements from the Councils processed by the year end were as follows:

	Number	Total Cost	Average
Hartlepool BC	20	£366,603	£18,330
Middlesbrough BC	62	£1,484,291	£23,940
Stockton BC	31	£529,305	£17,074
Redcar & Cleveland BC	18	£411,106	£22,839
<b>Total</b>	<b>131</b>	<b>£2,791,305</b>	<b>£21,308</b>

**6 Benefits - £'000**

<b>2012/13</b>	<b>2011/12</b>	
<b>83,943</b>	<b>77,256</b>	<b>Increase of 9%</b>

Total cost has increased by 9% which in part is accounted for by the 5.2% Pensions Increase. 993 new pensioners retired in the year (2011/12, 1431) to whom pensions of £3.6 million were paid (2011/12 £3.7 million)

**7 Benefits – Basic Lump Sum - £'000**

<b>2012/13</b>	<b>2011/12</b>	
<b>17,678</b>	<b>23,172</b>	<b>Fall of 24%</b>

There has been a significant decrease in the value of Lump Sums paid with a fall of 24%.

**8 Individual Transfers to Other Schemes - £'000**

<b>2012/13</b>	<b>2011/12</b>	
<b>6,074</b>	<b>4,159</b>	<b>Increase of 46%</b>

Transfers out can vary markedly year on year depending on both numbers and the type of people transferring.

2012/13 is higher in value than the previous year although the numbers of transfers have reduced slightly to 99, (2011/12 - 100). The average value has therefore increased to £61,358. (2010/11 - £39,994).

	Number	Total Cost	Average
2012/13	99	£6,074,46	£61,358
2011/12	100	£3,994,43	£39,944

**9 Administrative Expenses - £'000**

<b>2012/13</b>	<b>2011/12</b>	
<b>1,713</b>	<b>1,597</b>	<b>Increase of 7%</b>

Administrative expenses have increased by 7 % in year 2012/13. This is due to an increase in support service charges.

**10 Dividend Income - £'000**

<b>2012/13</b>	<b>2011/12</b>	
<b>72,567</b>	<b>69,208</b>	<b>Increase of 5%</b>

Overall Dividend Income has risen by over £3 million (11/12 £10 million) which is due to increased income from equity investments offset against a reduction in pooled investments. Income from fixed interest investments rose very slightly while income from index linked investments reduced slightly.

<b>11 Rent - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 10%</b>
	<b>6,204</b>	<b>6,876</b>	

The Fund owns 34 properties on which the net income earned has decreased by £672k in the year. The fall in rental income is mainly as a result of rent reviews, rent reductions for some properties to continue to secure future leasing arrangements.

<b>12 Interest - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Fall of 13%</b>
	<b>1,129</b>	<b>1,298</b>	

A lower level of average cash on deposit in 2012/13 produced a lower return of 1.0% compared to 1.2% in the previous year.

<b>13 Investments - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Increase of 12%</b>
	<b>2,764,437</b>	<b>2,459,949</b>	

The significant increase in Investment values reflect the improving position in the World's Equity markets during 2012/12. The Fund has approximately 80% of its assets invested in equities.

<b>14 Cash - £'000</b>	<b>2012/13</b>	<b>2011/12</b>	<b>Increase of 29%</b>
	<b>132,735</b>	<b>102,532</b>	

The increase in investment cash balances is due to a higher level of funds placed on short term deposit. At the year end £129.3 million was on short term deposit compared to £99 million at 31/03/2012.

## Cashflow Statements for the year ended 31 March 2013

### Cashflow from Operating Activities

Cash received for Contributions	88,206
Cash received for Early Retirements	5,399
Cash Received from Transfers In	9,649
Cash Received from Investments	75,571
Cash Received from Sales of Investments	102,433
Cash from Other Income	125

<b>Total Cash Received</b>	<b>281,383</b>
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Cash paid for Benefits	104,421
Cash paid for Transfers Out	6,103
Cash paid for administration expenses	2,002
Cash paid for Investment Management Expenses	1,367

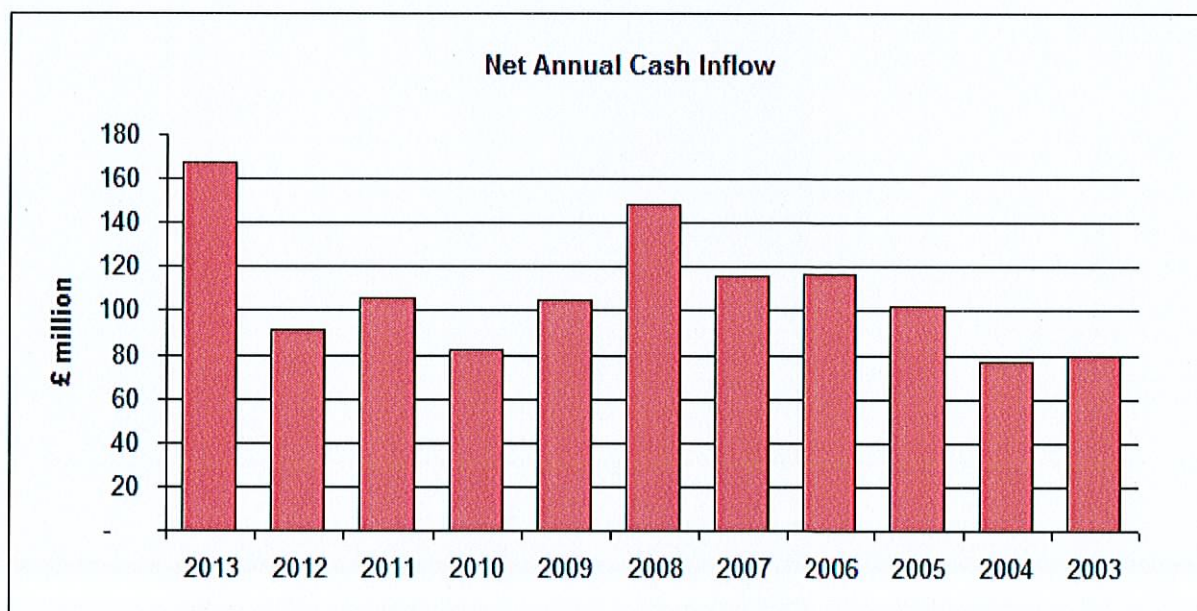
<b>Total Cash Paid</b>	<b>113,893</b>
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<b>Net Cash Inflow from Operating Activities</b>	<b>167,490</b>
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### Application of Cash

Net Purchase of Investments	139,998
Reduction in Cash with Custodian	(27)
Increase in Cash on Deposit	30,230
Reduction in Cash at Bank	(3,363)
Reduction in Other Debtor Balances	(39)
Reduction in Other Creditor Balances	691

<b>167,490</b>
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The net annual cashflow 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 2013 the actual assets compared to the benchmark as follows;

	Fund Assets % 31.03.2013	Benchmark %	Fund Assets % 31.03.2012
UK Equities	38	35	42
Overseas Equities	41	35	40
Bonds	8	15	10
Property	5	10	4
Cash	5	5	4
Alternatives	3	0	0

The Fund asset mix % may vary slightly from the statutory accounts due to internal classification differences.

### Amounts due to the Fund from Employers

	2012/13 £ ' 000	2011/12 £ ' 000
<b>Current Assets</b>		
Contributions in Respect of Employers	5,036	5,003
Contributions in Respect of Members	2,059	2,089
Amounts due in respect of early retirements	2,245	2,227
<b>Debtors due over 1 year</b>		
Amounts due in respect of early retirements	1,918	2,893
	<b>11,258</b>	<b>12,212</b>

The Contributions due are in respect of March 2013 and were received in April 2013

### 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 2014/15 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 receivable	<u>850</u>
Number received late	<u>10</u>

### **Details of late receipts**

#### **Fleet Factors**

Seven payments were late. April payment was received on 25 May 2012, May was received on 19<sup>th</sup> July 2012, July was on received 28<sup>th</sup> August 2012, August was received on 10<sup>th</sup> October 2012, October was received on 20<sup>th</sup> November 2012, November was received on 8<sup>th</sup> January 2013 and December was received on 21<sup>st</sup> January 2013. No reason was provided for the late payments.

#### **4 Children**

The September payment was paid on 17 January 2013 due a changing in payroll personnel a payment missed the deadline.

#### **Loftus Town Council**

The April payment was received on 1<sup>st</sup> June 2012 and May was received on 11<sup>th</sup> July 2013 due to authorisations required for payment. Payment by direct debit started Sept 2012.

Because the incidence of late payment of contributions is so low the Fund has not exercised its option to levy interest on overdue contributions.

## Analysis of Contribution rates and amounts received 2012-13

	2012/13		
	Employers Rate % *	Employees £ 000's	Employers £ 000's
<u>4Children</u>	15.00	2	5
<u>Beamish Museum Ltd</u>	15.50	112	283
<u>Billingham Town Council</u>	18.20	4	10
<u>Care Quality Commission</u>	15.10	1,729	3,649
<u>Business and Enterprise NE</u>	16.40	7	17
<u>Brambles Academy</u>	15.40	6	16
<u>Carillion J M Ltd</u>	16.20	15	39
<u>Chandlers Ridge Academy</u>	15.40	6	14
<u>Cleveland College of Art &amp; design</u>	14.60	90	208
<u>Cleveland Fire Brigade</u>	15.70	216	519
<u>Cleveland Fire Support Network</u>	15.70	2	6
<u>Cleveland Police</u>	14.30	646	1,406
<u>coast and Country Housing</u>	14.80	529	1,200
<u>Community Integrated Care</u>	20.00	4	14
<u>Conyers School</u>	15.40	11	27
<u>Dimensions</u>	20.60	1	2
<u>Durham Tees Valley Airport Limited</u>	21.20	94	293
<u>Durham Tees Valley Probation Trust</u>	18.10	901	2,457
<u>Erimus</u>	18.50	329	943
<u>Eston Park Academy</u>	17.00	37	106
<u>Fabrick Housing Group Ltd</u>	16.70	94	233
<u>Five Rivers</u>	16.50	13	36
<u>Fleet Factors Ltd</u>	15.00	1	3
<u>Forward Swindon Ltd 1</u>	18.70	16	26
<u>Freebrough Academy</u>	14.70	50	121
<u>Future Regeneration of Grangetown</u>	17.60	2	7
<u>Gillbrook Academy</u>	17.00	11	31
<u>Guisbrough Town Council</u>	18.20	4	13
<u>Hartlepool 6<sup>th</sup> Form College</u>	14.60	34	80
<u>Hartlepool BC</u>	14.90	3,032	7,701
<u>Hartlepool College of FE</u>	14.60	179	417
<u>Housing Hartlpool</u>	15.20	419	967
<u>Ingleby Barwick Town Council</u>	18.20	2	5
<u>Kings Academy</u>	14.60	65	154
<u>KTS Academy</u>	17.00	14	40
<u>Liberata UK Ltd</u>	0	52	0
<u>Loftus Town Council</u>	18.20	2	5
<u>Macmillan Academy</u>	14.60	77	181
<u>McAlpine Government Services Ltd</u>	20.00	26	79
<u>Middlesbrough College</u>	14.60	264	617
<u>Middlesbrough Council</u>	15.40	3966	9628
<u>Mouchel</u>	15.40	375	903
<u>Nextiraone Ltd (Stockton)</u>	20.10	1	2
<u>North Ormesby Primary Academy</u>	15.40	5	14

<u>North Shore Academy</u>	16.20	57	147
<u>Northgate Managed Services Ltd</u>	15.10	5	12
<u>Nunthorpe Academy</u>	17.00	34	93
<u>Oakfields Community College</u>	17.40	75	190
<u>OCS</u>	15.70	1	3
<u>Ofsted</u>	23.20	2	7
<u>Ormesby School</u>	15.40	34	87
<u>Pennyman Primary</u>	15.40	17	45
<u>Prior Pursglove College</u>	14.60	65	151
<u>Redcar Academy</u>	17.00	13	35
<u>Redcar &amp; Cleveland College</u>	14.60	75	175
<u>Redcar &amp; Cleveland BC</u>	15.10	3,382	9,325
<u>Reliance Medical Services</u>	14.30	1	2
<u>Reliance Secure Task Management</u>	15.50	3	6
<u>RM Education Ltd,</u>	14.50	5	12
<u>Rstm (Custody Services)</u>	15.50	22	52
<u>Rstm (Estates)</u>	14.30	4	9
<u>Saltburn Marske &amp; New Marske Parish Council</u>	18.20	2	5
<u>Skelton and Brotton Parish Council</u>	18.20	1	3
<u>Stagecoach Transit</u>	21.10	35	117
<u>Steria Ltd</u>	14.30	629	1,387
<u>Stockton 6<sup>th</sup> Form College</u>	14.60	22	52
<u>Stockton BC</u>	14.90	5,267	12,755
<u>Stockton Riverside College</u>	14.60	147	344
<u>Taylor Shaw Ltd</u>	15.00		1
<u>Tees Active</u>	14.30	145	331
<u>Tees Valley Leisure Limited</u>	13.70	67	150
<u>Teesside University</u>	14.70	1,546	3,355
<u>The Big Life Company Ltd</u>	15.00	5	13
<u>Thornaby Academy</u>	14.80	37	89
<u>Tristar Homes Ltd</u>	13.40	423	873
<u>Open College Network (Trocn)</u>	16.70	34	87
<u>Unity City Academy</u>	14.60	54	127
<u>Vale Contract Services Ltd</u>	18.20	3	6
<u>Wolseley UK Ltd</u>	18.50	4	12
<u>Yarm Town Council</u>	18.20	2	5

\* Net rate of contribution payable by each employing Organisation for the period 1 April 2011 to 31 March 2012 under regulation 79 of the LGPS Regulations 1997.

## 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 pensions administration unit aim to perform 97.5% of the procedures within each target timescale. The table below highlights the performance of the administration unit against the key procedure targets.

Procedure	Target 2012/13	Achieved within timescale
Processing New Starters	20 days from receipt	100%
Processing Transfer Values (TV's)	10 working days from the date of notification	100%
Refund of Contributions	10 working days from the request date	100%
Estimates of Benefit Entitlements	10 working days from date of request	100%
Pension benefits	10 working days from the receipt of all relevant information	100%
Deferred Benefits	10 working days from notification of leaving	100%

### Key procedure volumes

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

Procedure	2012/13	2011/12
Processing New Starters	2,270	1,553
Processing Transfer Values (TV's)	631	732
Refund of Contributions	51	44
Estimates of Benefit Entitlements	2,278	2,396
Pension benefits	1,253	1,244
Deferred Benefits	2,026	2,411
Deaths	480	516
Divorces	124	122
General Enquiries	1,235	989
<b>Total</b>	<b>10,348</b>	<b>10,007</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 Barnett Waddingham, valued the Fund as at 31 March 2010. The principal conclusions of this valuation were:

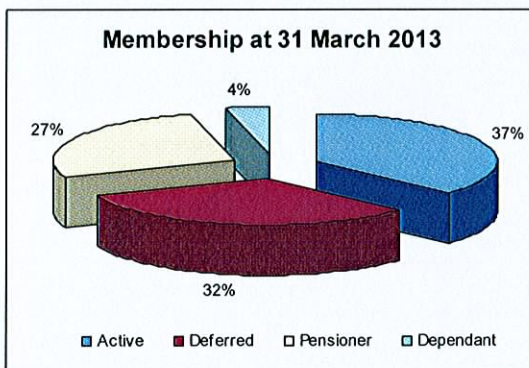
- ◆ The ongoing funding level of the Fund on 31 March 2010 was 99% (2007 – 98%).
- ◆ The shortfall of assets compared to the past service liabilities was £17 million (2007 - £34m).
- ◆ The modest improvement in the funding level was due to the following offsetting factors:
  - the beneficial effect of the change from RPI to CPI in the future calculation of Pension increases, and
  - the negative impact of lower returns on investments than had been assumed in the 2007 valuation
- ◆ The contribution rates certified have been set to fund the deficit in the Fund over 14 years (2007 - 17 years).
- ◆ The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 14.6% of pensionable pay.
- ◆ The shortfall of assets over the past service liabilities requires a past service adjustment, to fund the deficit over a period of 14 years, of 0.3% of pensionable pay. The total rate of 14.9% (2007 - 15.2%) of pay is the Common Contribution Rate.

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 2013.

## Membership

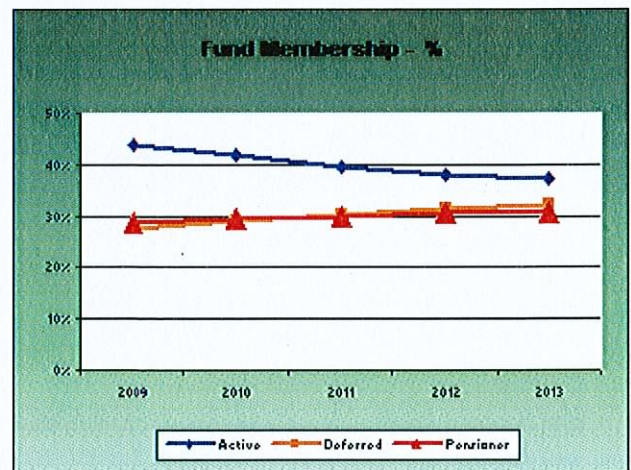
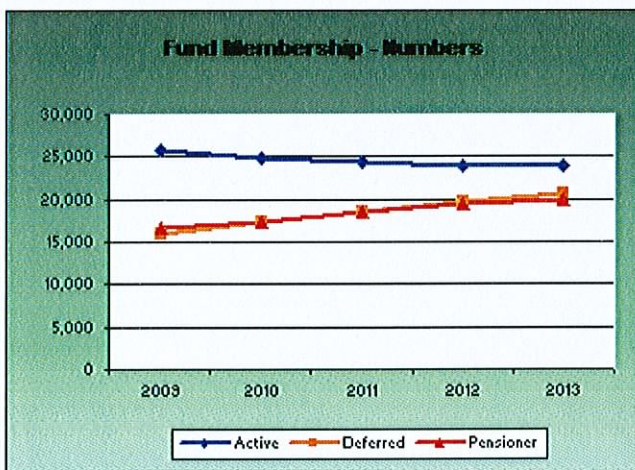
In the 2012/13 financial year the total membership of the Fund has increased by 1,534 to the current total of 64,496. The steady annual increase in membership is principally due a change in the LGPS regulations which came into effect on 1 April 2004. This change restricted the number of members entitled to withdraw from the scheme and receive a refund of their contributions. From that point on, refunds were only available to members who had less than 3 months scheme membership rather than the 2 year limit which had previously been in place.

The number of deferred members of the scheme has risen by 29% in the last 5 years and now forms 32% of the total membership.



### Membership Numbers

	2009	2010	2011	2012	2013
Active	25,718	24,831	24,341	23,856	23,908
Deferred	16,044	17,320	18,609	19,717	20,738
Pensioner	16,736	17,438	18,438	19,389	19,850
<b>Total</b>	<b>58,498</b>	<b>59,589</b>	<b>61,388</b>	<b>62,962</b>	<b>64,496</b>



## Summary of Membership Changes

	Active Members	Deferred Members	Pensioners Members	Dependants	Total
At 01/04/2012	23,856	19,717	16,832	2,557	62,962
Adjustments	(127)	212	96	8	189
New Members	2,085	8	1	24	2,118
Change in Status	(1,814)	922	894	(2)	0
Leavers	(92)	(121)	(407)	(153)	(773)
At 31/03/2013	23,908	20,738	17,416	2,434	64,496
% of Total at 01/04/12	37.9%	31.3%	26.7%	4.1%	100.00%
% of Total at 31/03/13	37.1%	32.1%	27.0%	3.8%	100.00%

*Adjustments arise from the late notification of membership changes which occurred in the previous year.*

### **Employer Changes**

Number

Number of employers with Active Members at 31/03/2012

72

Employers joining the scheme during the year

14

4Children

Eston Park Academy

Brambles Academy

Pennyman Primary Academy

Chandlers Ridge Academy

Nunthorpe Academy

Ormesby School Academy

KTS Academy

Gillbrook Academy

North Ormesby School Academy

Redcar Academy

Crime Commissioner for Cleveland

Conyers School

The Big Life Company Ltd

Employers which have ceased to have Active members during the year

(3)

Vale Contract Services

Nextira One (SBC)

Tees Valley Leisure

Formerly inactive existing employers with new Active members

0

**Number of Employers with Active Members at 31/03/2013**

83

A full list of participating employers and their membership numbers is shown below.



## Membership by Employer at 31 March 2013

Employer	Active Members.	Deferred Members.	Pensioners - Members.	Pensioners - Dependents.	2012/13 Total	2011/12 Total
Stockton BC	5,859	4,939	2,890	369	14,057	13,635
Middlesbrough BC	4,038	4,173	2,695	368	11,274	11,104
Redcar & Cleveland BC	3,983	3,360	2,459	276	10,078	9,958
Hartlepool BC	3,240	2,542	1,573	249	7,604	7,236
Cleveland CC	8	971	4,066	786	5,831	6,081
University of Teesside	989	730	373	53	2,145	2,094
CSCI	1	531	472	27	1,031	1,037
Cleveland Police Authority	7	298	215	10	530	885
Care Quality Commission	629	89	102	2	822	818
504	504	101	79	8	692	675
Coast & Country Housing	337	202	142	5	686	654
Mouchel	286	134	199	12	631	632
Middlesbrough College	305	276	115	12	708	609
Steria	397	22	51	0	470	450
Tristar Homes	272	108	68	5	453	443
Erimus Housing	226	71	104	7	408	394
Stockton Riverside College	146	155	64	7	372	371
Hartlepool College of FE	193	139	65	12	409	364
Housing Hartlepool	227	68	54	0	349	341
Beamish	96	108	87	8	299	288
Cleveland Probation	7	115	111	11	244	248
Durham and Tees Valley Airport	44	77	89	26	236	243
Cleveland Fire Authority	129	64	50	3	246	237
Cleveland College of Art & Design	112	62	46	3	223	221
Tees Active Ltd	131	67	19	1	218	215
Tees Valley Leisure	100	80	19	3	202	201
Redcar & Cleveland College	72	81	48	2	203	200
Transit Stagecoach	25	19	129	10	183	182
Unity City Academy	69	68	13	1	151	147
Liberata	40	50	48	4	142	143
MacMillan Academy	93	43	9	1	146	136
Business & Enterprise NE	2	54	27	2	85	120
Kings Academy	68	36	13	1	118	114
Prior Pursglove College	58	25	21	1	105	102
CIC	8	35	51	0	94	94
North Shore Academy	45	34	4	0	83	86
Oakfield Community College	77	17	2	0	96	79
Fabrick Housing	55	6	8	0	69	74
Hartlepool 6th Form	33	20	10	1	64	65
Freebrough Academy	49	6	2	0	57	62
Thornaby Academy	46	10	5	1	62	59
Carillion Integrated Solutions	27	12	6	0	45	55
Open College Network	19	17	6	0	42	44
Stockton 6th Form	24	11	9	0	44	42
RSTM Custody Services	14	17	3	0	34	40
Five Rivers	10	8	2	0	20	34
Carillion Government Services	14	2	2	0	18	21
Learning and Skills Council	8	4	3	0	15	20
Vale Contract Services	1	0	0	0	1	18
OCS	2	3	5	0	10	17
Guisborough Town Council	5	1	4	0	10	12

Ofsted	1	25	16	1	43	10
RM Education Ltd	7	3	1	0	11	9
Taylor Shaw Ltd	6	0	0	0	6	9
Forward Swindon	4	1	0	0	5	9
Saltburn & Marske PC	2	2	1	0	5	6
Reliance Secure Task management	3	1	1	0	5	5
Future Reperation of Grangetown	1	4	1	0	6	5
Loftus Town Council	4	0	0	0	4	5
Billingham Town Council	2	0	0	0	2	5
Skelton & Brotton Parish Council	2	1	0	0	3	4
Yarm Town Council	1	0	0	0	1	4
Ingleby Barwick Town Council	1	0	0	0	1	2
Cleveland Fire Support Network	1	0	0	0	1	2
Dimensions UK Ltd	1	0	0	0	1	2
Fleet Factors Ltd	1	0	0	0	1	2
CMSL Ryehills Catering	3	1	1	0	5	1
Northgate Managed Services Ltd	4	0	0	0	4	1
Wolseley UK Ltd	4	0	0	0	4	1
The Big Life Company Ltd	10	0	0	0	10	1
4Children	3	0	0	0	3	1
Eston Park Academy	30	0	0	0	30	1
Brambles Academy	13	0	0	0	13	1
Pennyman Primary	35	0	0	0	35	0
Chandlers Ridge Academy	15	2	0	0	17	0
Nunthorpe Academy	12	0	0	0	12	0
Ormesby School	53	3	0	0	56	0
KTS Academy	50	0	1	0	51	0
Gillbrook Academy	20	1	0	0	21	0
North Ormesby Primary Academy	17	0	0	0	17	0
Redcar Academy	32	0	0	0	32	0
Crime Commissioner for Cleveland	360	3	2	0	365	0
Conyers School	80	0	0	0	80	0
Inactive Employers	0	630	755	146	1,531	0
	23,908	20,738	17,416	2,434	64,496	62,962

## Internal Dispute Resolution Procedure

In the first instance the member should contact the Teesside Pension Fund at the address shown on page 81. We will send a detailed guide explaining the Internal Dispute Resolution Procedure (IDRP) and how the complaint will be handled. Any complaint must be made within six months of receipt of the notification of the decision which has prompted it.

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

If, after the initial review, the member is still dissatisfied with the decision, they can apply to the second stage of the process to have the complaint reconsidered. The application must be made within six months of receiving the decision of the initial review. At the second stage if the complaint concerns an employer decision it is reviewed by a person nominated by the Teesside Pension Fund. If the complaint concerns the administrator an independent 3<sup>rd</sup> 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. However, advice must first have been sought from the Pensions Advisory Service before the Ombudsman will consider the case.

Details of IDRP cases processed in the year

Cases started in year	16
Cases resolved in year	0 Cases upheld
	16 Cases dismissed

## HEAD OF INVESTMENTS' REPORT

As this is my first report, I'd like to thank my predecessor for his work over the past 30 years and leaving the Teesside Pension Fund in such good shape.

An annual report is an opportunity to look back over the last twelve months and reflect on the major themes which have shaped the economy and investment markets. This financial year began with the same volatility as the previous one had ended. Daily headlines were dominated with stories of economic gloom, whether it was euro-zone debt crisis, poor US growth or political uncertainty around the world. Most market pundits predicted a lacklustre year for equity markets and more volatility.

With this steady stream of bad news stories in the first quarter of 2012/13, investors continued to take fright with "risk-off" strategies leaving equity markets lower and polarised performance from sovereign bonds; safer countries seeing yield lower and those considered at risk of default seeing their yields higher. Then came possibly the most crucial moment of the year. As the euro-zone showed continued signs of breaking up, with sovereign bond yields of southern European countries particularly stressed, step forward the FT Person of the Year for 2012.

In July, at an investment conference in London, Mario Draghi, President of the European Central Bank, pledged:

*"Within our mandate, the European Central Bank is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough"*

With these words, equity markets were immediately boosted and borrowing costs for Spain and Italy, in particular, fell. Investors believed the ECB President, and for the rest of 2012 they looked for better returns over protection – "risk-on" strategies replaced risk-off.

The solvency problems of the euro-zone have not been solved merely put on hold, and there is still evidence of unresolved sovereign debt issues as shown by the recent bail-out of Cyprus. Growth has not returned to Europe, in fact it has now seen six consecutive quarters of contraction, one more quarter than 2008 and the post-banking crisis. Perhaps this is the reason for the change of government in France and Italy during 2012/13. All eyes are now on the German election later in 2013.

One economy which is performing better is the United States of America. President Obama was re-elected and once Congress had negotiated the "fiscal-cliff", positive signs returned to the US economy. Banks are lending again, the number of home-starts is increasing, and the US has discovered and now has access to vast energy reserves in shale gas and oil. Growth is expected for 2013/14 to be positive by 2 – 3%, and the US Dollar has strengthened against other major currencies.

The fly in this particular good news story is the level on monetary stimulus provided and whether it will continue. Paradoxically, investors are comforted by the Federal Reserve's quantitative easing programme, but with the economy improving the level of QE should be reduced, which in turn drains investor confidence.

For the past few years, as western economies have struggled, there has been a shift in power to the Far East, and China in particular. China too has a new leader in Xi Jinping appointed the new General Secretary of the Central Committee of the Communist Party of China, and his appointment could be the most influential one made in recent times. However, it is the appointment of Prime Minister Abe in Japan that has had the most pronounced effect on the markets.

Just as dictionaries needed updating for the term “fiscal-cliff”, they now also need to include “Abenomics”. Abenomics refers to the monetary and fiscal policies and economic growth strategies meant to resolve Japan’s macroeconomic problems. Its effect has seen the Japanese equity market rise sharply, and the Yen depreciate significantly against other major currencies, or in other words, a rise in the value of domestic assets and foreign assets when valued in Yen.

Finally, looking at domestic issues, the UK government continues to favour austerity measures over increasing public spending. GDP is still not growing so additional monetary stimulus has been applied with the threat of more to come. 2013 sees a change of Governor of the Bank of England, as Mervyn King retires and Mark Carney takes over in July. Perhaps Mr Carney’s fresh ideas on monetary policy, together with increased infrastructure spending and the funding for lending scheme for house building will help improve the UK’s fortunes.

By the end of the financial year, equity markets recovered strongly and many reached all-time highs. In the UK, the FTSE All-Share index returned 17%, with only Oil & Gas and Basic Materials failing to generate positive double digit performance. Overseas markets also performed strongly, the FTSE World index (ex UK) returned 17 % in aggregate. North America, Europe and the lesser Pacific markets provided the best at just under 20%. Japan delivered 14%, with emerging markets lagging at 7%.

Sterling weakened against both the US Dollar and Euro. Bond performance, overall, was more muted, but with investors in a more risk-on mood, corporate bonds delivered 13%, outperforming government issues; the broad gilt index returned 5%. Index-linked bonds performed well over the year with a year of 10%.

This year’s returns from property were subdued at 3%. Alternative assets delivered almost 10% over the year, their highest return since 2006.

Over the past few years, the impact of austerity in the UK has had an effect on the Local Government Pension Scheme (LGPS) as a whole, and the Teesside Pension Fund. Over the past five years, total contributions received from employees and employers has reduced by £10 million. Contrast this to an increase of £32 million in benefit payments to pensioners.

Over these five years, the number of active members has decreased by almost 7%, whereas deferred members and pensioner numbers have increased by 29.3% and 18.6% respectively. This partly explains the changes to contributions received and benefits paid. Other pressures on the Fund are pensioners are living longer than before and pensioners have received inflation rises in their pensions, whereas employees have seen their pay frozen for the past few years.

The new LGPS introduced next financial year should see an average employee contribution rise of approximately 3%, which should be enough to cover the immediate pressure from inflation for 2014/15. Over the longer term, the change in the basis of pension from final salary to career average will also see an improvement to long term cash flows.

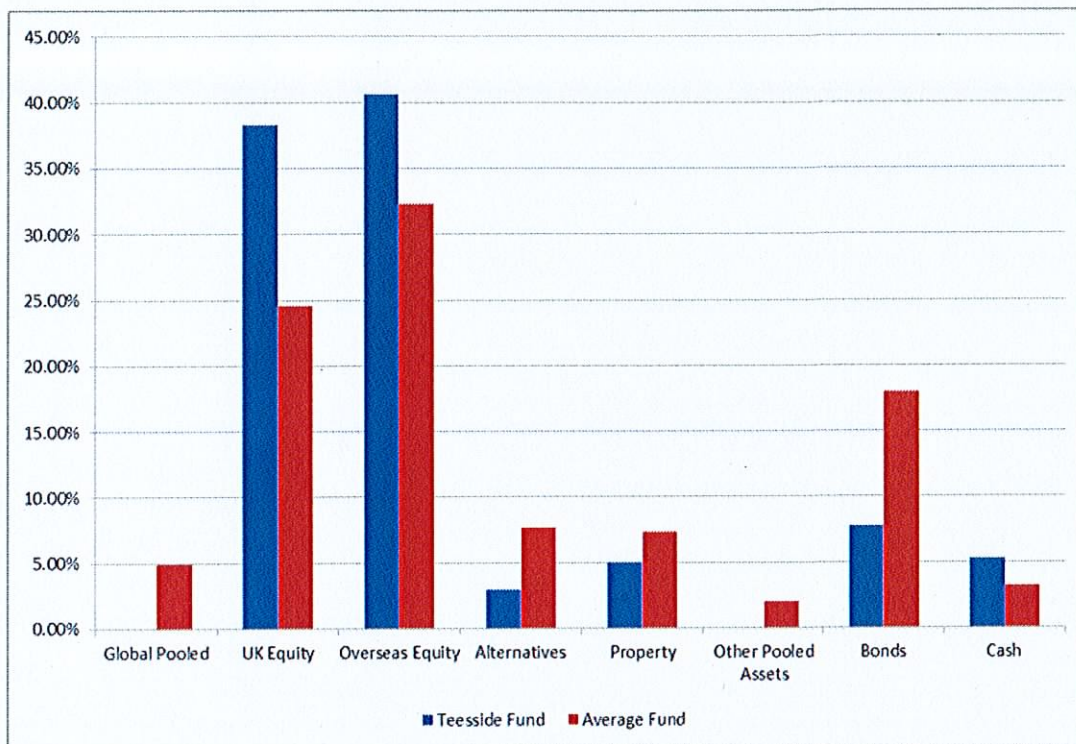
Every three years the Fund actuary carries out a full actuarial valuation of the Fund. The purpose of this is to calculate how much the employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike most other Public Sector schemes the LGPS is a funded scheme. That means there is a pool of investments which produces income which meets 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. At the latest valuation the actuary was able to declare a funding level of 99.9%. This allowed many of the employers in the Fund to decrease the amount of their contribution for the next three years, releasing money for front-line services. The next valuation is due to be carried out using data as at 31 March 2013.

The value of the Teesside Fund at 31 March 2013 was £2.930 billion, an increase of £333 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. Comparison of the percentage of the Fund invested in the different categories of investments with the average of other funds shows that the Fund has a greater proportion held in Growth Assets, such as equities and less in Protection Assets, such as bonds.

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

	Average Fund	Teesside Fund	TPF Benchmark	SIP Max	SIP Min
Global Pooled	5.30%	0.00%	0.00%	0.00%	0.00%
UK Equity	24.40%	38.30%	35.00%	90.00%	50.00%
Overseas Equity	33.30%	40.61%	35.00%		
Alternatives	7.50%	2.97%	3.00%	10.00%	0.00%
Property	6.80%	5.05%	10.00%	15.00%	5.00%
Other Pooled Assets	2.00%	0.00%	0.00%	0.00%	0.00%
Bonds	17.60%	7.80%	15.00%	25.00%	5.00%
Cash	3.20%	5.27%	2.00%	15.00%	0.00%

The Fund asset mix % may vary slightly from the statutory accounts due to internal classification differences.



The largest 20 holdings, which make up 23.5% of the value of the portfolio as at 31 March 2013 are (in £ millions):

	Amt. £m	% of Fund
HSBC Holdings	£ 68.5	2.35%
Vodafone Group	£ 56.4	1.93%
BP	£ 50.5	1.73%
Royal Dutch Shell A SHS	£ 44.7	1.53%
GlaxoSmithKline	£ 44.2	1.51%
SSGA MPF Pacific Basin Ex-Japan Index	£ 37.7	1.29%
British American Tobacco	£ 37.2	1.27%
Fidelity Inv Services European GBP	£ 35.1	1.20%
Royal Dutch Shell B SHS	£ 32.8	1.12%
Rio Tinto	£ 32.4	1.11%
Tesco	£ 30.1	1.03%
Diageo	£ 28.0	0.96%
BHP Billiton	£ 25.9	0.89%
Liontrust Inv FDS UK Smaller Companies	£ 25.4	0.87%
Astrazeneca	£ 25.2	0.86%
Threadneedle Inv LatAm Growth	£ 24.3	0.83%
BG Group	£ 24.3	0.83%
Samsung Electronic Co Ltd	£ 21.2	0.73%
China Mobile Ltd	£ 20.9	0.72%
UBS Smaller Companies Equity Tracker	£ 20.1	0.69%
<b>Total</b>	<b>£ 685.2</b>	<b>23.46%</b>

## PERFORMANCE

Fund performance is measured by the WM Company, the leading provider of performance measuring services to the public and private sector. Once the return the Fund has achieved over a given period has been calculated it is possible to compare that return with returns from other funds. Although, as a member of the Local Government Pension Scheme, members' benefits are related to their salary and length of service, not the value of the Fund, 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.

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 and 10 years and to compare performance with other Local Authority Funds. In addition, the Fund participates in a WM survey which compares performance against private sector schemes and also against a customised benchmark. All of these are reported to the Teesside Pension Fund and Investment Panel. For the purposes of this report the Local Authority survey is used as these are the performance measures which are included in the Strategic Resources Service Plan as Key Performance Indicators. In the year 2012/13, 85 Local Authority funds were included in the WM Local Authority Pension Fund Service. The aggregate value of these funds was approximately £165.5 billion.

In the year 2012/13 the Fund achieved a return of 12.8% compared to our benchmark return of 13.8%. This return was also below average and placed Teesside in the 72<sup>nd</sup> percentile of all Local Authority funds.

In the three year period 2010/11 to 2012/13 the Fund achieved a return of 7.3% per annum compared to our benchmark return of 8.1%. This return was also below average and placed Teesside in the 83<sup>rd</sup> percentile of all Local Authority funds.

In the ten year period 2003 /04 to 2012/13 the Fund achieved a return of 10.2% per annum compared to our benchmark of 9.4%. This return was above average and placed Teesside in the 11<sup>th</sup> percentile of all Local Authority Funds.

Ordinarily, the key to good performance is to get the big decisions right. The weightings between equities and bonds, in particular, will go a long way to determining performance.

The Fund's position of being overweight in growth assets, such as equities and underweight in protection assets, such as bonds should have benefitted the Fund's performance relative to other funds, since equity markets ended the year strongly, with bonds performance more muted.

However, in contrast to last year, while the asset allocation worked out, for the first time in quite a few years, stock selection decisions resulted in below average performance. These stock selection decisions centred on investments in the Banking Sector, which performed well over the year. Despite HSBC being the largest single holding in the Fund, the Fund's managers still consider there to be



great risks investing in this sector and Teesside holds less as a proportion of the whole Fund than the average fund.

The long term performance numbers continue to be encouraging with the annualised return on assets for the last ten and twenty years being 10.2% and 8.5% respectively. The Fund's investment advisors continue 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.

The Fund is managed internally, although some use is made of pooled investment vehicles to gain exposure to specialist areas. One benefit of this approach is that external manager fees are low. This is clearly demonstrated by another key measure of performance looks at the cost of managing the Fund. The Department for Communities and Local Government publishes information collected from all local authorities in England and Wales comparing fund investment management costs. These are expressed as £ per scheme member (psm). In other words the total cost, including salaries, accommodation, custodian and other fees is divided by the number of members of the scheme, both contributors and beneficiaries.

The result for 2011/12 show that the Fund had investment management costs of £19.41 psm. The average for all Local Authorities in 2011/12 was £84.10 psm. Had the Fund incurred the average psm costs this would have represented, based on the March 2012 membership of 62,962, extra costs of £4.1 million. For 2012/13, the investment management cost was £1.37 million or £21.19 psm. Comparison figures with other Local Authorities are not available at present.

The Fund's position regarding risk monitoring and risk control is set out in the Statement of Investment Principles, 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 Director of Resources also determines the limits on delegation to individual managers.

## **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 Investment Panel. This sets out how votes have been cast.

All Local Authority Pension Funds are required to produce a Statement of Investment Principles 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 Statement can be viewed on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). The Statement has been amended to take into account the recommendations of the Myners Report on Institutional Investment.

The Fund's Statement of Investment Principles 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 will therefore monitor investee companies to ensure that 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 those issues consistent with the Fund's fiduciary responsibilities.*

*The Fund will explicitly consider climate change risks and opportunities in the investment process and engage with companies in which we invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy.*

*In accordance with this policy, the Fund will seek where necessary through its own efforts and in alliances with other investors to pursue those 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 Local Authority funds with investments valued over £100 billion. 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.

An expanded work plan of campaigns has recently been agreed to cover:

➤ ***Incentivising Executives***

The goal of the project is to help organisations change and improve the way they create sustainable value using non-monetary approaches for attracting, retaining and motivating staff. Whilst the project has to date only focussed on executive remuneration, LAPFF will seek to establish constructive dialogue on key issues in the construction of a compelling employee value

proposition between LAPFF and investees, and more widely in the investment and business community.

In undertaking the project, LAPFF will develop a model for dialogue and set of questions to raise with companies which will enable the Forum to identify future engagement targets. In the process, we expect to build a network of supporting partners who promote the project and contribute intellectual capital and expertise. Ultimately, this work will produce an evidence based publication that acts as a guide to engagement on this subject, and a call to action for investors. This project will help raise the profile and reputation of LAPFF as an informed, trusted and effective thought leader in the market.

➤ ***Women on the Board***

Companies are increasingly under the microscope regarding board diversity following the recommendations of the Davies Review. In its response to the Davies Review, LAPFF supported the proposed targets for companies to strive to have 25% women on the board by 2015. As highlighted in the paper presented to the January 2012 Business Meeting, it is proposed that LAPFF engage with the FTSE 350 companies on board diversity. However, LAPFF will aim to work with other investors in engaging laggard companies and encouraging leaders, and consider issuing voting recommendations based on companies' performance on board diversity in 2012.

➤ ***Financial Reporting and IFRS***

Work will continue examining the financial crisis, the banking industry and the failings of IFRS. Engagement will continue with policy-makers and regulators on the issue of financial accounting regulations. The LB Islington has suggested that LAPFF increase the pressure on IFRS by initiating engagement on 'IFRS Plus,' asking companies to voluntarily go beyond the IFRS standards and include a note within their audited accounts describing how they have applied the tests of prudence and going concern. The goal would be to circumvent the roadblock posed by the governance failings at the IASB by asking the companies themselves to set a new auditing standard.

Engagement is also expected to continue with the Banks regarding how banks distribute their profits amongst employee and executive salaries, taxes, dividends and other distributions of capital.

➤ ***Climate Change***

LAPFF has a long history of engagement on climate change issues and has become involved in many different initiatives over the last few years. LAPFF will continue to focus climate change engagement on a few key strategies.

➤ ***Employment Standards and Sustainable Supply Chains***

LAPFF has a long history engaging companies on employment standards and human rights issues, and where relevant building on its experience in dealing with overseas supply chains. Where appropriate, LAPFF will ask

companies whether or not they have responded to the investor letter on Living Wage standards co-ordinated by FairPensions. Specific companies that have indicated they are considering adoption of Living Wage standards across all UK operations.

### **LAPFF Membership as at 31 March 2013**

Avon Pension Fund  
Bedfordshire Pension Fund  
Camden LB  
Cheshire Pension Fund  
City of London Corporation  
Clwyd Pension Fund  
Croydon LB  
Derbyshire CC  
Devon CC  
Dorset County Pension Fund  
Dyfed Pension Fund  
Ealing LB  
East Riding of Yorkshire Council  
Enfield  
Falkirk Council  
Greater Gwent Fund  
Greater Manchester Pension Fund  
Gwynedd Pension Fund  
Hackney LB  
Haringey LB  
Harrow LB  
Hillingdon LB  
Hounslow LB  
Islington LB  
Lancashire County Pension Fund  
Lewisham LB  
Lincolnshire CC  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Newham LB  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire CC Pension Fund  
Northamptonshire CC  
Northern Ireland Local Government Officers Superannuation Committee (NILGOSC)  
Nottinghamshire CC  
Rhondda Cynon Taf  
Royal Borough of Greenwich Pension Fund  
Shropshire Council  
Somerset CC  
South Yorkshire Integrated Transport Authority  
South Yorkshire Pensions Authority  
Southwark LB

Staffordshire Pension Fund  
Surrey CC  
Teesside Pension Fund  
Tower Hamlets LB  
Tyne and Wear Pension Fund  
Waltham Forest LB  
Warwickshire Pension Fund  
West Midlands PTA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC

# Financial Statements

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH BOROUGH COUNCIL IN RESPECT OF THE TEESIDE PENSION FUND**

### **Opinion on the pension fund accounting statements**

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Middlesbrough Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Resources and auditor**

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

The annual report for the financial year for which the financial statements are prepared does not contain information on which we can form a view.

### **Matters on which we report by exception**

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

In our opinion, the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance because it has not been published in full in the annual report.



Christopher Powell FCA (Engagement Lead)  
For and on behalf of Deloitte LLP  
Appointed Auditor  
Leeds, UK  
Date 30 SEPTEMBER 2013



# Statement of Responsibilities for the Financial Statements

## The Authority's Responsibilities

The Authority is required:

- ◆ To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources.
- ◆ To manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets.
- ◆ To approve the statements of accounts.

## The Responsibilities of the Director of Resources

The Director of Resources is responsible for the preparation of the authority's statement of accounts for the Pension Fund which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the code") is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

In preparing this statement of accounts, the Director of Resources has:

- ◆ Selected suitable accounting policies and then applied them consistently;
- ◆ Made judgements and estimates that are reasonable and prudent; and
- ◆ Complied with the code.

The Director of Resources has also:

- ◆ Kept proper accounting records, which were up to date; and
- ◆ Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts give a true and fair view of the financial position of Teesside Pension Fund as at 31 March 2013 and its income and expenditure for the year then ended.



Paul Slocombe  
Director of Resources  
Middlesbrough Council

Dated this 27th day of September 2013

## Fund Accounts for the year ended 31st March 2013

2011 / 2012 £000		Note	2012 / 2013 £000
	<b>Contributions and Benefits</b>		
91,358	Contributions	6	88,209
10,743	Transfers in	7	9,649
5,505	Other income	8	4,461
<b>107,606</b>			<b>102,319</b>
102,867	Benefits	9	104,421
4,155	Leavers	10	6,103
1,597	Administrative expenses	11	1,713
<b>108,619</b>			<b>112,237</b>
<b>(1,013)</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>(9,918)</b>
	<b>Returns on investment</b>		
77,382	Investment income	12	79,900
(64,978)	Change in market value of investments	13	264,322
(1,222)	Investment management expenses	14	(1,367)
<b>11,182</b>	<b>Net returns on investments</b>		<b>342,855</b>
<b>10,169</b>	<b>Net increase in the Fund during the year</b>		<b>332,937</b>
<b>2,586,495</b>	<b>Net assets of the scheme as at 1<sup>st</sup> April</b>		<b>2,596,664</b>
<b>2,596,664</b>	<b>Net assets of the scheme as at 31<sup>st</sup> March</b>		<b>2,929,601</b>

## Net Assets Statement as at 31st March 2013

2011 / 2012 £000			2012 / 2013 £000
2,579,973	Investments Assets	13	2,916,341
17,391	Current Assets	15	13,904
2,893	Receivables due over 1 year	16	1,918
(3,593)	Current liabilities	17	(2,562)
<b>2,596,664</b>	<b>Net assets of the scheme at 31<sup>st</sup> March</b>		<b>2,929,601</b>

The Financial Statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Administering Authority. They do not take

The Financial Statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Administering Authority. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in note 19 to the accounts and the Actuarial Statement included in the Annual Report and these accounts should be read in conjunction with it.

The notes on pages 44 to 70 form part of these Financial Statements.

## **Notes to the Financial Statements**

### **1 Basis of preparation**

The financial statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2008 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2010 having regard to the Statement of Recommended Practice: Financial Reports on Pensions Schemes (revised May 2007).

### **2 Accounting policies**

#### **Basis on which Receivables and Payables are included in the Accounts**

The accruals concept has been observed in the preparation of the accounts with the following exception. Transfer values payable and receivable are accounted for on a cash basis rather than when they are agreed. The difference when compared with the accruals basis is not regarded as material.

#### **Valuation of Investments**

Investments have been included in the Net Assets Statement at their market value as at 31 March 2013 as provided by the Fund's custodians. Quoted UK securities are valued at the bid price based on the quotations in the Stock Exchange Daily Official List. Overseas quoted securities are similarly valued at bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled investment vehicles are valued at closing bid price 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.

Other 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.

The acquisition costs of investments are accounted for as part of the cost of investments.

Property is valued annually by a qualified valuer in accordance with the "Royal Institute of Chartered Surveyors" valuation standards.

#### **Property expenses**

Property expenses have been recorded gross and shown as a deduction from the Gross Rental income received in determining net rents from properties.

#### **Foreign exchange**

Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the Fund year end date.

### **Custody and Security of Investments**

Most investments are held in nominee name by the Fund's Global Custodian, BNP Paribas. 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.

### **Disposal of Investments**

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

### **Dividends**

Dividends from quoted securities are accounted for when they become ex-dividend.

### **Interest on Cash Balances**

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

### **Pension Liabilities**

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the notes relating to the most recent actuarial valuation.

### **Rental Income**

Rental income is accounted for on an accruals basis.

### **Contributions**

Contributions are accounted for in the period in which they fall due. Normal contributions received during the year have been paid in accordance with the rates and adjustments certificate.

### **Benefits**

Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

### **Administrative Expenses**

The administrative expenses of the Fund are incurred by the Administering Authority and are recharged to the Pension Fund periodically during the year. Expenses for Actuarial, Audit and Legal fees are paid directly by the Fund.

### **Contingent Liabilities**

The Pension Fund has no contingent liabilities.

### **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.

### **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**

For 2012/13, the only accounting standard that has been published but which has not been adopted by the Code relates to amendments to IFRS7, "Financial Instruments: Offsetting financial assets and liabilities (December 2011 amendments)".

The amendments to this standard require specific disclosures related to:

1. The disclosure of information about recognised financial instruments subject to enforceable master netting arrangements even if they are not set off under IAS 32.

The change in accounting policy will be required for accounting periods ending after 1 April 2013. Officers are still to determine the impact that these changes may have on the financial statements of the Pension Fund.

## **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 2013 was £ 247,617 (£304,792 at 31 March 2012).

### **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 19. 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**

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.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
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 e.g. a 0.5% pa increase in the discount factor could decrease the liability by c£325 million.
Debtors	At 31 March 2013, the fund had a balance of sundry debtors of £3.16 million, made up of other debtors £2.40 million and system debtors £0.76 million.	There is no history of uncollectable debtors
Private Equity	Private Equity 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.	The total private equity investments in the financial statements are £247,617. There is a risk that this investment may be under or overstated in the accounts.

## 6. Contributions

		2011 / 12 £000	2012 / 13 £000
Employers	Normal	64,246	62,546
	Deficit Funding	373	-
Members	Normal	26,739	25,663
<b>Total</b>		<b>91,358</b>	<b>88,209</b>

The actuarial valuation at 31st March 2010 calculated that the Fund was 99% funded, with the remaining 1% deficit to be recovered over a period of 14 years with a common contribution rate of 14.9%.

### Analysis of Total Contributions

		2011 / 12 £000	2012 / 13 £000
Administering Authority		14,675	13,594
Scheduled Bodies		60,441	58,529
Admitted Bodies		16,242	16,086
<b>Total</b>		<b>91,358</b>	<b>88,209</b>

## 7. Transfers in

		2011 / 12 £000	2012 / 13 £000
Individual transfers in from other schemes		10,743	9,649

## 8. Other income

		2011 / 12 £000	2012 / 13 £000
Capital Costs of Early Retirements		5,472	4,336
Other income		33	125
<b>Total</b>		<b>5,505</b>	<b>4,461</b>



## 9. Benefits

	2011 / 12 £000	2012 / 13 £000
Pensions	77,256	83,943
Commutations and lump sum retirement benefits	23,172	17,678
Lump sum death benefits	2,439	2,800
<b>Total</b>	<b>102,867</b>	<b>104,421</b>

## Analysis of Total Benefits

	2011 / 12 £000	2012 / 13 £000
Administering Authority	23,946	24,445
Scheduled Bodies	62,029	62,807
Admitted Bodies	16,892	17,169
<b>Total</b>	<b>102,867</b>	<b>104,421</b>

## 10. Leavers

	2011 / 12 £000	2012 / 13 £000
Refunds to members leaving service	1	1
Payments for members joining state scheme	(5)	28
Individual transfers to other schemes	4,159	6,074
<b>Total</b>	<b>4,155</b>	<b>6,103</b>

## 11. Administrative Expenses

	2011 / 12 £000	2012 / 13 £000
Administration and processing	1,531	1,565
Actuarial Fees	29	83
Audit Fee	37	65
Provision for Bad Debts	0	0
<b>Total</b>	<b>1,597</b>	<b>1,713</b>

## 12. Investment Income

	2011 / 12 £000	2012 / 13 £000
Income from fixed interest securities	5,372	5,454
Dividends from equities	56,212	60,678
Income from Index-Linked Securities	1,558	1,545
Income from pooled investment vehicles	6,066	4,890
Net rents from properties (see note below)	6,876	6,204
Interest on cash deposits	1,298	1,129
<b>Total</b>	<b>77,382</b>	<b>79,900</b>

<b>Rental Income and Property Expenses</b>	2011 / 12 £000	2012 / 13 £000
Gross Rental income	7,251	7,197
Property Expenses	(375)	(993)
<b>Net Rents from Properties</b>	<b>6,876</b>	<b>6,204</b>

## 13. Investment Assets

	Value at 31 March 2012 £000	Purchases at Cost £000	Sale Proceeds £000	Change in Market Value £000	Value at 31 March 2013 £000
Fixed interest securities	157,817	63,858	(96,695)	20,310	145,290
Equities	1,625,789	255,324	(44,243)	277,090	2,113,960
Index-linked securities	84,277	6,657	(2,431)	(8,458)	80,045
Pooled Investment Vehicles	491,496	20,886	(175,900)	(20,585)	315,897
Properties	100,570	14,290	(1,580)	(4,035)	109,245
	<b>2,459,949</b>	<b>361,015</b>	<b>(320,849)</b>	<b>264,322</b>	<b>2,764,437</b>
Cash Deposits	99,070				129,300
Other Investment Balances	20,954				22,604
	<b>2,579,973</b>				<b>2,916,341</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 £102,424,000 and unrealised gain was £161,898,000.

### 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 £1,303,987 (2012 – £858,474). 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.

### 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 2012/13 the value at 31 March 2013 of the direct property portfolio was £109,244,950.

For 2011/12 the value at 31 March 2012 of the direct property portfolio was £100,570,000.

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

The Fund does not have any single investment over 5% of the net assets of the scheme. The following investments represent more than 5% of any class or type of security.

Asset Class / Security	Market Value 31 March 2012	% of asset class	Market Value 31 March 2013	% of asset class
	£'000		£'000	
<b>UK Fixed Interest</b>				
Imperial Tobacco Finance 7.75% 24/06/2019	3,908	7.50%	-	0.00%
Kraft Foods Inc 7.25% SNR EMTN 18/07/18 GBP	3,685	7.07%	-	0.00%
BAT INTL FINANCE 7.25% MTN 12/03/24 GBP	3,331	6.39%	3,504	6.93%
DEUTSCHE TELEKOM INT FIN 5.625% 07/2013	-	0.00%	2,607	5.16%

GAZ CAPITAL SA 6.58% MTN 31/10/13 GBP	-	0.00%	2,562	5.06%
TESCO 5% MTN 24/03/23 GBP50000	2,383	4.57%	2,555	5.05%
TREASURY 1.75% 07/09/22 GBP0.01	-	0.00%	3,205	6.34%
TREASURY 5% 07/03/2025 GBP100	-	0.00%	2,529	5.00%
<b>UK Index-Linked</b>				
Network Rail Infra 1.375% IDX/LKD 22/11/37 GBP	4,540	8.07%	4,928	7.71%
UK(Govt of) 1.125% I/L STK 22/11/37 GBP100	3,039	5.40%	3,350	5.24%
UK(Govt of) 1.25% IDX-LKD 22/11/27 GBP	4,732	8.41%	5,265	8.24%
UK(Govt of) 2% I/L STK 26/01/35 GBP0.01	5,728	10.18%	6,332	9.91%
UK(Govt of) 2.5% I/L STK 17/07/24 GBP	4,924	8.75%	2,800	4.38%
UK(Govt of) 4.125% I/L STK 22/07/30 GBP	6,228	11.07%	6,819	10.67%
UK(Govt of)1.25% I/L STK 22/11/2032	5,975	10.62%	6,650	10.41%
UK(Govt of)1.25% I/L STK 22/11/2027	4,732	8.41%	5,265	8.24%
<b>Overseas Fixed Interest</b>				
Traditional Funds Thames River GBL BD STG DIS	26,881	20.11%	-	0.00%
UBS GBL Asset Mgt Absolute Return BD B GROS A	13,683	10.24%	-	0.00%
<b>UK Equities</b>				
HSBC HLDGS ORD USD0.50(UK REG)	45,222	4.62%	68,572	6.13%
VODAFONE GROUP ORD USD0.11428571	47,355	4.84%	56,409	5.07%

<b>Property</b>				
Direct - Birmingham (Bromford Central)	10,500	7.84%	10,250	6.94%
Direct - Dorchester (Dorchester Retail Park)	7,575	5.65%	7,100	4.81%
Direct - Loughton (Langston Road)	7,250	5.41%	7,250	4.91%
Direct - Reading (26/28 Broad Street)	8,200	6.12%	7,950	5.39%
Direct - Stow-on-the-Wold (Fosse Way)	12,250	9.14%	12,450	8.43%
Royal London Property Investment	8,454	6.04%	8,225	5.57%
Standard Life Investments European Property Growth Fund	15,101	10.80%	14,506	9.83%
<b>Alternatives</b>				
Close Fd Mgmt Beacon Investment	7,127	9.38%	6,879	7.92%
Darwin Leisure Prop Units Cls 'C'	7,962	10.48%	10,423	12.00%
GS Intl Infrastructure Partners	6,580	8.66%	6,074	6.99%
Innisfree PFI Continuation Fund	7,839	10.31%	8,450	9.73%
INNISFREE PFI SECONDARY FUND 2	-	0.00%	4,567	5.26%
MFC Powershares DB Agriculture Fund	8,787	11.56%	8,526	9.81%
MFC United States Oil Fund LPUnits	18,149	23.88%	16,017	18.43%
Thames River Water and Agriculture Absolute Return Fund	5,875	7.73%	6,221	7.16%
ETFS Metal Security Physical Gold	2,041	2.7%	7,183	8.27%

## Geographical Analysis of Investments

	2011 / 12		2012 / 13	
	£000	%	£000	%
United Kingdom	1,397,163	57%	1,396,715	52%
United States	218,711	9%	279,496	10%
Hong Kong	59,648	2%	153,216	6%
Japan	111,115	5%	147,803	5%
Australia	78,379	3%	110,265	4%
Germany	60,085	2%	68,116	2%
Switzerland	44,508	2%	66,169	2%
Republic of Korea	-	0%	63,116	2%
Singapore	-	0%	59,770	2%
France	53,726	2%	55,114	2%
China	65,477	3%	-	0%
Pacific Region	57,924	2%	-	0%
Others	313,213	13%	364,656	13%
<b>Total</b>	<b>2,459,949</b>	<b>100.00%</b>	<b>2,764,436</b>	<b>100.00%</b>

## Fixed Interest Securities

	2011 / 12	2012 / 13
	£000	£000
UK public sector quoted	52,140	50,573
Overseas public sector quoted	105,677	94,717
<b>Total</b>	<b>157,817</b>	<b>145,290</b>

## Equities

	2011 / 12	2012 / 13
	£000	£000
UK quoted	883,157	1,078,631
Overseas quoted	742,632	1,035,329
<b>Total</b>	<b>1,625,789</b>	<b>2,113,960</b>

## Index-linked securities

	2011 / 12	2012 / 13
	£000	£000
UK quoted	56,275	63,654
Overseas quoted	28,002	16,391
<b>Total</b>	<b>84,277</b>	<b>80,045</b>

### Pooled Investment Vehicles

		2011 / 12 £000	2012 / 13 £000
Unit and Investment trusts	UK	202,869	134,008
	Overseas	288,627	181,889
<b>Total</b>		<b>491,496</b>	<b>315,897</b>

### UK Properties

	2011 / 12 £000	2012 / 13 £000
Freehold	66,020	75,820
Leasehold	34,550	33,425
<b>Total</b>	<b>100,570</b>	<b>109,245</b>

The properties were valued on the basis of Market Value as at 31 March 2013 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

	2011 / 12 £000	2012 / 13 £000
Sterling Cash deposits	99,070	129,300

### Other investment balances

	2011 / 12 £000	2012 / 13 £000
Cash deposits with custodian	3,462	3,435
Outstanding dividend entitlements	17,317	18,939
Interest due on cash deposits	175	230
<b>Total</b>	<b>20,954</b>	<b>22,604</b>

### 14. Investment management expenses

	2011 / 12 £000	2012 / 13 £000
Administration, management and custody	1,222	1,367

The investments of the Fund are wholly managed by the Loans and Investments Unit of Middlesbrough Council, in accordance with the Statement of Investment Principles.

## 15. Current assets

		2011 / 12 £000	2012 / 13 £000
<b>Receivables</b>			
Other receivables		2,482	2,394
System receivables		803	764
Contributions due in respect of	Employers	5,003	5,036
	Members	2,089	2,059
Cash balances		7,014	3,651
<b>Total</b>		<b>17,391</b>	<b>13,904</b>

		2011 / 12 £000	2012 / 13 £000
<b>Analysis of Receivables</b>			
Central government bodies		-	-
Other local authorities		6,820	6,800
NHS bodies		-	-
Public corporations and trading funds		-	-
Other entities and individuals		3,557	3,453
<b>Sub-total</b>		<b>10,377</b>	<b>10,253</b>
Add cash balances		7,014	3,651
<b>Total</b>		<b>17,391</b>	<b>13,904</b>

## 16. Receivables due over 1 year

		2011 / 12 £000	2012 / 13 £000
Capital cost of early retirements		2,893	1,918

		2011 / 12 £000	2012 / 13 £000
<b>Analysis of receivables due over 1 year</b>			
Central government bodies		-	-
Other local authorities		2,893	1,918
NHS bodies		-	-
Public corporations and trading funds		-	-
Other entities and individuals		-	-
<b>Total</b>		<b>2,893</b>	<b>1,918</b>

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



## 17. Current liabilities

	2011 / 12 £000	2012 / 13 £000
Rents received in advance	1,217	947
Accrued expenses	1,304	1,015
Other payables	1,072	600
<b>Total</b>	<b>3,593</b>	<b>2,562</b>

	2011 / 12 £000	2012 / 13 £000
<b>Analysis of Creditors</b>		
Central government bodies	-	-
Other local authorities	1,304	1,100
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	2,289	1,462
<b>Total</b>	<b>3,593</b>	<b>2,562</b>

## 18. 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;

	2011 / 12 £000	2012 / 13 £000
Support Service Recharges payable for the year and outstanding at the year end	108	166

In addition Middlesbrough Council had a £260 million, 10 year partnership with Mouchel Business Services for the provision of business, finance, IT, HR and other support services which commenced 1st June 2001. The partnership was subsequently extended for a further 5 years to 31 May 2016.

## 19. 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 31<sup>st</sup> March 2010 using the 'Projected Unit Method' which produced the following results;

	<b>£ million</b>
Net Liabilities	2,250
Assets	2,233
<b>Deficit</b>	<b>(17)</b>
<b>Funding Level</b>	<b>99.24%</b>

### **IAS19/26 Disclosure**

Following the introduction of International Financial Reporting Standards (IFRS) the Fund is now required, under International Accounting Standard (IAS)26 "Accounting and Reporting by Retirement Benefit Plans" (January 1987), to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS19 "Employee Benefits" (February 1998).

An IAS26/19 valuation was carried out for the Fund as at 31 March 2013 by Aon Hewitt with the following results;

	<b>£ million</b>
Net Liabilities	3,594
Assets	2,906
<b>Surplus (Deficit)</b>	<b>(688)</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 pensions legislation.

### **The actuarial assumptions used to calculate the promised value of benefits at 31 March 2013 were:**

RPI increases	3.4% per annum
CPI increases	2.5% per annum
Salary increases	4.4% per annum
Pension increases	2.5% per annum
Discount rate	4.4% per annum

### **The assumed life expectancy from age of 65 (years)**

Longevity at 65 for current pensioners:

Men	19.20
Women	23.20
Longevity at 65 for future pensioners :	
Men	21.10
Women	25.10

## 20. 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 and Phoenix Life PLC. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 5c of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The value of AVC investments are as follows:

### Prudential AVC balances

	2011/12 £000	2012/13 £000
With Profits and Deposit Accounts	3,527	3,630
Unit Linked Accounts	1,331	1,723
<b>Total</b>	<b>4,858</b>	<b>5,353</b>

The total value of AVC contributions paid to Prudential during the year was £997,891.

The value of investments at, and contributions paid to, Phoenix Life were not available from the provider at the time this document was prepared.

## 21. Financial Instruments

### Net Gains and Losses on Financial Instruments

Financial Assets	2011/12 £000	2012/13 £000
Fair Value through profit and loss	(64,978)	264,322
	<b>(64,978)</b>	<b>264,322</b>

### Fair Value of Financial Instruments

Fair Value through profit and loss	Fair Value	Carrying Value	Fair Value	Carrying Value
	31 March 2012		31 March 2013	
	£000	£000	£000	£000
Fixed Interest Securities	157,817	157,817	145,290	145,290
Equities	1,625,789	1,625,789	2,113,960	2,113,960
Index-linked securities	84,277	84,277	80,045	80,045
Pooled Investments	491,496	491,496	315,897	315,897

Properties	100,570	100,570	109,245	109,245
	<b>2,459,949</b>	<b>2,459,949</b>	<b>2,764,437</b>	<b>2,764,437</b>
Loans and receivables	120,372	120,024	152,754	151,904
	<b>2,580,321</b>	<b>2,579,973</b>	<b>2,917,191</b>	<b>2,916,341</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.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### **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 values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31st March annually. Cashflow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

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 instrument carried at fair value

Value as at 31st March 2013	Quoted Market Price Level 1 £000	Using Observable inputs Level 2 £000	With significant unobservable Level 3 £000
Financial assets at fair value through profit and loss account	2,561,177	109,245	94,015
Loans and receivables	152,754	0	0
<b>Total Financial Assets</b>	<b>2,713,931</b>	<b>109,245</b>	<b>94,015</b>
Value as at 31st March 2012	Quoted Market Price Level 1 £000	Using Observable inputs Level 2 £000	With significant unobservable Level 3 £000
Financial assets at fair value through profit and loss account	2,273,281	100,570	86,098
Loans and receivables	120,372	0	0
<b>Total Financial Assets</b>	<b>2,393,653</b>	<b>100,570</b>	<b>86,098</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 cashflows.

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 council 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 Statement of Investment Principles.

### **Other Price risk - sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the W M Company (performance monitoring company), the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

2012 / 13 Price Risk		Value	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	1,078,631	12.9%	1,217,774	939,488
	OVERSEAS	1,035,329	13.3%	1,173,028	897,630
Equities Total		2,113,960		2,390,802	1,837,118
Fixed Interest Securities	UK	50,573	4.5%	52,849	48,297
	OVERSEAS	94,717	6.9%	101,252	88,182
Fixed Interest Securities Total		145,290		154,101	136,479
Index Linked	UK	63,654	7.0%	68,110	59,198
	OVERSEAS	16,391	6.9%	17,522	15,260
Index Linked Total		80,045		85,632	74,458
Managed and Unitised Funds	UK	134,008	12.9%	151,295	116,721
	OVERSEAS	181,889	13.3%	206,080	157,698
Managed and Unitised Funds Total		315,897		357,375	274,419
Property	UK	109,245	1.4%	110,774	107,716
Property Total		109,245		110,774	107,716
<b>Grand Total</b>		<b>2,764,437</b>		<b>3,098,685</b>	<b>2,430,189</b>

2011 / 12 Price Risk		Value	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	883,157	15.1%	1,016,514	749,801
	OVERSEAS	742,632	16.0%	861,453	623,811
Equities Total		1,625,790		1,877,967	1,373,612
Fixed Interest Securities	UK	52,140	4.5%	54,487	49,794
	OVERSEAS	105,677	8.2%	114,343	97,011
Fixed Interest Securities Total		157,817		168,829	146,805
Index Linked	UK	56,275	6.5%	59,932	52,617
	OVERSEAS	28,002	8.2%	30,299	25,706

Index Linked Total		84,277		90,231	78,323
Managed and Unitised Funds	UK	202,869	15.1%	233,503	172,236
	OVERSEAS	288,626	16.0%	334,807	242,446
Managed and Unitised Funds Total		491,495		568,310	414,682
Property	UK	100,570	3.8%	104,392	96,748
Property Total		100,570		104,392	96,748
<b>Grand Total</b>		<b>2,459,949</b>		<b>2,809,729</b>	<b>2,110,170</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 2013 and 31 March 2012 is set out below.

Asset Type	As at 31 March 2012 £000	As at 31 March 2013 £000
Cash and cash equivalents	99,070	129,300
Cash balances	20,954	22,604
Fixed interest securities	157,817	145,290
<b>Total</b>	<b>277,841</b>	<b>297,194</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 BPS change in interest rates.



Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+ 25 BPS £000	- 25 BPS £000
Cash and cash equivalents	129,300	323	(323)
Cash balances	22,604	57	(57)
Fixed interest securities	145,290	363	(363)
<b>Total</b>	<b>297,194</b>	<b>743</b>	<b>(743)</b>

Asset Type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+ 25 BPS £000s	- 25 BPS £000s
Cash and cash equivalents	99,070	248	(248)
Cash balances	20,954	52	(52)
Fixed interest securities	157,817	395	(395)
<b>Total</b>	<b>277,841</b>	<b>695</b>	<b>(695)</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 are informed quarterly of the Fund's currency exposure.

The following tables summarise the fund's currency exposure as at 31 March 2013 and as at 31 March 2012, showing the sensitivity analysis of foreign exchange movements.

Currency Risk (by currency)	2012 / 13			
Currency	Value	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
Australian Dollar	110,265	10.0%	121,292	99,239
Brazilian Real	-	0.0%	-	-
Canadian Dollar	14,190	5.6%	14,985	13,395
Chilean Peso	-	0.0%	-	-
Colombian Peso	-	0.0%	-	-
Czech Republic Koruna	-	0.0%	-	-
Danish Krone	13,684	7.7%	14,738	12,630
Egyptian Pound	-	0.0%	-	-
EURO	187,131	7.8%	201,727	172,535
Hong Kong Dollar	153,216	8.5%	166,239	140,193
Hungarian Forint	-	0.0%	-	-
Indian Rupee	9,795	9.3%	10,706	8,884
Indonesian Rupiah	1,130	7.1%	1,210	1,050
Israeli Shekel	-	0.0%	-	-
Japanese Yen	147,803	11.8%	165,244	130,362
Malaysian Ringet	4,486	6.4%	4,773	4,199
Mexican Peso	-	0.0%	-	-
Moroccan Dirham	-	0.0%	-	-
New Zealand Dollar	2,071	9.5%	2,268	1,874
Norwegian Krone	37,890	9.0%	41,300	34,480
Pakistani Rupee	-	0.0%	-	-
Peruvian New Sol	-	0.0%	-	-
Philippine Peso	-	0.0%	-	-
Polish Zloty	-	0.0%	-	-
Singapore Dollar	59,770	5.8%	63,237	56,303
South African Rand	-	0.0%	-	-
South Korean Won	63,116	7.6%	67,913	58,319
Swedish Krona	32,679	8.1%	35,326	30,032
Swiss Franc	66,169	9.4%	72,389	59,949
Taiwan Dollar	36,090	7.2%	38,688	33,492
Thai Baht	93	7.9%	100	86
Turkish Lira	-	0.0%	-	-
United Arab Emirates Dirham	-	0.0%	-	-
US Dollar	279,496	8.7%	303,812	255,180
Global Basket	16,673	5.3%	17,557	15,789
Global ex UK Basket	-	0.0%	-	-
North America Basket	-	0.0%	-	-
Europe Basket	-	0.0%	-	-
Europe ex UK Basket	50,508	7.2%	54,145	46,871
Asia Pacific Basket	-	0.0%	-	-
Asia Pacific ex Japan Basket	37,706	6.3%	40,081	35,331
Emerging Basket	43,760	6.4%	46,561	40,959
<b>Total</b>	<b>1,367,721</b>	<b>8.5%</b>	<b>1,484,290</b>	<b>1,251,152</b>

Currency Risk (by currency)	2011 / 12			
Currency	Value	Change	Value on Increase	Value on Decrease
	£000s	%	£000s	£000s
Australian Dollar	72,672	10.5%	80,298	65,046
Canadian Dollar	12,574	9.6%	13,785	11,364
Danish Krone	12,225	8.3%	13,241	11,209
EURO	153,975	8.4%	166,848	141,102
Hong Kong Dollar	125,125	9.6%	137,131	113,119
Indian Rupee	7,000	9.3%	7,651	6,348
Indonesian Rupiah	957	9.0%	1,043	871
Japanese Yen	140,111	13.3%	158,737	121,486
Malaysian Ringet	2,792	8.3%	3,023	2,562
New Zealand Dollar	2,252	10.8%	2,495	2,009
Norwegian Krone	29,751	10.5%	32,880	26,621
Singapore Dollar	43,432	7.5%	46,686	40,178
South Korean Won	8,077	10.3%	8,907	7,248
Swedish Krona	23,828	10.2%	26,264	21,392
Swiss Franc	53,620	10.2%	59,115	48,125
Taiwan Dollar	2,064	9.0%	2,249	1,879
Thai Baht	65	8.9%	71	59
US Dollar	225,588	9.8%	247,589	203,588
Global Basket	42,940	6.5%	45,751	40,128
Europe Basket	39,070	5.4%	41,186	36,953
Europe ex UK Basket	27,232	7.8%	29,362	25,102
Asia Pacific Basket	77,403	8.8%	84,226	70,579
Asia Pacific ex Japan Basket	64,664	7.2%	69,311	60,018
Emerging Basket	41,926	7.9%	45,234	38,618
<b>Total</b>	<b>1,209,343</b>	<b>9.4%</b>	<b>1,323,084</b>	<b>1,095,602</b>

Following analysis of historical data in consultation with the WM Company (performance monitoring company), 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 Annual Report.

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 31 March 2012. 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.

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

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

## Teesside Pension Fund

### Statement of the Actuary for the year ended 31 March 2013

#### 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 2010 by Barnett Waddingham LLP, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the smoothed value of the Fund's assets at that date (of £2,232.6M) covering 99% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2011 is:
  - 14.6% of pensionable pay p.a., together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- 0.3% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 14 years from 1 April 2011.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Barnett Waddingham's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contribution rate shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) are made to the Fund by the employers.
  4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
  5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate	6.70% p.a.
Rate of pay increases:	5.00% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.60% p.a.

A smoothed asset value was calculated.

Further details of the methods and assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels over the six month period spanning the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already under way. The Regulations

require the formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 to be signed off by 31 March 2014.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of Barnett Waddingham's actuarial valuation which was carried out as at 31 March 2010. 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 contains more detail on 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.

9. The report on the actuarial valuation as at 31 March 2010 is available on the Fund's website at the following address:  
[http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation\\_2010.pdf](http://www.teespen.org.uk/documents/content/pdf/Valuation/Valuation_2010.pdf)

Aon Hewitt Limited  
**30 July 2013**

# **The Compliance Statement**

## **Changes to the Local Government Pension Scheme Regulations**

From April 2008 the Fund was governed by the following regulations;

**The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007**

**The Local Government Pension Scheme (Administration) Regulations 2008, and**

**The Local Government Pension Scheme (Transitional Provisions) Regulations 2008**

The new regulations have made significant changes to the scheme. A comparison of the provisions of the 'old' and 'new' schemes are given on page 75.

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).

## **Statement of Investment Principles**

The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 1999 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain Statements of Investment Principles (SIP). The current version of the Teesside Pension Fund SIP was approved in November 2011 and contains statements on;

1. Investment responsibilities
2. The Myners Principles
3. Types of investments to be held
4. The balance between different types of investment
5. Risk
6. Investment Objective
7. The realisation of investments
8. Fund Investment Strategy: Ethical, Social and Environmental Perspective
9. Shareholder Governance
10. Performance Measurement
11. Compliance and Monitoring

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

## **Funding Strategy Statement**

The Local Government Pension Scheme (Amendment) Regulations 2004 established the requirement for 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;

1. The purpose of the Statement
2. The aim and purpose of the Fund
3. The responsibilities of the key parties
4. The solvency of the Fund
5. The identification of risks to the Fund
6. The links to the Statement of Investment Principles
7. Future Monitoring

The latest Funding Strategy Statement was approved by the Pensions Panel and was effective from November 2011, and can be seen at <http://www.teespen.org.uk/documents/index.php?name=FSS>

## **Governance Policy**

Under the Local Government Pension Scheme (amendment) (No.2) Regulations 2005 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, has drawn up a Governance Policy which sets out the procedures for the governance of the Fund, with the main areas covered being:

1. Frequency of meetings
2. Structure of the meetings
3. Membership
4. Principles of governance

The current policy document can be viewed at <http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE>

## **Communications Policy**

The Teesside Pension Fund actively seeks to communicate 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 you 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 FOR M](http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FOR_M)



## Myners Investment Principles : Compliance Statement

The LGPS (Management & Investment of Funds) Regulations require that Funds comply with the Myners Investment Principles or explain non-compliance.

The Fund's position is:

### Principle 1: Effective decision-making.

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

☺ Full Compliance

### Principle 2: Clear Objectives

Trustees should set out an overall investment objective for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisors and investment managers.

☺ Full Compliance

### Principle 3: Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of the Fund's liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

☺ Full Compliance

### Principle 4: Performance assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

☺ Full Compliance

### Principle 5: Responsible ownership

Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

☺ Full Compliance

## **Principle 6: Transparency and Reporting**

**Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to scheme members in the form they consider most appropriate.**

**☺ Full Compliance**


# Summary of LGPS Benefits

Local Government Pension Scheme in England and Wales  
Key features pre/post 1 April 2008

		Service to 31/03/2008	Service from 01/04/2008																											
1	Type of Scheme	Final salary	Final salary																											
2	Relationship with S2P	Contracted-out	Contracted-out																											
3	Employees Covered	All	All																											
4	Normal Retiring Age (NRA)	65  With Rule of 85 protected for service to 31/3/08, for members before 1/10/06	65  Rule of 85 goes for future service from 1/4/08, subject to transitional protections.  Transitional protections: <b>DOB &lt;1/4/56:</b> Rule of 85 stays for service up to 1/4/16 <b>DOB 1/4/56 – 31/03/60:</b> Those who satisfy Rule of 85 before 1/4/2020 will be subject to lower reductions on early retirement (sliding scale by date of satisfying Rule of 85).																											
5	Pensionable Pay (PP)	Normal salary plus any other payments or benefits specified as pensionable in member's contract of employment	Normal salary plus any other payments or benefits specified as pensionable in member's contract of employment																											
6	Averaging period for Determining Final Pensionable Pay (FPP)	Generally PP in last year. Better of prior 2 years used if higher	Best year's PP in last 3  Or on reduction in responsibility members may elect for 'revalued' average of best 3 consecutive years salary in the last 10 years (to each $3\frac{1}{3}$ ) of service if better.																											
7	Members Contributions	6%  5% manual workers in scheme < 31/03/98	<table border="1"> <thead> <tr> <th colspan="3">Tiered contributions from 01/04/2010</th> </tr> <tr> <th>Band</th> <th>Range £</th> <th>Contribution Rate</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>0 – 12,600</td> <td>5.5%</td> </tr> <tr> <td>2</td> <td>12,601 – 14,700</td> <td>5.8%</td> </tr> <tr> <td>3</td> <td>14,701 – 18,900</td> <td>5.9%</td> </tr> <tr> <td>4</td> <td>18,901 – 31,500</td> <td>6.5%</td> </tr> <tr> <td>5</td> <td>31,501 – 42,000</td> <td>6.8%</td> </tr> <tr> <td>6</td> <td>42,001 – 78,700</td> <td>7.2%</td> </tr> <tr> <td>7</td> <td>&gt; 78,700</td> <td>7.5%</td> </tr> </tbody> </table> <p>New entrants are placed in a band based on their pensionable pay. They then pay the contribution rate indicated on the whole of their pensionable pay. Members can change band on a material change in terms and conditions of employment. Bands to increase annually with CPI. Transitional protection for members originally paying 5% - contributions were 5.25% in 2008/9, 5.5% in 2009/10, 6.5% in 2010/11 (or the value from the table above if lower)</p>	Tiered contributions from 01/04/2010			Band	Range £	Contribution Rate	1	0 – 12,600	5.5%	2	12,601 – 14,700	5.8%	3	14,701 – 18,900	5.9%	4	18,901 – 31,500	6.5%	5	31,501 – 42,000	6.8%	6	42,001 – 78,700	7.2%	7	> 78,700	7.5%
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6	42,001 – 78,700	7.2%																												
7	> 78,700	7.5%																												

8	<b>Normal Retirement</b> Pension to Member Lump Sum	$\frac{1}{80}$ $\frac{3}{80}$ Plus increased lump sum by commutation £12:£1	$\frac{1}{60}$ By commutation: Single factor £12:£1
	Dependant's Pension (as defined in 15)	$\frac{1}{160}$ No service maximum	$\frac{1}{160}$ No service maximum
9	<b>Pension Increases</b>	RPI	CPI
10.	<b>Ill Health Retirement</b>	Single tier Permanently unable to do own/comparable job Unreduced pension Service enhanced 2 to 5 – accrued 5 to 10 – service doubled 10 to 13 $\frac{1}{3}$ - Service enhanced to 20 years over 13 $\frac{1}{3}$ - additional 6 $\frac{2}{3}$ Subject in all cases to maximum enhancement of potential service to 65	3 tier. Payable after 3 months to a member who is permanently incapable of doing their own job and who has a reduced likelihood of obtaining gainful employment. 3 <sup>rd</sup> - unable to undertake gainful employment on cessation, but likely to do so within 3 years: Unreduced, no enhancement, payable for lesser of 3 years or until return to gainful employment (subject to review after 18 months if still receiving benefit) 2 <sup>nd</sup> - unable to undertake gainful employment on cessation, and unlikely to do so within 3 years but likely to do so before NRA: Unreduced, service enhanced by 25% of prospective service to NRA with transitional protection of old entitlements for members over 45 at 1/04/2008. 1 <sup>st</sup> - unable to undertake any employment and no reasonable prospect of obtaining gainful employment before NRA: Unreduced, service enhanced by full prospective service up to the age of 65. (part timers get proportionate enhancements) Transitional protection of old entitlements for all retirements before 1/10/08.
11.	<b>Dependant's Pension on Death in Service</b> (payable to dependants as defined in 15 below)	If service > 3 months 50% x ill health pension. Otherwise $\frac{1}{160}$ x accrued service	$\frac{1}{160}$ x full prospective service
12.	<b>"Spouse's" Short Term Pension</b>  <b>Death in Service</b>  <b>Death after Retirement</b>	3 months x salary (6 months if dependent children) 3 months x member's pension (6 months if dependent children) Short-term children's pensions in addition.(no longer applies)	None from 1/4/08
13.	<b>Lump Sum Death Benefits</b> <b>Death in Service</b> <b>Death after Retirement</b>	2 x PP 5 year guarantee less pension already received (for death before age 75)	3 x FPP 10 year guarantee less pension already received (for death before age 75)

14.	<b>Children's Pensions</b>	25% x Notional pension for maximum of 2 children	If dependant pension payable 1 child - 50% x dependant's pensions
		Orphans 33% x Notional pension * per child for maximum of 2 children	>1 child - (100% x dependant's / N° children) to each child If no dependant pension payable
		* For death in service the notional pension is the ill health pension or a pension based on the lesser of 10 years and full service to 65 where this is higher. For deaths after leaving or retirement % generally based on member's entitlement at death	1 child - $\frac{2}{3}$ x dependant's pensions >1 child - ( $\frac{1}{3}$ x dependant's / N° children) to each child NB for DIS full prospective service taken into account in calculating dependant's pension
15.	<b>'Dependants' provision</b>	Widow(er)s Registered civil partners  some limits on post retirement espousment	Widow(er)s Registered civil partners Nominated cohabiting partners - declaration signed by both parties - financial dependence or interdependence - cohabiting as husband/wife or civil partners  for over 2 years - free to marry or enter civil partnership (some limits on service counted for dependants other than widows)
16.	<b>Cessation on remarriage or co-habitation</b>	No if the member was in active service on or after 1/4/98. Yes if the member left or retired before this date.	No
17.	<b>Withdrawal Benefits on Leaving</b> <b>At least 3 months Total Reckonable Service</b> <b>Preserved Benefits</b>	$\frac{1}{80}$ payable from NRA  + $\frac{3}{80}$ LS  + $\frac{1}{160}$ dependant's benefit	$\frac{1}{60}$ payable from NRA (LS by commutation)   + $\frac{1}{160}$ dependant's benefit
	<b>Increases before Retirement</b> <b>Death before Retirement</b> <b>Transfer Value</b> <b>Children's pensions</b> <b>Ill health pension</b> <b>Less than 3 months Total Reckonable Service</b>	RPI Pension: $\frac{1}{160} + \frac{3}{80}$ LS Yes Yes Yes Refund of contributions or transfer value	RPI Dependant's pension: $\frac{1}{160}$ service + 5 x pension LS Yes Yes Yes Refund of contributions or transfer value

18.	Refunds to Unmarried Members at Retirement	No	No
<p>Note: This summary is for information only and should not be relied upon as a definitive description of scheme benefits. Before any actions are taken on the basis of the summary, reference should first be made to the scheme regulations which will prevail if the two differ.</p>  <p>Source : GOVERNMENT ACTUARY'S DEPARTMENT</p>			

## 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. All pensions are subject to the increase with the exception of those pensions awarded on redundancy where the member is under the age of 55 years. These pensions are subject to increase (including backdating) from the member's 55<sup>th</sup> birthday.

The following table shows the rate of pension increases that have applied during the last 10 years.

From April	Increase %
2002	1.7%
2003	1.7%
2004	2.8%
2005	3.1%
2006	2.7%
2007	3.6%
2008	3.9%
2009	5.0%
2010	0.0%
2011	3.1%
2012	5.2 %

## Contacts and further information

<b>Contacts</b>	
<b>Pensions Unit</b>  <i>For General and Benefit Entitlement enquiries</i>	Mouchel Pensions Unit Teesside Pension Fund PO Box 340 Middlesbrough TS1 2XP  Telephone: (01642) 727777 E Mail: <a href="mailto:pensionsunit@mouchel.com">pensionsunit@mouchel.com</a>
<b>Pensions Manager</b>	Mike Hopwood  Telephone: (01642) 727778 E Mail: <a href="mailto:mike.hopwood@mouchel.com">mike.hopwood@mouchel.com</a>
<b>Head of Investments</b>	Paul Campbell  Telephone: (01642) 729024 E Mail: <a href="mailto:paul_campbell@middlesbrough.gov.uk">paul_campbell@middlesbrough.gov.uk</a>
<b>Teesside Pension Fund Web Site</b>	<a href="http://www.teespen.org.uk">www.teespen.org.uk</a>
<b>Employers Web Site</b>	<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:	Jan Oliver Pensions Accountant  Telephone: (01642) 729617 E Mail: <a href="mailto:jan_oliver@middlesbrough.gov.uk">jan_oliver@middlesbrough.gov.uk</a>
Further copies of this report can be obtained from:	Mouchel Pensions Unit Teesside Pension Fund PO Box 340 Middlesbrough TS1 2XP  Telephone: (01642) 727777 E Mail: <a href="mailto:pensionsunit@mouchel.com">pensionsunit@mouchel.com</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>	

