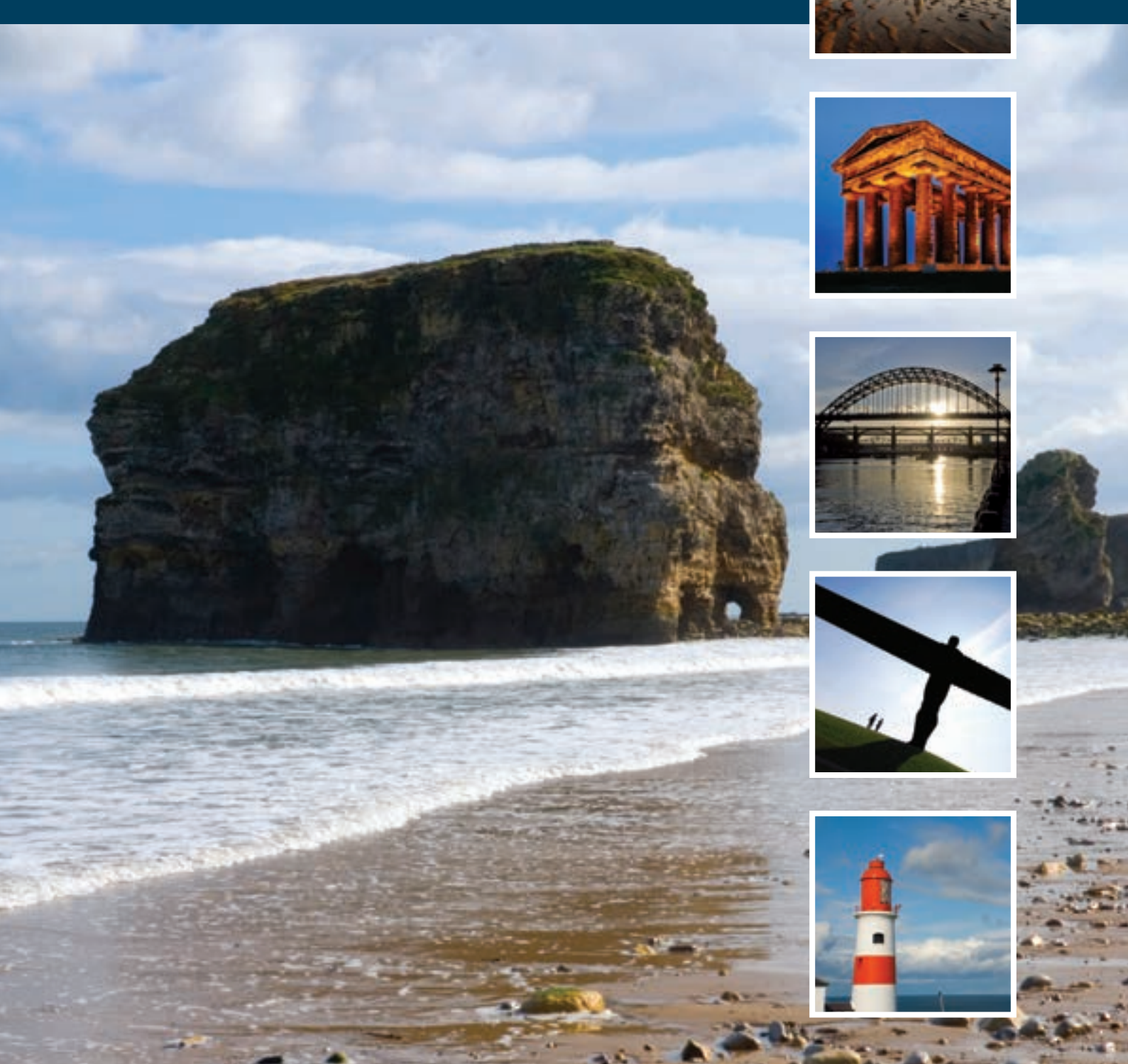


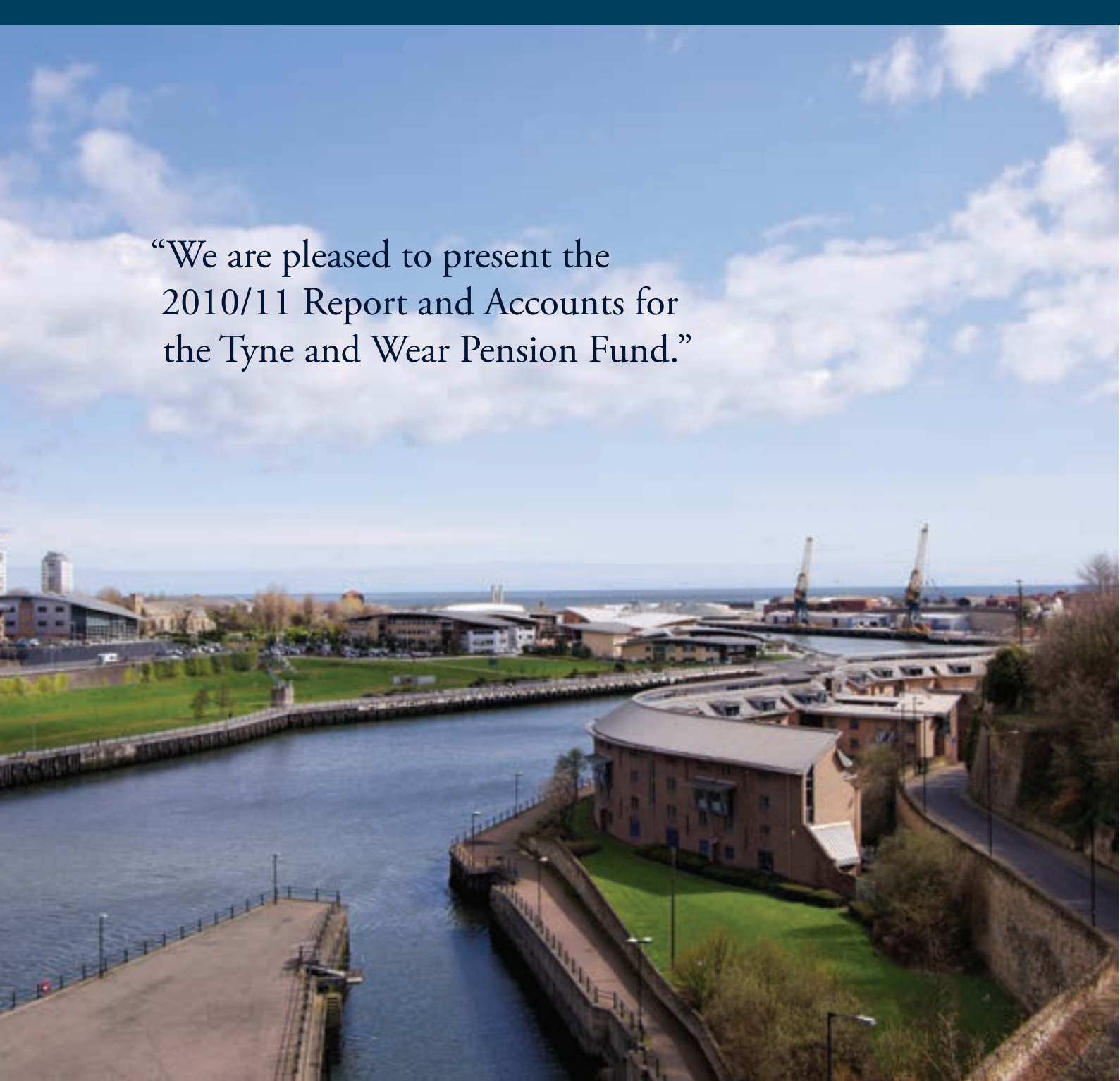
TYNE AND WEAR PENSION FUND

REPORT AND ACCOUNTS 2010/11

Administered by South Tyneside Council



“We are pleased to present the
2010/11 Report and Accounts for
the Tyne and Wear Pension Fund.”





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Members of Pensions Committee, Advisors, Officers and External Managers

Committee Members

South Tyneside Council

Councillor E. Leask (Chair)
Councillor G.R.W. Elsom (Vice Chair)
Councillor B. Brady
Councillor J.N. McKie
Councillor J. Perry
Councillor D. Potts
Councillor O. Punchion
Councillor A. West

Gateshead Council

Councillor B. Goldsworthy
(substitute – Councillor G. Haley)

Newcastle City Council

Councillor D. Slesenger
(substitute – Councillor B. Renton)

North Tyneside Council

Councillor G. Partis
(substitute – Councillor J. Wallace)

Sunderland City Council

Councillor G. Miller
(substitute – Councillor P. Gibson)

Trades Unions Representatives

G. Clements – UNISON
W. Flynn – UCATT
S. Forster – UNISON

Employers' Representatives

J. Cairns – University of Sunderland
G. Foster – Northumbria University
T. Jackson – TT2

Advisors

Actuary – Aon Hewitt
Investment Advisor – Hyman Robertson

Officers

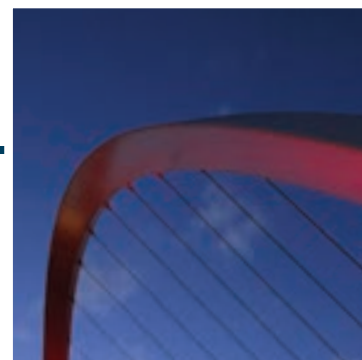
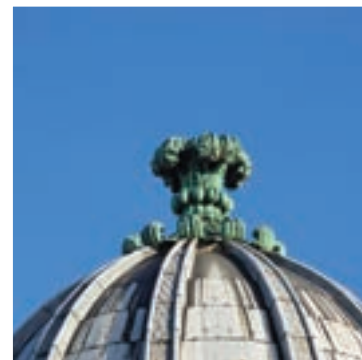
P. Melia
Corporate Director Business and Area Management

S. Moore
Head of Pensions

D. Smith
Assistant Head of Pensions

I. Bainbridge
Assistant Head of Pensions (Investments)

M. Harding
Acting Head Legal Services



Ornamental Rooftop, Newcastle;
Wear Bridges, Sunderland;
Souter Lighthouse, South Shields;
Millennium Bridge, Gateshead.

External Managers

Mainstream Assets

Indexation

Legal and General Investment Management

Bonds

UK Bonds

Henderson Global Investors

Corporate Bonds

M&G Investments

Equities

Global Equities

JP Morgan Asset Management

Sarasin and Partners

Pan European Equities

UBS Global Asset Management

UK Equities

BlackRock Investment Management

Mirabaud Investment Management

Japanese Equities

Lazard Asset Management

Asia Pacific ex Japan Equities

TT International

Emerging Market Equities

Capital International

Alternative Assets

Property

UK Property

Aberdeen Property Investors

Global Property

Partners Group

Infrastructure

Henderson Equity Partners

M&G Investments

Partners Group

Private Equity

Capital International

Coller Capital

HarbourVest Partners

Lexington Partners

Pantheon Ventures

Partners Group

Active Currency

BlackRock Investment Management

Investec Asset Management

Millennium Global

Record Currency Management

Additional Voluntary Contributions

The Prudential Assurance Company

Equitable Life Assurance Society

Review of the Year

We are pleased to present the 2010/11 Report and Accounts for the Tyne and Wear Pension Fund.

This review summarises the main events of the year, namely the 2010 valuation, actual and proposed reforms to the Scheme and changes to the investment strategy and structure.

The contributions paid by employers in 2010/11 were set by the 2007 valuation, where the funding level was 79%. The average future service rate was 15.1% of pay and the contribution to address the deficit was 6% of pay, leading to a total average contribution of 21.1% of pay.

We have had two years of recovery in investment markets to follow the falls in 2008 and early 2009 that were triggered by the global economic crisis. Despite this, the experience for the funding level has been poor since the 2007 valuation. This is due to low investment returns over the period, combined with a fall in the nominal and real gilt yields that set the discount rates that are used to calculate liabilities.

For the 2010 valuation, a straight application of the strategy used at the 2007 valuation would have led to significant increases in employers' contributions. The Pensions Committee recognised this situation and reviewed the assumptions and strategy.

In order to prevent some employers' contribution rates rising to unaffordable levels, the Committee adopted a less prudent strategy for employers with a strong covenant by increasing the discount rate used to calculate the liabilities. A more prudent strategy will be restored at future valuations.

In addition, use was made of existing and new guarantees from the five district councils to assist some employers with a weaker covenant.

These measures led to a reported funding level at the 2010 valuation of 79%, the same as at the 2007 valuation. However, the 2010 low risk funding level, based on gilt yields, was 53%. The comparable figure at the 2007 valuation was 63%.

The average future service rate from April 2011 is 15.3% of pay and the contribution to address the deficit is 5.9% of pay, leading to a total average contribution of 21.2% of pay.

There have been a number of important events during the year that will affect the future of the Scheme and the cost and value of benefits.

In June 2010, the Government announced that the April 2011 pension increase would be based upon the Consumer Price Index. The annual increase had previously been based on the Retail Price Index. It is believed that future increases will also use the Consumer Price Index, which will lead to lower levels of increase.

The Government set up an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to review the main public sector pension schemes including the Local Government Scheme.

The Commission's final report was published in March 2011. It was concluded that long term structured reform and a more prudent approach to public sector pensions is needed. There are twenty

seven recommendations to the Government on reform to the arrangements. A key recommendation is a move away from final salary schemes to a career average revalued earnings (CARE) structure for all the public sector schemes. Other recommendations cover the indexation of benefits, the linking of the normal pension age to the State Pension Age, the use of cost ceilings, the protection of accrued rights for existing members and that private sector workers should not be admitted to public sector pension schemes.

The Commission recommended that the Local Government Scheme should remain as a funded pension arrangement.

There are a range of recommendations on governance issues. The Local Government Scheme was encouraged to extend the current cooperative projects that are in place between administering authorities that promote joint working and the use of framework agreements.

The Government has welcomed the Commission's recommendations as a basis for further consultation. Further information on the long term reforms is expected in the Autumn.

Whilst the Commission focused on long term reform, it was also noted that increasing member contributions would be the most effective way of making short term savings. At the time of writing, an announcement on member contributions is expected.

We turn now to the investment strategy and structure. This was reviewed in 2008 and it was concluded that the Fund should manage a greater proportion of its equity exposure on a global basis and increase the allocation to alternative investments.

The original intention was to introduce this approach during 2008/09 but this was largely put on hold as

We remain committed to improving the service we offer and seek the views of members and employers to assist with this.



a result of the events in investment markets. There were concerns over market stability, difficulties in effecting transitions and issues over the future viability and ownership of a number of investment managers.

Market conditions had stabilised by 2010 and the new strategy was put into place, following a check to ensure that it remains appropriate. This involved the award of six equity mandates, the termination of two equity mandates, commitments to two active currency funds and the initiation of a programme of commitments to global property and infrastructure funds.

As mentioned above, investment markets had recovered strongly in 2009/10. This continued into 2010/11, when all of the major world equity markets rose with the exception of Japan which fell by 4%. The best performing equity markets were Asia ex Japan and the Emerging Markets, which rose by 15% and 12% respectively. UK equities rose by just under 9%. Property produced a 10% return and Gilts rose by over 5%.

In this environment, the value of UK pension funds rose in value for the second year in succession.

The Fund's return for the year was 6.8%, which was 0.1% above its benchmark return of 6.7%. Inflation, as measured by the Retail Price Index, rose by 5.3% and average earnings excluding bonuses increased by 2.3%.

The marginal outperformance in the current year is pleasing, given the significant amount of restructuring activity that has taken place.

The five year return is 4.6% per annum, which is 0.2% below the benchmark return of 4.8% per annum. The ten year return is 5.9% per annum, which is 0.1% above the benchmark return of 5.8% per annum. The returns for both these periods are above the increases in Retail Price Inflation and in average earnings.

The below benchmark return over the five year period is due to poor performance from certain active equity managers and from active currency. The Pensions Committee was closely monitoring the position and the implementation of the new strategy has provided an opportunity to address the position.

The Fund has continued to improve the administration of pensions. We have introduced

the Civica Pension Payroll as part of a Council wide upgrade of financial systems and have run a pilot project on a system to take more data electronically from employers, which will be rolled out from 2011/12.

We remain committed to improving the service we offer and seek the views of members and employers to assist with this. The active members and employers were surveyed in 2010/11. It was pleasing to find that 97.4% of the members and 100% of the employers who responded were satisfied with the service provided.

Councillor Eileen Leask
Chair of Pensions Committee

Stephen Moore
Head of Pensions

Governance Arrangements

South Tyneside Council is the administering authority of the local government pension fund for the Tyne and Wear County area.

The Council has set up a Pensions Committee to control and resolve all matters relating to the Fund. The Council's Constitution requires the Committee to:

- Prepare, maintain and publish the Governance Compliance Statement.
- Ensure that the Fund complies with legislation.
- Prepare, maintain and publish the Funding Strategy Statement.
- Ensure that the Fund is valued as required and receive and consider reports on each valuation.
- Ensure appropriate arrangements are in place for the administration of benefits.
- Set the admissions policy.
- Prepare, maintain and publish the Communications Policy Statement.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Prepare, maintain and publish the Statement of Investment Principles.
- Set the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appoint, dismiss and assess the performance of investment managers and custodians.

The overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement that the Fund has to prepare, maintain and publish under the Local Government Pension Scheme (Administration) Regulations 2008. The Statement was last reviewed by the Committee in February 2011 and demonstrates that the Fund is compliant with guidance provided by the Secretary of State for Communities and Local Government.

The Committee has eighteen members. South Tyneside Council nominates eight members and the other four district councils within the County area nominate one member each. The trades unions and the employers collectively nominate three members each, who sit on the Committee in an advisory capacity.

The Committee meets quarterly to consider pension matters. Additional meetings are called should any matter require an in-depth review.

The Committee has set up an Investment Panel to provide a greater focus on, and scrutiny over, the investment strategy and the performance of the managers. The Panel consists of three members of the Committee, the Investment Advisor, the Head of Pensions and the Assistant Head of Pensions (Investments).



Stadium of Light, Sunderland;
Millennium Bridge, Gateshead;
St. Mary's Lighthouse, North Tyneside;
Conversation Piece and the Groyne, South Shields

The Committee has adopted the Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme.

It reports its findings to the Committee and makes recommendations on any action that is required.

The Committee has a Training Policy and Programme designed to meet its specific training needs. The Programme provides about ten training days each year to all Committee Members. Additional training is provided to Members that sit on the Investment Panel.

The Pensions Panel of the Chartered Institute of Public Finance and Accountancy has prepared a Knowledge and Skills Framework for persons involved with the Local Government Scheme. Two frameworks have been produced, for Elected Representatives and Non Executives and for Pensions Practitioners.

The Committee has adopted the Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme.

The Framework for Pensions Practitioners has been adopted by the Fund's Officers as part of their training requirements.

The Training Policy and Programme also recognise the requirements of the Investment Principles and include aspects of the Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding that are relevant to the Scheme.

The Fund holds annual meetings for the employers and for the trades unions. The agenda for these meetings includes presentations by the Actuary and the Investment Advisor and covers the actuarial position, the benefits structure and investment performance.

Information on the Fund is available on the Fund's website at www.twpf.info.

This includes:

- The agenda and minutes of the Committee meetings.
- The Service Plan, which presents the Fund's aims and objectives over three year rolling periods.
- The Governance Compliance Statement, which sets out the governance arrangements.
- The Actuary's Report on the 2010 valuation and the Funding Strategy Statement, which sets out the strategy for that valuation.
- The Statement of Investment Principles, concerning the approach to the investment of the Fund.
- The Corporate Governance Policy, which sets out the Fund's approach to environmental, social and governance issues.
- The Communications Policy Statement, which sets out the services we provide to members, prospective members and employers.
- The Pension Administration Strategy, which is designed to assist the Fund and the employers to work effectively together to fulfil their joint responsibilities.



Tyne Bridge and the Sage,
viewed from Gateshead Quayside

Vision Statement



Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important and valued part of the employment package.

We will:

- Promote membership of the Fund.
- Keep employers' contributions as low and as stable as possible through effective management of the Fund.
- Work with our partners to provide high quality services to employers and members.
- Make pensions issues understandable to all.

We will know we are succeeding when:

- We are consistently achieving our investment objective.
- There are sufficient assets to meet the liabilities.
- We are consistently achieving our service standards.
- We are recognised as being amongst the leading UK pension funds.



Service Plan

The vision and aims of the Fund are set out in our Service Plan. This is a three year rolling plan that is reviewed annually. It sets out the objectives and actions that we must concentrate on in order to achieve our vision.

The Pensions Committee approves the Plan at a special meeting in February of each year. The Plan can be viewed on the Fund's website.

In 2010/11, we have:

- Delivered the Pensions Committee's Training Programme that is based on the Knowledge and Skills Framework prepared by the Pensions Panel of the Chartered Institute of Public Finance and Accountancy.
- Responded to consultations on the Scheme and advised employers and members of changes.
- Reviewed the Funding Strategy, completed the 2010 valuation and introduced revised employer contributions from April 2011.
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers.
- Continued to develop the pension administration system.
- Introduced an improved pension payroll that went live in January 2011.
- Complied with the Investment Principles and produced a revised Statement of Investment Principles by the statutory deadline of July 2010.
- Implemented a new investment strategy and management structure that has increased the exposure to alternative investments and the proportion of quoted equity that is managed in global mandates.
- Reinstated the Stocklending programme that was suspended in September 2008 due to concerns over counterparties at the height of the global financial crisis.



Legal Framework

Introduction

The Department of Communities and Local Government (CLG) sets out the framework for the Scheme in Regulations that apply in England and Wales.

Investment Regulations

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

These Regulations set out the types of investments that can be made, which include company and government securities, property and unit trusts. The Regulations also set out restrictions on the proportion of a fund that can be held in different types of investment.

Scheme Regulations

The rules of the Scheme are set out in three sets of regulations. The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, describe how rights accrue and how benefits are calculated with effect from 1st April 2008.

The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 set out how membership accrued prior to 1st April 2008 counts.

The Local Government Pension Scheme (Administration) Regulations 2008 set out the Scheme's administrative provisions.

The main provisions of the Scheme are:

- Tiered employee contribution rates.
- A final salary pension based on 1/60th of salary for each year of pensionable service.
- Pensions are to be based upon the best actual pensionable pay in the last three years, or an averaging of three financial years within the last ten years, before retirement.
- A normal retirement age of 65 for the release of unreduced benefits.
- A three level ill-health retirement package.
 - 100 % enhancement of benefits for total incapacity.
 - 25% enhancement where there is a prospect of return to gainful employment after three years but before normal retirement age.
 - No enhancement where there is a prospect of return to gainful employment within three years. This level of ill-health pension ceases on re-employment or after three years in payment.
- Except on grounds of ill-health, the earliest age for release of pension is 55.
- Early release from age 55 on grounds of redundancy or business efficiency.
- Phased retirement arrangements that enable members, under specified circumstances, to draw down some or all of their accrued pension rights from the Scheme while still continuing to work.
- An option to commute pension to lump sum, at the rate of one pound of annual pension for twelve pounds of lump sum, up to a maximum tax free lump sum of 25% of capital value of accrued benefit rights at date of retirement.
- Pensions indexed in line with the Consumer Price Index.
- Pensions must come into payment before the 75th birthday.
- Survivor benefits for life, payable to spouses, civil partners and nominated dependant partners (opposite and same sex) at a 1/160th accrual rate.
- Survivor benefits payable to children.
- A death-in-service tax-free lump sum of three times salary.

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.



- A post-retirement lump sum death benefit where death occurs before age 75 of up to a maximum of ten years pension.
- Transfer values to other pension arrangements or index-linked deferred benefits for early leavers.
- A refund of contributions where no other benefit is due.
- Facilities for paying additional voluntary contributions to provide benefits.

Public Service Pensions Commission

The Government set up an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to review the main public sector pension schemes including the Local Government Scheme.

The Commission produced an interim report in October 2010. This concluded that long term structured reform and a more prudent approach to public sector pensions is needed, and that increasing member contributions would be the most effective way of making short term savings.

The Commission's final report was published in March 2011. It contained twenty seven recommendations to the Government on reform to public sector pension arrangements.

The key recommendations are:

- A move to a career average revalued earnings (CARE) structure for all public sector pension schemes.
- The indexation of CARE benefits whilst in pensionable service should be linked to earnings, rather than prices.
- The normal pension age should be linked to the State Pension Age.
- Cost ceilings should be in place to limit the amount committed by Government to public service pensions over the long term, with an automatic mechanism to bring costs back down if the limit is breached.

- Protection of accrued rights for existing members, including maintaining the final salary link for benefits which have already built up in the current schemes.
- The introduction of a new formal regulatory framework to review independently the governance of public sector pension schemes.
- The Local Government Scheme should remain a funded pension arrangement.
- Private sector workers should not be admitted to public sector pension schemes.
- Members with Third Tier ill-health retirement benefits will be allowed to access their “suspended” benefits before the age of 65 with an actuarial reduction.
- Ex-spouses and ex-civil partners awarded a share of Scheme retirement benefits as part of their divorce settlement can opt to receive their benefits from age 60 with actuarial reductions.
- Rejoining members can aggregate any periods of Scheme membership for which they hold deferred benefits with their new service within twelve months of re-employment. Existing members can also exercise this option providing they opt before 1st October 2011.

The Government has welcomed the Commission’s recommendations as a basis for further consultation.

Pension Increases

In June 2010, the Government announced that the April 2011 pension increase would be based upon the Consumer Price Index.

The annual increase had previously been based on the Retail Price Index. It is believed that future increases will also be based on the Consumer Price Index, which will lead to lower levels of increase than under the Retail Price Index.

Miscellaneous Regulations

In August 2010, CLG issued the Local Government Pension Scheme (Miscellaneous) Regulations 2010. In addition to a number of minor technical changes, the Regulations contained the following material changes:

In December 2010, CLG issued the draft Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011, which contain minor administrative changes. These Regulations were issued in March 2011.

Consultation on Fair Deal

The Government consulted on the future of the Fair Deal requirements because it is concerned that these are acting as a barrier to smaller private sector companies and third sector organisations bidding to carry out public sector work.

Currently, private sector employers who take on public sector staff are required by the Fair Deal requirements to provide those staff with access to a pension arrangement that is broadly comparable to their existing scheme or, in the Local Government Scheme, to become a transferee admission body.



Millennium Bridge, Gateshead;
National Glass Centre, Sunderland;
Wear Bridges, Sunderland;
Angel of the North, Gateshead.

Additional Voluntary Contributions

Introduction

Whilst the Scheme provides a good benefits package, it is normally possible to increase benefits and thereby take full advantage of the available tax relief.

Members can either:

- Pay Additional Regular Contributions to purchase additional Scheme pension in blocks of £250 up to a maximum of £5,000. Any extra pension purchased can either be for the member only or for the member and their dependants.

or

- Pay into the Fund's in-house AVC plan.

An AVC plan can provide extra life assurance as well as allowing members to increase their pension benefits up to the maximum allowable under HM Revenue and Customs rules and the Scheme rules.

HM Revenue and Customs rules allow members to take all or part of their in-house AVC fund as a tax-free lump sum at retirement. The value of this is dependent on whether the member draws their AVC benefits at the same time as their Scheme benefits.

In general, each year, members can contribute up to half of their pay to an AVC plan. These contributions must be deducted from pay.

The Prudential

The Fund has an AVC plan arranged with The Prudential that offers a comprehensive range of seventeen funds.

The Fund carries out an annual review of the AVC provision. The 2010 review was undertaken with the

assistance of Hymans Robertson. It was concluded that The Prudential should remain as the sole provider.

The Fund continues to monitor the position on with-profits investment. This option was closed to new investors following the 2006 annual review. The position for current investors was initially put on hold whilst The Prudential reviewed its stance on any redistribution of the Inherited Estate within its with-profits fund. The Prudential announced in June 2008 that it would not proceed with a redistribution. The Fund then decided not to take further action in the uncertain investment climate, but continues to monitor the position.

Equitable Life

The Fund also has an AVC plan with Equitable Life. This has been closed to new members and transfers because of Equitable Life's well-publicised financial difficulties.

The Fund is classed as the policyholder for individual member investments because it is a group scheme.

A bulk transfer exercise was conducted in 2003 in the light of advice from the Fund's legal and financial advisors. This involved the transfer of the majority of members' Equitable Life AVC funds to comparable funds with The Prudential.

A number of members who have with-profits investments remained with Equitable Life. This is because it was believed not to be in the individual

member's best interests to transfer, as the withdrawal penalty applied on transfer may not be made up by future investment returns. The position of these members was re-examined in 2006 and this led to more members' investments being moved to The Prudential.

In the October 2010 spending review, the Government announced that £775 million would be made available to policyholders who had suffered a relative loss. The Independent Commission on Equitable Life Payments was set up and asked to provide advice on how the amount should be allocated fairly. The Fund wrote to the Commission to highlight the issue of compensation to members within group schemes.

The Commission published its final report on 21 January 2011. The Government then published a document entitled Scheme Design for Parliamentary Review. This sets out the design of the compensation scheme, including the allocation to members within group schemes. This will be reviewed by the end of June 2011 and it is expected that all eligible policyholders will be contacted by mid 2012.

The Fund, as the policyholder, will continue to monitor the remaining investments and keep members updated.

Employers' Contributions and the Valuation Process

Introduction

The Scheme benefits are paid from investment income, employees' contributions and employers' contributions. Employees' contributions have been set by the Regulations, with employers' contributions being adjusted in triennial valuations to ensure that the Fund will have sufficient assets to meet its liabilities.

History of the Funding Level

A measure of the financial health of a pension fund is its "funding level", which is the ratio between its assets and liabilities. A pension fund that holds sufficient assets to meet all its projected liabilities would have a funding level of 100%. A fund with a funding level below 100% is described as being in deficit.

The Fund has been in deficit since 1992. It is important to understand the background to this position.

The 1989 valuation revealed a funding level of 118%, with this surplus arising from actual investment returns having greatly exceeded expected returns. This led to the scheduled employers agreeing to take a contribution holiday. This contribution holiday, alongside a government policy change that led to the index-linked element of pensions being charged to pension funds rather than directly to employers, eroded the surplus and led to a funding level of 98% at the 1992 valuation. The contribution holiday was ended and an employers' contribution for the scheduled employers was phased back in.

The 1995 and 1998 valuations both identified funding levels of 87%. The 1998 result was adversely affected by the removal of the tax credit on UK equity dividends at the July 1997 budget.

The 2001 valuation revealed a funding level of 82%. This reduction was attributable to improvements in

longevity and to employer specific factors such as pay awards, restructurings and early retirements. Also, investment market returns were below the levels assumed in the 1998 valuation.

The worldwide bear market in equities between 2000 and 2003 led to a further and significant fall in the funding level.

The 2004 valuation showed that the funding level had fallen to 64%. This fall was largely attributable to investment market returns being below the levels assumed in the 2001 valuation, although a reduction in the discount rates used to calculate liabilities also contributed to the fall.

The 2007 valuation set the contributions paid by employers from 2008/09 to 2010/11. At this valuation, the funding level had improved to 79% due to investment market returns exceeding the levels assumed at the 2004 valuation and to a small increase in the discount rate.

However, there was upward pressure on contribution rates from inflation and from improvements in longevity. This led to increased employers' contributions from April 2008.

The average future service rate set by the 2007 valuation was 15.1% of pay and the contribution to address the deficit was 6% of pay, leading to a total contribution of 21.1% of pay.

Background to the 2010 Valuation

Experience had been very poor since the 2007 valuation, mainly due to:

- Investment markets falling as a result of the global economic climate. For example, the return on UK equities was -0.7% from March 2007 to March 2010.
- A reduction in the long term nominal and real gilt yields that are used to set the discount rates for the valuation.

These factors impacted negatively on the funding position, which had been extremely volatile and had deteriorated significantly.

This deterioration did not affect the contributions paid by most employers in 2009/10 and 2010/11 as the rates set at the 2007 valuation were held. However, it did increase the rates set for new employers and the cost of terminal valuations carried out in those years.

We suggested to employers with outsourced services that they may wish to review the position on bond cover and covenant strength of bond providers for their transferee admission bodies.

Strategy for the 2010 Valuation

For the 2010 valuation, a straight application of the strategy used at the 2007 valuation would have led to significant increases in the contributions for most employers. The Pensions Committee recognised this position and reviewed the assumptions and strategy for the valuation.

The strategy for the 2010 valuation is set out in the Statement of the Actuary and in the Funding Strategy Statement, which is on the Fund's website.

All employers were asked for their views on strategy as part of the consultation exercise on the Funding Strategy Statement.

The strategy includes updated financial, inflation and salary assumptions. The mortality assumptions were increased in the light of new national data and the Fund's own experience.

In order to prevent some employers' contribution rates rising to unaffordable levels, the Committee adopted a less prudent strategy for employers with a strong covenant by increasing the discount rate used to calculate the liabilities. It is intended that a more prudent strategy will be restored at future valuations.

The position for some employers with a weaker covenant, mainly the transferee admission bodies and community admission bodies, was very serious both nationally and locally.

Therefore, discussions were held with the five district councils, as the major stakeholders in the Fund, to establish the extent to which they wished to:

- Have existing guarantees relied upon at this valuation.
- Support directly those employers that did not then have a formal guarantee from the councils.

Constructive discussions took place that led to some new guarantee arrangements being put into place and to manageable contributions being set for the majority of the affected employers.

Since the 2007 valuation, the Fund has used longer deficit recovery periods for employers with a suitably strong covenant.

Information supplied by employers in response to the Fund's annual employer survey is taken into account in setting recovery periods.

Deficit recovery periods for most employers have been set within a range from twenty two years for employers with the strongest covenant to around ten years. For most transferee admission bodies, the recovery period does not exceed the remainder of the contract period.

Two other measures used were the selective use of up to six annual steps in the phasing in of deficit payments and the grouping of some smaller employers for setting contribution rates to protect such employers from the risk of high volatility of rates.

These measures led to a reported funding level at the 2010 valuation of 79%, the same as at the 2007 valuation. However, the 2010 low risk funding level, based on gilt yields, was 53%. The comparable figure at the 2007 valuation was 63%.

The average future service rate is 15.3% of pay and the contribution to address the deficit is 5.9% of pay, leading to a total average contribution of 21.2% of pay.

Cost Sharing

A cost sharing mechanism has been introduced into the Scheme to share future cost changes between employers and members by adjusting the benefits package and members' contribution rates.

The Scheme Regulations provided for any changes to the benefits package or members' contributions to take effect from April 2011 through the 2010 valuation certificate, or from April 2012 through a statutory amendment to that certificate. At the time of writing, it is understood that the mechanism will not currently introduce any changes to the benefits package or to the rates certified at the 2010 valuation.



St. Mary's Lighthouse, North Tyneside

Statement of the Actuary for the year ended 31 March 2011



Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund was similar to the previous valuation with the market value of the Fund's assets at that date (of £4,304.9m) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
 - 15.3% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2011, amounting to £59.7m in 2011/12, and increasing by 5.3% p.a. thereafter.
4. This would imply an average employer contribution rate of about 21.2% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.
5. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
6. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.
6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

7. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.8% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.3% a year
Rate of increases to pensions in payment	3.3% a year
Valuation of assets	market value

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

8. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. No such reviews have been completed since the 2010 valuation of the Fund.

9. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

10. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Council of the Borough of South Tyneside. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, South Tyneside Council, in respect of this statement.

Aon Hewitt Limited

18 May 2011



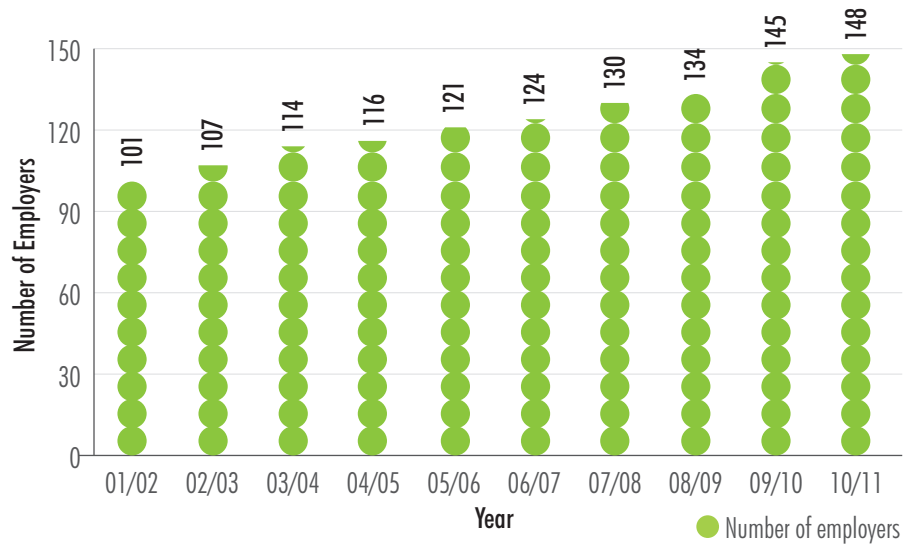
River Wear, Sunderland;
Millennium Bridge, Gateshead;
St. Mary's Lighthouse, North Tyneside,
Conversation Piece and the Groyne, South Shields.

Membership of the Fund

As at 31 March 2011, there were 148 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area. The increase in the number of participating employers over the past ten years is shown below:

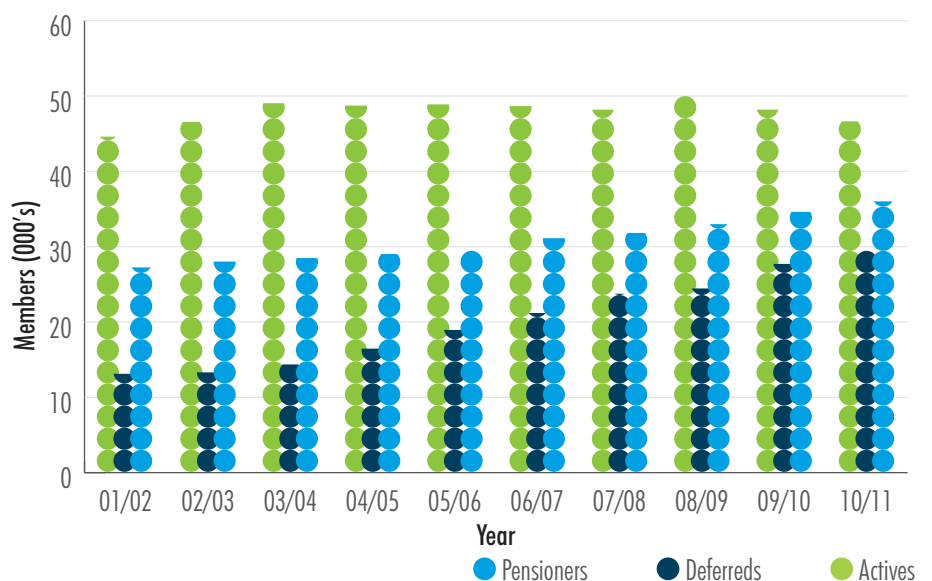
The increase is largely driven by the five councils outsourcing work to contractors that take up admitted body status in the Fund.

The process of schools converting to academies and seeking scheduled body status is also having an impact in the later years.



The Fund had 112,234 members as at 31st March 2011. The chart opposite shows the movement in membership over the past ten years.

Whilst total membership has continued to increase over the period, the number of active members peaked in 2008/09. The Fund is now seeing an increase in deferred and pensioner members and a decrease in active membership.



The Employers in the Fund and their Members as at 31 March 2011

District Councils	Actives	Deferreds	Pensioners
Gateshead Council	6,646	4,530	5,503
Newcastle City Council	8,296	5,318	7,822
North Tyneside Council	5,478	3,418	4,687
South Tyneside Council	4,450	3,300	3,997
Sunderland City Council	7,991	5,489	6,262
Sub Totals	32,861	22,055	28,271

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
Academy 360	51	6	2
Bexhill and Town End Academies	34	0	0
Castle View Academy	40	6	1
City of Sunderland College	378	283	138
Excelsior Academy	66	8	0
Former North East Regional Airport Committee	0	0	21
Former Tyne and Wear County Council	0	59	268
Former Tyne and Wear Residuary Body	0	4	30
Gateshead College	283	208	79
Gateshead Housing Company	336	127	55
Gosforth Federated Academies	60	0	0
Monkwearmouth College	0	1	5
Northumbria Probation Trust	585	223	377
Newcastle College	854	848	215
Newcastle Education Action Zone	0	2	2
North Tyneside College	1	63	21
Northumberland Magistrates Court	0	37	81
Northumbria Police Authority	2,261	1,011	1,074
Redhouse Academy	43	3	0
South Tyneside College	222	175	170
South Tyneside Education Action Zone	0	2	0
South Tyneside Homes	608	117	106
Sunderland Education Action Zone	0	0	1
Tyne and Wear Fire and Rescue Services	334	146	201
Tyne and Wear Passenger Transport Authority	1	31	94
Tyne Metropolitan College	147	134	29
Tynemouth College	1	26	8
University of Northumbria	1,513	955	724
University of Sunderland	846	638	407
Wearside College	0	4	10
Whitburn Church of England Academy	49	0	0
Your Homes Newcastle	676	210	128
Sub Totals	9,389	5,327	4,247

Schedule 2 Part 2 Employers	Actives	Deferreds	Pensioners
Birtley Town Council	0	4	4
Blakelaw and North Fenham Parish Council	0	0	0
Blue Square Trading Limited	1	8	3
Castle View Leisure	8	2	0
Learning World	0	7	0
Nexus	548	473	1,406
Sub Totals	557	494	1,413

Admitted Bodies	Actives	Deferreds	Pensioners
Age Concern Newcastle	33	29	40
Assessment and Qualification Alliance	0	2	12
Association of North East Councils	19	37	9
Balfour Beatty	18	3	2
Baltic Arts Flour Mills	3	5	1
Benton Grange School	0	0	9
Benwell Young Peoples Development Project	3	0	0
Bovis Lend Lease	7	1	1
Brunswick Young Peoples Project	0	3	0
BT South Tyneside Limited	372	23	15
Bullough Contract Services	2	0	0
Carillion Services Limited (Jarrow School)	11	0	0
Carillion Services Limited (Beamish School)	3	0	0
Catholic Care North East	0	19	26
CBS Outdoor Limited	0	2	0
Community Action on Health	7	4	0
Compass Group UK and Ireland	4	0	1
DB Regio Tyne and Wear Limited	470	9	17
Disability North	6	22	8
Gateshead Law Centre	0	12	3
Gentoo Group Limited	1,491	410	296
Hebburn Neighbourhood Advice Centre	2	4	0
Higher Education Funding Council for England	0	1	9
Information North (North Regional Library System)	0	0	3
Insitu Cleaning	10	1	0
International Centre for Life	9	5	9
Jarvis Accommodation Services Limited	0	3	4
Jarvis Workspace Facilities Management Limited	0	3	4
John Laing Integrated Services	2	0	0
Kenton Park Sports Centre	3	8	0
Kier North Tyneside Limited	400	4	42
Managed Business Space Limited	1	0	2
Maxim Cleaning Services	1	0	0
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI Limited (Boldon School)	6	2	0

Admitted Bodies	Actives	Deferreds	Pensioners
Mitie PFI Limited (North Tyneside)	1	0	0
Museums Libraries and Archives North East	0	18	6
Morrison Facilities Services Limited 1	46	6	17
Morrison Facilities Services Limited 2	261	26	45
Morse	8	3	0
National Car Parks	0	3	3
National Glass Centre	0	2	1
Newcastle Law Centre	7	9	2
Newcastle Family Service Unit	0	2	5
Newcastle Healthy City Project	11	11	5
Newcastle International Airport	146	282	322
Newcastle Tenants Federation	3	3	2
Newcastle Theatre Royal Trust	54	38	17
Newcastle West End Partnership	0	2	0
Newcastle Youth Congress	0	1	1
No Limits Theatre Company	2	0	0
Norcare	0	1	1
Norland Road Community Centre	0	1	0
North East Innovation Centre	0	15	16
North East Regional Employers Association	5	2	7
Northern Arts Association	0	29	16
Northern Council for Further Education	0	13	14
Northern Counties School for the Deaf	1	16	22
Northern Grid for Learning	9	1	1
North Tyneside Child Care Enterprise	1	17	1
North Tyneside City Challenge	0	3	1
North Tyneside Disability Advice	0	0	1
Northumbria Tourist Board	0	21	15
One North East	0	0	9
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	11	4	2
Passenger Transport Company	0	0	95
Percy Hedley Foundation	26	2	2
Port of Tyne Authority	2	0	3
Praxis Service	0	3	1
Raich Carter Sports Centre	31	27	1
RM Education	7	0	2

Admitted Bodies	Actives	Deferreds	Pensioners
Robertson Facilities Management Limited	11	0	0
Saint Mary Magdalene and Holy Jesus Trust	7	7	3
Saint Mary the Estate Management Charity	0	0	1
Scolarest (Newcastle Schools)	18	6	4
Scolarest PFI (Boldon School)	2	1	0
Search Project	2	1	2
Simonside Community Centre	1	0	0
South Tyne Football Trust	1	0	0
South Tyneside Groundwork Trust	1	5	4
South Tyneside Victim Support	0	1	1
Southern Electric Contracting Limited	19	5	10
Stagecoach Travel Services	135	181	652
Sunderland City Training and Enterprise Council	0	42	26
Sunderland Empire Theatre Trust	0	4	4
Sunderland Outdoor Activities	0	3	0
Sunderland Streetlighting Limited	24	23	24
Taylor Shaw	9	1	0
The Ozanam House Probation Hostel Committee	16	17	9
Thomas Gaughan Community Association	0	2	0
TT2 Limited	63	10	24
Tyne and Wear Development Company Limited	14	12	6
Tyne and Wear Development Corporation	0	22	28
Tyne and Wear Enterprise Trust	4	16	20
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	36	12
Tyne Waste Limited	0	7	12
Tyneside Deaf Youth Project	0	3	0
Tyneside Training and Enterprise Council	0	40	36
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	20	5	5
Wallsend Citizens Advice Bureau	0	1	2
Wallsend Peoples Centre	1	2	2
Workshops for the Adult Blind	0	11	79
Sub Totals	3,864	1,640	2,116
Grand Totals	46,671	29,516	36,047

Working with Members and Employers

Introduction

The provision of a statutory pension service to our 112,234 members and 148 employers is a substantial task. This service is provided largely by the Pensions Office, which is organised into five teams of experienced officers.

Each employer is allocated to one of our three administration teams, which are responsible for maintaining member records and calculating and paying benefits. These teams manage contact with the employers at an individual level.

Our Communications Team produces Scheme and Fund specific information for members and employers. It manages contact with members, mainly through a Helpline, newsletters, annual benefit statements and an annual mailing to pensioners. It prepares mailshots for employers and runs meetings with groups of employers. It is also responsible for maintaining the website.

Our Technical Team manages the actuarial valuations and provides support to the other four teams, with particular regard to IT systems and solutions.

In addition, the Investments Office maintains control over the financial transactions with members and employers.

Communications Policy Statement

Our vision statement sets out our aim of making pensions issues understandable to all our stakeholders. Providing effective communications and easy access to information is very important to us.

Our Communications Policy Statement sets out:

- How we communicate with our stakeholders.
- The format, frequency and method of our communications.
- How we promote the Scheme to prospective members and employers.

The Statement is available on our website and in other formats on request.

Surveys

We seek the views of members and employers to help us to deliver a service that suits their needs.

The active and retired members and employers were surveyed in 2010/11. We are pleased to say that 97.4% of members who responded were satisfied with the service we provide, as were 100% of the employers who responded.

Services to Members

The main services that we provide to our members are shown below:

- We maintain a website that provides information on the Scheme and the Fund.
- We run a Helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. We handled calls from 50,000 members last year.

- We welcome personal callers and were visited by over 800 members last year. An appointment is not necessary.
- We provide a range of presentations that cover topics such as induction, transferring between employers, midlife and pre-retirement planning and leaving before retirement. Fourteen such events were held in 2010/11, attended by over 300 people.
- We provide combined pension forecasts for our active members and annual benefit statements for our deferred members. Pensioners receive an annual update and details of pensions increase. This information is sent directly to the member's address.
- Working with the Local Government Employers organisation, we provide a range of booklets to help members understand the Scheme rules. These are available from our website or on request from the Helpline.
- We publish a Members' Annual Report on our website and provide a paper copy on request.
- We provide newsletters to keep members informed of changes to the Scheme.

We maintain a website that provides information on the Scheme and the Fund



Making Pensions Accessible to Members

We adopt the principles of plain English in our documents and are pleased to see from our recent surveys that 93.5% of members understand our literature.

All information provided by the Fund is available in a range of formats including other languages, large print and Braille. We have access to audio aids and British Sign Language interpretation services.

Members can register to receive information in their required format when they join the Fund.

Members tell us that their preferred method of contacting us is by telephone. A voicemail service is available during busy times and out of office hours on which members can leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours or earlier, which was achieved for 94.6% of messages in 2010/11.

In addition to the main Helpline number of 0191 424 4141, we have an alternative number for members calling from outside our area. This number is 0845 625 4141. This also forms part of our emergency planning and can be used if we experience problems with our main telephone system.

Annual Benefit Statements

Since 1999, we have produced annual benefit statements for our active members that set out their current and projected Scheme benefits. Statements for deferred members have been provided since 2003.

The employers supply most member information and we work with them to ensure that members' records

are up to date. In 2010, we were able to provide 99.6% of active members with a complete benefit statement, an increase from 98.8% in the previous year. We issue benefit statements to every deferred member for whom we hold a current address. About 25,900 statements were sent out in 2010/11.

Combined Pension Forecasts

We work in partnership with the DWP to provide combined pension forecasts for our active members. These statements include information on the current and projected state pension entitlement.

Services to Employers

The Fund introduced a Pensions Administration Strategy in 2010 that sets out how the Fund and employers work in partnership.

The main services that we provide to employers are:

- We provide each employer with a client manager whose role is to ensure efficient processing and communication.
- We have a programme of meetings to discuss issues related to pensions administration and regulatory changes.
- We provide an online Employers' Guide to the administration of the Fund.
- We offer training courses that aim to educate and inform staff on pensions matters and working procedures. These are well received.
- We hold an annual general meeting.
- We send out mailshots to advise employers of developments.

Systems

The Pensions Service has used the Civica UPM pension administration system since 2003 to provide efficient, integrated methods of working.

South Tyneside Council upgraded its financial systems in 2010/11. As part of this project, the Fund successfully introduced the Civica pension payroll in January 2011.

The use of email, electronic communication and our website is an increasingly important part of the service delivery package. We are committed to developing and improving these approaches to communication.

Where possible we encourage our members, prospective members and their representatives to contact us by email at pensions@twpf.info.

Through our website, members have access to:

- Details on how to contact the Fund.
- Latest news and topical issues.
- Our range of leaflets.
- Pension payment dates and details of pension inflation proofing.
- The Annual Report and Accounts.
- The Fund's main policies, including the Governance Compliance Statement, the Funding Strategy Statement, the Statement of Investment Principles, the Corporate Governance Policy, the Communications Policy Statement and the Service Plan.
- Links to other useful websites.

The Fund upgraded to the latest version of UPM in 2008 in order to be compliant with the new Scheme and to improve functionality



In addition to the main website, there is a password-protected area for employers. The majority of employers have registered to use this service, which provides access to:

- Pensions Committee Reports.
- Latest news and topical issues.
- The Employers' Guide and templates for administration forms.
- The pension records of their employees.
- The ability to carry out pension estimates and calculations. In 2010/11, thirty employers carried out 7,000 calculations to assist with their early leavers programmes.

We have developed an email alert facility to provide important news and latest information to employers. Almost all mailshots are now sent out electronically. This facility is an efficient way to keep employers informed and allows them to distribute information within their own organisation.

The Fund upgraded to the latest version of UPM in 2008 in order to be compliant with the new Scheme and to improve functionality. This is providing improved web access facilities for employers and has allowed us to expand the interactive nature of the website.

We have developed online employer web forms for high volume processes. A successful live pilot was launched in February 2011 and the system will be rolled out to all employers during 2011/12.

Future developments for employers include more online forms and online automated data transmission and processing.

Work on online services for members will start in April 2012. Systems will be introduced to allow members to view their personal record and calculate estimates of their benefits.

Investment Report

Introduction

The Investment Office of the Pensions Service manages the investment and financial control of the Fund.

The formal investment objectives are:

- To invest the Fund money in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits.
- To keep contributions as low and as stable as possible through effective management of the assets.

Investment Strategy

The investment strategy is derived from asset liability modelling that uses data from the triennial valuations. This examines the Fund's financial position, the profile of its membership, the nature of its liabilities and includes an analysis of projected returns from differing investment strategies. This exercise is undertaken by the Investment Advisor, Hymans Robertson.

The asset allocation in place through the early part of 2010/11 was 60% in quoted equity, 21% in bonds, 10% in UK property and 9% in alternative investments.

The investment in alternatives provides diversification and the potential for additional returns. It comprised a 7.5% allocation to private equity and a 1.5% holding in infrastructure funds. In addition, an overlay provided exposure to active currency positions equal to 3% of the Fund.

Review of Investment Strategy

An asset liability modelling study was undertaken in 2007/08 using the liability data prepared for the 2007 valuation. It was concluded that the Fund should:

- Restructure its quoted equity mandates to manage a greater proportion on a global basis.
- Increase the allocation to alternative investments at the expense of the allocations to quoted equity and bonds.

The allocation to property and alternatives is increased from 19% to 25% by:

- Increasing the private equity allocation by 2.5% to 7.5%, which was implemented in 2008/09.
- Increasing the allocation to property by 2.5% to 12.5% and restructuring to provide new exposure to global property, alongside the existing UK exposure.
- Increasing the allocation to infrastructure by 1% to 2.5%.
- A proposed new allocation of 2.5% to absolute return strategies.

The overall strategy will become 58.5% in quoted equity, 16.5% in bonds, 12.5% in UK and global property and 12.5% in other alternative investments. In addition, the overlay that provides exposure to active currency positions at 3% of the Fund is retained.



The asset allocation in place through the early part of 2010/11 was 60% in quoted equity, 21% in bonds, 10% in UK property and 9% in alternative investments.

Implementation of the Strategy Review

The initial intention was to introduce the new investment strategy during 2008/09.

The increase in the private equity allocation by 2.5% to 7.5% was put into place in that year. However, implementation of the remainder of the strategy was put on hold as a result of the events in markets during 2008/09 and into 2009/10. There were concerns over the stability of markets, difficulty in effecting transitions and issues over the future viability and ownership of a number of investment managers, many of whom were reappraising their investment processes, product offerings and downsizing investment teams.

In early 2010, it was confirmed that market conditions were suitable to implement the new strategy, which remained appropriate except for the proposed 2.5% allocation to absolute return which will be reconsidered in a future review. At present, 2.2% of the intended allocation to absolute return is retained in the bond allocation, to give an overall allocation to bonds of 18.7%, and 0.3% is allocated to active currency.

The reviews to implement the new strategy took place in 2010. At present, an interim investment strategy is in place to allow for the allocations to global property and infrastructure to be completed over the next few years.

The strategy in place at the start of the year, the interim strategy as at 31 March 2011 and the final new strategy are shown on the following table;

	Strategy at 1 April 2010 %	Interim Strategy at 31 March 2011 %	New Strategy %
Quoted Equities	60.00	62.75	58.50
Bonds	21.00	19.45	18.70
Property	10.00	9.00	12.50
Private Equity	7.50	7.50	7.50
Infrastructure	1.50	1.00	2.50
Active Currency *	0.00	0.30	0.30

*Whilst the allocation to active currency is shown as 0.3%, the overall exposure is 3.0%. This is because 2.7% of the Fund is invested in an active currency overlay strategy with equitised collateral that is included in the quoted equity exposure.



Stadium of Light, Sunderland.

Investment Management Structure

There have been significant changes to the investment management structure during the year. The Fund undertook reviews of the following mandates to implement the new strategy:

- Global Equities
- UK Equities
- Far Eastern Equities
- Global Property
- Global Infrastructure
- Active Currency

Details of each review are set out below.

Quoted Equities and Bonds

The reviews of the quoted equity mandates were part of a move to manage a greater proportion of assets on a global, rather than a regional, basis. These reviews resulted in the appointment of six new active equity managers and the termination of two mandates.

There were no changes to the manager line up on the bonds mandates.

As at 31st March 2011, the Fund employed eleven external investment managers for quoted equity and bonds. Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of one manager.

The Fund's quoted equity and bond managers are set out in the following table:

Manager	Portfolio
Legal and General	Indexation
	- UK Equities
	- Europe ex UK Equities
	- US Equities
	- UK Index-Linked Gilts
JP Morgan	Global Equities
Sarasin	Global Equities
UBS	Pan European Equities
BlackRock	UK Equities
Mirabaud	UK Equities
Lazard	Japanese Equities
TT International	Asia Pacific ex Japan Equities
Capital International	Emerging Market Equities
M&G	Corporate Bonds
Henderson	Bonds

Private Equity

The Fund began its private equity programme in 2002 with a target allocation of 5%. This was increased to 7.5% from 2008/09.

The programme is now well developed and diversified across providers, geography, industry and vintage years. The main focus of the programme is investment into fund of funds with HarbourVest and Pantheon. The Fund has also made investments in secondary funds managed by Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Partners Group and Lexington.

The recent events in financial markets led to the programme becoming overweight against its target allocation, which is a common position amongst investors in this asset class. Consequently, there has only been one new commitment in 2010/11.

As at March 2011, £469.4 million, equal to 10.0% of the Fund, was invested in private equity. This is an increase of £113.7m, or 2.4% of the Fund, over the position at the previous year end.

Active Currency

The Fund has allocated 3% to active currency strategies.

The Fund has reviewed its approach to active currency to diversify the programme. New investments have been made into funds provided by Millennium and Investec to supplement the longer standing investments with Record Currency Management and BlackRock.

As at March 2011, the value of these investments was £142.6m, or 3.0% of the Fund.

Infrastructure

The Fund made its first investment into an infrastructure fund in 2006 through a commitment to the Henderson PFI Secondary Fund II. This was followed up by a commitment to the Infracapital Fund, managed by M&G.

The Fund has reviewed its approach to investing in infrastructure. Going forward, the programme will be provided predominately through fund of funds offered by Partners Group. This will allow the Fund to diversify the programme globally, by industry and by financing type.

At the year end, the total investment in infrastructure was valued at £50.6m, representing 1.1% of the Fund.

The interim strategy in place at 31 March 2011 provides for an allocation to infrastructure of 1.0%. This will be built up over the next two years to the target strategy allocation of 2.5%.

Property

The Fund has had an allocation to UK property for a considerable period. The allocation to UK property was 10% prior to the review of the strategy.

The UK property mandate is managed by Aberdeen Property Investors. This was valued at £345.2m at the year end, representing 7.3% of the Fund. The allocation was below benchmark, mainly due to recent lower returns from property assets.

The review increased the allocation to Property to 12.5% in order to provide for new investment into global property.

Following a review of global property providers, a decision has been taken to make investments into funds provided by Partners Group. This programme will

focus primarily on fund of fund investments, although direct and secondary investments are also being made.

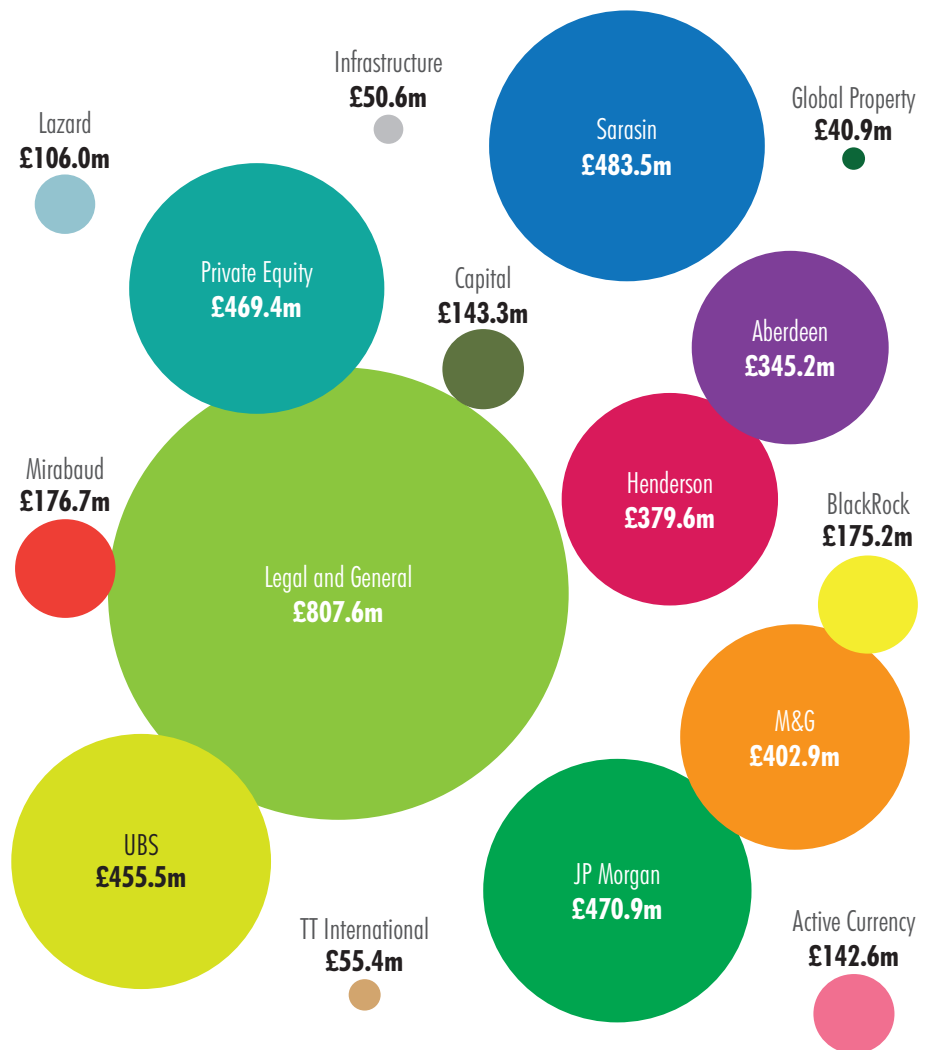
Investment in global property totalled £40.9m, or 0.9% of the Fund, at the year end.

The interim allocation to property as at 31 March 2011 is 9.0%. The target allocation of 12.5% will be broadly split 8% / 4.5% between UK and global property.

The allocation to global property will be built up to the target level over the next two years.

Assets under Management

The value of assets in each manager's mandate and in the alternative investment programmes at the year end is shown below:



Investment Managers' Objectives and Restrictions

The Pensions Committee has set objectives and restrictions for the investment mandates with the aims of ensuring a prudent approach to investment and allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The investment managers have been set targets, based on appropriate indices, which generally require outperformance over three year rolling periods. Annual downside targets or tracking error targets have also been set.

The UK property portfolio has a target based on the Investment Property Databank Quarterly Universe.

An outperformance target of 5%, net of fees, over the FTSE All World Index has been set for private equity.

The performance targets for three of the four active currency funds are based on an agreed level of outperformance relative to the FTSE 100 or the Standard and Pools 500 Index, as the collateral is equitised in the Index Future. The remaining active currency fund has an outperformance target relative to cash.

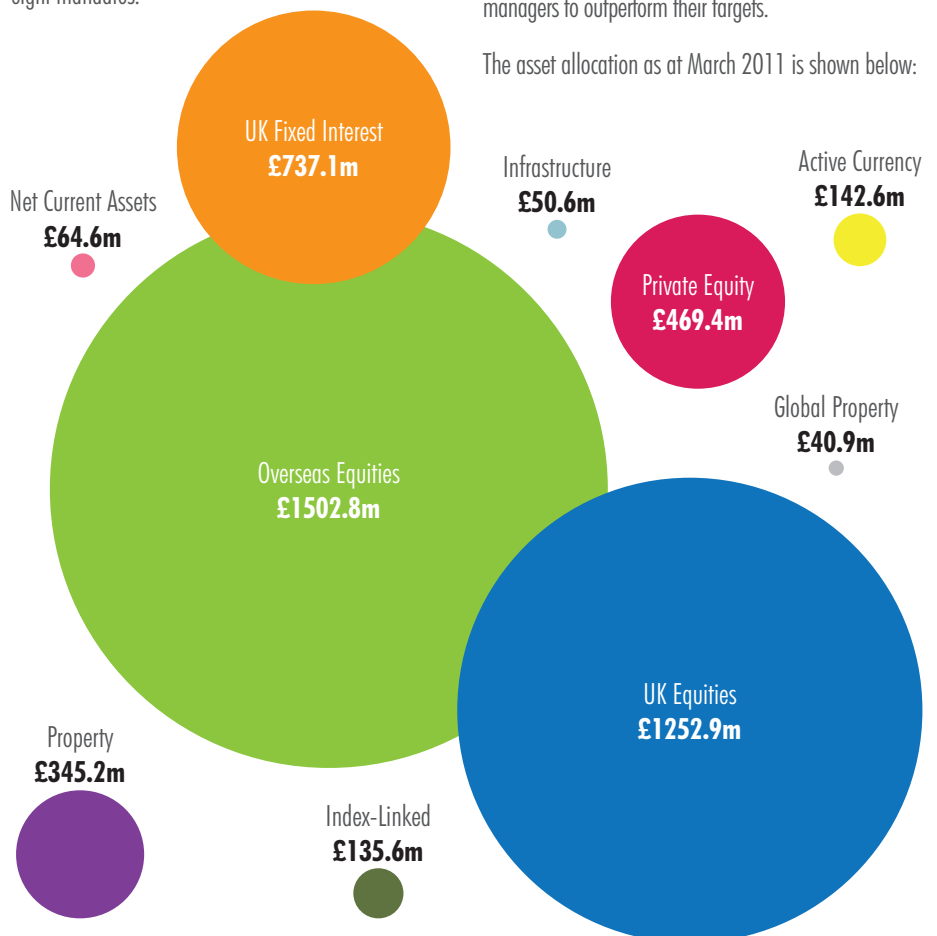
A formal performance target for the infrastructure and global property assets has not yet been set due to the very early stage of these investments.

Custody

Northern Trust was appointed in 2002 to provide custody services for four segregated mandates. In early 2005, the remit was widened to cover all segregated assets in the Fund.

The service was market tested in 2008, when it was concluded that it was satisfactory and competitive.

As at March 2011, Northern Trust was providing custody for approximately £2,003m of assets held in eight mandates.



Asset Allocation

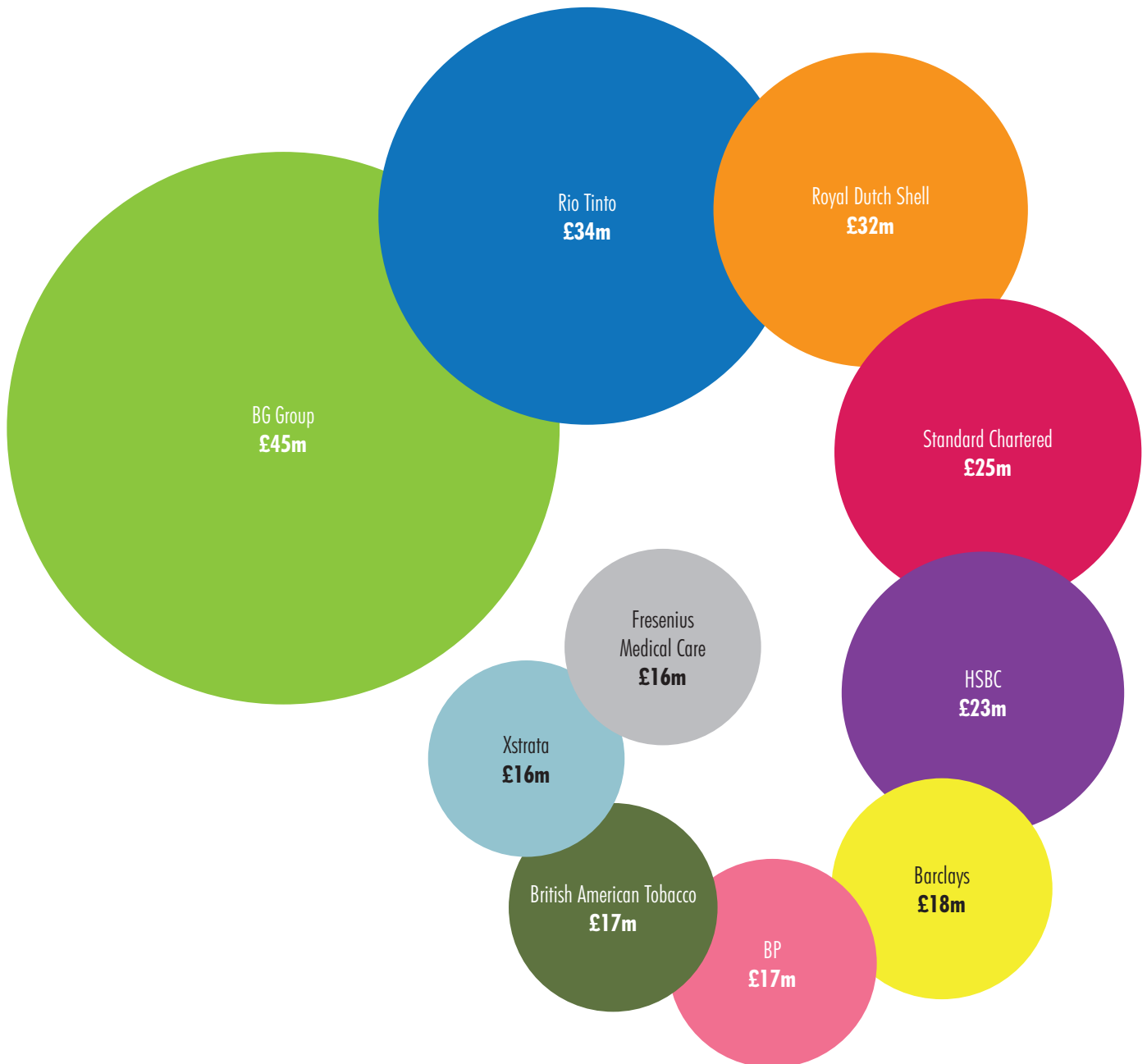
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios. This provides additional scope for managers to outperform their targets.

The asset allocation as at March 2011 is shown below:

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios.

The top ten individual investments in companies are:



Performance Measurement

The Fund has used a fund specific benchmark for performance measurement since January 2002.

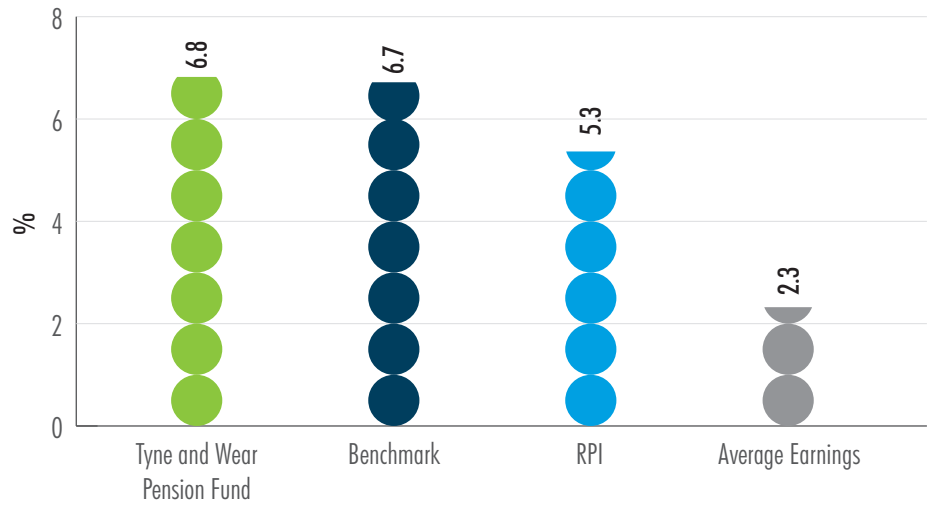
A hybrid benchmark is used for periods that extend earlier than this date. This is based on a median up to and including periods ending on January 2002 and on the strategic benchmark thereafter.

Returns for 2010/11

All of the major world equity markets rose during the year with the exception of Japan which fell by 4%. The best performing equity markets were Asia ex Japan and the Emerging Markets, which rose by 15% and 12% respectively. UK equities rose by just under 9%. Property produced a 10% return and Gilts rose by over 5%.

In this environment, the value of UK pension funds rose for the second year in succession. This followed two years of falls as a result of the credit crisis and global economic slowdown.

The Fund's return for the year was 6.8%, which was 0.1% above its benchmark return of 6.7%. Inflation, as measured by the Retail Price Index, rose by 5.3% and average earnings excluding bonuses increased by 2.3%.



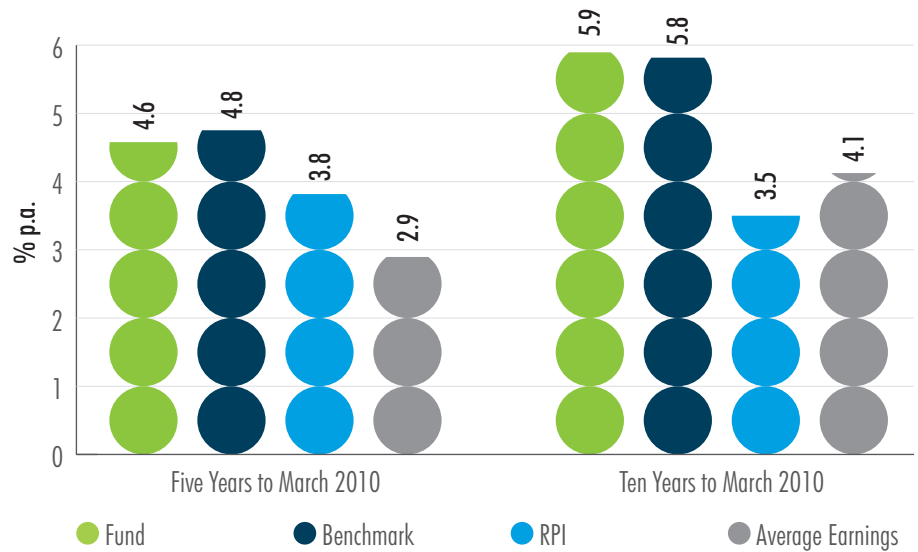
Longer Term Performance

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance.

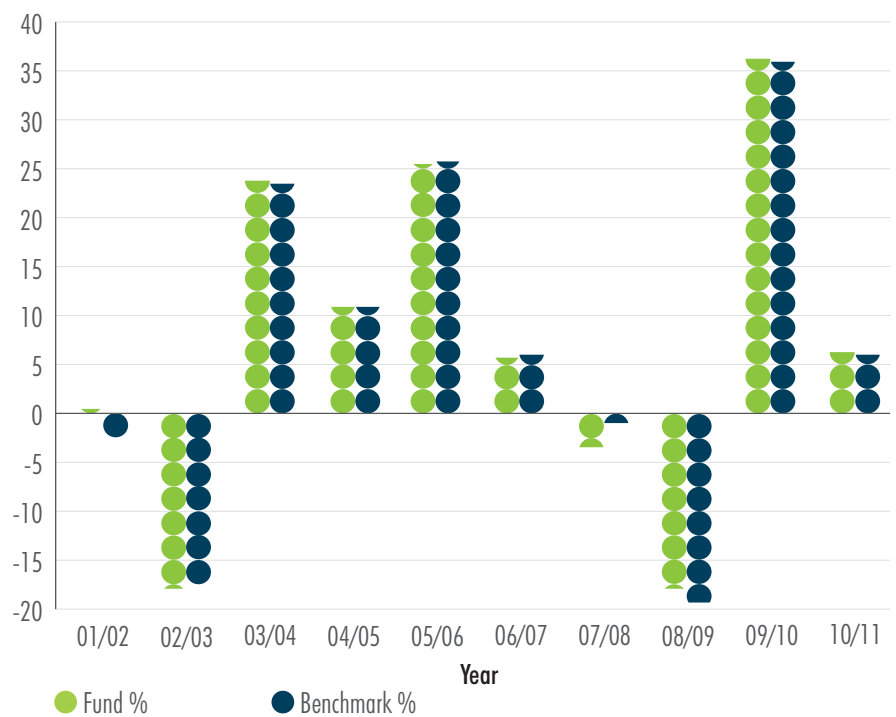
This chart shows the Fund's annual returns over five year and ten year periods against Retail Price Inflation and Average Earnings.

The five year return is 4.6% per annum, which is 0.2% below the benchmark return of 4.8% per annum. The ten year return is 5.9% per annum, which is 0.1% above the benchmark return of 5.8% per annum.

The returns for both periods are above the increases in Retail Price Inflation and in Average Earnings.



The annual performance of the Fund over ten years is shown in the following charts

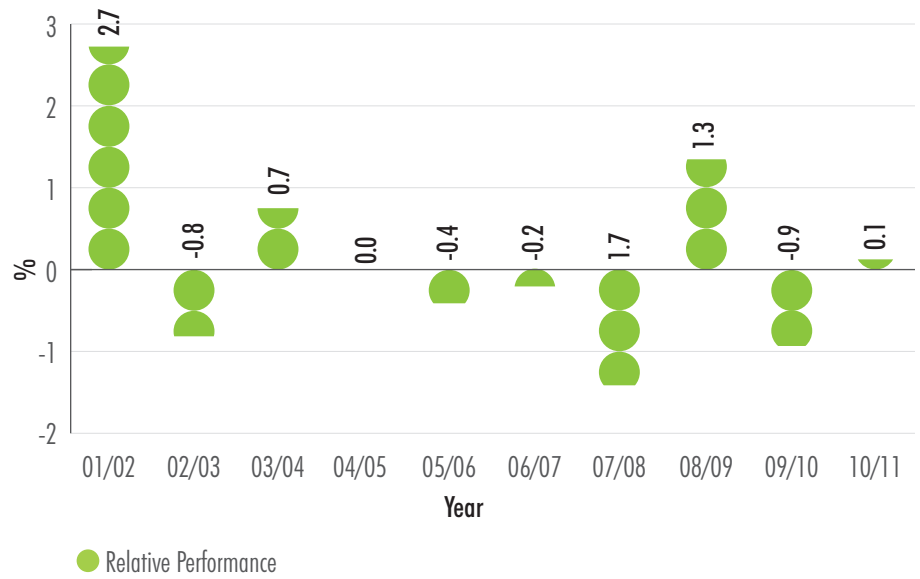


The charts show that the Fund's relative performance was good in 2001/02. This was a time when markets were correcting following a period of strong equity market performance and the Fund benefited from its defensive positioning. The Fund's performance was negative in 2002/03, although markets continued to correct.

As equity markets recovered and started to rise from 2003 onwards, the Fund initially outperformed. However, the relative performance turned negative for the three year period to March 2008, due to poor performance from certain active equity managers and from the active currency managers, before turning positive again in 2008/09.

In the strong market recovery in 2009/10, the Fund underperformed its benchmark by 0.9% due to poor relative performance by some investment managers and in certain alternatives.

The marginal outperformance in the current year is pleasing, given the significant amount of restructuring activity that has taken place.



Investment Policies



Myners Principles

In March 2000, the Chancellor of the Exchequer commissioned a review into institutional investment in the UK which he invited Paul Myners, then of Gartmore Investment Management, to lead.

The Myners' Report was produced in March 2001. In October 2001, the Government published a Code of Investment Principles that reflected the proposals contained in that Report. There were ten Principles contained in the Code and, whilst compliance was voluntary, legislation required local government pension funds to state the extent of their compliance.

A follow up review took place in 2004, although no amendments were made to the Principles.

In 2007, HM Treasury sponsored the National Association of Pension Funds to conduct a review of progress made throughout the pensions industry since the introduction of the Principles in 2001.

The Fund provided a full response to a discussion paper and attended a round table meeting.

The review was completed in November 2007. It was acknowledged that there had been an improvement in compliance and in trustees' knowledge and understanding since the 2004

review, and that governance issues had become more complex since the initial review was commissioned. It was concluded that the Principles were still relevant, although there was a need to simplify and consolidate.

The resultant report, "Institutional Investment in the UK: Six Years On" was followed by a wide consultation exercise culminating in the original ten Principles being replaced by six new Principles.

Each administering authority is required by Regulation to set out in its Statement of Investment Principles the extent to which the authority's policy complies with the guidance.

The new Principles were launched in October 2008. HM Treasury and the Department for Work and Pensions jointly commissioned the Pensions Regulator to oversee an Investment Governance Group that was given the task of implementing the new Principles across all UK pension funds.

An Investment Governance Sub-Group for the Local Government Pension Scheme, which includes representation from CLG and the Chartered Institute of Public Finance and Accountancy, has considered how the Scheme can fit with the new Principles.

The Pensions Panel of the Chartered Institute of Public Finance and Accountancy has issued CLG endorsed guidance on the key issues for compliance with the new Principles. This was published in mid December 2009 in a document called "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

Each administering authority is required by Regulation to set out in its Statement of Investment Principles the extent to which the authority's policy complies with the guidance. To the extent that it does not comply with the guidance, an authority must also give the reasons for that non-compliance in its Statement. CLG will keep the guidance under review and will reissue it, as necessary, in the light of developments.

The Fund was fully compliant with the ten original Principles.

The Pensions Committee benchmarked its practices and procedures against the guidance on 1st June 2010 and concluded that the Fund is compliant with the six new Principles. The position is outlined as follows:

Principle 1 – Effective Decision Making

The Fund has a governance structure and Training Policy and Programme in place that ensures that:

- Decisions are taken by persons with the skills, knowledge, advice and resources necessary to make them effectively and to monitor their implementation.
- There is the necessary expertise to evaluate and challenge advice, and manage conflicts of interest.

Principle 2 – Clear Objectives

Asset liability modelling, informed by the triennial valuation data and report, is applied to set an investment objective for the Fund that takes account of its liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of the administering authority and employers.

The outcome of the modelling and the resultant investment management strategy are clearly communicated to advisors and investment managers.

Principle 3 – Risk and Liabilities

The investment strategy takes account of the form and structure of liabilities.

This includes the implications for local tax payers, the strength of covenant of employers, default risk and longevity risk.

Principle 4 – Performance Assessment

Arrangements are in place for the formal measurement of performance of the investments, investment managers and advisors.

The Pensions Committee undertakes an annual assessment of its effectiveness as a decision-making body. It also assesses the effectiveness of its investment advisors and the Fund's Officers.

Consideration is being given to including a summary of the assessment in future annual reports.



Principle 5 – Responsible Ownership

The Fund:

- Has adopted and required its investment managers to adopt the principles contained in the UK Stewardship Code.
- Includes a statement on its policy on responsible ownership in its Statement of Investment Principles and Corporate Governance Policy.
- Reports annually to members on the discharge of such responsibilities.



Principle 6 – Transparency and Reporting

The Fund's policy documents, in particular the Governance Compliance Statement, Communication Policy Statement and Statement of Investment Principles demonstrate how it:

- Acts in a transparent manner, communicating with stakeholders on issues relating to the management of investment, its governance and risks, including performance against stated objectives.
- Provides regular communication to members.



International Airshow, Sunderland;
Wear Bridge, Sunderland;
St. Mary's Lighthouse, North Shields;
Tyne Bridges, Newcastle.

The Statement of Investment Principles

The Fund is required by Regulations to prepare and maintain a written “Statement of Investment Principles” that sets out the decisions that have been taken on its investment policies.

The SIP provides evidence that administering authorities have considered the suitability of their fund’s investment policy and the approach to implementing the policy.

The Regulations require the SIP to cover the policy on the following areas:

- The types of investments to be held.
- The balance between different types of investments.
- Risk, including the ways in which risks are to be measured and managed.
- The expected returns on investments.
- The realisation of investments.
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.
- The exercise of the rights (including voting rights) attaching to investments, if there is such a policy.
- Stock lending.

- The extent to which the administering authority complies with guidance given by CLG (in relation to the Investment Principles), and, to the extent the authority does not comply, the reasons for not complying.
- The exercise of any discretion by the administering authority to increase the limits on various types of investment.

The Pensions Committee ensures that the SIP is updated as the investment management structure is developed.

The SIP may be viewed on the Fund’s website at www.twpf.info

Corporate Governance and Voting

The Committee believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that will improve the performance of the companies in which the Fund is invested.

Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset. The use of these rights is essential to protect the interests of the organisations participating in the Fund and the beneficiaries of the Fund.

It is important that this process is carried out in an informed manner. For this reason, it is believed that the investment managers are best placed to undertake it.

Each manager is required to prepare a policy on corporate governance and on the use of voting rights.

This policy has to provide for:

- The approach towards UK quoted companies must take account of the principles contained in the UK Corporate Governance Code and the UK Stewardship Code.
- With regard to companies outside the UK, a manager should use its best efforts to apply the principles of the UK Stewardship Code. Other national or international standards must also be taken into account.
- The policy towards unquoted companies must be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
- Voting rights to be exercised in a manner that establishes a consistent approach to both routine and exceptional issues, in order that company directors fully understand the manager’s views and intentions.

Whilst the Committee requires each manager to exercise voting rights in accordance with their individual policy, it retains the right to direct the manager in respect of any particular issue. In particular, a manager must seek direction from the Fund when a conflict of interest arises and when the Fund is involved in a class action.

Each manager is required to:

- Report any changes to their policy to the Fund for approval.
- Provide quarterly reports that set out how their policy has been implemented and their voting record.

The Fund votes globally for its segregated equity holdings. The holdings in companies in pooled funds are voted where the manager makes this possible.

An analysis of the Fund's global and UK only voting record (including the UK pooled funds) for 2010/11 is shown below:

	Global	UK Only
Annual general meetings	2,466	649
Extraordinary general meetings	595	193
Resolutions	31,768	9,240
Votes for	29,154	8,952
Votes against	2,004	244
Abstentions	318	44
Vote not cast	292	0

Social, Environmental and Ethical Considerations

The Fund's Statement of Investment Principles and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.

This is an important issue and the Fund takes its responsibility in this area very seriously.

The active managers are required to include consideration of social, environmental and ethical issues as an integral part of their investment process and corporate governance policy and to act accordingly where such issues may have a financial impact on investment.

Part of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of such issues in the selection, retention and realisation of investments but is required to consider them in its corporate governance policy and to act accordingly where these may have a financial impact on investment.

The managers are required to report on the implementation of this policy in their quarterly performance report. The subject is regularly covered in meetings with managers.

The table shows that the Fund supported management on the majority of resolutions.

A resolution was opposed or there was an abstention on 2,322 occasions. The most common reasons for this were:

- Overly generous executive compensation packages for mediocre performance.
- The lack of independence of non-executive directors and the length of directors' contracts.
- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights.

The table shows that there were 292 resolutions where votes were not cast. For 280 of these resolutions, the votes were not cast due to a practice called shareblocking. This is where shares cannot be sold until after the annual meeting if a vote has been cast by a shareholder. Therefore, shareholders are understandably reluctant to vote on non-contentious issues if this will

prevent them from selling at any time. Such resolutions remain subject to review before a decision is taken on whether to vote. It should be noted that this practice does not occur in the UK and is diminishing elsewhere.

The remaining 12 resolutions were not voted as the shares were out on loan. In such instances, the Fund will request the return of the stock and vote if a resolution is considered to be contentious.

The Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of about fifty local authority pension funds that exists to promote the investment interest of the funds, and to maximise influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies invested in.

Financial Statements

Fund Account

2009/10 £m		Note	2010/11 £m
	Contributions and Benefits		
(239.097)	Contributions Receivable - Employers	3	(226.422)
(61.716)	Contributions Receivable - Employees	3	(62.652)
(17.283)	Transfers In	4	(15.721)
(318.096)	Total Contributions		(304.795)
206.584	Benefits Payable	5	194.512
21.828	Leavers	6	15.640
2.665	Administrative Expenses	7	2.562
231.077	Total Benefits		212.714
(87.019)	Net Additions from Dealings with Members		(92.081)
	Returns on Investments		
(68.276)	Investment Income	8	(82.265)
2.342	Non-Recoverable Tax	8	3.119
(1,054.399)	Change in Market Value of Investments	9	(276.823)
7.753	Investment Management Expenses	10	8.665
(1,112.580)	Net Returns on Investments		(347.304)
(1,199.599)	Net (Increase) / Decrease in the Fund During the Year		(439.385)
3,102.738	Net Assets of the Fund at 1st April		4,302.337
4,302.337	Net Assets of the Fund at 31st March		4,741.722

The financial statements should be read in conjunction with the Actuary's statement.

Net Assets Statement

31 March 2010 £m		Note	31 March 2011 £m
4,281.152	Investment Assets	9	4,718.102
(7.890)	Investment Liabilities	9	(8.815)
49.295	Current Assets	11	44.530
(20.220)	Current Liabilities	11	(12.095)
4,302.337	Net Assets of the Fund at 31st March		4,741.722

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

The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary, under IAS19, which is on pages 19 and 20. The financial information contained in these pages is different from the actuarial position of the Fund in note 20 which has been compiled under IAS26 and as such is based on different assumptions. The financial statements should be read in conjunction with the Actuary's statement. A copy of the full Actuary's statement for note 20 is available on request from the Pension Fund.

We certify that the financial statements, along with the notes to the financial statements, for the year ended 31 March 2011 set out in pages 44 to 63 present fairly the financial position of the Tyne and Wear Pension Fund as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.



Stephen Moore
Head of Pensions
September 2011



Patrick Melia
Corporate Director Business and Area Management
(Section 151 Officer)
September 2011

These accounts were approved by the Pensions Committee at its meeting on 14 September 2011.



Councillor Eileen Leask
Chair of Pensions Committee

Notes to the Financial Statements

1 Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (SORP) (Financial Reports of Pension Schemes), revised May 2007 and subject to note 5 follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

2 Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which, in line with the SORP, are recognised when cash is transferred.

Acquisition Cost of Investments

The acquisition cost of investments is based on the purchase price plus any additional costs associated with the purchase.

Valuation of Investments

Quoted securities have been valued at their bid price on 31 March 2011.

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31 March 2011 as valued by the Investment Manager responsible for such vehicles.

Other unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the Investment Manager responsible for these investments.

The value of fixed income investments excludes interest earned but not paid over at the year-

end. The interest earned has been accrued within investment income receivable.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31 March 2011.

The fair value of forward currency contracts is based on exchange rates at the year-end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31 March 2011.

Properties are shown as valued at 31 March 2011. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE. No depreciation is provided on freehold buildings or long leasehold properties.

Investment Transactions

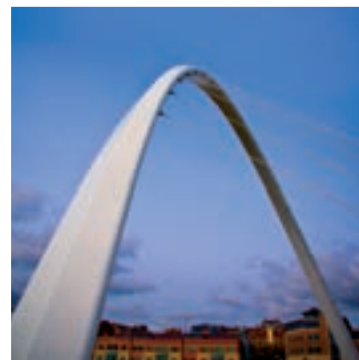
Investment transactions that were not settled as at 31 March 2011 have been accrued.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees.

Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2011.





With regard to property rental income payable quarterly in advance, only the proportion of each payment attributable to the Fund from the due date to the 31 March 2011 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31 March 2011.

Investment Management Expenses

Investment management expenses payable as at 31 March 2011 have been accrued.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31 March 2011.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31 March 2011 have been accrued.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer Values

Transfer values represent the capital sums either receivable in respect of new members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on a receipts/payments basis.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. However, these have been included as a note to the accounts.

3. Contributions Receivable

2009/10 £m		2010/11 £m
	Employers	
(145.356)	Normal	(146.404)
(93.066)	Deficit Funding	(79.778)
(0.675)	Augmentation	(0.240)
(239.097)		(226.422)
	Members	
(61.051)	Normal	(62.089)
(0.665)	Additional Voluntary Contributions	(0.563)
(61.716)		(62.652)
(300.813)	Total Contributions Receivable	(289.074)

The contributions can be analysed by type of member body as follows:

2009/10 £m		2010/11 £m
(27.842)	South Tyneside Council (Administering Authority)	(25.126)
(179.117)	District Councils	(168.870)
(56.102)	Schedule 2 Part 1 Employers	(55.882)
(11.528)	Schedule 2 Part 2 Employers	(8.905)
(26.224)	Admitted Bodies	(30.291)
(300.813)	Total Contributions Receivable	(289.074)

4. Transfers In

During the year, individual transfers in from other schemes amounted to £15.721m (£17.283m in 2009/10). In 2010/11, there was one bulk transfer into the fund from Durham County Council Pension Fund for the credit of Newcastle College with the value of £0.520m. There were no bulk transfers during 2009/10.

5. Benefits Payable

2009/10 £m		2010/11 £m
152.174	Pensions	161.071
61.663	Commutations and Lump Sum Retirement Benefits	39.374
3.646	Lump Sum Death Benefits	4.812
(10.899)	Recharges Out	(10.745)
206.584	Total Benefits Payable	194.512

The payments can be analysed by type of member body as follows:

2009/10 £m		2010/11 £m
21.029	South Tyneside Council (Administering Authority)	21.736
135.612	District Councils	121.728
26.394	Schedule 2 Part 1 Employers	25.503
6.648	Schedule 2 Part 2 Employers	7.575
16.901	Admitted Bodies	17.970
206.584	Total Benefits Payable	194.512

6. Leavers

2009/10 £m		2010/11 £m
21.803	Individual Transfers to Other Schemes	15.778
0.029	Refunds to Members Leaving Service	0.037
(0.004)	State Scheme Premiums	(0.175)
21.828	Total Leavers	15.640

There were no bulk transfers out of the scheme in 2010/11 or 2009/10.

7. Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

2009/10 £m		2010/11 £m
1.622	Employee Expenses	1.484
0.487	Support Services Recharge	0.489
0.090	Audit Fees	0.057
0.119	External Computing Costs	0.267
0.088	Printing / Publications	0.080
0.103	Professional Fees	0.155
0.161	Other Expenses	0.036
(0.005)	Income	(0.006)
2.665	Total Administration Expenses	2.562

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

8. Investment Income

2009/10 £m		2010/11 £m
(0.682)	Fixed Interest Securities	(1.218)
(31.378)	Equities	(41.138)
(0.589)	Index-Linked Securities	(0.642)
(16.023)	Pooled Investment Vehicles	(15.071)
(19.265)	Net Rents from Properties	(23.208)
(0.179)	Cash Deposits	(0.239)
-	Securities Lending	(0.646)
(0.024)	Commission Recapture	(0.010)
(0.136)	Underwriting Commission	(0.093)
(68.276)	Sub-Total	(82.265)
2.342	Non-Recoverable Tax	3.119
(65.934)	Total Investment Income	(79.146)

9. Investments

31 March 2010 £m		31 March 2011 £m
	Investment Assets	
30.887	Fixed Interest Securities	34.743
1,310.835	Equities	2,017.105
33.363	Index-Linked Securities	41.241
2,537.628	Pooled Investment Vehicles	2,242.777
0.209	Derivative Contracts	-
321.235	Properties	345.225
36.126	Cash Deposits	23.029
10.869	Other Investment Balances	13.982
4,281.152	Total Investment Assets	4,718.102
	Investment Liabilities	
-	Derivative Contracts	(0.907)
(7.890)	Other Investment Balances	(7.908)
(7.890)	Total Investment Liabilities	(8.815)
4,273.262	Net Investment Assets	4,709.287

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Value at 1 April 2010 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31 March 2011 £m
Fixed Interest Securities	30.887	165.886	(162.689)	0.659	34.743
Equities	1,310.835	2,053.319	(1,441.778)	94.729	2,017.105
Index-Linked Securities	33.363	156.786	(151.339)	2.431	41.241
Pooled Investment Vehicles	2,537.628	275.369	(735.543)	165.323	2,242.777
Derivative Contracts	0.209	0.668	(6.926)	5.142	(0.907)
Properties	321.235	21.126	(5.450)	8.314	345.225
	4,234.157	2,673.154	(2,503.725)	276.598	4,680.184
Cash Deposits	36.126	-	(16.143)	3.046	23.029
Other Investment Balances	2.979	6.097	(0.181)	(2.821)	6.074
Total Investments	4,273.262	2,679.251	(2,520.049)	276.823	4,709.287

31 March 2010 £m		31 March 2011 £m
	Fixed Interest Securities	
30.887	UK Public Sector	33.439
-	Overseas Public Sector	1.304
30.887	Total Fixed Interest Securities	34.743
	Equities	
266.657	UK Quoted	611.517
997.488	Overseas Quoted	1,287.676
3.300	UK Unquoted	6.700
43.390	Overseas Unquoted	111.212
1,310.835	Total Equities	2,017.105
	Index Linked Securities	
25.118	UK Public Sector	41.241
7.089	UK Non Public Sector	-
1.156	Overseas Public Sector	-
33.363	Total Index-Linked Securities	41.241
	Pooled Investment Vehicles	
103.848	Unit Trusts	93.941
1,529.485	Unitised Insurance Policies	1,130.345
904.295	Other Managed Funds	1,018.491
2,537.628	Total Pooled Investment Vehicles	2,242.777
	Derivative Contracts	
0.209	Forward Foreign Currency Contracts	(0.907)
0.209	Total Derivative Contracts	(0.907)
	Properties	
279.845	Freehold	280.125
41.390	Long Leasehold	65.100
321.235	Total Properties	345.225

	Cash Deposits	
27.397	Sterling	18.065
8.729	Foreign Currency	4.964
36.126	Total Cash Deposits	23.029
	Other Investment Balances	
0.551	Outstanding Trades	1.323
8.045	Outstanding Dividends & Tax Recoveries	9.178
2.273	Debtors	3.481
(7.890)	Creditors	(7.908)
2.979	Total Other Investment Balances	6.074
4,273.262	Total Investments	4,709.287

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases. Transaction costs incurred during the year amounted to £6.016m (£4.846m in 2009/10). In addition to the transaction costs noted above, costs will be incurred within pooled investment vehicles. The amount of these costs is not provided separately to the Fund.

10. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

2009/10 £m		2010/11 £m
7.437	Administration, Management and Custody	8.478
0.078	Performance and Risk Measurement Services	0.078
0.238	Other Advisory Fees	0.109
7.753	Total Investment Management Expenses	8.665

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

11. Current Assets and Liabilities

31 March 2010 £m		31 March 2011 £m
	Current Assets	
4.998	Contributions and Recharges Due - Employees	6.050
43.964	Contributions and Recharges Due - Employers	37.593
-	Inland Revenue	0.006
0.094	Investment Management Expenses	0.181
0.239	Other	0.700
49.295	Total Current Assets	44.530
	Current Liabilities	
(10.200)	Unpaid Benefits	(0.061)
-	Contributions, Recharges and Refunds Due - Employers	(0.162)
(1.320)	Inland Revenue	(1.412)
(2.867)	Investment Management Expenses	(3.367)
(5.833)	Other	(7.093)
(20.220)	Total Current Liabilities	(12.095)

12. Additional Voluntary Contributions

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the Local Government Pension Scheme, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

Equitable Life has experienced financial difficulties that arose from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2010/11, £1.413m of contribution income was received into the AVC funds provided by The Prudential (£1.387m during 2009/10). As at 31 March 2011, these funds were valued at £9.270m (£8.765m as at 31 March 2010).

During 2010/11, £0.005m contribution income was received into the AVC funds operated by Equitable Life (£0.004m during 2009/10). As at 31 March 2011, these funds were valued at £0.365m (£0.427m as at 31 March 2010).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The market value of the investments in the hands of each manager was:

31 March 2010		Investment Managers	31 March 2011	
£m	%		£m	%
321.235	7.5	Aberdeen Property Investors	345.225	7.3
-	-	BlackRock Investment Management	175.247	3.7
410.111	9.6	Capital International - Global Equities	-	-
122.603	2.9	Capital International - Emerging Markets	143.281	3.0
372.927	8.8	Henderson Global Investors	379.649	8.0
-	-	JP Morgan Asset Management	470.860	10.0
-	-	Lazard Asset Management	106.003	2.2
1,250.824	29.3	Legal and General Investment Management	807.614	17.1
346.956	8.1	M&G Investment Management	402.876	8.6
-	-	Mirabaud Investment Management	176.746	3.8
-	-	Sarasin and Partners	483.492	10.3
346.969	8.1	Schroder Investment Management	-	-
-	-	TT International	55.375	1.2
609.150	14.3	UBS Global Asset Management	455.547	9.7
95.792	2.2	Active Currency	142.587	3.0
355.701	8.3	Private Equity	469.430	10.0
27.337	0.6	Infrastructure	50.574	1.1
-	-	Global Property	40.874	0.9
13.657	0.3	Managed In-House	3.907	0.1
4,273.262	100.0	Total Investments	4,709.287	100.0

14. Taxation

UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax. It is not registered separately from the Council for VAT and therefore can recover its input tax.

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

Overseas Tax

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.

15. Derivatives

The Fund has used a number of derivative instruments as part of its investment strategy and to assist with efficient portfolio management.

Futures

As at 31 March 2011, the Fund did not hold any Futures contracts.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments and to take strategic foreign currency positions. As at 31 March 2011, the Fund held fifteen positions in foreign currency that together showed an unrealised loss of £0.907m, as shown in the table below:

		Market Value £m
Type of Forward Foreign Currency Contracts		
Three Month - Over the Counter	Bought Sterling/Sold Euro	(2.414)
Three Month - Over the Counter	Bought Sterling/Sold Swiss Franc	(0.014)
Three Month - Over the Counter	Bought Sterling /Sold Hong Kong Dollar	0.110
Three Month - Over the Counter	Bought Sterling /Sold Yen	0.171
Three Month - Over the Counter	Bought Sterling /Sold Singapore Dollar	(0.028)
Three Month - Over the Counter	Bought Sterling /Sold US Dollar	(0.151)
Three Month - Over the Counter	Sold Sterling /Bought Australian Dollar	0.644
Three Month - Over the Counter	Sold Sterling /Bought Canadian Dollar	0.087
Three Month - Over the Counter	Sold Sterling /Bought Swiss Franc	0.483
Three Month - Over the Counter	Sold Sterling /Bought Euro	0.358
Three Month - Over the Counter	Sold Sterling /Bought Hong Kong Dollar	0.001
Three Month - Over the Counter	Sold Sterling /Bought Yen	(0.133)
Three Month - Over the Counter	Sold Sterling /Bought Norwegian Krone	0.055
Three Month - Over the Counter	Sold Sterling /Bought Swedish Krona	0.317
Three Month - Over the Counter	Sold Sterling /Bought US Dollar	(0.393)
		(0.907)

These positions were settled at an overall loss of £1.652m.

16. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £65.902m were out on loan as at 31 March 2011, against collateral of £71.046m. The breakdown of securities on loan was:

31 March 2010 £m		31 March 2011 £m
-	Fixed Interest Securities	8.740
-	Index-Linked Securities	5.058
-	UK Equities	18.434
-	Overseas Equities	33.670
-	Total Securities Lending	65.902

The value of collateral against which the securities were lent out is set out below:

31 March 2010 £m		31 March 2011 £m
-	Cash	1.736
-	Fixed Interest	55.255
-	Index-Linked	3.062
-	Equities	10.993
-	Total Collateral	71.046

17. Significant Holdings

As at 31 March 2011, the Fund had two holdings that each represented more than 5% of the total Fund value. Both holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31 March 2011, this was valued at £807.614m and represented 17.1% of the total net assets of the Fund. During 2010/11, the Europe (ex UK) Equities fund was opened while the UK Gilts and AAA Fixed Interest holdings were closed, thereby reducing the split in the insurance contract to four individual funds, each representing a different asset classes, as follows:

31 March 2010 £m		31 March 2011 £m
956.228	UK Equities	641.414
-	Europe (ex UK) Equities	22.067
134.119	North America Equities	49.818
52.075	UK Gilts	-
30.166	AAA Fixed Interest	-
78.236	Index-Linked Gilts	94.315
1,250.824	Total	807.614

- M&G – Corporate Bond All Stocks Fund. As at 31 March 2011, this was valued at £322.731m (£278.662m as at 31 March 2010) and represented 6.8% of the total net assets of the Fund.

18. Outstanding Commitments

As at 31 March 2011 the Fund had thirty-three outstanding commitments to investments. These are shown below:

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$51.7	\$3.3	£2.1
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$38.2	\$7.8	£4.9
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$7.0	\$1.0	£0.6
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$23.8	\$4.2	£2.6
HarbourVest Partners 2004 Direct Fund	2004	\$30.0	\$29.6	\$0.4	£0.2
Capital International Private Equity Fund IV	2004	\$18.0	\$17.3	\$0.7	£0.4
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€73.0	€27.0	£23.9
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€27.3	€2.7	£2.4
Pantheon Asia Fund IV	2005	\$20.0	\$13.2	\$6.8	£4.2
Pantheon Europe Fund IV	2005	€25.0	€18.9	€6.1	£5.4
Pantheon USA Fund VI	2005	\$30.0	\$23.1	\$6.9	£4.3
Lexington Capital Partners VI-B	2005	\$30.0	\$28.5	\$1.5	£0.9
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$60.2	\$51.8	£32.3
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$35.8	\$20.2	£12.6
Pantheon Europe Fund V	2006	€35.0	€21.2	€13.8	£12.2
Pantheon USA Fund VII	2006	\$35.0	\$18.1	\$16.9	£10.5
Coller International Partners V	2006	\$30.0	\$21.2	\$8.8	£5.5
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$17.7	\$12.3	£7.7
Pantheon Asia Fund V	2007	\$20.0	\$10.6	\$9.4	£5.9
Pantheon Europe Fund VI	2007	€40.0	€16.4	€23.6	£20.9
Pantheon USA Fund VIII	2007	\$35.0	\$9.8	\$25.2	£15.7
Capital International Private Equity Fund V	2007	\$35.0	\$26.0	\$9.0	£5.6
Co-Investment Partners Europe	2007	€30.0	€20.0	€10.0	£8.9
Partners Group 2006 Direct Fund	2007	€30.0	€26.9	€3.1	£2.7
Infracapital	2007	€35.0	€26.6	€8.4	£8.4
Pantheon International Participations	2008	£10.0	£6.7	£3.3	£3.3
Capital International Private Equity Fund VI	2010	\$35.0	\$0.0	\$35.0	£21.8
Lexington Capital Partners VII	2010	\$30.0	\$10.2	\$19.8	£12.4
Partners Asia-Pacific & Emerging Markets Real Estate 2009	2010	\$40.0	\$19.1	\$20.9	£13.0
Partners Group Real Estate Secondary 2009	2010	€60.0	€16.0	€44.0	£39.0
Partners Group Real Estate Secondary 2011	2010	€145.0	€17.8	€127.2	£112.6
Partners Group Global Infrastructure 2009	2010	€70.0	€12.6	€57.4	£50.8
Partners Group Direct Infrastructure 2011	2011	€25.0	€6.7	€18.3	£16.2
Total Outstanding Commitments					£469.9

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31 March 2011.

19. Related Party Transactions

Under FRS8 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

An examination of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund has not identified any cases where disclosure is required.

During 2010/11 two employers within the fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.804m split as follows:

- South Tyneside Council charged the Fund £0.401m (£0.384m in 2009/10) in respect of services provided, being primarily legal and building costs.
- The Fund charged South Tyneside Council £0.050m (£0.049m in 2009/10) in respect of Treasury Management services.
- BT South Tyneside Limited charged the fund £0.312m (£0.314m in 2009/10) in respect of services provided, being primarily financial and information technology.

There were no material contributions due from employer bodies that were outstanding at the year-end.

20. Pension Fund Disclosures under IAS26

Under IAS26 the Fund is required to disclose the “actuarial present value of the promised retirement benefits”, which were last valued at 31 March 2010 by the Actuary at £7,037.3m. This figure was calculated using the following information supplied by the actuary.

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme:

	Value as at 31 March 2010 £m
Fair value of net assets	4,302.3
Actuarial present value of the promised retirement benefits	7,037.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(2,735.0)

The principal assumptions used by the Fund’s independent actuaries were:

	31 March 2010 (% p.a.)
Discount rate	5.5
RPI Inflation	3.9
CPI Inflation	3.0
Rate of increase to pensions in payment*	3.9
Rate of increase to deferred pensions*	3.9
Rate of general increase in salaries **	5.4

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010.

Principal demographic assumptions

Post retirement mortality	31 March 2010
Males	
Base table	Standard SAPS Normal Health All Tables (S1NMA)
Scaling to above base table rates ***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	21.3
Future lifetime from age 65 (currently aged 45)	23.2
Females	
Base table	Standard SAPS Normal Health All Tables (S1NFA)
Scaling to above base table rates ***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	23.5
Future lifetime from age 65 (currently aged 45)	25.5

*** The scaling factors shown apply to normal health retirements

31 March 2010	
Commutation	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.
	Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund 27 May 2011. A full copy of which is available on request.

For figures relating to individual employers of the Fund please refer to each employer's final accounts.

Independent auditor's report to the Members of South Tyneside Council

We have audited the pension fund accounts included in the pension fund report and accounts of the Tyne and Wear Pension Fund (administered by South Tyneside Council) for the year ended 31st March 2011 which comprises the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Responsible Financial Officer and the auditor

The Responsible Financial Officer is responsible for the preparation of the pension fund accounting statements which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for South Tyneside Council members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31st March 2011 and the amount and disposition of the fund's assets and liabilities as at 31st March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the pension fund report and accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.



Paul Woolston (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, Newcastle upon Tyne, 29th September 2011

The maintenance and integrity of the Tyne and Wear Pension Fund website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Baltic - Centre for Contemporary Art, Gateshead.

How to contact us

Our information is available in other ways on request. We can provide information in other languages, Braille or large print. We also have access to audio aids and BSL (British Sign Language) interpreters.

There are a number of ways you can get in touch with us. If you need further information on the LGPS, please contact us at:



**Tyne and Wear Pension Fund, PO Box 143,
HEBBURN NE31 2WT**



**Pensions Helpline:
Tel: 0191 424 4141 or 0845 625 4141**



Fax: 0191 424 4171



Email: pensions@twpf.info



Web: www.twpf.info



Personal Callers

You can visit us during office hours at the Civic Centre, Campbell Park Road, Hebburn, Tyne and Wear, NE31 2SW. You don't need to make an appointment.



Office Hours

Monday to Thursday 8.30am to 5.00pm Friday 8.30am to 4.30pm. Please quote your National Insurance Number and your Membership ID Number so we can quickly trace your records.