



EAST RIDING
OF YORKSHIRE COUNCIL

EAST RIDING PENSION FUND

ANNUAL REPORT AND ACCOUNTS

2006/2007



East Riding Pension Fund Annual Report and Accounts 2006/2007

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
Members, Representatives and Officials	12
Fund Membership	13
Legal Framework	14
Scheme Benefits	14
Management	16
Fund Statistics	16
Investment Distribution	18
Investment Markets	20
Investment Performance	21
Report of the Actuary	22
Actuarial Valuation	23
Accounts	24
Notes to the Accounts	26
Contact Points	34

Foreword

The Fund was created on the reorganisation of local government in 1974 with a value of £17.5m. 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 2007 the Fund was valued at £2,060.5m, having paid out £85m during the year for the benefit of Scheme members.

All employees of the Administering Authority and 43 Scheme Employers are entitled to participate in the Scheme (other than teachers, police officers and fire fighters, who have separate pension arrangements). Employees of the 30 Admitted Bodies may be nominated for membership by their employer.

Although membership is not compulsory, it is automatic for all employees other than casual staff, who must make a positive election to join. 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 78,939 at 31 March 2007, an increase of over 7% in the year. Active membership, currently standing at 35,383, shows an increase of 1,870 or over 5%. All the membership figures in this report are based on the up to date position recorded on the pension administration system, with all previous years restated on a consistent basis. The number of pensioners also continues to rise, albeit slowly, and currently stands at 18,318, an increase of 703. This figure includes the pensions that are paid to the spouses and dependants of former Scheme members.

The Government is introducing significant changes to the Scheme with effect from 1 April 2008, which is creating significant additional workload on the pensions administration section. Despite these pressures the section continues to meet its targets. Regulations continue to be issued amending the current scheme provisions. A number of draft and actual regulations relating to the new Scheme have been issued but the draft transitional regulations are still awaited. This will inevitably put a further strain on the section in terms of implementing new software and staff training in the current financial year. Employers also need to be aware of the changes that will be required to their payroll systems as a result of these new regulations and the lead in time required to implement them. The changes will also have to be communicated to the Scheme membership.

Following the changes to the investment management arrangements, which were implemented in September 2002, the Pensions Committee reviewed the performance of the managers for the three financial years to 31 March 2006 in some depth. I am pleased to be able to report that the Fund returned 21.7% per annum for the three year period against the Local Authority median of 20% per annum, ranking in the top 10% for the three year period. The conclusion of the review is that the new arrangements are adding value.

The new investment objective, developed following the final actuarial valuation report as at 31 March 2004, was implemented from 1 April 2006. The investment objective is to achieve a return 1% above the rate of return assumed in the actuarial valuation on a rolling three year calculation, which should help stabilise employers' contribution rates in the future.

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.

Steve Button
Head of Finance
East Riding of Yorkshire Council
28 June 2007

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 East Riding of Yorkshire Council. During the past year the Committee consisted of twelve Members of 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. There is a list of those who served on the Committee 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 adviser. 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 2004 was based. The SIP, which is reviewed annually, should be read together with the investment reports (pages 18 to 21).

In addition, the Committee considered:-

- Circulars from the Local Government Pensions Committee, which included changes and proposed changes to the regulations;
- Changes to the benefit regulations;
- Investment performance statistics;
- The appointment of a global custodian;
- Pensions abatement policy;
- The Annual Report and Accounts;
- Audit reports;
- Reports on a variety of issues which occurred during the year.

The Pensions Committee made changes to the investment management arrangements in September 2002, and these are having the desired effect of a measurable improvement in investment returns. The Fund achieved a top decile return of 21.7% per annum (p.a.) for the three years to 31 March 2006, considerably ahead of both the investment objective of 7.3% p.a. and the Retail Price Index, which was 2.7% p.a. over the period. Initial indications are that this performance has continued in the year to 31 March 2007, which is very encouraging.

Councillor Mark Preston
Chairman
28 June 2007

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 2007. This document includes the financial statements for the Pension Fund only. The financial statements of East Riding of Yorkshire Council are published separately.

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

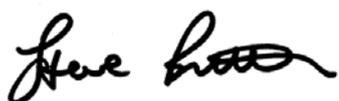
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

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 2007 and its income and expenditure for the financial year then ended.



Steve Button
Head of Finance
East Riding of Yorkshire Council
28 June 2007

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 LGPS Regulations. The Pensions Committee agreed this SIP at its meeting on 27 April 2007.

The East Riding Pension Fund is also required to maintain a Funding Strategy Statement (FSS) in accordance with the LGPS Regulations. The FSS for the East Riding Pension Fund, which was approved by the Pensions Committee at its meeting on 11 March 2005, 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 adviser 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 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.

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.

Investment managers and adviser

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 strategic advice.

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

The Pensions Committee regularly monitors the operations and performance of the investment managers and adviser 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%

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 adviser.

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 2004 was prepared on the basis of an expected real return on assets of 3.4% over the long term, a nominal return of 6.3% assuming inflation to be 2.9%.

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 and monitoring of the SIP

The investment managers and investment adviser 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 advisers 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 11 March 2005 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 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 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 investments.

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 2004 valuation of the Fund are summarized as follows :-

	Nominal % p.a.	Real % p.a.
Pay Increases	4.4	1.5
Price Inflation/Pension Increases	2.9	-
Discount Rate	6.3	3.4

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 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 2004 this was 2.9%.

The discount rate has been derived by applying assumed rates of return to the assumed asset mix. The assumed asset mix, which is in line with the actual asset mix, is 75% equities (or similar assets) and 25% bonds, of which 50% are corporate bonds. The minimum risk return is taken as 4.7%, the yield on government stocks at 31 March 2004, with corporate bonds producing an additional 0.4%. The equity risk premium has been set at 2%. The Actuary has calculated the historical median equity risk premium at 3%, making this the best estimate of the future equity risk premium. In order to be prudent this has been reduced to 2% for valuation purposes. These factors when combined produce a discount rate of 6.3%.

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 Measure

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 Administering Authority, together with the existing scheme employer 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 over 70 employers and approximately 79,000 active, deferred and pensioner Scheme members in relation to the Local Government Pension Scheme. The Communications Policy Statement 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 three who are responsible for communications – a Communications Officer and two Pension Liaison Officers. 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, the Department of Communities and Local Government, the Pensions Advisory Service, solicitors and other pension providers.

The Fund's Communications 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.eastriding.gov.uk/aspirelinks/PDF/CommunicationsPolicyStatement.pdf or a copy can be requested from the Pensions Section (for contact details see page 34).

Members, Representatives and Officials

Pensions Committee as at 31 March 2007

Members

Councillor R Allerston
Councillor A Burton
Councillor R M Clubley
Councillor J Cox
Councillor B Darley
Councillor M R Hardy
Councillor A Kay
Councillor C A Lynn
Councillor J Parsons
Councillor D Rudd
Councillor F Smith
Councillor G Stroud

Unitary Council Representatives

Councillor I Glover (North Lincolnshire)
Councillor D Khan (North East Lincolnshire)
Councillor A S Sloan (Kingston upon Hull)

Trade Union Observers

Mr M Burgess (TGWU)
Ms H Hart (Unison)
Mr A Samson (GMB)
Mr M White (Unison)

Fund Managers

Director of Corporate Resources
Schroder Investment Management (UK) Limited

Fund Adviser

Mrs S Bates

Actuary

Hymans Robertson

Fund Membership

The 74 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 (43)

Barnby 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
Driffeld 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
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
Immingham Town Council
Internal Drainage Boards
 - Beverley and North Holderness
 - Lower Ouse
 - Market Weighton
John Leggott College
Kingston upon Hull City Council
Kirton in Lindsey Town Council
Market Weighton Town Council
National Probation Service - Humberside
North East Lincolnshire Council
North Lincolnshire Council
North Lindsey College
South Cave Parish Council
University of Lincoln
Warter CE Primary School

Wilberforce College
Withernsea Town Council
Wold Newton Foundation School
Wyke College
Yorkshire and Humberside Grid for Learning

COMMUNITY ADMISSION BODIES (24)

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 Cityventure Limited
Hull Resettlement Project Limited
Hull Young Peoples Christian & Literary Institute
Humercare Limited
Humber Economic Partnership
Humberside Independent Care Association
Humberside International Airport Limited
Humberside Partnership
North Eastern Sea Fisheries Committee
North Lincolnshire Homes 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

TRANSFEREE ADMISSION BODIES (6)

arvato government services (ERYC) limited
Jarvis Workspace FM 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 scheme rules are contained within the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Transitional Provision) Regulations 1997, which became effective on the 1 April 1998. 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. 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, 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 6% (5% for protected manual employees), of their contractual earnings. Employer contribution rates are set by the Fund's Actuary every three 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 2005 following the 2004 Actuarial Valuation, and almost all employers saw an increase in their rates, some fairly substantial. For the year 2005/2006 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 2004 Actuarial Valuation the Actuary specified the rates that will be paid for the three years to 31 March 2008.

Scheme Benefits

The Scheme provides the following benefits to its members:-

- An inflation proof pension and tax free lump sum. Benefits are based upon final year's pay and periods of scheme membership accrued within the scheme;
- A lump sum payable to the deceased's estate or nominated beneficiary, plus an inflation proofed dependant's pension if death should occur 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 five years of retirement;
- Early payment of pension and lump sum when retirement is necessary due to permanent ill-health;
- Early payment of pension and lump sum if aged 50 or over if: -
 - made redundant;
 - retired through efficiency of the service;
 - the Scheme employer agrees to allow early voluntary retirement under the rule of 85.

For leavers not entitled to 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

- Transferred to another pension scheme arrangement including a personal pension plan or retirement annuity contract; or
- Refunded to certain members if Scheme membership is less than three months (although some members have a protected entitlement to have a refund if they have less than two years membership).

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

- Purchase of additional Scheme membership by means of increased pension contributions;
- Purchase of extra pension (annuity) by means of Additional Voluntary Contributions (AVC's) through the Prudential;
- Purchase of additional Scheme membership (to increase pension only) by means of AVC's;
- Payment of AVC's through the Prudential to improve death-in-service lump sum or dependants' pension.

Substantial changes were made in 2006/07, not only to the LGPS, but to overriding tax laws which impacted on the benefit structure of the LGPS from April 2006. The major changes are shown below:-

Staying in (or joining) the LGPS beyond age 65	Members permitted to remain in (or join) the LGPS until 2 days before age 75
Service accrual	Maximum limit on accruing 40/45 years removed
Removal of limit on pension contributions	15% pension contribution limit removed allowing members to pay more into the LGPS (or the in-house additional voluntary contribution (AVC) arrangement) and receive tax relief
Removal of Earnings Cap	All members now allowed to pay pension contributions and receive benefits based on full pensionable pay
Buying extra scheme membership	Period that can be purchased by additional pension contributions restricted to 6 2/3 years
Revised retirement age for councillor members	The normal retirement age for councillor members has been brought into line with the LGPS normal retirement age of 65
Flexible retirement from age 50 onwards	From age 50 members who obtain their employers permission to reduce the hours they work or to move to a lower graded job may be able to draw their pension whilst still working so long as their employer agrees
Exchange pension for extra tax free lump sum	Members can exchange part of their pension into extra tax free lump sum at the rate of £12 lump sum for every £1 pension given up
Taking AVCs as tax free cash	Members paying in-house additional voluntary contributions (AVCs) can elect to take some or all of their AVC fund as a tax free lump sum. If the AVC fund is taken at the same time as the LGPS benefit potentially up to 100% of the AVC fund can be used in this way, with the overarching restriction that the LGPS and AVC lump sum are to be no more than 25% of the overall value of the LGPS benefits and AVC fund
Exchanging Lump Sum into Pension	Members are no longer able to exchange some (or all) of their tax free lump sum into extra annual pension
Surrender of Pension	Members are no longer able to exchange part of their pension for additional dependants benefits above the standard spouse's, civil partner's or children's pensions
Children's pensions	Children's pensions coming into payment after 5 April 2006 for children continuing in full time education or training will cease from age 23. This does not affect incapacitated children

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;
- Foreign investments are managed by Schroder Investment Management, except for 60% of European equities which are managed by the Corporate Resources Directorate;
- Alternative assets investments are managed by the Corporate Resources Directorate;
- The Corporate Resources Directorate administers obligations to pensioners and Fund contributors.

Fund Statistics

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

	2003	2004	2005	2006	2007
Active Members	30,360	31,032	31,700	33,513	35,383
Deferred Beneficiaries	15,260	17,314	19,751	22,374	25,238
Represented by:					
Deferred Members	10,876	11,901	13,707	15,648	17,404
Frozen Refunds	2,482	2,765	2,597	2,491	2,433
Undecided Leavers	1,902	2,648	3,447	4,235	5,401
Pensions In Payment	16,265	16,705	17,168	17,615	18,318
Total Membership	61,885	65,051	68,619	73,502	78,939
	£m	£m	£m	£m	£m
Income	118.5	134.0	149.2	169.9	204.8
Expenditure	(72.4)	(76.0)	(80.4)	(89.4)	(84.6)
Net Income	46.1	58.0	68.8	80.5	120.2
Pensions Increase (Inflation proofing factor)	1.7%	1.7%	2.8%	2.7%	3.6%
Employer's Average Contribution Rate (As a percentage of payroll cost)	11.5%	12.7%	14.0%	18.2%	19.5%

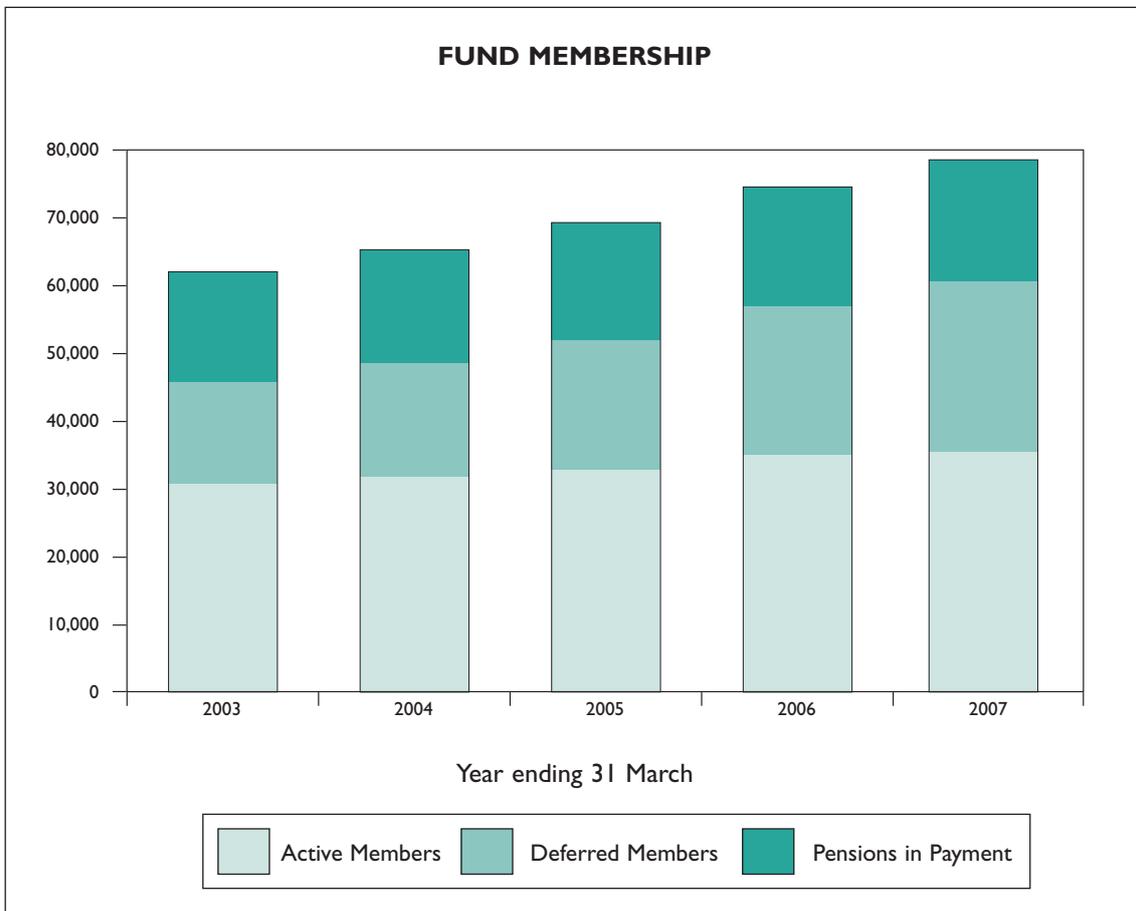
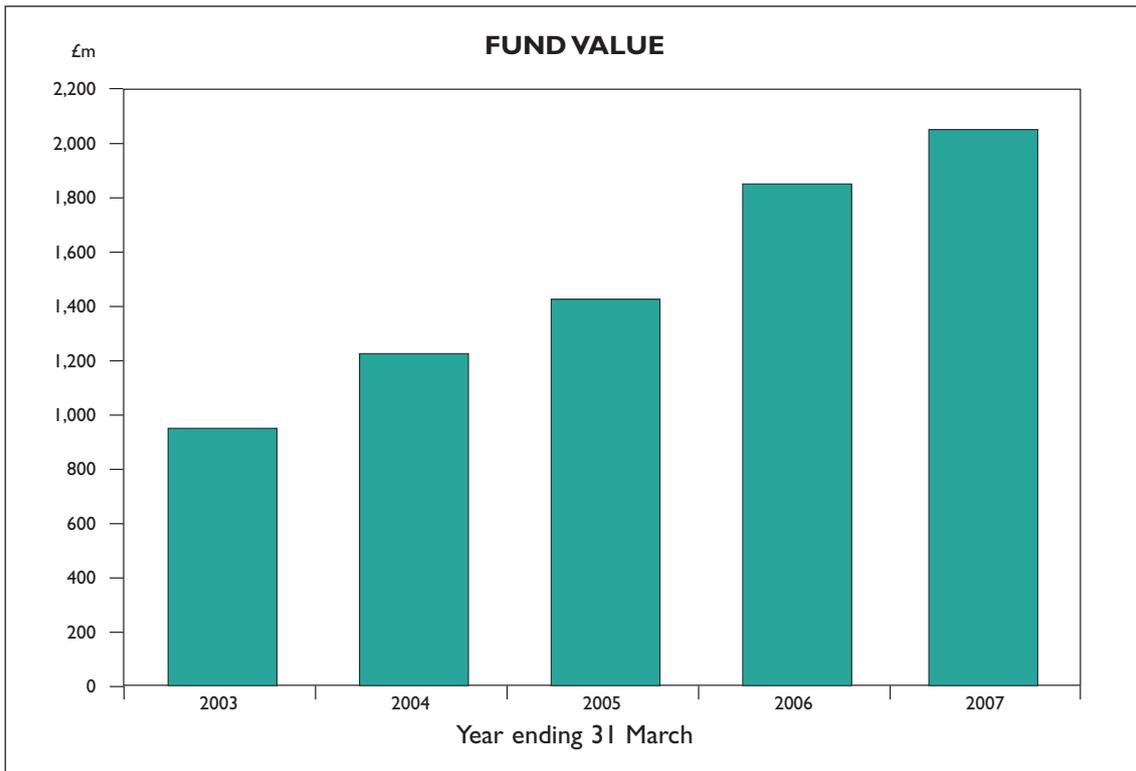
Summary of Membership changes during year

	Active Members	Undecided Leavers	Deferred Members	Frozen Refunds	Pensioners		Total
					Members	Dependant	
At 31 March 2006	33,513	4,235	15,648	2,491	14,486	3,129	73,502
New Members	6,110	3,837				251	10,198
Change in Status	191	-2,643	1,973		1,053		574
Leavers	<u>-4,431</u>	<u>-28</u>	<u>-217</u>	<u>-58</u>	<u>-437</u>	<u>-164</u>	<u>-5,335</u>
At 31 March 2007	<u>35,383</u>	<u>5,401</u>	<u>17,404</u>	<u>2,433</u>	<u>15,102</u>	<u>3,216</u>	<u>78,939</u>

Pensions Administration - Key Task Volumes

Key Task	2005/06	2006/07
Processing New Starters	7,160	7,183
Processing Transfer Values	1,553	1,919
Refunds of Contributions	348	136
Estimates of Benefit Entitlements	2,039	3,549
Processing Pension Benefits	1,142	1,426
Processing Deferred Benefits	3,922	3,156

Fund Statistics



Investment Distribution

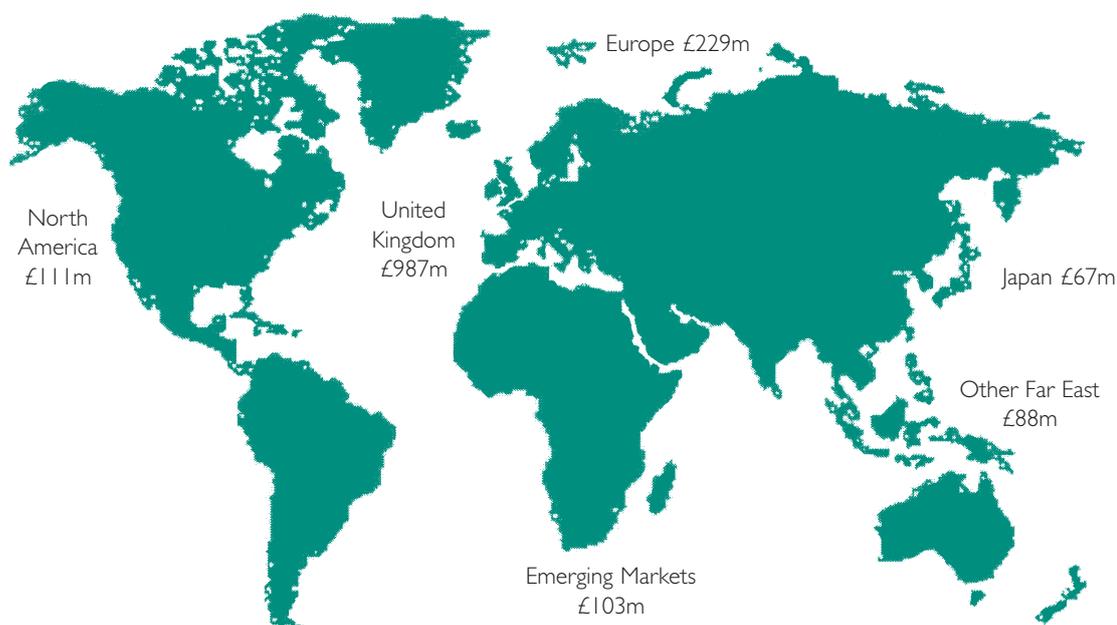
Trends

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.

Year ended 31 March

	2003		2004		2005		2006		2007	
	£m	%	£m	%	£m	%	£m	%	£m	%
UK Equities	415	43	543	45	618	44	834	46	987	48
Foreign Equities	228	24	373	30	410	29	570	31	598	29
UK Fixed Interest	72	8	83	7	81	6	93	5	89	4
UK Index Linked	31	3	29	2	28	2	18	1	19	1
Foreign Fixed Interest	53	6	49	4	50	4	52	3	53	3
Foreign Index Linked	-	-	-	-	-	-	5	-	4	-
Property Funds	70	7	74	6	91	6	107	6	122	6
Private Equity	8	1	15	1	36	2	60	3	70	3
Private Finance Initiative	-	-	-	-	-	-	-	-	15	1
Other Investments	-	-	-	-	-	-	4	-	22	1
Cash	81	8	61	5	105	7	97	5	81	4
Total Value	<u>958</u>	<u>100</u>	<u>1,227</u>	<u>100</u>	<u>1,419</u>	<u>100</u>	<u>1,840</u>	<u>100</u>	<u>2,060</u>	<u>100</u>
Total Cost	1,076		1,103		1,186		1,291		1,453	

GEOGRAPHIC DISTRIBUTION OF EQUITY INVESTMENT as at 31 March 2007



Investment Distribution

DETAILS OF THE LARGEST EQUITY INVESTMENTS as at 31 March 2007

	Market Value £m		Market Value £m
Top 15 UK Equities		Top 10 Foreign Equities	
BP Plc	52.9	JP Morgan Fleming European Fledgling IT	9.7
GlaxoSmithKline Plc	39.0	Jupiter European Opportunities Trust Plc	8.1
HSBC Holdings Plc	36.7	Total SA	7.8
Royal Dutch Shell Plc	30.1	Gartmore Irish Growth Fund Plc	7.3
Royal Bank of Scotland Group Plc	29.9	Fidelity European Values Plc	6.0
Vodafone Group Plc	27.7	Banco Santander Central Hispano SA	5.8
Barclays Plc	20.5	Montanaro European Smaller Cos Trust	5.7
HBOS Plc	20.0	JP Morgan European IT	5.3
BT Group Plc	18.5	Toyota Motor Corporation	5.3
Astrazeneca Plc	18.5	TR European Growth Trust Plc	5.2
Rio Tinto Plc	17.1		
Hansa Trust Plc 'A'	16.9		
JPMorgan Fleming Mercantile IT Plc	15.6		
Tesco Plc	15.5		
Lloyds TSB Group Plc	13.6		

DETAILS OF INSTITUTIONAL UNIT TRUSTS as at 31 March 2007

Global Equity Funds

	Market Value £m
Schroder Funds	
SGST North American Equity Fund	110.4
Pacific Fund	87.6
Emerging Markets Fund	77.5
Developing Markets Fund	24.8
UK Smaller Companies Fund	23.0
European Smaller Companies Fund	11.0
Recovery Fund	9.2
Japan Smaller Companies Fund	2.7

Property Funds

The Fund holds a portfolio of nine Property Funds valued at £121.8m as at 31 March 2007. 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

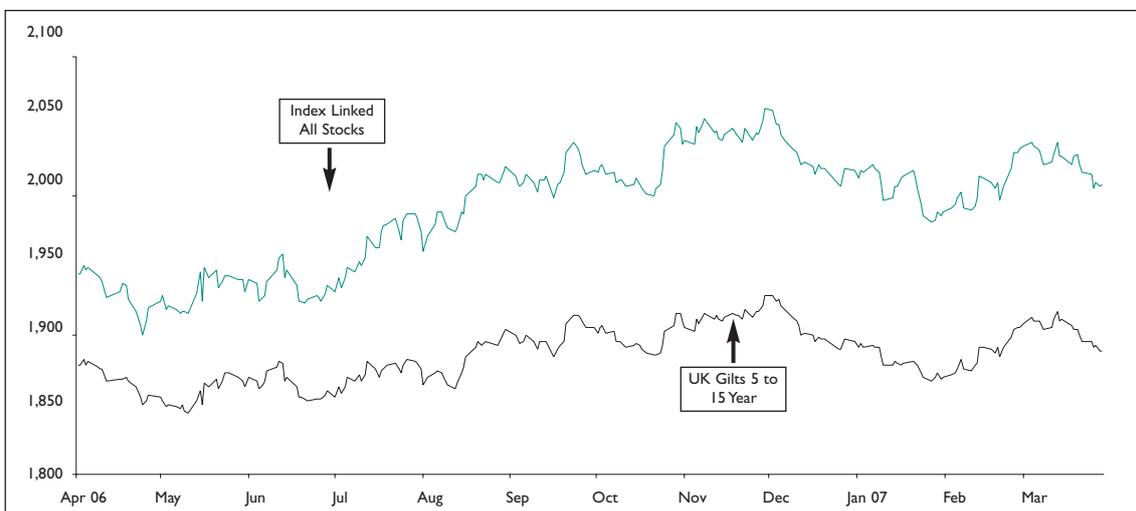
Global equity markets performed well during the year supported by strong company earnings and improving domestic indicators. Geopolitical unrest in the Middle East and Nigeria drove oil prices to all time highs early in the year but as tension faded prices stabilised, albeit at higher levels than previously. China continued to consume vast quantities of raw materials as the process of industrial development continued and the country prepared for the 2008 Olympics. However, as oil and commodity price rises fed through into the economy, consumers and employers felt the effect as they struggled to contain costs. Leading central banks displayed their resolve to combat inflation by raising interest rates during the year. The FTSE All Share Index total return of 11.1% was positive for the fourth consecutive year.

FTSE ALL SHARE – PRICE INDEX



The Bank of England Monetary Policy Committee raised short-term interest rates at intervals during the year as inflation continued to rise and the housing market remained strong. Longer dated bonds, however, remained relatively stable and traded throughout the year within a narrow range, the volatility reflecting the constant re-appraisal of economic prospects. The 5-15 Year Gilt and Index Linked All Stocks indices generated positive total returns of 0.4% and 3.0% respectively.

UK FIXED INTEREST – PRICE INDEX



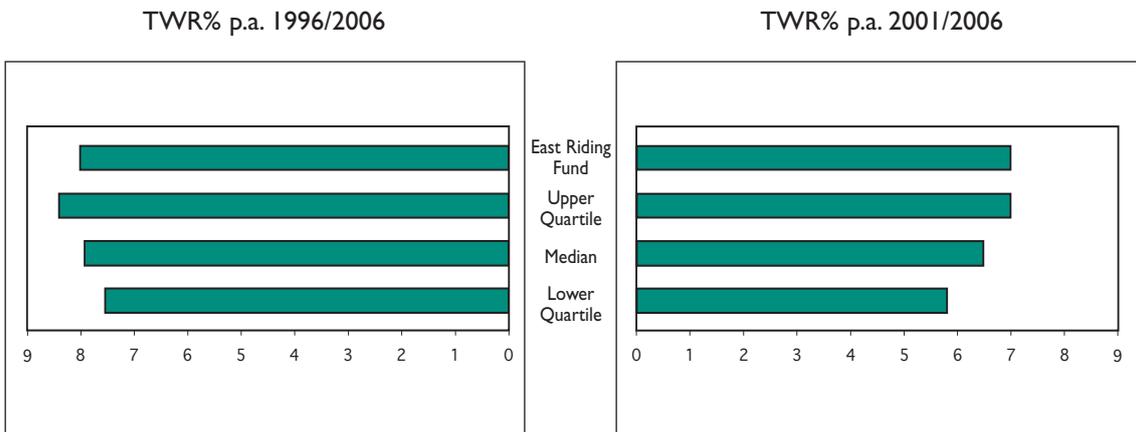
Investment Performance

Performance can be measured by a time-weighted rate of return (TWR) which is the total return on investments during the year including both income and capital value.

The TWR figures since April 1996 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 %
1996/97	12.0	2.6
1997/98	23.6	3.5
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

The following comparative statistics have been extracted from CIPFA/SCT Investment Performance Statistics 2005/06 (2006/07 comparative figures are not yet available).



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 2004.

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 at the rate of 6% of pensionable pay for all members except manual staff who joined before 1 April 1988 who contribute at the rate of 5% of pensionable pay ;
- Contributions, for the three years commencing 1 April 2005, paid by the employers are as specified in our Rates and Adjustments certificate dated 31 March 2005.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated March 2005.

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 were to 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 2004	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.3%	3.4%
Pay Increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	-

The 2004 valuation revealed that the Fund's assets, which at 31 March 2004 were valued at £1,227 million, were sufficient to meet approximately 68% 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. Any rise in contribution rates from 31 March 2005 are being phased in over a period up to 3 years.

The next valuation of the Fund will be carried out as at 31 March 2007.

My opinion on the security of prospective rights is dependent upon any increased contribution requirements being met by the employers. This statement should be read in the context of the statutory nature of the scheme.

Bryan T Chalmers FFA
For and on behalf of Hymans Robertson LLP
15 May 2007

 **Hymans Robertson**
Consultants and Actuaries

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 2004 and resulted in a funding level of 68% (2001 89%). 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 2007 and any change in employers' contribution rates as a result of that valuation will take effect from 1 April 2008.

The results of the 2004 valuation are set out in the tables below:

Past Service Liabilities	£m
Active Members	841
Deferred Pensioners	226
Pensioners	725
Total	<u>1,792</u>
Assets	<u>1,227</u>
Deficit	<u>(565)</u>

Employer Contribution Rates	Percentage of pay	
	2001	2004
Future Service Funding Rate	12%	12.5%
Past Service Adjustment	3%	8.5%
Total Contribution Rate	15%	21%

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

The principal conclusions from the 2004 valuation were as follows:-

- The future service funding requirement has risen from 12.0% to 12.5%, demonstrating the affordability of the Scheme in its current format. The past service adjustment has risen from 3.0% to 8.5%. This reflects a number of factors in the past whereby contribution rates were set too low, making it necessary to collect this much higher contribution rate now;
- The fall in the funding level during the last three years is the result of a number of factors, the principal one being the return on investment markets during the period falling short of assumptions made at the last valuation.

Accounts

FUND ACCOUNT for the year ended 31 March

2005/06 £000	Note		2006/07 £000
		Contributions and Benefits	
114,785	G	Contributions receivable	131,166
8,719		Transfer values receivable	15,154
118		Reinstatement of pension opt-outs	253
123,622			146,573
70,915	H	Benefits payable	78,858
15,149	I	Payments to leavers	5,775
1,493	J	Pensions administration expenses	1,541
87,557			86,174
36,065		Net Additions from dealings with Members	60,399
		Returns on Investments	
46,232	K	Investment income	58,221
340,601	L	Change in market value of investments	104,112
(1,804)	J	less: Investment management expenses	(1,951)
385,029		Net Returns on Investments	160,382
421,094		Net Increase in the Fund during the Year	220,781
		Net Assets of the Fund	
1,418,605		Opening net assets as at 1 April	1,839,699
1,839,699		Closing net assets as at 31 March	2,060,480

Accounts

NET ASSETS STATEMENT

31/03/06 £000	Note	31/03/07 £000
INVESTMENTS		
Equities		
800,241	United Kingdom	949,850
263,667	Foreign	284,644
1,063,908		1,234,494
Bonds		
92,801	UK Fixed Interest	89,034
17,738	UK Index Linked	19,316
52,192	Foreign Fixed Interest	52,872
4,822	Foreign Indexed Linked	4,441
167,553		165,663
Alternative Assets		
340,561	Managed Funds	350,701
106,577	Property Funds	121,767
59,992	Private Equity	69,863
-	Private Finance Initiative	14,602
4,435	Other Investments	21,803
511,565		578,736
1,743,026		1,978,893
TOTAL INVESTMENTS		
CURRENT ASSETS		
79,355	Temporary Investments	64,906
30,450	Debtors	16,212
841	Cash - with internal manager	(836)
784	- with external manager	2,823
111,430		83,105
(14,757)	less : Creditors	(1,518)
96,673		81,587
1,839,699		2,060,480
NET CURRENT ASSETS		
NET ASSETS		

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 Statements of East Riding of Yorkshire Council.

C Accounting Policies

1. General

These Accounts have been prepared in accordance with the 2005 CIPFA Code of Practice on Local Authority Accounting in Great Britain which requires that the Fund's Accounts should conform with the Statement of Recommended Practice on Financial Reports of Pension Schemes issued in 1996 and revised in 2002.

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 2004 effective from 1 April 2005. Further information regarding the Actuary's report and Actuarial Valuation can be found on pages 22 and 23 of this report.

3. Investment Income

Dividend income is accounted for in the year in which it is received.

4. Contributions Receivable and Benefits Payable

Contributions receivable and benefits payable are calculated in accordance with the Local Government Pension Scheme Regulations and are included in the Accounts in the year of receipt or payment respectively.

5. Valuation of Assets

Investments made through the UK Stock Exchanges are valued at middle market price at the close of business on 31 March. 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. Note S 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 22 of this report, and these Accounts should be read in conjunction with the report.

The Actuarial information disclosed on pages 22 to 23 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 Revenue and Customs and the accounts are shown exclusive of VAT.

Notes to the Accounts

2005/06 £000		2006/07 £000
G Contributions Receivable		
81,134	Employers - Primary	97,096
5,231	Employers - Additional	4,112
27,459	Employees - Normal	29,070
961	Employees - Additional	888
114,785		131,166
26,302	Administering Authority	28,658
82,843	Scheme Employers	93,125
5,640	Transferee Admission Bodies	9,383
114,785		131,166
H Benefits Payable		
60,468	Pensions	63,898
8,975	Commutations, compounded & lump sum retirement benefits	13,427
1,472	Lump sum death benefits	1,533
70,915		78,858
8,653	Administering Authority	9,971
59,224	Scheme Employers	65,265
3,038	Transferee Admission Bodies	3,622
70,915		78,858
I Payments to and on account of leavers		
151	Refunds to members leaving service	52
23	Contributions equivalent premiums	21
14,975	Transfer values payable	5,702
15,149		5,775

Notes to the Accounts

J Pension and Investment Management Expenses

Administration expenses, including fees paid to advisers, 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	
	£000 2005/06	£000 2006/07	£000 2005/06	£000 2006/07
Internal Management Costs	1,027	1,121	642	699
External Manager's Fee	-	-	1,090	1,155
Adviser's Fee	-	-	10	10
Support Services	466	420	62	87
	<u>1,493</u>	<u>1,541</u>	<u>1,804</u>	<u>1,951</u>

Acquisition Costs

For quoted equity investments worldwide, both internal and external managers pay a commission fee on the gross value of both purchases and sales in addition to a 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 £000	Commission Paid £000	Total Costs £000	Funds Under Management £m	%	Total Costs as % of FUM
Internal Fund	796	488	1,284	1,524,611	74	0.08
External Fund	1,155	104	1,259	535,869	26	0.23
Total Fund	<u>1,951</u>	<u>592</u>	<u>2,543</u>	<u>2,060,480</u>	<u>100</u>	<u>0.12</u>

Notes to the Accounts

2005/06 £000	K	Investment Income	2006/07 £000
23,222		Equities - UK	31,075
2,915		- Foreign	4,964
3,850		Fixed Interest Securities - UK	3,790
695		Index Linked - UK	363
1,253		Fixed Interest Securities - Foreign	2,040
118		- Corporate Bonds	935
65		Index Linked - Foreign	86
94		- Corporate Bonds	(12)
12,153		Managed Funds	12,909
2,045		Property Unit Trusts	2,018
6		Quoted Private Equity	867
-		Unquoted Private Equity	(26)
-		Private Finance Initiative	60
-		Other Investments	20
<u>46,416</u>			<u>59,089</u>
(2,733)		less: Non-recoverable tax on UK securities	(3,817)
<u>43,683</u>			<u>55,272</u>
18		Underwriting	29
(1,583)		Currency Loss	(172)
<u>4,114</u>		Cash Deposits	<u>3,092</u>
<u>46,232</u>			<u>58,221</u>

L Investments at Market Value

		Value at 1/4/06 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/3/07 £000
Equities	UK	800,241	159,844	84,098	73,863	949,850
	Foreign	263,667	62,082	46,915	5,810	284,644
Bonds	UK Fixed Interest					
	- Quoted	92,303	123,211	121,979	(5,001)	88,534
	- Unquoted	498	-	-	2	500
	UK Index Linked	17,738	13,624	12,330	284	19,316
	Foreign Fixed Interest					
	- Quoted	51,554	198,841	194,533	(3,633)	52,229
	- Unquoted	638	-	-	5	643
	Foreign Index Linked	4,822	18,655	18,667	(369)	4,441
Alternative Assets	Managed Funds	340,561	5,914	5,852	10,078	350,701
	Property Funds					
	- Quoted	66,813	-	180	9,115	75,748
	- Unquoted	39,764	1,591	-	4,664	46,019
	Private Equity					
	- Quoted	36,644	9,924	12,510	4,987	39,045
	- Unquoted	23,348	12,846	5,950	574	30,818
	Private Finance Initiative					
	- Quoted	-	1,500	-	90	1,590
	- Unquoted	-	13,048	36	-	13,012
	Other Investments					
	- Quoted	4,435	16,208	4,483	3,655	19,815
	- Unquoted	-	2,000	-	(12)	1,988
		<u>1,743,026</u>	<u>639,288</u>	<u>507,533</u>	<u>104,112</u>	<u>1,978,893</u>

Notes to the Accounts

2005/06 £000		2006/07 £000
	M Current Assets	
388	Unsettled Sales - Internal Manager	46
14,308	- External Manager	373
841	Cash Balance - Internal Manager	(836)
784	- External Manager	2,823
79,355	Temporary Investments	64,906
632	Accrued Interest on Temporary Investments	351
6,637	Contributions Due - Employers	7,387
2,308	- Employees	2,960
1,168	Pension Augmentation	41
959	Recharge of PI & SA	1,181
4,050	Other Debtors	3,873
111,430		83,105
	N Current Liabilities	
29	Unsettled Purchases - Internal Manager	1,102
14,144	- External Manager	238
30	ERYC	7
4	Overclaim of Recharges	3
300	Annual Benefits Statement	-
250	Other Creditors	168
14,757		1,518
	O Managerial Arrangements	
31/03/06	The value of the assets managed by each manager was as follows:-	31/03/07
1,306,092	Internal Manager	1,524,611
533,607	External Manager	535,869
1,839,699		2,060,480

P Contingent Liabilities and Contractual Commitments

As at 31 March 2007 the Fund had commitments to the purchase of alternative assets investments of £70,694,945, analysed as follows:-

	2005/06		2006/07	
	Foreign Currency	£	Foreign Currency	£
UK Funds	-	16,943,573	-	24,272,807
Dollar denominated (\$)	24,131,116	13,911,632	42,707,830	21,774,156
Euro denominated (€)	8,181,136	5,707,902	36,318,801	24,647,982

Notes to the Accounts

Q 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 Pension 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 2007 was £4.4m. Rodney Barton, the Head of Investments for the East Riding Pension Fund, is a non-executive director of the company for which he is 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 sale of £1.1m was made reducing the cost to £1.0m. The market value of this investment at 31 March 2007 was £2.1m. Rodney Barton, the Head of Investments for the East Riding Pension Fund, is a non-executive director of the company for which he is paid a fee.

R 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.

Notes to the Accounts

S Currency Conversion Rates

Overseas investments have been converted at the exchange rates quoted in the Financial Times at close of business on 31 March 2007 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:-

Australian Dollar	2.4279
Canadian Dollar	2.2627
Danish Krone	10.9789
Euro	1.4735
Japanese Yen	231.5860
Norwegian Krone	11.9723
Swedish Krona	13.7611
Swiss Franc	2.3945
US Dollar	1.9614

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 Investment Section at the address below or by telephoning (01482) 394135.

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