

East Riding Pension Fund Annual Report and Accounts 2008/2009

Contents

Section	Page No
Foreword	2
Report of the Pensions Committee	3
Statement of Responsibilities for the Financial Statements	4
Statement of Investment Principles	5
Funding Strategy Statement	8
Communications Policy Statement	11
Governance Compliance Statement	11
Members, Representatives and Officials	12
Fund Membership	13
Legal Framework	14
Scheme Benefits	15
Management	16
Custodial Arrangements	16
Fund Statistics	17
Investment Distribution	20
Investment Markets	22
Investment Performance	23
Actuarial Valuation	24
Report of the Actuary	25
Accounts	26
Notes to the Accounts	28
Contact Points	36

Foreword

The Fund was created on the reorganisation of local government in 1974 with a value of £17.5m. The East Riding of Yorkshire Council became the Administering Authority on 1 April 1996, by which time the Fund was valued at £786.5m. At 31 March 2009 the Fund was valued at £1,614.8m, having paid out £101.2m during the year for the benefit of Scheme members. This is a fall of £398.6m from 31 March 2008, resulting from the market turbulence, which began in the autumn of 2007, continuing throughout the financial year under review. Further market commentary can be found on page 22 of this report.

All employees, other than teachers, of the Administering Authority and 49 Scheme Employers are entitled to participate in the Scheme. Employees of the 34 Admitted Bodies may be nominated for membership by their employer. Teachers, police officers and firemen have separate pension arrangements.

Although membership is not compulsory, it is automatic for all employees who have a contract of employment that is for at least 3 months and who are under age 75. Employees have freedom of choice to leave the Scheme and make alternative pension arrangements.

During the year the total membership of the East Riding Pension Fund has continued to grow, and stood at 84,579 at 31 March 2009, an increase of over 5% in the year. Active membership, currently standing at 35,531, shows an increase of 1,532, well over 4%. All the membership figures in the report are based on the up to date position recorded on the benefit system, with all previous years restated on a consistent basis. The number of pensioners also continues to rise, currently standing at 19,833, an increase of 728. This figure includes the pensions that are paid to the spouses and dependants of former scheme members. The average pension in payment is £3,918.20 per annum, equivalent to a weekly payment of £75.14.

The Government introduced significant changes to the Scheme with effect from 1 April 2008, which was a significant drain on resources within the administration section, due to the necessary system changes and extensive staff training. Despite these pressures the section continued to meet its targets. Regulations continue to be amended, some with retrospective effect.

I am pleased to be able to report that the Fund returned 9.8% per annum for the three year period to 31 March 2008, 1% above the Local Authority median of 8.8% per annum, and ranking in the top quartile for the three year period.

I would like to extend my appreciation to everyone involved in the management of the Fund whose efforts have resulted in a continuation of the standard of service that members of the Fund have come to expect.

Caroline Lacey
Head of Finance
The East Riding of Yorkshire Council
29 June 2009

Report of the Pensions Committee

The Pensions Committee is responsible for the administration of the East Riding Pension Fund in accordance with Statutory Regulations, under delegation contained in the Constitution of the East Riding of Yorkshire Council. During the past year the Committee consisted of twelve Members of the East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils and four trade union representatives attend Committee meetings to ensure that the views of the other major employers and individual members of the scheme are taken into account. A list of those who served on the Committee is on page 12.

The Committee normally meets up to eight times a year; with four meetings devoted to investment business, and the remainder to other matters.

The Committee met quarterly to consider investment reports from the Director of Corporate Resources, the external manager and advisors. As part of the investment strategy the Committee has agreed a Statement of Investment Principles (SIP) (pages 5 to 7), which sets out in some detail how the Fund is managed, and a Funding Strategy Statement (FSS) (pages 8 to 11), which sets out the assumptions on which the last actuarial valuation at 31 March 2007 was based. The SIP, which is reviewed annually, should be read together with the report on investments, which is on pages 22 to 23.

In addition, the Committee considered:-

- Corporate Governance and Voting Policy;
- Treasury Policy Statement;
- Audit and Assurance reports on Schroder Investment Management and Northern Trust;
- Improving the flows and quality of information from the principal employers;
- Investment performance statistics;
- The revenue budget;
- The Annual Report and Accounts;
- Audit Reports;
- Reports on a variety of issues which occurred during the year.

Attention was also given to the work of the Pensions administration section in view of the Government delays in publishing the regulations for the new Scheme, introduced on 1 April 2008. These delays meant that preparations for the changes were being made up to the last minute, and indeed some regulations were not published until after the new Scheme had been introduced. Retrospective regulations are normally only acceptable to regularise unforeseen problems, so this was particularly disappointing. It is a credit to the staff involved that the new Scheme has been implemented successfully, and with a minimum of disruption for service users.

The investment performance of the Fund remains good, having achieved top quartile return of 9.8% per annum (p.a.) for the three years to 31 March 2008, considerably ahead of both the investment objective of 7.1% p.a. and the RPI, which was 3.6% p.a. over the period. Investment returns for the recent period have been much more volatile, but the good long term performance has prepared the Fund for this more challenging environment.

Councillor Chad Chadwick
Chairman
29 June 2009

Statement of Responsibilities for the Financial Statements

Responsibility for the Financial Statements, which form part of this Annual Report, is set out below.

Administering Authority

The Administering Authority is required:-

- To make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Resources;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To prepare and publish a statement of accounts in accordance with the Accounts and Audit Regulations 2003.

Head of Finance

The Head of Finance is responsible for the preparation of the Fund's financial statements, which in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ("the Code"), are required to present fairly the financial position of the Fund and its income and expenditure for the year ended 31 March 2009. This document includes the financial statements for the Pension Fund only. The financial statements of the East Riding of Yorkshire Council are published separately.

In preparing these financial statements, the Head of Finance has:-

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Head of Finance has also:-

- Kept proper accounting records, which were up to date;
- Taken responsible steps for the prevention and detection of fraud and other irregularities.

Certificate

I hereby certify that the following Annual Report and Accounts presents fairly the financial position of the East Riding Pension Fund as at 31 March 2009 and its income and expenditure for the financial year then ended.

Caroline Lacey
Head of Finance
East Riding Pension Fund
29 June 2009

Statement of Investment Principles

Introduction

The East Riding Pension Fund is required to maintain a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The SIP for the East Riding Pension Fund is set out below, and complies with the Local Government Pension Scheme Regulations. The Pensions Committee agreed this SIP at its meeting on 25 April 2008.

The East Riding Pension Fund is also required to maintain a Funding Strategy Statement (FSS) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The FSS for the East Riding Pension Fund, which was approved by the Pensions Committee at its meeting on 25 April 2008 complies with the Regulations. There have been no revisions to the FSS since that date.

In preparing the SIP and the FSS, the Pensions Committee has taken professional advice from its advisors and investment managers, whom it considers are suitably qualified and experienced in investment matters. The principal employers and trade unions are represented at the Pensions Committee, enabling their views to be taken into account.

Governance

The Pensions Committee consists of twelve Members of the East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils and four trade union representatives attend Committee meetings to ensure that the views of other interested parties are properly considered by the Committee.

Pensions Committee's investment powers

The Pensions Committee's investment powers are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended. This SIP is consistent with these powers and does not restrict the Pensions Committee's investment powers.

Investment managers and advisor

The investment managers employed by the Pensions Committee to manage the assets of the East Riding Pension Fund are the Director of Corporate Resources and Schroder Investment Management. They are responsible for the day-to-day investment management of the Fund's assets. The external investment manager, Schroder Investment Management, is authorised by the Financial Services Authority (FSA) to conduct investment business under the terms of the Financial Services and Markets Act 2000.

In addition Mrs. S. Bates has been employed by the Pensions Committee to provide independent advice.

The Pensions Committee has signed client agreements with the external investment manager and advisor.

The Pensions Committee regularly monitors the operations and performance of the investment managers and advisor acting for the East Riding Pension Fund in relation to their investment performance, value for money, best advice and adherence to this SIP.

Sub-delegation

The external investment manager may only delegate its duties to a third party with the prior permission of the Pensions Committee. Any third party employed by the investment manager must adhere to this SIP.

Kinds of investments to be held and the balance between these investments

Based on expert advice, the Pensions Committee has determined a benchmark mix of asset types, which are considered suitable for the Fund. The following guidelines are set for the Fund's asset allocation mix:

UK equities	40 - 60%
UK bonds	0 - 10%
Index linked Bonds	0 - 10%
Foreign equities	25 - 35%
Foreign bonds	0 - 10%
Property	0 - 10%
Other Investments	0 - 10%
Cash	0 - 10%

In exceptionally volatile markets, these limits can be allowed to vary by up to 10% within each category.

The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment managers and investment advisor.

Fund managers are required to maintain a proper balance between these different categories of investments at all times. This is to ensure that the Pensions Committee's policy towards risk is safeguarded.

Risk and diversification of investments

It is the Pensions Committee's policy to invest the assets of the East Riding Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee's policy towards the kinds of investments that are held is explained under 'The suitability of investments' below.

To ensure that equity portfolios are sufficiently diversified, and to reduce the risk to members and beneficiaries of over investment in any single particular stock, fund managers are not permitted to invest more than 10% of the Fund in the shares of any one company or investment.

The Pensions Committee has approved an increase in the lower limit set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 for investment through limited partnerships to 10%, two thirds of the prescribed maximum, for a period of 5 years, and the decision is to be reviewed annually as part of the consideration of the SIP. This increase in the limit is required to facilitate investment in the range of investments set out in 'Kinds of investments to be held and the balance between these investments' above, and by allowing greater diversification should reduce overall portfolio risk.

The investment policy of the East Riding Pension Fund does not permit any employer related investment, either in the assets, stock, land or property of the Principal Employers or the assets, stock, land or property of any associated employers. The Pensions Committee considers that employer related investments pose too great a risk to the security of the Fund.

The suitability of investments

The categories of investments described earlier are considered suitable for the Fund, subject to the specified limits, and the above restrictions. The investment managers may invest in these investments without prior consultation with the Pensions Committee.

Sub-underwriting is a satisfactory investment where the Fund holds, or intends to hold, the relevant issue. The use of derivatives for currency or other hedging purposes requires the approval of the Pensions Committee.

The expected return on investments

The Actuarial valuation at 31 March 2007 was prepared on the basis of an expected real return on assets of 2.8% over the long term, a nominal return of 6.1% assuming inflation to be 3.2%.

The Pensions Committee has set the investment objective of producing a return of 1% above the expected return assumed by the Actuary on a rolling three year calculation. In order to achieve this the strategic asset allocation approved by the Pensions Committee is:-

- Equities 75%
- Bonds & Cash 12%
- Alternative Investments 13%

In order to monitor this the Pensions Committee requires the provision of detailed performance measurements of the Fund's investments. This is provided by an independent monitoring service, the WM Company, which presents its report to the Committee annually.

The realisation of investments

The Fund's investment managers have discretion as to the timing and amount of the realisation of investments.

Pensions Committee's policy on socially responsible investment

As a responsible investor, the East Riding Pension Fund wishes to promote corporate social responsibility, high standards of corporate governance, good practice and improved company performance amongst all companies in which it invests. The Fund will therefore monitor investee companies to ensure they meet standards of best practice in relation to their key stakeholders.

The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility and corporate governance issues by companies, consistent with the Fund's fiduciary responsibilities.

In accordance with this policy, the Fund will seek where necessary to use its own efforts, its fund managers and alliances with other investors to pursue these goals. In addition, the Fund will pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies as determined from time to time.

Pensions Committee's policy on shareholder voting

The Fund supports the principles underpinning the Combined Code. However, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside the Combined Code on which the Fund will take a view.

The Fund will vote in favour of resolutions which are in line with these guidelines or comply with best practice. The Fund will vote against resolutions which do not meet these guidelines, or which represent a serious breach of best practice, or which will have a negative impact on shareholders rights. The Fund may abstain on resolutions which may have an adverse impact on shareholder rights, or represent a less significant breach of these guidelines, or where the issue is being raised for the first time with a company. The specific voting outcome will depend on the particular circumstances of the company and the types of resolution on the meeting agenda.

Compliance with the CIPFA Pensions Panel "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK".

The ten principles of investment practice set out in the CIPFA Pensions Panel "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" are complied with in the arrangements made for managing the investments of the Fund.

Compliance and monitoring of the SIP

The investment managers and investment advisor are required to adhere to the principles set out in this Statement of Investment Principles. The Pensions Committee will require an annual, written, statement from the investment managers and investment advisors that they have adhered to the principles set out in this statement.

The Statement of Investment Principles of the East Riding Pension Fund is revised by the Pensions Committee on an annual basis.

Funding Strategy Statement

Local Authority Pension Funds are required to maintain Funding Strategy Statements (FSS) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The FSS for the East Riding Pension Fund, which was approved by the Pensions Committee at its meeting on 25 April 2008, is set out below and complies with the Regulations. There have been no revisions since that date.

In preparing the FSS, the Pensions Committee has considered the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel, and the Statement of Investment Principles (SIP). All employers and the trade unions have been consulted, and their views taken into account.

CIPFA Pensions Panel Guidance

The guidance sets out the following headings to be covered by the FSS :-

- purpose of the FSS in policy terms;
- aims and purpose of the Pension Fund;
- responsibilities of the key parties;
- solvency issues and target funding levels;
- links to investment policy set out in the SIP;
- identification of risks and counter measures.

The FSS is part of the process undertaken by the Administering Authority (i.e. East Riding of Yorkshire Council) to ensure participation by employers and accountability to employers in managing future pension costs. It provides a framework which allows long term political scrutiny of the valuation process and improves the communication with all Scheme employers.

The FSS provides a comprehensive and cohesive strategy for the Fund as a whole, identifying how employers' pension liabilities will be met, while maintaining stable contribution rates taking a prudent long term view of the liabilities.

The aims of the Fund are to :-

- ensure that sufficient resources are available to meet liabilities as they fall due;
- manage employers' liabilities effectively;
- maintain stable and affordable employer contribution rates;
- maximise the investment return while controlling the risk.

The purpose of the Fund is to :-

- receive monies due to the Fund from all sources, in particular contributions, transfer values and investments;
- invest monies held within the Fund in accordance with the SIP; pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

The sound management of the Fund relies on all interested parties exercising their duties and responsibilities conscientiously and diligently. The key parties in this statement are the Administering Authority, individual employers and the Actuary.

The Administering Authority should:-

- collect contributions;
- invest all monies held in accordance with the SIP;
- maintain adequate records for each Scheme member;
- exercise discretions within the regulatory framework, taking into account the cost of decisions;
- ensure sufficient cash is available to meet liabilities as they fall due;
- pay benefits and transfer values in accordance with the regulations and the advice of the Actuary ;
- provide membership records to the Actuary promptly when required;
- prepare and maintain an FSS and SIP in consultation with interested parties;
- monitor all aspects of the Fund's performance and funding.

Individual employers should :-

- deduct contributions from employees' pay correctly ;
- pay all contributions, including their own, as determined by the Actuary, and strain costs, promptly by the due date;
- provide adequate membership records to the Administering Authority promptly as required;
- exercise discretions within the regulatory framework, taking into account the cost of decisions;
- make additional contributions in accordance with agreed arrangements determined by the Actuary to cover, for example, augmentation of scheme benefits and early retirements;
- notify the Administering Authority promptly of all proposed changes in membership which may affect future funding.

The Actuary should :-

- prepare valuations including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority, and having regard to this FSS;
- provide advice and calculations for bulk transfers and individual benefit matters.

Due to the statutory basis of the Scheme the Fund remains outside the solvency arrangements established for private sector schemes.

The Fund has a target of achieving a funding level of 100% within periods related to the financial standing of the employer, with a maximum of 20 years, which is considered to be a prudent period in the context of providing for pension liabilities in the public sector.

The limits which will normally apply are :-

- Scheduled and Resolution bodies - 20 years
- Admission bodies - future working lifetime of members
- Transferee admission bodies - remaining contract period.

Where the Actuary determines a new contribution rate to achieve full funding in accordance with the previous paragraph, such new rates may be phased in within periods related to the financial standing of the employer, with a maximum of 6 years. Any such phasing is subject to achieving full funding within the period set in accordance with the previous paragraph. The maximum periods are :-

- Scheduled and Resolution bodies - 6 years
- Admission bodies - 3 years
- Transferee admission bodies - 3 years

In determining contribution rates for certain similar smaller employers the Actuary will pool the liabilities in order to smooth the contributions required of those employers in the short term. In cases where employers have negotiated separate assumptions in order to maintain medium term affordability, they accept a higher risk of material variations to their contribution rate, which would otherwise be smoothed within the pooling arrangements. Contractors entering the scheme under best value or partnership arrangements, transferee admission bodies, will have their contributions determined by the Actuary to achieve full funding at the end of the contract.

Where an employer has closed the scheme to new employees, the contribution rate determined by the Actuary is based on the aging and reducing work force, and will necessarily be higher to reflect the shorter term of the liability. Where there are no remaining employees and there is a deficit, the employer will be required to continue making contributions as determined by the Actuary to meet that deficit. If only deferred liabilities remain the employer will be informed of the deficit, and put on notice that further contributions may be required when those benefits come into payment, and the deficit can be accurately determined by the Actuary. Where the employer no longer exists the guarantor, or the final public sector employer, will be called upon to make the required contributions.

In calculating the funding level it is necessary to make certain assumptions on both demographics and financial matters.

The demographic assumptions are made to estimate the incidence of contributions being received and benefits being paid. The assumptions used by the Fund are those produced by a detailed study of the

experience of all local authority clients of the Actuary, using the results for rural authorities as the best estimate. However, as the Fund covers a mixture of rural and urban areas this should provide an element of prudence at the whole Fund level.

The financial assumptions are made to evaluate future benefits payable, and then to discount those liabilities to a present value. The key assumptions for evaluating future benefits payable are pay and price increases, and promotion experience. The discount rate applied to calculate the present value is based on estimated future investment returns. This allows the assets of the Fund to be compared to the present value of the liabilities to determine the funding level.

The financial assumptions used in the 2007 valuation of the Fund are summarised as follows :-

	Nominal % p.a.	Real % p.a.
Pay Increases	4.7	1.5
Price Inflation	3.2	-
Discount Rate	6.1	2.8

Pay increases are split into two, general pay rises and promotional pay growth. The latter is subject to detailed analysis of the past by the Actuary, and then applied to the current workforce. General real pay rises have been between 1.5% and 2% for the last ten years, so the lower level of 1.5% has been applied.

Price inflation is simply derived from the difference between the yields on conventional and index linked government bonds, and at 31 March 2007 this was 3.2%.

The discount rate has been derived by the Actuary taking into account the Fund's current and expected future investment strategy and an assumed outperformance of 1.6% p.a. These factors when combined produce a discount rate 6.1%.

The SIP sets out the kinds of investments to be held and the balance between these investments. The benchmark mix of assets in the SIP is compatible with the basis on which the discount rate has been derived.

The expected rate of return and the target set for the investment managers in the SIP are reviewed annually as a matter of course, and the relationship with the requirements of the FSS are considered at the same time.

Identification of Risks and Counter Measures

Risks are considered in four categories, financial, demographic, regulatory and governance.

Financial risks relate to the discount rate, or expected return on investments, and inflation, in respect of both pay and prices. The return on investments may fall below expectations for two reasons, first that markets fail to perform in line with assumptions, and second that investment managers fail to achieve performance targets over the long term. The Fund has attempted to mitigate these risks through diversification, by permitting investment in a wide variety of markets and assets, and through the use of two fund managers with differing mandates. The Pensions Committee reviews performance of both markets and managers regularly to ensure results are acceptable.

The demographic risks can be considered in two categories, further increases in longevity and variation in employment patterns. The first is likely to be a gradual process, and can be satisfactorily taken into account at subsequent valuations. The latter is an issue for employers, where managing the age profile of the workforce, early retirement and ill health retirement will affect the valuation. Clearly, as the retirement age rises the incidence of ill health retirements will rise, and employers will have to manage this more effectively.

The regulatory risks to the scheme can result from changes to the scheme regulations, taxation, or national changes to pension requirements. The Fund will normally submit views from its perspective, but employers frequently have a greater interest in these proposed changes, and should be submitting their views too.

The governance risk is essentially one of communication between employers and the Administering Authority, where for example an employer fails to inform the Administering Authority of major changes, such as a major contract going out, or an admission body closing the Scheme to new entrants. The Administering

Authority would always advise the major employers to consider making past service deficit payments as lump sums, rather than as a percentage of payroll, to avoid any under payment accruing as a result of such changes. The Administering Authority also seeks to maintain regular contact with employers, with liaison officers specifically appointed for this purpose.

In order to protect the Fund where new employers are admitted the existing scheme employer (which will liaise with the Administering Authority), or the Administering Authority where appropriate, will perform a risk assessment to determine the requirement for a bond or indemnity, and will review this requirement annually.

Communications Policy Statement

The East Riding Pension Fund, administered by East Riding of Yorkshire Council (the Administering Authority), liaises with 84 employers and approximately 84,500 active, deferred and pensioner scheme members in relation to the Local Government Pension Scheme. The Communications Policy Statement of the Fund provides an overview of how the Fund communicates with different stakeholder groups, the format and frequency of the various methods of communication used and how the Fund measures whether their communications are successful.

The Pension Section has a team of six people who are responsible for communications, including a Communications Officer and two Pension Liaison Officers who work very closely with all the scheme's employers and their employees to promote the Local Government Pension Scheme. The team write and jointly design all communications including any web based or electronic material. They are also responsible for arranging all forums, workshops and meetings covered within this statement.

The Statement covers communications with the following audience groups:-

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admission bodies);
- senior managers;
- Pensions Committee;
- Pension Section staff;
- tax payers;

In addition there are a number of other stakeholders with whom the Fund communicates on a regular basis, such as HM Revenue and Customs, Communities and Local Government and other pension providers.

The Fund's Communication Policy is reviewed on an annual basis to ensure it meets audience needs and regulatory requirements. A current version of the Policy Statement can be viewed at www.erpf.org.uk or a copy can be requested from the Pensions Section (for contact details see page 36).

Governance Compliance Statement

The function of the Administering Authority is delegated to the Pensions Committee in accordance with the Constitution of the Council. The Committee normally meets eight times a year, with at least four meetings devoted principally to investment business. The Committee does not establish any secondary committees or panels.

The Pensions Committee consists of twelve Members of the East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils, and four trade union representatives attend Committee meetings to ensure that views of other interested parties are properly considered by the Committee. There are no representatives of admitted bodies on the Committee, so the Committee holds an Annual Meeting to which all employers are invited. This provides them with the opportunity to raise any concerns they may have directly with the Committee, which then ensures they can be properly considered

by the Committee. In addition, the Committee formally consults all employers on the Funding Strategy Statement every three years. There is no specific representation for deferred or pensioner members, but with the wide representation, including four trade union representatives, it is considered that their interests will be taken into account.

The Statement of Investment Principles sets out the operational procedures, while the Annual Report, which is submitted to the Annual Meeting of the Fund, completes the cycle of accountability.

This Governance Compliance statement complies with the draft guidance issued by the Secretary of State.

Members, Representatives and Officials

Pensions Committee as at 31 March 2009

Members

Councillor R Allerston

Councillor JL Bird

Councillor C Chadwick

Councillor R Hudson

Councillor CA Lynn

Councillor G Megson

Councillor P O'Neil

Councillor J P Parsons

Councillor B Pearson

Councillor P Pollard

Councillor P Smith

Councillor PA Turner

Unitary Council Representatives

Councillor D Whiteley (North Lincolnshire)

Councillor AK Bell (Hull City)

Councillor T McCabe (North East Lincolnshire)

Trade Union Observers

Ms A Bentley (GMB)

Mr M Burgess (UNITE)

Mr S Cunliffe (Unison)

Mr B Smith (Unison)

Fund Managers

Director of Corporate Resources

Schroder Investment Management (UK) Limited

Banker

Royal Bank of Scotland

Fund Advisor

Mrs S Bates

Auditor

Audit Commission

Administrator of the Scheme Benefits

Director of Corporate Resources

Legal Advisor

Director of Corporate Resources

Secretary to the Pensions Committee

Director of Corporate Resources

Performance Measurement

WM Company

Custodian

The Northern Trust Company

Actuary

Hymans Robertson

Fund Membership

The 84 employers, including East Riding of Yorkshire Council, with an interest in the Pension Fund are listed below: -

ADMINISTERING AUTHORITY East Riding of Yorkshire Council

SCHEME EMPLOYERS (49)

Archbishop Sentamu Academy
Barmby Moor CE Primary School
Barton upon Humber Town Council
Beverley Town Council
Bishop Burton College
Bottesford Town Council
Bridlington Town Council
Brigg Town Council
Burton upon Stather Parish Council
Driffild Town Council
East Riding College
East Yorkshire Valuation Tribunal
Elloughton cum Brough Parish Council
Franklin College
Goole Town Council
Grimsby Institute of Further & Higher Education
Havelock Academy
Hedon Town Council
Hornsea Town Council
Howden CE Infants School
Hull College
Humber Bridge Board
Humberside Fire Authority
Humberside Magistrates' Courts Committee
Humberside Police Authority
Humberside Probation Trust
Immingham Academy
Immingham Town Council
Internal Drainage Boards

- Beverley and North Holderness
- Lower Ouse
- Market Weighton

John Leggott College
Kingston upon Hull City Council
Kingstown Works Limited
Kirton in Lindsey Town Council
Market Weighton Town Council
North East Lincolnshire Council
North Lincolnshire Council
North Lindsey College
South Cave Parish Council
The St. Lawrence Academy
University of Lincoln

Warter CE Primary School
Wilberforce College
Winteringham Academy
Withernsea Town Council
Wold Newton Foundation School
Wyke College
Yorkshire and Humberside Grid for Learning
COMMUNITY ADMISSION BODIES (26)
Community Council of Humberside
Connexions Humber Limited
Grimsby and Cleethorpes Pathfinder Project Limited
Havelok Housing Association
Hull and Goole Port Health Authority
Hull Charterhouse Trustees
Hull Citybuild
Hull & East Yorkshire Community Foundation Limited
Hull Resettlement Project Limited
Hull Young Peoples Christian & Literary Institute
Humbercare Limited
Humber Economic Partnership
Humberside Independent Care Association
Humberside International Airport Limited
Humberside Partnership
North East Lincolnshire Primary Care Trust Plus
North Eastern Sea Fisheries Committee
North Lincolnshire Homes Limited
NPS Humber Limited
Pickering and Ferens Homes
Pocklington School
Preston Road NDC Limited
Shoreline Housing Partnership Limited
Sobriety Project Limited
The Deep (EMIH) Limited
University of York

TRANSFEEE ADMISSION BODIES (8)

arvato government services (ERYC) limited
Connaught Partnership Limited
Jarvis Workspace FM Limited
Kier Support Services Limited
OCS Limited
P H Jones Limited
Sports and Leisure Management Limited
Superclean Services Wothorpe Limited

Legal Framework

The Local Government Pension Scheme (LGPS) is governed by the Superannuation Act 1972. The current scheme rules are contained within the LGPS (Benefit, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008, which became effective on the 1 April 2008. Whilst the Regulations are fixed on a national basis, the Scheme is managed by a designated Administering Authority, and throughout England and Wales there are 89 such authorities. The East Riding of Yorkshire Council is responsible for administering THE EAST RIDING PENSION FUND for the benefit of its own employees and the employees of the scheme employers and admission bodies. Full details of the employers participating within the Fund are shown on the previous page. Teachers, Police Officers and Firefighters are excluded from the Scheme, as they are members of separate statutory pension schemes.

The Scheme has to operate in accordance with many of the provisions of the Pensions Act 1995, and the Finance Act 2004, although in common with other public sector occupational pension schemes, certain provisions do not apply to the LGPS, such as Member Nominated Trustees, the Minimum Funding Requirement and the Appointment of External Advisers.

The LGPS is contracted-out for the purposes of state pension provision. Following changes to the State Earnings Related Pension Scheme from 6 April 1997, the Scheme was required to pass a test based on the quality of benefits. Having satisfied the Contributions Agency of its ability to meet this test, a certificate was granted to the Local Government Pension Scheme, effective from 6 April 1997. This enables most scheme members to pay a lower rate of National Insurance Contribution.

The Regulations specify the type and amounts of pension and other benefits payable in respect of Scheme members who leave, retire or die, and also fix the member contributions rates payable on an ongoing basis. Employees have the freedom to opt-out and make their own pension provision. Each Scheme member pays a contribution rate of 5.5% to 7.5%, of their full time pensionable earnings. Employer contribution rates are set by the Fund's Actuary every 3 years following his valuation of the Fund, in order to maintain the solvency of the Fund. New rates were set by the Actuary from 1 April 2008 following the 2007 Actuarial Valuation and almost all employers saw an increase in their rates, some fairly substantial. For the year 2008/2009 the Actuary set the common rate of employers' contributions across the Fund as 21% of pensionable pay, with individual employer rates being adjusted by reason of any circumstances peculiar to that employer. As part of the 2007 Actuarial Valuation the Actuary specified the rates that will be paid for the 3 years to 31 March 2011.

Scheme Benefits

Following a number of changes to the LGPS, introduced from 1 April 2008, the benefits provided under the Scheme for its members are:-

- An inflation proof pension with the option to convert part of the pension to extra lump sum. Benefits are based on final year's pay and periods of scheme membership accrued within the scheme;
- Early payment of pension benefits when retirement is necessary due to permanent ill-health;
- Early payment of pension benefits if aged 55 or over if:-
made redundant; retired through efficiency of the service; the scheme employer agrees to allow early voluntary retirement or agrees to the release of all or part of the member's pension benefits where the member continues to work on lower hours or grade. Certain members in the Scheme before 1 April 2008 have a protected earliest payment date of at least age 50 until 2010.
- A lump sum payable to the deceased's estate or nominated beneficiary, plus an inflation proofed dependant's pension if death occurs before retirement;
- An inflation proof dependant's pension for death after retirement and a guarantee to pay any balance of pension if death occurs within ten years of retirement.

For leavers not entitled to the immediate payment of benefits, pension rights, depending on length of Scheme membership, may be:-

- Preserved and inflation proofed, to be paid at normal retirement age or at any time before age 75 by election; or
- Transferred to another pension scheme arrangement including a personal pension plan or retirement annuity contract; or
- Refunded generally if Scheme membership is less than 3 months.

Facilities to increase personal benefits are available in a number of ways:-

- Purchase of additional Scheme pension for the member, or the member and any dependants', by means of increased pension contributions;
- Purchase of extra pension (annuity) by means of Additional Voluntary Contributions (AVC's) through the Fund's approved AVC provider, Prudential, with the ability to take up to 100% of the accumulated AVC fund as a lump sum on retirement;
- Purchase of additional Scheme membership by some scheme members by means of AVC's;
- Payment of AVC's through the Prudential to improve death-in-service lump sum or dependants' pension.

Safeguards for Scheme members are contained within the Scheme rules, which contain comprehensive complaints and disputes procedures. Members are able to seek redress through the Internal Disputes Resolution Procedure which allows access to a two stage procedure in an attempt to bring a solution to any dispute. If the member or former member is still unhappy with the decision reached at stage two there is the right for the complainant to then lodge their grievance with the Pensions Ombudsman. At any stage a Scheme member has the right to direct their complaint to The Pensions Advisory Service (TPAS).

Management

The arrangements for the management of the Fund are:

- The Pensions Committee meet at quarterly intervals to determine overall strategy, to review retrospectively detailed implementation of policy and to consider performance, with a further four meetings being held to consider other matters;
- The bond portfolios are managed 50/50 by Schroder Investment Management and the Corporate Resources Directorate;
- The UK equity portfolio is managed by the Corporate Resources Directorate;
- Overseas investments are managed by Schroder Investment Management, except for 60% of European equities which are managed by the Corporate Resources Directorate;
- Alternative assets are managed by the Corporate Resources Directorate;
- The Corporate Resources Directorate administers obligations to pensioners and Fund contributors.

Custodial Arrangements

The custodial arrangements for the Fund are contracted to The Northern Trust Company. Investments are held by Northern Trust in the nominee name of The East Riding Pension Fund. Northern Trust are also empowered to carry out stock lending on behalf of the Fund (see note H to the accounts).

Fund Statistics

The figures in the tables below and graphs opposite show key statistics and illustrate trends over the last five years:-

	2005	2006	2007	2008	2009
Active Members	31,505	32,715	33,169	33,999	35,531
Deferred Beneficiaries	19,845	21,526	24,804	27,345	29,215
Represented by:					
Deferred Members	14,490	16,814	19,368	21,531	23,161
Frozen Refunds	1,908	2,322	2,284	2,283	2,255
Undecided Leavers	3,447	2,390	3,152	3,531	3,799
Pensions in Payment	<u>17,067</u>	<u>17,503</u>	<u>18,224</u>	<u>19,105</u>	<u>19,833</u>
Total Membership	<u>68,417</u>	<u>71,744</u>	<u>76,197</u>	<u>80,449</u>	<u>84,579</u>

	£m	£m	(Restated) £m	(Restated) £m	£m
Income	149.2	169.9	204.8	223.1	217.2
Expenditure	<u>(80.4)</u>	<u>(89.4)</u>	<u>(84.6)</u>	<u>(100.8)</u>	<u>(101.2)</u>
Net Income	<u>68.8</u>	<u>80.5</u>	<u>120.2</u>	<u>122.3</u>	<u>116.0</u>
Pensions Increase (Inflation proofing factor)	2.8%	3.1%	2.7%	3.6%	3.9%
Employer's Average Contribution Rate (As a percentage of payroll cost)	14.0%	18.2%	19.5%	21.0%	21.0%

Fund Statistics

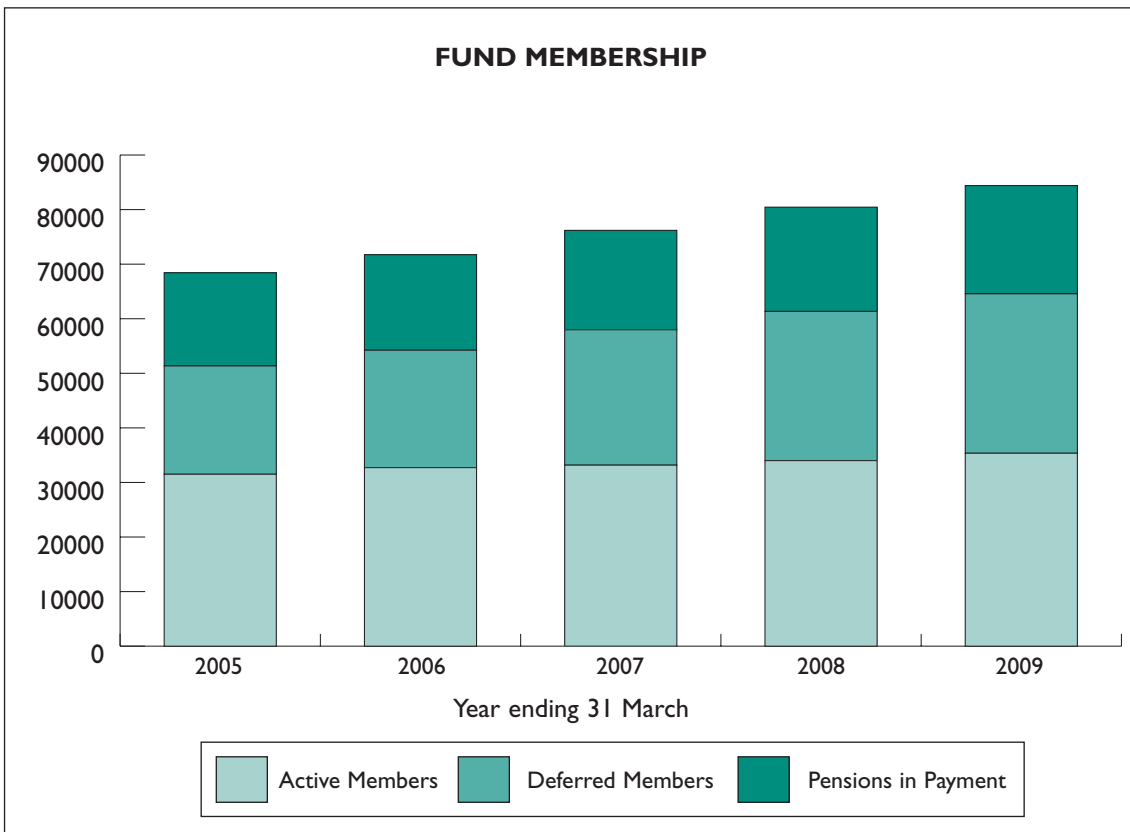
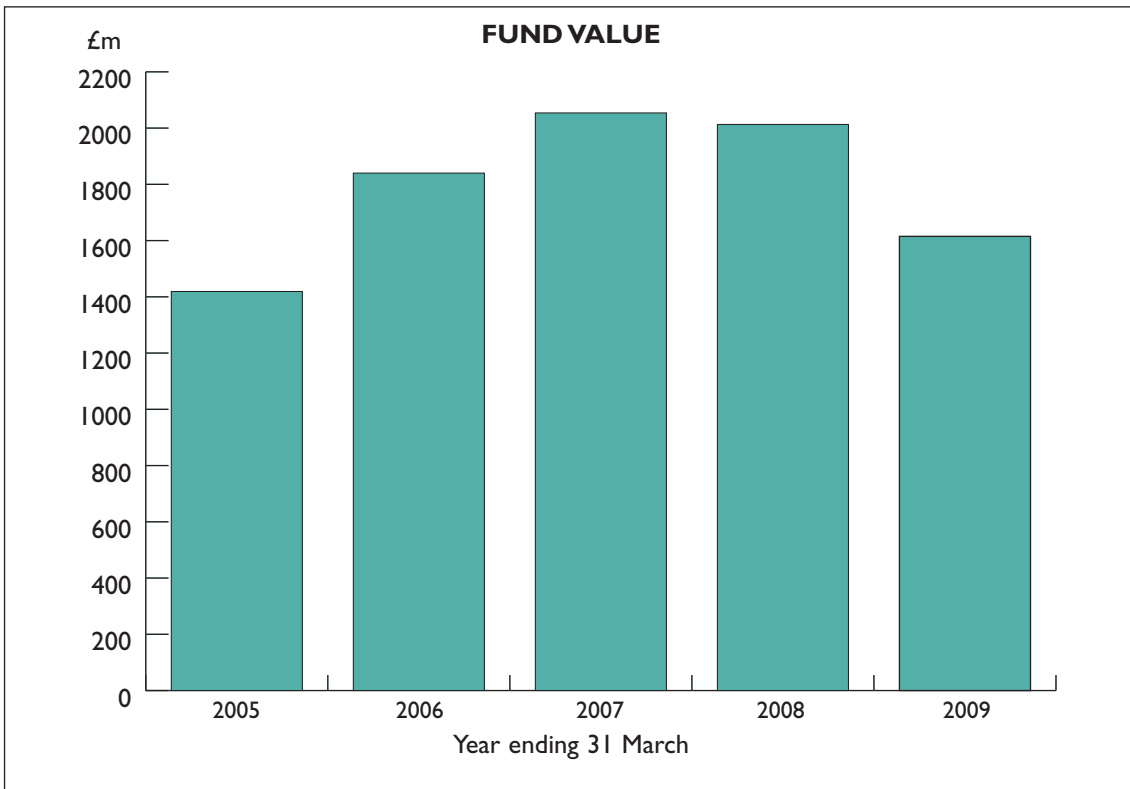
Summary of Membership changes during year

	Active Members	Deferred Members	Frozen Refunds	Undecided Leavers	Pensioners		Total
					Members	Dependant	
At 31 March 2008	33,999	21,531	2,283	3,531	15,892	3,213	80,449
New Members	4,967					248	5,215
Change in Status +	286	2,669	44	1,422	1,184		5,605
Change in Status -	3,663	762	29	1,139			5,593
Leavers	58	277	43	15	497	207	1,097
As at 31 March 2009	<u>35,531</u>	<u>23,161</u>	<u>2,255</u>	<u>3,799</u>	<u>16,579</u>	<u>3,254</u>	<u>84,579</u>

Pensions Administration - Key Task Volumes

Key Task	2005/06	2006/07	2007/08	2008/09
Processing New Starters	7,160	7,183	6,707	6,496
Processing Transfer Values	1,553	1,919	2,271	2,005
Refund of Contributions	348	136	120	155
Estimates of Benefits Entitlements	2,039	3,549	4,339	4,322
Processing Pension Benefits	1,142	1,426	1,752	1,759
Processing Deferred Benefits	3,922	3,156	4,852	5,350

Fund Statistics



Investment Distribution

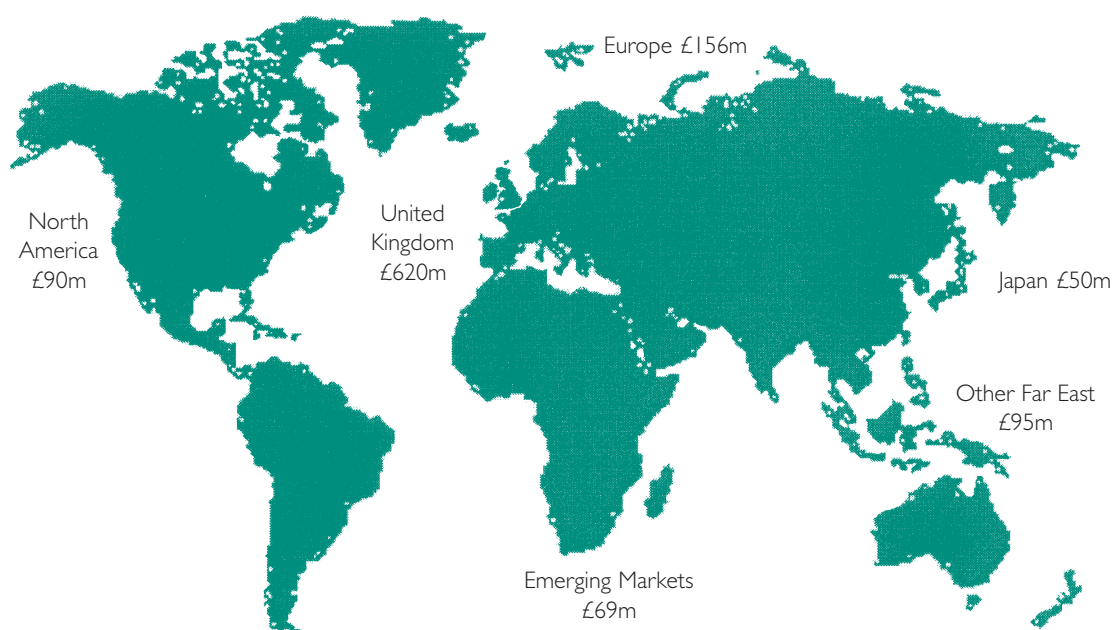
Trends

The composition of the investment portfolio for the last five years is set out below. The figures are based on market value and reflect the relative performance of investment markets and policy. The portfolios for the years 2005 and 2006 are valued at mid-price, the 2007, 2008 and 2009 portfolios are valued at bid-price.

Year ended 31 March

	2005		2006		2007		2008		2009	
	£m	%	£m	%	£m	%	£m	%	£m	%
UK Equities	618	44	834	46	983	48	905	45	601	37
Overseas Equities	410	29	570	31	598	29	611	30	479	29
UK Fixed Interest	81	6	93	5	89	4	92	5	100	6
UK Index Linked	28	2	18	1	19	1	26	1	25	2
Overseas Fixed Interest	50	4	52	3	53	3	44	2	63	4
Overseas Index Linked	-	-	5	-	4	-	13	1	12	1
Property	91	6	107	6	120	6	109	5	81	5
Private Equity	36	2	60	3	69	3	87	4	75	5
Private Finance Initiative	-	-	-	-	15	1	21	1	29	2
Other Investments	-	-	4	-	22	1	34	2	31	2
Cash	105	7	97	5	82	4	71	4	119	7
Total Value	<u>1,419</u>	<u>100</u>	<u>1,840</u>	<u>100</u>	<u>2,054</u>	<u>100</u>	<u>2,013</u>	<u>100</u>	<u>1,615</u>	<u>100</u>
Total Cost	1,186		1,291		1,453		1,594		1,717	

GEOGRAPHIC DISTRIBUTION OF EQUITY INVESTMENT as at 31 March 2009



Investment Distribution

DETAILS OF THE LARGEST EQUITY INVESTMENTS as at 31 March 2009

	Market Value £m		Market Value £m
Top 15 UK Equities		Top 15 Overseas Equities	
BP Plc	46.6	Total SA	7.7
Glaxosmithkline Plc	30.4	JP Morgan European Fledgling Investment Trust Co	5.7
Royal Dutch Shell Plc	27.3	Roche Holdings AG	4.8
Vodafone Group Plc	25.1	Jupiter European Opportunities Trust Plc	4.3
Astrazeneca Plc	19.2	Gartmore Irish Growth Fund Pc	3.9
BG Group Plc	19.2	Banco Santander SA	3.8
HSBC Holdings Plc	17.2	Telefonica SA	3.8
Rio Tinto Plc	15.1	Fidelity European Values Plc	3.7
British American Tobacco Plc	14.4	Nestle SA	3.7
Tesco Plc	14.0	Montanaro European Smaller Companies Trust Plc	3.5
BHP Billiton Plc	12.8	GDF Suez	3.1
Hansa Trust Plc 'A'	11.8	TR European Growth Trust Plc	3.1
Finsbury	10.0	Charter European Trust Plc	3.0
Biotech Growth Trust	9.8	JP Morgan European Investment Trust Plc	2.9
Diageo	9.4	Vivendi SA	2.8

DETAILS OF INSTITUTIONAL UNIT TRUSTS as at 31 March 2009

Global Equity Funds

	Market Value £m
Schroder Funds	
SGST North American Equity Fund	89.7
Pacific Fund	74.4
Emerging Markets Fund	69.2
Developing Markets Fund	20.7
UK Smaller Companies Fund	11.0
Recovery Fund	5.4
European Smaller Companies Fund	5.0
Japan Smaller Companies Fund	1.5

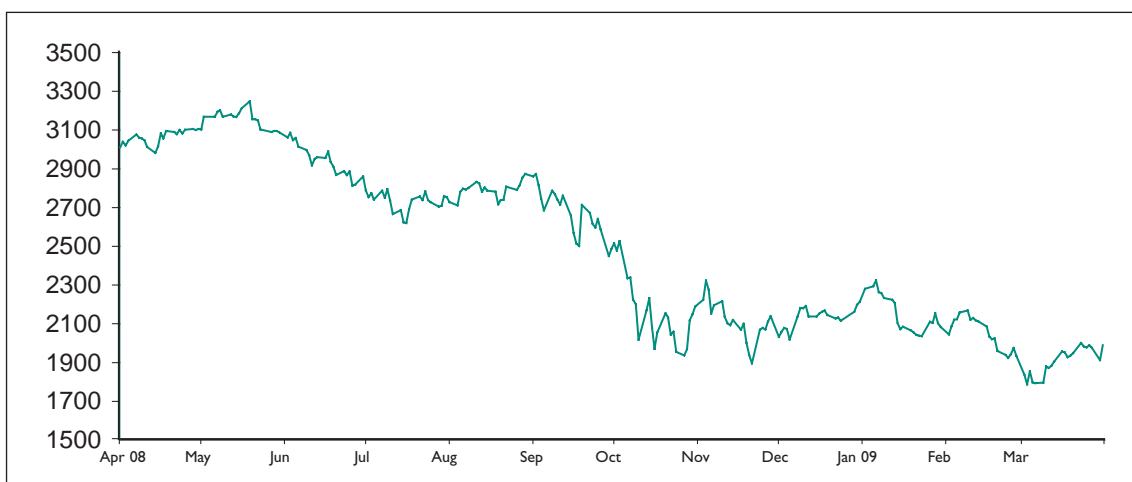
Property Funds

The Fund holds a portfolio of ten Property Funds valued at £81.0m as at 31 March 2009. Each investment is selected on the basis of its sector and geographic exposure in order that the Fund's total portfolio reflects the preferred area of investment.

Investment Markets

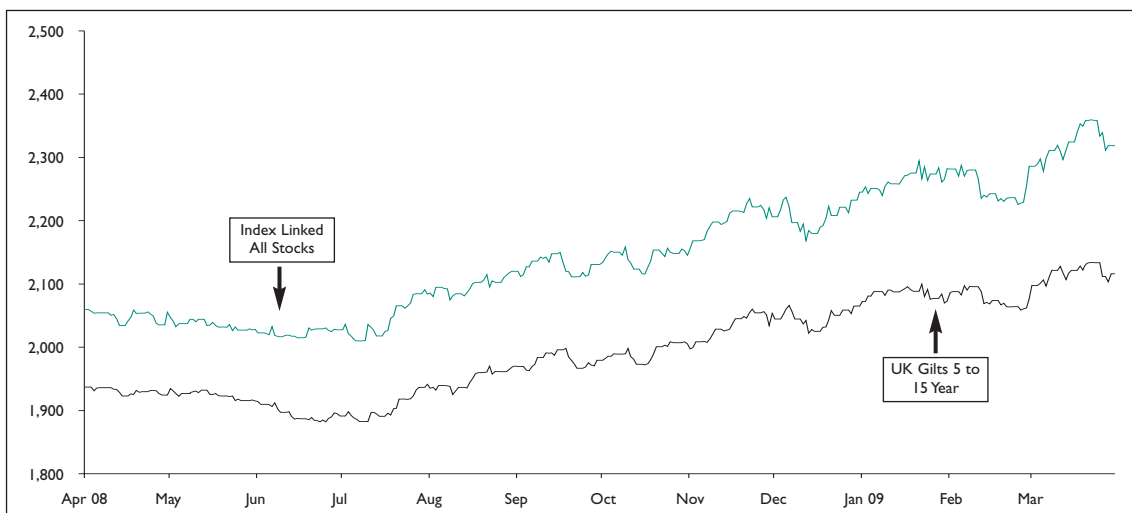
Global equity markets suffered heavy losses over the year, with falls of around 35% in most major markets, the FTSE All Share falling 29%. The main reason for this was the follow on from the US sub prime mortgage crisis as risky assets were re-priced and capital became scarce and expensive (the “credit crunch”). Following the collapse of Lehman Brothers, there were a number of high profile government bailouts of major financial institutions including AIG, Fannie Mae and Freddie Mac in the USA and Royal Bank of Scotland and Lloyds TSB in the UK. Despite this, the flow of capital to businesses and consumers remained constricted, choking mortgage availability, weakening the housing market and severely damaging consumer confidence and economic growth. The FTSE All Share Index achieved its high of 3243 on 19 May 2008 and continued to tumble from thereon, reaching a low of 1781 on 3 March 2009.

FTSE ALL SHARE – PRICE INDEX



The UK base rate started the year at 5.25%, but as the banking crisis unfolded and it became clearer that we were heading deeper into a recession, the Bank of England Monetary Policy Committee cut rates to an all time low of 0.5%, notably during 6 consecutive months from October 2008 to March 2009. Having peaked at over 5% in September 2008, inflation, as measured by the CPI, fell sharply to end the year at 2.9%. This led to fixed interest gilts outperforming index linked gilts, with total returns for the year of 10.32% and -1.33% respectively.

UK FIXED INTEREST – PRICE INDEX



Investment Performance

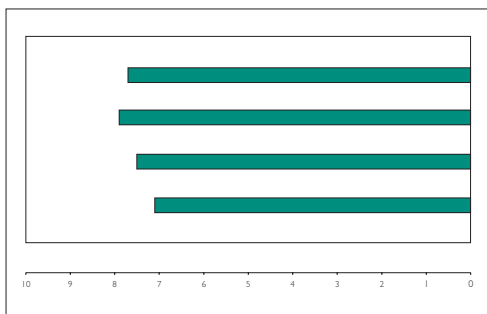
Performance can be measured by a time-weighted rate of return (TWR) which is the total return on investments during the year whether of interest or change in capital value.

The TWR figures since April 1998 are set out below compared with the increase in retail price index to give an indication of long-term performance.

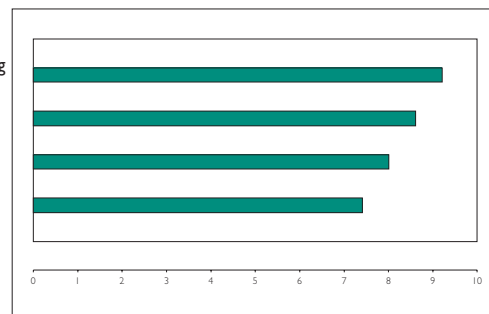
	TWR %	Increase in Retail Price Index %
1998/99	5.4	2.1
1999/00	15.7	3.0
2000/01	-8.3	2.3
2001/02	-2.0	1.3
2002/03	-20.8	3.1
2003/04	25.1	2.6
2004/05	13.3	3.2
2005/06	27.3	2.4
2006/07	8.6	4.8
2007/08	-4.0	3.8

The following comparative statistics have been extracted from CIPFA/SCT Investment Performance Statistics 2007/2008 (2008/09 comparative figures are not yet available).

TWR % p.a. 1998 / 2008



TWR % p.a. 2003 / 2008



Actuarial Valuation

Legislation requires an actuarial valuation of the Pension Fund every three years. The purpose of the valuation is to establish that the Fund is able to meet its liabilities to past and present contributors.

The valuation is carried out in accordance with Regulation 77 of the Local Government Pension Scheme Regulations 1997 and the most recent valuation was carried out as at 31 March 2007 and resulted in a funding level of 80% (2004 68%). The total required rate of employer contributions was certified by the Fund Actuary as 21% of pay. The next triennial valuation is due as at 31 March 2010 and any change in employers' contribution rates as a result of that valuation will take effect from 1 April 2011.

The results of the 2007 valuation are set out in the tables below:

Past Service Liabilities	£m	
Active members	1,258	
Deferred Pensioners	355	
Pensioners	<u>977</u>	
Total	2,590	
Assets	<u>2,062</u>	
Deficit	<u>528</u>	

Employer Contribution Rates	Percentage of Pay	
	2004	2007
Future Service Funding Rate	12.5%	15.0%
Past Service Adjustment	8.5%	6.0%
Total Contribution Rate	21.0%	21.0%

The past service adjustment assumes that the deficit will be funded over a 20 year period.

The principal conclusions from the 2007 valuation were as follows:

- The future service funding requirement has risen from 12.5% to 15.0%. The past service adjustment has fallen from 8.5% to 6.0%, reflecting the improved funding position;
- The rise in the funding level during the three years to 31 March 2007 is the result of a number of factors, the principal one being the return on investments markets during the period exceeding the assumptions made at the previous valuation.

Report of the Actuary

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of The East Riding Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 ; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments Certificate dated 28 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 28 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from East Riding of Yorkshire Council, administering authority to the Fund.

My opinion on the security of the prospective rights is based on

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	March 2007	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation/Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets had a market value of £2,062 million. These assets were sufficient to meet approximately 80% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

Experience since April 2007

Market conditions since the previous formal valuation have been extremely volatile and the valuation position would have worsened over the period to 31 March 2009.

Accordingly, this is likely to cause upward pressure on the level of employer contributions if a valuation were carried out at a current date.

The employer contribution rates and Funding Strategy Statement will be reviewed at the next valuation of the Fund, which will be carried out as at 31 March 2010.

Bryan T Chalmers FFA
For and on behalf of Hymans Robertson LLP
14 April 2009

 **Hymans Robertson**
Consultants and Actuaries

Accounts

FUND ACCOUNT

for the year ended 31 March

(Restated) 2007/08 £000	Note		2008/09 £000
		Contributions and Benefits	
140,923	J	Contributions receivable	151,729
9,716		Transfer values receivable	7,727
34		Reinstatement of pension opt-outs	47
150,673			159,503
92,506	K	Benefits payable	92,519
8,296	L	Payments to and on account of leavers	8,673
1,752	M	Pensions administration expenses	1,924
102,544			103,116
48,119		Net additions from dealings with Members	56,387
		Returns on investments	
81,271	N	Investment income	66,491
(4,892)		Less: Taxation	(4,767)
(163,379)	O	Change in market value of investments	(514,516)
(2,189)	M	Less: Investment management expenses	(2,157)
(89,189)		Net Returns on Investments	(454,949)
(41,070)		Net decrease in the Fund during the year	(398,562)
		Net Assets of the Fund	
2,054,382		Opening assets as at 1 April 2008	2,013,312
2,013,312		Closing assets as at 31 March 2009	1,614,750

Accounts

NET ASSETS STATEMENT

(Restated) 2007/08 £000	Note	2008/09 £000
	○	
	INVESTMENT ASSETS	
	Fixed Interest Securities	
57,878	UK Fixed Interest - Public Sector	64,950
33,675	UK Fixed Interest - Other Quoted	34,863
491	UK Fixed Interest - Other Unquoted	-
37,279	Overseas Fixed Interest - Public Sector	59,933
6,314	Overseas Fixed Interest - Other Quoted	2,038
850	Overseas Fixed Interest - Other Unquoted	1,350
136,487		163,134
	Equities	
876,032	United Kingdom	600,696
281,853	Overseas	199,374
1,157,885		800,070
	Index Linked Securities	
23,481	UK Index Linked - Public Sector	22,662
2,599	UK Index Linked - Other	2,067
13,226	Overseas Index Linked - Public Sector	11,567
39,306		36,296
	Pooled Investment Assets	
357,586	Managed Funds	279,513
64,469	Property Unit Trusts - Quoted	46,983
44,430	Property Unit Trusts - Unquoted	33,983
45,605	Private Equity - Quoted	22,941
41,661	Private Equity - Unquoted	52,645
3,892	Private Finance Initiative - Quoted	11,323
16,899	Private Finance Initiative - Unquoted	17,889
34,307	Other Investments - Quoted	30,638
608,849		495,915
	P	
	Cash	
44,824	Fixed Term Deposits	95,271
159	Internal Manager	-
1,491	External Manager	1,013
46,474		96,284
	P	
	Other Investment Balances	
216	Accrued interest on temporary investments	169
404	Unsettled sales	28,895
1,286	Income held by Custodian	346
8,379	Accrued dividends	6,522
10,285		35,932
1,999,286		1,627,631
	Q	
	TOTAL INVESTMENT ASSETS	
	INVESTMENT LIABILITIES	
-	Cash with internal manager	245
757	Unsettled purchases	28,264
809	Tax on accrued dividends	468
-	Liabilities with Custodian	77
1,566		29,054
16,094	TOTAL INVESTMENT LIABILITIES	16,827
502	P	654
15,592	CURRENT ASSETS	16,173
2,013,312	Q	1,614,750
	LESS CURRENT LIABILITIES	
	NET CURRENT ASSETS	
	NET INVESTMENT ASSETS	

The above Net Assets Statement should be read in conjunction with the Actuarial Certificate and Funding Strategy Statement.

Notes to the Accounts

A Type of Scheme

The Fund is a funded defined benefits scheme.

B Audit

These Accounts are subject to external audit. The audit report and a summary of these accounts are included in the Financial Statement of East Riding of Yorkshire Council.

C Accounting Policies

1. General

These Accounts have been prepared in accordance with the 2008 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This requires that the Fund's Accounts should conform with the current Statement of Recommended Practice on Financial Reports of Pensions Schemes (SORP).

The Accounts do not take account of liabilities to pay pensions and other benefits in the future.

Investments are included in the Net Assets Statement at their market value at the date of the Statement, with the exception of unquoted Private Equity and unquoted Private Finance Initiative holdings, which are shown at cost.

2. Employers' Contributions

Employers' contributions are based on percentages of employees' contributions as recommended by the Actuary of the Fund in his valuation of 31 March 2007 effective from 1 April 2008. Further information regarding the Actuary's report and Actuarial Valuation can be found on pages 24 and 25 of this report.

3. Investment Income

Dividend income is accounted for on an accruals basis in the year to 31 March 2009.

4. Contributions Receivable and Benefits Payable

Contributions receivable are included in the Accounts in the year to which they relate and benefits payable are included in the Accounts in the year of payment.

Employers normal contributions received include past service funding payments and during the year these amounted to £33,433,285 from a total of £113,787,139 contributions received. Deficit funding payments are payable over a maximum of 20 years.

Transfer values receivable and payments to and on account of leavers are accounted for in the year of receipt and payment respectively.

5. Valuation of Assets

Investments made through the UK Stock Exchanges are valued at bid market price at the close of business on 31 March 2009. Investments held in foreign currencies on foreign stock exchanges are valued at bid price or last trade price.

Investments held in foreign currencies are translated in the Accounts by the application of the appropriate rate of exchange ruling at 31 March 2009. Note V lists the exchange rates applied to investments held as quoted in the Financial Times.

Notes to the Accounts

D Future Liabilities

The Accounts summarise the transactions and net assets of the Fund and do not take into account liabilities to pay pensions and other benefits in the future. The adequacy of the Fund's investments and contributions in relation to its overall obligations is dealt with in the report by the Actuary, on page 25 of this report and these accounts should be read in conjunction with the report.

The Actuarial information disclosed on pages 24 to 25 complies with the accounting requirements of Financial Reporting Standard 17.

E Taxation

The scheme is a Registered Pension Scheme in accordance with Paragraph 1 (1) of Schedule 36 to the Finance Act 2004 and for UK taxation purposes is wholly exempt from income tax and capital gains tax. However, since the Budget changes of 1997, the fund has not been able to recover UK Advance Corporation Tax on dividends. UK income tax on investment income deducted at source remains recoverable from HM Revenue and Customs and is shown in the Accounts gross. In addition, the Fund is subject to Overseas Withholding Tax in respect of dividend payments on certain overseas holdings, which in some cases is recoverable from the relevant authorities under double taxation agreements.

F Value Added Tax

The Fund is reimbursed VAT by HM Customs and Excise and the accounts are shown exclusive of VAT.

G Concentration of Investments

The SORP requires disclosure where there is a concentration of investment (other than in UK Government securities) which exceeds 5% of the total value of the net assets of the scheme. A detailed analysis of individual investments can be found in the Fund's valuation as at 31 March 2009.

2007/08		2008/09
%		%
45	UK Equities	37
30	Overseas Equities	29
6	Property Unit Trusts	5
5	Private Equity	5

Notes to the Accounts

H Stock Lending

Northern Trust, the Fund's Custodian, has authorisation to release stock to third parties as determined by the contract between Northern Trust and the Fund. This activity commenced in August 2007.

During the year to 31 March 2009 stock lending income of £ 595,302 was raised against expenditure for the activity of £ 178,272.

At 31 March 2009 the total value of securities on loan was £ 135,783,651 and are analysed by asset class as follows:

	£
Equities – UK	56,551,941
Equities – Overseas	24,255,686
UK Fixed Interest – Public Sector	33,925,259
UK Fixed Interest – Other	4,230,164
UK Index Linked – Public Sector	8,082,053
Overseas Fixed Interest – Public Sector	6,647,769
Private Finance Initiative	44,625
Other Investments	2,046,154

Against the stock on loan the Fund held collateral at 31 March 2009 of £141,845,968 analysed by asset class as follows:

	£
DBV Gilts	10,502,963
UK Equities	36,992,780
Government Bonds	91,940,229
UK Gilts	2,409,996

I Scheme Registration Number

The East Riding Pension Fund's scheme registration number with the Pensions Regulator is 10079121.

Notes to the Accounts

2007/08 £000		2008/09 £000
	J Contributions Receivable	
107,140	Employers - Normal	113,787
2,749	Employers - Additional	3,342
30,160	Employees - Normal	33,782
874	Employees - Additional	818
140,923		151,729
30,938	Administering Authority	32,799
102,067	Scheme Employers	110,013
7,918	Admitted Bodies	8,917
140,923		151,729
(Restated)	K Benefits Payable	
69,620	Pensions	74,127
	Commutations, compounded &	
21,424	Lump sum retirement benefits	16,230
1,462	Lump sum death benefits	2,162
92,506		92,519
10,452	Administering Authority	11,922
78,113	Scheme Employers	75,396
3,941	Admitted Bodies	5,201
92,506		92,519
	L Payments to and on account of leavers	
25	Refunds to members leaving service	29
5	Contributions equivalent premiums	9
8,266	Transfer values payable	8,635
8,296		8,673

Notes to the Accounts

M Pension and Investment Management Expenses

Administration expenses, including fees paid to advisors, are charged to the Fund as provided in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by East Riding of Yorkshire Council staff.

The external manager's fee is based on the market value of funds under management at the end of each quarter and is calculated on a sliding scale, where percentage fee diminishes on marginal value. Internal management costs are based on actual costs.

	Pensions		Investments	
	2007/08	2008/09	2007/08	2008/09
	£000	£000	£000	£000
Internal Management Costs	1,266	1,400	748	863
External Manager's Fee	-	-	1,264	1,123
Advisor's Fee	-	-	10	10
Custodian's Fee	-	-	86	76
Support Services	486	524	81	85
	<u>1,752</u>	<u>1,924</u>	<u>2,189</u>	<u>2,157</u>

Acquisition Costs

For quoted equity investments worldwide, both internal and external managers generally pay a commission on the gross value of both purchases and sales in addition to the bid /offer spread. For certain other investments, predominantly fixed interest and index-linked securities, the bid /offer spread covers all the cost of investment. Investments purchased on the basis of Net Asset Value (NAV) include an element within the NAV for the cost of purchase.

Cash is administered by both the internal and external manager to achieve the best interest return. No commission is paid to any money broker for this activity.

	Administration Expenses		Commission Paid		Total Costs		Funds Under Management				Total Costs as % of FUM	
	07/08	08/09	07/08	08/09	07/08	08/09	07/08	07/08	08/09	08/09	07/08	08/09
	£000	£000	£000	£000	£000	£000	£m	%	£m	%	£m	%
Internal Fund	925	1,034	361	144	1,286	1,178	1,463,020	73	1,149,364	71	0.09	0.10
External Fund	1,264	1,123	241	213	1,505	1,336	550,292	27	465,386	29	0.27	0.29
Total Fund	<u>2,189</u>	<u>2,157</u>	<u>602</u>	<u>357</u>	<u>2,791</u>	<u>2,514</u>	<u>2,013,312</u>	<u>100</u>	<u>1,614,750</u>	<u>100</u>	<u>0.14</u>	<u>0.16</u>

Notes to the Accounts

2007/08 £000	N	Investment Income	2008/09 £000
33,147		Equities - UK	27,356
5,869		- Overseas	7,977
3,185		Fixed Interest Securities - UK	2,660
548		Index Linked - UK	606
1,966		Fixed Interest Securities - Overseas	1,960
858		- Corporate Bonds	1,560
(16)		Index Linked - Overseas	452
85		- Corporate Bonds	85
21,384		Managed Funds	9,746
1,925		Property Unit Trusts	1,924
448		Quoted Private Equity	289
118		Unquoted Private Equity	59
113		Quoted Private Finance Initiative	414
207		Unquoted Private Finance Initiative	624
84		Other Investments	56
8,379		Accrued Interest on Ex-dividend Investments	6,642
<u>78,300</u>			<u>62,410</u>
(4,892)		less: Non-recoverable tax on securities	(4,767)
<u>73,408</u>			<u>57,643</u>
34		Underwriting	42
92		Currency Gain / (Loss)	(138)
184		Stock Lending	595
2,571		Cash Deposits	3,560
90		Class Actions	22
<u>76,379</u>			<u>61,724</u>

○ Investments at Market Value

		(Restated) Value at 1/4/08	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/3/09
		£000	£000	£000	£000	£000
Fixed Interest Securities	UK Fixed Interest - Public Sector	57,878	138,631	135,055	3,496	64,950
	UK Fixed Interest - Other Quoted	33,675	26,519	17,180	(8,151)	34,863
	UK Fixed Interest - Other Unquoted	491	-	500	9	-
	Overseas Fixed Interest - Public Sector	37,279	156,530	148,208	14,332	59,933
	Overseas Fixed Interest - Other Quoted	6,314	6,363	10,228	(411)	2,038
	Overseas Fixed Interest - Other Unquoted	850	-	-	500	1,350
Equities	United Kingdom	876,032	45,113	35,511	(284,938)	600,696
	Overseas	281,853	84,950	81,051	(86,378)	199,374
Index Linked Securities	UK Index Linked - Public Sector	23,481	44,869	45,498	(190)	22,662
	UK Index Linked - Other	2,599	-	-	(532)	2,067
	Overseas Index Linked - Public Sector	13,226	97,556	101,931	2,716	11,567
Pooled Investment Assets	Managed Funds	357,586	3,262	-	(81,335)	279,513
	Property Unit Trusts - Quoted	64,469	1,924	-	(19,410)	46,983
	Property Unit Trusts - Unquoted	44,430	-	481	(9,966)	33,983
	Private Equity - Quoted	45,605	7,720	131	(30,253)	22,941
	Private Equity - Unquoted	41,661	15,821	5,586	749	52,645
	Private Finance Initiative - Quoted	3,892	9,441	-	(2,010)	11,323
	Private Finance Initiative - Unquoted	16,899	990	-	-	17,889
	Other Investments - Quoted	34,307	11,274	1,964	(12,979)	30,638
		<u>1,942,527</u>	<u>650,963</u>	<u>583,324</u>	<u>(514,751)</u>	<u>1,495,415</u>
Cash Deposits	Euro	721	58,680	59,145	140	396
	US Dollar	-	23,089	21,309	95	1,875
		<u>1,943,248</u>	<u>732,732</u>	<u>663,778</u>	<u>(514,516)</u>	<u>1,497,686</u>

Notes to the Accounts

(Restated) 2007/08 £000		2008/09 £000
	P Current Assets	
	Investment Assets	
-	Unsettled Sales - Internal Manager	23,257
404	- External Manager	5,638
159	Cash Balance - Internal Manager	-
1,491	- External Manager	1,013
44,824	Temporary Investments	95,271
216	Accrued Interest on Temporary Investments	169
8,379	Accrued Dividends	6,522
1,286	Income held by Custodian	346
<u>56,759</u>		<u>132,216</u>
	Other Assets	
8,818	Contributions Due - Employers	9,270
2,591	- Employees	2,968
837	Recharge of PI & SA	601
3,848	Other Debtors	3,988
<u>16,094</u>		<u>16,827</u>
<u>72,853</u>		<u>149,043</u>
	Q Current Liabilities	
	Investment Liabilities	
443	Unsettled Purchases - Internal Manager	22,661
314	- External Manager	5,603
-	Cash Balance - Internal Manager	245
809	Liabilities with Custodian	468
-	Non-recoverable Tax on Accrued Dividends	77
<u>1,566</u>		<u>29,054</u>
	Other Liabilities	
13	East Riding of Yorkshire Council	137
194	Overclaim of Recharges	148
295	Other Creditors	369
<u>502</u>		<u>654</u>
<u>2,068</u>		<u>29,708</u>
	R Managerial Arrangements	
31/03/08	The value of the assets managed by each manager was as follows:-	31/03/09
1,463,020	Internal Manager	1,149,364
550,292	External Manager	465,386
<u>2,013,312</u>		<u>1,614,750</u>

S Contingent Liabilities and Contractual Commitments

At 31 March 2009 the Fund had commitments to the purchase of Alternative Assets investments of £ 77,130,385, analysed as follows:

	2007/08		2008/09	
	Foreign Currency	£	Foreign Currency	£
UK Funds	-	24,769,914	-	24,319,274
Dollar Denominated (\$)	40,077,938	20,165,000	33,700,215	23,510,684
Euro Denominated (€)	42,754,450	34,086,303	31,632,741	29,300,427

Notes to the Accounts

T Related Party Transactions

In accordance with Financial Reporting Standard 8 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:-

The Head of Finance of the East Riding Pension Fund is also the Head of Finance of East Riding of Yorkshire Council.

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. No Members of the Pensions Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Fund acquired an investment in the placing of Progressive European Alternative Portfolio Limited, a listed company, during the year 2002/03 at a cost of £3.2m. The company changed its name to Advance Focus Fund Limited during the year 2005/06. The market value of this investment at 31 March 2008 was £3.4m. The company was liquidated during 2008/09 and proceeds of £3.6m were received. Rodney Barton, the Head of Investments for the East Riding Pension Fund, was a non-executive director of the company for which he was paid a fee.

The Fund invested £1.5m in Montanaro European Smaller Companies Fund Plc in periods up to 2004/05. During 2006/07 a transfer of units costing £0.5m to Montanaro Growth and Income Fund was made and during the year 2007/08 a sale of £0.2m was made and at 31 March 2008 the investment was valued at £1.8m. There has been no investment activity with the Fund during 2008/09 and at 31 March 2009 the Fund was valued at £1.1m. Rodney Barton, the Head of Investments for the East Riding Pension Fund, is a non-executive director of Montanaro European Smaller Companies Fund Plc for which he is paid a fee.

U Members Allowances

Following modernisation of the Committee structures, allowances are not paid to Members directly in respect of Pensions Committee attendance. The Chairman of the Pensions Committee is paid a special responsibility allowance. However, allowances are not cumulative and only the highest allowance for any committee responsibility is paid to the Member. Payments to Members are disclosed in the Statement of Accounts of East Riding of Yorkshire Council.

V Currency Conversion Rates

Overseas investments have been converted at the exchange rates quoted in the Financial Times at close of business on 31 March 2009 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:-

Australian Dollar	2.063
Canadian Dollar	1.8034
Danish Krone	8.0409
Euro	1.0796
Japanese Yen	141.572
Norwegian Krona	9.6781
Swedish Krona	11.85
Swiss Franc	1.6298
US Dollar	1.4334

Notes to the Accounts

W Additional Voluntary Contributions

The Fund's approved Additional Voluntary Contribution (AVC) provider is Prudential and during the year to 31 March 2009 scheme members made contributions to this facility of £2,380,974.42. AVCs do not form part of the Pension Fund Accounts.

Contact Points

Information relating to any pension matters including individual benefit or contribution enquiries should be addressed to the Pensions Section at the address below or by telephoning (01482) 394150

The Pensions Manager
East Riding Pension Fund
Pensions Section
PO Box 118
Church Street
GOOLE
East Riding of Yorkshire
DN14 5YU

Enquiries relating to investment matters should be addressed to the Investments Section at the address below or by telephoning (01482) 394135

The Head of Investments
East Riding Pension Fund
Investment Section
PO Box 164
Church Street
GOOLE
East Riding of Yorkshire
DN14 5YZ

General information can be found on the East Riding Pension Fund website www.erpf.org.uk