

***TYNE & WEAR  
PENSION FUND  
Report & Accounts  
1997/98***



***Administered by  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL***

# REPORT and ACCOUNTS

For the year ended 31st March, 1998

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**ADMINISTERING AUTHORITY  
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL  
Members, Advisers and Officers 1997/98**

**Members**

Chairman	:	Councillor R.S. Haws, J.P.
Vice Chairman	:	Councillor Mrs. S. Stratford
Other Members :		
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 S. Hepburn
	:	Councillor D.T. Leonard (until 16.7.97)
	:	Councillor F. Taylor (from 23.10.97)
	:	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. Farthing (substitute - Councillor P. Young)
<b>Trade Union Representatives</b>	:	T. Johnston - UNISON (until 24.11.97)
	:	G. Brown - UNISON (from 25.11.97)
	:	W. Flynn - UCATT
	:	I. Rossiter - RMT

**External Investment Managers**

Balanced Managers :	:	Mercury Asset Management
	:	Phillips and Drew
Specialist Managers :	:	Schroder Investment Management
Japan and Pacific Basin	:	J.P. Morgan Investment Management
North America	:	Capital International
Continental Europe	:	Prudential Portfolio Managers
Global Bonds	:	
Indexation :	:	Barclays Global Investors
Property Manager :	:	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 1997/98, the Fund increased in size by £324 million, from £1,534 million to £1,858 million. The investment return was +21.7%, which was 1.7% below the median U.K. pension fund return of +23.4%. These high rates of return were provided largely by the strong performance of Western equity markets.

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 +14.0%, which is comfortably above the rate of inflation and the increase in wages over the period, although it is below the median U.K. pension fund return for the period of +14.9%.

The underperformance over the latest five year period has arisen out of the part of the Fund which is under balanced management. The asset allocation in the latter part of the period has been overly defensive at a time when financial markets have, in the main, performed strongly. Furthermore, stock selection has been weak in certain areas. Almost two thirds of the Fund has been under balanced management during this period. By contrast, the remaining third of the Fund, which is under specialist management, has performed well.

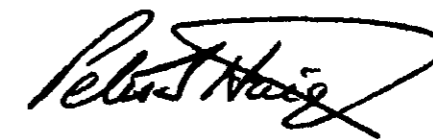
The Pensions Committee recognised this situation and undertook a review of the Fund's investment management structure. The review commenced in March, 1998 and was completed in November, 1998. The outcome has been an adjustment to the investment management structure to provide for broadly equal amounts of the Fund to be under balanced and specialist management. This has been achieved by increasing the amounts managed by the existing Global Bonds and Overseas Equity managers and by introducing a new manager, Commercial Union Investment Management, to actively manage part of the U.K. Equity content. The balanced mandate held by Mercury Asset Management has been terminated and a smaller mandate awarded to Fidelity Institutional Asset Management, whilst the balanced mandate held by Phillips and Drew has been slightly reduced in size. These revised arrangements will be in full operation by January, 1999.

The arrangements for the management of the Property Portfolio did not require to be reviewed. However, the Committee determined separately that the allocation to this asset class should be increased in order to keep it broadly in line with the average allocation to Property of other large pension funds.

This year saw the introduction of the second 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 changes in the statistical assumptions underlying the valuation and the contributions paid over the three year intervalation period having been less than those required to maintain the funding level.

An actuarial valuation is currently being carried out, based on the financial standing of the Fund as at 31st March, 1998. Amongst other factors, this valuation will have to take account of the removal of the 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.

The Department of the Environment, Transport and the Regions has released the Local Government Pension Scheme Regulations 1997. These Regulations came into effect on 1st April, 1998 and contain a number of enhancements to the current benefits package. They have also standardised the employees' contributions 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 fourteen members and normally meets quarterly. Ten 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 funds.

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, 1998 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 specialist 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 Fund members' benefits is also undertaken by the Director of Corporate Services.

**INVESTMENT REPORT**

**INVESTMENT RETURNS**

For the 1997/98 year, the Fund's return was +21.7%. This was 1.7% below the median pension fund return of +23.4%.

The table below analyses the Fund's total return over the main investment markets and compares it against the CAPS median and index returns:

	Tyne and Wear Fund %	Median Fund %	Index %
Aggregate	+ 21.7	+ 23.4	-
U.K. Fixed Interest	+19.2	+20.1	+17.3
U.K. Index-Linked	+16.8	+17.0	+16.5
Overseas Fixed Interest	+3.7	+3.4	+3.5
U.K. Equities	+31.8	+34.8	+36.5
Overseas Equities	+15.3	+13.3	+27.6
U.S.	+41.5	+38.4	+45.7
Japan	-8.3	-10.4	-14.8
Europe	+38.3	+36.0	+39.5
Pacific Basin	-31.2	-29.6	-29.1
Property	+17.8	+15.6	+17.4

Index returns were positive in all the areas referred to above, with the exception of Japanese and Pacific Basin Equities. However, the median pension fund underperformed the indices for all areas except for U.K. Fixed Interest and Index-Linked and Japanese Equities. In particular, the median fund underperformed the index for U.K. Equities, which is an important asset class because it is where pension funds generally invest over half of their assets.

The Tyne and Wear Fund outperformed the median pension fund for Overseas Fixed Interest, U.S., Japanese and European Equities, and Property. However, it underperformed in the important U.K. Equities asset class and in U.K. Fixed Interest, U.K. Index-Linked and Pacific Basin Equities.

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 %
1993/94	+ 15.3	+ 17.5
1994/95	+2.3	+0.6
1995/96	+20.9	+23.4
1996/97	+10.9	+11.1
1997/98	+21.7	+23.4

These results have produced an average annual return over the five year period of +14.0%, which is below the median return of +14.9%.

**FACTORS INFLUENCING MARKETS DURING 1997/98**

**Overview**

The year was marked by a difference in performance between Western and Eastern markets. In the West, the overall economic environment in the first half of the year was one of strong growth, but combined with a benign outlook for inflation which reflected excess global capacity and led to loose monetary conditions. This provided a favourable outlook for financial markets.

In contrast, structural problems in the Pacific Basin led to currency turmoil and a collapse in their markets in the second quarter of the year. The Japanese market also slumped as foreign investor interest waned and domestic investors became concerned about the health of their economy. The deterioration in the region continued in the third and fourth quarters as monetary conditions tightened through higher interest rates and an erosion of banks' capital bases. Overall, progress in resolving the crisis was slow, although the slump in domestic demand and the weakening of the regions' currencies produced an improvement in the trade position.

The Asian crisis led to Western markets becoming significantly unsettled in the third quarter. These markets fell sharply in October before recovering most of their losses in November and December. Although there were signs that Western exports were being hurt, growth in domestic demand remained strong. Given the uncertainty caused by the Asian crisis, interest rates in Western economies remained on hold at stimulative levels. This led to increased confidence in financial markets, which therefore performed strongly in the fourth quarter.

**Fixed Interest**

The environment of low interest rates and subdued inflation took bond yields down to historically low levels. Accordingly, Fixed Interest returns were strong, although the return on Overseas Fixed Interest was reduced by the strength of Sterling, which continued to appreciate in value against overseas currencies.

**Equities**

The favourable economic background meant that Western equity markets were also strong performers. The strongest performance came from the U.S. market, which returned +45.7%, although the impact of this on U.K. pension fund performance was minimal because of the low allocation to that market. The U.K. market returned +36.5%, whilst European markets returned +39.5%.

The economic crisis in Asia meant that the Japanese and Pacific Basin markets were poor performers, returning -14.8% and -29.1% respectively.

**Property**

The Property market returned +17.4% in 1997/98. It was supported by attractive income yields, capital growth and an investor view that an allocation to Property would provide useful diversification to other asset classes.

**INVESTMENT STRATEGY DURING 1997/98**

During 1997/98, the actions of the Pensions Committee and of the investment managers had the following effect on the Fund's asset allocation:

	Net Investment £'000	Net Disinvestment £'000
U.K. Fixed Interest _____	3,431	-
UK Index-Linked _____	-	15,750
Overseas Fixed Interest _____	-	32,709
UK Equities * _____	-	8,476
Overseas Equities* _____	32,462	-
Property * _____	22,893	-
	<u>58,786</u>	<u>56,935</u>
 Total Net Investment	 <u>1,851</u>	

\* Includes unit trusts.

The Fund's Revenue Account shows that £60.8 million became available for investment in 1997/98. However, the table above shows that only £1.9 million of this was invested into markets. Most of the new money remained in Cash, resulting in a rise in net current assets of £60.9 million.

The allocation to Property is set by the Pensions Committee, acting in the light of advice from the Actuary and the Property Manager. The Committee determined that this allocation should be increased in 1997/98 in order to keep it broadly in line with the average allocation to Property of other large pension funds.

The Fund's balanced managers who, in 1997/98, managed a little over 60% of the Fund have discretion to implement their own asset allocation, subject to complying with broad investment guidelines laid down by the Committee. The asset allocation of a further 30% of the Fund, within which the specialist managers operate, is set in line with the allocation of the average pension fund. The main combined effect of these strategies was a movement out of U.K. Index-Linked and Overseas Fixed Interest and into Overseas Equities.

**COMPOSITION OF THE PORTFOLIO**

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

	Start of Year		End of Year		Average Pension Fund
	£'000	%	£'000	%	%
U.K. Fixed Interest _____	142,930	9.3	157,808	8.5	7.4
UK Index-Linked _____	71,954	4.7	65,588	3.5	1.6
Overseas Fixed Interest _____	131,472	8.6	95,000	5.1	5.6
UK Equities * _____	746,267	48.7	939,120	50.6	55.8
Overseas Equities * _____	264,508	17.2	332,555	17.9	17.8
Property * _____	78,287	5.1	108,261	5.8	2.5
Net Current Assets _____	98,833	6.4	159,690	8.6	9.3
	<u>1,534,251</u>	<u>100.0</u>	<u>1,858,022</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. Because the returns from most markets were strong, this asset allocation, and in particular the underweight position in U.K. Equities, detracted from performance.

With regard to stock selection, this was strong for Overseas Equities and for Property. However, it was weaker for the important U.K. Equities asset class and it was this factor which was the main contributor to the Fund's underperformance for the year.

**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 Department of the Environment, Transport and the Regions 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 the Scheme 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 79 different employers within the Fund.

Every new employee receives a new starters pension leaflet 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 Fund on 31st March, 1998 was 40,959, an increase of 298 from the 40,661 contributors at the previous year-end.

These employees are employed by the 79 different employers that participate in the Tyne and Wear Pension Fund.

**CONTRIBUTIONS**

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

Employees' contributions do not cover the total cost of their Scheme benefits. Employers participating in the Fund meet the balance of costs with their contributions. The Fund's Actuary assesses each employer's share of the cost every three years. This process is called fund valuation.

The Fund is currently undergoing a valuation as at 31st March, 1998. The outcome of this valuation will be included in next year's report and accounts.

**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 retirement.
- \* 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, 1998 there were 24,650 people in receipt of payments from the Fund, an increase of 1,071 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 8,963 as at 31st March, 1998 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 the payment of pension benefits based on their accrued service.

**NEW REGULATIONS**

On 1st April, 1998, new regulations came into force that changed many of the rules governing the Scheme. The employees' contribution has been standardised at 6% of pay, with protection for those on manual grades who are currently paying 5%. In addition, all employers participating in the Fund had to exercise their discretion in a number of areas and publish their policy decisions.

**SUMMARY**

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

**TYNE AND WEAR PENSION FUND**

**ORGANISATIONS PARTICIPATING IN THE FUND**

	Members as at 31st March, 1998	
	Contributors	Pensioners
<b>METROPOLITAN DISTRICT COUNCILS</b>		
Gateshead	6,666	3,761
Newcastle upon Tyne	9,001	5,459
North Tyneside	4,939	3,033
South Tyneside	4,675	2,870
Sunderland	7,603	5,065
<b>Sub Totals</b>	<b>32,884</b>	<b>20,188</b>
<b>OTHER SCHEDULED BODIES</b>		
University of Northumbria at Newcastle	1,251	213
University of Sunderland	808	129
Nexus	923	1,470
Northumbria Police Authority	1,476	786
Northumbria Probation and After-Care Service	487	195
Tyne and Wear Fire and Civil Defence Authority	264	134
Tyne and Wear Passenger Transport Authority	112	57
City of Sunderland College	254	24
Gateshead College	140	22
Newcastle College	344	36
North Tyneside College	92	10
Tynemouth College	26	4
South Tyneside College	255	35
Wearside College	-	-
Birtley Town Council	6	1
Former Tyne and Wear County Council	-	352
Former Tyne and Wear Residuary Body	-	29
Former North East Regional Airport	-	48
<b>Sub Totals</b>	<b>6,438</b>	<b>3,545</b>
<b>ADMITTED BODIES</b>		
Stagecoach Travel Services (Busways)	431	384
Newcastle International Airport Company Ltd.	444	154
Age Concern Newcastle	40	12
Catholic Care North East	23	24
Information North (Northern Regional Library System)	4	2
Newcastle Community Law Centre	3	1
Disability North	12	1
Newcastle Family Service Unit	1	3
North East Innovation and Development Company Ltd.	13	4
Northern Regional Examinations Board	-	14
Northern and North-Eastern Provincial Councils	7	2
Northern Arts Association	33	7
Northern Council for Further Education	2	12
Northern Counties School for the Deaf	31	14
North of England Assembly of Local Authorities	11	3
Northumbria Tourist Board	17	6
Park View Sports Complex	2	-

**TYNE AND WEAR PENSION FUND**

Port of Tyne Authority	-	11
Praxis Service	3	-
Search Project	3	1
Shiremoor Advice Centre	3	-
St. Mary Magdalene and Holy Jesus Charity	3	2
Sunderland Empire Theatre Trust Ltd.	7	4
Sunderland Enterprise Agency	-	-
Sunderland Outdoor Activities Association	-	-
The Ozanam House Probation Hostel Management Committee	12	4
Theatre Royal Trust Ltd.	47	8
Tyne and Wear Development Corporation	11	5
Tyne and Wear Enterprise Trust Ltd.	22	4
Tyne Theatre Trust (Northern Stage Company)	-	-
Tyne and Wear Development Company Ltd.	10	1
Tyneside Training and Enterprise Council	204	2
Wallsend Citizens' Advice Centre	3	-
Wallsend Peoples' Centre	3	1
Workshops for the Adult Blind (Palatine Products)	69	99
Sunderland City Training and Enterprise Council	111	3
South Tyneside Groundwork Trust	8	-
Sunderland Arts Centre	-	-
Tyne Waste Ltd.	-	5
Newcastle West End Partnership	-	-
North Tyneside City Challenge	4	-
Wellfield Middle School	2	-
Newcastle Youth Congress	1	-
Gateshead Law Centre	6	-
Newcastle Tenants Federation	6	-
North Tyneside Child Care Enterprise Trust	15	-
Learning World	8	-
Norcare	2	-
National Glass Centre	-	-
Benton Grange School	-	10
North of England Development Council	-	6
St. Mary's Training College	-	9
Passenger Transport Company	-	99
The Hospital of St. Mary the Virgin	-	-
Northern Informatics Application Agency	-	-
North Tyneside Disability Advice Centre	-	-
<b>Sub Totals</b>	<b>1,637</b>	<b>917</b>
<b>GRAND TOTALS</b>	<b>40,959</b>	<b>24,650</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 1997/98 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	946	145	1,891
Newcastle	140	-	145	824	145	1,645
North Tyneside	135	-	140	508	140	1,019
South Tyneside	135	-	140	740	140	1,480
Sunderland	140	-	145	1,136	145	2,381

Percentages shown are percentages of members' contributions.

Monetary amounts shown are payable in addition to the percentages of members' contributions. The amounts are in 1997/98 terms. The amounts for 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: 8½% 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 Financial Times 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 reduction in the funding level of some 7%, together with an increase in the costs of accruing benefits of the order of 15% of employee contributions. In order to meet these, an increase in employers' contributions of the order of 60% 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 will take effect from 1st April, 1999.

**TYNE AND WEAR PENSION FUND**

**REPORT OF THE ACTUARY FOR THE YEAR ENDED 31st MARCH, 1998**

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, 1998 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

**TYNE AND WEAR PENSION FUND**

**REVENUE ACCOUNT FOR THE YEAR ENDED 31st MARCH, 1998**

1996/97 £'000		£'000	1997/98 £'000	£'000
	<b>CONTRIBUTIONS AND PENSIONS</b>			
	<b>INCOME</b>			
39,536	Employers' Contributions _____	49,713		
28,314	Employees' Contributions _____	29,419		
9,935	Transfer Values _____	8,647		
<u>77,785</u>			87,779	
	<b>EXPENDITURE</b>			
74,624	Retirement Pensions _____	80,533		
12,261	Less : Recharges to Employing Authorities _____	13,459		
<u>62,363</u>		<u>67,074</u>		
13,618	Retirement Grants and Gratuity Payments _____	14,668		
1,039	Death Grants _____	1,134		
611	Return of Contributions _____	587		
3,726	Transfer Values _____	5,897		
155	Contributions Equivalent Premium _____	123		
1,187	Contributions and Benefits Administration _____	1,316		
<u>82,699</u>			<u>90,799</u>	
(4,914)	Shortfall of Contributions over Benefits and Payments _____			(3,020)
	<b>INVESTMENT INCOME AND MANAGEMENT</b>			
	<b>INCOME</b>			
70,983	Investment Income _____	71,943		
84	Commission _____	8		
<u>71,067</u>			71,951	
	<b>EXPENDITURE</b>			
3,286	Investments Administration and Fees _____	2,674		
-	Non-Recoverable Tax on Investment Income _____			
-	- UK _____	4,805		
439	- Overseas _____	384		
383	Property Running Expenses _____	241		
<u>4,108</u>			<u>8,104</u>	
66,959	Net Income from Investments _____			63,847
<u>62,045</u>	<b>NET INCOME AVAILABLE FOR INVESTMENT</b>			<u>60,827</u>

**TYNE AND WEAR PENSION FUND**

**NET ASSETS STATEMENT AS AT 31st MARCH, 1998**

1996/97 £'000		£'000	1997/98 £'000	£'000
	<b>INVESTMENTS</b>			
	<b>QUOTED INVESTMENTS</b>			
	<b>Fixed Interest</b>			
142,655	U.K. Government Conventional Stocks _____	152,854		
71,954	U.K. Government Index-Linked Stocks _____	65,588		
130,767	Overseas Fixed Interest Stocks _____	80,138		
-	Overseas Index-Linked Stocks _____	14,417		
-	Sterling Denominated Non-Sovereign Bonds _____	4,680		
<u>345,376</u>			317,677	
	<b>Equities</b>			
726,317	U.K. _____	919,420		
230,781	Overseas _____	271,361		
<u>957,098</u>			<u>1,190,781</u>	
1,302,474	<b>Total - Quoted Investments</b> _____		1,508,458	
	<b>UNQUOTED INVESTMENTS</b>			
607	U.K. Equities _____	559		
19	Overseas Equities _____	13		
19,342	U.K. Unit Trusts _____	19,141		
33,707	Overseas Unit Trusts _____	61,181		
823	U.K. Property Unit Trusts _____	901		
2,344	Overseas Property Unit Trusts _____	2,163		
61,755	Freehold Property _____	85,765		
13,366	Leasehold Property _____	19,432		
275	Long Term Mortgage Loans _____	275		
<u>132,238</u>	<b>Total - Unquoted Investments</b> _____		189,430	
	<b>DERIVATIVES</b>			
705	Forward Currency Contracts - Open _____	444		
705	<b>Total - Derivatives</b> _____		<u>444</u>	
1,435,417	<b>Total - All Investments</b> _____		1,698,332	
	<b>CURRENT ASSETS</b>			
26,519	Debtors _____	21,831		
86,357	Sterling Cash and Short Term Deposits _____	136,988		
973	Overseas Currency Balances _____	18,486		
<u>113,849</u>			177,305	
	<b>LESS : CURRENT LIABILITIES</b>			
15,015	Creditors _____		<u>17,615</u>	
98,834	<b>Net Current Assets</b> _____		159,690	
<u>1,534,251</u>	<b>TOTAL NET ASSETS</b> _____		<u>1,858,022</u>	

**TYNE AND WEAR PENSION FUND**

**RECONCILIATION OF THE MOVEMENT OF THE NET ASSETS OF THE  
FUND FROM 1st APRIL, 1997 TO 31st MARCH, 1998**

	£'000	£'000
<b>Total Net Assets as at 1st April, 1997</b> _____		1,534,251
Net new money available for investment per Revenue Account _____		60,827
		<u>1,595,078</u>
<b>Change in market value of investments :</b>		
Net realised gains on investments sold during year _____	78,527	
Other variations in market value of investments _____	184,417	
		<u>262,944</u>
<b>Total Net Assets as at 31st March, 1998</b> _____		<u>1,858,022</u>

**TYNE AND WEAR PENSION FUND**

**SUMMARY OF INVESTMENTS 1997/98**

Category	Market Value 31.03.97 £'000	Book Value 1.04.97 £'000	Purchases 1997/98 £'000	Profit on Sales 1997/98 £'000
<b>QUOTED INVESTMENTS</b>				
Fixed Interest :				
U.K. Government				
Conventional Stocks _____	142,655	141,624	222,777	5,912
U.K. Government				
Index-Linked Stocks _____	71,954	60,535	18,106	6,234
Overseas Fixed Interest Stocks _____	130,767	136,964	264,478	4,116
Overseas Index Linked Stocks _____	-	-	14,897	-
Sterling Denominated				
Non-Sovereign Bonds _____	-	-	4,573	-
Equities :				
U.K. _____	726,317	495,734	166,813	55,794
Overseas _____	230,781	199,390	105,807	29,251
<b>Total - Quoted</b>	<b>1,302,474</b>	<b>1,034,247</b>	<b>797,451</b>	<b>101,307</b>
<b>UNQUOTED INVESTMENTS</b>				
Equities :				
U.K. _____	607	2,229	-	-
Overseas _____	19	142	-	-
Unit Trusts :				
U.K. _____	19,342	13,851	125	847
Overseas _____	33,707	25,099	38,622	1,351
Property Unit Trusts :				
U.K. _____	823	388	-	-
Overseas _____	2,344	2,795	-	41
Property :				
Freehold _____	61,755	63,080	19,841	434
Leasehold _____	13,366	13,378	5,024	-
Long Term				
Mortgage Loans _____	275	275	-	-
<b>Total - Unquoted</b>	<b>132,238</b>	<b>121,237</b>	<b>63,612</b>	<b>2,673</b>
<b>Sub-Total</b>	<b>1,434,712</b>	<b>1,155,484</b>	<b>861,063</b>	<b>103,980</b>
<b>DERIVATIVES</b>				
FTSE 100 Index Futures :				
Expired _____	-	141	-	919
Open _____	-	-	(77)	-
Forward Currency Contracts :				
Expired _____	705	-	-	4,849
Open _____	-	-	-	-
<b>Total - Derivatives</b>	<b>705</b>	<b>141</b>	<b>(77)</b>	<b>5,768</b>
<b>GRAND TOTAL</b>	<b>1,435,417</b>	<b>1,155,625</b>	<b>860,986</b>	<b>109,748</b>

**TYNE AND WEAR PENSION FUND**

**SUMMARY OF INVESTMENTS 1997/98**

Loss on Sales 1997/98 £'000	Sale Proceeds 1997/98 £'000	Book Value 31.03.98 £'000	Market Value 31.03.98 £'000
1,243	223,916	145,154	152,854
-	33,856	51,019	65,588
10,539	311,806	83,213	80,138
-	279	14,618	14,417
-	-	4,573	4,680
8,374	172,629	537,338	919,420
8,767	107,190	218,491	271,361
<b>28,923</b>	<b>849,676</b>	<b>1,054,406</b>	<b>1,508,458</b>
39	72	2,118	559
-	4	138	13
-	2,715	12,108	19,141
-	4,774	60,298	61,181
-	-	388	901
-	256	2,580	2,163
7	1,715	81,633	85,765
-	-	18,402	19,432
-	-	275	275
<b>46</b>	<b>9,536</b>	<b>177,940</b>	<b>189,430</b>
<b>28,969</b>	<b>859,212</b>	<b>1,232,346</b>	<b>1,697,888</b>
68	992	-	-
-	-	(77)	-
2,184	2,665	-	-
-	-	-	444
<b>2,252</b>	<b>3,657</b>	<b>(77)</b>	<b>444</b>
<b>31,221</b>	<b>862,869</b>	<b>1,232,269</b>	<b>1,698,332</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, 1995. The required levels of contribution to be paid to the Fund by the main scheduled bodies with effect from 1st April, 1996 are shown in the actuarial statements. 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. tax and overseas withholding tax. Non recoverable tax has been shown as an expense.

5.2. In all other cases, debtors and creditors are raised for amounts outstanding as at 31st March, 1998.

**6. Taxation**

6.1. Up until 1st July, 1997, the Fund could reclaim the tax credit on U.K. dividends. With effect from 2nd July, 1997, the tax credit cannot be reclaimed, as a result of a measure announced in the Budget.

6.2. All investment income in the accounts has been shown gross of U.K. tax and the non recoverable element has been shown as an expense.

6.3. The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non recoverable tax has been shown as an expense.

6.4. With effect from 1st September, 1991, Customs and Excise had ruled that the Fund should be registered separately from the Council for the purposes of V.A.T. and could not reclaim V.A.T. on its exempt activities. A recent review of this position has resulted in the separate registration being cancelled with effect from 1st April, 1998 and the Fund being able to reclaim its V.A.T. from that date. In addition, V.A.T. which was previously classified as non recoverable has been reclassified as recoverable. A refund of V.A.T. amounting to £413,822 is receivable and is included in the 1997/98 Revenue Account, within the heading of Investments Administration and Fees.

**7. Investment Income**

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

	<b>1996/97</b>	<b>1997/98</b>
	<b>£'000</b>	<b>£'000</b>
U.K. Fixed Interest	9,494	10,919
U.K. Index-Linked	2,262	2,012
Overseas Fixed Interest *	5,208	6,173
Overseas Index-Linked	-	106
Sterling Denominated		
Non Sovereign Bonds	-	3
U.K. Equities *	35,086	34,580
Overseas Equities *	5,623	5,101
Property *	7,081	6,128
Cash Deposits	6,229	6,921
	<u>70,983</u>	<u>71,943</u>

\* Includes Unit Trusts

7.2. With regard to property rental income payable quarterly in advance, the previous practice has been to include the full quarterly payments which fell due in each year. With effect from the 1997/98 accounts, only the proportion of each payment attributable to the Fund from the due date to the 31st March of each year will be credited to the Revenue Account.

**8. Investment Transactions**

8.1. Investment transactions during the year consisted of sales of £862,869,297 and purchases of £860,985,891 (1996/97 - £551,719,128 and £643,686,031 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 £78,527,292 accrued from the sale of investments, comprised of profits of £109,748,468 and losses of £31,221,176 (1996/97 - net profit of £66,982,346, comprised of profits of £85,893,177 and losses of £18,910,831).

**10. Valuation of Investments**

10.1. The valuation of quoted investments and unit trusts is based on either the mid-market closing price on 31st March, 1998 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, 1998, 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	1.6746
German Mark	3.0969
Dutch Guilder	3.4910
Swiss Franc	2.5529
Italian Lira	3052.5794
Spanish Peseta	262.9295
French Franc	10.3753
Norwegian Kroner	12.7672
Danish Kroner	11.8053
Swedish Kroner	13.3872
Irish Punt	1.2324
Austrian Schilling	21.7878
Belgian Franc	63.8841
Portuguese Escudo	317.1515
Finnish Markka	9.3987
Australian Dollar	2.5252
New Zealand Dollar	3.0290
Japanese Yen	223.3097
Hong Kong Dollar	12.9749
Singapore Dollar	2.7044
Malayan Ringit	6.0954
Thai Baht	65.7262
South Korean Won	2319.2522
Philippines Peso	63.4655
Indonesian Rupiah	14484.9000
Taiwan Dollar	55.0375

## TYNE AND WEAR PENSION FUND

10.4. Properties are shown as valued at 31st December, 1997 by chartered surveyors, with the exception of three properties purchased after that date which have been valued at cost.

### 11. Property Sinking Fund

11.1. The Fund previously maintained a notional sinking fund to write down the book value of its leasehold properties over the remaining life of each lease. This practice has been discontinued and the accumulated provision of £227,516 has been written back to the Revenue Account, within the heading of Property Running Expenses.

### 12. Derivatives

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

12.2. The Fund has used FT-SE 100 Index Futures to implement changes in asset allocation. As at 31st March, 1998, the Fund held 89 June 1998 contracts which had a nominal book value of £5,234,030 and a nominal market value of £5,310,630. The net variation margin received to 31st March, 1998 was therefore £76,600, which is shown as the book value of the position. The position was unwound by 15th June, 1998 at an overall loss of £6,536.

12.3. The Fund has used Forward Currency Contracts to hedge the currency exposure on overseas investments. As at 31st March, 1998, the Fund held a range of positions which together showed an unrealised profit of £444,392. The positions showed an overall profit of £370,395 when unwound.

### 13. Underwriting and Placings

13.1. The Fund accepts a number of underwriting and placing propositions. As at 31st March, 1998, one placing commitment involving a potential outlay of £362,941 was unexpired. The Fund was subsequently released from this commitment without any liability being incurred.

### 14. Contingent Liability - Tax Credit on Share Buybacks.

14.1. Between 1994 and 1996, share buybacks were made by a significant number of major companies. Gross investors, including pension funds, received additional gains because an element of the buyback consideration could often be treated as a distribution of income rather than a return of capital and gross investors were, therefore, able to recover the tax credit involved.

14.2. The Inland Revenue's Compliance Division is seeking to establish the position under anti tax avoidance legislation. For this Fund, this could have the effect of denying recovery on tax credits totalling £2,765,576.

14.3. The technical considerations attaching to the anti avoidance legislation are complex and the position on recovery is unclear. Accordingly, any charge to the accounts will be taken in the year in which the position is clarified or is reasonably certain.

### 15. Audit

15.1. The accounts are presented subject to audit.

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**TYNE & WEAR  
PENSION FUND**  
**Report & Accounts**  
**1997/98**



*Administered by*  
**SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL**

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