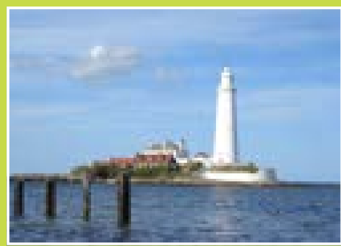
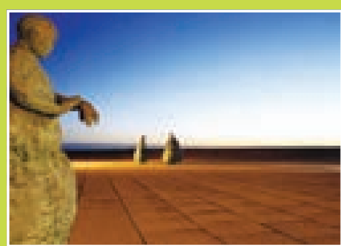
TYNE AND WEAR PENSION FUND

Annual Report and Accounts 2012/13

Administered by South Tyneside Council





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MEMBERS OF PENSIONS COMMITTEE, ADVISORS, OFFICERS

COMMITTEE MEMBERS

South Tyneside Council

Councillor J. Perry (Chair)

Councillor A. Donaldson (Vice Chair)

Councillor J. Branley

Councillor M. Butler

Councillor M. Cartwright

Councillor P. Hay

Councillor B. Watters

Councillor A. West

Gateshead Council

Councillor B. Goldsworthy

(substitute – Councillor G. Haley)

Newcastle City Council

Councillor G. Bell

North Tyneside Council

Councillor D. Sarin

(substitute – Councillor J. Wallace)

Sunderland City Council

Councillor T. Wright

(substitute – Councillor P. Gibson)

Trades Union Representatives

C. Nobbs – UNISON

W. Flynn – UCATT

S. Forster – UNISON

Employers' Representative

J. Bilcliff – Northumbria Probation

G. Foster – Northumbria University

R. Turnbull – 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

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

PROPERTY

UK Property

Aberdeen Property Investors

Global Property

Partners Group

PRIVATE EQUITY

Capital International

Coller Capital

HarbourVest Partners

Lexington Partners

Pantheon Ventures

Partners Group

INFRASTRUCTURE

Henderson Equity Partners

M&G Investments

Partners Group

ACTIVE CURRENCY

BlackRock Investment Management

Investec Asset Management

Millennium Global Investments

Record Currency Management

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Prudential Assurance Company

Equitable Life Assurance Society

REVIEW OF THE YEAR

We are pleased to present the 2012/13 Report and Accounts for the Tyne and Wear Pension Fund.

Progress has been made on the preparations for the new Scheme which will start in April 2014. This 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 benefits 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.

The Department for Communities and Local Government (CLG) has issued a set of consultation papers and draft regulations. However, there is a concern that the Regulations were not available earlier in their final form to provide administering authorities and employers adequate time to proceed with their preparations.

We are participating in working groups set up by the Local Government Association to develop the communication strategy and other material for the new Scheme. We are also working with our software provider to seek to ensure that our new systems will be available in a timely manner.

A separate consultation is being run on the future governance arrangements for the new Scheme. These will reflect the requirements of the Public Service Pensions Act 2013.

CLG has also issued a call for evidence on the future number and geographical set up of administering authorities and may proceed to consider the optimal size of pension funds.

The contributions paid by employers in 2012/13 were set by the 2010 valuation where the reported funding level was 79%, the same as at the 2007 valuation. 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.

We are in the process of carrying out the 2013 valuation, which will lead to revised employer contribution rates being set from 1st April 2014. Our ongoing monitoring of experience shows that the overall inter-valuation experience has been poor, largely due to the fall in the real (net of inflation) gilt rates that have been used to set the discount rates that value the pension liabilities.

The Committee recognises that it will be difficult to produce an affordable result for employers without adopting a less prudent approach to the 2013 valuation and will be reviewing the strategy. This valuation will include the impact of the new Scheme, which is expected to have a small, positive impact on the outcome.

The Committee and officers will liaise with employers through the valuation process.

With regard to the Fund's investment strategy and structure, the strategy in place in 2012/13 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.

Reviews were carried out on several of the Fund's mandates in 2012/13.

The Fund reviewed the approach to investment in UK property and a restructuring of the portfolio has commenced.

A review was carried out on the emerging markets equity mandate and changes to the arrangements will be implemented in 2013/14.

A number of changes were made to the fixed interest investments, largely in the light of concerns over the value of government bonds. Arrangements were made to switch an investment in a UK gilt based fund into a total return bond fund and to partially switch a UK index-linked investment into emerging markets bonds, denominated in local currencies. Also, a review of funding strategy led the Fund to begin de-risking by backing orphan pension liabilities with index- linked gilts.

In addition, we have continued to develop the private equity, global property and infrastructure programmes.

The value of all the main asset classes rose during the year. The main equity markets delivered strong performance, led by the US at 19.3% and pacific ex Japan at 18.1%. Corporate bonds returned 12.0% and UK index-linked returned 11.7%.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 16.8%.

The Fund's return in this year was 12.2%, which was 1.5% below its benchmark return of 13.7%. Inflation, as measured by the Retail Price Index, rose by 2.6% and Average Earnings increased by 0.6%.

The below benchmark return is attributable to two factors. Firstly, the performance of the UK Property mandate is materially below benchmark due to the return prospects of a number of properties having been impaired by the economic climate. Secondly, the relative return from the private equity programme is below benchmark due to the valuation methodology used for private equity. This methodology leads to very conservative valuations, meaning that the reported figures can materially lag the returns for quoted investments at times of strong market performance. At times of weak quoted investment performance, private equity tends to show strong relative performance. Detailed discussions have been held with the managers and they believe that their funds are delivering good, long term performance.

On a more encouraging note, the relative returns from the active equity managers were mostly positive, whilst the active bonds managers delivered respectable returns. In addition, the returns from the passive strategies were satisfactory.

The five year return is 6.8% per annum, which is 0.2% below the benchmark return of 7.0% per annum. The ten year return is 9.4% per annum, which is 0.3% below the benchmark return of 9.7% 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. As noted above, poor performance from the UK property portfolio has also detracted from returns.

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

The Fund has continued to improve the administration of pensions. We have helped our employers prepare for auto enrolment by providing guidance and training and have reviewed our pension data against the Pension Regulator's Common Data Standard to ensure compliance.

For a number of years, the Fund has been warning members of the risk of Pension Liberation Fraud and we are now working alongside the Pensions Regulator's high profile campaign to combat such fraud. Our processing practices and documentation have been reviewed to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund.

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. Work on online services for employers will continue in 2013/14 to allow for more data to be transferred electronically. A system will be introduced to allow members to view their personal record and calculate estimates of their benefits.

We seek the views of members and employers to help us to deliver a service that suits their needs. We surveyed our active and retired members and employers in 2012/13. We are pleased to say that 97.2% of members who responded were satisfied with the service we provide, as were all the employers who responded.

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 the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund.
- 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 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 2013 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. This 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 as 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 2012/13 covered topics such as:

- The duties and responsibilities of Committee Members.
- Scheme benefits and the future of the Scheme.
- Funding Strategy, with a focus on preparing for the 2013 valuation.
- The global economic outlook.
- The modelling and design of the investment management structure and mandates.
- The asset classes that the Fund invests in.
- Corporate Governance.
- Detailed work on the Fund's UK Property Programme and on investment in Bonds.

The programme for 2013/14 will include:

- Service planning and budgeting.
- The content and implementation of the new Scheme.
- Funding Strategy and the 2013 valuation.
- The global economic outlook.
- Asset Liability Modelling.
- The asset classes that the Fund invests in.
- Corporate Governance.
- Further, detailed work on the Fund's UK Property Programme.
- Risk Management.

OFFICER TRAINING

The Pensions Service participates in South Tyneside Council's approach to officer training and development, which is the Employee Performance Management system.

The main objectives of Employee Performance Management are to:

- Improve individual performance by ensuring that all staff understand what they are expected to deliver and what support is available to help them do this.
- Improve organisational performance by ensuring that all staff have individual objectives linked to service plans, priorities and our overall vision.
- Expand and develop skills and capabilities by identifying and supporting the development of individuals, teams and the organisation as a whole, enabling staff to make more effective contributions.
- Give recognition by investing time in each member of staff providing support and giving feedback on their contribution.
- Develop and identify talent to grow the managers and leaders of the future.

The requirement for pension specific training has been addressed through the adoption of the Pensions Panel Framework for Pensions Practitioners.

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 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 2012/13, WE HAVE:

- 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. This work has included implementing an approach to de-risking the Fund by backing orphan pension liabilities with index-linked gilts.
- Undertaken a review of the ill health provision.
- Issued guidance and delivered training on auto enrolment.
- Reviewed our pension data against the Pension Regulator's Common Data Standard and ensured compliance.
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers.
- Carried out modelling on the strategic investment benchmark and investment management structure to ensure that the Fund has an optimal allocation between growth assets, such as equities, and low risk assets such as government bonds.
- Implemented changes to investment in fixed interest.
- Reviewed the approach to investment in emerging market equities. The outcome of this work is being implemented in 2013/14.
- Reviewed the approach to investment in UK property and commenced a restructuring of the portfolio of properties.
- Continued to develop the private equity, global property and infrastructure programmes.

LEGAL FRAMEWORK

INTRODUCTION

The Department for 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 describe how rights accrue and how benefits are calculated with effect from 1st April 2008.

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

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

The main provisions of the Scheme are:

- Tiered employee contribution rates.
- A final salary pension based on 1/60th of salary for each year of pensionable service.
- Pensions are 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 local government unions on how reform of the Scheme should be taken forward.

MEMBER BENEFITS AND ADMINISTRATION

The Department for Communities and Local Government (CLG) has issued a set of consultation papers which include draft regulations that cover the benefits, membership and contributions elements of the new Scheme, together with the general administrative provisions. They also describe how earlier service and entitlements accrued in the current Scheme are to be dealt with. The draft regulations follow the agreed principles for the design of the new Scheme, which are:

- A single change, with implementation of the new Scheme from April 2014.
- The Scheme will be a career average scheme. It has since been agreed that it will have an accrual rate of 49ths and will be revalued in line with increases in the Consumer Price Index.
- New provisions to encourage retention of existing membership and to encourage new membership. A "50/50" option is proposed, where the member can elect to pay half the member contribution rate for half the accrual rate.
- 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. It is proposed that the Normal Pension Age will be the member's State Pension Age.
- A series of protections for existing members will be included. It is proposed that pre April 2014 benefits will be protected by retaining a final salary calculation and using the current Scheme's retirement age. There will also be an underpin guarantee arrangement for members aged 55 or over at April 2012.
- Continuation of the current Admitted Body Status arrangements.
- 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.

A consultation has also been initiated on the future participation of Councillors in the Local Government Pension Scheme.

MANAGEMENT AND GOVERNANCE

Immediately prior to the time of writing, CLG has issued a discussion paper on the governance arrangements for the new Scheme. This paper reflects the requirements of the Public Service Pensions Act 2013, which sets out four distinct roles to be performed within each scheme. These are:

- The Responsible Authority
- The national Scheme Advisory Board
- The Scheme Manager
- The Pension Board.

CLG will undertake the role of the Responsible Authority and will be responsible for policy and the making of regulations.

There will be a national Scheme Advisory Board to advise CLG on regulatory changes that it considers appropriate.

The Scheme Manager role is "to be the person responsible for managing or administering" the scheme and any other statutory scheme connected with it. It is proposed that this role will be taken by the administering authority for both funds.

It is also proposed that there will be a Pension Board for each Fund that will be tasked with assisting the administering authority in securing compliance with regulations, other legislation and the requirements of the Pensions Regulator.

Draft regulations covering the proposals outlined in the discussion paper and other aspects of the management and governance of the new Scheme are awaited. It is understood that these draft regulations will follow the management and governance principles that have already been agreed.

These 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.

POSSIBLE REFORM TO ADMINISTERING AUTHORITIES AND PENSION FUNDS

CLG has issued a call for evidence on the future number and geographical set up of administering authorities and may proceed to consider the optimal size of pension funds.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

INTRODUCTION

Whilst the Scheme provides a good benefits package, it is normally possible to increase benefits.

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 month into an AVC plan. These contributions must be deducted from pay. Tax relief may apply.

THE PRUDENTIAL

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

Regular meetings are held with The Prudential to discuss the running of the plan.

The Prudential works with the Fund's employers to provide educational seminars to members.

The Fund carries out an annual review of the AVC provision. The 2012 review was undertaken in October 2012 with the assistance of Hymans Robertson.

The review considered the new charging structure introduced by Prudential in August 2012. It was decided that the Fund would monitor the reaction and charges of other providers.

It was concluded from the 2012 review that The Prudential should remain as the sole provider for now.

The Fund has reviewed its position on with-profits investment. This option was closed to new investors following the 2006 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 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 small number of members who have with–profits investments have remained with Equitable Life. This is because it was believed not to be in the individual member's best interests to transfer, as the withdrawal penalty applied on transfer may not be made up by future investment returns.

The position of these members was re-examined in 2006. 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 £775 million 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 was 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. Group scheme members will be dealt with nearer to the end of this period due to the complexity of retrieving contact information.

The Fund is working with Equitable Life to provide contact details that will enable the Payment Scheme to contact members who may be entitled to compensation.

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 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 2012/13 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.

THE 2013 VALUATION

The Scheme Regulations require administering authorities to carry out an actuarial valuation of their fund every third year. A valuation is being carried out as at 31st March 2013, which will lead to revised employer contribution rates being set from 1st April 2014.

This valuation will include the impact of the new "Career Average Revalued Earnings" (CARE) Scheme, which commences on 1st April 2014.

The Pensions Committee monitors the experience of the Fund through the inter-valuation period. The overall experience has been poor, largely due to the fall in the real (net of inflation) gilt rates that have previously been used to set the discount rates that value the pension liabilities.

The monitoring has shown that a straightforward application of the strategy from the 2010 valuation at the 2013 valuation would lead to a fall in the funding level from 79% to 76%, alongside large increases in employers' contributions. The position would be worse for employers with a weaker covenant.

The Committee recognises that it will be difficult to produce an affordable result for employers without adopting a less prudent approach to the 2013 valuation and will be reviewing the strategy.

Discussions are taking place with the Actuary to review the assumptions that will be used. This may include adopting an alternative approach to the derivation of the discount rate. This would involve setting the rate by taking into account the return on the assets actually held by the Fund, rather than by reference to the yield on gilts.

The introduction of the new Scheme is expected to have a small, positive impact on the outcome.

The Committee and officers will liaise with employers through the valuation process.

STATEMENT OF THE ACTUARY AS AT 31 MARCH 2013

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 (as amended).

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. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
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. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
8. Annual reviews to monitor the level of ill health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. Since the actuarial valuation as at 31 March 2010 two such reviews have been carried out with effective dates of 31 March 2011 and 31 March 2012. A revised Rates and Adjustments Certificate was signed on 10 December 2012.
9. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013 preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.

10. This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. 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, the Administering Authority of the Fund, in respect of this statement.

11. The report on the actuarial valuation as at 31 March 2010 is available on the Fund's website at the following address: www.twpf.info

Aon Hewitt Limited

30 May 2013

MEMBERSHIP OF THE FUND

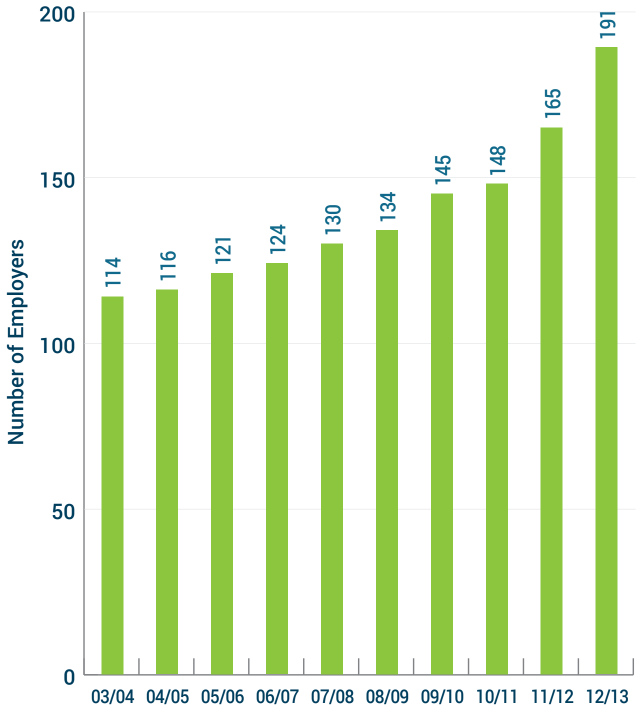
As at 31st March 2013, there were 191 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area.

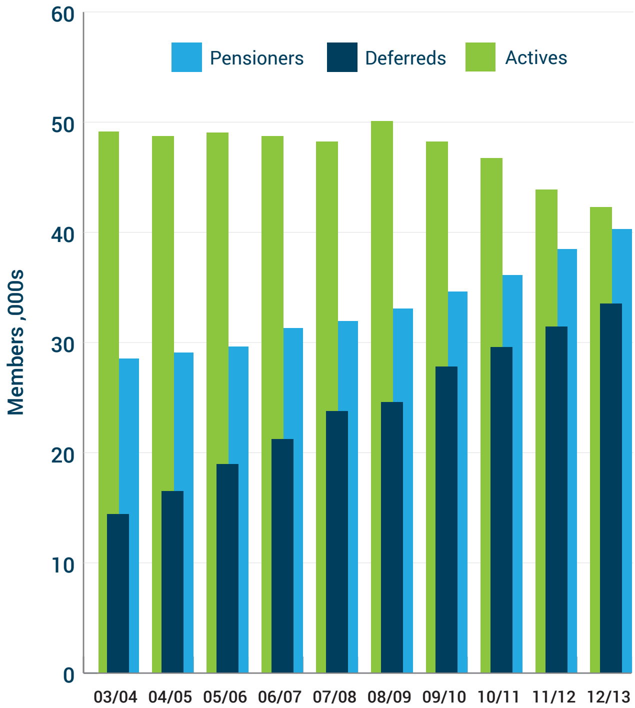
The increase in the number of participating employers over the past ten years is shown in the chart below.

The increase was initially caused by the five councils outsourcing work to contractors that take up admitted body status in the Fund. More recently, the increase has been driven by schools converting to academy status and seeking to take up scheduled body status in the Fund.

The Fund had 115,892 members as at 31st March 2013. 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 has since seen 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 2013

District Councils	Actives	Deferreds	Pensioners
Gateshead Council	5,484	5,001	6,326
Newcastle City Council	7,256	5,865	8,402
North Tyneside Council	4,733	3,912	5,031
South Tyneside Council	3,964	3,919	4,327
Sunderland City Council	6,608	5,964	6,964
Sub Totals	**28,045**	**24,661**	**31,050**

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
Academy 360	49	11	5
Benedict Biscop Church of England Academy	17	1	0
Cardinal Hume Catholic School	34	2	0
Castle View Enterprise Academy	50	15	1
City of Sunderland College	287	357	166
East Herrington Primary Academy	31	1	1
Eppleton Academy Primary School	10	0	1
Former North East Regional Airport Committee	0	0	15
Former Tyne and Wear County Council	0	43	263
Former Tyne and Wear Residuary Body	0	3	29
Fulwell Infant School Academy	20	0	0
Gateshead College	335	268	91
Gateshead Housing Company	286	156	96
Gosforth Federated Academies Limited	80	13	2
Grasmere Academy	14	0	0
Grindon Hall Christian School	9	0	0
Holley Park Academy	15	1	0
Houghton Kepier Sports College Academy Trust	53	4	1
Inspire Multi Academy Trust	16	0	0
Joseph Swan Academy	55	8	0
Kenton School Newcastle	111	4	0
Kibblesworth Academy	19	0	0
Lord Lawson of Beamish Academy	44	4	1
Monkton Infants School	6	0	0
Monkton Junior School	5	0	0
Monkwearmouth College	0	1	5
Newcastle College	887	1,107	266
Newcastle Education Action Zone	0	2	2
North Tyneside College	0	54	25
Northumberland Magistrates Court	0	34	78
Northumbria Probation Trust	537	220	439

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
Northumbria University	1,509	1,047	863
Oxclose Community Academy	49	0	0
Police and Crime Commissioner for Northumbria	1,643	1,309	1,349
Red House Academy	38	11	2
Redby Primary Academy	26	1	0
Riverside Primary Academy	18	1	0
Sacred Heart Catholic High School	35	11	1
South Tyneside College	171	190	194
South Tyneside College Academy Trust	9	0	0
South Tyneside Education Action Zone	0	1	1
South Tyneside Homes	581	166	158
Southmooor Academy	33	1	0
St Anthony's Girls' Catholic Academy	40	3	1
St Cuthberts Catholic High School	30	0	3
St Thomas More Catholic School (Gateshead)	43	5	0
St Thomas More Roman Catholic Academy (North Tyneside)	57	2	0
Sunderland Education Action Zone	0	0	1
The Ascent Academies Trust	87	0	1
The Cedars Academy Trust	19	2	0
The Laidlaw Schools Trust	85	20	4
The Northern Education Trust	19	0	0
Tyne and Wear Fire and Rescue Services	284	165	222
Tyne and Wear Integrated Transport Authority	1	26	93
Tyne Metropolitan College	132	162	44
Tynemouth College	0	23	10
University of Sunderland	807	676	523
Venerable Bede C of E Academy	32	0	0
Wearside College	0	4	8
Whickham School and Sports College	62	11	1
Whitburn Church of England Academy	52	1	3
Wise Academies	37	4	2
Your Homes Newcastle	719	296	176
Sub Totals	**9,588**	**6,447**	**5,147**

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 Limited	115	0	1
Castle View Fitness Centre	4	5	1
Charge Your Car (North) Limited	4	0	0
Learning World	0	6	1
Nexus	555	454	1,390
Northumbria University Nursery Limited	8	0	0
The Intraining Group Limited	34	2	0
Sub Totals	**720**	**478**	**1,400**

Admitted Bodies	Actives	Deferreds	Pensioners
Age Concern Newcastle	18	31	52
Assessment and Qualification Alliance	0	2	10
Association of North East Councils	8	40	10
Balfour Beatty Power Networks Limited	14	3	6
Balfour Beatty Workplace Limited	374	3	0
Balfour Beatty Workplace Limited (PB)	10	0	1
Baltic Flour Mills Visual Arts Trust	3	5	1
Bell Decorating Group Limited	1	0	0
Benton Grange School	0	0	8
Benwell Young Peoples Development Project	2	1	0
Brunswick Young Peoples Project	0	3	0
BT South Tyneside Limited	303	44	58
Bullough Cleaning Services	0	0	1
Bullough Contract Services	0	1	0
Capita Symonds Limited	188	1	2
Carillion Services Limited (Jarrow School)	9	0	2
Carillion Services Limited (Lord Lawson Academy)	4	0	0
Catholic Care North East	0	19	26
CBS Outdoor Limited	0	2	0
Child Care Enterprise Limited	1	18	1
Compass Group UK and Ireland	4	0	1
DB Regio Tyne and Wear Limited	454	54	61
Disability North	6	20	9
Gateshead Law Centre	0	12	3
Gentoo Group Limited	1,328	533	488
Groundwork South Tyneside and Newcastle	1	5	4
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	7	3	1
International Centre for Life	9	5	9
Involve North East	6	5	0
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	1
Kier North Tyneside Limited	319	26	101
Lend Lease Facilities Management (EMEA) Limited	7	0	0
Managed Business Space Limited	1	0	2
Maxim Facilities Management Limited	1	0	0
Mears Limited	230	1	8
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI Limited (Boldon School)	6	2	0
Mitie PFI Limited (North Tyneside)	0	1	0
Morrison Facilities Services Limited 1	0	13	20
Morrison Facilities Services Limited 2	10	59	57

Admitted Bodies	Actives	Deferreds	Pensioners
Morse	7	7	0
Museums Libraries and Archives North East	0	16	7
National Car Parks	0	3	3
National Glass Centre	0	1	1
Newcastle Law Centre	2	14	2
Newcastle Family Service Unit	0	1	6
Newcastle Health City Project	0	19	8
Newcastle International Airport	130	272	340
Newcastle Tenants Federation	3	2	2
Newcastle Theatre Royal Trust	53	42	22
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	16
North East Regional Employers Organisation	6	2	8
North Tyneside City Challenge	0	3	1
North Tyneside Disability Advice	0	0	1
Northern Arts Association	0	26	18
Northern Council for Further Education	0	12	15
Northern Counties School for the Deaf	1	15	23
Northern Grid for Learning	5	3	3
Northumbria Tourist Board	0	18	18
One North East	0	0	8
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	0	4	2
Passenger Transport Company	0	0	93
Percy Hedley Foundation	23	2	5
Port of Tyne Authority	0	0	2
Praxis Service	2	3	1
Raich Carter Sports Centre	31	27	1
RM Education	3	3	3
Robertson Facilities Management Limited	9	0	2
Robertson Facilities Management Limited (Newcastle Phase 2)	3	0	1
Saint Mary Magdalene and Holy Jesus Trust	5	8	3
Saint Mary the Estate Management Charity	0	0	1
Scolarest (Newcastle Schools)	11	7	8
Scolarest PFI (Boldon School)	2	0	1
Search Project	2	1	1
Simonside Community Centre	1	1	0
Sodexo Limited	11	0	0
South Tyneside Football Trust	1	0	0
South Tyneside Victim Support	0	1	1
Southern Electric Contracting Limited	19	5	10
Stagecoach Services Limited	103	160	690

Admitted Bodies	Actives	Deferreds	Pensioners
Sunderland City Training and Enterprise Council	0	32	35
Sunderland Empire Theatre Trust	0	2	5
Sunderland Outdoor Activities	0	2	1
Sunderland Streetlighting Limited	21	22	28
Taylor Shaw	0	4	2
The Ozanam House Probation Hostel Committee	22	17	10
Thomas Gaughan Community Association	0	2	0
TT2 Limited	42	19	36
Tyne and Wear Development Company Limited	10	14	8
Tyne and Wear Development Corporation	0	18	32
Tyne and Wear Enterprise Trust	3	13	23
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	11	12
Tyne Waste Limited	0	7	12
Tyneside Deaf Youth Project	0	2	1
Tyneside Training and Enterprise Council	0	36	38
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	0	25	5
Wallsend Citizens Advice Bureau	0	1	2
Wallsend Hall Enterprise Limited	1	2	3
Workshops for the Adult Blind	0	11	72
Sub Totals	**3,867**	**1,870**	**2,619**
Grand Totals	**42,220**	**33,456**	**40,216**

WORKING WITH MEMBERS AND EMPLOYERS

INTRODUCTION

The pension service to our 115,892 members and 191 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.

Active and retired members and employers were surveyed in 2012/13.

We are pleased to say that 97.2% 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 summarised below:

- We maintain a website that provides information on the Scheme and the Fund.
- We run a Helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. We handled calls from over 36,300 members in 2012/13.
- 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 including induction, transferring between employers, midlife and pre retirement planning and leaving before retirement. Six events were held in 2012/13 that were attended by over 150 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.
- We work with the Local Government Association to provide a range of booklets that help members to 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 surveys that 93.7% of members who responded 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 98.0% of messages in 2012/13.

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 2012, we were able to provide 99.2% of active members with a complete benefit statement.

We issue benefit statements to every deferred member for whom we hold a current address. About 31,400 statements were sent out in 2012/13.

COMMUNICATING THE NEW SCHEME

We are participating in working groups set up by the Local Government Association to develop the communication strategy and materials for the new Scheme.

We are also working with our software provider to ensure our systems will be updated.

COMBINED PENSION FORECASTS

We 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.

PENSION LIBERATION FRAUD

For a number of years the Fund has been warning members of the risk of Pension Liberation Fraud. The Pensions Regulator is concerned about the increase in such activity and, in association with HMRC, has launched a high profile campaign to combat fraud.

The Fund has taken a number of actions to further reduce risk and to comply with the Pensions Regulator's recommendations. All processing and documentation has been reviewed and amended to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund.

SERVICES TO EMPLOYERS

The main services that we provide to employers are summarised below:

- 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 change.
- We provide an online Employers' Guide to the administration of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures.
- We host an annual training event in October and arrange one off workshops as required.
- We hold an annual general meeting.
- We send out mailshots to advise employers of developments.

AUTO ENROLMENT

We have helped our employers prepare for auto enrolment by providing guidance, updates and training sessions. A session in November 2012 was attended by over 40 people.

A number of our large employers have commenced auto enrolment and we are providing them with ongoing support.

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 pilot exercise took place in 2011 and we will be rolling the system out to all employers in 2013/14.

Work on online services for members will start in 2013/14. 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 2013/14.

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 2012/13 was based largely 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.

Reviews were carried out on several of the Fund's mandates in 2012/13.

In 2012, it became apparent that the structure of the UK property portfolio could lead to below benchmark returns for a number of years. The Fund reviewed the approach to investment and a restructuring of the portfolio has commenced.

A review was carried out on the emerging markets equity mandate. A change to the arrangements will be implemented in 2013/14, to include a passive element.

Finally, changes were made to the fixed interest investments. In the light of concerns over the value of government bonds, arrangements were made to:

- Switch an investment in a UK gilt based fund into a total return bond fund.
- Partially switch a UK index linked investment into emerging markets bonds, denominated in local currencies.
- Begin to de-risk the Fund by backing orphan pension liabilities with index-linked gilts.

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 - Emerging Markets Govt. Bonds
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 £306.9 million at the year end, representing 5.7% of the Fund. The underweight position is attributable to a fall in the value of the properties held, alongside an increase in the value of the Fund.

The 4.5% allocation to global property was set in 2010. It is being built up to the target level through investment into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments. This programme was valued at £165.6 million, or 3.1% of the Fund, at the year end.

INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. At a review of our approach in 2010, an allocation of 2.5% was set which is to be provided predominately through investment in 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 £88.7 million, representing 1.6% of the Fund.

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 into secondary funds managed by Lexington Partners and Coller Capital and direct funds with HarbourVest, Capital International, Partners Group and Lexington.

At the year end, £539.9 million, equal to 10.0% of the Fund, was invested in private equity. The overweight position is attributable to the growth in the Fund value being slower than projected due to the global financial crisis.

ACTIVE CURRENCY

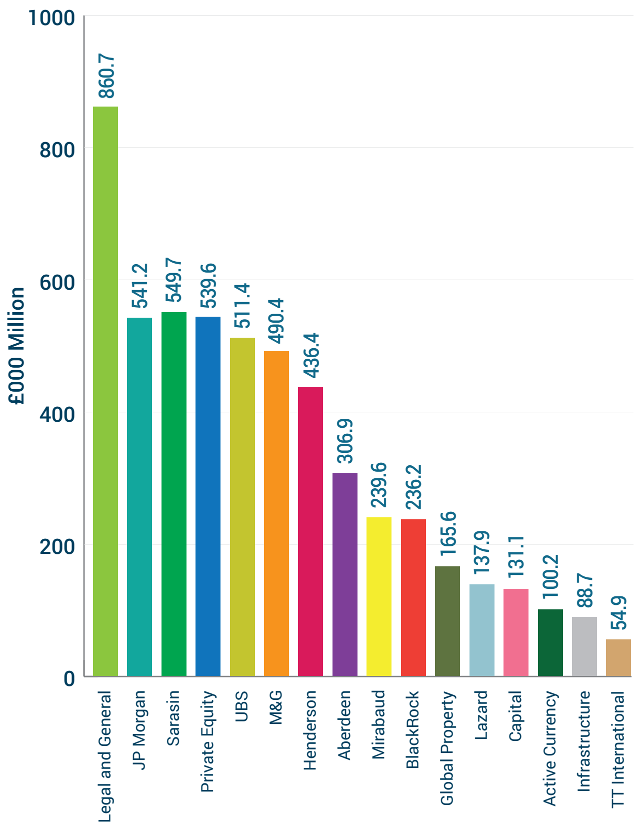
The Fund has allocated 3% to active currency strategies, which is held in four investments.

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.

At the year end, the value of the investment in active currency was £100.2 million, or 1.9% 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.

Absolute return targets are in place for the infrastructure and global property programmes. These targets are being developed as the programmes move out of J-curve and mature.

A total return target is in place for part of the fixed interest investment.

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 those Index Futures. 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.

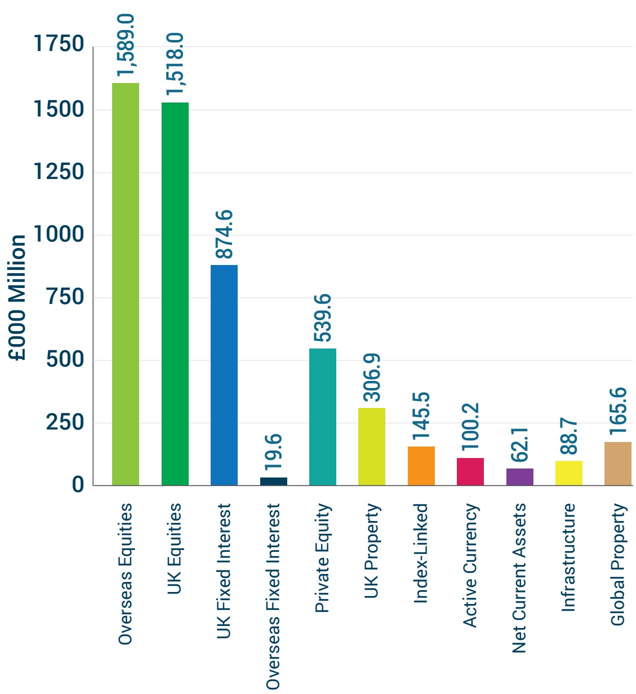
As at March 2013, Northern Trust was providing custody for approximately £2.3 billion of assets held in seven mandates.

ASSET ALLOCATION

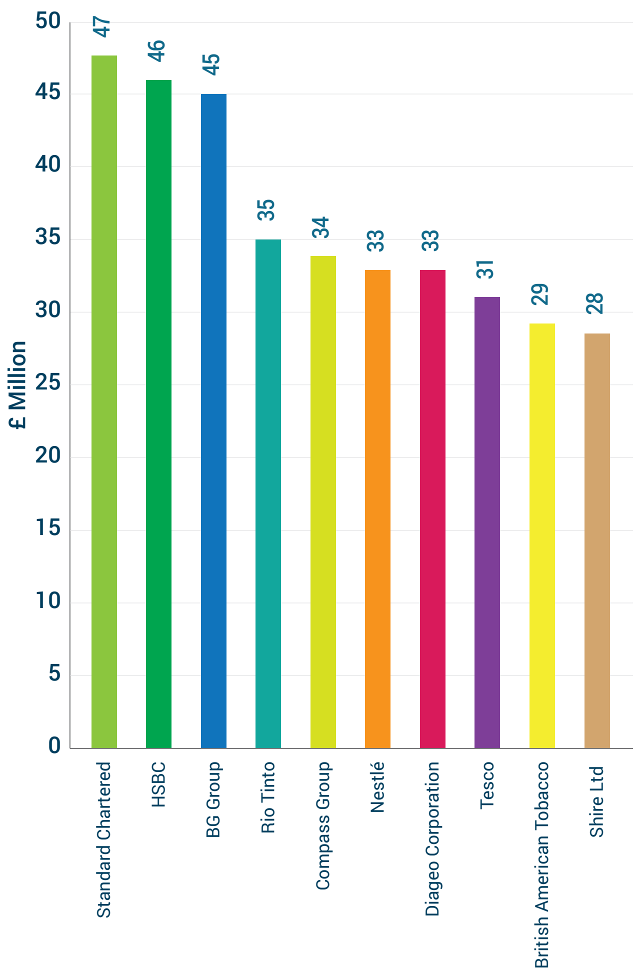
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

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 2013 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.

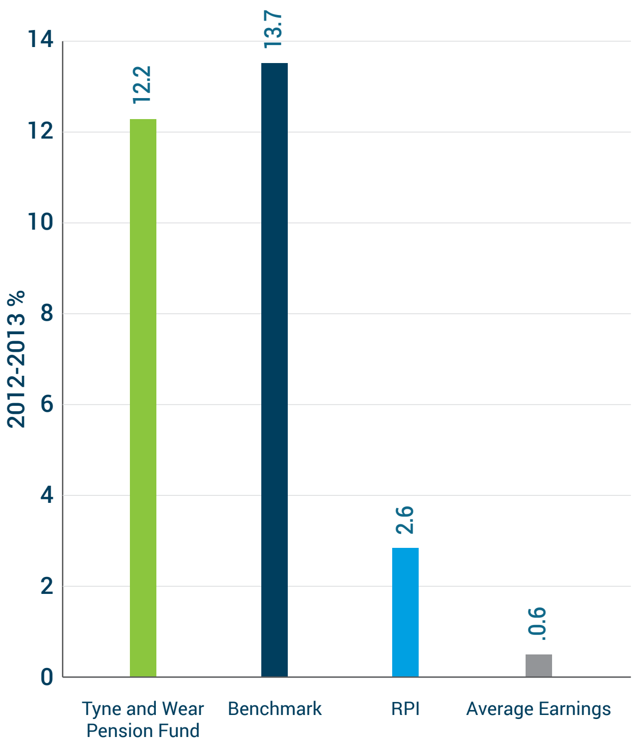
MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2012/13

The value of all the main asset classes rose during the year.

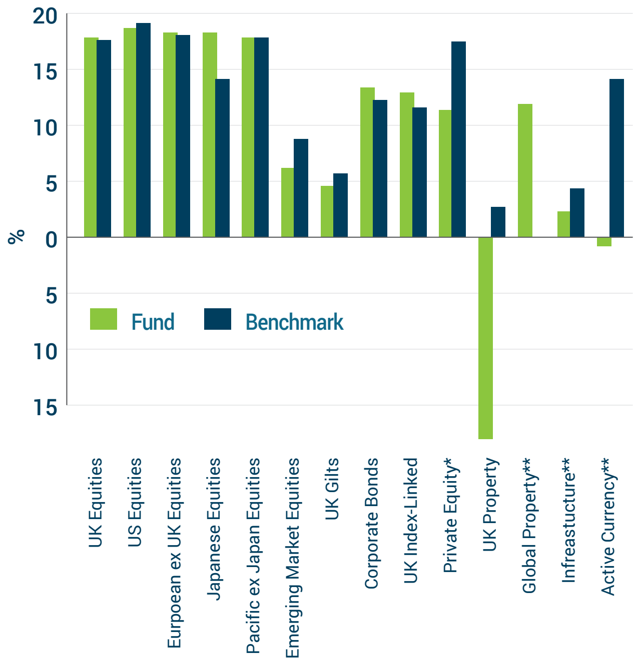
The main equity markets delivered strong performance, led by the US at 19.3% and pacific ex Japan at 18.1%. Corporate bonds returned 12.0% and UK index- linked returned 11.7%.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 16.8%.

The Fund's return in this year was 12.2%, which was 1.5% below its benchmark return of 13.7%. Inflation, as measured by the Retail Price Index, rose by 2.6% and Average Earnings increased by 0.6%.



The chart below shows the Fund's returns over the main investment markets for 2012/13.



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

** *The benchmarks for global property and infrastructure assume that an individual fund will deliver a zero return for the first three years (to allow for J-curve) followed by 8% per annum.*

*** *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.*

The relative returns from the active equity managers were mostly positive, whilst the active bonds managers delivered respectable returns.

The returns from the passive strategies were satisfactory.

The return from the private equity programme is measured against the FTSE All World Index with an objective to outperform that index by 5% p.a. net of fees. A large negative return is shown for the year which is due to the valuation methodology used for private equity. This methodology leads to conservative valuations, meaning that the reported figures can materially lag the returns for quoted investments when their returns are strong. At times of weak quoted investment performance, private equity tends to show strong relative performance. Detailed discussions have been held with the managers and they believe that, overall, their funds are delivering good long term performance.

The returns on the UK property mandate are materially below benchmark, which has been damaging to the Fund's total return. As stated earlier in this report, the Fund has reviewed the approach to investment in UK property and a restructuring of the portfolio of properties has commenced.

The global property and infrastructure programmes have similar characteristics to the private equity programme so the returns can be expected to be volatile in their early years.

The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It is showing positive performance at this early stage in its development.

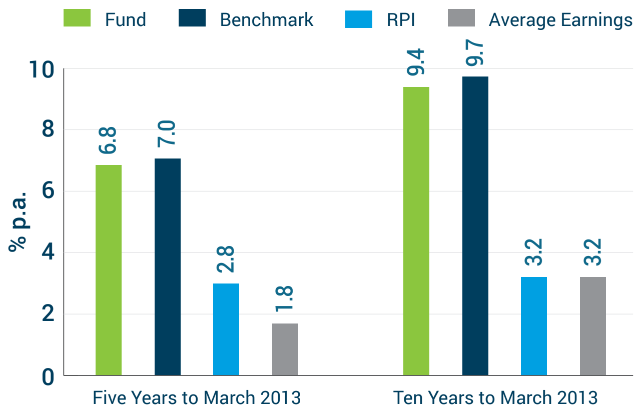
The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and two earlier investments in direct funds managed by Infracapital and Henderson. This programme is a little behind benchmark at what is also an early stage in its development.

The active currency programme is delivering below benchmark performance as certain strategies have not delivered in the recent, volatile currency markets. As mentioned earlier in the report, the Fund has reviewed its approach to active currency and a decision was made to reduce temporarily one of the four investments until market conditions improved for that strategy.

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

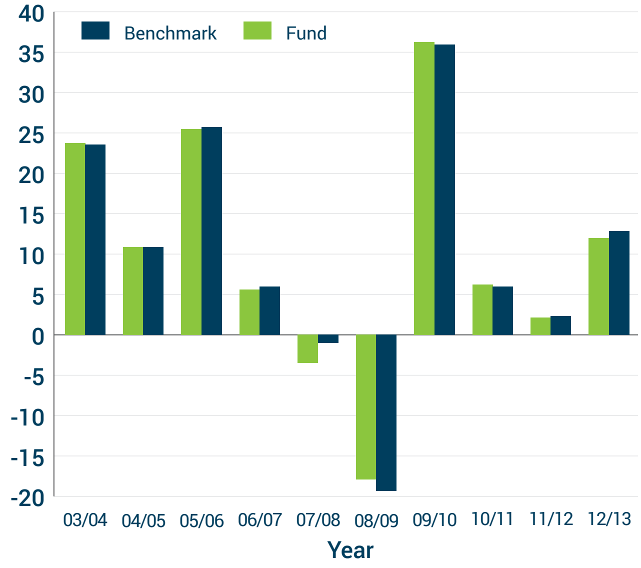


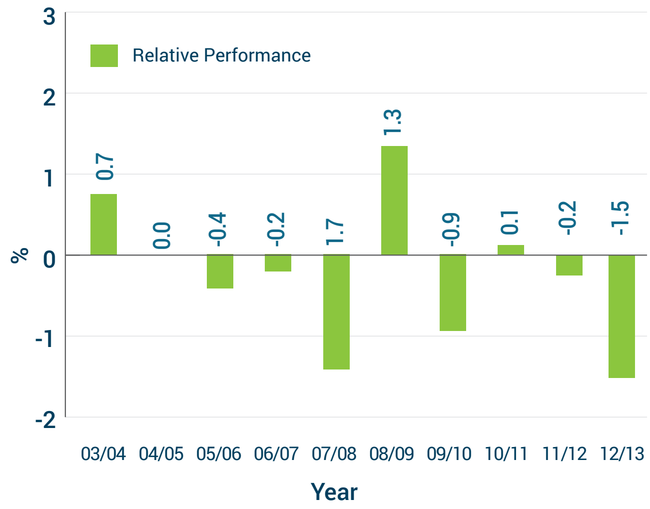
The five year return is 6.8% per annum, which is 0.2% below the benchmark return of 7.0% per annum. The ten year return is 9.4% per annum, which is 0.3% below the benchmark return of 9.7% per annum.

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. Poor performance from the UK property portfolio has also detracted from returns.

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:





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 2006 due to poor performance from certain active equity managers and from the active currency managers, and remained negative the following year, 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 disappointing performance in 2012/13 has been discussed above.

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 The Department for Communities and Local Government (CLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA), considered how the Scheme can fit with the new Principles.

The Pensions Panel of CIPFA 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 requires 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" (SIP) that sets out the decisions that have been taken on its investment policies. The latest statement was approved by the Pensions Committee in June 2013.

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 ex UK and UK only voting record (including the UK pooled funds) for 2012/13 is shown below:

	Global ex UK	UK Only
Annual general meetings	2,242	708
Extraordinary general meetings	290	169
Resolutions	27,885	11,888
Votes for	23,653	11,558
Votes against	3,104	323
Abstentions	381	7
Votes not cast	747	0

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

A resolution was opposed or there was an abstention on 3,815 occasions. The most common reasons for this were:

- The lack of independence of non-executive directors and the length of directors' contracts.
- Overly generous executive compensation packages for mediocre performance.
- Concerns over the appointment of auditors for 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.
- Concerns over the resolutions being proposed by shareholders.

The table shows that there were 747 resolutions where votes were not cast.

For 123 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 151 resolutions were not voted as the country practice requires the holdings to be re-registered prior to voting. 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.

Regrettably, in a further 473 cases, 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 Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of over 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

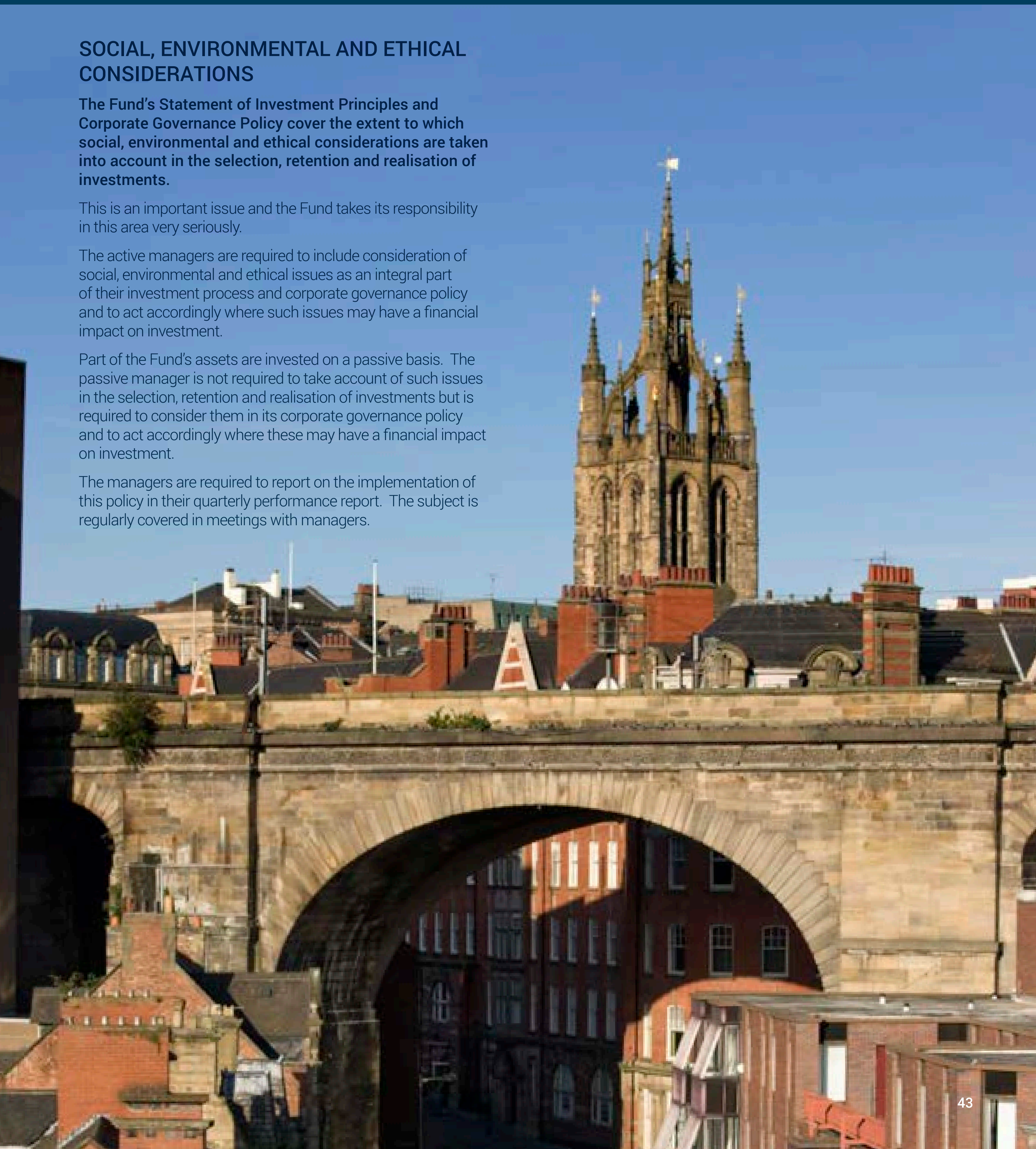
The Fund's Statement of Investment Principles and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.

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 FOR THE YEAR ENDED:

2011/12 £m		Note	2012/13 £m
	Dealings with members, employers and others directly involved in the Fund		
(229.272)	Contributions Receivable - Employers	3	(221.010)
(58.324)	Contributions Receivable - Employees	3	(54.310)
(10.112)	Transfers In From Other Pension Funds	4	(5.974)
(297.708)	**Total Contributions**		**(281.294)**
251.015	Benefits Payable	5	252.151
11.164	Payments To and On Account of Leavers	6	14.436
2.238	Administrative Expenses	7	2.255
264.417	**Total Benefits**		**268.842**
(33.291)	**Net Additions from Dealings with Members**		**(12.452)**
	Returns on Investments		
(93.025)	Investment Income	8	(93.985)
3.758	Non-Recoverable Tax	8	3.535
12.994	Change in Market Value of Investments	9	(497.457)
9.824	Investment Management Expenses	12	9.480
(66.449)	**Net Returns on Investments**		**(578.427)**
(99.740)	**Net (Increase) in the Net Assets Available For Benefits during the Year**		**(590.879)**
4,741.722	**Net Assets of the Fund at 1st April**		**4,841.462**
4,841.462	**Net Assets of the Fund at 31st March**		**5,432.341**

NET ASSETS STATEMENT FOR THE YEAR ENDED:

31st March 2012 £m		Note	31st March 2013 £m
4,841.233	Investment Assets	9	5,425.461
(10.762)	Investment Liabilities	9	(12.613)
(10.000)	Borrowings	9	0
36.365	Current Assets	13	33.391
(15.374)	Current Liabilities	13	(13.898)
4,841.462	**Net Assets of the Fund at 31st March**		**5,432.341**

The financial statements summarise the transactions of the Fund and deal with the net assets under the control of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the year end. 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 22 and 23.

The actuarial present value of promised retirement benefits is disclosed at Note 25 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 31st March 2013 set out in pages 44 to 69, present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2013 and its income and expenditure for the year ended 31st March 2013.

Stephen Moore

Head of Pensions
September 2013

Patrick Melia

Corporate Director Business and Area Management (Section 151 Officer)
September 2013

The financial statements were approved by the Pensions Committee at its meeting on 11 September 2013.

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 2012/13, which is based upon international Financial Reporting Standards (IFRS) as amended for the UK public Sector.

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 2013.

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 2013 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 2013.

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 2013.

Properties are shown as valued at 31st March 2013 and have been valued in accordance with the Royal Institute of Chartered Surveyors – Professional Standards (incorporating the International Valuation Statement) March 2012 prepared by the Royal Institution of Chartered Surveyors. The valuations have been prepared by a suitable qualified valuer, as defined by VS1.5 and 1.6 of the Professional Standards. 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 2013 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 2013.

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 2013 is credited to the Fund Account.

Interest on cash deposits, commission from securities lending, commission recapture and under writing commission have been accrued up to 31st March 2013 where applicable.

Investment Management Expenses

Investment management expenses payable as at 31st March 2013 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. Investment Management Expenses are calculated in accordance with each separately negotiated contract.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2013.

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 2013 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.

Cash or Cash Equivalents

Cash comprises cash in hand and demand type deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of change in values.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in Note 21.

3. CONTRIBUTIONS RECEIVABLE

2011/12 £m		2012/13 £m
	Employers	
(131.212)	Normal	(124.263)
(98.060)	Deficit Funding	(96.738)
0	Augmentation	(0.009)
(229.272)	**Sub-Total**	**(221.010)**
	Members/Employees	
(57.789)	Normal	(53.883)
(0.535)	In-House Additional Voluntary Contributions	(0.427)
(58.324)	**Sub-Total**	**(54.310)**
(287.596)	**Total Contributions Receivable**	**(275.320)**

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

Restated 2011/12 £m		2012/13 £m
(23.419)	South Tyneside Council (Administering Authority)	(22.567)
(162.620)	Other Metropolitan Councils	(155.483)
(58.936)	Other Part 1 Scheduled Bodies	(57.438)
(8.811)	Part 2 Scheduled Bodies	(9.459)
(33.810)	Admitted Bodies	(30.373)
(287.596)	**Total Contributions Receivable**	**(275.320)**

An employer that was classified as being an Other Part 1 Scheduled Body in 2011/12 has been moved to Part 2 Schedule Bodies in 2012/13 and the income figures moved accordingly.

4. TRANSFERS IN

During the year, individual transfers in from other schemes amounted to £5.974m (£10.112m in 2011/12). There were no bulk transfers into the Fund during 2012/13 or 2011/12.

5. BENEFITS PAYABLE

2011/12 £m		2012/13 £m
178.074	Pensions	197.128
78.278	Commutations and Lump Sum Retirement Benefits	60.968
5.508	Lump Sum Death Benefits	5.245
(10.845)	Recharges out	(11.190)
251.015	**Total Benefits Payable**	**252.151**

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

Restated 2011/12 £m		2012/13 £m
23.077	South Tyneside Council (Administering Authority)	23.489
157.292	Other Metropolitan Councils	158.116
38.477	Other Part 1 Scheduled Bodies	38.561
7.096	Part 2 Scheduled Bodies	8.009
25.073	Admitted Bodies	23.976
251.015	**Total Benefits Payable**	**252.151**

An employer that was classified as being an Other Part 1 Scheduled Body in 2011/12 has been moved to Part 2 Schedule Bodies in 2012/13 and the expenditure figures moved accordingly.

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2011/12 £m		2012/13 £m
11.143	Individual Transfers to Other Schemes	14.429
0.034	Refunds to Members Leaving Service	0.015
(0.013)	State Scheme Premiums	(0.008)
11.164	**Total Leavers**	**14.436**

There was a payment of £2.313 million during the year to Teesside Pension Fund in respect of a body which transferred in April 2007, the payment was made once the Actuaries agreed the amount. There had been no bulk transfers out of the Fund in 2011/12.

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:

2011/12 £m		2012/13 £m
1.523	Employee Expenses	1.472
0.528	Support Services Recharge	0.538
0.052	Audit Fees	0.033
0.014	External Computing Costs	0.024
0.077	Printing / Publications	0.086
0.027	Professional Fees	0.076
0.037	Other Expenses	0.028
(0.020)	Income	(0.002)
2.238	**Total Administrative Expenses**	**2.255**

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

8. INVESTMENT INCOME

2011/12 £m		2012/13 £m
(1.372)	Fixed Interest Securities	(1.034)
(54.793)	Equities	(58.010)
(0.475)	Index-Linked Securities	(0.428)
(15.620)	Pooled Investment Vehicles	(14.196)
(19.958)	Net Rents from Properties	(19.614)
(0.241)	Cash Deposits	(0.185)
(0.553)	Securities Lending	(0.490)
(0.001)	Commission Recapture	(0.004)
(0.012)	Underwriting Commission	(0.024)
(93.025)	**Sub-Total**	**(93.985)**
3.758	Non-Recoverable Tax	3.535
(89.267)	**Total Investment Income**	**90.450**

Property Income

Property income can be analysed further, as follows:

2011/12 £m		2012/13 £m
(21.911)	Rental Income	(22.474)
1.953	Direct Operating Expenses	2.860
(19.958)	**Net Income**	**(19.614)**

9. INVESTMENTS

31st March 2012 £m		31st March 2013 £m
	Investment Assets	
20.744	Fixed Interest Securities	48.294
2,118.646	Equities	2,451.632
36.655	Index-Linked Securities	49.704
2,245.571	Pooled Investment Vehicles	2,496.675
0.943	Derivative Contracts	5.843
359.185	Properties	306.920
40.851	Cash Deposits	50.891
18.638	Other Investment Balances	15.502
4,841.233	**Total Investment Assets**	**5,425.461**
	Investment Liabilities	
(2.488)	Derivative Contracts	(2.780)
(10.000)	Borrowings	0
(8.274)	Other Investment Balances	(9.833)
(20.762)	**Total Investment Liabilities**	**(12.613)**
4,820.471	**Net Investment Assets**	**5,412.848**

2012/13					
	Value at 1st April 2012 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2013 £m
Fixed Interest Securities	20.744	272.973	(245.361)	(0.062)	48.294
Equities	2,118.646	874.049	(853.679)	312.616	2,451.632
Index-Linked Securities	36.655	212.804	(204.840)	5.085	49.704
Pooled Investment Vehicles	2,245.571	211.799	(218.591)	257.896	2,496.675
Derivative Contracts	(1.545)	5.946	(6.029)	4.691	3.063
Properties	359.185	33.297	(2.850)	(82.712)	306.920
Sub-Total	**4,779.256**	**1,610.868**	**(1,531.350)**	**497.514**	**5,356.288**
Cash Deposits	40.851	9.777	0	0.263	50.891
Other Investment Balances	0.364	11.745	(6.120)	(0.320)	5.669
Total Investments	**4,820.471**	**1,632.390**	**(1,537.470)**	**497.457**	**5,412.848**

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**

31st March 2012 £m		31st March 2013 £m
	Fixed Interest Securities	
20.744	UK Public Sector	48.294
20.744	**Total Fixed Interest Securities**	**48.294**
	Equities	
637.780	UK Quoted	801.480
1,295.023	Overseas Quoted	1,380.288
185.843	Overseas Unquoted	269.864
2,118.646	**Total Equities**	**2,451.632**
	Index-Linked Securities	
36.655	UK Public Sector	49.704
36.655	**Total Index-Linked Securities**	**49.704**
	Pooled Investment Vehicles	
54.550	Unit Trusts	45.732
1,157.005	Unitised Insurance Policies	1,250.572
1,034.016	Other Managed Funds	1,200.371
2,245.571	**Total Pooled Investment Vehicles**	**2,496.675**
	Properties	
296.525	Freehold	222.725
62.660	Long Leasehold	84.195
359.185	**Total Properties**	**306.920**
	Derivative Contracts	
(1.545)	Forward Foreign Currency Contracts	3.063
(1.545)	**Total Derivative Contracts**	**3.063**
	Cash Deposits	
32.396	Sterling	41.862
8.455	Foreign Currency	9.029
40.851	**Total Cash Deposits**	**50.891**
	Other Investment Balances	
5.168	Outstanding Trades	(0.236)
10.800	Outstanding Dividends & Tax Recoveries	12.578
2.670	Debtors	2.924
(10.000)	Borrowings	0
(8.274)	Creditors	(9.597)
0.364	**Total Other Investment Balances**	**5.669**
4,820.471	**Total Investments**	**5,412.848**

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 £5.056m (£6.221m in 2011/12). 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.

The Fund is allowed to borrow for cash flow purposes. There was no such borrowing as at 31st March 2013 (£10.0 million as at 31st March 2012).

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 2012				31st March 2013		
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			
20.744	0	0	Fixed Interest Securities	48.294	0	0
2,118.646	0	0	Equities	2,451.632	0	0
36.655	0	0	Index-Linked Securities	49.704	0	0
2,245.571	0	0	Pooled Investment Vehicles	2,496.675	0	0
0.943	0	0	Derivative Contracts	5.843	0	0
359.185	0	0	Properties	306.920	0	0
0	40.851	0	Cash Deposits	0	50.891	0
15.968	0	0	Other Investment Balances	12.578	0	0
0	39.035	0	Debtors	0	36.315	0
4,797.712	**79.886**	**0**	**Total Financial Assets**	**5,371.646**	**87.206**	**0**
			Financial Liabilities			
(2.488)	0	0	Derivative Contracts	(2.780)	0	0
0	0	0	Other investment Balances	(0.236)	0	0
0	(10.000)	0	Borrowings	0	0	0
0	0	(23.648)	Creditors	0	0	(23.495)
(2.488)	**(10.000)**	**(23.648)**	**Total Financial Liabilities**	**(3.016)**	**0**	**(23.495)**
4,795.224	**69.886**	**(23.648)**	**Total Net Financial Assets**	**5,368.630**	**87.206**	**(23.495)**

b) Net Gains and Losses on Financial Instruments

31st March 2012 £m		31st March 2013 £m
	Financial Assets	
(12.617)	Fair value through profit and loss	497.514
(0.934)	Loans and receivables	0.263
	Financial Liabilities	
0.557	Fair value through profit and loss	(0.320)
(12.994)	**Total**	**497.457**

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values, which are the value of the asset when purchased, of the financial assets and liabilities by class of instrument compared with their fair values;

31st March 2012			31st March 2013	
Carrying Value £m	Fair Value £m		Carrying Value £m	Fair Value £m
		Financial Assets		
4,073.986	4,797.712	Fair value through profit and loss	4,251.825	5,359.068
78.897	79.886	Loans and receivables	99.836	99.784
4,152.883	**4,877.598**	**Total Financial Assets**	**4,351.661**	**5,458.852**
		Financial Liabilities		
0	(2.488)	Fair value through profit and loss	0	(2.780)
(10.000)	(10.000)	Loan and receivables	0	0
(23.648)	(23.648)	Financial liabilities at amortised cost	(23.731)	(23.731)
(33.648)	**(36.136)**	**Total Financial Liabilities**	**(23.731)**	**(26.511)**
4,119.235	**4,841.462**	**Total Net Financial Assets**	**4,327.930**	**5,432.341**

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-interest securities, unitised insurance policies, managed funds excluding alternatives, unit trusts, cash deposits, other investment balances (both debtors and creditors) and current assets and liabilities. Due to the type of derivatives the Fund held at the 31st March 2013 these have been included in level 1 assets, as the value of these could be derived from quoted sources.

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 inputs that are based significantly on observable market data. Assets in this level comprise UK property valued independently by professional valuers and derivatives.

Level 3

Financial instruments at this level are those where at least one input that could have a significant effect on the value on 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 Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Guidelines outside the US, as adopted by the British Venture Capital Association in the UK 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	
Value at 31st March 2013	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Assets				
Financial assets at fair value through profit and loss	4,243.228	312.763	803.077	5,359.068
Loans and receivables	99.784	0	0	99.784
Total Financial Assets	**4,343.012**	**312.763**	**803.077**	**5,458.852**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	(2.780)	0	(2.780)
Borrowings	0	0	0	0
Financial liabilities at amortised cost	(23.731)	0	0	(23.731)
Total Financial Liabilities	**(23.731)**	**(2.780)**	**0**	**(26.511)**
Total Net Financial Assets	**4,319.281**	**309.983**	**803.077**	**5,432.341**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31st March 2012	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
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**	**(36.136)**
Total Net Financial Assets	**3,822.681**	**357.640**	**661.141**	**4,841.462**

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's investment objective 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;

and

To keep contributions as low and as stable as possible through effective management of the assets.

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

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Statement of Investment Principles.

Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Monitoring against a factor risk analysis aims to ensure that risk remains within tolerable levels at both Fund and individual investment manager level.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

Other Price Risk – Sensitivity Analysis

In consultation with its investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2013/14 financial year.

Asset Type	Potential Market Movements (+/-) %
UK Equities	16.0
Overseas Equities	19.0
UK Bonds	7.9
Overseas Bonds	10.4
Index Linked Securities	5.9
UK Property	14.5
Overseas Property	20.0
Private Equity	27.8
Infrastructure Funds	14.4
Active Currency	20.0

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the table below. The comparable figures for the previous year are also shown.

Asset Type	Value as at 31st March 2013 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
Cash and Cash Equivalents	53.474	0.0	53.474	53.474
UK Equities	1,517.953	16.0	1,760.825	1,275.081
Overseas Equities	1,591.631	19.0	1,894.041	1,289.221
UK Bonds	874.555	7.9	943.645	805.465
Overseas Bonds	19.629	10.4	21.670	17.588
Index-Linked Securities	145.472	5.9	154.055	136.889
UK Property	306.920	14.5	351.423	262.417
Overseas Property	165.573	20.0	198.688	132.458
Private Equity	539.944	27.8	690.048	389.840
Infrastructure Funds	88.749	14.4	101.529	75.969
Active Currency	100.215	20.0	120.258	80.172
Foreign Currency Contracts	3.063	0.0	3.063	3.063
Investment Income Due	12.578	0.0	12.578	12.578
Amounts Due for Sales	2.924	0.0	2.924	2.924
Amounts Payable for Purchases	(9.832)	0.0	(9.832)	(9.832)
Borrowings	0.000	0.0	0.000	0.000
Total	**5,412.848**		**6,298.389**	**4,527.307**

Asset Type	Value as at 31st March 2012 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
Cash and Cash Equivalents	43.422	0.0	43.422	43.422
UK Equities	1,284.373	16.0	1,489.873	1,078.873
Overseas Equities	1,472.594	19.0	1,752.387	1,192.801
UK Bonds	752.473	7.9	811.918	693.028
Overseas Bonds	0	10.4	0	0
Index-Linked Securities	150.893	5.9	159.796	141.990
UK Property	359.185	14.5	411.267	307.103
Overseas Property	87.045	20.0	104.454	69.636
Private Equity	487.918	27.8	623.559	352.277
Infrastructure Funds	82.204	14.4	94.041	70.367
Active Currency	101.544	20.0	121.853	81.235
Foreign Currency Contracts	(1.545)	0.0	(1.545)	(1.545)
Investment Income Due	10.800	0.0	10.800	10.800
Amounts Due for Sales	7.838	0.0	7.838	7.838
Amounts Payable for Purchases	(8.273)	0.0	(8.273)	(8.273)
Borrowings	(10.000)	0.0	(10.000)	(10.000)
Total	**4,820.471**		**5,611.390**	**4,029.552**

The analysis in the two tables above is on a look through basis. This differs from the analysis in note 9 and the tables below, which are compiled under accounting standards.

Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2013 and 2012 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

Asset Type	As at 31st March 2013 £m	2012 £m
Cash and Cash Equivalents	50.891	40.851
Fixed Interest Securities	48.294	20.744
Index-Linked Securities	49.704	36.655
Total	**148.889**	**98.250**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

	Asset value as at 31st March 2013	Change in net assets values	
		+1.0%	-1.0%
	£m	£m	£m
Cash and Cash Equivalents	50.891	51.400	50.382
Fixed Interest Securities	48.294	48.777	47.811
Index-Linked Securities	49.704	50.201	49.207
Total	**148.889**	**150.378**	**147.400**

	Asset value as at 31st March 2012	Change in net assets values	
		+1.0%	-1.0%
	£m	£m	£m
Cash and Cash Equivalents	40.851	41.260	40.442
Fixed Interest Securities	20.744	20.951	20.537
Index-Linked Securities	36.655	37.022	36.288
Total	**98.250**	**99.233**	**97.267**

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31st March 2013 and at 31st March 2012:

	Asset value as at 31st March	
Asset Type	2013 £m	2012 £m
Overseas Quoted Equities	1,320.288	1,295.023
Overseas Unquoted Equities	265.409	185.843
Overseas Pooled Investment Vehicles	228.760	191.779
Forward Currency Contracts	3.063	(1.545)
Overseas Currency	9.029	8.455
Total	**1,826.549**	**1,679.555**

Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the investment advisor, the Fund considers the likely volatility associated with foreign exchange to be 13%.

The following table shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens.

The comparable figures for the previous year are also shown.

Asset Type	Asset value as at 31st March 2013 £m	Change in net asset values +13% £m	-13% £m
Overseas Quoted Equities	1,320.288	1,491.925	1,148.651
Overseas Unquoted Equities	265.409	299.912	230.906
Overseas Pooled Investment Vehicles	228.760	258.499	199.021
Forward Currency Contracts	3.063	3.461	2.665
Overseas Currency	9.029	10.203	7.855
Total	**1,826.549**	**2,064.000**	**1,589.098**

Asset Type	Asset value as at 31st March 2012 £m	Change in net asset values +13% £m	-13% £m
Overseas Quoted Equities	1,295.020	1,463.373	1,126.667
Overseas Unquoted Equities	185.843	210.003	161.683
Overseas Pooled Investment Vehicles	191.779	216.710	166.848
Forward Currency Contracts	(1.545)	(1.344)	(1.746)
Overseas Currency	8.455	9.554	7.356
Total	**1,679.552**	**1,898.296**	**1,460.808**

Manager Risk

Manager risk is the risk 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.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken in to account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2013 was £12.362 million. The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Sector. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Sector's listing of approved institutions. The Fund seeks to further limit risk by restricting direct investments to UK financial institutions that are supported by the UK Government.

The internally managed cash was held with the following institutions:

		Value as at 31st March	
		2013	2012
Asset Type	Rating	£m	£m
Money market funds			
Prime Rate	**AAA**	7.758	3.000
Bank deposit accounts			
Nat West SIBA	**A**	4.072	3.136
Bank of Scotland	**A**	0.531	0.028
Royal Bank of Scotland	**A**	0.001	0
Total		**12.362**	**6.164**

Liquidity risk

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

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31st March 2013.

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:

2011/12 £m		2012/13 £m
9.631	Administration, Management and Custody	9.306
0.082	Performance and Risk Measurement Services	0.072
0.111	Other Advisory Fees	0.102
9.824	**Total Investment Management Expenses**	**9.480**

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 2012 £m		31st March 2013 £m
	Current Assets	
6.503	Contributions and Recharges Due - Employees	4.852
29.573	Contributions and Recharges Due - Employers	28.140
0.057	HMRC	0.055
0.205	Investment Management Expenses	0.336
0.027	Other	0.008
36.365	**Total Current Assets**	**33.391**
	Current Liabilities	
(6.801)	Unpaid Benefits	(8.096)
(0.033)	Contributions, Recharges and Refunds Due - Employers	(0.066)
(1.528)	HMRC	(1.697)
(4.599)	Investment Management Expenses	(2.931)
(2.413)	Other	(1.108)
(15.374)	**Total Current Liabilities**	**(13.898)**

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 their own balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2012/13, £1.160m of contribution income was received into the AVC funds provided by The Prudential (£1.202m during 2011/12). As at 31st March 2013, these funds were valued at £8.769m (£8.768m as at 31st March 2012).

During 2012/13, £0.002m of contribution income was received into the AVC funds provided by Equitable Life (£0.002m during 2011/12). As at 31st March 2013, these funds were valued at £0.158m (£0.241m as at 31st March 2012).

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 2012			31st March 2013	
£m	**%**	**Investment Managers**	**£m**	**%**
359.185	7.4	Aberdeen Property Investors	306.920	5.7
206.146	4.3	BlackRock	236.220	4.4
124.432	2.6	Capital International	131.131	2.4
393.185	8.1	Henderson Global Investors	436.390	8.1
484.697	10.1	JP Morgan Asset Management	541.177	10.0
116.847	2.4	Lazard Asset Management	137.853	2.5
818.461	17.0	Legal and General Investment Management	860.703	15.9
396.325	8.2	M&G	490.430	9.1
205.568	4.3	Mirabaud Investment Management	239.625	4.4
479.969	10.0	Sarasin & Partners	549.666	10.1
50.008	1.0	TT International	54.856	1.0
427.529	8.9	UBS Global Asset Management	511.406	9.4
101.544	2.1	Active Currency	100.215	1.9
487.918	10.1	Private Equity	539.944	10.0
82.204	1.7	Infrastructure	88.749	1.6
87.045	1.8	Global Property	165.573	3.1
(0.592)	0.0	Managed In-House	21.990	0.4
4,820.471	**100.0**	**Total Investments**	**5,412.848**	**100.0**

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2013, the Fund had £0.934m 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.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2013, the Fund held twenty positions in foreign currency that together showed an unrealised gain of £3.063m, 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	(0.453)
Three month	Over the counter	Sterling	Hong Kong Dollar	(1.997)
Three month	Over the counter	Sterling	US Dollar	(0.239)
Three month	Over the counter	Euro	Sterling	(0.034)
Three month	Over the counter	Hong Kong Dollar	Sterling	(0.010)
Three month	Over the counter	US Dollar	Sterling	(0.047)
Loss/Liability Value as at 31st March 2013				**(2.780)**
Three month	Over the counter	Sterling	Swiss Franc	0.037
Three month	Over the counter	Sterling	Euro	0.193
Three month	Over the counter	Sterling	Yen	0.046
Three month	Over the counter	Sterling	Swedish Krona	0.008
Three month	Over the counter	Sterling	US Dollar	0.048
Three month	Over the counter	Australian Dollar	Sterling	0.965
Three month	Over the counter	Canadian Dollar	Sterling	0.444
Three month	Over the counter	Swiss Franc	Sterling	0.148
Three month	Over the counter	Hong Kong Dollar	Sterling	0.371
Three month	Over the counter	Yen	Sterling	0.120
Three month	Over the counter	Norwegian Krone	Sterling	0.018
Three month	Over the counter	Swedish Krona	Sterling	0.162
Three month	Over the counter	Singapore Dollar	Sterling	0.156
Three month	Over the counter	US Dollar	Sterling	3.127
Profit/Asset Value as at 31st March 2013				**5.843**
Net Forward Currency Contracts at 31st March 2013				**3.063**

The contracts were settled at a profit of £1.875m early in 2013/14 financial year.

18. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £116.037m were out on loan as at 31st March 2013, against collateral of £122.299m. The breakdown of securities on loan was:

31st March 2012 £m		31st March 2013 £m
16.097	Fixed Interest Securities	3.706
0	Index-Linked Securities	1.699
49.447	UK Equities	31.505
72.917	Overseas Equities	79.127
138.461	**Total Securities Lending**	**116.037**

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

31st March 2012 £m (restated)		31st March 2013 £m
0	Cash	0
83.175	Fixed Interest Securities	65.409
6.692	Index-Linked Securities	3.260
62.620	Equities	53.630
152.487	**Total Collateral**	**122.299**

An amount which was included as cash as at 31st March 2012, has been restated as fixed interest following further details of the holding being made available.

19. PROPERTY HOLDINGS

31st March 2012 £m		31st March 2013 £m
345.225	Opening Balance	359.185
52.469	Additions	33.297
(9.350)	Disposals	(2.850)
(29.159)	Net Increase in Market Value	(82.712)
0	Other Changes in Fair Value	0
359.185	**Closing Balance**	**306.920**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

20. SIGNIFICANT HOLDINGS

As at 31st March 2013, 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 2013, this was valued at £860.703m and represented 15.8% of the total net assets of the Fund. During 2012/13 the insurance contract was limited to five individual funds each representing a different asset class as follows:

31st March 2012 £m		31st March 2013 £m
651.083	UK Equities	719.948
19.580	European ex UK Equities	1.627
33.560	North America Equities	23.730
114.238	Index-Linked Gilts	95.768
0	Emerging Markets Local Currency Bonds	19.630
818.461	**Total**	**860.703**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2013, this was valued at £389.870m (£338.543m as at 31st March 2012) and represented 7.2% of the total net assets of the Fund.

21. OUTSTANDING COMMITMENTS

As at 31st March 2013 the Fund had thirty-eight outstanding commitments to investments valued at £463.3m. These are shown below:

Name of Fund	Year	Value m	Drawdowns Made m	Commitment m	Outstanding m
HarbourVest International Private Equity Partners IV - Partnership	2002	$55.0	$52.5	$2.5	£1.6
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$41.6	$4.4	£2.9
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.3	$0.7	£0.5
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$26.2	$1.8	£1.2
Capital International Private Equity Fund IV	2004	$18.0	$17.8	$0.2	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 86.5	€ 13.5	£11.4
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.8	€ 1.2	£1.0
Pantheon Asia Fund IV	2005	$20.0	$16.3	$3.7	£2.4
Pantheon Europe Fund IV	2005	€ 25.0	€ 21.9	€ 3.1	£2.6
Pantheon USA Fund VI	2005	$30.0	$27.4	$2.6	£1.7
Lexington Capital Partners VI-B	2005	$30.0	$29.0	$1.0	£0.7
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$82.9	$29.1	£19.2
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$45.9	$10.1	£6.7
Pantheon Europe Fund V	2006	€ 35.0	€ 27.0	€ 8.0	£6.8
Pantheon USA Fund VII	2006	$35.0	$25.6	$9.4	£6.2
Coller International Partners V	2006	$30.0	$23.5	$6.5	£4.3
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$28.1	$1.9	£1.3
Pantheon Asia Fund V	2007	$20.0	$15.5	$4.5	£3.0
Pantheon Europe Fund VI	2007	€ 40.0	€ 24.0	€ 16.0	£13.5
Pantheon USA Fund VIII	2007	$35.0	$21.0	$14.0	£9.2
Capital International Private Equity Fund V	2007	$35.0	$30.6	$4.4	£2.9
Co-Investment Partners Europe	2007	€ 30.0	€ 27.7	€ 2.3	£1.9
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 27.9	€ 2.1	£1.8
Infracapital	2007	£35.0	£32.0	£3.0	£3.0
Capital International Private Equity Fund VI	2010	$35.0	$6.3	$28.7	£18.9
Lexington Capital Partners VII	2010	$30.0	$18.1	$11.9	£7.8
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$25.6	$14.4	£9.5
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 37.0	€ 23.0	£19.5
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 71.8	€ 73.2	£61.9
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 40.7	€ 29.3	£24.8
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 22.8	€ 62.2	£52.6
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$68.8	$31.2	£20.5
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$12.1	$52.9	£34.8
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 13.0	€ 37.0	£31.3
Coller International Partners VI	2012	$45.0	$11.4	$33.6	£22.1
Pantheon Asia Fund VI	2012	$40.0	$8.0	$32.0	£21.1
Pantheon Europe Fund VII	2012	€ 25.0	€ 5.1	€ 19.9	£16.8
Pantheon USA Fund IX	2012	$30.0	$6.0	$24.0	£15.8
Total Outstanding Commitments					**£463.3**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2013.

22. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US, adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31st March 2013 was £539.944 million (£487.920 million at 31st March 2012).

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed Actuary of the Fund. The Fund does not update this liability in the intervening years. The methodology used to calculate the liability is in line with accepted guidelines and in accordance with IAS 26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

23. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. As actual results cannot be predicted with certainty they could be materially different from the assumptions and estimates.

The items in the net assets statement at 31st March 2013 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Debtors	At 31st March 2013, the Fund had a balance of sundry debtors of £33.344 million. The Fund makes no provision for bad debts on the majority of these, making provision only where there is significant likelihood that the debt will not be paid. This related to £0.095 million in the year.	If an additional 50% allowance was made for debts older than 12 months an additional provision of £0.058 million would be required, to increase the provision to £0.153 million.
Private Equity	Private equity investments are based on valuations provided by the manager of the fund's in which the Fund has invested. These are based on the Private Equity Valuation and the International Private Equity and Venture Capital Valuation Guidelines, outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation	The Fund has a total of £539.944 million included for private equity investments. There is a risk that this could be under or over stated in the accounts.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review, therefore there is a chance that the valuation of £7,037.3 million in Note 25 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note and this will be under review for the accounts 2013/14.

24. RELATED PARTY TRANSACTIONS

Under IAS24 "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 2012/13, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.796 million. These were split as follows:

- South Tyneside Council charged the Fund £0.432 million (£0.408 million in 2011/12) in respect of services provided, primarily being legal and building costs.
- The Fund charged South Tyneside Council £0.052m (£0.051m in 2011/12) in respect of Treasury Management services.

- BT South Tyneside Limited charged the Fund £0.312 million (£0.322 million in 2011/12) in respect of services provided, primarily being financial and information technology.

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

25. 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 31st 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.

	Value as at 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:

	31st 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	**31st 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 27th May 2011. A full copy 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TYNE AND WEAR PENSION FUND

We have audited the accounting statements of the Tyne and Wear Pension Fund (administered by South Tyneside Council) for the year ended 31 March 2013 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 2012/13.

Respective responsibilities of the South Tyneside Council Corporate Director, Business and Area Management and the auditor

The South Tyneside Council Corporate Director, Business and Area Management 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 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting statements 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 the Tyne and Wear Pension Fund's 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 accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 and the overall presentation of the accounting statement. In addition, we read all the financial and non-financial information in the pension fund Annual Report to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statement

In our opinion the pension fund's accounting statement:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the pension fund accounting statement is prepared is consistent with the accounting statement.

Greg Wilson
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Newcastle upon Tyne

27 September 2013

Notes:

(a) The maintenance and integrity of the Tyne and Wear Pension Fund website is the responsibility of senior officers of the pension fund and South Tyneside Council; 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 accounting statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of accounting 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
[SAT NAV NE31 2SW]

PENSIONS HELPLINE:
TEL: 0191 424 4141 OR 0845 625 4141

FAX: 0191 424 4171

EMAIL: PENSIONS@TWPF.INFO

WEB: WWW.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.