



North
Yorkshire County Council

North Yorkshire Pension Fund

Annual Report and Accounts
2007-2008



NORTH YORKSHIRE

PENSION FUND

Annual Report and Accounts
for the Year Ended
31 MARCH 2008

North Yorkshire County Council
Finance and Central Services

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MANAGEMENT STRUCTURE (as at 31 March 2008)

Administering Authority:-	North Yorkshire County Council
Pension Fund Committee	J Weighell (Chairman)
Members as at 31 March 2008	E Broadbent Mrs M-A de Courcey-Bayley R Harrison-Topham B Bateman H Swiers J Watson J Blackie (appointed by the North Yorkshire Branch of the Association of District Councils) C Jamieson-Ball, City of York Council
Treasurer	John Moore, Corporate Director – Finance and Central Services, North Yorkshire County Council
Investment Adviser:-	Philip Williams (AllenbridgeEPIC)
Investment Consultant:	Mercer Ltd
Independent Professional Observer	Peter Scales (AllenbridgeEPIC)
Fund Managers:-	Baillie Gifford & Co Barclays Global Investors Standard Life Investments European Credit Management Crédit Agricole Asset Management UBS Global Asset Management R C Brown Investment Management Hermes Focus Asset Management Ltd Yorkshire Fund Managers
Actuary	Mercer Ltd
Legal Services	Head of Legal Services North Yorkshire County Council Ward Hadaway
Auditor	Deloitte & Touche LLP
Banker	Barclays Bank Plc
Custodian for Fund Assets: (+ fund accounting and performance measurement)	BNY Mellon Asset Servicing
Custodian Monitoring	Thomas Murray Ltd
Shareholder Voting Advisor	Pensions Investment Research Consultants Ltd
AVC Provider	Prudential Assurance Company

PART A - ADMINISTRATION REPORT

1. REPORT OF THE PENSION FUND COMMITTEE

INTRODUCTION

The North Yorkshire County Council (NYCC) is the Administering Authority for the North Yorkshire Pension Fund (NYPF) and these responsibilities are fulfilled by the Pension Fund Committee (PFC).

The Committee meets formally a minimum of four times a year, with additional meetings arranged where necessary. There are also additional informal meetings throughout the year to receive and consider reports from investment managers, as well as training workshops. The Committee receives professional advice from its independent Investment Adviser, its Investment Consultant, as well as the Treasurer.

INVESTMENT STRATEGY REVIEW

Phase I

The first phase was concluded in 2005/06 - see the **Annual Report** for that year for details.

Phase II

The second phase was completed in 2007/08 and set the Strategy in place at 31 March 2008 – see the **INVESTMENT REPORT (page 19)**. The Annual Report for 2006/07 gives full details of the decision-making process involved in this phase of the review.

Phase III

The third phase of the Investment Strategy Review took place in 2007/08. A number of workshops were held as follows:

Workshop 1 – 20 July 2007

This was held at County Hall, Northallerton and was presented by the Fund's newly appointed Investment Consultants, Mercer IC (now Mercer Ltd) (see **Contracts for Investment Adviser and Investment Consultant - page 7**).

The material presented built on the key elements of the Investment Strategy Review conducted during 2005 and 2006. This led to consideration of the concepts of a 'least risk' portfolio and risk budget, and how the current Strategy was subsequently derived along with some observations about the appropriateness of the Strategy as the Fund approached the 2007 Triennial Valuation.

In addition, a list of 'alternative investments' was considered with Members identifying those on which they would like to receive further training in a future Workshop, namely:

- Property
- Hedge Funds
- Infrastructure Funds
- High Yield Bonds

Workshop 2 – 26 October 2007

This Workshop was again presented by the Fund's Investment Consultants, Mercer Ltd and concentrated on the four 'alternative' asset classes selected by Members at Workshop 1.

Given that the Triennial Valuation was in progress at the time of this Workshop (see **2.(b) ACTUARIAL VALUATION - page 14**) the opportunity was also taken to consider the investment return expectations of the Fund's Strategy to establish a reasonable rate upon which the Actuary could base Asset Out-performance Assumptions for use in determining the level of Investment Offset in the 2007 Triennial Valuation.

Given

- the information provided in Workshop 2
- the need to ensure that the Investment Strategy was still compatible with the assumptions finally used in the Triennial Valuation
- the 'fluid' nature of financial markets at the time and the possible need to review the continued appropriateness of the specific benchmarks for fund managers (and their performance in relation thereto)

Members requested a further Workshop to investigate the practicalities of investing in some 'alternative' asset classes and how they might fit into the current and/or a revised Investment Strategy.

Workshop 3 – 31 January 2008

This Workshop was presented by the Fund's Investment Consultant, Mercer Ltd and the Investment Adviser Philip Williams (of EPIC, later AllenbridgeEPIC).

Following preferences indicated by Members at Workshop 2 this Workshop looked in more detail at two particular 'alternative' asset classes viz -

- Property
- High Yield Bonds

Property

Property was considered an excellent diversification asset class and has been the best performing asset class in recent years. Whilst the UK property market is currently not seen as attractive, Global Property appears to offer much greater opportunity. As the current property market returns fall there is the potential to seek increasing value in the sector.

Due to the illiquidity issues around property it can take several months to become fully invested. In addition, the manager selection (ie procurement) process can take some time and so Members decided that a procurement process for a Global Property Manager should commence in the following few months.

High Yield bonds

High Yield bonds were also considered in detail as they have consistently outperformed gilt returns and offer some diversification from bonds. As the Fund already has a very small exposure in this area, it was agreed that further discussions would take place with the existing fixed income managers before any decision on this asset class would be taken.

Consequential review of tactical asset allocation

A number of options were considered for amending the Investment Strategy to potentially incorporate these 'alternative' asset classes as well as adjust the allocations to existing asset classes. There was a consensus that a fundamental change to the existing Strategy was unnecessary but, based upon the respective views of the Consultant, Adviser and Treasurer there was also agreement that the equity content could be reduced slightly and an allocation of around 5% to Global Property would be desirable.

Impact on Risk Budget

The risk budget and forecast investment return expectations were modelled by Mercer IC for a number of different asset allocations. The introduction of a Global Property mandate funded by a reduced equity allocation tended to slightly reduce the risk budget (mainly through diversification into Property) whilst maintaining current investment return expectations.

Next steps

The next steps were for the Treasurer, assisted by the Consultant and the Adviser, to consider the detailed risk/return implications of the various asset allocation options for a revised Investment Strategy. A draft Investment Strategy, incorporating the proposed changes outlined above, and any changes relating to investment in Overseas Equities (see below) would therefore be submitted to the PFC meeting in May 2008. These changes in Investment Strategy will be detailed in the Annual Report for 2008/09.

Overseas Equity Mandate

At the meeting of the Committee on 7 December 2007 Members agreed to shift the US Equity element of the BGI overseas equities portfolio into a passive fund; this represented approximately half of the BGI portfolio.

As part of Workshop 3 the structure of this mandate was also considered, and particularly the FTSE All World Developed (ex UK) Benchmark Index. Members requested that the Consultant and the Adviser look in more detail, with the Treasurer, at how this mandate could be most effectively be defined in the future. However, there

was agreement that, in the meantime, a fund manager search for an overseas equity mandate be commenced.

The search for a Global Property Manager and Overseas Equity Manager, being due to take place during 2008/09, will therefore be reported in the Annual Report for that year.

CONTRACTS FOR INVESTMENT ADVISER AND INVESTMENT CONSULTANT

On 4 April 2007 Members decided:-

- ➔ to re-appoint Philip Williams to the role of Independent Investment Adviser
- ➔ to appoint Mercer Investment Consulting (later Mercer Ltd) to the role of Investment Consultant

both appointments to be effective from April 2007 and to run for an initial period of three years.

2007/08 was therefore the first full year in which Philip Williams (of Allenbridge/EPIC) has worked alongside Mercer Ltd in providing advice to the PFC. The arrangements are that:-

The **Investment Adviser**, Mr Philip Williams, provides ongoing independent investment advice to the Fund as well as monitoring the activities and performance of each investment manager and compliance with their Investment Management Agreements.

The **Investment Consultant**, Mercer Ltd, provides Investment Strategy advice including asset allocation and risk budget monitoring and supports the Investment Adviser in giving general investment advice to the Fund.

GOVERNANCE ARRANGEMENTS

The LGPS (Amendment) (No 3) Regulations 2007 which were reported to the PFC meeting on 27 September 2007 included a requirement for Administering Authorities to prepare a **Governance Compliance Statement** for publication by 1 March 2008.

Based on a preliminary self assessment of the guidance as against existing NYPF practice, two issues, in particular, were identified as requiring further action before the Governance Compliance Statement (available on www.nynet.org.uk/pensionfund/fund_management.shtm) could be drafted for approval by the PFC. These were the 'Secondary Panel' and 'Independent Professional Observer'.

1. Secondary Panel

At the December 2007 PFC meeting Members supported the creation of a Secondary Panel and agreed to the Treasurer holding discussions with employers and other interested parties to try and establish draft Terms of Reference. Following consideration of this issue by the Association of North Yorkshire Councils (ANYC) and the North Yorkshire Finance Officers Group (NYFO) a consultation meeting was held at County Hall, Northallerton on 1 February 2008.

Subsequently the PFC, at its meeting on 14 February 2008, agreed that:

- the draft Terms of Reference of what became known as the **North Yorkshire Pension Fund Advisory Panel (NYPFAP) (see below)** would be adopted at the first formal meeting of the Panel scheduled for 14 May 2008
- the Chair of the Panel would be formally invited to attend the PFC to represent the views of the Panel, but be a non-voting member of the PFC
- the Treasurer would provide an initial “Basics” training session for all Panel members in April 2008. (This took place on 25 April 2008)
- that subsequently all Panel members would be invited to participate in the Training sessions and Workshops, etc, provided hitherto for Members of the PFC.

Up to the time of writing this report NYPFAP has met on two occasions, 14 May 2008 and 24 September 2008.

The **Terms of Reference** of the North Yorkshire Pension Fund Advisory Panel (NYPFAP) are as follows:-

The North Yorkshire Pension Fund Advisory Panel is an informal group established to support the role of the main Pension Fund Committee (PFC). Its Terms of Reference are as follows:

- to represent all stakeholders of the North Yorkshire Pension Fund, in particular the contributing Employing Bodies to the Fund
- to express the views of stakeholders to the Pension Fund Committee on matters of policy
- to scrutinise the performance of the Pension Fund Committee
- to liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)
- to ensure compliance with all relevant legislation and guidance.

Representation

In order to fulfil its role the Panel includes representatives of each of the following groups:

District Councils (x3) (including Elected Member as Chair)
City of York Council
Police, Fire, Probation Services and National Park Authorities
Colleges & Universities
Town & Parish Councils (including Internal Drainage Boards)
Admitted Bodies
Unions (x2)

The Panel consists of Elected Member representatives wherever possible, otherwise senior officer representatives of other Organisations are included. Each member of the Panel is entitled to vote at Panel meetings. The Chair of the Panel is an Elected Member and represents the Panel at the Pension Fund Committee meetings in an advisory but non-voting capacity.

Meetings

The Panel meetings are synchronised with the Pension Fund Committee meetings and consider the same quarterly agenda plus any other relevant consultation exercises, ideally on the day preceding the PFC meeting.

Training & Advice

Members of the Panel are entitled to the same level of training and advice as members of the Pension Fund Committee.

Officers of the Pension Fund attend each Panel meeting and Advisers to the Fund attend meetings on an ad-hoc basis when required by the Panel.

In addition, Panel Members are afforded access to the same information as Members of the Pension Fund Committee.

2. Independent Professional Observer

The PFC at its meeting on 14 February 2008 appointed Peter Scales (of AllenbridgeEPIC) to fulfil this role. He has unparalleled experience of LGPS Funds and will therefore provide value added to the consideration of the NYPF governance arrangements. The appointment will run for 3 years from 1 April 2008.

The duties are as follows:

- attendance at meetings of the Advisory Panel, minimum once each year
- attendance at meetings with officers of North Yorkshire County Council (NYCC), minimum once each year
- provision of advice on matters relating to governance in connection with the LGPS, both to those meetings and to officers as required
- undertaking an assessment of the Governance Compliance Statement and a compliance overview of the other published statutory statements relating to the administration of NYPF
- submission of an annual report on compliance to the Pension Fund Committee and attendance at the meeting to present the report
- liaison with other advisers and service providers as required.

Also at the PFC meeting on 14 February 2008, the new Governance Compliance Statement and Communications Policy Statement were approved, both being available on www.nynet.org.uk/pensionfund/fund_management.shtm.

FUNDING STRATEGY STATEMENT

In March 2004 the ODPM (now the CLG) stipulated by Regulation that Local Authority Pension Funds must produce and maintain a Funding Strategy Statement (FSS). The current FSS was agreed at the PFC meeting on 14 February 2008 and can be viewed on the NYPF website, www.nynet.org.uk/pensionfund/word/fundstrat.pdf

This site can also be accessed from the NYCC website www.northyorks.gov.uk

STATEMENT OF INVESTMENT PRINCIPLES

An updated Statement of Investment Principles (SIP) was agreed by Committee on 14 February 2008. The amendments reflect the following:-

1. LGPS Investment Regulations

The Fund is required to comply with the LGPS (Management & Investment of Funds) Regulations 1998 and subsequent amendments. In 2003 the Regulations were amended to allow LGPS Funds to increase some of the Investment Limits set for specific investment types within a fixed headroom.

These amended Regulations were reported to the PFC in 2003 and it was agreed **not** to adopt any of the increased Investment Limits at that time.

The PFC on 14 February 2008, however, agreed to adopt some of the increased limits and these new limits appear in paragraph 5.5 of the SIP viz:

- (a) an increase in the limit for contributions in any single partnership from 2% of the Fund to 5% (the maximum allowed in the Regulations)
- (b) an increase in the limit for contributions to all partnerships from 5% of the Fund to 10% (the maximum allowable in the Regulations being 15%)
- (c) an increase in the limits for investment in unit trust schemes managed by any one Manager, including all investment in open-ended investment companies managed by any one Manager or a combination of investment in unit trust schemes and open-ended investment companies with any one Manager from 25% to 30% (maximum allowable 35%).

The full list of the revised restrictions is set out in part **B.1 (a) Regulations (page 19)**.

2. Global Custodian Name Change

Following the merger of The Bank of New York and the Mellon Corporation in July 2007, and the subsequent buy-out of ABN AMRO's 50% share of ABN AMRO Mellon by the merged Bank of New York Mellon Corporation in December 2007, the name of the Fund's Global Custodian was formally changed to BNY Mellon Asset Servicing (see part **B1.(c) Custody of Investments - page 24**).

The most recent SIP is available on:

www.nynet.org.uk/pensionfund/word/Statement_of_Principles.pdf

This site can also be accessed from the NYCC website: www.northyorks.gov.uk

INVESTMENT PERFORMANCE

Over the year to 31 March 2008, the Fund underperformed its customised benchmark by 3.4%. More details are to be found in the Investment Report (see **Performance of the Fund - page 25**).

REGULATION CHANGES

For 2007/08 the 1997 Regulations, amended by the regulation changes that were effective from April 2006 and October 2006, applied.

A 'New Look LGPS Scheme', however, came into operation with effect from 1 April 2008. The main changes are set out below. Their effect of the changes will be evident in the Annual Report for 2008/09.

- the rate employees pay in contributions are (from 1 April 2008) linked to the rate of pensionable pay received. For those previously paying at 6%, and for all new starters the rates paid per range of pensionable pay are shown in the table below:

Band	Range	Contribution rate
1	£0 to £12,000	5.5%
2	£12,001 to £14,000	5.8%
3	£14,001 to £18,000	5.9%
4	£18,001 to £30,000	6.5%
5	£30,001 to £40,000	6.8%
6	£40,001 to £75,000	7.2%
7	More than £75,000	7.5%

The employer has the discretion to decide how often the contribution rate is changed if the pensionable pay of the employee increases or decreases. This will usually be once a year, or where there are contractual changes to an employee's post(s).

There are also increases in the contribution rate for those existing manual workers who pay contributions at the protected 5% contribution rate on a phased basis, bringing their contribution rate into line with all other Scheme members from 1 April 2011. This will be done by increasing the rate for these members to 5.25% in 2008/09; 5.5% in 2009/10; 6.5% in 2010/11; and then move to the bands in the table from 2011/12 onwards

- the New Look Scheme provides a pension of $1/60^{\text{th}}$ of final pay for each year of membership in the scheme after 31 March 2008 (membership to 31 March 2008 will still be calculated as $1/80^{\text{th}}$ pension plus $3/80^{\text{th}}$ s lump sum)
- new employees must have a contract of employment of more than 3 months duration in order to be entitled to join the scheme
- there is now an increase in the death grant from 2 to 3 times pay for death in service; an increase from 3 to 5 times pension if a deferred beneficiary dies; and an increase from 5 to 10 times pension less pension already paid if a pensioner dies before age 75
- apart from benefits payable on death in service, members must have a minimum of 3 months membership or have had a transfer of pension rights from another scheme into the LGPS in order to be entitled to benefits
- flexible retirement with employer consent is permitted from age 55, with member's being able to draw all or part of their benefits (or from age 50 for existing members opting to draw all or part of their benefits with employer consent before 31 March 2010)
- the New Look Scheme continues the April 2006 regulation change whereby up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate i.e. for every pound of pension given up the member gets £12 lump sum

CLLR J. WEIGHELL
Chairman
Pension Fund Committee

2. MANAGEMENT REPORT

(a) INTRODUCTION

Membership

NYCC operates the NYPF for its own employees (excluding Teachers) together with those of the other local authorities within the County area, and certain other bodies eligible to join the Fund, under the terms of the Local Government Pension Scheme Regulations. The Fund does NOT cover teachers, police and fire-fighters for whom separate statutory arrangements exist.

Membership of the LGPS is not compulsory, although employees over 16 years old are automatically admitted to the Fund unless they elect otherwise.

Employees therefore have various options:-

- to be part of the **NYPF**
- to be part of the State Second Pension Scheme, or
- to purchase a personal pension plan or a stakeholder pension managed by a private sector company.

The consistent growth in overall membership numbers over the past 4 years is apparent in the table below. The reduction in Current Contributors is substantially due to a data cleansing exercise carried out in 2007/08, which has accounted for some of the increase in the numbers of deferred pensions and pensioners receiving benefit.

Membership Type	As at 31 March 2004	As at 31 March 2005	As at 31 March 2006	As at 31 March 2007	As at 31 March 2008
Current Contributors	22,879	25,289	27,987	28,401	27,535
Deferred Pensions	8,770	9,431	10,903	14,246	17,246
Pensioners receiving Benefits	10,444	10,803	11,159	11,721	12,491

See **Appendix 1** for a detailed analysis of membership numbers at 31 March 2008, with comparative numbers for 31 March 2007.

Income

The Fund is primarily financed by contributions from both employees and employers together with income earned from investments. The surplus of income received from these sources, net of benefits and other expenses payable, is invested in accordance with a predetermined investment policy (see **page 19 - INVESTMENT REPORT**).

The contributions payable by employees are prescribed by the Regulations. Prior to 1998, the rates were 5% or 6% of superannuable pay depending upon the conditions of service applicable. The 1997 Regulations amended this to a standard rate of 6% with effect from 1 April 1998, unless the member has "lower rate rights" (ie was paying 5% before 1 April 1998). The employee contribution rates in 2007/08 were based on the 1997 Regulations. From April 2008 a banded structure has been in place linked to the rate of pensionable pay a member receives (see **REGULATION CHANGES - Page 11**).

The basis of the employer contribution rates is explained further in sections (b) **Actuarial Valuation** and (c) **Employer Contributions** below.

Benefits

The Benefits payable under the Regulations are largely mandatory allowing little discretion to the employing bodies. A summary of benefits payable under the Local Government Pension Scheme (LGPS) is provided on **page 35**.

Pensions paid to retired employees are subject to mandatory inflation increases (usually annual), arising out of the Pension Increase Acts. The cost impact on the Fund of these increases is incorporated into the overall assessment of the contributions paid by employers.

(b) ACTUARIAL VALUATION

In common with all other Local Government Pension Schemes a formal actuarial valuation is carried out every three years. The Valuation of the Fund on which employer contributions for 2007/08 were based was conducted as at 31 March 2004. This Valuation was effective for a period of three years beginning 1 April 2005.

The latest Triennial Valuation as at 31 March 2007, which set the employer contribution rates for the three years commencing 2008/09, showed that a Common Contribution Rate (CCR) of 12.3% of pensionable pay (10.4% in the 2004 Valuation) was required from employers.

This CCR was calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date.

The CCR was then adjusted having regard to the individual circumstances of each employer, particularly to reflect the numbers of starters/leavers/early retirements since the last Valuation date and relative to the size of the ongoing payroll base from which future contributions were derived.

A number of material developments affecting the Fund since 2004 led to changes in actuarial assumptions which increased the CCR when compared to the previous Valuation, i.e.

- liabilities have increased due to falls in real yields on gilts
- assumed life expectancy has increased

These factors were partly offset by very strong investment returns by the Fund in the period 2004-2007.

In order to mitigate the impact of the above factors, further changes were made to the actuarial assumptions, to assist in bringing the CCR down, the major ones being:

- reducing the ill health allowance to 50% of the allowance made at the previous Valuation
- giving an opportunity to some employers to allow for improved investment returns in the calculation of their individual contribution rate
- assuming that on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard $\frac{3}{80}^{\text{ths}}$ cash sum.

The value of the Fund's assets at 31 March 2007 represented 68.8% of the Fund's liabilities. Based on the actuarial value of the Fund's assets at Valuation date of £1,266m, the deficit to be funded amounted to £602m.

In order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow CLG guidance and stabilise contribution rates by adopting a deficit recovery period of 27 years, (30 years at the 2004 Valuation). Therefore, an average additional contribution rate of 6.5% (over 27 years) was required to fund the deficit, implying an average employer contribution rate of 18.8% (12.3% + 6.5%) of pensionable pay, compared to 17.5% at the 2004 Valuation.

The contribution rates were calculated using the projected unit actuarial method.

The actuarial assumptions for the 2007 Valuation in respect of Future Service were as follows:

	For future service liabilities
Investment Return	6.50% per annum
RPI Price Inflation	2.75% per annum
Salary Increases	4.50% per annum
Pensions Increases	2.75% per annum

* plus salary scale for officers to allow for incremental increases

Some employing bodies took advantage of the "controlled flexibility" policy that was introduced by the Pension Fund Committee in the 2004 Valuation and chose either a shorter deficit recovery period than 27 years, or a bespoke investment strategy specifically assigned to a particular employer.

Latest Solvency position

The Fund monitors, via the Actuary, the solvency position of the Fund on an ongoing basis. The Interim Actuarial Valuation as at 31 March 2008 showed that the worsened solvency position was:

	<i>At 31 March 2008</i>	<i>At 31 March 2007</i>	<i>2004</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Market Value of Assets	1,223	1,266	766
- Total past service liabilities	<u>2,180</u>	<u>1,759</u>	<u>1,290</u>
= Deficit	<u>957</u>	<u>493</u>	<u>524</u>
Funding Level	56%	72%	59%

The loss of solvency over 2007/08 was due to a combination of factors, particularly pressure on investment returns in deteriorating financial markets during 2007/08, and the "growth" in liabilities, which are valued using gilt prices, resulting from increasing inflationary assumptions.

(c) EMPLOYER CONTRIBUTIONS

The following is a list of the 62 employers who contributed to the Fund in 2007/08, showing the specific contribution rate per employer which applied. The Fund average was 17.5%.

Scheduled Bodies (45):

<i>Employer</i>	<i>Contribution Rate % of pensionable pay (average)</i>
North Yorkshire County Council	18.8
City of York Council	17.6
Craven District Council	24.9
Hambleton District Council	16.7
Harrogate Borough Council	21.0
Richmondshire District Council	20.9
Ryedale District Council	20.2
Scarborough Borough Council	19.8
Selby District Council	18.9
North Yorkshire Police Authority	18.9
North Yorkshire Fire & Rescue Authority	15.2
North Yorkshire Probation Service	24.0
Yorkshire Dales National Park	19.6
North York Moors National Park	15.5
University of Hull, Scarborough Campus	13.4
Askham Bryan College	16.5
Selby College	12.7
Craven College	12.4
Scarborough Sixth Form College	14.6
Yorkshire Coast College	12.8
York College	12.6
Skipton Town Council	24.2

Employer	Contribution Rate % of pensionable pay
Scheduled Bodies grouped for setting contribution rates:	18.4
Foss Internal Drainage Board	
Marston Moor Internal Drainage Board	
Thornton Internal Drainage Board	
Ouse & Derwent Internal Drainage Board	
Great Ayton Parish Council	
Whitby Town Council	
Fulford Parish Council	
Sutton-in-Craven Parish Council	
Selby Town Council	
Norton on Derwent Town Council	
Knaresborough Town Council	
Glusburn Parish Council	
Richmond Town Council	
Northallerton & Romanby Joint Burial Committee	
Northallerton Town Council	
Malton Town Council	
Pickering Town Council	
Hunmanby Parish Council	
Haxby Town Council	
Ripon City Council	
Kirkbymoorside Parish Council	
Easingwold Town Council	
Filey Town Council	

Admitted Bodies (17):

Employer	Contribution Rate % pensionable pay
York St. John University	13.8
York Archaeological Trust	24.3
Yorkshire Tourist Board	11.3
Joseph Rowntree Charitable Trust	17.2
Yorkshire Housing	16.0
Ryedale Sports and Recreation Ltd	16.5
North Yorkshire Business and Education Partnership	37.4
Balfour Beatty Infrastructure Services Ltd	18.8
Northern Procurement Group	17.1
Connexions York & North Yorkshire Ltd	12.9
York Museum and Galleries Trust	12.5
Craven Housing Ltd	10.1
Yorkshire Coast Homes Ltd	11.7
Richmondshire Leisure Trust	15.5
Jacobs (UK) Ltd	15.3
Superclean Services	19.2
Scarborough Museums Trust	14.4

(d) ADMINISTRATIVE ARRANGEMENTS

North Yorkshire County Council (NYCC) is the statutory administering authority for the NYPF. All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC).

The Pensions Section of the Finance and Central Services Directorate in NYCC administers all aspects of the benefits regulations, member records etc. Other staff within Finance and Central Services look after the accounting and management information requirements of the Fund and the PFC. In contrast all aspects of the day to day management of investment funds are undertaken by independent fund managers (see **page 19 et seq.**)

During the year the Committee formally met on four occasions, plus an additional six meetings to consider the reports of the investment managers. The Committee receives professional advice from its independent Investment Adviser, Mr P Williams of AllenbridgeEPIC, its firm of Investment Consultants, Mercer IC, as well as the Treasurer. Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

The County Council's Finance and Central Services staff liaise with the investment managers, the Investment Consultant, and the Investment Adviser on day to day matters and are responsible for associated administrative and accounting functions relating to the Fund.

The Corporate Director - Finance and Central Services, acting as Treasurer to the Pension Fund is responsible for preparing the Pension Fund Annual Report in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes 2002*.

(e) KEY DOCUMENTS

Access to key documents referred to in this Report can be obtained via the Pensions Fund website at www.nynet.org.uk/pensionfund/fund_management.shtm

These include:

- ➔ previous years' Annual Reports
- ➔ Funding Strategy Statement (see **page 10**)
- ➔ Statement of Investment Principles (see **page 10**)
- ➔ Triennial Actuarial Valuation report (see **page 14 et seq**)
- ➔ Policy Statements in relation to Governance Arrangements and Communications (see **page 39**)

PART B - INVESTMENT REPORT

1. INVESTMENT POLICY

(a) Regulations

NYCC is required, as administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. NYCC is not unfettered in how it can invest NYPF funds. The restrictions that apply are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as subsequently amended by Regulations in 1999, 2000 and 2003 (see below). Effectively

- (a) no more than 1% of the Fund may consist of any single sub-underwriting contract
- (b) no more than 5% of the Fund may consist of contributions to any single partnership
- (c) no more than 10% of the Fund may consist of contributions to partnerships
- (d) no more than 10% of the Fund may be deposited with any local authority, or body precepting on a local authority
- (e) no more than 10% of the Fund may consist of securities which are not listed on a recognised stock exchange
- (f) no more than 10% of the Fund may be held in any single holding, unless the investment has been made by an investment manager or the single holding is in units of a unit trust
- (g) no more than 10% of the Fund may consist of cash held with any one Bank
- (h) no more than 15% of the Fund may consist of sub-underwriting contracts, and
- (i) no more than 30% of the Fund may consist of unit trusts managed by the same body
- (j) no more than 30% of the Fund may be invested in open-ended investment companies where the collective investment schemes constituted by the companies are managed by the same body
- (k) no more than 30% of the Fund may consist of unit trusts plus open-ended investment companies where both are managed by any one body
- (l) no more than 25% of the Fund may be invested in any single insurance contract
- (m) no more than 25% of the Fund may be transferred under stock lending arrangements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 provided LGPS funds with the opportunity to increase exposure to certain types of investments. Some of the wider limits were adopted by the PFC at its meeting on 14 February 2008. The increase limits are shown in (b), (c), (i), (j) and (k) above. Also see paragraph 5.5 of the SIP referred to on **page 10** and **page 18** of this Annual Report.

(b) Investment Management arrangements

As at 31 March 2008 specialist equity mandates were managed by the following

Baillie Gifford and Co
Barclays Global Investors
Standard Life Investments

} see below for more detail

fixed income by

Crédit Agricole Asset Management
European Credit Management.

and a Global Tactical Asset Allocation portfolio by

UBS Global Asset Management

- **Baillie Gifford** managed two **global** (ie including UK) **equity** portfolios, namely **Global Alpha** and an unconstrained portfolio, the **Long Term Global Growth (LTGG)**. Each of these portfolios is in the form of a pooled vehicle, rather than separate direct holdings
- **BGI** managed an **overseas equities (ex UK)** portfolio using a selection of their own overseas equities pooled vehicles in proportions at their discretion
- **Standard Life** managed a **UK equity** portfolio comprising segregated holdings in UK companies.

The Fund also has a small portfolio of assets (£1.7m) held by R C Brown Investment Management Plc. This equity mandate is based on ethical criteria and has been invested at the request of one particular employing body.

In July 2000 the Fund allocated £15m to the Hermes UK Third Focus Fund, which invests in underperforming UK companies and seeks to improve their performance through appropriate stewardship and/or management interventions.

In February 2002 the Fund invested the equivalent of EUR10m in the Hermes European Focus Fund, with a further EUR10m being invested in July 2002. This Fund operates in the same way as the Hermes UK Third Focus Fund, but in respect of European companies.

The NYPF is committed to an investment of £3m in the Yorkshire and Humber Equity Fund (formerly the Yorkshire and Humber Regional Venture Capital Fund), the first tranche of £300k having been drawn down in July 2002, with further instalments to be drawn down on request. A further £300k was drawn down in July 2008 and another £300k in November 2008, making £900k in total at November 2008.

Finally, a currency hedging account is operated directly with the Fund's global custodian, BNY Mellon Asset Servicing, in respect of 50% of the Fund's overseas equities exposure to the major currencies.

The following table shows the total of investments and cash held by each manager and the County Council as at 31 March 2008:

Investment Manager	2008		2007	
	£000	%	£000	%
Baillie Gifford & Co - Global Alpha	182,269	14.9	183,248	14.5
Baillie Gifford & Co - LTGG	117,682	9.6	110,450	8.7
Barclays Global Investors	258,206	21.1	273,447	21.6
Standard Life Investments	274,555	22.4	301,755	23.8
European Credit Management	126,446	10.4	128,584	10.2
Crédit Agricole Asset Management	159,495	13.1	148,752	11.8
UBS Global Asset Management	53,114	4.3	48,028	3.8
R C Brown Investment Management	1,717	0.2	1,939	0.2
Hermes Focus Asset Management-UK	17,452	1.4	23,076	1.8
Hermes Focus Asset Management-Europe	26,631	2.2	28,116	2.2
Currency Hedging	(2,762)	-0.2	4,358	0.3
Yorks & Humber Equity Fund	307	0.0	300	0.0
Transition Accounts	4	0.0	-	0.0
North Yorkshire County Council (cash & net debtors)	7,895	0.6	13,622	1.1
Total	1,223,011	100.0	1,265,675	100.0

The following table details the ten largest segregated UK equity holdings as at 31 March 2008:

	Company	Market Value		Percentage of Value of Fund	
		£000	%		
(1)	Royal Bank of Scotland PLC	10,805		0.9	
(2)	BP	9,374		0.8	
(3)	HBOS	8,173		0.7	
(4)	XStrata	7,814		0.6	
(5)	Vodafone	7,290		0.6	
(6)	Carillion	7,210		0.6	
(7)	Balfour Beatty	6,970		0.6	
(8)	Barclays	6,398		0.5	
(9)	Thomas Cook	6,353		0.5	
(10)	IMI	6,337		0.5	
		76,724		6.3	

Individual fund managers are given wide discretion as to the selection of stock and securities in which investment is made. However, since April 2001 specific benchmarks have been in place for each asset class and / or each manager; managers are then monitored against these specific performance mandates.

Following the Investment Strategy Review, (see **Part A**) the resulting tactical asset allocation and performance targets in operation as at 31 March 2008, are shown below.

Table A

Asset Class	Benchmark Proportion
Equities	77%
Fixed Income	23%

The percentages shown in **Table A** exclude the bespoke fund managed by R C Brown Investment Management.

On a quarterly basis the Fund is rebalanced to the benchmark proportions stated above using, wherever possible, the positive cash flows generated each month by the Fund. In addition, the equity element of the benchmark is then rebalanced to the proportions set out in **Table B** below.

The PFC has defined Fund specific benchmark proportions and relevant indices for each asset class/mandate type

- for equity mandates see **Table B** below
- for the fixed income mandate see **Table C** below

Table B

Equity Benchmark

Asset Sub Class	Benchmark Proportion	Out-Performance Target	Benchmark Index
UK Equities	33%	+ 3%	FTSE 350 (ex IT) (Equally Weighted)
Global Equities (ex UK)	31%	+ 1%	FTSE Developed World (ex UK)
Global Equities	19%	+ 2%	FTSE All World
Long-term Global Growth Equities	12%	+ 3%	FTSE All World
Global Tactical Asset Allocation	5%	+ 0.75%	FTSE All World Developed

The **benchmark proportion** has been determined by a risk budgeting process as the most effective mix of asset allocation and investment style with the **out-performance target** reflecting where more risk is expected to be taken by the appointed investment manager.

Table C**Fixed Income Benchmark (= Least Risk Portfolio)**

Asset Sub Class	Benchmark Proportion	Permitted Range	Benchmark Index	Out-Performance Target
Index linked gilts (longer than 15 years)	85%	+/- 1%	FTSE UK Index-Linked Gilts	+ 3%
Fixed interest gilts (longer than 15 years)	15%	+/- 1%	FTSE UK Gilts	+ 3%

The split shown in the above table between the index linked and fixed interest gilts equates to the **least risk portfolio**; this is an actuarially designed portfolio that is the closest match possible to the Fund's liabilities, and represents the least risk investment position. By using the least risk portfolio with an out-performance target of 3% as the benchmark for the fixed income mandates, then assuming the target is met this portion of the Fund's assets should move in line (or better) relative to the Fund's liabilities.

The performance criteria for the individual investment managers are as follows:

Equity - UK

→ **Standard Life** - the principal objective is to out-perform the FTSE 350 (ex IT Equally Weighted index (per **Table B**) by 3% per annum over rolling three year periods.

Equity – Global (ex UK)

→ **Barclays Global** - the principal objective is to out-perform the FTSE World (ex UK) index (per **Table B**) by 1% per annum over rolling three year periods. The short term objective is for the Fund to limit the risk of underperforming the benchmark by more than 5% in any one year; in pursuit of this aim the manager undertakes to use best endeavours to constrain predicted tracking error to a maximum of 4%. In January 2008 the US Equity Fund was switched into a passive fund pending a review of this overseas equity mandate. At Workshop 3 (see **page 5**) the PFC agreed that a fund manager search for the overseas equity mandate be commenced. The outcome will be reported in the 2008/09 Annual Report.

Equity - Global

→ **Baillie Gifford** - the principal objective is to out-perform the FTSE World index (per **Table B**) by 2% per annum over rolling three year periods.

Equity – Long Term Growth

→ **Baillie Gifford** - the principal objective is to out-perform the FTSE World index (per **Table B**) by 3% per annum over rolling three year periods.

Global Tactical Asset Allocation

→ **UBS** - the principal objective is to out-perform the customised equity benchmark (per **Table B**) by 0.75% per annum on the equivalent total equity allocation over

rolling three year periods, based upon a GTAA portfolio of 5% of the total equity allocation.

Equity - Niche

- **Hermes UK and Yorkshire and Humber Equity Fund** - the objective is to out-perform the FTSE All Share Index on a consistent basis.
- **Hermes European** - the objective is to out-perform the FTSE World Europe ex UK Index on a consistent basis.

Equity - Ethical

- **RC Brown** - the objective is to out-perform the FTSE All Share Index by 2% per annum over rolling three year periods.

Fixed Income

- **Crédit Agricole Asset Management** - the asset allocation is that set out in **Table C** but the performance target is to exceed the Least Risk Portfolio by 3% p.a.
- **European Credit Management** - the asset allocation is that set out in **Table C** but the performance target is to exceed the Least Risk Portfolio by 3% p.a.

The benchmark for the whole Fund is effectively a composite performance figure based on the specified indices, as defined above, measured over the relevant period but weighted according to the benchmark proportions. This composite benchmark figure is then re-balanced (see [page 22](#)) at the start of each quarter to the initial proportions as defined in **Tables A and B**.

(c) Custody of Investments

ABN AMRO Mellon was appointed with effect from 1 July 2006 as global custodian for the Fund's assets. In December 2007 the Bank of New York Mellon Corporation acquired ABN AMRO Mellon Global Securities Services B.V., which was therefore renamed BNY Mellon Asset Servicing B.V.

The assets of the Fund for which BNY Mellon Asset Servicing is not the custodian are:-

- (i) Hermes Focus Funds who use their own custodianship arrangements with J P Morgan
- (ii) Yorkshire and Humber Equity Fund, whose bankers are the Royal Bank of Scotland plc
- (iii) Internally Managed Cash which is held either in the North Yorkshire Pension Fund Account, or swept into the North Yorkshire County Council County Fund Account, both held at Barclays Bank, Northallerton

The main services provided by BNY Mellon are the custodianship of the Fund's assets, including settlement of trades and collection of income, investment accounting and performance measurement of the fund managers.

2. PERFORMANCE OF THE FUND

The performance of the fund managers is measured and assessed on a quarterly basis. During 2007/08, NYPF participated in an investment performance measurement service provided by Mellon Analytical Services (MAS) (an arm of BNY Mellon). The WM Company, who provided a performance measurement service to NYPF up until 30 September 2003, have been retained for the purpose of providing comparisons with the WM Local Authority Universe, (ie the performance of other local authority pension funds).

MAS made use of the information found within the Investment Accounting System, also provided by BNY Mellon, in assessing the rate of return achieved by NYPF in relation to the defined benchmarks.

2007/08 Performance

The overall performance of the Fund and of the individual fund managers for the year to 31 March 2008, compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund %	Fund Performance %	Customised Benchmark %	+/- %
Baillie Gifford & Co - Global Alpha	14.9	-0.5	-2.4	1.9
Baillie Gifford - LTGG	9.6	6.5	-2.4	8.9
Barclays Global Investors	21.1	-5.3	-3.4	-1.9
Standard Life Investments	22.4	-12.2	-14.2	2.0
European Credit Management	10.4	-8.8	12.3	-21.1
Crédit Agricole Asset Management	13.1	5.7	12.3	-6.6
UBS Global Asset Management	4.3	-10.3	-3.7	-6.6
R C Brown Investment Management	0.2	-13.9	-7.7	-6.2
Hermes UK	1.4	-24.4	-7.7	-16.7
Hermes European	2.2	-5.3	2.4	-7.7
Yorkshire & Humber Equity Fund	0.0	0.0	-7.7	7.7
Internally Managed Cash	0.6	9.1	5.6	3.5
Currency Hedging	-0.2	-270.0	5.6	-275.6
Total Fund	100.0	-5.7	-2.3	-3.4

As indicated above, the WM Company also provided comparative data on the 88 local authority pension funds for the 2007/2008 financial year, as well as annualised returns over longer periods. This shows that the NYPF ranked 75th out of the 88 for the year.

Taking into account the share of the Fund managed this disappointing performance was primarily due to one of the equity managers (whose portfolio is in the process of being re-advertised – see [page 23](#)) and the two fixed income managers for whom the prevailing market conditions in this asset category were difficult given the nature of their defined benchmark and the structure/content of their consequential portfolios.

3 Year Performance

Over the 3 years to 31 March 2008, the Fund achieved an annualised return of 8.5%pa which compares with the performance of the Least Risk Portfolio (see **Table C on page 23**) which returned 9.1%pa an underperformance of -0.6%. This compares with an annualised return of 14.5%pa over the 3 years to 31 March 2007, an out-performance against the Least Risk Portfolio of +7.5%

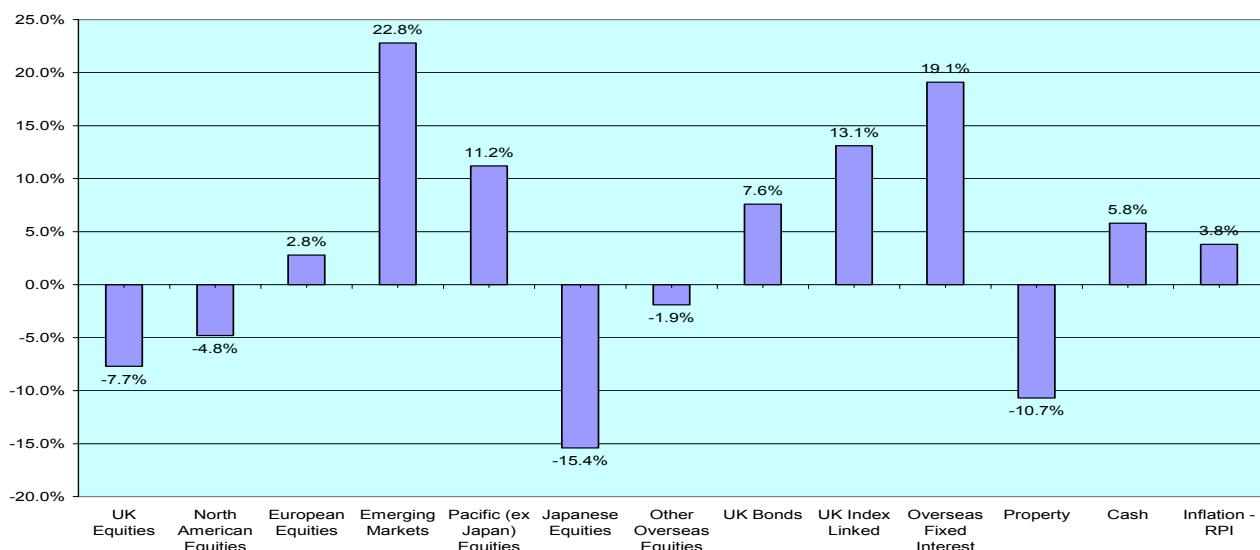
Market background

The UK stock market ended the 12 months 7.7% lower and North America was down 4.8%. The heaviest faller was Japan, which lost 15.4% in sterling terms. Emerging Markets performed best, with a return of 22.8%, while Pacific (ex Japan) posted a rise of 11.2% and Europe recorded a 2.8% increase.

Against this uncertain background, government bonds were regarded as a safe haven. UK Bonds provided a return of 7.6% and overseas bonds 19.1%.

Corporate bonds fared less well, with those issued by financial companies hit particularly hard as banks and mortgage lenders were required to offer extremely attractive terms to investors to compensate for the greater perceived risk. Much of this decline was also as a result of a severe drop in liquidity as credit markets, for a time, were effectively closed. Towards the end of the period, there were signs of renewed activity in corporate bond markets and spreads began to narrow somewhat. However subsequent developments in 2008 proved this to be a false dawn as the “credit crunch” took its toll on financial markets. This impact of the market conditions will be explained in the 2008/09 report.

The graph below details the performance of the major markets as well as plotting inflation over the year.



N.B. The inflation figure quoted is the all-items retail prices index. For information, the Consumer Price Index (CPI) rose by 2.5% for the year to March 2008 whilst the retail prices index excluding mortgage interest payments (the underlying rate or RPIX) rose by 3.5% in the same period.

PART C - FINANCIAL REPORT

Income and Expenditure for the year 2007/2008 and the **Net Assets Statement** (representing the value of the Fund) as at 31 March 2008 are shown on **pages 29 and 30**.

The value of the Fund's assets at 31 March 2007 was £1,266m and this decreased by £43m during the year to give a value of **£1,223m** at 31 March 2008.

Contributions for the year were £6.5m more than for the year 2006/07 due to the effect of annual increments and pay increases for employees.

Expenditure on benefits increased during the year from £50.6m to £58.1m. This was principally caused by a net increase in the number of pensions in payment from 11,721 to 12,491 (see **page 13**).

Total contributions received during the year amounted to more than the total of benefits paid and administrative expenses by £36.8m. To this surplus was added net investment income of £7.3m, thereby giving an overall net surplus of funds for 2007/08 of £44.1m (excluding gains and losses on investments).

Transfer values are payable when an employee leaves one pension fund, and joins another, in order to provide for the future pension which the latter will have to meet. For NYPF the net impact was that £4.9m more was received in transfer values in 2007/08 than was paid to other funds in that year.

The main item of expenditure included in Administration Expenses is the service charge from North Yorkshire County Council for pensions administration, accounting expenses etc (£1.0m). The investment related expenses comprise the fees for fund managers (£5.3m) together with other costs of investment and related administration (£0.4m). The fund manager fees included performance fees of £1.4m. 2007/08 was the first year in which the performance fee scales, agreed in 2006/07, were payable.

The principal items included in the accounts as Debtors are the sale of investments made in March 2008, but not settled until later (£8.7m), accrued dividends (£4.8m) and the balance of employees' and employers' contributions due from employing authorities (£7.7m) (see **page 31** for full details).

The principal items included in the accounts as Creditors relate to the purchase of investments made in March 2008 but not settled until later (£11.8m), management fees due (£0.9m) and retirement allowances/death grants payable (£0.8m) (see **page 31** for full details).

No account is taken of liabilities to pay pensions and other benefits after 31 March 2008. The Triennial Actuarial Valuation and Interim Actuarial Reviews (see **pages 14-16**) take account of the long term liabilities of the Fund.

Prior Year Adjustment:-

A mis-alignment in the accounts for 2006/07 in relation to Interest on Fixed Income Securities has led to a restatement of 'Investment Income' and 'Change in Market Value of Investments' in the comparative figures for 2006/07. Investment income has been reduced by £5.851m and the Change in Market Value of Investments has been increased by the same amount.

At March 2008, 98.0% of the fund assets were invested in securities and cash instruments (eg Certificates of Deposit) with a market value of £1.198m (see **page 30**). In addition, cash held on deposit by fund managers and the County Council at the year end totalled £17m, whilst £8m worth of net debtors increased the total of assets to £1.233m.

Deloitte & Touche LLP have completed their audit of these accounts, and this Annual Report, and their report is unqualified (see **page 34**).

JOHN MOORE
Treasurer of the North Yorkshire Pension Fund

November 2008

NORTH YORKSHIRE PENSION FUND
FUND ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

2006/07		Notes	2007/08
£000			£000
CONTRIBUTIONS AND BENEFITS			
Contributions receivable			
62,184	Employers	- Normal	66,769
389		- Special	611
1,573		- Early Retirement Costs Recharged	1,874
20,205	Employees	- Normal	21,539
357		- Additional Voluntary	428
<u>84,708</u>	Total Contributions Receivable		91,221
10,611	Transfers in		11,845
Less			
Benefits payable			
(39,849)	Pensions		(42,651)
(10,104)	Commutation of Pensions and Lump Sum Retirement Benefits		(14,180)
(642)	Lump Sums Death Benefits		(1,230)
<u>(50,595)</u>	Total Benefits payable		(58,061)
Payments to and on account of leavers			
(62)	Refunds of contributions		(33)
(20)	State Scheme Premiums		(8)
(6,896)	Transfers out - Individual Transfers		(6,947)
<u>(6,978)</u>	Total payments to and on account of leavers		(6,988)
(1,035)	Administration and other Expenses		(1,189)
<u>36,711</u>	Net additions/(withdrawals) from dealings with members		<u>36,828</u>
RETURNS ON INVESTMENTS			
14,217	Investment income	(1)	12,990
67,993	Change in market value of investments	(1)	(86,775)
(268)	Taxation	(2)	(1)
<u>(3,506)</u>	Investment management expenses		<u>(5,706)</u>
<u>78,436</u>	Net returns on investments		<u>(79,492)</u>
115,147	Net Increase/(Decrease) in Fund during year		(42,664)
1,150,528	Opening Net Assets of the Scheme		1,265,675
<u>1,265,675</u>	Closing Net Assets of the Scheme		<u>1,223,011</u>

Notes:-

- (1) The Investment Income and Change in Market Value of Investments in the comparative figures for 2006/07 have been amended as stated in the Prior Year Adjustment explained on **Page 28**.
- (2) The 'Taxation' figures above relate to irrecoverable withholding tax deducted from dividends from holdings in overseas companies. The move to pooled vehicles in respect of overseas equities in October 2006 has meant that overseas dividends received are now being automatically reinvested in the pooled vehicle and not separately shown in the accounts as dividends with tax deducted.

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31st March 2007 £000	31st March 2008 £000
INVESTMENT ASSETS	
Fixed Interest Securities	
95,874 Government	51,553
131,041 Corporate	<u>193,095</u>
226,915 Total Fixed Interest Securities	244,648
297,126 Equities	270,640
7,395 Index Linked Securities	8,189
Pooled Investment Vehicles	
273,443 Unit Trusts	258,205
293,668 Unitised Insurance Funds	299,945
94,565 Other Managed Funds	<u>91,566</u>
661,676 Total Pooled Investment Vehicles	649,716
Cash Deposits	
13,436 Cash and Cash Funds	15,431
32,500 Certificates of Deposit	6,902
6,875 Total Return Interest Rate Swaps	<u>17,777</u>
52,811 Total Cash Deposits	40,110
Other Investment Assets	
8,630 Debtors	13,618
(2,501) Less Creditors	<u>(11,805)</u>
6,129 Total Other Investment Assets	1,813
1,252,052	<u>1,215,116</u>
OTHER CURRENT ASSETS AND LIABILITIES	
Debtors	7,725
Cash	
7,811 Invested with North Yorkshire County Council	2,066
26 At Bank	<u>(145)</u>
7,837 Total Cash	1,921
Creditors	(1,751)
13,623	<u>7,895</u>
1,265,675	<u>1,223,011</u>
TOTAL NET ASSETS	

To comply with the CIPFA Code of Practice 2007 presentation of some of the figures differs from the Annual Report 2006/07. Index Linked Securities are now shown separately from Fixed Interest Securities, and Certificates of Deposit have been moved from Fixed Interest Securities to Cash Deposits.

Neither the Fund Account nor the Net Assets Statement take account of pensions and other benefits payable by the Fund in the future (see **Page 27**).

Additional Information:

Current Assets and Liabilities

	Notes	2007/08 £000	2006/07 £000
Debtors			
Investment Assets			
Investment Transactions	(1)	8,736	5,657
Accrued Dividends	(1)	4,825	2,913
Withholding Taxes Recoverable		57	60
		<u>13,618</u>	<u>8,630</u>
Other Assets			
Contributions due from Employing Authorities		7,683	6,988
Pensions Rechargeable		21	21
Interest on Deposits		15	86
Value Added Tax		0	18
Other		6	14
		<u>7,725</u>	<u>7,127</u>
Total Debtors		21,343	15,757
Creditors			
Investment Assets			
Investment Transactions	(1)	11,805	2,501
		<u>11,805</u>	<u>2,501</u>
Other Assets			
Management Fees		897	927
Retirement Allowances/Death Grants		800	377
Other		54	37
		<u>1,751</u>	<u>1,341</u>
Total Creditors		13,556	3,842

Note (1) The significant differences in the above between 2006/07 and 2007/08 values are due to the volatile nature in the timing of transactions.

Investment Income

	Note	2007/08 £000	2006/07 £000
Fixed Interest Securities	(1)	5,832	3,144
Dividends from Equities		9,822	11,188
Income from Index-Linked Securities		173	84
Income from Pooled Investment Vehicles		0	160
Interest on Cash Deposits		2,037	1,651
Interest on Interest Rate Swaps		(4,874)	(2,010)
		12,990	14,217

Note (1) Please see amendment to 2006/07 figures described on **Page 28**.

Contributions and Benefits

Contributions represent the total amounts receivable from the various employing authorities in respect of their own contributions and those of their pensionable employees. The employer's contributions are made at a rate determined by the Fund's actuary. Benefits represent the amounts paid in pensions and lump sums (including retirement and death grants).

	2007/08 £000	2006/07 £000
Contributions Receivable		
North Yorkshire County Council	38,859	35,325
Other scheduled bodies	48,216	45,597
Admitted bodies	4,146	3,786
	91,221	84,708

Members of the Fund can make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with Prudential Assurance Company Limited on behalf of the individual members concerned.

	2007/08 £000	2006/07 £000
Benefits Payable		
North Yorkshire County Council	25,359	22,895
Other scheduled bodies	30,351	25,807
Admitted bodies	2,351	1,893
	58,061	50,595

Administration Expenses

	2007/08 £000	2006/07 £000
Administration and Processing	1,088	971
Actuarial Fees	81	49
Legal and Audit Fees	20	15
	1,189	1,035

The analysis above does not include the investment expenses of £5.706m (including £1.4m performance – related fund manager fees) in 2007/08. (The corresponding figure for 2006/07, with no performance related fees, was £3.506m).

PART D - AUDITOR'S REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL ON THE PENSION FUND ANNUAL REPORT

We have examined the summary financial statements included in the Pension Fund Annual Report which comprise the Fund Account, the Net Assets Statement and the related notes on pages 31 - 33.

This report is made solely to North Yorkshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Chief Finance Officer and auditors

The Chief Finance Officer is responsible for preparing the Annual Report in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes 2002'. Our responsibility is to report to you our opinion on the consistency of the summary financial statements within the Annual Report with the statutory financial statements. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any misstatements or material inconsistencies with the statutory financial statements.

Basis of opinion

We conducted our work in accordance with paragraphs 15-18 of Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the statutory financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary financial statements included in the Annual Report are consistent with the statutory financial statements of the Authority for the year ended 31 March 2008. We have not considered the effects of any events between the date on which we signed our report on the statutory financial statements (30 September 2008) and the date of this statement.

Deloitte & Touche LLP

Deloitte and Touche LLP
1 City Square
Leeds
LS1 2AL
United Kingdom
18th November 2008

PART E - SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a very comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the LGPS*, can be obtained by contacting the Pensions Section at County Hall, Northallerton, (telephone 01609 780780 extension 2340).

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

Based on average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 10 years. Pensions are calculated on a fraction of $1/80^{\text{th}}$ for each year of membership of the scheme for service before 31 March 2008 and on $1/60^{\text{th}}$ for service after 1 April 2008.

Pension (III Health)

Based on average pensionable pay for the last year of service and the split of 80^{th} s and 60^{th} s accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will be able to obtain gainful employment before age 65 the employee's LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years.

Lump Sum Retirement Grant

Based on average pensionable pay for the last year of service and total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as $\frac{3}{80}^{\text{ths}}$ for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service

A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement

A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits

A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on $\frac{1}{160}$ of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child:	Child's pension is $\frac{1}{320}^{\text{th}}$ of member's service, multiplied by the final pay.
Partner with more than one child:	Child's pension is $\frac{1}{160}^{\text{th}}$ of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.
No partner and one child:	Child's pension is $\frac{1}{240}^{\text{th}}$ of the member's service, multiplied by the final pay.
No partner and more than one child:	Child's pension is $\frac{1}{120}^{\text{th}}$ of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Retail Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the North Yorkshire Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will, in general, be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

AVC's A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

PART F - STATEMENT OF PENSION FUND COMMITTEE RESPONSIBILITIES

The Pension Fund Committee holds the following delegated powers

1. To exercise the powers of the County Council to invest monies forming part of the Pension Fund, including:-
 - ◆ investment in property
 - ◆ appointment of managers to manage and invest Fund monies on the County Council's behalf
 - ◆ receiving reports from the managers at least once every three months setting out the action they have taken under their appointment
 - ◆ receiving reports every three months reviewing the investments made by the Investment Manager
 - ◆ from time to time considering the desirability of continuing or terminating the appointments and
 - ◆ from time to time reporting to the Executive
2. To exercise all the County Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.
3. To carry out the County Council's functions relating to local government pensions under
 - ◆ The Local Authority (Discretionary Payments) Regulations 1996;
 - ◆ The Local Authority Pension Scheme Regulations 1997; and
 - ◆ The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, and subsequent amendments

PART G - COMPLIANCE STATEMENT

Myiners Compliance and SIP

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999, as amended in 2002, the Fund is required to report its compliance with Myiners principles in the Statement of Investment Principles (SIP) – see **page 9**.

Governance Policy Statement

In accordance with the LGPS (Amendment) (No 2) Regulations 2005, the Fund was required to prepare, consult on and publish by 1 April 2006 a Governance Policy Statement setting out its policy on the delegation of pension fund functions to committees, officers etc together with the frequency of meetings, terms of reference, representation and voting rights. The Regulations also required the Fund to publish a Communications Policy Statement at the same time.

A copy of the current version of both statements can be found on the website at <http://www.nynet.org.uk/pensionfund/word/0606GovCommsPolStatement.pdf>

Trustee Training

The County Council as administrators of the Fund supports the practice of regular training to ensure PFC Members are familiar with the issues on which they are required to make decisions. This is achieved by their attendance at training seminars, courses and conferences provided by external providers, and at internally provided workshops and training events.

Corporate Governance

The present policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all UK Equities held by the Fund. Votes are executed according to predetermined Shareholder Voting Guidelines agreed with PIRC by the PFC. PIRC currently instructs the Fund Custodian by email of voting recommendations for each FTSE All Share holding.

The scope of the policy is under review with the intention of extending the range of companies where NYPF's interest can be voted, for example to overseas holdings.

NYPF, as a member of the Local Authority Pensions Fund Forum (LAPFF), receives research and advice in relation to voting issues and local authority pension fund good practice.

Securities Lending and Commission Recapture

NYPF prohibits its fund managers and custodian from securities lending, or operating a commission recapture arrangement with brokers.

MEMBERSHIP STATISTICS

Employer (1)	SUMMARY OF ACTIVE MEMBERS		SUMMARY OF DEFERRED MEMBERS		SUMMARY OF PENSIONERS	
	Pensionable Employees as at 31/3/2007 (2)	Pensionable Employees as at 31/3/2008 (3)	Deferreds as at 31/3/2007 (4)	Deferreds as at 31/3/2008 (5)	Pensioners as at 31/3/2007 (6)	Pensioners as at 31/3/2008 (7)
North Yorkshire County Council	16,407	15,095	7,828	10,060	6,360	6,773
North Yorkshire Police Authority	1,169	1,170	376	452	357	373
North Yorkshire Fire & Rescue Authority	132	136	20	31	23	25
North Yorkshire Probation Committee	257	267	125	136	104	118
North Yorkshire Magistrates Courts Committee (1)	0	0	176	68	79	84
North York Moors National Park	119	131	61	58	26	27
Yorkshire Dales National Park	142	138	53	61	22	24
Balfour Beatty	224	198	57	63	39	55
DISTRICTS						
Craven	251	252	158	174	213	220
Hambleton	366	446	194	225	201	211
Harrogate	1,178	1,201	702	751	645	671
Richmondshire	265	266	163	176	202	214
Ryedale	263	247	131	144	233	244
Scarborough	826	803	581	603	862	878
Selby	327	325	246	269	271	278
UNITARY AUTHORITIES						
York	4,898	4,982	2,356	2,761	1,484	1,643
COLLEGES						
OTHER EMPLOYERS	275	546	186	265	178	188
TOTAL	28,401	27,535 (2)	14,246	17,246 (2)	11,721	12,491 (2)

Notes

- (1) Responsibility for the Magistrates' Courts Service has passed to Central Government, so staff are no longer entitled to be members of the LGPS.
- (2) The more significant differences reflect the results of a data cleansing exercise which was undertaken during 2007/08. This moved many Members' records from actives to deferreds and pensioners.

Rates and Adjustments Certificate issued in accordance with Regulation 77

Name of Fund

North Yorkshire Pension Fund

Regulation 77(3)

I hereby certify that, in my opinion, the Common Rate of employers' contributions payable in each year of the period of three years beginning 1 April 2008 should be at the rate of 12.3 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2008, as set out above, should be individually adjusted as set out in the attached Schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS Regulations for the calculation of employee contributions.

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of the Rates and Adjustments Certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contribution rates set out in the attached Schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.

Regulation 77(7)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature

Name

Date of signing


C R Hull
31 March 2008

Schedule to the Rates and Adjustment Certificate dated 31 March 2008

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	2008/09		2009/10		2010/11	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Askham Bryan College	3.9	16.2	3.9	16.2	3.9	16.2
Balfour Beatty Infrastructure Services	8.1	20.4	8.1	20.4	8.1	20.4
City Of York Council	5.7	18.0	5.7	18.0	5.7	18.0
Craven College	0.7	13.0	1.2	13.5	1.7	14.0
Craven District Council	12.6	24.9	12.6	24.9	12.6	24.9
Craven Housing	(0.1)	12.2	(0.1)	12.2	(0.1)	12.2
Grouped Scheduled Bodies	7.3	19.6	8.5	20.8	9.6	21.9
Hambleton District Council	5.4	17.7	5.4	17.7	5.4	17.7
Harrogate Borough Council	8.7	21.0	9.2	21.5	10.2	22.5
Jacobs (UK) Ltd	3.0	15.3	3.0	15.3	3.0	15.3
Joseph Rowntree Charitable Trust	6.2	18.5	7.4	19.7	8.6	20.9
North York Moors National Park	3.8	16.1	3.8	16.1	3.8	16.1
North Yorkshire Business and Education Partnership	26.4	38.7	27.7	40.0	28.9	41.2
North Yorkshire County Council	6.9	19.2	6.9	19.2	6.9	19.2
North Yorkshire Fire and Rescue Service	2.9	15.2	2.9	15.2	2.9	15.2
North Yorkshire Police Authority	7.0	19.3	7.0	19.3	7.0	19.3
North Yorkshire Probation Committee	10.0	22.3	10.0	22.3	10.0	22.3
Richmondshire District Council	9.1	21.4	9.1	21.4	9.1	21.4
Richmondshire Leisure Trust	3.2	15.5	3.2	15.5	3.2	15.5
Ryedale District Council	7.9	20.2	7.9	20.2	7.9	20.2
Ryedale Sports and Recreation	5.0	17.3	5.0	17.3	5.0	17.3
Scarborough Borough Council	7.5	19.8	7.5	19.8	7.5	19.8
Scarborough Sixth Form College	3.4	15.7	3.4	15.7	3.4	15.7
Selby College	0.7	13.0	1.0	13.3	1.2	13.5
Selby District Council	7.6	19.9	8.6	20.9	9.5	21.8
Skipton Town Council	11.9	24.2	11.9	24.2	11.9	24.2
Superclean	6.9	19.2	6.9	19.2	6.9	19.2
University of Hull- Scarborough Campus	4.9	17.2	4.9	17.2	4.9	17.2
York Archaeological Trust Ltd	14.7	27.0	17.4	29.7	20.0	32.3
York College	1.4	13.7	2.5	14.8	3.7	16.0

	2008/09		2009/10		2010/11	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
York Museum and Galleries Trust	1.8	14.1	1.8	14.1	1.8	14.1
York St John University	2.7	15.0	2.7	15.0	2.7	15.0
Yorkshire Coast College	1.8	14.1	3.1	15.4	4.4	16.7
Yorkshire Coast Homes Ltd.	1.5	13.8	1.5	13.8	1.5	13.8
Yorkshire Dales National Park	9.5	21.8	9.5	21.8	9.5	21.8
Yorkshire Housing Association	4.2	16.5	4.2	16.5	4.2	16.5
Yorkshire Tourist Board	5.9	18.2	5.9	18.2	5.9	18.2

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Former Employers	Proportion of Pension Increases to be Recharged %
Department of Transport DVLC	100
Yorkshire Water Authority	100

Note:

The admission of Connexions York and North Yorkshire terminates on 31 March 2008. A termination assessment will then be required in respect of this employer and any additional contributions required will be notified separately.