



Administered by  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL

**Tyne & Wear Pension Fund**

**REPORT  
AND  
ACCOUNTS  
1995/96**

# REPORT and ACCOUNTS

For the year ended 31st March, 1996

---

## Contents

Page		
3	_____	Members, Advisers and Officers
5	_____	Report of the Director of Corporate Services
6	_____	Administrative Arrangements
7	_____	Investment Report
10	_____	The Scheme
12	_____	Organisations Participating in the Fund
14	_____	Actuarial Information
15	_____	Report of the Actuary for the year ended 31st March, 1996
17	_____	Accounts
20	_____	Summary of Investments
22	_____	Notes on Compilation of the Accounts

---

**ADMINISTERING AUTHORITY  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL  
Members, Advisers and Officers 1995/96**

**Members**

Chairman	:	Councillor S. Hepburn
Vice Chairman	:	Councillor R.S. Haws, J.P.
<b>Other Members :-</b>		
South Tyneside M.B.C.	:	Councillor T.A. Bamford
	:	Councillor Mrs. E. Battye
	:	Councillor C. Bonnar, J.P.
	:	Councillor F.E. Firth
	:	Councillor J.F. Harper
	:	Councillor Mrs. V. Leary
	:	Councillor Mrs. L. Waggott
Gateshead M.B.C.	:	Councillor A.S. Brown (substitute - Councillor H. Smiles)
Newcastle City Council	:	Councillor D.S. Slesenger (substitute - Councillor C. Gray)
North Tyneside M.B.C.	:	Councillor Ms. A. Richardson (substitute - Councillor C.B. Pickard)
Sunderland City Council	:	Councillor Mrs. L.A.F. Bramfitt (substitute - Councillor P. Young)
<b>Trade Union Representatives</b>	:	T. Johnston UNISON
	:	W. Flynn UCATT
	:	I. Rossiter RMT
<b>External Investment Managers</b>		
<b>Balanced Managers :-</b>	:	Mercury Asset Management
	:	P.D.F.M.
<b>Specialist Managers :-</b>	:	
Japan and Pacific Basin	:	Schroder Investment Management
North America	:	J.P. Morgan Investment Management
Continental Europe	:	Capital International
Global Bonds	:	Prudential Portfolio Managers
<b>Indexation :-</b>	:	B.Z.W. Barclays Global Investors
<b>Property Manager :-</b>	:	Scottish Amicable Investment Managers
<b>Actuary</b>	:	R. Watson and Sons
<b>Director of Corporate Services</b>	:	P.J. Haigh

## REPORT OF THE DIRECTOR OF CORPORATE SERVICES

*The 1995/96 year was one of strong investment returns which caused the Fund to increase in value by £217 million, from £1,174 million to £1,391 million. The actual return to the Fund was +20.9%, although this was below the average U.K. pension fund return of +23.4%.*

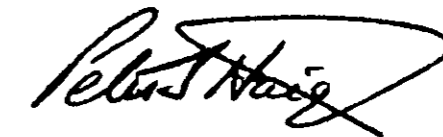
*This lower return is attributable to the individual fund managers actions combining into a defensive investment strategy, resulting in an increased allocation to cash and fixed interest and a lower allocation to equities in a year when equity markets performed strongly.*

*In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. This Fund's average annual return over the last five years has been +13.3%, against the average U.K. pension fund return of +14.1%, which is comfortably above the rate of inflation and the increase in wages over the period.*

*An actuarial valuation of the Fund has been completed, based on the position as at 31st March, 1995. In common with the valuations of the majority of local government schemes, this has revealed a deterioration in the financial position of the Fund. This is attributable to a range of factors, including the contributions paid over the three year intervalation period being less than those required to maintain the funding level, higher than expected retirements because of ill-health and redundancy, changes in the statistical assumptions underlying the valuation and changes in Advance Corporation Tax. The deterioration has to be corrected by way of stepped increases in employers' contributions starting from 1st April, 1996.*

*Following the Maxwell affair, the Goode Committee was set up in 1992 to review the framework of law within which pension funds operate. The Committee reported in September 1993 and, following a period of consultation, a Pensions Act was passed in July 1995. Details of the requirements of the Act in relation to the Local Government Pension Scheme are summarised on page 11.*

*Mention has been made in previous years' reports of an "Efficiency Scrutiny" of the Local Government Pension Scheme being conducted by the Department of Environment. The Department has announced that a Scheme with a simplified benefits structure will be introduced from April 1998, with the base benefits being the same as in the current Scheme. Draft regulations are about to be issued and the Council intends to continue to participate in the dialogue.*



**PETER J. HAIGH**  
**DIRECTOR OF CORPORATE SERVICES**

**ADMINISTRATIVE ARRANGEMENTS**

**PARTICIPATING ORGANISATIONS**

On 1st April, 1986 South Tyneside Metropolitan Borough Council became the administering authority for the pension fund set up for the Tyne and Wear County area.

The five district councils and a number of other organisations which provide a public service within the County area participate in the Fund. A full list of these organisations is given on pages 12 and 13.

**LEGAL FRAMEWORK**

The framework within which local authority pension funds operate is set out in the Local Government Pension Scheme Regulations 1995. These regulations set out, on a national basis, the rates of contribution for various types of employee and the method of calculation of benefits.

The regulations also set out the types of investment which can be made. These include company and government securities, property and unit trusts, but not commodities or works of art.

**PENSIONS COMMITTEE**

The Council has delegated to the Pensions Committee the task of controlling and resolving all matters relating to the Pension Fund and to the investment of Pension Fund monies.

The Committee consists of thirteen members and normally meets quarterly. Nine of the members are nominated by South Tyneside Metropolitan Borough Council, with the balance made up by one representative from each of the other four districts within the County area. In addition, three representatives of the trade unions attend Committee meetings.

At its meetings, the Committee receives and considers comprehensive reports covering all aspects of investment activity. The investment performance of managers is looked at quarterly, with particular attention being paid to the annual performance analysis undertaken by Combined Actuarial Performance Services, whose analysis covers both public and private sector pension schemes.

Matters of substance relating to pensions administration which require the Committee's awareness or a formal administering authority decision are reported to the Committee as and when they arise.

**INVESTMENT ARRANGEMENTS**

For investment management purposes, the Fund has been divided into four portions - three large broadly equal portions and a fourth smaller portion. Two of the large portions have been allocated to external balanced managers and the Committee has set down broad guidelines within which these managers must invest. These guidelines are reviewed at regular intervals in the light of prevailing economic and stockmarket conditions, after taking account of the views of the Fund's adviser and managers and the future benefits liabilities of the Fund.

At 31st March, 1996 the permitted investment ranges (by market value) were :-

	Low %	High %
Fixed Interest and Index-Linked	10	35
U.K. Equities	45	70
Overseas Equities	10	30
Cash	0	10

The third large portion of the Fund is operated on a consensus basis with the asset allocation closely following that of the average U.K. pension fund. The U.K. equity content of this portion has been structured to obtain a return close to that of the FT-SE-Actuaries All-Share Index. External specialist managers have been appointed to invest in U.S., Japanese, European and Pacific Basin equities and in global bonds.

The fourth smaller portion contains the Fund's property investments, which are the responsibility of a specialist manager.

**INVESTMENTS AND PENSIONS ADMINISTRATION**

The strategy and performance of the investment managers is monitored by the Director of Corporate Services.

The administration of matters relating to Scheme members' benefits is also undertaken by the Director of Corporate Services.

**INVESTMENT REPORT**

**INVESTMENT RETURNS**

Investment performance was strong in 1995/96, with the median pension fund return being 23.4%. This Fund's return was below the median, at 20.9%.

The Fund's total return may be analysed over the main investment markets and compared with the CAPS median and index returns, as follows :-

	Tyne and Wear Fund %	Median %	Index %
Aggregate	+ 20.9	+ 23.4	-
U.K. Fixed Interest	+ 11.5	+ 10.8	+ 10.7
U.K. Index-Linked	+ 8.2	+ 8.0	+ 7.7
Overseas Fixed Interest	+ 19.3	+ 15.9	+ 13.9
U.K. Equities	+ 24.8	+ 25.5	+ 25.2
Overseas Equities	+ 27.1	+ 27.8	+ 27.8
U.S.	+ 42.4	+ 40.0	+ 40.4
Japan	+ 12.0	+ 15.2	+ 9.1
Europe	+ 26.3	+ 31.6	+ 30.1
Pacific Basin	+ 29.6	+ 26.8	+ 32.9
Property	+ 8.1	+ 5.0	+ 2.9

Positive returns were achieved in all areas. The median pension fund performed better than the indices for bonds, property and U.K. equities, and in line with the overall index for overseas equities.

The Tyne and Wear Fund outperformed the median for the bonds classes and for property, but underperformed for the U.K. and overseas equity classes.

The longer term success of the Fund is normally judged on the results of the latest five year period. In these individual years the returns have been :-

	Tyne and Wear Fund %	Median Fund %
1991/92	+ 3.3	+ 4.3
1992/93	+ 26.9	+ 25.9
1993/94	+ 15.3	+ 17.5
1994/95	+ 2.3	+ 0.6
1995/96	+ 20.9	+ 23.4

These results have produced an average annual return of 13.3%, which is slightly below the median return of 14.1%.

**FACTORS INFLUENCING MARKETS DURING 1995/96**

**Overview**

The behaviour of the U.S. economy had been a dominant influence on investment markets in 1994/95 and this situation continued into 1995/96. The U.S. had been raising its interest rates in the light of evidence of accelerating economic growth and consequent fears over the level of inflation. However, signs of a slowdown in the economy led to a reappraisal of the timing and the extent of the peak in interest rates. This led to a reduction in bond yields and a strong performance by the equity market. Bond and equity markets in other countries followed this lead.

Central bankers came to accept that economic growth was moderating worldwide and, by the third quarter, interest rates were being cut in all the major countries. The exception to this was Japan, where rates had already been reduced to 0.5%.

By the fourth quarter, the previous concern over a lack of growth had changed to a view that growth would become sufficiently strong to require higher interest rates by the end of 1996. This change in sentiment led to a correction in bond markets, although equity markets continued to be driven ahead by liquidity.

**Fixed Interest**

Globally, the economic background led to a strong performance from bonds for the first three quarters of the year. The performance in the fourth quarter was flat due to the release of strong employment figures in the U.S., indicating stronger U.S. economic growth than expected. The U.K. market returned 10.7% for the year, compared to an overseas index return of 13.9%.

**Equities**

Equity markets produced the best returns in 1995/96. Factors which were positive for equities included the general economic backdrop, the scenario of declining interest rates, high inflows into the U.S. mutual funds and generally favourable corporate activity. These positive factors were partially offset by poor profits announcements and forecasts which arose from flat or falling prices for many goods.

Amongst the major markets, the U.S. was the best performer with an index return of around 40%. By contrast, the U.K. market returned around 25%. The poorest performer was the Japanese market with an index return of around 9%. This relatively low return was attributable to a range of factors including weak economic data, the possibility of a trade war with the U.S. and the strength of the Yen.

**Property**

The property market proved to be a disappointment with an index return of 2.9%. In the absence of rental growth, investors were reducing their exposure and this led to a drop in property values across the market.

**INVESTMENT STRATEGY**

The Fund managers have an element of discretion in their asset allocation strategies, subject to complying with the broad investment guidelines laid down by the Committee. The combined effect of the managers' actions over the course of 1995/96 is set out in the following table :-

	Net Investment £'000	Net Disinvestment £'000
U.K. Fixed Interest _____	43,049	-
U.K. Index-Linked _____	-	373
Overseas Fixed Interest _____	-	4,584
U.K. Equities * _____	-	30,878
Overseas Equities * _____	-	28,069
Property * _____	-	4,561
	43,049	68,465
 Total Net Disinvestment	<u>25,416</u>	

\* Includes unit trusts.

The revenue account shows that an additional £34.7 million became available for investment. When this is combined with the net disinvestment of £25.4 million (as shown above) and other minor adjustments of £2.5 million, it resulted in cash and equivalents rising by £62.6 million to £128.8 million.

The investment portfolio therefore experienced two main trends, the first being a movement from overseas markets to the U.K. and the second being a movement from equities to U.K. fixed interest and cash. This is a continuation of a trend which began in the previous year and reflects an increasingly cautious stance which the Fund's managers have been adopting towards markets.

**COMPOSITION OF THE PORTFOLIO**

The combination of the investment transactions of the Fund and changes in market values had the following effect on the composition of the portfolio :-

	Start of Year		End of Year		Average Pension Fund
	£'000	%	£'000	%	%
U.K. Fixed Interest _____	69,257	5.9	115,154	8.3	4.4
U.K. Index-Linked _____	68,734	5.9	71,889	5.2	2.3
Overseas Fixed Interest _____	75,567	6.4	80,214	5.8	7.0
U.K. Equities * _____	588,948	50.2	667,717	48.0	54.7
Overseas Equities * _____	229,247	19.5	256,344	18.4	23.0
Property * _____	76,148	6.5	70,766	5.1	2.2
Cash and equivalents _____	66,219	5.6	128,810	9.2	6.4
	<u>1,174,120</u>	<u>100.0</u>	<u>1,390,895</u>	<u>100.0</u>	<u>100.0</u>

\* Includes unit trusts

**SUMMARY**

As stated above, the Fund's return in 1995/96 was 20.9%, which was lower than the average pension fund return of 23.4%. The lower return is attributable to the investment strategies of the individual managers combining into a cautious, or defensive, overall strategy. This resulted in the Fund being overweight in fixed interest and cash and underweight in equities, in comparison to the asset allocation of the average U.K. pension fund. This stance was adopted in anticipation of poorer returns from equity markets when, in fact, these markets proved to be better performers than the bond and cash markets.

**THE SCHEME**

**LEGAL FRAMEWORK**

The provisions of the Local Government Pension Scheme are contained in complex statutory regulations which are made and amended when necessary by the Secretary of State for the Environment and are ultimately approved by Parliament. The regulations apply nationally to all local authorities in England and Wales.

**COMMUNICATIONS STRATEGY WITH FUND MEMBERS**

Tyne and Wear Pension Fund promotes membership of LGPS as being in the best interests of local government employees and strives to communicate effectively with all scheme members.

This is achieved by producing a variety of literature and offering pensions presentations, in conjunction with each of the 69 different employers within the Fund.

Every new employee receives a new starters pension information pack to 'put them in the picture' about their Pension Scheme. Current scheme members receive newsletters, twice yearly, and a Members Annual Report is issued to both current members and pensioners. A comprehensive selection of information leaflets on specific pension topics are available on request.

**CURRENT EMPLOYEE MEMBERSHIP**

The number of employees contributing to the Scheme on 31st March, 1996 was 40,226, an increase of 7,938 from the 32,288 contributors at the previous year end.

This increase is largely because the scheme rules were amended in May 1995 to allow almost every employee to join the Pension Scheme. All of the restrictions that previously stopped people from joining the Scheme were removed. This has led to an influx of new members.

These employees are employed by the 69 different employers that participate in the Tyne and Wear Pension Fund.

**CONTRIBUTIONS**

Employees' contributions are fixed at 5% of pensionable pay for manual and craft workers and at 6% for officers.

Employees' contributions do not cover all the cost of their Scheme benefits. Employers participating in the Fund meet the balance of costs with their contribution. Each employer's share of cost is assessed every three years by the Fund's Actuary. This process is called fund valuation.

The most recent valuation of the Fund as at 31st March, 1995 showed that employers' contributions would have to increase in order to ensure that funding requirements are met. Accordingly, employers' contributions have increased since 1st April, 1996.

**BENEFITS**

The Scheme provides its members with an extensive range of guaranteed benefits for employees and their dependants, including :

- \* A pension and tax free lump sum on age or ill health retirement (normally after a minimum of 2 years' service).
- \* A pension and tax free lump sum on enforced early retirement or redundancy (for employees aged 50 or more with at least 2 years' service).
- \* Widows' and widowers' benefits.
- \* Children's pensions.
- \* Index-linking of all pensions.
- \* Lump sum on death in service (and sometimes on death after retirement).
- \* Transfer values to other pension arrangements or index-linked preserved benefits for early leavers.
- \* A refund of contributions where no other benefit is due.
- \* Facilities for paying additional contributions to provide additional benefits.

**NEW REGULATIONS**

New regulations have recently introduced 'death grant nomination'. This means that members can actually nominate whoever they would like to receive their death grant, which becomes payable in the event of their death.

This change is intended to speed up the administrative process of paying a death grant, which is sometimes long and drawn out during the current administrative process of obtaining Grants of Probate or Letters of Administration.

It is also anticipated that any payment made to a nominated beneficiary will not form part of the deceased's estate and will not be liable for inheritance tax.

**PENSIONS**

As at 31st March, 1996, there were 22,651 people in receipt of payments from the Fund, an increase of 765 over the previous year.

Annual pensions increases, which reflect increases in the Retail Price Index, continue to be a valuable feature of the Scheme.

**DEFERRED PENSIONS**

The remaining major group of Fund members, of which there were 7,715 as at 31st March, 1996, are former employees who left before retirement age or who opted out whilst continuing to be employed. As and when they reach retirement, they are entitled to payment of pension benefits based on their accrued service.

**THE PENSIONS ACT 1995**

Following the Maxwell affair, the Goode Committee was set up in 1992 to review the framework of law within which pension funds operate. The Committee reported in September 1993 and, following a period of consultation, a Pensions Act was passed in July 1995. The majority of the measures provided for by the Act will come into force from April 1997. Whilst the statutory nature of the Local Government Pension Scheme has led to it being exempt from many of the Act's requirements, certain key provisions will apply. These include :

- \* the Scheme being subject to the workings of an Occupational Pensions Regulatory Authority which will enforce the law applying to pension schemes
- \* the powers of the Ombudsman being extended to include disputes relating to matters of fact or law in public service schemes
- \* the setting up of an internal dispute resolution procedure and the introduction of strict time-scales relating to the provision of pensions information
- \* the rights to a pension of both parties to a divorce settlement
- \* an equal state pension age of 65 for men and women from 2020, which will be introduced progressively from 2010.

**SUMMARY**

The Fund continues to promote membership as being in an employees best interest and strives to attain an excellent quality of service for current and retired members.

**ORGANISATIONS PARTICIPATING IN THE FUND**

	Members as at 31st March, 1996	
	Contributors	Pensioners
<b>METROPOLITAN DISTRICT COUNCILS</b>		
Gateshead	6,443	3,433
Newcastle upon Tyne	8,703	5,090
North Tyneside	4,847	2,766
South Tyneside	4,614	2,763
Sunderland	7,760	4,695
<b>Sub Totals</b>	<b>32,367</b>	<b>18,747</b>
<b>OTHER SCHEDULED BODIES</b>		
University of Northumbria at Newcastle	1,262	112
University of Sunderland	728	89
Tyne and Wear Passenger Transport Executive	918	1,485
Northumbria Police Authority	1,477	648
Northumbria Probation and After-Care Service	495	154
Tyne and Wear Fire and Civil Defence Authority	245	127
Tyne and Wear Passenger Transport Authority	117	54
Monkwearmouth College	107	3
Gateshead College	125	9
Newcastle College	302	17
North Tyneside College	67	8
Tynemouth College	24	2
South Tyneside College	241	20
Wearside College	116	7
Birtley Town Council	5	1
Former Tyne and Wear County Council	-	352
Former Tyne and Wear Residuary Body	-	29
Former North East Regional Airport	-	52
<b>Sub Totals</b>	<b>6,229</b>	<b>3,169</b>
<b>ADMITTED BODIES</b>		
Stagecoach Travel Services (Busways)	539	273
Newcastle International Airport Company Limited	428	110
Age Concern Newcastle	34	9
Catholic Care North East	31	21
Information North (Northern Regional Library System)	4	1
Newcastle Community Law Centre	2	-
Disability North	9	1
Newcastle Family Service Unit	-	3
North East Innovation and Development Company Limited	15	3
Northern Regional Examinations Board	-	14
Northern and North-Eastern Provincial Councils	7	1
Northern Arts Association	25	7
Northern Council for Further Education	4	11
Northern Counties School for the Deaf	28	11
North of England Assembly of Local Authorities	9	2
Northumbria Tourist Board	16	7
Park View Sports Complex	3	-

Port of Tyne Authority	-	16
Praxis Service	3	-
Search Project	2	1
Shiremoor Advice Centre	1	-
St. Mary Magdalene and Holy Jesus Charity	4	2
Sunderland Empire Theatre Trust Ltd.	5	3
Sunderland Enterprise Agency	-	-
Sunderland Outdoor Activities Association	-	-
The Ozanam House Probation Hostel Management Committee	12	3
Theatre Royal Trust Ltd.	19	8
Tyne and Wear Development Corporation	49	4
Tyne and Wear Enterprise Trust Limited	22	4
Tyne Theatre Trust (Northern Stage Company)	-	-
Tyne and Wear Development Co. Ltd.	8	-
Tyneside Training and Enterprise Council	182	-
Wallsend Citizens' Advice Centre	3	-
Wallsend Peoples' Centre	3	-
Workshops for the Adult Blind (Palatine Products)	60	94
Sunderland City Training and Enterprise Council	93	2
South Tyneside Groundwork Trust	7	-
Sunderland Arts Centre	-	-
Tyne Waste Ltd.	1	2
Wellfield Middle School	1	-
Newcastle Black Youth Movement	1	-
Benton Grange School	-	8
North of England Development Council	-	7
St. Mary's Training College	-	8
Passenger Transport Company	-	99
The Hospital of St Mary the Virgin	-	-
<b>Sub Totals</b>	<b>1,630</b>	<b>735</b>
<b>GRAND TOTALS</b>	<b>40,226</b>	<b>22,651</b>



**ACTUARIAL INFORMATION**

**INTRODUCTION**

Legislation requires that an actuarial valuation is carried out every third year. The purpose of this is to establish that the Fund is able to meet its liabilities to past and present contributors.

The actuarial information set out below complies with the disclosure requirements of S.S.A.P. 24.

**ACTUARIAL POSITION**

Rates of contributions paid by the participating employers during 1995/96 were based on the actuarial valuation carried out as at 31st March, 1992.

This valuation showed that the required level of contributions to be paid to the Fund by the Metropolitan District Councils with effect from 1st April, 1995 was 90% of members' contributions.

These rates of contribution are the rates which, in addition to the contributions paid by the members, are sufficient to meet :-

- 100% of the liabilities arising in respect of service after the valuation date
- **plus** an adjustment over the members' average future service lifetime to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

The large increase in rates found to be necessary is being phased in over seven years.

The market value of the Fund's assets at the valuation date was £871 million and the actuarial value of £1,005 million represented 98.4% of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows :-

Rate of return on investments :	9% per annum.
Rate of general pay increases :	6½% per annum.
Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) :	4½% per annum.
Valuation of assets :	Discounted value of future income, assuming that that part of the assets notionally reinvested in FT-SE-Actuaries All-Share Index will achieve 4½% per annum dividend growth.

An actuarial valuation was carried out as at 31st March, 1995 and changes in the contribution rates as a result of that valuation will take effect from 1st April, 1996.

**REPORT OF THE ACTUARY FOR THE YEAR ENDED 31st MARCH, 1996**

- (1) We carried out a full actuarial investigation into the financial position of the Tyne and Wear Pension Fund as at 31st March, 1995. The results of our investigation showed that the financial position of the Fund had deteriorated since the previous valuation with the assets now covering 87.4% of the liabilities.
- (2) We recommended revised rates of contributions to be paid by participating employers from 1st April, 1996. A formal Certificate of these contribution rates to be paid from 1st April, 1996 was issued to the Director of Corporate Services of South Tyneside Metropolitan Borough Council as part of our formal report on the valuation of the Fund as at 31st March, 1995.
- (3) Having regard to the results of the valuation as at 31st March, 1995 and to the further information with which we have been provided regarding the period up to 31st March, 1996, we are of the opinion that :-
  - (a) The assets of the Fund as at 31st March, 1996 were sufficient to cover the total accrued liabilities of the Fund under the Regulations based upon reckonable service completed up to that date and the then current levels of pensionable remuneration and pensions in payment assuming that the Fund continued without a major change in investment policy.
  - (b) The rates of contribution to be paid from 1st April, 1996 were sufficient to meet the requirements of the Regulations as to how the further liabilities under the Regulations associated with currently accruing service, increasing levels of pensionable remuneration and increases to pensions in payment should be funded, taking into account the gradual amortisation of the deficiency disclosed by the valuation as at 31st March, 1995.
- (4) The next actuarial valuation of the Pension Fund will be carried out as at 31st March, 1998.

**R. G. Ashurst**

**Fellow of the Institute of Actuaries  
Partner in the Firm of R. Watson & Sons**

**TYNE AND WEAR PENSION FUND**

**REVENUE ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1996**

1994/95		1995/96
£		£      £      £
	<b>CONTRIBUTIONS AND PENSIONS</b>	
	<b>INCOME</b>	
14,949,296	Employers' Contributions _____	25,059,130
24,009,686	Employees' Contributions _____	27,036,495
5,352,334	Transfer Values _____	<u>6,318,851</u>
<u>44,311,316</u>		58,414,476
	<b>EXPENDITURE</b>	
62,523,659	Retirement Pensions _____	68,000,597
10,248,117	Less : Recharges to Employing Authorities _____	<u>11,491,736</u>
<u>52,275,542</u>		56,508,861
11,743,055	Retirement Grants and Gratuity Payments _____	14,388,641
890,978	Death Grants _____	1,206,044
318,620	Return of Contributions _____	352,629
4,154,366	Transfer Values _____	3,099,467
82,234	Contributions Equivalent Premium _____	95,807
1,118,720	Contributions and Benefits Administration _____	<u>1,094,957</u>
<u>70,583,515</u>		76,746,406
(26,272,199)	Shortfall of Contributions over Benefits and Payments _____	(18,331,930)
	<b>INVESTMENT INCOME AND MANAGEMENT</b>	
	<b>INCOME</b>	
50,753,043	Investment Income _____	57,076,553
124,559	Commission _____	<u>107,865</u>
<u>50,877,602</u>		57,184,418
	<b>EXPENDITURE</b>	
2,546,173	Investments Administration and Fees _____	2,983,600
404,485	Non-Recoverable Overseas Tax on Investment Income	515,134
443,184	Property Running Expenses _____	<u>638,608</u>
<u>3,393,842</u>		4,137,342
47,483,760	Net Income from Investments _____	<u>53,047,076</u>
<u>21,211,561</u>	<b>NET INCOME AVAILABLE FOR INVESTMENT</b>	<u>34,715,146</u>

**TYNE AND WEAR PENSION FUND**

**NET ASSETS STATEMENT AS AT 31st MARCH, 1996**

1994/95		1995/96	
£		£	£
	<b>INVESTMENTS</b>		
	<b>QUOTED INVESTMENTS</b>		
	<b>Fixed Interest</b>		
68,982,328	U.K. Government Conventional Stocks _____	114,878,625	
67,399,155	U.K. Government Index-Linked Stocks _____	71,889,352	
75,567,114	Overseas Bonds _____	80,078,918	
1,334,609	Building Society Index-Linked Stocks _____	-	
<u>213,283,206</u>			266,846,895
	<b>Equities</b>		
576,467,571	U.K. _____	650,774,644	
204,136,010	Overseas _____	223,056,110	
<u>780,603,581</u>			873,830,754
993,886,787	<b>Total - Quoted Investments</b> _____		1,140,677,649
	<b>UNQUOTED INVESTMENTS</b>		
852,250	U.K. Equities _____	2,899,350	
23,472	Overseas Equities _____	24,725	
11,628,241	U.K. Unit Trusts _____	14,042,994	
25,087,759	Overseas Unit Trusts _____	33,238,684	
849,600	U.K. Property Unit Trusts _____	823,200	
4,825,968	Overseas Property Unit Trusts _____	2,642,997	
57,295,241	Freehold Property _____	53,415,000	
13,177,000	Leasehold Property _____	13,885,000	
275,000	Long Term Mortgage Loans _____	275,000	
<u>114,014,531</u>	<b>Total - Unquoted Investments</b> _____		121,246,950
	<b>DERIVATIVES</b>		
-	Forward Currency Contracts - Open _____	159,998	
-	<b>Total - Derivatives</b> _____		159,998
1,107,901,318	<b>Total - All Investments</b> _____		1,262,084,597
	<b>CURRENT ASSETS</b>		
19,585,016	Debtors _____	21,223,621	
55,540,520	Sterling Cash and Short Term Deposits _____	112,501,780	
719,436	Overseas Currency Balances _____	3,782,032	
<u>75,844,972</u>			137,507,433
	<b>LESS : CURRENT LIABILITIES</b>		
9,626,539	Creditors _____	8,697,422	
66,218,433	<b>Net Current Assets</b> _____		128,810,011
<u>1,174,119,751</u>	<b>TOTAL NET ASSETS</b> _____		<u>1,390,894,608</u>

**TYNE AND WEAR PENSION FUND**

**RECONCILIATION OF THE MOVEMENT OF THE NET ASSETS OF THE FUND FROM 1st APRIL, 1995 TO 31st MARCH, 1996**

	£	£
<b>Total Net Assets as at 1st April, 1995</b> _____		1,174,119,751
Net new money available for investment per Revenue Account _____		34,715,146
		<u>1,208,834,897</u>
<b>Change in market value of investments :-</b>		
Net realised gains on investments sold during year _____	87,567,828	
Other variations in market value of investments _____	94,491,883	
		182,059,711
<b>Total Net Assets as at 31st March, 1996</b> _____		<u>1,390,894,608</u>

SUMMARY OF INVESTMENTS 1995/96

Category	Market Value 31.03.95 £	Book Value 1.04.95 £	Purchases 1995/96 £	Profit on Sales 1995/96 £
<b>QUOTED INVESTMENTS</b>				
Fixed Interest :-				
U.K. Government				
Conventional Stocks _____	68,982,328	69,551,892	205,297,185	2,923,370
U.K. Government				
Index-Linked Stocks _____	67,399,155	60,982,336	29,770,791	1,377,166
Overseas Bonds _____	75,567,114	77,430,551	212,969,292	7,805,518
Building Society				
Index-Linked Stocks _____	1,334,609	980,002	-	465,197
Equities :-				
U.K. _____	576,467,571	435,517,975	134,050,935	54,474,532
Overseas _____	204,136,010	188,267,116	104,753,580	30,193,270
<b>Total - Quoted</b>	<b>993,886,787</b>	<b>832,729,872</b>	<b>686,841,783</b>	<b>97,239,053</b>
<b>UNQUOTED INVESTMENTS</b>				
Equities :-				
U.K. _____	852,250	2,371,825	-	-
Overseas _____	23,472	142,603	-	-
Unit Trusts :-				
U.K. _____	11,628,241	10,306,342	533,554	200,000
Overseas _____	25,087,759	17,684,367	2,655,907	-
Property Unit Trusts :-				
U.K. _____	849,600	387,960	-	-
Overseas _____	4,825,968	4,673,428	-	255,832
Property :-				
Freehold _____	57,295,241	54,661,812	1,714,957	1,245,202
Leasehold _____	13,177,000	13,618,452	(1,852)	-
Long Term				
Mortgage Loans _____	275,000	275,000	-	-
<b>Total - Unquoted</b>	<b>114,014,531</b>	<b>104,121,789</b>	<b>4,902,566</b>	<b>1,701,034</b>
<b>Sub-Total</b>	<b>1,107,901,318</b>	<b>936,851,661</b>	<b>691,744,349</b>	<b>98,940,087</b>
<b>DERIVATIVES</b>				
FTSE 100 Index Futures :-				
Expired _____	-	(272,267)	-	1,425,539
Open _____	-	-	42,879	-
Forward Currency Contracts :-				
Expired _____	-	-	-	2,102,177
Open _____	-	-	-	-
<b>Total - Derivatives</b>	<b>-</b>	<b>(272,267)</b>	<b>42,879</b>	<b>3,527,716</b>
<b>GRAND TOTAL</b>	<b>1,107,901,318</b>	<b>936,579,394</b>	<b>691,787,228</b>	<b>102,467,803</b>

SUMMARY OF INVESTMENTS 1995/96

Loss on Sales 1995/96 £	Sale Proceeds 1995/96 £	Book Value 31.03.96 £	Market Value 31.03.96 £
526,769	162,248,408	114,997,270	114,878,625
224,488	28,698,945	63,206,860	71,889,352
1,106,350	217,553,057	79,545,954	80,078,918
-	1,445,199	-	-
6,355,481	164,897,140	452,790,821	650,774,644
5,530,132	135,210,446	182,473,388	223,056,110
<b>13,743,220</b>	<b>710,053,195</b>	<b>893,014,293</b>	<b>1,140,677,649</b>
-	-	2,371,825	2,899,350
-	-	142,603	24,725
-	564,845	10,475,051	14,042,994
-	267,506	20,072,768	33,238,684
-	-	387,960	823,200
-	2,119,474	2,809,786	2,642,997
-	4,155,000	53,466,971	53,415,000
-	-	13,616,600	13,885,000
-	-	275,000	275,000
<b>-</b>	<b>7,106,825</b>	<b>103,618,564</b>	<b>121,246,950</b>
<b>13,743,220</b>	<b>717,160,020</b>	<b>996,632,857</b>	<b>1,261,924,599</b>
31,779	1,121,493	-	-
-	-	42,879	-
1,124,976	977,201	-	-
-	-	-	159,998
<b>1,156,755</b>	<b>2,098,694</b>	<b>42,879</b>	<b>159,998</b>
<b>14,899,975</b>	<b>719,258,714</b>	<b>996,675,736</b>	<b>1,262,084,597</b>

**NOTES ON COMPILATION OF THE ACCOUNTS**

**1. The Local Government Pension Scheme**

1.1. The Scheme is a funded, defined benefits scheme.

**2. Accounting Policies**

2.1. The Fund's accounts are prepared in accordance with the recommendations of Statement of Recommended Practice 1 on Pension Scheme Accounts and the C.I.P.F.A. Code of Practice on Local Authority Accounting.

**3. Actuarial Information**

- 3.1. The actuarial information set out in the separate statements complies with the disclosure requirements of S.S.A.P. 24.
- 3.2. An actuarial valuation of the Fund was carried out as at 31st March, 1992. This valuation showed that the required level of contributions to be paid to the Fund by scheduled bodies with effect from 1st April, 1995 was 90% of Members' contributions. Varying rates of contribution apply for admitted bodies.
- 3.3. Discretionary benefits and pension increase payments thereon are recovered by making a direct recharge on the employing authorities which made the awards.

**4. Administration Expenses**

4.1. The Local Government Pension Scheme Regulations 1995 permit costs incurred in connection with the administration of the Fund to be charged against the Fund.

**5. Debtors and Creditors**

- 5.1. Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for U.K. income tax and overseas withholding tax.
- 5.2. In all other cases debtors and creditors are raised for amounts outstanding at 31st March, 1996.

**6. Taxation**

- 6.1. The fund is a wholly exempt fund and is consequently subject to neither capital gains tax nor U.K. income tax. All investment income in the accounts is therefore shown gross of U.K. tax.
- 6.2. The Fund is, however, currently subject to withholding tax in some overseas countries where it has investments. In all cases the investment income has been grossed up but where tax is not recoverable the tax incurred has been shown as an expense.
- 6.3. With effect from 1st September, 1991 the Fund has been separated from the Council for the purposes of V.A.T. and cannot reclaim V.A.T. on its exempt activities from that date. The accounts are shown inclusive of this tax.

**7. Investment Transactions**

7.1. Investment transactions during the year consisted of sales of £719,258,714 and purchases of £691,787,228 (1994/95 - £416,578,559 and £433,045,361 respectively).

**8. Profits and Losses**

- 8.1. Profits and losses on investments sold during the year have been calculated by reference to the average historic cost (including associated purchase costs such as stamp duty, commission) of the investment in the books of the relevant investment manager at the date of sale.
- 8.2. A net profit of £87,567,828 accrued from the sale of investments, comprised of profits of £102,467,803 and losses of £14,899,975 (1994/95 net profit of £42,522,925 comprised of profits of £57,648,912 and losses of £15,125,987).

**9. Valuation of Investments**

- 9.1. The valuation of quoted investments and unit trusts is based on either the mid-market closing price on 31st March, 1996, or the last such quoted price before that date.
- 9.2. Unquoted investments have been valued internally.
- 9.3. Overseas investments have been converted at the exchange rates quoted at close of business on 31st March, 1996, or the last such quoted rate before that date, to arrive at the Sterling values in the Net Assets Statement. The exchange rates used were as follows :-

U.S. Dollar	1.5265
Canadian Dollar	2.0798
German Mark	2.2537
Dutch Guilder	2.5226
Swiss Franc	1.8172
Italian Lira	2396.2617
Spanish Peseta	189.4692
Norwegian Kroner	9.7895
Danish Kroner	8.6989
French Franc	7.6860
Swedish Kroner	10.2027
Irish Punt	0.9691
Austrian Schilling	15.8484
Belgian Franc	46.3140
Portuguese Escudo	232.8981
Finnish Markka	7.0737
Australian Dollar	1.9515
New Zealand Dollar	2.2412
Japanese Yen	163.0303
Hong Kong Dollar	11.8045
Singapore Dollar	2.1486
Malayan Ringit	3.8598
Thai Baht	38.5136
South Korean Won	1194.1047
Philippines Peso	39.9638
Indonesian Rupiah	3568.1940
Taiwan Dollar	41.6277

9.4. Properties are shown as valued at 31st December, 1995 by Drivers Jonas, with the exception of a property for which the Fund owns part of the long leasehold interest, which has been valued by Richard Ellis.

**10. Derivatives**

10.1. A number of derivative instruments have been used by the Fund.

## TYNE AND WEAR PENSION FUND

- 10.2. The Fund has used FT-SE 100 Index Futures to implement changes in asset allocation. As at 31st March, 1996, the Fund held 111 June 1996 contracts which had a nominal book value of £10,332,579 and a nominal market value of £10,289,700. The net variation margin paid to 31st March, 1996 was therefore £42,879, which is shown as the book value of the position. The position was unwound by 18th June, 1996 at an overall profit of £77,631.
- 10.3. The Fund has used Forward Currency Contracts to hedge the currency exposure on overseas investments. As at 31st March, 1996, the Fund held a range of positions which together showed an unrealised profit of £159,998. The positions showed an overall profit of £165,675 when unwound.

### 11. Audit

- 11.1. The accounts are presented subject to audit.



Administered by  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL

**Tyne & Wear Pension Fund**

**REPORT  
AND  
ACCOUNTS  
1995/96**