

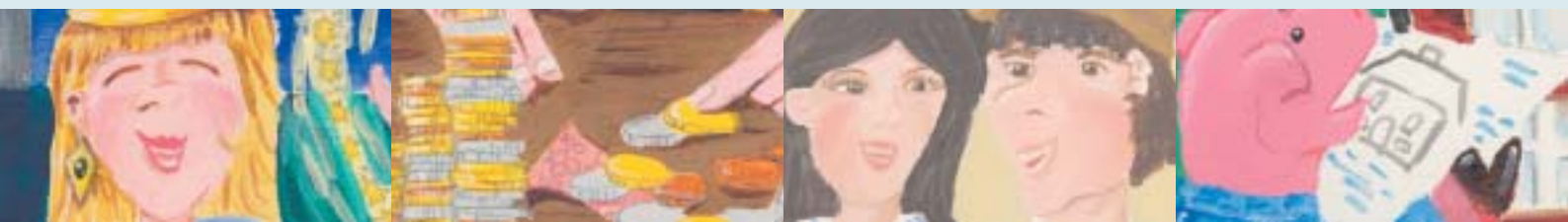
# Teesside Pension Fund

Annual Report  
2004 - 05



teesside pension fund

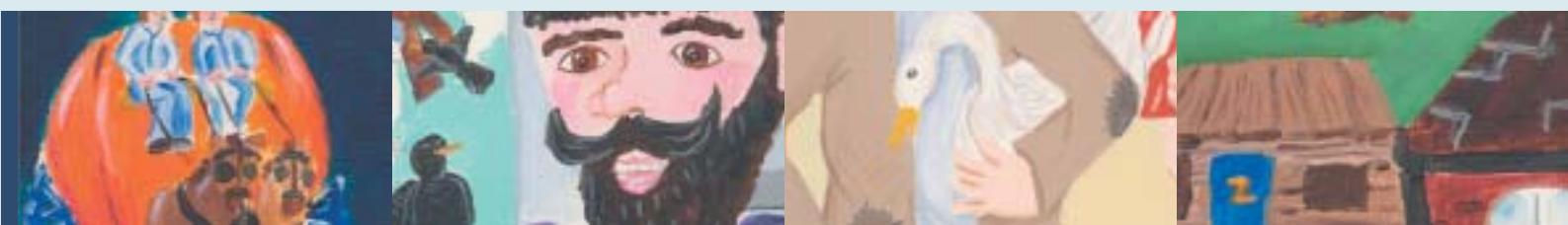




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### Illustrations by Lynda Coulson

We endeavour to use the work of local artists in our annual report. Lynda is a young artist from Northallerton who specialises in children's illustrations.





Cinderella is a popular fairy tale which has many different versions with the earliest originating in China around AD 860. The best-known written version was by the French author, Charles Perrault in 1697, however the animated film from Walt Disney (1950) has probably become the standard contemporary version.

*Cinderella overcomes her misfortunes and her story enjoys a happy ending. Similarly the members of the Teesside Pension Fund can look forward to retirement secure in the knowledge that their contributions have been efficiently and judiciously invested to build a retirement fund sufficient to meet its requirements.*

# Trustees Report

## Chairman's Introduction

In my introduction to last years report I referred to the recovery in the equity markets and the resulting dramatic increase in the value of the Fund's investments. I am pleased to be able to report that the year ended 31st March 2005 continued that trend, albeit at a more modest level.

The increase of £151 million in the value of investments has contributed to the total increase in the net assets of the fund of £193 million, or 16%, to £1.42 billion.

The impact of the increase in investment values highlights the importance of the management of the Fund's investment portfolio. Fund investment performance is one of the key measures in gauging how effectively we have administered the fund during the year. In 2004/5 Teesside Pension Fund's in-house investment managers achieved a return of 12.3%, a performance comfortably ahead of the average return of all Funds of 11.5%. This continues our achievement of outperforming most comparable funds, with Teesside Pension Fund beating the average fund in four of the last five years.

Following a review during the year of the performance of the Fund's US\$ equity holdings it was decided to bring the management of these investments in-house. As a result the Funds investments are now managed entirely in-house. The advantage of in-house management is that the costs of management are considerably lower than most comparable funds, at £13 per scheme member. This compares favourably with the average cost for Local authorities of £44 (2003/4).

The cost of administration of the Teesside Pension Fund is also lower than the administration costs of comparable funds. The Fund belongs to an organisation called PALS (Pension Administration Large Schemes) which enables us to compare our administrative performance and costs against other large schemes. Although the costs of administration have increased by £2 in the year to £26 per scheme member this is still less than the PALS average for 2003/4 of £28. In overall terms the cost of managing the Fund works out at 0.14% of the Fund value, a bargain compared to the Governments cap on the management fees for stakeholder Pensions of 1.5%.

The close of the year saw a significant change in the

advisers to the Fund. In order to ensure that we are achieving best value in the services provided to the Fund we advertised the Actuarial services to the Fund for tender. Following a review of the tenders received conducted by independent advisers employed for this exercise we decided, after very careful consideration, to appoint Punter Southall as actuaries to the Fund as from 1st April 2005. I would like to take this opportunity to record my thanks to Hymans Robertson for the excellent service they have provided to the Fund over the years.

One of the final services Hymans Robertson provided for us was the triennial Actuarial valuation of the Fund as at 31st March 2004. On the face of it the results of the valuation were disappointing, but not unexpected. The valuation revealed a funding level of 81% compared to the 2001 level of 94%. The principal reasons for the fall in the funding level were the underperformance of our investments over the three years compared to the actuarial assumptions used in 2001, and the fact that pay increases were higher than had been assumed. Although disappointing it should be borne in mind that a Pension Scheme is a long term investment with long term aims, and we shouldn't be too alarmed by the results of a snapshot taken at a given point in time. In performing the valuation the actuary adopted assumptions which lead to a prudent assessment of the financial position of the Fund, and set the Employers contribution rates with the objective of achieving a funding level of 100% over a 20 year period. The actuary recommended that the funding position of the scheme is actively monitored over the period to 2007, the date of the next triennial valuation, which we will achieve through annual funding reviews.

Finally, 2004/5 was once again a year when both membership numbers and participating employers increased. At the end of the financial year the Fund had 49,423 members (an increase of 3.6%) and welcomed six new participating employers bringing the total number of active employers to 57.

In closing I would like to thank the advisers and staff of the Teesside Pension Fund for their valuable contribution in achieving a positive and successful year.

**Steve Bloundele**  
Chairman of the Teesside Pension Fund  
Pensions and Investment Panel  
August 2005



## Nature of the Scheme

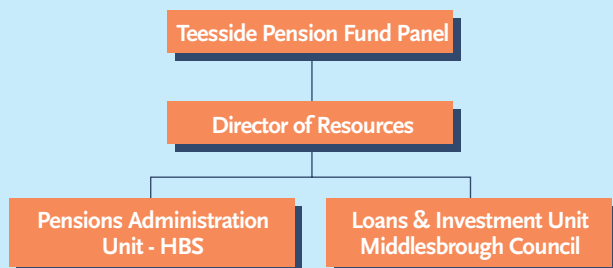
The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme and is governed by the Local Government Pension Scheme Regulations 1997 (as amended). These Regulations specify the pensions and other benefits payable and fix the rates of member contributions. Employer contributions 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 way of contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from fund investments. The surplus funds, after payment of benefits, are invested by an Investment Panel. The Panel comprises elected members of Middlesbrough Council, representatives of the other unitary authorities, the Trade Unions and the Fund's Investment Advisers.

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 Teesside Pension Fund Panel

### Members

<b>Chair</b>	Councillor Stephen Bloundele
<b>Vice Chair</b>	Councillor J Jones
<b>Middlesbrough Council</b>	Councillor B Brady
	Councillor W Ferrier MBE
	Councillor BA Hubbard
	Councillor T Mawston JP
	Councillor GW Rogers
	Councillor P Sanderson
	Councillor P Thompson
	Councillor NJ Walker
<b>Redcar &amp; Cleveland BC</b>	Councillor G Abbott
<b>Stockton BC</b>	Councillor Mrs J O'Donnell
<b>Hartlepool BC</b>	Councillor A Preece
<b>Other Bodies</b>	Mr D Moreton
<b>Trades Unions</b>	Unison, GMB and ACTS

The Panel consists of representatives from all the district councils in the former Cleveland County Council area as well as representatives from the Trades Unions.

The day to day running of the Teesside Pension Fund is delegated to the **Director of Resources** of Middlesbrough Council. He 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 Funds external Investment Advisors..

## Advisors to the Fund

John Hemingway	Investment Manager
Howard Meaney	Healey & Baker
Peter Moon	Investment Advisor
Graeme Muir	Punter Southall

## Administration

Paul Slocombe	Director of Resources
Fred Green	Head of Investments
Mike Hopwood	Pensions Administration Manager
Richard Long	Solicitor to the Fund



### Income, Expenditure and Net Assets

The Fund's accounts show that the net assets of the scheme have increased by 16% compared to 31/03/2004.

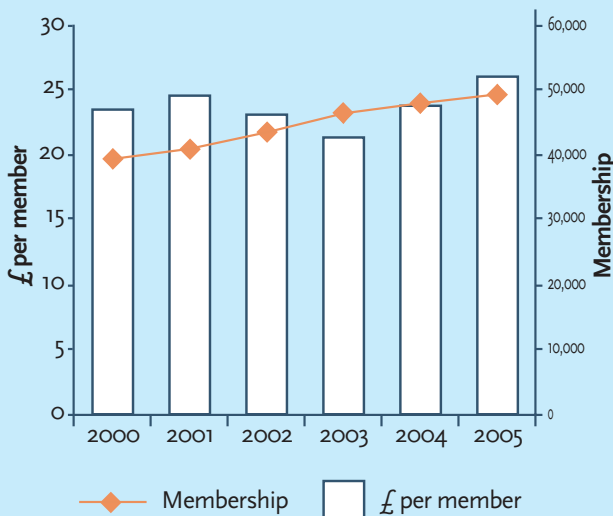
	2004/5 £000	2003/4 £000	Change £000	Change %
Income	150,330	142,225	8,105	6%
Expenditure	-67,786	-59,642	-8,144	14%
Change in Market Value of Investments	110,305	185,142	-74,837	-40%
Increase (Decrease) in the Fund during the year	192,849	267,725	-74,876	-28%
Net Assets at 1st April	1,230,063	962,338	267,725	28%
Net Assets at 31st March	1,422,912	1,230,063	192,849	16%

### The Administration Unit

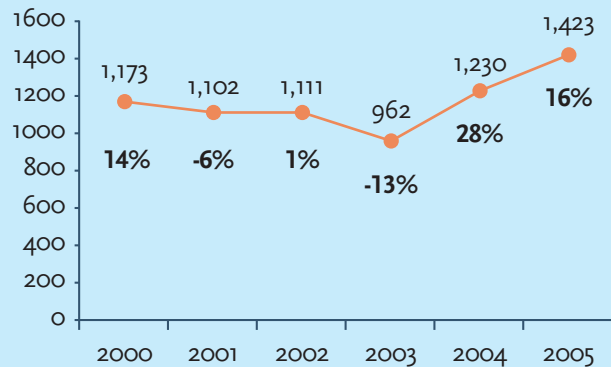
The scheme's Administration unit currently has 30 staff in place and meets all of the administration requirements of the Fund, encompassing benefit calculation, communication, payroll, IT services and accountancy. The annual cost of administering the scheme has risen by £2 to £26 per member.

Although there are no benchmark figures available yet for 2004/5 the average cost of the Fund should be below the average costs of the other pension schemes participating in the PALS (Pension Administration Large Schemes) survey, for which the average cost for 2003/4 was £28 per member.

### Administration Costs



### Fund Value at 31st March



### 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 95% of the procedures within each target timescale. The table below highlights the performance of the administration unit against the key procedure targets.

Procedure	Target 2004/5	95% Target
Processing New Starters	20 days from receipt	98.4%
Processing Transfer Values (TV's)	1 month from the date of notification	95.4%
Refund of Contributions	10 working days from the request date	99.6%
Estimates of Benefit Entitlements	10 working days from date of request	96.1%
Pension benefits	10 working days from the receipt of all relevant information	96.9%
Deferred Benefits	20 working days from notification of leaving	99.9%

## Key procedure volumes

The volumes of the key procedures performed by the Pensions administration unit have fallen compared to the previous year. In part this was due to a change in the LGPS regulations which meant that refunds of contributions can now only be paid to leavers with less than 3 months service, as opposed to the previous limit of 2 years.

Procedure	2004/5	2003/4
Processing New Starters	5,789	7,671
Processing Transfer Values (TV's)	2,978	3,281
Refund of Contributions	764	1,653
Estimates of Benefit Entitlements	1,123	981
Pension Benefits	1,119	600
Deferred Benefits	1,882	1,716
<b>Total</b>	<b>13,655</b>	<b>15,902</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 was carried out by Hymans Robertson (see note below) and valued the fund as at 31 March 2004. The principal conclusions of this valuation were:

- The ongoing funding level of the Fund on 31 March 2004 was 81% (2001 – 94%). The shortfall of assets compared to the past service liabilities was £295 million (2004 - £76m).
- The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 12.4% 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 20 years, of 4.8% of pensionable pay. The total rate of 17.2% of pay is the Common Contribution Rate.
- For most employers the valuation resulted, due to their individual circumstances, in increases to their contribution rates.
- Further sums should be paid to the Fund to meet the capital costs of any early retirements, and for the capital costs of any ill-health retirements that exceed those allowed for in the valuation assumptions.
- Under the provisions of the Regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2007. In the light of the uncertainty of future financial conditions the actuary has recommended that the financial position of the Fund is monitored by means of interim funding reviews in the period up to the next triennial valuation.



## Change in Actuaries

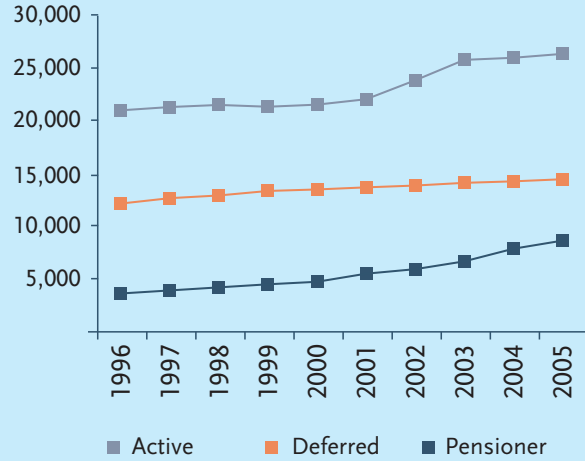
During the year the Fund carried out a tendering exercise for the supply of Actuarial services. As a result of this Punter Southall were appointed as Actuaries to the Fund as of 1st April 2005.

## Membership

The membership of the fund has shown a steady increase over the years and 2004/5 was no exception. In the financial year the total membership has increased by 1,730 and since 1996 has risen by 36% to the current total of 49,423.

During the year 6 employers joined the scheme as admitted bodies taking the number of active employers participating in the scheme at the year end up to 57.

## Fund Membership



## Membership Numbers

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Active	20,976	21,298	21,427	21,354	21,467	22,115	23,741	25,660	25,389	26,263
Deferred	3,579	3,796	4,052	4,301	4,659	5,445	5,741	6,585	7,927	8,600
Pensioner	12,154	12,711	13,017	13,393	13,624	13,650	13,915	14,111	14,377	14,560
<b>Total</b>	<b>36,709</b>	<b>37,805</b>	<b>38,496</b>	<b>39,048</b>	<b>39,750</b>	<b>41,210</b>	<b>43,397</b>	<b>46,356</b>	<b>47,693</b>	<b>49,423</b>

## Summary of Membership Changes

	Active Members	Deferred Members	Pensioners Members	Dependants	Total
@ 1/04/04	25,389	7,927	12,391	1,986	47,693
New Members	2,827	1		177	3,005
Change in Status	43	1,085	500		1,628
Leavers	-1,996	-413	-354	-140	-2,903
@ 31/03/05	26,263	8,600	12,537	2,023	49,423
% of Total 1/04/04	53.2%	16.6%	26.0%	4.2%	100.0%
% of Total 31/03/05	53.1%	17.4%	25.4%	4.1%	100.0%

(The brought forward figures have been restated to include changes notified to us after the previous years financial statements were finalised)



## Members by Employer at 31 March 2005

Current Employers	Notes	Active Members	Deferred Members	Pensioners		2004/5 Total
				Members	Dependants	
1 Stockton BC		5757	1838	1644	241	9480
2 Middlesbrough BC		4896	1440	1669	297	8302
3 Redcar & Cleveland BC		3732	1169	1447	211	6559
4 Hartlepool BC		3240	876	929	188	5233
5 <b>CSCI</b>	1	1557	70	24		1651
6 Teesside University		907	282	237	18	1444
7 Cleveland Police Authority		815	127	102	4	1048
8 HBS		590	62	45	1	698
9 Coast & Country Housing		485	41	19		545
10 Liberata		424	32	15	4	475
11 Cleveland Probation		328	68	67	7	470
12 Middlesbrough College		276	132	46	4	458
13 <b>Erimus Housing</b>		402	3	1		406
14 Connexions Tees Valley		272	53	20		345
15 Tristar Homes		246	41	12	1	300
16 Hartlepool College of FE		190	60	27	5	282
17 <b>Housing Hartlepool</b>		254	6	4		264
18 Stockton Riverside College		168	41	31	3	243
19 Jarvis		213	19	10		242
20 Magistrates Court		139	26	33	1	199
21 Beamish		94	49	46	6	195
22 Transit Stagecoach		63	28	92	6	189
23 NCSC		24	93	65	6	188
24 Tees Valley Leisure		138	27	8	1	174
25 Cleveland Fire Authority		127	9	21	2	159
26 <b>Tees Active Ltd</b>		137	11	3		151
27 Redcar & Cleveland College		77	33	26	1	137
28 Cleveland College of Art & Design		83	14	25	2	124
29 TIAL		99	14	7		120
30 CIC		36	26	34		96
31 Business Link		78	7	2		87
32 Unity City Academy		65	12	3		80
33 Hartlepool Stagecoach		7	40	25	2	74
34 Prior Pursglove College		44	9	2	1	56
35 Kings Academy		47		2	1	50
36 <b>McAlpine Government Services Ltd</b>		48	1			49
37 St Marys College		26	10	3		39
38 Bede College		26	9	3		38
39 Hartlepool 6th Form		19	4	7	1	31
40 Stockton 6th Form		21	3	1		25
41 Middleton Grange Shopping Centre			11	11	2	24
42 Dial a Ride		20	1	3		24
43 Open College Network		17	6			23
44 Five Rivers		16	3	2		21
45 Tees Valley Urban Regeneration		15	1			16
46 Middlesbrough Refuge		3	9	1		13
47 <b>OCS</b>		10				10
48 Guisborough Town Council		5		2		7
49 Future Reperation of Grangetown		3	3			6
50 Swindon Urban Regeneration		6				6
51 Tees Forrest Development Co		5	1			6
52 Tees Valley Development Company			1	3		4
53 Loftus Town Council		3	1			4
54 Nextiraone (HBS)		3				3
55 Nextiraone (SBC)		3				3
56 New Era		2				2
57 Saltburn & Marske PC		2				2
<b>Former Employers</b>			1778	5758	1007	8543
		26263	8600	12537	2023	49423

Notes: 1 Formerly NCSC; 2 New Employers are shown in BLUE



“As he grew rich he grew greedy and thinking to get at once all the gold the Goose could give he killed it and opened it only to find nothing”.

The Goose with the Golden Eggs - Aesop

*The “Funding Strategy Statement” of the Teesside Pension Fund sets out the prudent long term plan for funding the scheme’s liabilities. The “Statement of Investment Principals” sets out the types of investment and the permitted level of investment in each type. Thus ensuring that we don’t kill the goose that lays the golden eggs and we don’t put all of those eggs in one basket.*



# Investment Report

## Investment Report

After a strong performance in the early part of 2004, profits warnings, disappointing employment figures and the Madrid terrorist attack raised investor concern about the strength of economic recovery. Market setbacks in April and May were quickly reversed on the back of strong US payroll numbers and a series of positive economic statistics, both in the US and UK. Markets ebbed and flowed throughout the summer as investors examined economic data from the US and the oil price fluctuated wildly between \$30 and \$50 a barrel.

The strong rally, which started in late October on the back of a clear-cut Republican victory in the US presidential election, carried on into 2005, fuelled by corporate activity as take-over stories dominated. Although the year to March 2005 finished on a cautious note as worries about US inflation and further interest rate increases caused profits to be taken, the year had seen a further recovery from the lows experienced in the early years of the decade.

The third successive year of good returns brought some relief to funds hit by the negative equity markets of 2000 to 2002. However it is important to put this improvement in returns into a wider perspective. Pressure on funding levels, the degree to which future liabilities are covered by current assets, continues. Low interest rates, improvements in life expectancy and modest inflation are factors which create this pressure and, while the improvement in investment returns is very welcome, other measures may be necessary to achieve a fully funded position.

Over the year equities produced double digit returns. UK equities returned nearly 16%, with overseas equities around 11% in sterling terms. The best performing major market was Europe, with the Pacific region continuing to perform strongly. The return from US Equities continued to be depressed for UK investors by the weakness of the dollar and Japan actually produced negative returns. In the face of rising interest rates bonds turned in relatively

poor returns. Commercial Property produced another year of strong results, although signs of over-heating emerged as investors, many from overseas, bid up prices for prime investment opportunities.

Investors continued to disinvest from UK equities during the year, with over £6 billion being switched into bonds and £4 billion into overseas equities. Although there was some evidence of money flowing into "other investments", a category which includes private equity and hedge funds, the sums involved were relatively small, at around £0.5 billion.

The value of the Teesside Fund at 1 April 2004 was £1.2 billion. Having correctly called the bottom of the UK equity market late in 2002, the Fund's advisors continued to favour equity markets as opposed to bonds. In particular the advisors recommended that the Fund should increase its exposure to Japan and the US, whilst remaining underweight against the average UK fund, thereby starting to correct the long-held underweight positions. The advisors also recommended that the Fund increase its exposure to the Pacific Basin. By the year end Fund value had risen to £1.4 billion.

The managers continued to evaluate those types of investments categorised as "alternative", although what is included in this catchall term is itself a matter of debate. There is clear evidence that investors are becoming less convinced that the traditional types of investment, equities, bonds and property will be able to generate the levels of return which will meet the requirements of pension funds in the future. Growing interest in Hedge Funds, often described as Absolute Return Funds, is a reflection of this. The Fund's advisors have recommended that the Fund should not invest in Hedge Funds, although this will be reviewed as part of the Asset/Liability Study which will be carried out by the advisors, along with the Fund actuary, in 2005.



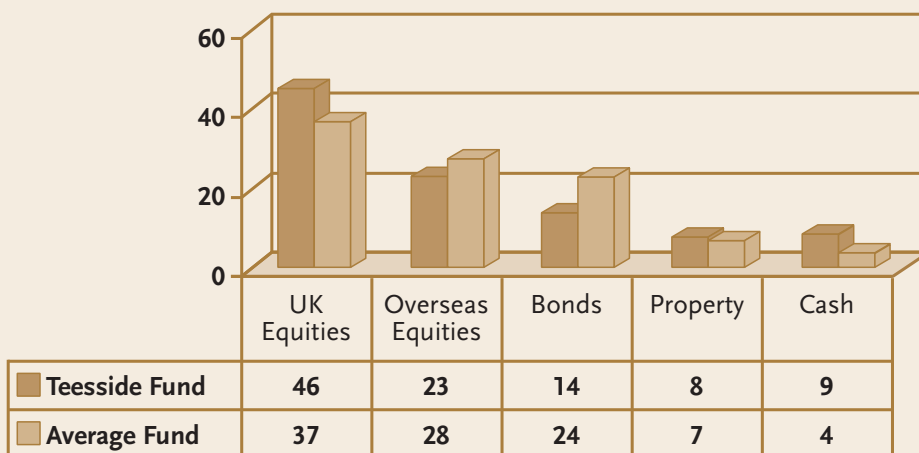
The Local Government Pension Scheme, unlike most other Public Sector schemes, is a funded scheme. The Teesside Fund is a part of that scheme and has a fund of investments which are invested in such a way as to be able to pay out benefits to scheme beneficiaries both now and in the future. The purpose of the Asset/Liability Study is to determine what mix of investments is best suited to meeting the long-term liabilities, namely the benefits due to be paid out in the future.

The Teesside Fund is invested in a wide range of assets. This meets the need to have diversification 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 Teesside Fund has a greater proportion held in defensive asset classes, such as commercial property and cash and continues to favour UK equities over overseas equities.

The Teesside Fund has significant holdings in many of the UK's leading companies. The largest 20 holdings, which make up 51% of the value of the UK portfolio as at 31 March 2005 are;

	£ millions
BP	49.9
HSBC	39.5
Vodafone	34.8
GlaxoSmithKline	31.8
Shell	22.1
Royal Bank of Scotland	19.0
Barclays Bank	15.6
AstraZeneca	13.6
HBOS	13.5
Liontrust Intellectual Capital	13.5
Lloyds TSB	12.4
BT	10.4
Diageo	10.3
Tesco	10.0
Invesco Smaller Companies	8.7
Anglo American	8.2
BHP Billiton	8.2
Rio Tinto	7.9
Standard Chartered	6.9
British American Tobacco	6.5

### Asset Split Comparison



## Fund 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, member's benefits are related to final 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 contribution could mean less money to pay for other services.

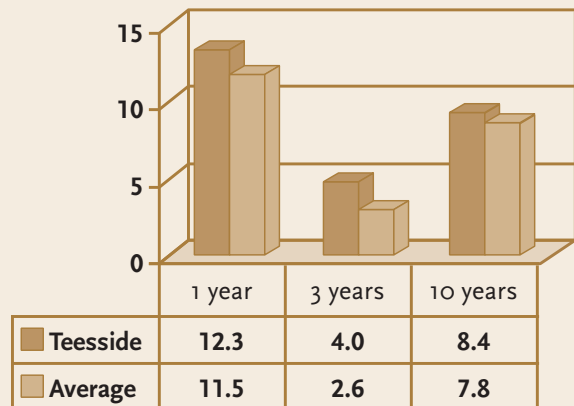
As Pension Fund investment is a long-term business, it is appropriate that longer-term measures of performance are viewed as more important than short-term measures. It has become standard practice to report the performance of the Teesside Fund over 1, 3 and 10 years and compare performance with other 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 concentrated on as these are the performance measures which are included in the Strategic Resources Service Plan as Key Performance Indicators. In the year 2004/05 85 Local Authority funds were included in the WM Local Authority Pension Fund Service. The aggregate value of these funds was £82 billion.

In the year 2004/05 the Teesside Fund achieved a return of 12.3%. This return was above the average for all funds of 11.5%. The Teesside Fund has beaten the average fund in four out of the last five years.

In the three-year period 2002/03 to 2004/05 the Teesside Fund achieved a return of 4.0% per annum, better than the average return of 2.6% per annum.

In the ten-year period 1995/96 to 2004/05 the Teesside Fund achieved a return of 8.4% per annum, again better than the average return of 7.8% per annum. This placed the Fund in the top 10% of Local Authority funds over the ten year period.

## Fund Performance



In the year 2004/05 the Fund benefited from its above-average weightings in UK and European equities and property. It also benefited from its below average weighting in Bonds, the worst performing of the major asset classes. The Fund's weighting in cash, accumulated to take advantage of better buying opportunities, hampered performance. In the longer term the Fund's preference for equities over bonds has been beneficial, as has the substantial weighting in property, the best performing asset class over the last 10 years.

Another key measure of performance looks at the cost of managing the Fund. The Office of the Deputy Prime Minister 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 results for 2004/05 show that the Teesside Fund had investment management costs of £13.72 psm. Although comparative figures are not yet available, the average for all Local Authorities in 2003/04 was £44.22 psm. Although there are a number of reasons why the Teesside Fund costs are relatively low the main reason is that, as an internally managed fund, there are no fees payable to City-based external managers.



## Corporate Governance

Since the 1980's the policies of the Teesside 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.

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 Teesside Fund's Statement can be viewed on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk) or on application to the address shown on the back page. The Statement has been amended to take into account the recommendations of the Myners Report on Institutional Investment. The Teesside Fund compliance statement is shown on pages 28 to 33.

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.*

In order to pursue a policy of positive engagement, the Fund is an active member of the Local Authority Pension Fund Forum, (LAPFF, whose website is [www.lapfforum.org](http://www.lapfforum.org)) a grouping of Local Authority funds with investments valued around £50 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.

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

### ■ Director's Remuneration

The Forum has had a clear policy on director's remuneration for a number of years and has led a number of campaigns highlighting excesses. Members of the Forum do not dispute the need to recruit and retain key executives with appropriate remuneration packages, but do require that the mechanism for determining remuneration be transparent, be approved by shareholders and those performance-related awards are based on challenging performance targets. The Forum is pleased that the Government has responded to shareholder pressure by requiring companies to put the report from company remuneration committees before shareholders.

### ■ Fund Managers and Good Practice in Corporate Governance

In anticipation of the forthcoming statutory Operating and Financial Review the Forum has issued guidelines to be considered by pension fund trustees when reviewing compliance of their fund managers with the principles of engagement as outlined by the Institutional Shareholder Committee's statement. The Forum will also research any link between good practice in corporate governance and enhanced company financial performance.

### ■ Company Workforce Practices

The Forum will use its investor guide on best practice in reporting on human capital management to seek to identify any companies falling short of the required standards. Initially the focus will be on companies in the Leisure and Food Producers sectors.



### ■ Greenhouse Gas Emissions

The campaign to encourage rigorous reporting on greenhouse gas emissions is based on continuing research on disclosure by FTSE 100 companies, according to eight core guidelines published by the Department for Environment, Food & Rural Affairs (DEFRA). Based on this, the Forum has collaborated with the Environment Agency Pension Fund on a joint shareholder engagement initiative to raise with companies the importance of reporting their greenhouse emissions. The breadth of the campaign has been widened and a study has been commissioned on "Local Authority Pension Funds and Climate Change". It is intended to engage in positive dialogue with companies, moving away from the previous focus on companies which have poor disclosure standards.

### ■ Overseas Employment Standards

This is the longest-running Forum campaign. Starting in 1998 the Forum initiated a campaign to persuade UK companies in the retail sector to adopt codes of conduct, backed up by the development of monitoring and verification mechanisms, which they would require their supplier companies to meet. Although the campaign was initially aimed at the use of under-age labour it quickly broadened to include the interrelated and wider problem of working conditions in the export manufacturing sectors of developing countries.

In summary the campaign has been very successful in raising awareness among UK companies of the issues involved and encouraging them to bring about changes of behaviour among suppliers that does not disadvantage the workforce. The Forum has now commenced work on the next stage of this campaign, focusing on a sample of industry sectors with interests in China. The aim is to ascertain how they are addressing the risks related to operating in China, with particular regards to labour standards in the supply chain.

### LAPFF Membership as at 31 March 2005

- Avon Pension Fund
- City of Edinburgh Council
- Clwyd Pension Fund
- Derbyshire County Council
- Dyfed Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Lancashire County Council
- LB Bexley
- LB Brent
- LB Camden
- LB Croydon
- LB Hackney
- LB Hammersmith & Fulham
- LB Islington
- LB Newham London Pension Fund Authority
- Merseyside Pension Fund
- Norfolk Pension Fund
- Northamptonshire County Council
- North Yorkshire County Council
- Nottinghamshire County Council
- Shropshire County Council
- Somerset County Council
- South Yorkshire Pension Fund
- **Teesside Pension Fund**
- Tyne & Wear Pension Fund
- West Midland Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council



## Focus On The Health Sector

One of the main themes of the investment strategy followed by the Teesside Fund in recent years has been a recognition of the growing importance of the Health Sector. This catch-all term encompasses a variety of companies ranging from giant pharmaceutical conglomerates to small biotech companies.

The rationale behind this strategy is that the global market for health services will grow at a faster rate than general economic growth for the foreseeable future.

There are four key reasons for this:

- Increasing longevity requiring greater expenditure, both personal and governmental, on healthcare solutions;
- Rising global living standards. As the process of industrialisation continues in the developing economies expectations of greater healthcare increase;
- Research and development continues to produce new treatments and healthcare solutions, increasing the expectations of consumers;  
Increasing use of the private sector in delivering public health facilities and services.

The Fund invests in a range of companies which are leaders in the healthcare field. These companies are traditionally the main drivers of research and development, discovering and marketing the new drugs and treatments which meet the ever-increasing needs of their customers.

## Ten Healthcare Holdings

Holding	Country	Market Value £m	Cost £m
GlaxoSmithKline	UK	31.8	10.9
AstraZeneca	UK	13.6	7.7
Novartis	Switzerland	3.1	2.4
Alliance Unichem	UK	2.7	1.3
Shire	UK	2.4	3.4
Smith & Nephew	UK	2.3	1.8
Roche	Switzerland	2.0	2.0
Sanofi	France	1.3	1.2
Framlington Biotech	UK	1.2	1.9
Pfizer	US	1.1	1.6

The Fund also invests in companies which compete with the giant pharmaceutical drug producers by manufacturing cheaper, generic drugs when patents have expired, biotech companies which seek to develop new drugs and treatments and in companies which are involved in a sector of the healthcare market which is becoming increasingly important; that based around medical devices, covering a vast range of products from scanners to surgical implants.





“The King was in his counting house counting out his money”

From ‘**Sing a song of sixpence**’ the traditional English Nursery Rhyme

*The Fund’s “money” or assets only form one part of the equation, the other part consists of the liabilities which the Fund owes to its members. Every 3 years the Actuary carries out a valuation comparing the assets with the accumulated liabilities enabling the Fund to plan future contribution levels.*

# Financial Statements

## Independent Auditors Report to Teesside Pension Fund

I have examined the financial statements included in the Pension Fund Annual Report set out on pages 19 to 27. This report is made solely to Middlesbrough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### Respective responsibilities of the Director of Resources and Auditors

As described on page 18 the Director of Resources is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes 2002". My responsibility is to report to you my opinion on the consistency of the financial statements within the Annual Report with Middlesbrough Council's statutory financial statements. I also read the other information contained in the Annual Report and consider the implications of my report if I become aware of any misstatements or material inconsistencies with the statutory financial statements.

### Basis of Opinion

I conducted my audit in accordance with paragraphs 15 to 18 of Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

### Opinion

In my opinion the financial statements set out on pages 19 to 27 of the Annual Report are consistent with the statutory financial statements of Middlesbrough Council for the year ended 31 March 2005 on which I have issued an unqualified opinion.

Signature:



L Hunt, for the Audit Commission

Date: 31st October 2005



## 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.

### 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 31st March 2005.

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.
- Complied with the code.

The Director of Resources has also:

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



Paul Slocombe  
Director of Resources  
Middlesbrough Council

Dated this 19th day of September 2005

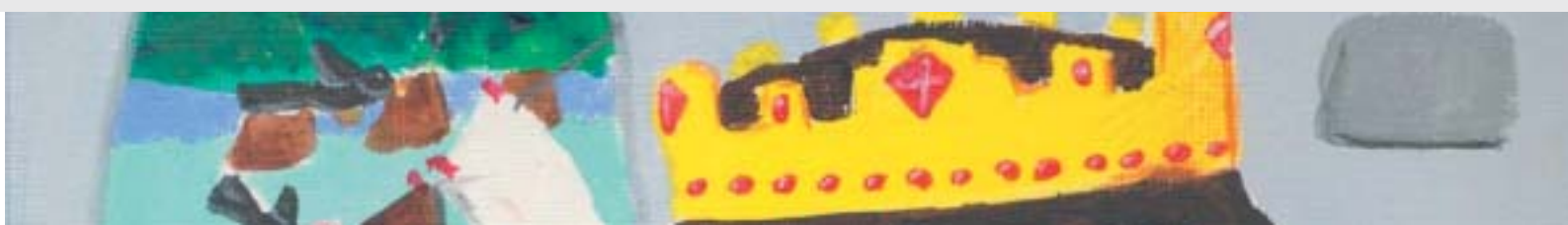


## Fund Account for the Year Ended 31st March 2005

Note		2005 £'000s	2004 £'000s
<b>Contributions and Benefits</b>			
Contributions receivable	3	82,817	76,149
Transfers in	4	22,457	23,789
Other income	5	4,191	4,375
		<u>109,465</u>	<u>104,313</u>
Benefits payable	6	55,333	48,732
Leavers	7	10,382	9,087
Administrative expenses	8	1,420	1,166
		<u>67,135</u>	<u>58,985</u>
Net additions (withdrawals) from dealings with members		<u>42,330</u>	<u>45,328</u>
Returns on investments			
Investment income	9	40,865	37,912
Change in market value of investments	10	110,305	185,142
Investment management expenses	11	(651)	(657)
<b>Net returns on investments</b>		<u>150,519</u>	<u>222,397</u>
<b>Net increase (decrease) in the fund during the year</b>		<u>192,849</u>	<u>267,725</u>
<b>Net assets of the scheme as at 1 April 2004</b>		<u>1,230,063</u>	<u>962,338</u>
<b>At 31 March 2005</b>		<u>1,422,912</u>	<u>1,230,063</u>

## Net Assets Statement as at 31st March 2005

Note		2005 £'000s	2004 £'000s
<b>Investments</b>			
	10		
Fixed interest securities		136,642	145,632
Equities		792,770	670,332
Index-linked securities		50,014	31,942
Managed and unitised funds		243,909	207,671
Properties		70,725	64,890
Cash Bonds		501	1,523
Cash Deposits		109,000	80,400
		<u>1,403,561</u>	<u>1,202,390</u>
Current assets and liabilities	12	17,270	25,539
Debtors due over 1 year	13	2,081	2,134
<b>Net assets of the scheme at 31 March 2005</b>		<u>1,422,912</u>	<u>1,230,063</u>



## Notes to the Financial Statements

### 1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Scheme (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year.

### 2 Accounting policies

#### *Introduction*

These accounts have been prepared in accordance with recommendations of the SORP - Financial Reports of Pension Schemes (Revised November 2002)

#### *Basis on which Debtors and Creditors 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 2005 as provided by the Fund's custodians. Quoted UK securities are valued at the mid point of the quotations in the Stock Exchange Daily Official List. Overseas quoted securities are similarly valued at middle market prices from overseas stock exchanges, translated at closing rates of exchange.

Unquoted investments are valued by the trustees, based on the cost of those investments unless other evidence exists.

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

Property is valued annually by a qualified valuer.

#### *Foreign exchange*

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

#### *Overseas Investments*

The Pension Fund is in the same position as all other local authority pension funds when investing abroad. Investments in unit trusts are held in the name of the fund, while investments made by custodians on behalf of the fund are held in nominee names. In the latter situation, fund administrators and auditors are not in the position to vouch investment certificates to the accounts. They have to rely upon certified lists of investments provided by the custodians.

Indemnities have been provided by the custodian and are designed to protect the interests of the fund, in defined circumstances, where investments are held in nominee names.

#### *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.

#### *Contingent Liabilities*

The Pension Fund currently has no contingent liabilities.



**3 Contributions receivable**

		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Employers	Normal	59,586	54,407
	Special	296	284
Members	Normal	22,935	21,458
		82,817	76,149

**Analysis of Total Contributions receivable**

		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Administering Authority		14,486	13,739
Scheduled Bodies		46,784	44,402
Admitted Bodies		21,547	18,008
		82,817	76,149

**4 Transfers in**

		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Individual transfers in from other schemes		22,457	23,789

**5 Other income**

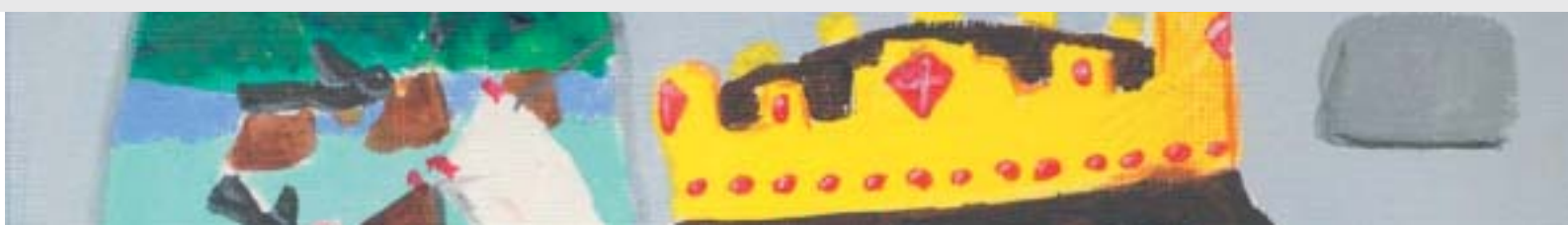
		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Capital Costs of Early Retirements		4,164	4,317
Other income		27	58
		4,191	4,375

**6 Benefits payable**

		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Pensions		44,716	42,026
Commutations and lump sum retirement benefits		9,594	5,764
Lump sum death benefits		1,023	942
		55,333	48,732

**Analysis of Total Benefits Payable**

		<b>2005</b>	<b>2004</b>
		£'000s	£'000s
Administering Authority		14,247	13,450
Scheduled Bodies		31,697	29,572
Admitted Bodies		9,389	5,710
		55,333	48,732



## Financial Statements

## 7 Payments to and on account of leavers

	2005	2004
	£'000s	£'000s
Refunds to members leaving service	312	295
Payments for members joining state scheme	192	248
Individual transfers to other schemes	9,878	8,544
	10,382	9,087

## 8 Administrative expenses

	2005	2004
	£'000s	£'000s
Administration and processing	1,344	1,141
Actuarial Fees	52	4
Audit Fee	24	21
	1,420	1,166

## 9 Investment income

	2005	2004
	£'000s	£'000s
Income from fixed interest securities	3,919	8,140
Dividends from equities	23,320	20,801
Income from Index-Linked Securities	1,264	
Income from pooled investment vehicles	2,399	2,093
Net rents from properties	4,443	3,616
Interest on cash deposits	5,520	3,262
	40,865	37,912

## 10 Investments

	Value at 01.04.04 £'000s	Purchases at cost £'000s	Sale proceeds £'000s	Change in market value £'000s	Value at 31.03.05 £'000s
Fixed interest securities	129,752	175,539	(169,102)	453	136,642
Equities	670,332	116,250	(69,398)	75,586	792,770
Index-linked securities	47,822	20,630	(19,678)	1,240	50,014
Pooled Investment Vehicles	207,671	11,294	(3,128)	28,072	243,909
Properties	64,890	8,004	(7,164)	4,995	70,725
Cash Bonds	1,523	1,019	(2,000)	(41)	501
Cash Deposits	80,400	28,600			109,000
	1,202,390	361,336	(270,470)	110,305	1,403,561

## 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.



<b>Fixed interest securities</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
UK public sector quoted	64,417	60,318
Overseas public sector quoted	72,225	69,434
	136,642	129,752
<b>Equities</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
UK quoted	594,948	517,159
Overseas quoted (see Note below)	197,822	153,173
	792,770	670,332

During the year Merrill Lynch was removed as manager of the Fund's US\$ quoted equity holdings. As a result all investments are now managed in-house.

<b>Index-linked securities</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
UK quoted	32,967	31,942
Overseas quoted	17,047	15,880
	50,014	47,822

<b>Pooled Investment Vehicles</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Unit and Investment trusts UK	109,429	94,094
Overseas	134,480	113,577
	243,909	207,671

<b>UK Properties</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Freehold	56,250	54,015
Leasehold	14,475	10,875
	70,725	64,890

The properties were subject to independent valuation, as at 31st March 2005, by Mr D.V. Tittle Bsc FRICS in April 2005.

<b>Cash Bonds</b>	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
UK Cash Bonds	501	1,523

#### 11 Investment management expenses

	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Administration, management and custody	651	657



**12 Current assets and liabilities**

	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Other Debtors	16,395	10,708
System Debtors	793	307
Contributions Due	6,503	5,988
Other Creditors	(8,378)	(3,518)
Cash balances	532	2,443
Short Term Investments	1,425	9,611
	<hr/> 17,270	<hr/> 25,539

**13 Debtors due over 1 year**

	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Capital cost of early retirements	<hr/> 2,081	<hr/> 2,134

**14 Related Party Transactions**

The Fund is administered by Middlesbrough Council which is a related party as defined by Financial Reporting Standard 8 (FRS 8) 'Related Party Disclosures'. FRS 8 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;

	<b>2005</b>	<b>2004</b>
	£'000s	£'000s
Support Service Recharges	<hr/> 160	<hr/> 366

In addition Middlesbrough Council has a £260 million, 10 year partnership with HBS Service Middlesbrough for the provision of business, finance, IT, HR and other support services which commenced 1st June 2001.

**15 Actuarial Valuation**

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

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, *The Triennial Valuation*.

An Actuarial Valuation was carried out as at 31st March 2004 using the 'Projected Unit Method' which produced the following results;

	£million
Net Liabilities	1,526
Assets	1,231
Surplus (Deficit)	(295)
Funding Level	81%

**16. 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 Century Life PLC. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts.



## Actuarial Statement and Certificate

### Introduction

The last full triennial valuation of the Teesside Pension Fund was carried out as at 31 March 2004 by Hymans Robertson. The results were published in their report dated March 2005.

### 2004 Valuation

The 2004 valuation certified a common contribution rate of 17.2% of pensionable pay to be paid by each employing body participating in the Teesside Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

### Contribution Rates

The contributions rates, in addition to those paid by the members of the scheme, are set to be sufficient to meet

- 100% of the liabilities in respect of each employer that have built up within the Fund in respect of service to the valuation date, allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of the liabilities of the employer.

### Asset Value

The market value of the Funds assets as at 31 March 2004 was £1,231m which represented 81% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method taking account of the market value of assets at that date.

To be consistent with the market value of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date and were as follows;

Rate of return on investments	6.5% per annum
Rate of increases in pay	4.9% per annum
Rate of Increases to pensions in payment	2.9% per annum

### Experience to 31 March 2005

The market has continued to increase since 2004 and the value of assets was estimated to be £1,422m as at 31 March 2005. This return of approximately 12.3% over the year exceeds the 6.5% expected in the actuarial assumptions. If all other assumptions are as expected this will result in an improved funding level at the next valuation.



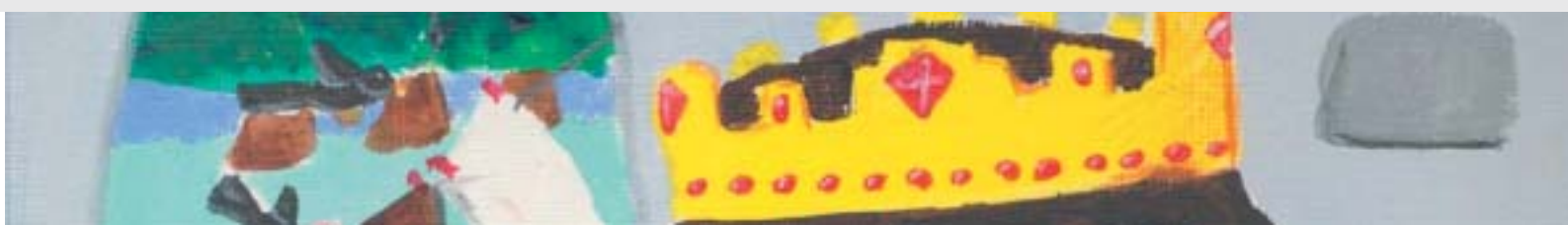
**Graeme D Muir FFA**

Fellows of the Faculty of Actuaries

September 2005



**Alison Hamilton FFA**



## Schedule of Contribution Rates

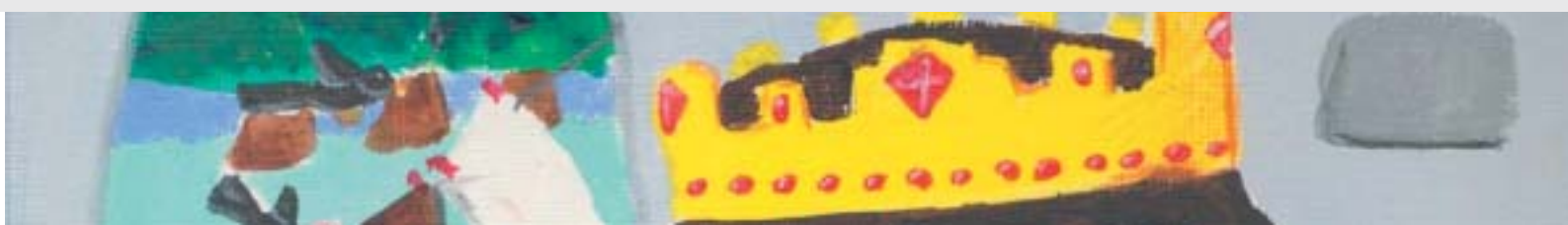
Net rate of contribution payable by each employing Organisation for the period 1st April 2004 to 31st March 2005 under regulation 79 of the LGPS Regulations 1997.

Employer	Total Contribution Rate %	Additional Cash Sum (Note 1)
<b>Major Employers</b>		
Hartlepool Borough Council	13.4	£978,418
Middlesbrough Council	16.5	
Redcar & Cleveland Borough Council	13.8	£1,044,378
Stockton Borough Council	13.1	£1,308,222
<b>Other Scheduled Bodies</b>		
Cleveland Fire Authority	17.9	
Cleveland Magistrates Court Committee	16.0	
Cleveland Police Authority	15.7	
Cleveland Probation Service	14.9	
Guisborough Town Council	15.1	
Loftus Town Council	15.1	
Saltburn & Marske Parish Council	15.1	
University of Teesside	14.9	
<b>Admitted Bodies</b>		
Beamish Museum	13.8	
Business Link Tees Valley	14.1	
Coast and Country Housing	14.0	
Commission for Social Care Inspection	16.1	
Community Integrated Care	14.9	
Connexions Tees Valley (formerly Future Steps Ltd)	13.2	
Dial a Ride	13.8	
Erimus Housing	17.5	
Five Rivers	14.8	
Future Regeneration of Grangetown	13.8	
HBS Business Services	14.2	
Housing Hartlepool	13.9	
Jarvis	15.2	
Liberata	14.5	
McAlpine Government Services	16.8	
Middlesbrough Refuge	13.8	
Middleton Grange Shopping Centre	13.8	
New Era Housing Association	15.3	
NextiraOne UK Ltd (HBS)	12.0	
NextiraOne UK Ltd (SBC)	15.0	
OCS	17.5	
Open College Network (TROC)	13.9	



Employer	Total Contribution Rate %	Additional Cash Sum (Note 1)
Stagecoach Hartlepool	19.5	
Stagecoach Transit	19.5	£296,820
Swindon Urban Regeneration	15.5	
Tees Active	13.1	
Tees Forest Development Co	13.8	
Tees Valley Leisure	14.6	
Tees Valley Urban Regeneration Co	15.5	
Teesside International Airport	14.0	
Tristar Homes	13.1	
<b>Colleges</b>		
Bede College	14.8	
Cleveland College of Art & Design	14.8	
Hartlepool 6th Form College	14.8	
Hartlepool College of Further Education	14.8	
Kings Academy	14.8	
Middlesbrough College	14.8	
Prior Pursglove College	14.8	
Redcar and Cleveland College	14.8	
St Mary's College	14.8	
Stockton 6th Form College	14.8	
Stockton Riverside College	14.8	
Unity City Academy	14.8	

1. The additional amounts are subject to an annual increase at 1st April each year of RPI in the previous 12 months plus 2%.





“I’ll huff and I’ll puff  
and I’ll blow your  
house in”

Three Little Pigs is a fairy tale featuring talking animals. Published versions of the story date back to the late 18th century, but the story is thought to be much older

*No matter how much events “Huff and Puff” the Teesside Pension Fund’s use of sound Corporate Governance ensures that the Fund has established a secure foundation upon which the scheme is based.*

# The Compliance Statement

## Pension Increases

Increases in pensions are based on the Retail 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 55th birthday.

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

From April	Increase %
1996	3.9%
1997	2.1%
1998	3.6%
1999	3.2%
2000	1.1%
2001	3.3%
2002	1.7%
2003	1.7%
2004	2.8%
2005	3.1%

## Changes to the Local Government Pension Scheme Regulations

A recent Government review of the Local Government Pension Scheme (LGPS) identified the need to make amendments to the Regulations in order to safeguard the scheme and to ensure it remains affordable and sustainable for future generations. Initial amendments to the scheme became operative on 1 April 2004 and made the following changes to the Local Government Pension Scheme (LGPS):

### Qualifying for Benefits under the LGPS

Prior to April 2004, members of the LGPS needed to accrue 2 years pensionable service before becoming entitled to pension benefits. This has now been changed to a requirement of just 3 months.

This means that if a member leaves the scheme with more than 3 months membership, or has brought a transfer value into the LGPS from a non Local Government scheme, or is in receipt of an earlier LGPS pension, they will no longer be able to claim a refund of contributions.

The only exceptions to the above are employees who were already members of the pension scheme on the 1st April 2004. These employees may still be able to apply the old rules when determining their entitlement from the scheme.

### Transferring Earlier LGPS Service

Previously, if a member held preserved benefits with any LGPS authority and then re-joined the LGPS with the same or a different employer, it was possible to combine the two periods of LGPS membership at any time during their period of active membership. Now, when a member rejoins the LGPS, they only have 12 months from re-joining the scheme during which they can decide whether to combine their two periods of membership.

If an election is not made to combine benefits within the time limit and the member then has another period of LGPS membership at a later date, a subsequent election to combine that first period cannot be made.

### Re-Employed Pensioners

Historically, if a member received a pension from the scheme and then returned to work and re-joined the LGPS, upon retirement, they were entitled to elect for a single pension calculated using the total membership from both periods of employment and the final pay from their last period of employment. If the pension was paid through ill-health retirement and they recommenced employment for a period of at least 5 years, before again retiring on the grounds of ill-health, the member was entitled to receive a second ill-health enhancement in the calculation of the second pension, based on the total membership from both periods of employment.

The amendment regulations no longer enable members to elect for a single pension upon final retirement. Second pensions will only be calculated using membership and final pay from the final period of employment, and will then be paid in addition to the first pension.



It is also no longer possible to receive a second ill-health enhancement. The second ill-health pension will be calculated using the membership from the latest period of employment only. The exception to this would be if a member has two or more simultaneous employments that are both terminated on the grounds of ill-health at the same time. In that case the member would receive two pensions and provided they had at least 5 years membership in each, they would both be given an ill-health enhancement.

## Internal Dispute Resolution Procedure

In the past, matters of disagreement or complaint have been considered at pension fund level. In instances where the employee was not satisfied with the outcome at stage one, the matter was passed on to the Office of the Deputy Prime Minister. On 1st June 2004, this two stage process was amended and is now conducted, initially, by the employer and then by the pension fund. The aim of the change is to speed up the IDR process and to try to get the majority of problems sorted out at an earlier stage.

## Annual Benefit Statements for all Members

It is now a requirement for administering authorities to issue benefit statements to all active, deferred and pension credit members in their Fund. The first statements must be issued on or before the 1st of April 2005 and subsequent statements must be issued on or before each 1st of April thereafter.

## Funding Strategy Statement

With effect from the 31st March 2005 each administering authority is required to prepare, maintain and publish a written statement setting out their funding strategy. The statement must have regard to the administering authority's statement of investment principles and to the "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement".

The purpose of the Funding Strategy Statement is to allow each administering authority to take a prudent long-term view of funding liabilities, whilst recognising the potential actuarial consequences of extending the liability recovery periods. It is therefore necessary for the

statement to be republished following any material change in the authority's statement of investment principles or in the authority's policy on the matters contained in their Funding Strategy Statement.

Further changes to the LGPS from 2005 (which have now been revoked) were aimed at safeguarding the future of the LGPS by constraining costs. These changes were intended to pave the way for the next stage of the review to modernise the scheme, which would have seen a new look LGPS introduced from 2008 to meet the needs of employers and the local government workforce, whilst representing good value for local and national tax payers. Now that the 1st of April 2005 changes have been revoked there will need to be a re-assessment. A tripartite committee, made up of Government, TUC and employers representatives, has been set up to consider the measures to be put in place to ensure that the LGPS remains affordable and sustainable in the long term.

To view the latest updates regarding the scheme please visit 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 Teesside Pension Fund SIP contains statements on;

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

The statement is maintained and published by Middlesbrough Council, copies of which are available on application.



### Principle 1: Effective decision-making.

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where Trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

#### Full Compliance

### Principle 2: Clear Objectives

Trustees should set out an overall investment objective for the Fund that:

- represents their best judgement of what is necessary to meet the Fund's liabilities given their understanding of the contributions likely to be received from employers and employees;
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions

Objectives for the overall fund should not be expressed in terms which have no relationship to the Fund's liabilities, such as performance relative to other pension funds, or to a market index.

#### Full Compliance

### Principle 3: Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of

investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

#### Full Compliance

### Principle 4: Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

#### Full Compliance

### Principle 5: Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreements between trustees and managers on:

- an objective, benchmarks and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;
- the manager's approach in attempting to achieve the objective; and
- clear timescales of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of those costs and should have an active strategy—whether through direct financial incentives or otherwise—for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's commissions

#### Full Compliance



## Principle 6: Activism

The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism. Trustees should ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

The Fund has a robust voting strategy. Compliance with the US Bulletin is under review pending the outcome of a consultative review being carried out by the Deputy Prime Minister's Office.

## Principle 7: Appropriate Benchmarks

### Trustees should:

- explicitly consider, in consultation with their managers, whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

### Full Compliance

## Principle 8: Performance Measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for formal assessment of performance and decision-making delegated to advisors and managers.

### Full Compliance

## Principle 9: Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how this strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

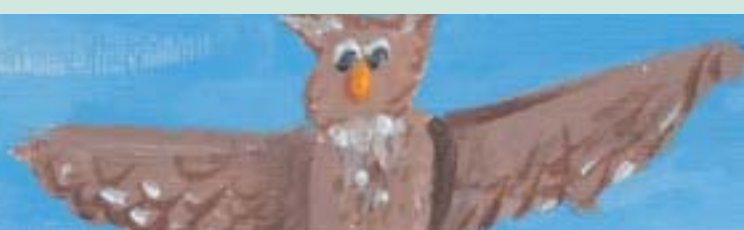
### Partial Compliance

The Statement of Investment Principles is being reviewed to include fee structures

## Principle 10: Regular Reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisors and managers. They should send key information from these annually to members of the fund, including an explanation of why the fund has chosen to depart from any of these principles.

### Full Compliance



## Summary of LGPS Benefits

<b>Eligibility</b>	Virtually all employees of relevant employers aged under 65
<b>Member Contributions</b>	Officers           6% of earnings Manual           6% of earnings (5% for pre 1/4/98 members)
<b>Normal Retirement age</b>	65
<b>Early Retirement</b>	Where retirement is on the grounds of ill-health benefits are payable at any age
<b>Benefits at normal retirement age</b>	Pension - 1/80th of final pay for each year of pensionable service Lump Sum – 3 times the Pension In some cases it is possible to exchange the lump sum for a bigger pension, or the pension for a bigger lump sum
<b>Pension Increases</b>	All pensions in payment and deferred pensions are increased annually
<b>Death in Service benefits</b>	A lump sum payment of 2 times final pay at the date of death, plus A spouse's pension of 1/160th of final pay for each year of service Children's pensions may also be payable
<b>Benefits on Leaving Service</b>	Members who leave service are entitled to either a refund of contributions paid (in certain circumstances), a preserved pension payable from normal retirement date, or a transfer payment to another scheme
<b>Extra Benefits</b>	Members may improve their benefits by; 1. Payment of additional periodical payments to increase membership 2. A money purchase AVC scheme
<b>Further Information</b>	More information about the scheme can be found in the Members Guide available from any of the participating employers or from the Pensions Office, address shown on the back page



## Contacts and Further Information

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### Teesside Pension Fund Web Site

[www.teespen.org.uk](http://www.teespen.org.uk)

### Employers Web Site

[www.employers.teespen.org.uk](http://www.employers.teespen.org.uk)

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