

---

# **Tyne & Wear Pension Fund**



Administered by  
**SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL**

---

## REPORT and ACCOUNTS

For the year ended 31st March, 1997

---

### 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
16	_____	Report of the Actuary for the year ended 31st March, 1997
17	_____	Accounts
20	_____	Summary of Investments
22	_____	Notes on Compilation of the Accounts

---

---

**ADMINISTERING AUTHORITY  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL  
Members, Advisers and Officers 1996/97**

**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 D.T. Leonard Councillor Mrs. L. Waggott
Gateshead M.B.C.	:	Councillor A.S. Brown (substitute - Councillor H. Smiles)
Newcastle upon Tyne City Council	:	Councillor D.S. Slesenger (substitute - Councillor C. Gray)
North Tyneside Council	:	Councillor Ms. A. Richardson (substitute - Councillor C.B. Pickard)
City of Sunderland 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>	:	Barclays Global Investors
<b>Property Manager :-</b>	:	Argyll Property Asset Managers
<b>Actuary</b>	:	Watson Wyatt Partners
<b>Director of Corporate Services</b>	:	P.J. Haigh

**REPORT OF THE DIRECTOR OF CORPORATE SERVICES**

*Over 1996/97 the Fund increased in size by £143 million, from £1,391 million to £1,534 million. The investment return was +10.9%, which was slightly behind the median U.K. pension fund return of +11.1%.*

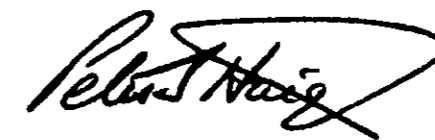
*In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. This Fund's average annual return over the last five years has been +14.9%, which is comfortably above the rate of inflation and the increase in wages over the period, although it is slightly behind the median U.K. pension fund return for the period of +15.3%.*

*This year saw the introduction of the first in a series of stepped increases in employers' contributions, which were recommended as a result of an actuarial valuation of the Fund carried out as at 31st March, 1995. In common with the valuations of the majority of local government funds, this had revealed a deterioration in the financial position of the Fund. This was attributable to a range of factors, including higher than expected retirements because of ill health and redundancy, changes in the statistical assumptions underlying the valuation, the contributions paid over the three year intervalation period having been less than those required to maintain the funding level, and a reduction in the tax credit on U.K. equity dividends which took effect from April 1993.*

*The next actuarial valuation will be carried out as at 31st March, 1998. Amongst other factors, this valuation will have to take account of the removal of the remaining tax credit on U.K. equity dividends, which was announced in the July 1997 budget. The recommendations arising from this valuation will be implemented from 1st April, 1999.*

*This year has seen the implementation of the Pensions Act. This legislation changes the law governing occupational pensions to improve the governance of schemes and to ensure greater security of benefits. Whilst the statutory nature of the Local Government Scheme has led to it being legally exempt from certain of the provisions, local government funds are recommended to adopt those which are in accordance with best practice.*

*Following on from an earlier "Efficiency Scrutiny" of the Scheme, the Department of the Environment has recently released the Local Government Pension Scheme Regulations 1997. These Regulations will come into effect from 1st April, 1998 and contain a number of enhancements to the current benefits package. They have also standardised the employees contribution at 6% of pay from April 1998, with protection for those on manual grades who are currently paying 5%.*



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

ADMINISTRATIVE ARRANGEMENTS

PARTICIPATING ORGANISATIONS

South Tyneside Metropolitan Borough Council is 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 contributions 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 of 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 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 out 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, 1997 the permitted investment ranges (by market value) were:-

	Low	High
	%	%
Fixed Interest and Index-Linked	10	35
UK 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 indexed against the FT-SE-Actuaries All - Share Index, whilst active 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

For the 1996/97 year, the Fund's return was 10.9%. This was slightly below the median pension fund return of 11.1%.

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 Fund	Index
	%	%	%
Aggregate	+ 10.9	+ 11.1	-
U.K. Fixed Interest	+ 11.8	+ 12.1	+ 10.6
U.K. Index-Linked	+ 9.0	+ 9.0	+ 8.7
Overseas Fixed Interest	- 0.5	- 3.3	- 6.1
U.K. Equities	+ 16.2	+ 17.5	+ 18.7
Overseas Equities	+ 4.5	+ 2.0	- 0.8
U.S.	+ 8.4	+ 7.9	+ 10.2
Japan	- 20.7	- 22.3	- 31.4
Europe	+ 13.3	+ 13.2	+ 12.2
Pacific Basin	- 1.5	- 2.1	- 1.3
Property	+ 7.3	+ 10.0	+ 9.1

The index returns were positive in all areas except for overseas fixed interest and Far Eastern equities. The median pension fund outperformed the indices for all areas except for U.K., U.S. and Pacific Basin equities.

The Tyne and Wear Fund outperformed the median pension fund for overseas fixed interest and overseas equities, but underperformed in U.K. fixed interest and property, and also for the important U.K. equities asset class.

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
	%	%
1992/93	+ 26.9	+ 25.9
1993/94	+ 15.3	+ 17.5
1994/95	+ 2.3	+ 0.6
1995/96	+ 20.9	+ 23.4
1996/97	+ 10.9	+ 11.1

These results have produced an average annual return of 14.9%, which is slightly below the median return of 15.3%.

**FACTORS INFLUENCING MARKETS DURING 1996/97**

**Overview**

Much of the year was characterised by global economic developments which were favourable for financial markets. Leading indicators of growth in the major economies picked up, leading to a continuing improvement in the prospects for a coordinated economic recovery. Despite this, the inflation indicators remained favourable and a relaxed attitude by central banks towards monetary policy continued to be a driving force behind global equity market performance.

By the fourth quarter, the risks to financial markets from strengthening world growth had risen, although the inflation outlook remained benign. The U.S. economy was showing signs of capacity constraints and the Federal Reserve raised interest rates in March, with further tightening being expected. Nevertheless, the economic background was considered to be positive and Western equity markets had reached new highs.

The exception to this favourable outlook was the Far East, where structural problems in Japan led to falls in its stockmarket. In addition, the Pacific Basin markets were subdued as fundamental problems in Thailand and Korea were combined with cyclical worries elsewhere in the region.

**Fixed Interest**

Whilst U.K. fixed interest offered an attractive return, overseas fixed interest gave a negative return because of the strength of Sterling in the second half of the year. The U.K. market returned 10.6%, compared to an overseas index return of -6.1%.

**Equities**

The U.K. equity market produced the best returns in 1996/97, with an index return of 18.7%. The U.S. and European markets were also strong performers, but their returns were lowered by the strength of Sterling. Factors which were positive for equities included the general economic backdrop, the monetary policy of central banks, the continuation of high inflows into the U.S. mutual funds and generally favourable corporate activity.

As has been the case for a number of years, the Japanese market was the poorest performer amongst the major markets, with an index return of -31.4%. The Pacific Basin was also a poor performer, with a return of -1.3%.

**Property**

Following a disappointing return of 2.9% in the previous year, the property market returned a more respectable 9.1% in 1996/97. Income yields were attractive and this, when combined with stable capital values and improving tenant demand, led investors to conclude that property has the potential to provide good future returns compared to other asset classes.

**INVESTMENT STRATEGY DURING 1996/97**

The Fund's balanced managers have discretion to implement their own 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 1996/97 is set out in the following table:-

	Net Investment £'000	Net Disinvestment £'000
U.K. Fixed Interest	25,146	-
U.K. Index-Linked	-	4,115
Overseas Fixed Interest	60,275	-
U.K. Equities *	4,565	-
Overseas Equities *	2,065	-
Property *	9,017	-
	<u>101,068</u>	<u>4,115</u>
Total Net Investment	<u>96,953</u>	

\* Includes unit trusts.

This net investment of £97.0 million was financed by way of a reduction of £30.0 million in net current assets, a reduction of £5.0 million in the derivatives position and £62.0 million which became available for investment through the Revenue Account.

The investment strategies of the individual managers have combined into an overall strategy which saw little new money being committed to equity markets, but there being a significant move into fixed interest. This movement into fixed interest at the expense of equities is a continuation of a trend which began in 1994/95 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 of 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	115,154	8.3	142,930	9.3	6.0
U.K. Index-Linked	71,890	5.2	71,954	4.7	2.5
Overseas Fixed Interest	80,214	5.8	131,472	8.6	5.4
U.K. Equities *	667,717	48.0	746,267	48.7	54.5
Overseas Equities *	256,344	18.4	264,508	17.2	21.2
Property *	70,766	5.1	78,287	5.1	2.4
Net Current Assets	128,810	9.2	98,833	6.4	8.0
	<u>1,390,895</u>	<u>100.0</u>	<u>1,534,251</u>	<u>100.0</u>	<u>100.0</u>

\* Includes unit trusts

**SUMMARY**

The investment strategies of the individual managers have combined into a relatively defensive strategy for the Fund as a whole. This has resulted in the Fund being underweight in the best performing asset class for 1996/97, which was U.K. equities, in comparison to the asset allocation of the average U.K. pension fund. Despite this, the Fund's defensive strategy was not detrimental to its performance for this year. The small underperformance of 0.2% against the median return is largely attributable to stock selection in U.K. equities, where an overweight position in the manufacturing sector, which suffered from the strength of Sterling, was a negative factor.

**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 77 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, 1997 was 40,661, an increase of 435 from the 40,226 contributors at the previous year end.

These employees are employed by the 77 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 contributions. 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 required an increase in employers' contributions from 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 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.

**PENSIONS**

As at 31st March, 1997 there were 23,579 people in receipt of payments from the Fund, an increase of 928 over the previous year.

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

**DEFERRED PENSIONS**

The remaining group of Fund members, of which there were 8,196 as at 31st March, 1997 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.

**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, 1997	
	Contributors	Pensioners
<b>METROPOLITAN DISTRICT COUNCILS</b>		
Gateshead	6,575	3,564
Newcastle upon Tyne	8,832	5,295
North Tyneside	4,893	2,887
South Tyneside	4,629	2,820
Sunderland	7,785	4,855
<b>Sub Totals</b>	<b>32,714</b>	<b>19,421</b>
<b>OTHER SCHEDULED BODIES</b>		
University of Northumbria at Newcastle	1,231	154
University of Sunderland	736	103
Tyne and Wear Passenger Transport Executive	924	1,482
Northumbria Police Authority	1,481	702
Northumbria Probation and After-Care Service	478	168
Tyne and Wear Fire and Civil Defence Authority	257	129
Tyne and Wear Passenger Transport Authority	113	54
Monkwearmouth College	241	16
Gateshead College	147	19
Newcastle College	330	25
North Tyneside College	74	8
Tynemouth College	25	4
South Tyneside College	250	24
Wearside College	-	-
Birtley Town Council	6	1
Former Tyne and Wear County Council	-	350
Former Tyne and Wear Residuary Body	-	29
Former North East Regional Airport	-	49
<b>Sub Totals</b>	<b>6,293</b>	<b>3,317</b>
<b>ADMITTED BODIES</b>		
Stagecoach Travel Services (Busways)	470	339
Newcastle International Airport Company Ltd.	446	136
Age Concern Newcastle	33	10
Catholic Care North East	32	23
Information North (Northern Regional Library System)	4	2
Newcastle Community Law Centre	3	-
Disability North	11	1
Newcastle Family Service Unit	1	3
North East Innovation and Development Company Ltd.	16	4
Northern Regional Examinations Board	-	14
Northern and North-Eastern Provincial Councils	7	1
Northern Arts Association	26	7
Northern Council for Further Education	3	11
Northern Counties School for the Deaf	29	12
North of England Assembly of Local Authorities	11	3
Northumbria Tourist Board	15	6
Park View Sports Complex	4	-

Port of Tyne Authority	-	12
Praxis Service	3	-
Search Project	2	1
Shiremoor Advice Centre	3	-
St. Mary Magdalene and Holy Jesus Charity	4	2
Sunderland Empire Theatre Trust Ltd.	6	4
Sunderland Enterprise Agency	-	-
Sunderland Outdoor Activities Association	-	-
The Ozanam House Probation Hostel Management Committee	13	3
Theatre Royal Trust Ltd.	44	8
Tyne and Wear Development Corporation	44	5
Tyne and Wear Enterprise Trust Ltd.	23	4
Tyne Theatre Trust (Northern Stage Company)	-	-
Tyne and Wear Development Company Ltd.	8	1
Tyneside Training and Enterprise Council	189	2
Wallsend Citizens' Advice Centre	3	-
Wallsend Peoples' Centre	3	-
Workshops for the Adult Blind (Palatine Products)	62	99
Sunderland City Training and Enterprise Council	104	2
South Tyneside Groundwork Trust	8	-
Sunderland Arts Centre	-	-
Tyne Waste Ltd.	-	4
Newcastle West End Partnership	-	-
North Tyneside City Challenge	4	-
Wellfield Middle School	2	-
Newcastle Youth Congress	1	-
Gateshead Law Centre	5	-
Newcastle Tenants Federation	5	-
North Tyneside Child Care Enterprise Trust	-	-
Learning World	5	-
Norcare	1	-
National Glass Centre	1	-
Benton Grange School	-	9
North of England Development Council	-	6
St. Mary's Training College	-	8
Passenger Transport Company	-	99
The Hospital of St Mary the Virgin	-	-
<b>Sub Totals</b>	<b>1,654</b>	<b>841</b>
<b>GRAND TOTALS</b>	<b>40,661</b>	<b>23,579</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**

1. Rates of contributions paid by the participating employers during 1996/97 were based on the actuarial valuation carried out as at 31st March, 1995.
2. 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, 1996 was as set out in the following schedule:-

Metropolitan District Council	1 April 1996 to 31 March 1997		1 April 1997 to 31 March 1998		1 April 1998 to 31 March 1999	
	%	£000	%	+ £000	%	+ £000
Gateshead	140	-	145	908	145	1,816
Newcastle	140	-	145	791	145	1,580
North Tyneside	135	-	140	488	140	978
South Tyneside	135	-	140	711	140	1,421
Sunderland	140	-	145	1,091	145	2,286

Percentages shown are percentages of members' contributions.

Monetary amounts shown are payable in addition to the percentages of members' contributions. The amounts are in 1996/97 terms - the amounts for 1997/98 and 1998/99 will increase in line with price inflation plus 2% per annum.

3. 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 a period of years.
4. The market value of the Fund's assets at the valuation date was £1,174 million and the actuarial value of £1,131 million represented 87.4% of the Fund's accrued liabilities, allowing for future pay increases.

5. 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: 8.5% per annum

Rate of general pay increases: 6% per annum

Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions): 4% per annum

Valuation of assets: Discounted value of future income, assuming that that part of the assets notionally reinvested in the FT-SE -Actuaries All-Share Index will achieve 4% per annum dividend growth.

6. The abolition in the July 1997 Budget of the ability of pension funds to reclaim Advance Corporation Tax credits has reduced the immediate income from U.K. equities by 20% and the overall income of the Fund by around 10%. There were, however, some mitigating features, such as the reduction in Corporation Tax from 33% to 31% and the net effect may be to reduce yields on funds by some 1/3%. This implies a fall in the funding level of some 5%, together with an increase in the costs of accruing benefits. In order to meet these, an increase in employers' contributions of up to 50% of employee contributions may be required.
7. The next actuarial valuation will be carried out as at 31st March, 1998 and any changes in the contribution rates as a result of that valuation, including any resulting from the impact of the Budget, will take effect from 1st April, 1999.

REPORT OF THE ACTUARY FOR THE YEAR ENDED 31st MARCH, 1997

1. The last full actuarial investigation into the financial position of the Tyne and Wear Pension Fund in accordance with Regulation L10 of the Local Government Pension Scheme Regulations 1995 was completed as at 31st March, 1995. The results showed that the financial position of the Fund had deteriorated since the previous valuation with the assets covering 87.4% of the liabilities, allowing for future pay increases.
2. We recommended revised rates of contributions to be paid by the participating employers with effect 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 the 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 actuarial valuation as at 31st March, 1995 and the rates of contribution in payment from 1st April, 1996, together with the stepped increases recommended to apply in future years, the assets of the Fund as at 31st March, 1997 will be sufficient, on the basis of the assumptions adopted for the valuation as at 31st March, 1995, to meet the on-going liabilities of the Fund under the Regulations associated with both the accrued service and the currently accruing service, increasing levels of pensionable remuneration and increases to pensions both in payment and deferment, 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 and we shall report on the results in the accounts for the year ending 31st March, 1999.

R.G. Ashurst

Fellow of the Institute of Actuaries

Watson Wyatt Partners

REVENUE ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1997

1995/96 £		£	1996/97 £	£
	<b>CONTRIBUTIONS AND PENSIONS</b>			
	<b>INCOME</b>			
25,059,130	Employers' Contributions _____	39,535,955		
27,036,495	Employees' Contributions _____	28,313,622		
6,318,851	Transfer Values _____	9,935,370		
<u>58,414,476</u>			77,784,947	
	<b>EXPENDITURE</b>			
68,000,597	Retirement Pensions _____	74,624,811		
11,491,736	Less : Recharges to Employing Authorities _____	12,261,353		
<u>56,508,861</u>		62,363,458		
14,388,641	Retirement Grants and Gratuity Payments _____	13,617,948		
1,206,044	Death Grants _____	1,038,983		
352,629	Return of Contributions _____	610,280		
3,099,467	Transfer Values _____	3,726,253		
95,807	Contributions Equivalent Premium _____	155,019		
1,094,957	Contributions and Benefits Administration _____	1,187,172		
<u>76,746,406</u>			82,699,113	
	Shortfall of Contributions over Benefits and Payments _____			(4,914,166)
(18,331,930)				
	<b>INVESTMENT INCOME AND MANAGEMENT</b>			
	<b>INCOME</b>			
57,076,553	Investment Income _____	70,983,089		
107,865	Commission _____	84,411		
<u>57,184,418</u>			71,067,500	
	<b>EXPENDITURE</b>			
2,983,600	Investments Administration and Fees _____	3,286,349		
515,134	Non-Recoverable Overseas Tax on Investment Income _____	439,126		
638,608	Property Running Expenses _____	382,486		
<u>4,137,342</u>			4,107,961	
53,047,076	Net Income from Investments _____			66,959,539
<u>34,715,146</u>	<b>NET INCOME AVAILABLE FOR INVESTMENT</b>			<u>62,045,373</u>

**TYNE AND WEAR PENSION FUND**

**NET ASSETS STATEMENT AS AT 31st MARCH, 1997**

1995/96		1996/97	
£		£	£
	<b>INVESTMENTS</b>		
	<b>QUOTED INVESTMENTS</b>		
	<b>Fixed Interest</b>		
114,878,625	U.K. Government Conventional Stocks _____	142,655,308	
71,889,352	U.K. Government Index-Linked Stocks _____	71,953,585	
80,078,918	Overseas Bonds _____	130,766,793	
<u>266,846,895</u>			345,375,686
	<b>Equities</b>		
650,774,644	U.K. _____	726,316,981	
223,056,110	Overseas _____	230,781,766	
<u>873,830,754</u>			<u>957,098,747</u>
1,140,677,649	<b>Total - Quoted Investments</b> _____		1,302,474,433
	<b>UNQUOTED INVESTMENTS</b>		
2,899,350	U.K. Equities _____	607,111	
24,725	Overseas Equities _____	19,267	
14,042,994	U.K. Unit Trusts _____	19,341,840	
33,238,684	Overseas Unit Trusts _____	33,707,256	
823,200	U.K. Property Unit Trusts _____	823,400	
2,642,997	Overseas Property Unit Trusts _____	2,343,850	
53,415,000	Freehold Property _____	61,754,373	
13,885,000	Leasehold Property _____	13,366,203	
275,000	Long Term Mortgage Loans _____	275,000	
<u>121,246,950</u>	<b>Total - Unquoted Investments</b> _____		132,238,300
	<b>DERIVATIVES</b>		
159,998	Forward Currency Contracts - Open _____	704,921	
159,998	<b>Total - Derivatives</b> _____		<u>704,921</u>
1,262,084,597	<b>Total - All Investments</b> _____		1,435,417,654
	<b>CURRENT ASSETS</b>		
21,223,621	Debtors _____	26,519,058	
112,501,780	Sterling Cash and Short Term Deposits _____	86,356,560	
3,782,032	Overseas Currency Balances _____	973,012	
<u>137,507,433</u>			113,848,630
	<b>LESS : CURRENT LIABILITIES</b>		
8,697,422	Creditors _____	15,015,426	
128,810,011	<b>Net Current Assets</b> _____		98,833,204
<u>1,390,894,608</u>	<b>TOTAL NET ASSETS</b> _____		<u>1,534,250,858</u>

**TYNE AND WEAR PENSION FUND**

**RECONCILIATION OF THE MOVEMENT OF THE NET ASSETS OF THE FUND FROM 1st APRIL, 1996 TO 31st MARCH, 1997**

	£	£
<b>Total Net Assets as at 1st April, 1996</b> _____		1,390,894,608
Net new money available for investment per Revenue Account _____		62,045,373
		<u>1,452,939,981</u>
<b>Change in market value of investments :-</b>		
Net realised gains on investments sold during year _____	66,982,346	
Other variations in market value of investments _____	14,328,531	
		<u>81,310,877</u>
<b>Total Net Assets as at 31st March, 1997</b> _____		<u>1,534,250,858</u>

**TYNE AND WEAR PENSION FUND**

**SUMMARY OF INVESTMENTS 1996/97**

Category	Market Value 31.03.96 £	Book Value 1.04.96 £	Purchases 1996/97 £	Profit on Sales 1996/97 £
<b>QUOTED INVESTMENTS</b>				
Fixed Interest :-				
U.K. Government				
Conventional Stocks	114,878,625	114,997,270	149,896,919	2,117,230
U.K. Government				
Index-Linked Stocks	71,889,352	63,206,860	18,486,158	1,520,476
Overseas Bonds	80,078,918	79,545,954	204,073,156	1,566,300
Equities :-				
U.K.	650,774,644	452,790,821	146,046,230	48,855,979
Overseas	223,056,110	182,473,388	103,177,862	23,075,101
<b>Total - Quoted</b>	<b>1,140,677,649</b>	<b>893,014,293</b>	<b>621,680,325</b>	<b>77,135,086</b>
<b>UNQUOTED INVESTMENTS</b>				
Equities :-				
U.K.	2,899,350	2,371,825	(133,316)	-
Overseas	24,725	142,603	-	-
Unit Trusts :-				
U.K.	14,042,994	10,475,051	3,460,013	195,547
Overseas	33,238,684	20,072,768	7,389,839	1,963,668
Property Unit Trusts :-				
U.K.	823,200	387,960	-	-
Overseas	2,642,997	2,809,786	-	-
Property :-				
Freehold	53,415,000	53,466,971	11,387,300	372,765
Leasehold	13,885,000	13,616,600	(239,392)	-
Long Term				
Mortgage Loans	275,000	275,000	-	-
<b>Total - Unquoted</b>	<b>121,246,950</b>	<b>103,618,564</b>	<b>21,864,444</b>	<b>2,531,980</b>
<b>Sub-Total</b>	<b>1,261,924,599</b>	<b>996,632,857</b>	<b>643,544,769</b>	<b>79,667,066</b>
<b>DERIVATIVES</b>				
FTSE 100 Index Futures :-				
Expired	-	42,879	-	1,155,912
Open	-	-	141,262	-
Forward Currency Contracts :-				
Expired	159,998	-	-	5,070,199
Open	-	-	-	-
<b>Total - Derivatives</b>	<b>159,998</b>	<b>42,879</b>	<b>141,262</b>	<b>6,226,111</b>
<b>GRAND TOTAL</b>	<b>1,262,084,597</b>	<b>996,675,736</b>	<b>643,686,031</b>	<b>85,893,177</b>

**TYNE AND WEAR PENSION FUND**

**SUMMARY OF INVESTMENTS 1996/97**

Loss on Sales 1996/97 £	Sale Proceeds 1996/97 £	Book Value 31.03.97 £	Market Value 31.03.97 £
636,329	124,750,628	141,624,462	142,655,308
78,331	22,600,637	60,534,526	71,953,585
4,424,752	143,796,220	136,964,438	130,766,793
7,433,230	144,526,434	495,733,366	726,316,981
5,155,727	104,180,241	199,390,383	230,781,766
<b>17,728,369</b>	<b>539,854,160</b>	<b>1,034,247,175</b>	<b>1,302,474,433</b>
6,700	2,445	2,229,364	607,111
-	-	142,603	19,267
-	280,086	13,850,525	19,341,840
3,758	4,323,415	25,099,102	33,707,256
-	-	387,960	823,400
-	15,149	2,794,637	2,343,850
30,000	2,116,887	63,080,149	61,754,373
-	-	13,377,208	13,366,203
-	-	275,000	275,000
<b>40,458</b>	<b>6,737,982</b>	<b>121,236,548</b>	<b>132,238,300</b>
<b>17,768,827</b>	<b>546,592,142</b>	<b>1,155,483,723</b>	<b>1,434,712,733</b>
34,948	1,163,843	-	-
-	-	141,262	-
1,107,056	3,963,143	-	-
-	-	-	704,921
<b>1,142,004</b>	<b>5,126,986</b>	<b>141,262</b>	<b>704,921</b>
<b>18,910,831</b>	<b>551,719,128</b>	<b>1,155,624,985</b>	<b>1,435,417,654</b>

NOTES ON COMPILATION OF 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, 1995. This valuation showed that the required level of contributions to be paid to the Fund by scheduled bodies with effect from 1st April, 1996 varied from 135% to 140% of Members' contributions. Varying rates of contribution applied for the admitted bodies.

3.3. Discretionary benefits and pensions 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 as at 31st March, 1997.

6. Taxation

6.1. The Fund is a wholly exempt fund and consequently was 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 subject to withholding tax in certain overseas countries. In all cases, investment income has been grossed up and non recoverable tax 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 Income

7.1. The gross investment income may be analysed as follows:-

	1996/97	1995/96
	£	£
U.K. Fixed Interest	9,493,518	5,628,126
U.K. Index-Linked	2,262,190	1,946,332
Overseas Fixed Interest	5,207,553	2,883,055
U.K. Equities *	35,085,862	28,707,237
Overseas Equities *	5,622,901	5,492,788
Property *	7,081,466	6,429,552
Cash Deposits	<u>6,229,599</u>	<u>5,989,463</u>
	<u>70,983,089</u>	<u>57,076,553</u>

\* Includes Unit Trusts

8. Investment Transactions

8.1. Investment transactions during the year consisted of sales of £551,719,128 and purchases of £643,686,031 (1995/96 - £719,258,714 and £691,787,228 respectively).

9. Profits and Losses

9.1. 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 the sale.

9.2. A net profit of £66,982,346 accrued from the sale of investments, comprised of profits of £85,893,177 and losses of £18,910,831 (1995/96 - net profit of £87,567,828, comprised of profits of £102,467,803 and losses of £14,899,975).

10. Valuation of Investments

10.1. The valuation of quoted investments is based on either the mid-market closing price on 31st March, 1997 or the last such quoted price before that date.

10.2. Unquoted investments have been valued internally.

10.3. Overseas investments have been converted at the exchange rates quoted at close of business on 31st March, 1997, 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	1.6420
German Mark	2.7395
Dutch Guilder	3.0800
Swiss Franc	2.3655
Italian Lira	2739.2668
Spanish Peseta	232.7864
Norwegian Kroner	10.8338
Danish Kroner	10.4364
French Franc	9.2420
Swedish Kroner	12.3703
Irish Punt	1.0337
Austrian Schilling	19.2808
Belgian Franc	56.6252
Portuguese Escudo	275.4620
Finnish Markka	8.1325
Australian Dollar	2.0948
New Zealand Dollar	2.3633
Japanese Yen	203.2961
Hong Kong Dollar	12.7239
Singapore Dollar	2.3732
Malayan Ringit	4.0710
Thai Baht	42.6510
South Korean Won	1470.4123
Philippines Peso	43.2914
Indonesian Rupiah	3942.4425
Taiwan Dollar	45.2207

10.4. Properties are shown as valued at 31st December, 1996 by chartered surveyors.

**11. Derivatives**

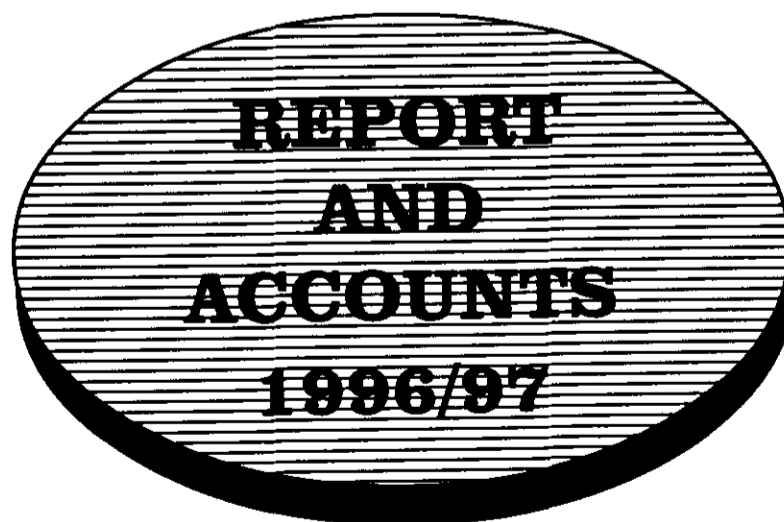
- 11.1. A number of derivative instruments have been used by the Fund.
- 11.2. The Fund has used FT-SE 100 Index Futures to implement changes in asset allocation. As at 31st March, 1997, the Fund held 52 June 1997 contracts which had a nominal book value of £5,748,162 and a nominal market value of £5,606,900. The net variation margin paid to 31st March, 1997 was therefore £141,262, which is shown as the book value of the position. The position was unwound by 20th June, 1997 at an overall profit of £286,251.
- 11.3. The Fund has used Forward Currency Contracts to hedge the currency exposure on overseas investments. As at 31st March, 1997, the Fund held a range of positions which together showed an unrealised profit of £704,921. The positions showed an overall profit of £779,043 when unwound.

**12. Audit**

- 12.1. The accounts are presented subject to audit.

---

**Tyne & Wear  
Pension Fund**



Administered by  
**SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL**