



TYNE AND WEAR PENSION FUND
REPORT AND ACCOUNTS 2011/12



We would like to gratefully acknowledge the use of selected photography from the archives of Gateshead Council and NewcastleGateshead Initiative.



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Members of Pensions Committee, Advisors, Officers

Committee Members

South Tyneside Council

Councillor E. Leask (Chair)

Councillor G.R.W. Elsom
(Vice Chair)

Councillor J. Atkinson

Councillor S. Harrison

Councillor J. Perry

Councillor O. Punchion

Councillor B. Watters

Councillor A. West

City of Sunderland Council

Councillor M. Mordey

(substitute – Councillor
P. Gibson)

Gateshead Council

Councillor B. Goldsworthy

(substitute – Councillor G.Haley)

Newcastle City Council

Councillor G. Bell

North Tyneside Council

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

Trades Union Representatives

G. Clements – Unison

W. Flynn – UCATT

S. Forster – Unison

Employers' Representatives

J. Bilcliff – Northumbria Probation

G. Foster – Northumbria University

T. Jackson – TT2

Advisors

Actuary – Aon Hewitt

Investment Advisor – Hymans Robertson

Officers

Corporate Director Business and Area Management

P. Melia

Head of Pensions

S. Moore

Principal Pensions Manager

D. Smith

Principal Investment Manager

I. Bainbridge

Head of Legal Services

M. Harding



External Managers

Equity and Bond Managers

Indexation

Legal and General Investment Management

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

Bonds

Henderson Global Investors

M&G Investments

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 2011/12 Report and Accounts for the Tyne and Wear Pension Fund.

This review summarises the main events of the year, including the proposed reforms to the Scheme.

The contributions paid by employers in 2011/12 were set by the 2010 valuation, where the reported funding level was 79%. This was the same as at the 2007 valuation.

However, experience had been poor between the two valuations. 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 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.

Progress has continued to be made on the reform of the Scheme that follows on from the Commission on Public Sector Pensions that was chaired by Lord Hutton.

In December 2011, the Government, the Local Government Association and the trade unions reached agreement on a set of principles that cover the design, cost management and governance issues for the new Scheme, which is to be in place by April 2014.

The new regulations are to be in place by March 2013 in order that actuaries may allow for their impact in the 2013 valuations.

In May 2012, a set of proposals was announced jointly by the Local Government Association and the trade unions. The new Scheme is to be a career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service, with

accrued benefits re-valued in line with increases in the Consumer Price Index. The Normal Retirement Age will be the member's State Pension Age. Changes are proposed to the member contribution rates. Benefits earned before April 2014 are to be protected.

In order to assist with affordability for members, a "50/50" option is proposed, where the member can elect to pay half the member contribution rate for half the accrual rate.

These proposals are subject to ratification by employers and the trade unions and a statutory consultation.

With regard to the Fund's investment strategy and structure, the strategy in place in 2011/12 was based on an asset liability study carried out in 2007/08 using the liability data from the 2007 valuation. Implementation of this strategy was delayed until 2010 due to poor market conditions in 2008 and 2009.

The strategy is comprised of 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure. Within this strategy, there is a 7.5% allocation to private equity and a 3% overlay that provides





exposure to active currency positions.

A further asset liability study was undertaken in 2012 that used updated liability information from the 2010 valuation. The outcome was reported to the Committee in June 2012 and it was concluded that the strategy set out above remains appropriate for the Fund.

Accordingly, there was little change to the strategy and structure in 2011/12 as much of it was only put into place in 2010. However, we continued to develop the private equity, global property and infrastructure programmes whilst reducing exposure to active currency in the light of continued uncertainty in currency markets.

The year saw mixed fortunes in investment markets. There was a mid-year collapse in equity markets and an associated flight to safety due to economic concerns in the Eurozone and in the US. Accordingly, Index Linked Gilts was the best performing asset class with a return of 21%, followed by Gilts at over 14%. Equity returns ranged from 7% in the US to -11% in Europe ex UK.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tends to be invested there. This market returned just over 1%.

The Fund's return in this volatile year was 2.0%, which was 0.2% below its benchmark return of 2.2%. Inflation, as measured by the Retail Price Index, rose by 3.6% and Average Earnings increased by 2.0%.

The five year return is 3.7% per annum, which is 0.2% below the benchmark return of 3.9% per annum. The ten year return is 6.1% per annum, which is 0.2% below the benchmark return of 6.3% per annum.

The below benchmark returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy.

The returns for the five and ten year periods are above the increases in the Retail Price Index and in Average Earnings.

The Fund has continued to improve the administration of pensions. The UPM system is being

developed to extend the web access facilities for employers and work on online services for members will start in 2012/13.

We have developed a system for the bulk import and automated processing of data from employers for high volume areas such as changes to personal data and working hours. This has been piloted with a small number of large employers and can be rolled out to other employers in 2012/13.

We remain committed to improving the service we offer and seek the views of members and employers to assist with this. The deferred members and employers were surveyed in 2011/12. It was pleasing to find that 98% of the members and 100% of the employers who responded were satisfied with the service provided.

Councillor Jim Perry
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.
- Prepare, maintain and publish the Pensions Administration Strategy.
- 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.
- Prepare, maintain and publish the Corporate Governance Policy.



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

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 2012 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 Principal Investment Manager. It reports its findings to the Committee and makes recommendations on any action that is required.

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 held on the Fund's website at www.twpf.info.

The information that is available 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.
- 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.



The Training Policy and Programme

The Pensions Committee has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

The Pensions Panel of the Institute 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.

Committee Training

The Committee has adopted the Pensions Panel Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme, which recognises the Institute's Code of Practice and the requirements of the Investment Principles.

It also includes aspects of the Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding that are relevant to the Scheme.

The Committee considers its training requirements at each of its quarterly meetings and devises a programme that builds on the training previously delivered to address the issues that will arise in coming years.

The programme is based around three residential training seminars, each lasting up to three days, that are held each year. Additional sessions are held if required. The investment managers, the Investment Advisor and the Actuary assist with the delivery of this programme.

Training seminars and conferences that are offered by industry wide bodies are attended.

Additional training is offered to the Committee Members that sit on the Investment Panel.

New Members are invited to attend individual briefing sessions with the Fund's Officers that can include an assessment of their individual training needs.





The programme for 2011/12 covered topics such as:

- The duties and responsibilities of Committee members.
- The global economic outlook.
- Asset classes.
- The modelling and design of the investment management structure and mandates.
- Risk Management.
- Service planning and budgeting.
- Scheme benefits and the future of the Scheme.
- The Fund's Global Property and Infrastructure Programmes.
- The UK Property Programme.

The programme for 2012/13 will include:

- The global economic outlook.
- Asset Liability Modelling.
- Asset classes.
- Funding Strategy, with a focus on preparing for the 2013 valuation.
- The content and implementation of the new Scheme.

Officer Training

All Officers in the Pensions Service have meetings with their manager to discuss their future training needs. This leads to the preparation and delivery of a Personal Development Plan that is tailored to each Officer's needs.

The Pensions Panel Framework for Pensions Practitioners has been adopted by appropriate Officers as part of their training requirements.

Our training initiatives include:

- Career grades, where advancement is geared to an ongoing assessment of knowledge and capability.
- Attendance at a range of seminars and conferences that are offered by industry wide bodies.
- Access to the guidance, circulars and training sessions that are available through the Local Government Employers organisation.

- A "buddy system" is in place to train and support staff who are learning about new areas of work and to provide ongoing support.
- Officers participate in the pension administration software supplier's user groups and technical development groups.
- The pension administration software has been developed to include processing guidance notes and links to internal policies, external key documents and websites.



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 2011/12, we have:

- Introduced the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
- Delivered the Pensions Committee's Training Programme that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel.
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes.
- Developed the Funding Strategy and undertaken a review of the ill health provision.
- Issued guidance and delivered training on auto enrolment.
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers.
- Continued to develop the pension administration system, including the introduction of a module that takes bulk downloads of data direct from an employer's payroll into the pensions system.
- Commenced an asset liability modelling exercise on the investment management structure.
- Continued to develop the Private Equity, Global Property and Infrastructure programmes.





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.

Legal Framework

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 based upon the best actual pensionable pay in the last three years or an averaging of three financial years within the last ten 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.
- The earliest age for release of pension is 55, except on grounds of ill-health.
- 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.
- 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.



Reform of the Scheme

In December 2011, agreement was reached between the Government, the Local Government Association and the trade unions on how reform of the Scheme should be taken forward.

The Heads of Agreement consist of:

- A set of principles covering the design, the management of the cost and the governance of the new Scheme.
- A timetable for implementing the new Scheme by April 2014.
- A project outline for agreeing the major elements.

The design principles are:

- A single change, involving CLG providing regulations by April 2013 and implementation of the new Scheme from April 2014.
- The Scheme will be a career average scheme with some elements of choice to encourage retention of existing membership and to encourage new membership.
- The age at which benefits may be taken is to be any time between 55 and 75. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age, which is to be linked to State Pension Age or age 65 whichever is later.
- Continuation of the current Admitted Body Status arrangements.
- The method of meeting the cost of protections for older members, their value relative to other public sector schemes and their scope for recycling is to be confirmed by the Treasury.

- Scheme costs will be based on actual experience and are to be capable of being independently verified.
- Cost efficiencies are to be realised through more effective procurement and provision of both administration and investment services.
- The Scheme should maintain its relative value, in terms of benefits, to other public sector schemes.

The principles covering the management and governance are:

- The value of the ongoing Scheme, and the employer contribution cap within that value, are to be agreed between the principal stakeholders.
- The employer contribution cap is to contain both ceiling and floor values, referred to as a cap and collar.
- The mechanisms to keep employer contributions within the cap and collar are to be set by regulation, will be under the control of the stakeholders and will use model fund data.
- The mechanisms will allow changes to the benefit structure and employee contribution rates, and include a default position should agreement not be reached.
- A mechanism to translate the effect of the cap and collar to individual employers in the Scheme, including circumstances when rates can be set outside of the cap and collar.
- Cap and collar individual funding levels are to be monitored and kept within an acceptable range.

The following timetable was been agreed to ensure that the new regulations will be in place by March 2013:

- Agreement on contribution rates, the accrual rates, the revaluation rate, protections, the cap and collar for employer contributions and the cost management mechanism was to be achieved by April 2012.

- Agreement on the remainder of the Scheme design, the cost management mechanism and the mechanism to provide assurance of effective management of individual funds is to be in place by November 2012.
- The drafting and consultation on regulations is to have started by September 2012.
- New regulations are to be in place by 30th March 2013 in order that actuaries may allow for their impact in the 2013 valuation.

At the end of May 2012, a joint announcement was made by the Local Government Association and the trade unions that sets out the proposals for the Scheme from 1st April 2014. The key features are:

- A career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service.
- Accrued benefits are to be revalued in line with increases in the Consumer Price Index.
- The Normal Retirement Age will be the member's State Pension Age.
- Member contribution rates are increased for those earning above £43,000. However, there are potentially significant reductions for part-time members as contribution rates will be based on actual rather than full time equivalent pay.
- A "50/50" option is proposed, where the member can elect to pay half the member contribution rate for half the accrual rate.
- Pre April 2014 benefits are protected through a final salary calculation and use of current retirement age.
- A calculations underpin will apply to members aged 55 or over at April 2012 so that they will receive at least as much as under the current final salary provision.
- Where a function is outsourced, the transferring members will be able to stay in the Scheme with their new employer.

These proposals are subject to ratification by the trade unions and a statutory consultation.

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, members can contribute up to half of their pay each year into 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 2011 review was undertaken in October with the assistance of Hymans Robertson. It was concluded that The Prudential should remain as the sole provider.

In February 2012, The Prudential issued a formal notice to advise that it would be introducing a new charge from August 2012 that will affect new contributors who withdraw their funds within the first five years. The Fund will consider the impact of this charge at the 2012 annual review.

The Fund has reviewed its position on with-profits investment. This option was closed to new investors following the 2006 annual review. The position for current investors was put on hold whilst The Prudential considered 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. It has been decided not to take further action in the current investment climate but the Fund will continue to monitor the position.

Equitable Life

The AVC plan with Equitable Life has been closed to new members and transfers.

This is a group Scheme with the Fund being the policyholder for individual member investments.

A bulk transfer exercise was conducted in 2003 in the light of advice from 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 remain 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. This resulted in more members' investments being moved to The Prudential.

Equitable Life Payment Scheme

As part of the 2010 Spending Review, the Government announced that £775million would be made available for distribution 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 Commission published its final report in January 2011.

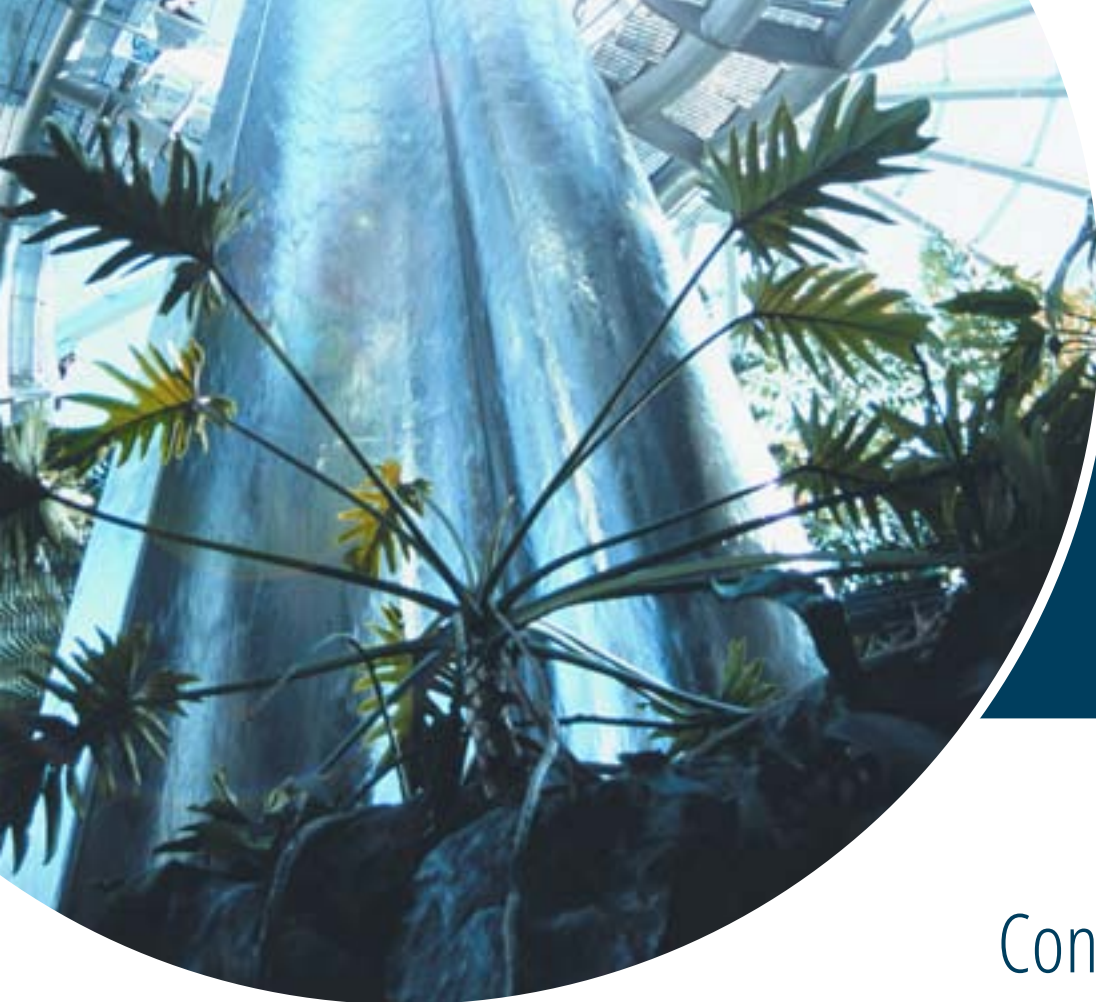
The Government published a document entitled "Scheme Design for Parliamentary Review". This sets out the design of the compensation Scheme, including the allocation to members within group Schemes.

The Equitable Life Payment Scheme was set up by the Government to make payments to policyholders. Payments commenced in June 2011 and will be completed by mid 2014.

It is expected that members of group Schemes will not be contacted until after June 2012 due to the additional complexities in retrieving contact information.

The Fund will continue to monitor the progress of the Payment Scheme 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

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.

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.



The 2010 Valuation

The contributions paid by employers in 2011/12 were set in the 2010 valuation.

Experience had been very poor between the 2007 and 2010 valuations, 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.

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 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.
- The grouping of some smaller employers for setting contribution rates which protects 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.

Statement of the Actuary for the year ended 31 March 2012

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. 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.
2. 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.
3. 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.
 4. 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.

5. 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.

6. 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.

7. 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. One such review has been completed since the 2010 valuation of the Fund, in respect of ill-health retirements over the year to 31 March 2011. No employer in the Fund had their contribution rate revised as a result of this review.
8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. 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
3 May 2012

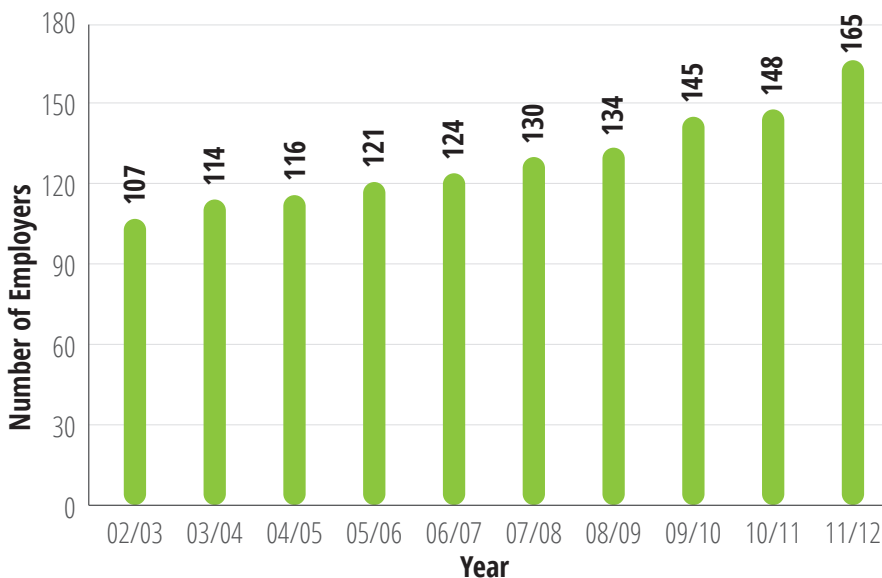
Membership of the Fund



As at 31 March 2012, there were 165 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.

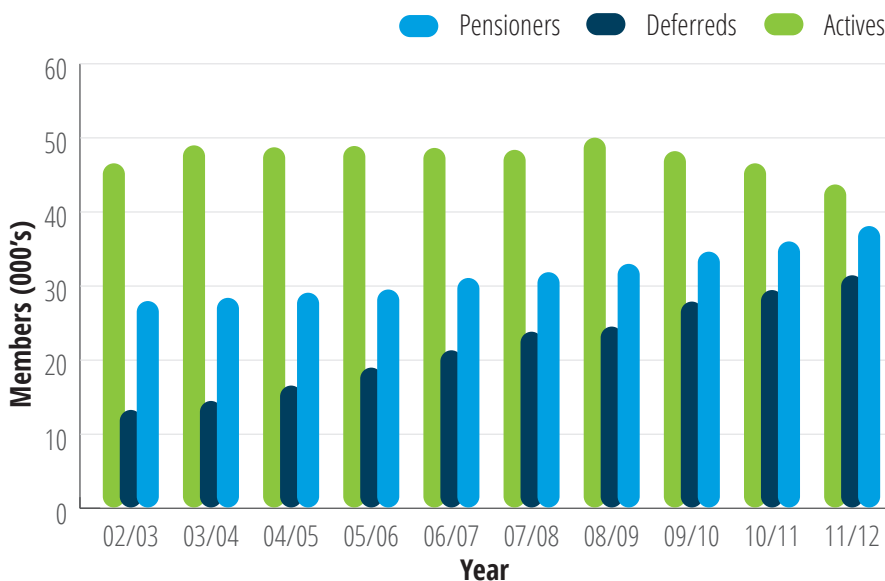
The increase in the number of participating employers over the past ten years is shown right:

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 has also had an impact in the later years.



The Fund had 113,616 members as at 31st March 2012. The chart 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 2012

District Councils	Actives	Deferreds	Pensioners
Gateshead Council	5,780	4,795	6,168
Newcastle City Council	7,592	5,634	8,118
North Tyneside Council	5,314	3,691	4,819
South Tyneside Council	4,250	3,479	4,180
Sunderland City Council	7,509	5,617	6,564
SUB TOTALS	30,445	23,216	29,849

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
Academy 360	50	8	4
Benedict Biscop Church of England Academy	15	0	0
Bexhill and Town End Academies	32	3	0
Cardinal Hume Catholic School	30	0	0
Castle View Academy	40	14	1
City of Sunderland College	300	348	152
Excelsior Academy	68	13	0
Former North East Regional Airport Committee	0	0	17
Former Tyne and Wear County Council	0	51	264
Former Tyne and Wear Residuary Body	0	3	29
Gateshead College	298	228	81
Gateshead Housing Company	301	138	92
Gosforth Federated Academies	67	1	0
Houghton Kepier Sports College Academy	51	2	1
Joseph Swan Academy	49	0	0
Lord Lawson of Beamish Academy	42	0	0
Monkwearmouth College	0	1	5
Newcastle College	852	975	240
Newcastle Education Action Zone	0	2	2
North Tyneside College	0	57	24
Northumberland Magistrates Court	0	37	77
Northumbria Police Authority	1,827	1,201	1,284
Northumbria Probation Trust	564	221	405
Redby Primary Academy	25	0	0
Redhouse Academy	44	5	0
Sacred Heart Catholic High School	37	0	1
South Tyneside College	170	189	190
South Tyneside Education Action Zone	0	1	1

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
South Tyneside Homes	595	127	136
St Cuthberts Catholic High School	29	0	0
St Thomas More Catholic School (Gateshead)	37	0	0
St Thomas More Roman Catholic Academy (N. Tyneside)	53	0	0
Sunderland Education Action Zone	0	0	1
The Intraining Group Limited	1	1	0
Tyne and Wear Fire and Rescue Services	302	157	210
Tyne and Wear Passenger Transport Authority	1	30	92
Tyne Metropolitan College	130	150	39
Tynemouth College	0	23	9
University of Northumbria	1,537	995	781
University of Sunderland	820	653	448
Wearside College	0	4	9
Whickham School and Sports College	58	3	1
Whitburn Church of England Academy	56	0	1
Your Homes Newcastle	713	253	137
SUB TOTALS	9,194	5,894	4,734

Schedule 2 Part 2 Employers	Actives	Deferreds	Pensioners
Birtley Town Council	0	3	3
Blakelaw and North Fenham Parish Council	0	0	0
Blue Square Trading Limited	0	8	4
Care and Support Sunderland	120	0	0
Castle View Community Centre	8	2	0
Charge Your Car Limited	3	0	0
Learning World	0	6	1
Nexus	554	456	1,412
SUB TOTALS	685	475	1,420

Admitted Bodies	Actives	Deferreds	Pensioners
Age Concern Newcastle	23	32	47
Assessment and Qualification Alliance	0	2	12
Association of North East Councils	9	41	10
Balfour Beatty	14	4	5
Balfour Beatty (PB)	10	0	1
Baltic Arts Flour Mills	3	5	1
Benton Grange School	0	0	9
Benwell Young Peoples Development Project	2	1	0
Bovis Lend Lease	0	8	1
Brunswick Young Peoples Project	0	3	0
BT South Tyneside Limited	325	37	49
Bullough Cleaning Services	2	0	0
Carillion Services Limited (Jarrow School)	10	0	1
Carillion Services Limited (Lord Lawson Academy)	3	0	0
Catholic Care North East	0	19	26
CBS Outdoor Limited	0	2	0
Community Action on Health	6	5	0

Admitted Bodies	Actives	Deferreds	Pensioners
Compass Group UK and Ireland	4	0	1
DB Regio Tyne and Wear Limited	453	31	34
Disability North	6	21	8
Gateshead Law Centre	0	12	3
Gentoo Group Limited	1,355	479	425
Hebburn Neighbourhood Advice Centre	1	4	1
Higher Education Funding Council for England	0	1	9
Information North (North Regional Library System)	0	0	3
Insitu Cleaning	8	2	1
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	5	8	0
Kier North Tyneside Limited	353	11	83
Managed Business Space Ltd	1	0	2
Maxim Cleaning Services	1	0	0
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI Limited (Boldon School)	6	2	1
Mitie PFI Limited (North Tyneside)	1	0	0
Morrison Facilities Services Limited 1	41	8	19
Morrison Facilities Services Limited 2	250	28	54
Morse	10	4	0
Museums Libraries and Archives North East	0	18	6
National Car Parks	0	3	3
National Glass Centre	0	2	1
Newcastle Law Centre	5	11	2
Newcastle Family Service Unit	0	1	6
Newcastle Health City Project	9	13	5
Newcastle International Airport	140	276	329
Newcastle Tenants Federation	3	2	2
Newcastle Theatre Royal Trust	49	40	20
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	13	17
North East Regional Employers Association	6	2	8
North Tyneside Child Care Enterprise	1	17	1
North Tyneside City Challenge	0	3	1
North Tyneside Disability Advice	0	0	1
Northern Arts Association	0	28	16
Northern Council for Further Education	0	13	14
Northern Counties School for the Deaf	0	16	23
Northern Grid for Learning	9	1	1
Northumbria Tourist Board	0	20	16

Admitted Bodies	Actives	Deferreds	Pensioners
One North East	0	0	8
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	0	4	2
Passenger Transport Company	0	0	94
Percy Hedley Foundation	24	2	4
Port of Tyne Authority	0	0	3
Praxis Service	2	3	1
Raich Carter Sports Centre	31	26	1
RM Education	4	2	3
Robertson Facilities Management Limited	10	0	1
Robertson Facilities Management Limited (Newcastle Phase 2)	4	0	0
Saint Mary Magdalene and Holy Jesus Trust	7	7	3
Saint Mary the Estate Management Charity	0	0	1
Scolarest (Newcastle Schools)	14	6	6
Scolarest PFI (Baldon School)	2	4	2
Search Project	2	1	2
Simonside Community Centre	1	0	0
Sodexo Limited	11	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	118	174	673
Sunderland City Training and Enterprise Council	0	38	30
Sunderland Empire Theatre Trust	0	4	4
Sunderland Outdoor Activities	0	3	0
Sunderland Streetlighting Limited	21	24	25
Taylor Shaw	8	1	1
The Ozanam House Probation Hostel Committee	18	17	9
Thomas Gaughan Community Association	0	2	0
TT2 Limited	44	18	35
Tyne and Wear Development Company Limited	13	12	6
Tyne and Wear Development Corporation	0	21	28
Tyne and Wear Enterprise Trust	4	15	21
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	39	36
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	0	25	5
Wallsend Citizens Advice Bureau	0	1	2
Wallsend Peoples Centre	1	2	2
Workshops for the Adult Blind	0	11	74
Sub Totals	3,498	1,787	2,419
Grand Totals	43,822	31,372	38,422



Working with Members and Employers

Introduction

The pension service to our 113,616 members and 165 employers is provided by the Pensions Office, which is organised into five teams of experienced officers.

Each employer is allocated to one of 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.

The Communications Team produces Scheme and Fund specific information for members and employers. It manages contact with members, mainly through the Helpline, newsletters and annual benefit statements.

It prepares mailshots and runs meetings for employers. It is also responsible for maintaining the website.

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

Communications Policy Statement

Our vision statement sets out our aim of making pensions issues understandable to all our stakeholders. 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.

Deferred members and employers were surveyed in 2011/12.

We are pleased to say that 98.4% of members who responded were satisfied with the service we provide, as were all the employers who responded.

Services to Members

The main services that we provide to our members are:

- 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 over 37,000 members last year.
- We have a call back service for out of office hours and busy times.

- We welcome personal callers and were visited by over 900 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. Nine events were held in 2011/12 that were attended by over 170 people.
- We provide annual benefit statements for our active and deferred members. Pensioners receive an annual update and details of any pensions increase. These are 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 on our website or on request from our 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.

Making Pensions Accessible to Members

We adopt the principles of plain English in our documents and are pleased to see from our recent survey that 97.1% 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 95.0% of messages in 2011/12.

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. It 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 2011, we were able to provide 99.0% of active members with a complete benefit statement.

We issue benefit statements to every deferred member for whom we hold a current address. About 28,800 statements were sent out in 2011/12.

Combined Pension Forecasts

We can work in partnership with the Department for Work and Pensions 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 main services that we provide to employers are:

- We have a Pensions Administration Strategy that sets out the roles and responsibilities of the Fund and the employers.
- 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 administration and regulatory changes.
- We provide an Employers' Guide to the administration of the Fund. This is available online.
- We offer training courses that aim to educate and inform staff on pensions matters and working procedures.
- We host an annual training event which, in February 2012, included preparation for auto enrolment and an update on the new Scheme. Over 80 people attended.
- 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. In 2008, we upgraded to the latest version of the system and, in 2011, we completed the introduction and integration of the Civica pension payroll system.

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 Pensions Administration Strategy, the Statement of Investment Principles, the Corporate Governance Policy, the Communication Policy Statement and the Service Plan.
- Links to other useful websites.

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 of administration forms.
- The pension records of their employees.
- The ability to carry out pension estimates and calculations.

We have developed an email alert facility to provide news and latest information to employers. Almost all of our mailshots are now sent out electronically. This facility has greatly improved the efficiency of keeping employers informed and allows them to distribute information within their own organisation.

The UPM system is being developed to improve the web access facilities for employers. This has allowed us to expand the interactive nature of the website. We have developed online employer web forms for high volume processes. A successful pilot took place in 2011 and we are rolling the system out to all employers in 2012/13.

Work on online services for members will start in 2012/13. Systems will be introduced to allow members to view their personal record and calculate estimates of their benefits

The UPM system provides for the bulk import and automated processing of data from employers. This reduces the risk of passing incorrect data, provides significant efficiencies in administration and processing and reduces the cost for both employers and the Fund.

We have developed this bulk processing system for high volume areas such as changes to personal data and working hours. This has been piloted with a small number of large employers and can be rolled out to other employers in 2012/13.





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 strategy in place in 2011/12 was based on an asset liability study carried out in 2007/08 using the liability data from the 2007 valuation. Implementation of the strategy was delayed until 2010 due to poor market conditions in 2008 and 2009.

The strategy is comprised of 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure.

Within this strategy, there is a 7.5% allocation to private equity and a 3% overlay that provides exposure to active currency positions.

Review of Investment Strategy

A further asset liability study was undertaken in 2012 that used updated liability information from the 2010 valuation. The outcome was reported to the Committee in 2012/13 and it was concluded that the strategy set out above remains appropriate for the Fund.

Quoted Equities and Bonds

The Fund has appointed eleven external investment managers to its range of quoted equity and bond mandates.

Most of the equity managers were appointed in 2010 when the current investment strategy was implemented.

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 managers and mandates 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

Property

The 12.5% allocation is comprised of 8% to UK direct property and 4.5% to global property.

The UK mandate is managed by Aberdeen Property Investors. This was valued at £359.2 million at the year end, representing 7.5% of the Fund.

The 4.5% allocation to global property is being invested into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments. This programme was valued at £87.0 million, or 1.8% of the Fund, at the year end.

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

Infrastructure

The Fund made its first investment into infrastructure in 2006. Following a review of our approach in 2010, it was decided that the programme will be provided predominately through funds offered by Partners Group. This will allow the Fund to diversify the programme globally and by industry and financing type.

At the year end, the total investment was valued at £82.2 million, representing 1.7% of the Fund. It is intended that this will be built up over the next two years to the target allocation of 2.5%.

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, only two new commitments were made in 2011/12.

As at March 2012, £487.9 million, equal to 10.1% of the Fund, was invested in private equity.

Active Currency

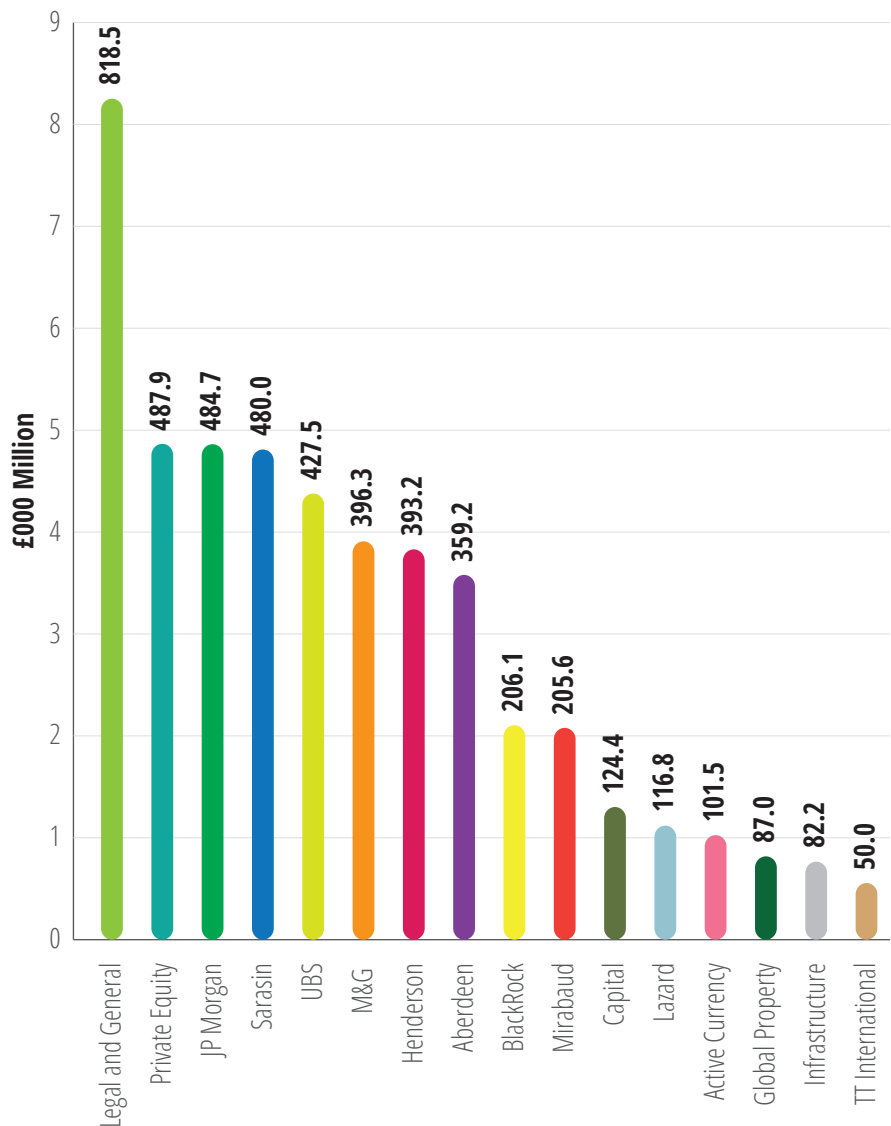
The Fund has allocated 3% to active currency strategies, which is held in four investments.

The Fund reviewed its approach to active currency during 2011/12 and a decision was made to reduce temporarily one of the four investments until market conditions improved for that strategy.

As at March 2012, the value of the investment in active currency was £101.5 million, or 2.1% of the Fund.

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 absolute return target for the infrastructure and global property programmes is being developed as the investments mature.

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

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

Custody

Northern Trust was appointed in 2002 to provide custody services for certain of the Fund's segregated mandates. The remit was then widened from 2005 to cover all segregated assets.

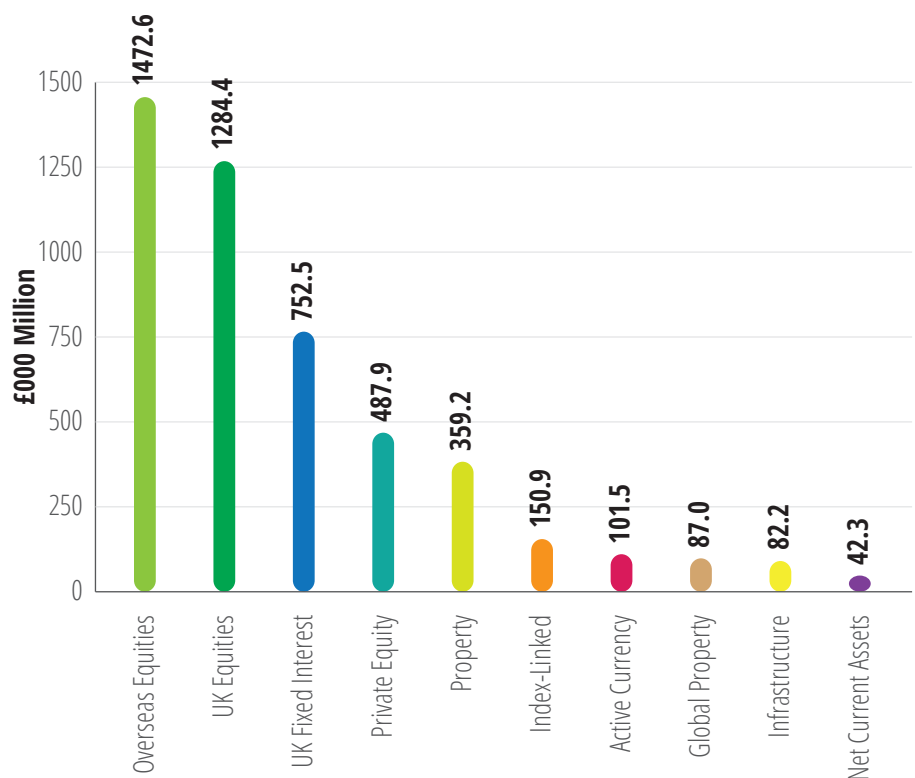
The service has been market tested and benchmarked regularly to ensure that it remains competitive. As at March 2012, Northern Trust was providing custody for approximately £2 billion of assets held in eight mandates.

Asset Allocation

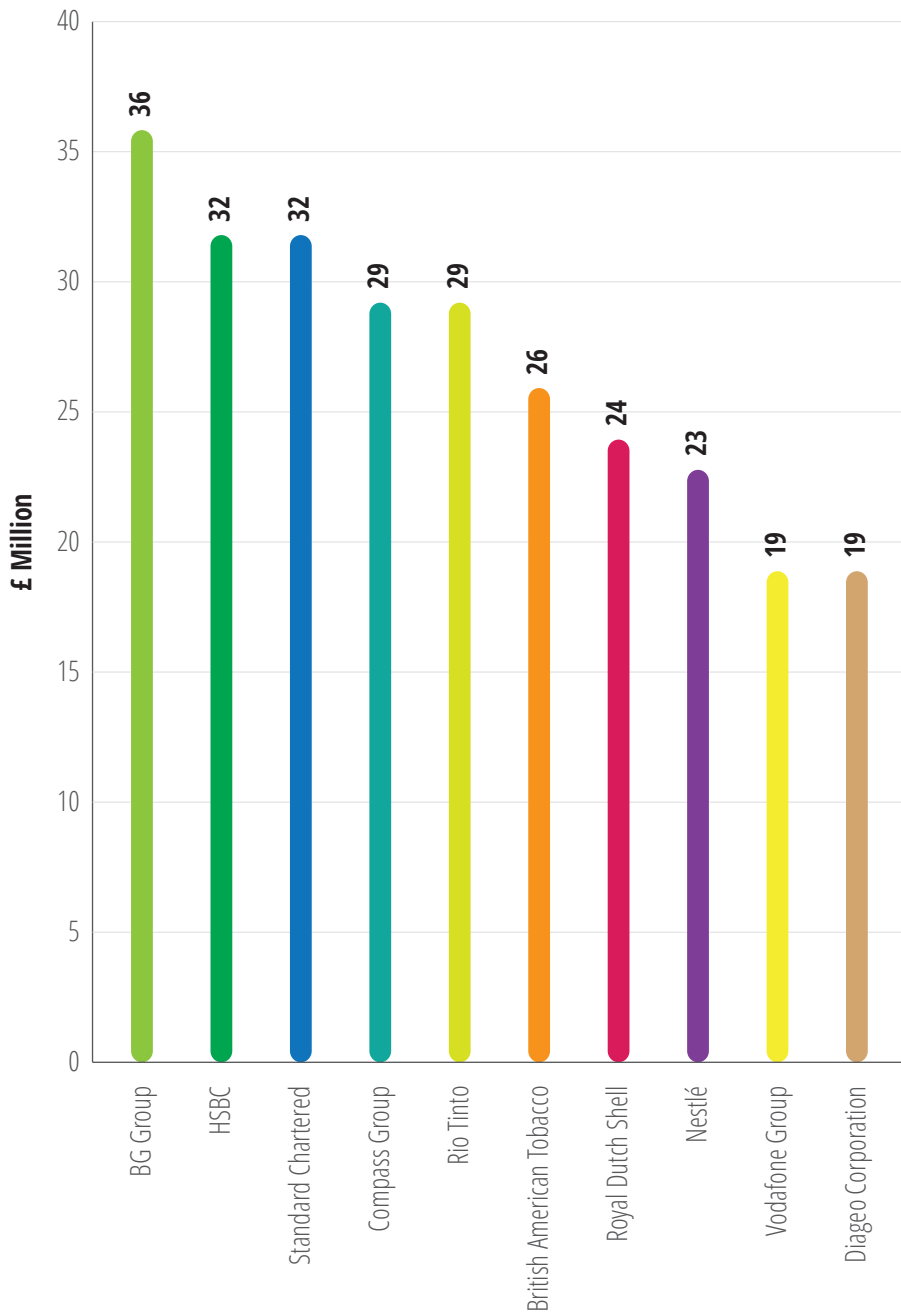
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

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 2012 is shown below:



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.

Market Conditions and Investment Returns for 2011/12

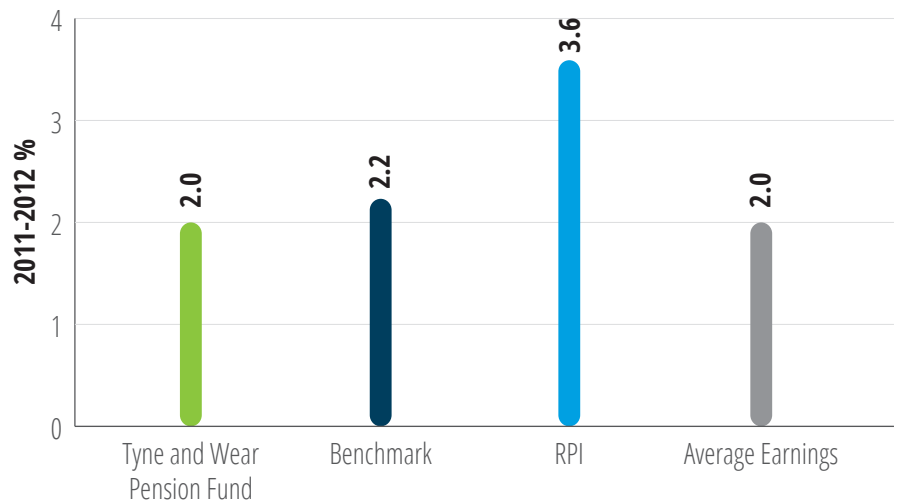
The value of most asset classes rose for the first quarter, but this was followed by a collapse in equity markets and a rise in Gilts from July. This was due to economic concerns in the Eurozone and in the US that led to a flight to safety. Most equity markets began to recover from August.

Index Linked Gilts was the best performing asset class with a return of 21%, followed by Gilts at over 14%.

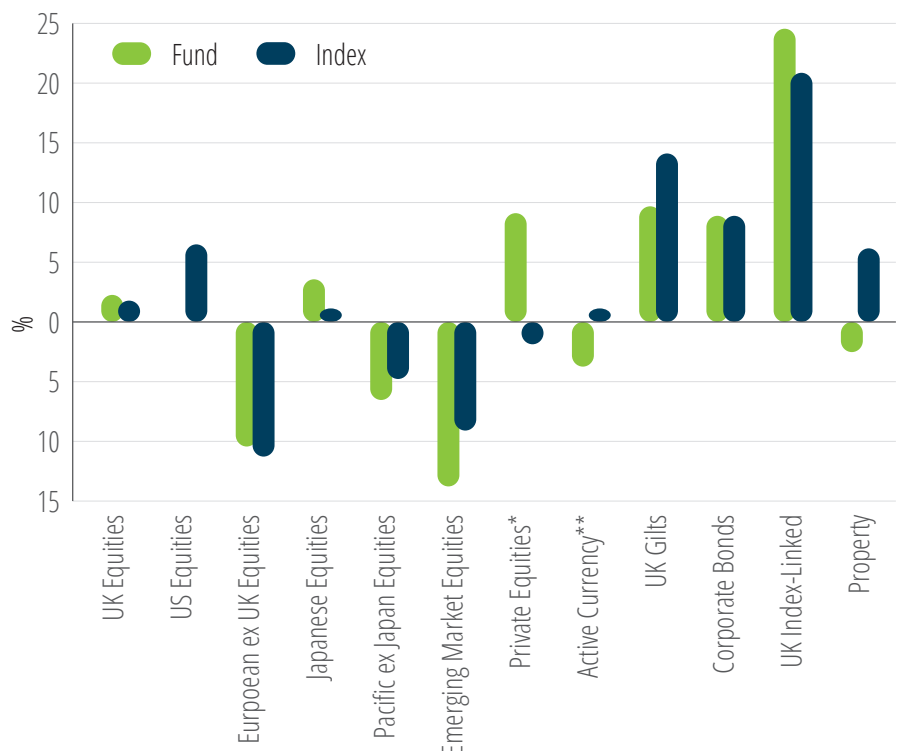
It was a mixed year for the major world equity markets. The best performing were the US and UK, which rose by 7% and 1% respectively. The worst performing were Emerging Markets and Europe ex UK, which fell by 9% and 11% respectively.

UK Property delivered a return of 6%.

The Fund's return in this volatile year was 2.0%, which was 0.2% below its benchmark return of 2.2%. Inflation, as measured by the Retail Price Index, rose by 3.6% and Average Earnings increased by 2.0%.



The chart below shows the Fund's returns over the main investment markets for 2011/12.



* The return for private equity is shown relative to the FTSE All World Index.

** The return for active currency is shown relative to a combination of returns based on the S&P 500 Index, the FTSE 100 Index and cash returns to reflect the underlying benchmarks of the four individual currency funds.

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.

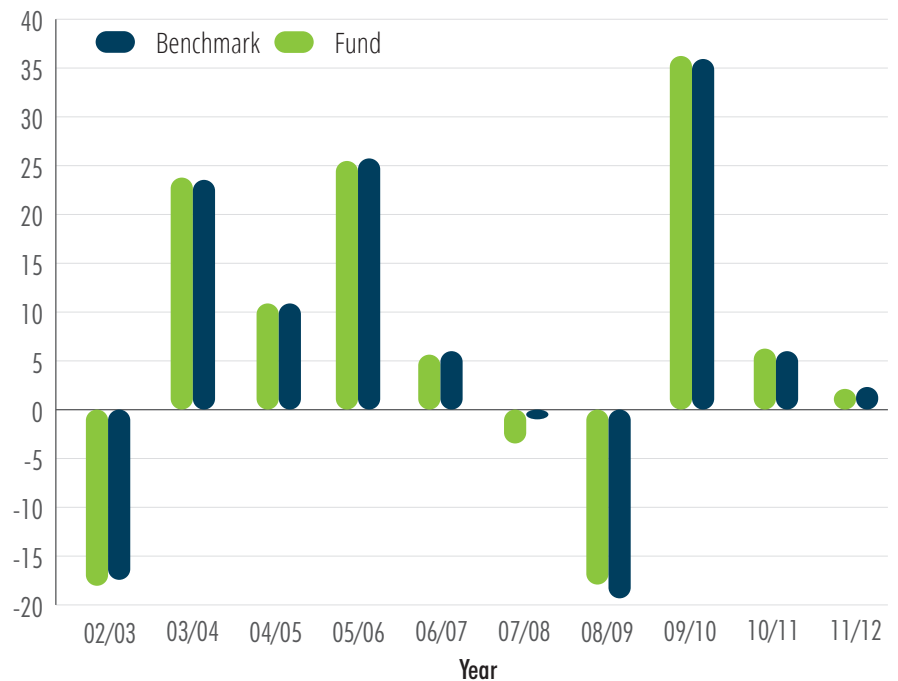
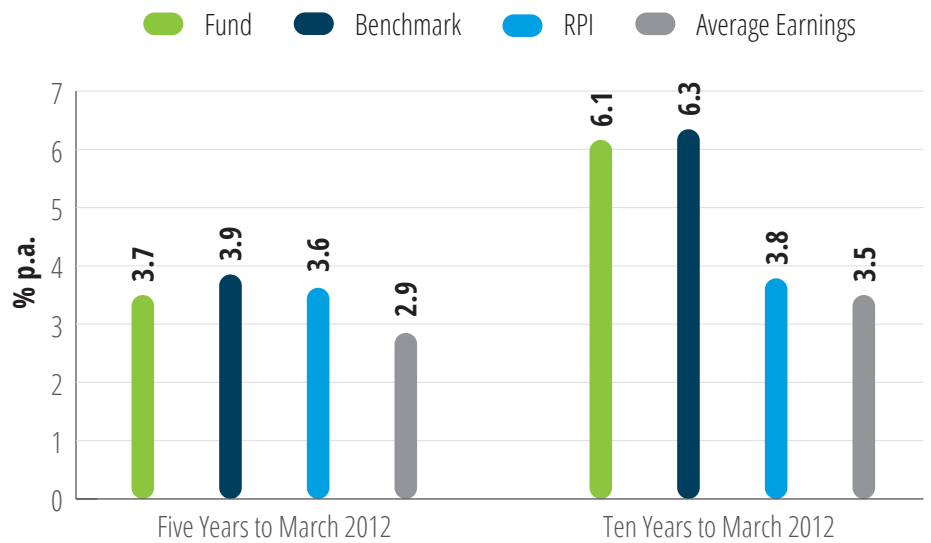
The chart on the right shows the Fund's annual returns over five year and ten year periods against the Retail Price Index and Average Earnings.

The five year return is 3.7% per annum, which is 0.2% below the benchmark return of 3.9% per annum. The ten year return is 6.1% per annum, which is 0.2% below the benchmark return of 6.3% per annum.

The below benchmark returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy.

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

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



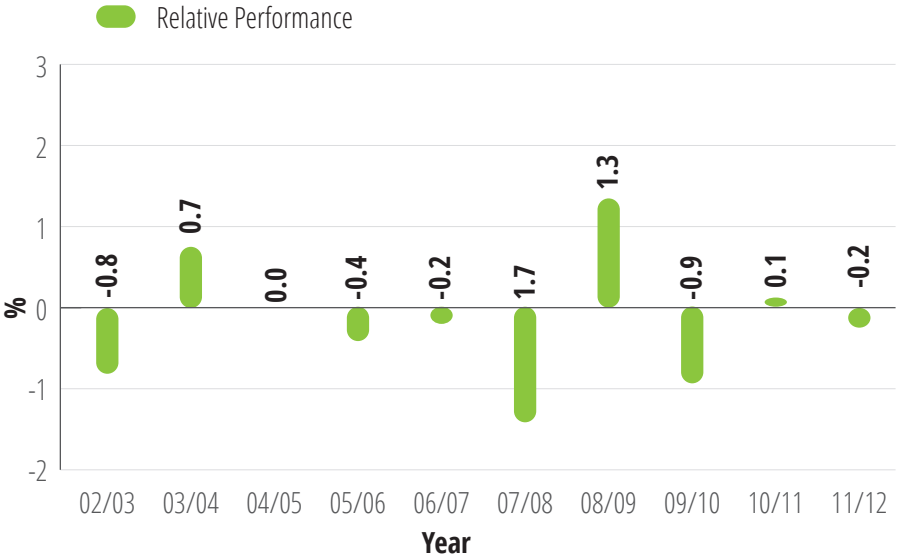
The charts show that the Fund’s relative performance was below benchmark in 2002/03. This was a time when markets were correcting following a period of strong equity market performance.

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

The marginal outperformance in 2010/11 was pleasing in the light of a significant amount of restructuring that took place when the new equity managers were appointed.

The small underperformance in 2011/12 is disappointing, although understandable in the light of the volatile market conditions.





Investment Policies



Investment Principles

In 2008, HM Treasury introduced six Investment Principles that replaced the original ten Principles from the Myners Report in 2001.

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, considered how the Scheme can fit with the new Principles.

The Pensions Panel of the Chartered Institute of Public Finance and Accountancy 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 is keeping 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 has benchmarked its practices and procedures against the guidance and has concluded that the Fund is compliant with the six new Principles. The position is outlined below:

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.



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 latest statement was approved by the Pensions Committee in June 2012.

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 to 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 to 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 to 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 2012/13 is shown below:

	Global	UK Only
Annual general meetings	2,180	709
Extraordinary general meetings	340	151
Resolutions	27,797	11,472
Votes for	23,757	11,164
Votes against	2,986	277
Abstentions	285	31
Vote not cast	769	0

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

A resolution was opposed or there was an abstention on 3,271 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 over the appointment of auditors for various reasons including independence and the period of appointment.

- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights.

The table shows that there were 769 resolutions where votes were not cast.

For 455 of these resolutions, the votes were not cast due to a practice called share-blocking. 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.

A further 142 resolutions were not voted as the country practice requires the holdings to be re-registered prior to voting. Once again shareholders are reluctant to vote due to the time taken to re-register shares which may result in these shares being unavailable for sale.

Those resolutions not voted for share-blocking or re-registration reasons remain subject to review before a decision is taken on whether to vote. It should be noted that these practices do not occur in the UK and are diminishing elsewhere.

A further 166 resolutions that were not voted relate to a single shareholder meeting which contained an unusually large number of resolutions. The investment manager was unable to obtain sufficient information from the company to make an informed decision in the timescale allowed and so decided not to vote.

The final 6 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.

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.



Financial Statements

Fund Account

2010/11 £m		Note	2011/12 £m
	Contributions and Benefits		
(226.422)	Contributions Receivable - Employers	3	(229.272)
(62.652)	Contributions Receivable - Employees	3	(58.324)
(15.721)	Transfers In	4	(10.112)
(304.795)	Total Contributions		(297.708)
194.512	Benefits Payable	5	251.015
15.640	Leavers	6	11.164
2.562	Administrative Expenses	7	2.238
212.714	Total Benefits		264.417
(92.081)	Net Additions from Dealings with Members		(33.291)
	Returns on investments		
(82.265)	Investment Income	8	(93.025)
3.119	Non-Recoverable Tax	8	3.758
(276.823)	Change in Market Value of Investments	9	12.994
8.665	Investment Management Expenses	12	9.824
(347.304)	Net Returns on Investments		(66.449)
(439.385)	Net (Increase) in the Fund during the Year		(99.740)
4,302.337	Net Assets of the Fund at 1st April		4,741.722
4,741.722	Net Assets of the Fund at 31st March		4,841.462

Net Assets Statement

31st March 2011 £m		Note	31st March 2012 £m
4,718.102	Investment Assets	9	4,841.233
(8.815)	Investment Liabilities	9	(10.762)
0	Borrowings	9	(10.000)
44.530	Current Assets	13	36.365
(12.095)	Current Liabilities	13	(15.374)
4,741.722	Net Assets of the Fund at 31st March		4,841.462

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 year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary on pages 21 and 22.

The actuarial present value of promised retirement benefits is disclosed at Note 22 which has been compiled under IAS26 and as such is based on different assumptions.

We certify that the financial statements, along with the notes to the financial statements, for the year ended 31 March 2012 set out in pages 46 to 67, present fairly the financial position of the Tyne and Wear Pension Fund as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

The financial statements were approved by the Pensions Committee at its meeting on 12 September 2012.



Stephen Moore
Head of Pensions
September 2012



Patrick Melia
Corporate Director Business and Area
Management (Section 151 Officer)
September 2012



Councillor Jim Perry
Chair of the Pensions Committee

Notes to the Financial Statements

1. Basis of Preparation

The financial statements follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12..

2. Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which 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 31st March 2012.

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31st March 2012 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 those 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.

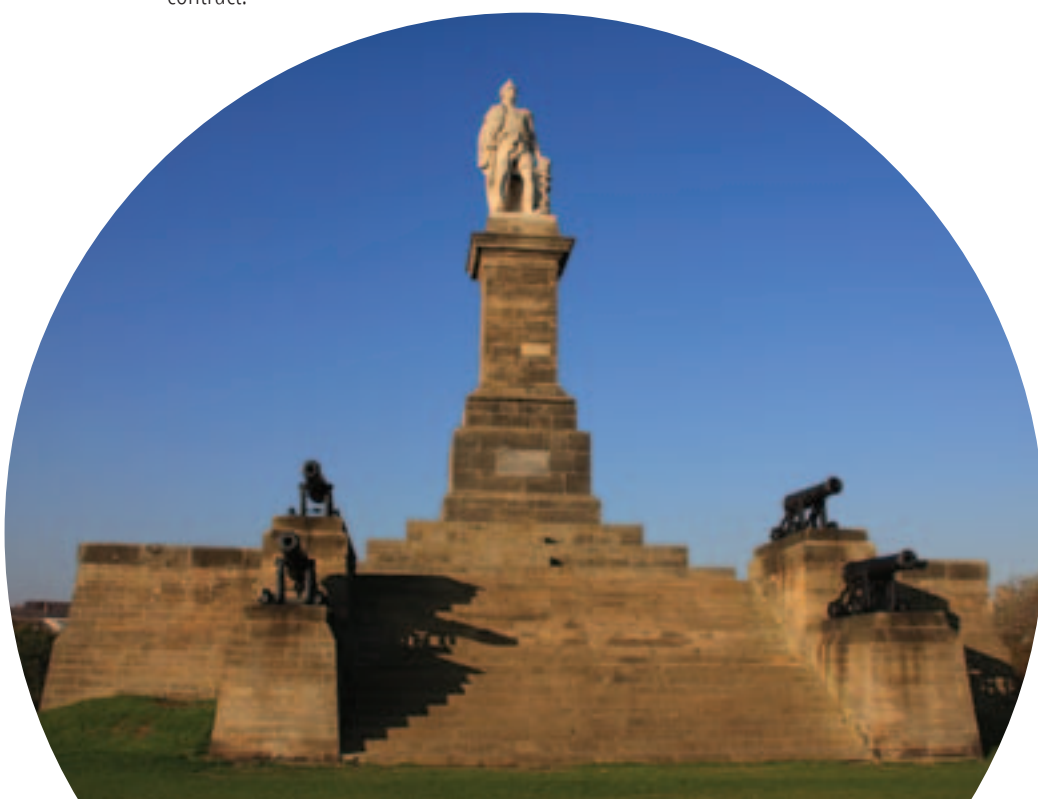
Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2012.

Futures have been valued at fair value. The fair value is the unrealised profit or loss of the current bid or offer price of the contract.

The variation margin is the amount due to or from the broker for this unrealised profit or loss at the period end.

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 31st March 2012.

Properties are shown as valued at 31st March 2012. 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 31st March 2012 have been accrued.

Transaction costs are included in the cost of purchases and in sales 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 31st March 2012.

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 31st March 2012 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2012.

Investment Management Expenses

Investment management expenses payable as at 31st March 2012 have been accrued. Performance related fees, where applicable, have not been accrued at that date, as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2012.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund. 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 31st March 2012 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 Fund. They are accounted for on a receipts/payments basis.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the financial statements of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 20.

3. Contributions Receivable

2010/11 £m		2011/12 £m
	Employers	
(146.404)	Normal	(131.212)
(79.778)	Deficit Funding	(98.060)
(0.240)	Augmentation	0
(226.422)	Sub Total	(229.272)
	Members	
(62.089)	Normal	(57.789)
(0.563)	In-House Additional Voluntary Contributions	(0.535)
(62.652)	Sub Total	(58.324)
(289.074)	Total Contributions Receivable	(287.596)

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

2010/11 £m		2011/12 £m
(25.126)	South Tyneside Council (Administering Authority)	(23.419)
(168.870)	Other Metropolitan Councils	(162.620)
(55.882)	Other Part 1 Scheduled Bodies	(59.107)
(8.905)	Part 2 Scheduled Bodies	(8.640)
(30.291)	Admitted Bodies	(33.810)
(289.074)	Total Contributions Receivable	(287.596)

4. Transfers In

During the year, individual transfers in from other schemes amounted to £10.112m (£15.721m in 2010/11). There were no bulk transfers during 2011/12. In 2010/11, there was one bulk transfer into the fund from Durham County Council Pension Fund for the credit of Newcastle College with a value of £0.520m.

5. Benefits Payable

2010/11 £m		2011/12 £m
161.071	Pensions	178.074
39.374	Commutations and Lump Sum Retirement Benefits	78.278
4.812	Lump Sum Death Benefits	5.508
(10.745)	Recharges out	(10.845)
194.512	Total Benefits Payable	251.015

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

2010/11 £m		2011/12 £m
21.736	South Tyneside Council (Administering Authority)	23.077
121.728	Other Metropolitan Councils	157.292
25.503	Other Part 1 Scheduled Bodies	38.491
7.575	Part 2 Scheduled Bodies	7.081
17.970	Admitted Bodies	25.073
194.512	Total Benefits Payable	251.015

6. Leavers

2010/11 £m		2011/12 £m
15.778	Individual Transfers to Other Schemes	11.143
0.037	Refunds to Members Leaving Service	0.034
(0.175)	State Scheme Premiums	(0.013)
15.640	Total Leavers	11.164

There were no bulk transfers out of the Fund in 2011/12 or 2010/11.

7. Administrative 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:

2010/11 £m		2011/12 £m
1.484	Employee Expenses	1.523
0.489	Support Services Recharge	0.528
0.057	Audit Fees	0.052
0.267	External Computing Costs	0.014
0.080	Printing / Publications	0.077
0.155	Professional Fees	0.027
0.036	Other Expenses	0.037
(0.006)	Income	(0.020)
2.562	Total Administrative Expenses	2.238

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

8. Investment Income

2010/11 £m		2011/12 £m
(1.218)	Fixed Interest Securities	(1.372)
(41.138)	Equities	(54.793)
(0.642)	Index-Linked Securities	(0.475)
(15.071)	Pooled Investment Vehicles	(15.620)
(23.208)	Net Rents from Properties	(19.958)
(0.239)	Cash Deposits	(0.241)
(0.646)	Securities Lending	(0.553)
(0.010)	Commission Recapture	(0.001)
(0.093)	Underwriting Commission	(0.012)
(82.265)	Sub-Total	(93.025)
3.119	Non-Recoverable Tax	3.758
(79.146)	Total Investment Income	(89.267)

9. Investments

31st March 2011 £m		31st March 2012 £m
	Investment Assets	
34.743	Fixed Interest Securities	20.744
2,017.105	Equities	2,118.646
41.241	Index-Linked Securities	36.655
2,242.777	Pooled Investment Vehicles	2,245.571
0	Derivative Contracts	0.943
345.225	Properties	359.185
23.029	Cash Deposits	40.851
13.982	Other Investment Balances	18.638
4,718.102	Total Investment Assets	4,841.233
	Investment Liabilities	
(0.907)	Derivative Contracts	(2.488)
0	Borrowings	(10.000)
(7.908)	Other Investment Balances	(8.274)
(8.815)	Total Investment Liabilities	(20.762)
4,709.287	Net Investment Assets	4,820.471

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.

2011/12					
	Value at 1st April 2011 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2012 £m
Fixed Interest Securities	34.743	196.578	(215.356)	4.779	20.744
Equities	2,017.105	1,150.001	(966.909)	(81.551)	2,118.646
Index-Linked Securities	41.241	212.926	(225.868)	8.356	36.655
Pooled Investment Vehicles	2,242.777	115.206	(195.325)	82.913	2,245.571
Derivative Contracts	(0.907)	6.174	(8.857)	2.045	(1.545)
Properties	345.225	52.469	(9.350)	(29.159)	359.185
Sub-Total	4,680.184	1,733.354	(1,621.665)	(12.617)	4,779.256
Cash Deposits	23.029	18.756	0	(0.934)	40.851
Other Investment Balances	6.074	5.341	(11.608)	0.557	0.364
Total Investments	4,709.287	1,757.451	(1,633.273)	(12.994)	4,820.471

2010/11					
	Value at 1st April 2010 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st 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
Sub-Total	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

31st March 2011 £m		31st March 2012 £m
	Fixed Interest Securities	
33.439	UK Public Sector	20.744
1.304	Overseas Public Sector	0
34.743	Total Fixed Interest Securities	20.744
	Equities	
611.517	UK Quoted	637.780
1,287.676	Overseas Quoted	1,295.023
6.700	UK Unquoted	0
111.212	Overseas Unquoted	185.843
2,017.105	Total Equities	2,118.646
	Index Linked Securities	
41.241	UK Public Sector	36.655
41.241	Total Index-Linked Securities	36.655
	Pooled Investment Vehicles	
93.941	Unit Trusts	54.550
1,130.345	Unitised Insurance Policies	1,157.005
1,018.491	Other Managed Funds	1,034.016
2,242.777	Total Pooled Investment Vehicles	2,245.571
	Derivative Contracts	
(0.907)	Forward Foreign Currency Contracts	(1.545)
(0.907)	Total Derivative Contracts	(1.545)
	Properties	
280.125	Freehold	296.525
65.100	Long Leasehold	62.660
345.225	Total Properties	359.185
	Cash Deposits	
18.065	Sterling	32.396
4.964	Foreign Currency	8.455
23.029	Total Cash Deposits	40.851
	Other Investment Balances	
1.323	Outstanding Trades	5.168
9.178	Outstanding Dividends & Tax Recoveries	10.800
3.481	Debtors	2.670
0	Borrowings	(10.000)
(7.908)	Creditors	(8.274)
6.074	Total Other Investment Balances	0.364
4,709.287	Total Investments	4,820.471

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 £6.221m (£6.016m in 2010/11). 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. Financial Instruments

a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets have been reclassified during the financial year.

31st March 2011				31st March 2012		
Designated as fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m		Designated as fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
			Financial assets			
34.743	0	0	Fixed Interest Securities	20.744	0	0
2,017.105	0	0	Equities	2,118.646	0	0
41.241	0	0	Index-Linked Securities	36.655	0	0
2,242.777	0	0	Pooled Investment Vehicles	2,245.571	0	0
0	0	0	Derivative	0.943	0	0
345.225	0	0	Properties	359.185	0	0
0	23.029	0	Cash Deposits	0	40.851	0
10.501	0	0	Other Investment Balances	15.968	0	0
0	48.011	0	Debtors	0	39.035	0
4,691.592	71.040	0	Total Financial Assets	4,797.712	79.886	0
			Financial Liabilities			
(0.907)	0	0	Derivative Contracts	(2.488)	0	0
0	0	0	Borrowings	0	(10.000)	0
0	0	(20.003)	Creditors	0	0	(23.648)
(0.907)	0	(20.003)	Total Financial Liabilities	(2.488)	(10.000)	(23.648)
4,690.685	71.040	(20.003)	Total Assets	4,795.224	69.886	(23.648)

b) Net gains and losses on financial instruments

31st March 2011 £m		31st March 2012 £m
	Financial Assets	
276.598	Fair value through profit and loss	(12.617)
3.046	Loans and receivables	(0.934)
	Financial Liabilities	
(2.821)	Fair value through profit and loss	0.557
276.823	Total	(12.994)

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values;

31st March 2011			31st March 2012	
Carrying value £m	Fair value £m		Carrying value £m	Fair value £m
		Financial Assets		
3,959.498	4,691.592	Fair value through profit and loss	4,073.986	4,797.712
71.040	71.040	Loans and receivables	78.897	79.886
4,030.538	4,762.632	Total financial assets	4,152.883	4,877.598
		Financial Liabilities		
0	(0.907)	Fair value through profit and loss	0	(2.488)
0	0	Loans and receivables	(10.000)	(10.000)
(20.003)	(20.003)	Financial liabilities at amortised cost	(23.648)	(23.648)
(20.003)	(20.910)	Total financial liabilities	(33.648)	(36.136)
4,010.55	4,741.722	Net Assets	4,119.235	4,841.462

d) Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments are level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level comprise of quoted equities, quoted fixed securities and unit trusts.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where valuation techniques are used to determine fair value and where the techniques use input that are based significantly on observable market data. Assets in this level are comprised of UK Property valued independently by professional valuers.

Level 3

Financial instruments at this level are those where at least one input that could have a significant effect on the value of the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund's private market investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which Tyne and Wear Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March valuation and a 31st December valuation adjusted for cash flows and rolled forward to 31st March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3 at fair value.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £m	Level 2 £m	Level 3 £m	Total
Value at 31 March 2012				
Financial Assets				
Financial assets at fair value through profit and loss	3,776.443	360.128	661.141	4,797.712
Loans and receivables	79.886	0	0	79.886
Total financial assets	3,856.329	360.128	661.141	4,877.598
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(2.488)	0	(2.488)
Borrowings	(10.000)	0	0	(10.000)
Financial liabilities at amortised cost	(23.648)	0	0	(23.648)
Total financial liabilities	(33.648)	(2.488)	0	(35.193)
Net financial assets	3,822.681	357.64	661.141	4,841.462

	Level 1 £m	Level 2 £m	Level 3 £m	Total
Value at 31 March 2011				
Financial Assets				
Financial assets at fair value through profit and loss	3,781.491	345.225	564.876	4,691.592
Loans and receivables	71.040	0	0	71.040
Total financial assets	3,852.531	345.225	564.876	4,762.632
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(0.907)	0	(0.907)
Financial liabilities at amortised cost	(20.003)	0	0	(20.003)
Total financial liabilities	(20.003)	(0.907)	0	(20.910)
Net financial assets	3,832.528	344.318	564.876	4,741.722

11. Nature and extent of risks arising from Financial Instruments

Risk and Risk Management

The Fund's primary long term risk is that the Fund will be unable to meet its liabilities from the assets it holds and therefore be unable to pay the promised benefits to members.

Therefore the aim on investment risk management is to invest in assets of appropriate liquidity to produce income and capital growth that together with employer and employee contributions will meet the cost of benefits.

Responsibility for the Fund's management of risk strategy lies with the Pensions Committee. A summary of the Fund approach to monitoring and controlling these risks is set out in the Fund's Statement of Investment Principles.

Solvency and Mismatching Risk

These risks are controlled by ongoing monitoring of the suitability of the investment policy in the light of the Fund's developing liabilities and finances. Asset liability modelling studies are carried out to assist in setting the policy and strategic asset allocation. These studies examine the Fund's financial position, the profile of its membership, the nature of its liabilities and include an analysis of the expected ranges of outcomes from differing investment policies.

The Fund monitors its ongoing solvency or "funding level" on a quarterly basis through a model provided by its Actuary, Aon Hewitt, called Tracker. The model provides an estimate of the current funding level based on a roll forward of data and assumptions used at the most recent full valuation. This takes account of changes in market pricing and interest rates.

Market Risk

Market risk is the risk of loss caused by changes in the price of the assets invested in.

The strategic asset allocation has been translated into mandates and benchmarks for individual managers that are consistent with the investment policy. The diversification within the strategic asset allocation is designed to control the Fund's exposure to market risk resulting from price movements, interest and foreign exchange rate fluctuations and changes in credit spreads.

The investment policy, the strategic asset allocation and the investment mandates are consistent with the Committee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

A weekly exercise is undertaken to ensure that the Fund is invested in line with its strategic benchmark.

The asset allocation and investment performance is monitored relative to the agreed benchmarks.

The Fund has appointed Portfolio Evaluation as an external risk and performance measurement service provider to assist in the measurement and control of risk at a total Fund and individual manager level.

Manager Risk

Manager risk is that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views relative to their respective benchmarks.

In appointing several investment managers, the Committee has considered the risk of underperformance of any single investment manager.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due and is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Custodian Risk

Custodian risk is controlled through the restrictions set out in the custodian's agreement and through the ongoing monitoring of the custodial arrangements.

Currency and Political Risks

Currency and political risks are controlled through the approach to diversification.

Counterparty Risk

Counterparty risk is controlled through the restrictions followed by the managers and in house with respect to the trading of securities and cash management.

12. 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:

2010/11 £m		2011/12 £m
8.478	Administration, Management and Custody	9.631
0.078	Performance and Risk Measurement Services	0.082
0.109	Other Advisory Fees	0.111
8.665	Total Investment Management Expenses	9.824

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

13. Current Assets and Liabilities

31st March 2011 £m		31st March 2012 £m
	Current Assets	
6.050	Contributions and Recharges Due - Employees	6.503
37.593	Contributions and Recharges Due - Employers	29.573
0.006	HMRC	0.057
0.181	Investment Management Expenses	0.205
0.700	Other	0.027
44.530	Total Current Assets	36.365
	Current Liabilities	
(0.061)	Unpaid Benefits	(6.801)
(0.162)	Contributions, Recharges and Refunds Due - Employers	(0.033)
(1.412)	HMRC	(1.528)
(3.367)	Investment Management Expenses	(4.599)
(7.093)	Other	(2.413)
(12.095)	Total Current Liabilities	(15.374)

14. Additional Voluntary Contributions (AVCs)

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 2011/12, £1.202m of contribution income was received into the AVC funds provided by The Prudential (£1.413m during 2010/11). As at 31st March 2012, these funds were valued at £8.768m (£9.270m as at 31st March 2011).

During 2011/12, £0.002m contribution income was received into the AVC funds operated by Equitable Life (£0.005m during 2010/11). As at 31st March 2012, these funds were valued at £0.241m (£0.365m as at 31st March 2011).

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

15. Analysis of Investments Over Managers

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

31st March 2011		Investment Managers	31st March 2012	
£m	%		£m	%
345.225	7.3	Aberdeen Property Investors	359.185	7.4
175.247	3.7	BlackRock	206.146	4.3
143.281	3.0	Capital International	124.432	2.6
379.649	8.0	Henderson Global Investors	393.185	8.1
470.860	10.0	JP Morgan Asset Management	484.697	10.1
106.003	2.2	Lazard Asset Management	116.847	2.4
807.614	17.1	Legal and General Investment Management	818.461	17.0
402.876	8.6	M&G	396.325	8.2
176.746	3.8	Mirabaud Investment Management	205.568	4.3
483.492	10.3	Sarasin & Partners	479.969	10.0
55.375	1.2	TT International	50.008	1.0
455.547	9.7	UBS Global Asset Management	427.529	8.9
142.587	3.0	Active Currency	101.544	2.1
469.430	10.0	Private Equity	487.918	10.1
50.574	1.1	Infrastructure	82.204	1.7
40.874	0.9	Global Property	87.045	1.8
3.907	0.1	Managed In-House	(0.592)	0.0
4,709.287	100.0	Total Investments	4,820.471	100.0

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2012, the Fund had £933,745 outstanding with the company through a position held within an active currency fund. The full amount is included in the Active Currency line above. The level of recovery remains uncertain at the time of compiling the Accounts.

16. 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.

17. Derivatives

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

Futures

The Fund did not hold any Futures contracts as at 31st March 2012 and 31st March 2011.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2012, the Fund held fourteen positions in foreign currency that together showed an unrealised loss of £1.545m, as shown in the table below:

Type of Forward Foreign Currency Contracts				
Settlement	Type of Contract	Currency bought	Currency sold	Market Value £'m
Three Month	Over the Counter	Sterling	Euro	(0.072)
Three Month	Over the Counter	Sterling	Swiss Franc	(0.119)
Three Month	Over the Counter	Australian Dollar	Sterling	(0.317)
Three Month	Over the Counter	Canadian Dollar	Sterling	(0.210)
Three Month	Over the Counter	Singapore Dollar	Sterling	(0.029)
Three Month	Over the Counter	Euro	Sterling	(0.006)
Three Month	Over the Counter	Yen	Sterling	(0.226)
Three Month	Over the Counter	US Dollar	Sterling	(1.509)
Loss/Liability Value as at 31st March 2012				(2.488)
Three Month	Over the Counter	Sterling	Hong Kong Dollar	0.432
Three Month	Over the Counter	Sterling	Yen	0.107
Three Month	Over the Counter	Sterling	US Dollar	0.362
Three Month	Over the Counter	Swiss Franc	Sterling	0.002
Three Month	Over the Counter	Norwegian Krone	Sterling	0.029
Three Month	Over the Counter	Swedish Krona	Sterling	0.011
Profit/Asset Value as at 31st March 2012				0.943
Net Forward Currency Contracts at 31st March 2012				(1.545)

These were settled at a loss of £1.309m early in the 2012/13 financial year.

18. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £138.461m were out on loan as at 31st March 2012, against collateral of £152.487m. The breakdown of securities on loan was:

31st March 2011 £m		31st March 2012 £m
8.740	Fixed Interest Securities	16.097
5.058	Index-Linked Securities	0
18.434	UK Equities	49.447
33.670	Overseas Equities	72.917
65.902	Total Securities Lending	138.461

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

31st March 2011 £m		31st March 2012 £m
1.736	Cash	1.317
55.255	Fixed Interest	81.858
3.062	Index-Linked	6.692
10.993	Equities	62.620
71.046	Total Collateral	152.487

19. Significant Holdings

As at 31st March 2012, 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 31st March 2012, this was valued at £818.461m and represented 17.0% of the total net assets of the Fund. During 2011/12 the insurance contract was limited to four individual funds, each representing a different asset class, as follows:

31st March 2011 £m		31st March 2012 £m
641.414	UK Equities	651.083
22.067	European ex UK Equities	19.580
49.818	North America Equities	33.560
94.315	Index-Linked Gilts	114.238
807.614	Total	818.461

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2012, this was valued at £338.543m (£322.731m as at 31st March 2011) and represented 7.0% of the total net assets of the Fund.

20. Outstanding Commitments

As at 31st March 2012 the Fund had thirty-six outstanding commitments to investments, these are shown below:

Name of Fund	Year	Value m	Draw downs Made m	Commitment Outstanding m	
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$52.3	\$2.7	£1.7
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$40.3	\$5.7	£3.6
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$7.1	\$0.9	£0.6
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$25.3	\$2.7	£1.7
HarbourVest Partners 2004 Direct Fund	2004	\$30.0	\$29.6	\$0.4	£0.3
Capital International Private Equity Fund IV	2004	\$18.0	\$17.5	\$0.5	£0.3
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 79.5	€ 20.5	£17.1
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.3	€ 1.7	£1.4
Pantheon Asia Fund IV	2005	\$20.0	\$14.4	\$5.6	£3.5
Pantheon Europe Fund IV	2005	€ 25.0	€ 20.6	€ 4.4	£3.7
Pantheon USA Fund VI	2005	\$30.0	\$24.9	\$5.1	£3.2
Lexington Capital Partners VI-B	2005	\$30.0	\$28.1	\$1.9	£1.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$71.4	\$40.6	£25.4
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$41.7	\$14.3	£9.0
Pantheon Europe Fund V	2006	€ 35.0	€ 23.8	€ 11.2	£9.3
Pantheon USA Fund VII	2006	\$35.0	\$23.0	\$12.0	£7.5
Coller International Partners V	2006	\$30.0	\$23.2	\$6.8	£4.3
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$25.2	\$4.8	£3.0
Pantheon Asia Fund V	2007	\$20.0	\$12.7	\$7.3	£4.6
Pantheon Europe Fund VI	2007	€ 40.0	€ 18.8	€ 21.2	£17.7
Pantheon USA Fund VIII	2007	\$35.0	\$17.7	\$17.3	£10.8
Capital International Private Equity Fund V	2007	\$35.0	\$28.4	\$6.6	£4.1
Co-Investment Partners Europe	2007	€ 30.0	€ 23.9	€ 6.1	£5.1
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 27.9	€ 2.1	£1.8
Infracapital	2007	£35.0	£31.2	£3.8	£3.8
Capital International Private Equity Fund VI	2010	\$35.0	\$3.9	\$31.1	£19.5
Lexington Capital Partners VII	2010	\$30.0	\$11.8	\$18.2	£11.4
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	\$40.0	\$20.6	\$19.4	£12.1
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 26.0	€ 34.0	£28.3
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 38.4	€ 106.6	£88.8
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 34.6	€ 35.4	£29.5
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 17.8	€ 67.2	£56.0
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	\$100.0	\$22.3	\$77.7	£48.6
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	\$65.0	\$5.8	\$59.2	£37.1
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 7.3	€ 42.7	£35.6
Coller International Partners VI	2012	\$45.0	\$0.0	\$45.0	£28.2
Total Outstanding Commitments					£539.6

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2012.

21. 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 2011/12 two employers within the fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.781m, split as follows:

- South Tyneside Council charged the Fund £0.408m (£0.401m in 2010/11) in respect of services provided, being primarily legal and building costs.
- The Fund charged South Tyneside Council £0.051m (£0.050m in 2010/11) in respect of Treasury Management services.
- BT South Tyneside Limited charged the fund £0.322m (£0.312m in 2010/11) 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.

22. 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.

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.

	31st 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 Actuary 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 Amounts (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

31st 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 accounting statement included in the pension fund annual report of the Tyne and Wear Pension Fund (administered by South Tyneside Council) for the year ended 31 March 2012 which comprise 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 2011/12.

Respective responsibilities of the Responsible Finance Officer and the auditor

The Responsible Financial Officer is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission 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 – Local Government, 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 2011/12, of the financial transactions of the pension fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

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
28th September 2012

Notes:

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.

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**



**Web:
www.twpf.info**



**Email:
pensions@twpf.info**



Walk in Service

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.

**Sat Nav
NE31 2SW**