

2013/2014

Annual Report & Accounts



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foreword

The Fund was created on the reorganisation of local government in 1974 and East Riding of Yorkshire Council became the Administering Authority on 1 April 1996.

At 31 March 2014 the Fund was valued at £3,316.5m, having paid out £135.4m during the year for the benefit of Scheme members. This is an increase in the Fund value of £238.4m from 31 March 2013, as equity markets, particularly in the developed economies, were exceptionally strong due to continued loose monetary policy, an improvement in risk appetite as investors sought higher returns given historically low bond yields, continued central bank support for peripheral European economies, and continued economic recovery in the developed economies. This was partly offset by weakness in emerging markets due to concerns over the sustainability of current economic growth rates and negative returns from bond markets due to anticipation of eventual monetary tightening.

All employees, other than teachers, of the Administering Authority and 151 Scheme Employers are entitled to participate in the Scheme. Employees of the 34 Admitted Bodies may be nominated for membership by their employer. There has been a significant increase in the number of Employers during the year, predominantly due to the increase in the number of Academies in the Fund. Teachers, Police Officers and Firefighters have separate pension arrangements.

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

At 31 March 2014 the total membership records administered by the East Riding Pension Fund was 98,501, an increase of 5.1% during the year. For active members, each separate employment contract is classed as a record where an individual has multiple employments, and the number of active member records has increased by 2.8% to 36,978. For pensioner members each pension entitlement is classed as a record where an individual is in receipt of more than one pension and the number of pensioner member records, including the pensions paid to spouses and dependants of the former scheme members, has increased by 5.1% to 25,656. All the membership figures in the report are based on the up to date position recorded on the pensions administration system, with all previous years restated on a consistent basis. The average pension in payment is £4,706.42 per annum, equivalent to a weekly payment of £90.26.

The Fund generated a return of 7.1% for the year ended 31 March 2014, compared to the strategic benchmark return of 5.9%, and the Local Authority average return of 6.4%. Over the three years to 31 March 2014, the Fund returned 7.9% per annum, compared to the strategic benchmark return of 7.5% per annum, the Local Authority Average of 7.5% per annum, and the long term investment objective of 7.1% per annum.

The Pension Fund continues to be managed in a cost effective manner with total pension administration and investment management costs equating to just 0.15% (2013: 0.15%) of funds under management compared to the Local Authority Average of 0.29% (2013: 0.30%).

Following a busy year for the Pension Fund including the triennial actuarial valuation, the strategic asset allocation review, and preparation for the implementation of the new Scheme from 1 April 2014, the main challenge for the Fund in the year ahead is the potential reform of the LGPS both in terms of investment management, administration, and governance arrangements. The Fund is participating fully in the various consultations regarding reform and will strive to ensure that any changes will be communicated to both scheme members and employers.

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

Caroline Lacey
Head of Finance
East Riding of Yorkshire Council
19 September 2014

the local government pension scheme

Legal Framework

The Local Government Pension Scheme (LGPS) is governed by the Superannuation Act 1972 and in the future, scheme regulations will be made under the Public Service Pension Schemes Act 2013. The current scheme rules, which are in place until 31 March 2014, are contained within the LGPS (Benefit, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008, which became effective on 1 April 2008. Whilst the Regulations are fixed on a national basis, the Scheme is managed by a designated Administering Authority, and throughout England and Wales there are 89 such authorities.

The East Riding of Yorkshire Council is responsible for administering THE EAST RIDING PENSION FUND for the benefit of its own employees and the employees of the scheme employers and admission bodies. Full details of the employers participating within the Fund are shown on pages 7 to 8. Teachers, Police Officers and Firefighters are excluded from the Scheme, as they are members of separate statutory pension schemes.

The LGPS is contracted-out for the purposes of State Second Pension and this enables most scheme members to pay a lower rate of National Insurance Contribution.

HM Revenues and Customs (HMRC) has granted the LGPS "exempt approval" for the purposes of the Income and Corporation Taxes Act 1988. Since April 2006, the LGPS has been classified as a Registered Public Service Pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. It complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995, the Pensions Act 2004 and meets the government's new standards under the automatic enrolment provisions of the Pensions Act 2008.

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.

Employer contribution rates are set by the Fund's Actuary every three years following the valuation of the Fund, in order to maintain the solvency of the Fund. New rates were set by the Actuary from 1 April 2011 to 31 March 2014 following the 2010 Actuarial Valuation and the Actuary set the common rate of employers' contributions across the Fund, as 25.8% of pensionable pay, with individual employer rates being adjusted by reason of any circumstances peculiar to that employer.

Changes to the LGPS effective from 1 April 2014

Further detailed amendments to the scheme rules were made by the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings, and Amendment) Regulations 2013 which were issued in 2013/2014. These Regulations will apply to individuals who will be contributing members of the LGPS on 1 April 2014 or who join the LGPS on or after that date. The main provisions of the LGPS pre 1 April 2014 and post 31 March 2014 are shown below.

All the pension benefits built up to 31 March 2014 in the LGPS are fully protected and will continue to be based on a member's final year's pay when they leave the LGPS. Benefits built up before April 2014 also retain their protected Normal Pension Age which for most members is 65 although certain members have a retirement age of 60 for all or part of their membership. There is an additional protection known as the 'underpin' for members who were active on 31 March 2012 and were within ten years of their Protected Normal Pension Age on 1 April 2012. These members will get a pension at least equal to the pension they would have received in the LGPS had it not changed on 1 April 2014 subject to meeting certain criteria.

	LGPS 2014 (from 1 April 2014)			LGPS 2008 (from 1 April 2008 to 31 March 2014)		
Basis of pension	Career Average Revalued Earnings (CARE)			Final Salary (FS)		
Accrual rate	1/49th			1/60th		
Revaluation rate	Consumer Price Index (CPI)			Based on Final Salary		
Pensionable pay	Pay including non-contractual overtime and additional hours for part time staff			Pay excluding non-contractual overtime and non pensionable additional hours		
Employee contribution rates (Average 6.5% in both LGPS 2008 and LGPS 2014) Rates are based on actual pay	From	To	Gross	From	To	Gross
	Up to £13,500		5.5%	Up to £13,500		5.5%
	£13,501	£21,000	5.8%	£13,501	£15,800	5.8%
	£21,001	£34,000	6.5%	£15,801	£20,400	5.9%
	£34,001	£43,000	6.8%	£20,401	£34,000	6.5%
	£43,001	£60,000	8.5%	£34,001	£45,500	6.8%
	£60,001	£85,000	9.9%	£45,501	£85,300	7.2%
	£85,001	£100,000	10.5%	More than £85,300		7.5%
	£100,001	£150,000	11.4%			
	More than £150,000		12.5%			
Contribution flexibility	Members can choose to pay 50% in pension contributions for 50% of the pension benefit			Not available		
Normal pension age (NPA)	Equal to the individual member's State Pension Age (minimum age 65)			Age 65		
Lump sum trade off	Trade £1 of pension for £12 of extra lump sum			Trade £1 of pension for £12 of extra lump sum		
Death in service lump sum	3 x pensionable pay			3 x pensionable pay		
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement			1/160th accrual based on Tier 1 ill health pension enhancement		
Ill health provision (3 Tiers related to the severity of the ill health)	Tier 1 – Immediate payment of pension with service enhanced to NPA Tier 2 – Immediate payment of pension with 25% service enhancement to NPA Tier 3 – Immediate temporary payment of pension for up to 3 years with no enhancement			Tier 1 – Immediate payment of pension with service enhanced to NPA Tier 2 – Immediate payment of pension with 25% service enhancement to NPA Tier 3 – Immediate temporary payment of pension for up to 3 years with no enhancement		
Indexation of pension once in payment	Consumer Price Index (CPI)			Consumer Price Index (CPI) (Retail Price Index (RPI) for pre 2011 increases)		
Vesting period	2 years			3 months		

Contributing Employers

ADMINISTERING AUTHORITY

East Riding of Yorkshire Council

SCHEME EMPLOYERS (151)

Ainthorpe Primary Academy
 Anlaby Common Parish Council
 Appleton Primary Academy
 Archbishop Sentamu Academy
 Ashwell Academy
 Barton upon Humber Town Council
 Beverley and North Holderness Internal Drainage Board
 Bellfield Academy
 Beverley Grammar School
 Beverley Town Council
 Biggin Hill Primary Academy
 Bishop Burton College
 Bottesford Town Council
 Bricknell Primary Academy
 Bridlington Town Council
 Brigg Town Council
 Broughton Town Council
 Bude Park Primary Academy
 Bursar Primary Academy
 Burton upon Stather Parish Council
 Cambridge Park Academy
 Cleethorpes Academy
 Cleeve Primary Academy
 Collingwood Academy
 Cottingham High School
 Craven Primary Academy
 Crowle Academy
 Dorchester Primary Academy
 Driffield Town Council
 Dunswell Primary Academy
 East Ravensdale Academy
 East Riding College
 East Riding Valuation Tribunal
 Eastfield Primary Academy (Immingham)
 Eastfield Academy (Hull)
 Edward Heneage Academy
 Elloughton cum Brough Parish Council
 Endike Primary School
 Epworth Academy
 Franklin College
 Goole High School
 Goole Town Council
 Grimsby Institute of Further & Higher Education
 Hall Road Academy
 Havelock Academy
 Healing Science Academy Limited
 Hedon Town Council
 Hessle High School
 Hessle Peshurst Primary School
 Hibaldstow Academy
 Highlands Primary Academy
 Holy Family Catholic Academy
 Hornsea Town Council
 Hull College
 Hull Studio School
 Humber Bridge Board
 Humberside Fire Authority
 Humberside Magistrates' Courts Committee
 Humberston Academy
 Humberston Park Academy
 Humberside Probation Trust
 Huntcliff Academy
 ICT 4 Collaboration
 Immingham Town Council
 Invenio Academy
 John Leggott College
 John Whitgift Academy
 Kingston upon Hull City Council
 Kingstown Works Limited
 Kingswood Academy
 Kirk Ella and West Ella Parish Council
 Kirton in Lindsey Town Council
 Laceby Acres
 Lincs Inspire Limited
 Lisle Marsden Academy
 Longhill Primary Academy
 Macaulay Academy
 Maybury Primary Academy
 Market Weighton Town Council
 Melior Community College Academy
 Mersey Academy
 Middlethorpe Academy
 Neasden Primary Academy
 New Waltham Academy
 Newington Academy
 North East Lincolnshire Council
 North Eastern Inshore Fisheries and Conservation Authority
 North Lincolnshire Council
 North Lindsey College
 Oasis Academy Henderson Avenue
 Oasis Academy Immingham
 Oasis Academy Nunthorpe
 Oasis Academy Parkwood
 Oasis Academy Wintringham
 Old Clee Primary Academy
 Ormiston Maritime Academy
 Ormiston South Parade Academy
 Outwood Academy Brumby
 Ouse and Humber Drainage Board
 Police and Crime Commissioner for Humberside
 Priory Primary Academy
 Reynolds Primary Academy
 St Augustine Webster Academy
 St Bede's Academy
 St Bernadette's Academy
 St Joseph's Academy
 St Mary's Academy
 St Mary's Catholic Academy
 St Norbert's Academy
 Scartho Junior Academy
 Scawby Academy
 Signhills Academy
 Signhills Infants Academy
 Sirius Academy
 South Axholme Academy
 South Hunsley School (Hunsley Trust)
 Spring Cottage Academy
 Strand Academy
 Sutton Park Primary Academy
 Swanland Primary School Academy Trust
 The Axholme Academy
 The Boulevard Academy
 The Green Way Academy
 The Parks Academy
 The St. Lawrence Academy
 The Thomas Ferens Academy
 The Vale Academy
 Thoresby Academy
 Thrunscoe Primary Academy
 Tollbar Academy Limited
 Trinity House Academy
 Tweendykes Academy
 Ulceby St Nicholas Primary School
 University of Lincoln
 Waltham Leas Primary Academy
 Wansbeck Academy
 Weelsby Primary Academy
 Westwoodside Academy
 Wheeler Academy
 Wilberforce College
 Willows Academy
 Winifred Holtby Academy
 Winterton Academy
 Winterton Town Council
 Withernsea Town Council
 Wold Academy
 Worlaby Academy
 Wybers Wood Academy
 Wyke College
 Yarborough Primary Academy
 Yorkshire and Humberside Grid for Learning

COMMUNITY ADMISSION BODIES (19)

Havelok Housing Association Limited
 Hull and Goole Port Health Authority
 Hull Charterhouse Trustees
 Hull & East Yorkshire Community Foundation Limited
 Hull Resettlement Project Limited
 Hull Young Peoples Christian & Literary Institute
 Humbercare Limited
 Humberside Independent Care Association
 Humberside International Airport Limited
 North East Lincolnshire Primary Care Trust Plus
 North Lincolnshire Homes Limited
 NPS Humber Limited
 Pickering and Ferens Homes
 Pocklington School
 Shoreline Housing Partnership Limited
 The Deep (EMIH) Limited
 The Riverside Group Limited
 University of Lincoln Students' Union
 University of York

TRANSFEREE ADMISSION BODIES (15)

apetito Limited
 arvato government services (ERYC) limited
 Balfour Beatty Workplace Limited
 Future Cleaning Services Limited
 Independent Cleaning Services Limited (Chiltern)
 Independent Cleaning Services Limited (Thorpepark)
 ISS Facility Services -Education
 Reel Cinemas (UK) Limited
 RM Education plc
 Robertson Facilities Management Limited
 Serco Limited
 Sewell Facilities Management Limited
 Sodexo Limited
 Sodexo Limited Nunthorpe
 Sports and Leisure Management Limited

Analysis of Active and Ceased Employers in the Fund

	Active	Ceased	Total
Scheduled body	149	3	152
Admitted body	30	4	34
Total	179	7	186



scheme management and advisers

Fund Managers	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	Schroder Investment Management (UK) Limited 31 Gresham Street London EC2V 7QA
Secretary to the Pensions Committee	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Custodian	State Street Bank and Trust Company 525 Ferry Road Edinburgh EH5 2AW	
AVC Provider	Prudential Craigforth, Stirling FK9 4UE	
Actuary	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	
Legal Adviser	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Banker	NatWest Bank 60 Market Place, Beverley HU17 8AA	
Fund Accountant	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Fund Auditor	KPMG LLP (UK) The Embankment, Leeds LS1 4DW	
Scheme Administrator	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Fund Adviser	Mrs S Bates c/o Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	

Performance Measurement	The World Markets Company 525 Ferry Road Edinburgh EH5 2AW	
Officers	<p>Malcolm Sims Director of Corporate Resources East Riding of Yorkshire Council County Hall, Beverley Beverley HU17 9BA</p> <p>Mark Lyon Head of Investments East Riding Pension Fund PO Box 164 Church Street Goole DN14 5YZ</p>	<p>Caroline Lacey Head of Finance East Riding of Yorkshire Council County Hall, Beverley Beverley HU17 9BA</p> <p>Graham Ferry Pensions Manager East Riding Pension Fund PO Box 118 Church Street Goole DN14 5YU</p>

Management Arrangements of Fund

The arrangements for the management of the Fund are:

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

Custodial Arrangements

Investments are held by State Street Bank and Trust Company in the nominee name of The East Riding Pension Fund. State Street Bank and Trust Company are also empowered to carry out stock lending on behalf of the Fund (see note E to the accounts).



risk management

East Riding of Yorkshire Council, the Administering Authority to East Riding Pension Fund, recognises the importance of effective risk management. Risk management is the process by which the council systematically identifies and addresses the risks associated with its activities.

Risk management is a key part of the East Riding of Yorkshire Council's corporate governance arrangements, providing assurance to meet the requirements of the Accounts and Audit Regulations 2011, supporting the council's Annual Governance Statement and ensuring that the council understands and manages the risks it faces at a strategic, service, partnership and project level.

One of the six core principles within the council's Code of Corporate Governance is 'taking informed and transparent decisions which are subject to effective scrutiny and manage risk'. Ownership for responsibility for the active identification and management of risks is delegated from the council to the Cabinet, from the Cabinet to the Corporate Management Team and then to the appropriate management level in the organisational structure. Overview of the operation of the framework within which risk owners manage their risks is exercised by the Cabinet and Corporate Management Team and facilitated by the Director of Corporate Resources, the Head of Finance and the Audit and Technical Manager. Guidance on the management of particular categories of risk is provided by the relevant specialist officers, though the risks are not owned by these officers. Assurance on the effectiveness of the council's risk management arrangements is provided by the Audit Committee, after reviewing and challenging the assurances that they receive from various internal and external sources.

The council has a formal risk management strategy which is regularly reviewed and developed in response to changes within the council and the external environment.

As required by the risk management strategy the Fund has identified and assessed risk, and the controls in place to mitigate risk. The Fund's risk register is reviewed every six months by the Pensions Committee.

Risk is defined as a condition, act, situation or event with the ability or potential to impact on the Fund either by enhancing or inhibiting performance, attainment of objectives or meeting stakeholder expectations.

The Fund's key objectives are to:

- ensure the long term solvency of the fund and that sufficient funds are available to meet all benefits as they fall due for payment;
- administer the fund effectively and efficiently in accordance with regulations; and
- communicate effectively with all key stakeholders.

The Fund's risk register is included below.

No.	Risk	Consequences	Controls
1	<p>Inappropriate long-term investment strategy including issues such as:</p> <ul style="list-style-type: none"> • Active v. Passive • In-house v. External management • Equities v. Bonds • Investment in Alternatives • Liquidity of investments 	<p>Failure to meet long term investment rate of return target.</p> <p>Asset classes fail to provide adequate returns irrespective of investment strategy or manager performance.</p> <p>Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.</p> <p>Deterioration in funding position.</p> <p>Increase, and/or volatility, in employer contribution rates.</p> <p>Concentration risk in assets that have similar characteristics.</p> <p>Insufficient liquid assets to meet liabilities as they fall due.</p>	<p>Strategic asset allocation, including appropriate diversification of assets, determined on a triennial basis following the latest actuarial valuation. Agreed by Members, advisers, and investment managers.</p> <p>Tactical asset allocation determined on a quarterly basis by Pensions Committee in light of financial market conditions and following advice from advisers and investment managers.</p> <p>Statement of Investment Principles discloses the permitted asset classes, allocation, and ranges in order to provide an appropriate level of diversification.</p> <p>Fund-specific benchmark is used, informed by Asset-Liability modelling of liabilities.</p> <p>Regular review of long-term investment strategy to ensure it remains appropriate.</p> <p>Investment management responsibilities split between internal and external investment managers.</p> <p>Robust investment process including detailed research and analysis.</p> <p>Performance monitored by the Head of Finance on a quarterly basis.</p> <p>Detailed analysis of investment managers' performance on an annual basis and reviewed by the Pensions Committee.</p> <p>Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund specific benchmark.</p> <p>Independent assurance received on internal controls of the Fund's investment managers on an annual basis.</p> <p>Analysis of Fund liquidity position on a weekly basis.</p>
2	<p>Under-performance of investment managers relative to benchmark</p>	<p>Failure to meet long term investment rate of return target.</p> <p>Deterioration in funding position.</p> <p>Increase in employer contribution rates.</p>	<p>Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis by independent company.</p> <p>Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund specific benchmark.</p> <p>Detailed analysis of investment managers' performance on an annual basis and reviewed by the Pensions Committee.</p> <p>Ability to switch funds under management between the internal and external investment managers.</p> <p>Continual focus on investment costs including fees, expenses, and transaction costs.</p> <p>Key personnel changes at investment managers are highlighted to the Pensions Committee on a quarterly basis.</p> <p>Ability to terminate external investment managers' contract in its entirety.</p>

No.	Risk	Consequences	Controls
3	Objectives within the Treasury Management Strategy not met – e.g. capital security, liquidity, interest rate	<p>Potential risk of financial loss in the event of counterparty default.</p> <p>Inability to pay short term liabilities.</p> <p>Forced sale of assets to meet liquidity requirements.</p> <p>Damage to reputation.</p>	<p>Treasury Management Policy establishes limits on investments.</p> <p>Treasury Management Policy reviewed by the Pensions Committee on an annual basis.</p> <p>Treasury Management activity reviewed by the Pensions Committee on a semi-annual basis.</p> <p>Controls within systems audited on an annual basis.</p> <p>Restriction on institutions and counterparties.</p> <p>Operational Treasury Management Board meets monthly to review investment criteria.</p> <p>Maintain a minimum level of liquid investments to meet liquidity requirements.</p>
4	Decrease in UK government bond yields	<p>Reduction in future returns from UK government bonds.</p> <p>Increase in the value placed on liabilities through a reduction in the discount rate.</p> <p>Deterioration in funding position.</p> <p>Increase in employer contribution rates.</p>	<p>Monitoring of investment performance relative to the estimated growth in liabilities on an annual basis.</p> <p>Some investment in bonds (and similar investments) helps to mitigate this risk.</p>
5	Pay and price inflation significantly higher than anticipated	<p>Increase in the Fund's liabilities.</p> <p>Deterioration in funding position.</p> <p>Increase in employer contribution rates.</p>	<p>Actuarial valuation process focuses on real returns on assets, net of price and pay increases.</p> <p>Monitoring of investment performance relative to the estimated growth in liabilities on an annual basis.</p> <p>Some investment in index-linked bonds (and other inflation-linked investments) helps to mitigate this risk.</p> <p>Triennial strategic asset allocation review considers the appropriateness of assets.</p> <p>Employers pay for their own salary awards.</p> <p>Employers are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees.</p>
6	Pensioners in receipt of pensions for longer	<p>Increase in the Fund's liabilities.</p> <p>Deterioration in funding position.</p> <p>Increase in employer contribution rates.</p>	<p>Mortality assumptions are set with some allowance for future increases in life expectancy.</p> <p>Fund actuary monitors combined experience of around 50 funds to look for early warnings of fewer pension amounts ceasing than assumed in funding.</p> <p>Administering Authority encourage any employers concerned at costs to promote a later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</p> <p>The Fund used the Actuary's "Club Vita" data to provide more accurate mortality assumptions for the 2013 Actuarial Valuation.</p>

No.	Risk	Consequences	Controls
7	<p>Changing patterns of early retirement</p>	<p>Reducing employer payrolls due to redundancy exercises increases past service liabilities and consequently deficit recovery.</p> <p>Ill-health retirements significantly higher than anticipated.</p>	<p>Employers are charged the extra capital cost of non-ill health retirement following each individual decision.</p> <p>Employer ill health retirement experience is monitored and reported to larger employers. The employer may be charged additional contributions if this exceeds the ill-health assumption already built in.</p> <p>Ill-health liability insurance offered to all employers.</p>
8	<p>Reductions in payroll including:</p> <ul style="list-style-type: none"> • Scheme members opting out • Recruitment freeze • Increase in employer redundancy exercises • Outsourcing projects including conversions to academy status 	<p>Insufficient deficit recovery payments.</p> <p>Increased employer costs for future service liabilities.</p>	<p>In terms of Scheme members opting out and recruitment freezes, employer membership totals are monitored on a quarterly basis. Therefore, there is no significant cause for concern as this will, in effect, be caught at the next formal valuation.</p> <p>However, there are protections where there is concern regarding redundancy exercises and outsourcing, as follows:</p> <ul style="list-style-type: none"> • For employers in the stabilisation mechanism, the employer may be brought out of that mechanism to permit an appropriate increase in contributions. • For other employers, review of contributions is permitted between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. <p>Actuarial calculation of employer contribution rates ensures that employers are in no worse position when schools convert to academies.</p> <p>Communicating benefits of being a scheme member via website, newsletters, employer briefing notes and face to face contact with members.</p> <p>Within Phase 3 of UPM (the Fund's new computerised pension administration system) employers will be able to access their own staff records to model the impact of any future workforce management projects. This will enable them to establish costs ahead of the event which should aid the decision making process. This will allow them to be more interactive and gain quicker access to data and information.</p>

No.	Risk	Consequences	Controls
9	Securities Lending	<p>Borrower default resulting in financial loss.</p> <p>Value of collateral falling below the value of the securities lent.</p> <p>Loss on the reinvestment of cash collateral.</p> <p>Securities delivered to the borrower before the collateral is received.</p> <p>Inability to settle a transaction involving a security on loan.</p> <p>Not receiving income (dividends or interest) from securities on loan.</p> <p>Unable to exercise voting rights for securities on loan.</p> <p>Potential loss from tax treatment of "manufactured overseas dividends".</p>	<p>Indemnity with State Street, the Fund's global custodian, provides full protection in the event of borrower default.</p> <p>Diversification of borrowers.</p> <p>Approval of list of counterparties.</p> <p>Approval of types of collateral.</p> <p>Excess collateral (2-5% above the value of the securities lent) required.</p> <p>Mark to market on a daily basis with a commensurate change in the value of the collateral.</p> <p>Cash is not accepted as collateral.</p> <p>Custodian will not release the securities until the collateral has been received.</p> <p>Indemnity agreement ensures that transaction proceeds and income are credited irrespective of any issues arising from the securities being on loan.</p> <p>Ability to recall stock, subject to investment manager discretion, that is subject to a vote.</p> <p>Use of tax experts to reclaim inappropriately levied tax.</p> <p>Independent review of controls undertaken by Ernst and Young and reported through Independent Service Auditor's Report.</p>
10	A company admitted to the Fund as an admission body may become financially unviable	<p>If the Admitted Body is providing a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement, the contracting authority will pick up the pension liabilities and potentially will increase their employer contribution rate.</p> <p>Where the admitted body falls under a different category i.e. not providing a service or assets performed by a Scheme employer, all fund employers will pick up a share of the liabilities which may potentially make smaller bodies financially unviable.</p>	<p>All new admitted bodies are required to undertake a risk assessment to the satisfaction of the administering authority (and in the case of an admitted body providing a service or assets, the employing authority as well that was previously responsible for the service or assets).</p> <p>The admitted body is required to either put in place the necessary indemnity or bond or, alternatively, provide evidence of an appropriate guarantor. This will minimise the risk to the Fund should an admitted body cease to exist.</p>

No.	Risk	Consequences	Controls
11	<p>Failure by Scheme employer to carry out statutory functions</p>	<p>Supply of poor quality data which may affect the calculation and payment of benefits.</p> <p>Incorrect employer contribution rates.</p> <p>Missing and incomplete member records.</p> <p>Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.</p>	<p>Timetables in place and deadlines communicated effectively to employers.</p> <p>Working with employers to provide information required.</p> <p>Clear allocation of responsibilities.</p> <p>Regular reports to employers on performance.</p> <p>Training sessions organised for Scheme employers.</p> <p>Guidance issued and updated on a regular basis.</p> <p>Pensions Administration Strategy to be incorporated into Phase 2 of UPM as an interactive tool as part of the data submission process.</p> <p>Carry out data quality checks in accordance with the Pensions Regulator data requirements from 2013.</p> <p>Ongoing integration of internal office guidance notes into UPM process mapping.</p>
12	<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt</p>	<p>An employer may cease to exist with insufficient funding or adequacy of a bond.</p> <p>If the Admitted Body is providing a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement, the contracting authority will pick up the pension liabilities and potentially will increase their employer contribution rate.</p> <p>Where the admitted body falls under a different category i.e. not providing a service or assets performed by a Scheme employer, all fund employers will pick up a share of the liabilities which may potentially make smaller bodies financially unviable.</p> <p>Orphaned employers give rise to added costs for the Fund.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed. • Reviewing bond or guarantor arrangements at regular intervals. • Reviewing contribution rates if considered appropriate. <p>To minimise the risk of orphaned employers giving rise to added costs, the Fund seeks a cessation debt, security, or guarantor. If the added costs occur, the Fund actuary calculates the added cost spread pro-rata among all employers.</p>

No.	Risk	Consequences	Controls
13	<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements, closing to new entrants)</p>	<p>Employer paying incorrect contribution rate.</p> <p>Employers funding position deteriorates.</p> <p>Possible short term increase in employer contribution rates.</p> <p>Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.</p>	<p>The Administering Authority monitors membership movements on a quarterly basis.</p> <p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.</p> <p>Deficit contributions are expressed as monetary amounts and disclosed in Appendix G of 2013 Valuation Report.</p> <p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions, including deficit spreading, phasing in of contribution rises, and possible pooling of contributions.</p> <p>Finance Control Team monitors receipt of non-Unitary employer contributions against member data on a monthly basis.</p>
14	<p>Failure to comply with the regulations i.e. current, new, external e.g. HMRC, DWP</p>	<p>Issue of out of date literature.</p> <p>Out of date software leading to incorrect calculations.</p> <p>Staff training and guidance notes not up to date.</p> <p>Failure to communicate changes to employers who in turn may not meet their statutory requirements.</p> <p>Changes to national pension requirements are not communicated effectively.</p> <p>Loss of reputation.</p> <p>Financial penalties.</p> <p>Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.</p>	<p>Individuals' responsibilities are clearly identified.</p> <p>Service plan includes key targets and dates that are monitored quarterly.</p> <p>Formal structure in place for impact assessment of new legislation and codes of practice.</p> <p>System testing and checking in place to ensure legislation changes are implemented correctly.</p> <p>Staff training and identification of training requirements through the EDR process.</p> <p>Annual audit of fundamental systems by the Internal Audit Section.</p> <p>Audit recommendations are followed up and implemented.</p> <p>Member of Pensions Advisory Network, NEPOF, LAPFF to assist in keeping abreast of new developments.</p> <p>Attend seminars and conferences to keep abreast of latest developments.</p> <p>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</p> <p>The Administering Authority considers all consultation papers issued by the CLG and comments where appropriate.</p> <p>Any changes to member contribution rates or benefit levels will be carefully communicated with members and employers to minimise possible opt-outs or adverse actions.</p> <p>UPM has a facility called the "test harness" which allows the system to be updated to test calculation results to ensure that software updates provide the correct results before being implemented.</p>

No.	Risk	Consequences	Controls
			<p>UPM has the facility to “lock down” records ensuring more audit controls are in place and that fixes to the system will be quicker e.g. changes that will be required to accommodate the LGPS 2014 scheme changes.</p> <p>The IDR procedure has been streamlined to provide compensation payments earlier in the process without having to invoke a Stage 1. This will result in savings to costs and staff time.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
15	<p>Changes in legislation and regulations e.g. LGPS 2014 scheme changes, investment regulations, changes to tax treatment, changes to audit and reporting requirements, new governance arrangements, changes to scheme management arrangements including Fund mergers</p>	<p>Potential financial loss.</p> <p>Increase in pension liabilities.</p> <p>Increase in adherence costs.</p> <p>Increase in workload.</p> <p>Reduction in effectiveness of investment approach.</p> <p>Failure to attract suitably skilled and experienced members for the S101 Pensions Committee and the imminent local pension board.</p>	<p>Use of tax experts to advise on tax changes.</p> <p>Member of Pension Advisory Network, NEPOF, LAPFF to assist in keeping abreast of new developments.</p> <p>Regular attendance at conferences.</p> <p>Regular contact with Fund advisers including external investment manager, independent adviser, actuary, and external auditors.</p> <p>Participation in government consultations.</p> <p>Regular contact with other LGPS funds to compare and inform best practice.</p> <p>Regular training sessions for Committee members to be extended to local pension board once created.</p>
16	<p>Professional standards and/or section procedures not applied</p>	<p>Potential financial loss.</p> <p>Negative impact on reputation.</p> <p>Incorrect calculation of pensions.</p> <p>Fraud/collusion by senior staff.</p> <p>Inaccurate information/data leading to incorrect decisions.</p> <p>Risk of underperformance from investment managers.</p> <p>Actuarial advice is not sought, or is not heeded, or proves to be insufficient in some way.</p>	<p>Staff training and identification of training requirements through the EDR process.</p> <p>Regular attendance and feedback from industry conferences.</p> <p>Independent verification and quality control procedures including external verification by the Audit Commission and internal audit.</p> <p>Use of specialists to supplement in house expertise including Pension Advisory network; external investment manager for a proportion of the Fund’s assets; independent advisor to the Pensions Committee; and the Fund’s Actuary.</p> <p>Compliance Manual updated on an annual basis and signed by all staff in the Investments Section.</p> <p>The Fund maintains close contact with its actuarial advisers. Actuarial advice is subject to professional requirements such as peer review and advice is delivered via formal meetings with Elected Members, and recorded appropriately.</p> <p>Internal office guidance notes updated to take account of LGPS 2014 changes and incorporated into UPM process mapping.</p> <p>Office literature has been rebranded and reworded to reflect LGPS 2014 changes.</p>

No.	Risk	Consequences	Controls
17	Unforeseen/unplanned customer demands placed on the Pensions section	<p>Failure to fulfil statutory requirements of the pension scheme.</p> <p>Employers' failure to understand obligations and liabilities under the LGPS.</p> <p>Failure to meet targets, financial implications e.g. late payment interest, loss of reputation, poor customer service.</p>	<p>Internal Task Management system to monitor workflow.</p> <p>Pension Officers working with employers to provide information required.</p> <p>Clear allocation of responsibilities.</p> <p>Training sessions organised for internal departments and/or employers.</p> <p>Guidance issued and updated on a regular basis.</p> <p>Unitary Finance Officers to cascade employer plans early to avoid unforeseen occurrences.</p> <p>Six monthly meetings held with all Fund employers to address workforce issues.</p> <p>Within Phase 3 of UPM employers will be able to access their own staff records to model the impact of any future workforce management projects. This will enable them to establish costs ahead of the event which should aid the decision making process. This will allow them to be more interactive and gain quicker access to data and information.</p>
18	Insecure storage and unsafe transmission of data	<p>Breach of data protection i.e. theft or loss of data.</p> <p>Inability to verify pensions data.</p> <p>Transmission of data to incorrect recipient.</p> <p>Inappropriate levels of access to confidential data.</p> <p>Potential for fraud.</p> <p>Inability for employers to provide data electronically.</p> <p>Greater need to perform manual calculations.</p> <p>Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.</p>	<p>Authentication controls including regular password changes and robust user administration procedures are in place.</p> <p>Access rights are restricted.</p> <p>Data is backed up on an incremental basis daily and fully backed up weekly.</p> <p>Audit trails and reconciliations are in place.</p> <p>Pension system is protected against viruses and other system threats.</p> <p>Software is regularly updated to ensure LGPS requirements are met.</p> <p>Regular data matching exercise.</p> <p>Adhere to the ICT Security Policy.</p> <p>Review the security of data sent within office emails. Procedures are now in place to ensure that data is sent by secure systems.</p> <p>Office staff have completed an in-house training session and completed an e-learning package on data security.</p>

No.	Risk	Consequences	Controls
19	<p>Failure of supplier e.g. IT supplier, Bloomberg, Custodian, External Investment Manager</p>	<p>Unable to access LGPS member records; pay benefits; access information e.g. e-mails, training notes, payroll.</p> <p>Failure to pay pensions, to collect contributions, lack of funding.</p> <p>Failure to settle trades, corporate actions, undertake stock lending, and exercise voting rights.</p> <p>Potential negative impact on the Fund's investment performance.</p> <p>Loss of staff work time.</p> <p>Unable to communicate with members and employers e.g. ABS, newsletters, employer updates.</p> <p>Custody risk including missed dividends or corporate actions, and delays in trade settlements.</p> <p>Unable to trade due to incomplete information.</p> <p>No updates, no support, lack of training and information.</p>	<p>Procurement process assesses technical ability and financial stability.</p> <p>Disaster recovery in place for each IT system e.g. Payments, Masterpiece, I Notes, Bloomberg.</p> <p>Back up systems in place and completed daily.</p> <p>Business continuity plans in place.</p> <p>Payroll protocol and regular meetings with IT development staff.</p> <p>Regular performance monitoring.</p> <p>Regular reconciliation of custody data to internal records.</p> <p>Funds under management can be transferred to the external investment manager.</p> <p>Web-based facility to access IT system.</p> <p>Disaster Recovery plan and Business Continuity plan for UPM Administration and Pensioner Payroll is being reviewed and developed in consultation with the council's IT section and the system provider, Civica.</p> <p>Storage and amendment of previous month's BACS file to be investigated with the council's IT section to allow previous month's payroll to be run when payroll system not accessible within three working days of pay day.</p> <p>Second line to Goole building being purchased to improve resilience.</p>
20	<p>Business disruption e.g. unable to access the building/ workspace</p>	<p>Failure to fulfil statutory requirements of the pension scheme.</p> <p>Employers' failure to understand obligations and liabilities under the LGPS.</p> <p>Potential negative impact on the Fund's investment performance.</p>	<p>Remote working or alternative sites.</p> <p>Key control for accessing workspace should rest with Asset management.</p> <p>Disaster recovery plan would provide limited emergency office space.</p> <p>Senior managers could work from home.</p> <p>Senior managers have out of office contact details for all staff.</p> <p>Disaster Recovery plan and Business Continuity plan for UPM currently under review by the council's IT section to provide web-based access to UPM and/or emergency office space.</p> <p>Department-wide business continuity exercise completed and business continuity plans updated in July 2014.</p>

No.	Risk	Consequences	Controls
21	Failure to recruit and retain staff including long term staff absence	<p>Insufficient staff to administer tasks on a daily basis.</p> <p>Re-prioritise workloads i.e. essential work only resulting in reduced performance and service provided to other areas e.g. employers, scheme members and staff.</p> <p>Potential for financial penalties if work not completed correctly.</p> <p>Potential negative impact on the Fund's investment performance.</p> <p>Potential for additional costs to be incurred e.g. additional temporary staff, transfer of investment assets to an external provider</p>	<p>Sickness reviewed monthly and dealt with in accordance with the sickness policy.</p> <p>Regular EDRs to identify well-being issues, skill gaps and training requirements.</p> <p>Workforce development action plan in place to identify future workforce requirements, training needs and recruitment/retention measures.</p> <p>Review of vacant posts and re-evaluation/regrading/restructuring considered as appropriate.</p> <p>Succession planning within Sections.</p> <p>Detailed records of rationale for investment decisions.</p> <p>Key processes are documented.</p> <p>To complete succession planning toolkit for key members of staff.</p> <p>Health and Safety policy.</p> <p>Occupational Health.</p> <p>Maternity Risk Assessment form.</p> <p>Managing holiday usage.</p>
22	Insufficient training for personnel responsible for the Fund (Members and Officers).	<p>Failure to fulfil statutory requirements of the pension scheme.</p> <p>Employers' failure to understand obligations and liabilities under the LGPS.</p> <p>Potential negative impact on the Fund's investment performance.</p>	<p>Induction and training programme for Members and Officers.</p> <p>Regular EDRs to identify training requirements and well being issues.</p> <p>Sickness absence policy.</p> <p>Mini induction on return to work from long term absence.</p> <p>Detailed records of rationale for investment decisions.</p> <p>Key processes are documented.</p> <p>Pensions Administration Strategy to be produced following the launch of the new Pensions Administration System.</p> <p>Employer pensions training and internal staff training to be reviewed as part of pensions administration work restructure exercise.</p>

In addition, an investment management risk schedule is reviewed by the Pensions Committee on a quarterly basis which considers issues such as Fund performance, regulation and compliance, and personnel and structure.

Other risks pertaining to the Fund are disclosed in the Funding Strategy Statement (pages 83 to 110) and Note X Disclosure Relating to Financial Instruments (page 76).

Third party risks

The Statement of Investment Principles requires an annual written statement from the Investment Managers that they have adhered to the principles set out in the statement. Statements are received from the Director of Corporate Resources and Schroder Investment Management.

In addition, assurance to assess the internal controls and procedures at Schroder Investment Management and State Street Global Services is also sought. Schroder Investment Management prepare an Audit and Assurance Faculty Report which covers the control objectives and procedures relating to the investment activities at Schroder's. The report is audited by PricewaterhouseCoopers in accordance with International Standard on Assurance Engagement (ISAE) 3402 and 3000 and the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06. The State Street audit (by Ernst & Young) was performed in accordance with the Statement on Standards for Attestation Engagements No 16 (SSAE 16) issued by the American Institute of Certified Public Accountants (AICPA) and the International Standard on Assurance Engagement (ISAE) 3402 issued by the International Accounting and Assurance Standards Board. For both Schroder Investment Management and State Street Global Services appropriate assurance was provided by the respective auditors.

Audit

During the financial year the East Riding of Yorkshire Council Internal Audit section reviewed the operations of the Investments and Pensions Administration sections to ensure there were adequate controls and procedures in place. The results of these audits are shown in the table below:

	Control Framework	Compliance with Controls
Investments	Significant Assurance	Significant Assurance
Pensions Administration	Significant Assurance	Significant Assurance
Pension Payroll	Significant Assurance	Adequate Assurance



financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 33 to 47.

Fund Account	2012/13	2013/14	Notes
	£000	£000	
Net Contributions	31,562	29,860	Increase in number of active members offset by increase in number of pensions in payment and lump sums
Return on Investments	390,201	208,526	Significant capital appreciation in Equities and Alternatives partly offset by negative returns in some Fixed Income markets
Net increase in the Fund	421,763	238,386	

Net Asset Statement	2012/13	2013/14	Notes
	£000	£000	
Fixed Interest	294,122	298,636	Market movements and additional investment in Overseas bonds and Global High Yield
Index-linked	31,236	28,344	Market movements
Equities	1,455,824	1,572,484	Significant capital appreciation in the developed markets and strong stock selection from the investment managers partly offset by net disposals
Pooled Funds	1,075,165	1,188,817	Additional investments in Equities, Property, and Alternatives
Cash	196,816	204,521	Income and net contributions predominantly reinvested into Equities, Property, and Alternatives
Other	14,647	11,220	
Total Investment Assets	3,067,810	3,304,022	

Analysis of Investment Income Accrued 31 March 2014

Asset Class	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	5.0	0.1	-	5.1
Bonds	0.9	0.9	-	1.8
Property (direct holdings)	-	-	-	-
Alternatives	0.3	-	-	0.3
Cash and cash equivalents	0.4	-	-	0.4
Other	-	-	-	-
Total	6.6	1.0	-	7.6

Analysis of pension contributions

The table below shows the value of pension contributions received on time and late.

	Total	On Time		Late	
	£000	£000	%	£000	%
Employer – Primary	33,485	31,783	94.9	1,702	5.1
Employee – Primary	124,243	118,558	95.4	5,685	4.6
	157,728	150,341	95.3	7,387	4.7

In total 166 monthly payments were received late, of which 150 were received within the month, 11 between 1 and 3 months late and 5 received more than 3 months late.

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement for the 3 years to 31 March 2015.

Fund Account	2012/13		2013/14		2014/15
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Contributions	170,000	162,097	171,000	167,296	160,000
Payments	(135,000)	(128,543)	(131,000)	(135,378)	(197,000)
Admin expenses	(2,193)	(1,992)	(2,248)	(2,058)	(1,789)
Net investment Income	77,000	80,159	88,000	83,181	88,000
Investment expenses	(2,668)	(2,774)	(2,678)	(2,968)	(2,885)
Change in market value	125,104	312,816	129,329	128,313	129,039
Net increase in the Fund	232,243	421,763	252,403	238,386	175,365

Contributions and payments are based on current expectations; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long term forecast returns for each asset class.

Net Asset Statement	2012/13		2013/14		2014/15
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Equities	2,091,139	2,044,134	2,254,248	2,178,554	2,346,303
Fixed Income	286,823	325,358	302,885	326,980	343,002
Cash	257,101	196,816	300,408	204,521	173,379
Property	134,046	179,764	142,759	206,452	220,491
Alternatives	249,555	307,091	270,767	376,295	408,656
Other	-	24,917	-	23,664	-
Net Assets	3,018,664	3,078,080	3,271,067	3,316,466	3,491,831

The forecasts for total investment assets for 2012/13 and 2013/14 were based on the actual figures for 2009/10 multiplied by the forecast long term returns for each asset class used at the strategic asset allocation review in 2010.

The forecasts for total investment assets for 2014/15 are based on the actual figures for 2013/14 multiplied by the forecast long term returns for each asset class used at the strategic asset allocation review in 2013.

Net contributions, less administration and investment management expenses, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during this 3 year period as potential changes are not known with any degree of certainty.

The long term annualised forecasts, which are shown net of costs, are as follows:

Asset Class	2010 strategic review	2013 strategic review
Equities	7.8%	7.7%
Fixed Income	5.6%	4.9%
Cash	4.8%	3.4%
Property	6.5%	6.8%
Alternatives	8.5%	8.6%
Total	7.4%	7.1%

These long term forecasts are revised every 3 years in line with the actuarial valuation exercise and the subsequent strategic asset allocation review with the latest review completed in 2013/14.

Operational Expenses

	2012/13		2013/14		2014/15
	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000
Pensions Administration					
Employees	1,079	1,055	1,152	1,108	1,168
Supplies and Services	297	242	309	161	304
Professional Fees	270	136	245	266	145
Central costs	547	559	542	523	172
	2,193	1,992	2,248	2,058	1,789
Investment Management					
Employees	574	559	574	589	574
Supplies and Services	262	263	272	309	262
External Fund Manager	1,485	1,638	1,485	1,765	1,765
Custodian	125	85	125	93	95
Stock Lending	120	114	120	88	120
Professional Fees	10	10	10	10	10
Central costs	92	105	92	114	59
	2,668	2,774	2,678	2,968	2,885
Total	4,861	4,766	4,926	5,026	4,674

Analysis of Pension Overpayments

	2009/10	2010/11	2011/12	2012/13	2013/14	Total
	£	£	£	£	£	£
Overpayments Recovered	19,182	3,230	4,470	3,738	4,602	35,222
Overpayments Written Off						
Deaths	559	6,349	5,125	4,178	3,631	19,842
Axis Payroll Check	-	359,071	-	-	-	359,071
Total	559	365,420	5,125	4,178	3,631	378,913
Annual Payroll	79,982,561	82,950,742	91,427,495	98,119,729	103,025,314	455,505,842
Write offs as a % of Payroll	<0.1%	<0.4%	<0.1%	<0.1%	<0.1%	<0.1%
Number of cases - Written Off	101	441	156	143	103	944
Number of cases - Recovered	5	16	26	13	16	76
Number of cases - In process of Recovery	3	9	12	16	12	52



administrative management performance

East Riding of Yorkshire Council (ERYC) has been a member of the CIPFA Pensions Administration benchmarking club since 2005. On an annual basis the Pensions Section completes a comprehensive questionnaire containing a breakdown of budget costs between pensions administration and other functions within the section including communications, IT, accountancy and the commissioning of actuarial work. Data is also provided on LGPS members, Fund employers, workloads, staffing, IT arrangements, industry standard performance indicators and current best practice.

The 2014 CIPFA Pensions Administration benchmarking club report, issued in September 2014, compares the performance of ERYC in 2013/14 with 49 local authorities who administer the Local Government Pension Scheme (LGPS). The key findings for 2013/14 were:

- **The annual cost of administering the LGPS per member.** The key benchmark for Pensions Administration is the cost of administering the LGPS per member and the Fund's cost for 2013/14 was £16.56 (2012/13: £17.10) compared to the average of £20.75 (2012/13: £21.42). The table below is an analysis of the Fund's cost per member compared with the average cost for the authorities in the benchmarking club.

Cost per member 2013/14	East Riding Pension Fund	Average
	£	£
Staff	7.22	8.87
Payroll	3.03	1.97
Direct costs e.g. communications and actuarial fees	2.28	3.95
Overheads e.g. IT, accommodation, central charges	4.09	5.91
Income	-0.06	-0.27
Net cost per member	16.56	20.75*

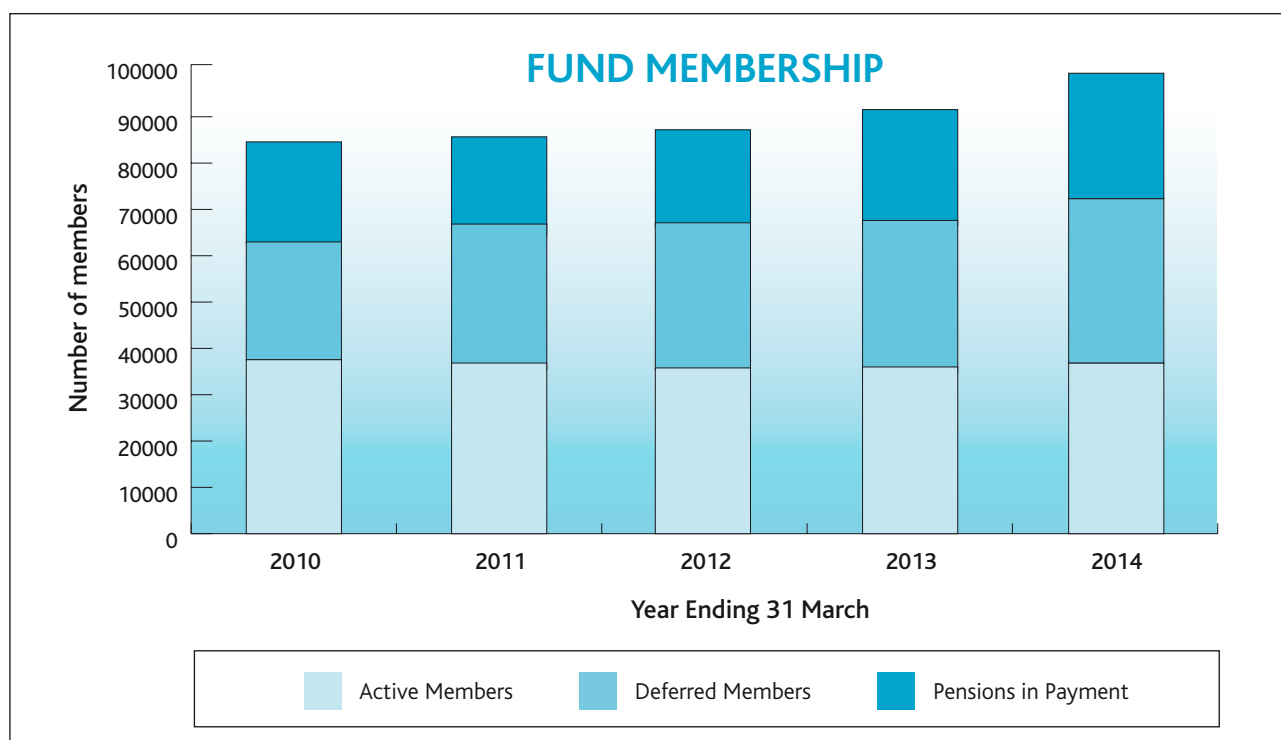
* difference between the average total and the sum of the sub averages is due to rounding and quality control methods applied by CIPFA

- **The annual cost of employing a full time equivalent (FTE) member of staff to administer the LGPS.** The Fund's staff cost for 2013/14 was £23,700 pa per FTE staff (2012/13: £26,198 pa) compared to the average of £31,133 pa per FTE staff (2012/13: £33,308).

5 Year Analysis of Fund Membership Data

	2010	2011	2012	2013	2014
Active Members	36,395	36,310	35,856	35,969	36,978
Deferred Beneficiaries	28,924	30,413	32,312	33,375	35,867
Deferred Members	26,953	28,603	30,704	31,791	34,293
Frozen Refunds	1,971	1,810	1,608	1,584	1,574
Pensions in Payment	21,124	22,025	23,426	24,404	25,656
Total Membership	86,443	88,748	91,594	93,748	98,501

5 Year analysis of Fund Membership



Age Profile of Fund Membership at 31 March 2014

Age Band Years	Pensioner Type (% of Members)					Total
	Active	Beneficiary	Deferred	Pensioner	Preserved Refund	
<20	317	89	63	0	1	470
20 - 24	1,788	22	884	0	35	2,729
25 - 29	2,648	7	2,457	1	65	5,178
30 - 34	3,102	6	3,180	2	140	6,430
35 - 39	3,653	7	3,546	8	194	7,408
40 - 44	5,359	25	5,143	30	301	10,858
45 - 49	6,471	67	6,739	96	284	13,657
50 - 54	6,366	116	6,539	227	243	13,491
55 - 59	4,686	162	4,795	1,338	152	11,133
60 - 64	2,172	245	991	5,569	92	9,069
65 - 69	390	453	60	6,262	72	7,237
70 - 74	42	443	9	3,595	30	4,119
75 - 79	0	552	0	2,491	16	3,059
80 - 84	0	604	0	1,590	2	2,196
85 - 89	0	446	0	748	2	1,196
>90	0	310	0	283	0	593

Employer and Employee Primary Contributions by Band

Employers	Contribution Bands									Total Employee Contributions	Total Contributions
	Employers Contributions	5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%		
	£000	up to £13'500	£13'501-£15'800	£15'801-£20'400		£20'401-£34'000	£34'001-£45'500	£45'501-£85'300	Over £85'300		
Ainthorpe Primary Academy	31	1	1	2	-	1	-	-	-	5	36
Anlaby with Anlaby Common Parish Council	2	-	-	-	-	1	-	-	-	1	3
Apetito	5	-	1	-	-	-	-	-	-	1	6
Appleton Primary Academy	46	2	1	3	-	1	-	-	-	7	53
Archbishop Sentamu	196	6	35	18	-	15	6	-	-	80	276
Arvato	676	1	25	74	-	64	19	2	-	185	861
Ashwell Pupil Referral Unit Academy	96	-	1	1	-	13	-	-	-	15	111
Balfour Beatty	646	2	13	28	-	126	12	3	-	184	830
Barton Upon Humber Parish Council	12	-	-	-	-	3	-	-	-	3	15
Bellfield Academy	57	1	3	2	-	5	-	-	-	11	68
Beverley Grammar	147	8	8	9	-	8	3	-	-	36	183
Beverley Town Council	14	-	1	1	-	2	-	-	-	4	18
Biggin Hill Primary Academy	157	7	9	6	-	5	-	-	-	27	184
Bishop Burton College	760	13	22	55	-	81	23	4	-	198	958
Bottesford Town Council	5	-	-	-	-	1	-	-	-	1	6
Bricknell Primary Academy	60	2	4	3	-	2	-	-	-	11	71
Bridlington Town Council	7	-	-	-	-	2	-	-	-	2	9
Brigg Town Council	8	-	1	2	-	-	-	-	-	3	11
Broughton Town Council	5	-	-	-	-	1	-	-	-	1	6
Brumby Engineering College Academy	216	6	5	8	-	11	-	-	-	30	246
Bude Park Primary Academy	86	3	6	3	-	2	-	-	-	14	100
Bursar Academy	65	5	1	1	-	3	-	-	-	10	75
Burton Upon Stather Parish Council	3	-	-	-	-	1	-	-	-	1	4
Cambridge Park	297	14	16	20	-	18	-	3	-	71	368
Cleethorpes Academy	89	8	12	4	-	2	-	-	-	26	115
Cleeve Primary Academy	52	1	4	2	-	2	-	-	-	9	61
Collingwood Academy	68	3	3	3	-	4	-	-	-	13	81
Cottingham Academy	240	17	12	17	-	4	-	3	-	53	293
Craven Primary Academy	25	-	2	1	-	1	-	-	-	4	29
Crowle Primary Academy	56	2	2	1	-	4	2	-	-	11	67
Dorchester Primary Academy	113	3	6	6	-	4	-	-	-	19	132
Driffield Town Council	14	-	-	1	-	3	-	-	-	4	18
Dunswell Primary Academy	16	2	1	-	-	-	-	-	-	3	19
East Ravendale Academy	39	6	1	-	-	-	-	-	-	7	46
East Riding College	589	16	19	53	-	44	8	13	-	153	742
East Riding Yorkshire Council	20,805	1,265	1,235	1,632	32	2,511	989	301	83	8,048	28,853
Eastfield Academy	119	4	7	2	-	8	2	-	-	23	142
Eastfield Primary Academy	46	3	1	3	-	1	-	-	-	8	54
Edward Heneage Academy	43	4	2	2	-	4	-	-	-	12	55
Elloughton cum Brough Parish Council	12	-	-	-	-	1	2	-	-	3	15
EMIH Limited ("The Deep")	200	-	5	13	-	19	12	6	-	55	255
Endike Primary Academy	35	1	2	3	-	1	-	-	-	7	42
Epworth Academy	55	5	2	3	-	1	-	-	-	11	66
Franklin College	250	13	10	13	-	23	3	9	-	71	321
Future Cleaning Services	26	5	-	1	-	-	-	-	-	6	32
Goole Academy	252	27	13	17	-	11	-	-	-	68	320

Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands									Total Employee Contributions	Total Contributions
	Employers Contributions	5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%		
	£000	up to £13'500	£13'501-£15'800	£15'801-£20'400		£20'401-£34'000	£34'001-£45'500	£45'501-£85'300	Over £85'300		
Goole Town Council	85	1	5	5	-	11	3	-	-	25	110
Grimsby College	1,639	48	63	120	-	201	33	24	-	489	2,128
Hall Road Primary Academy	74	3	1	4	-	3	-	-	-	11	85
Havelock Academy	310	5	6	10	-	25	10	26	25	107	417
Healing Science Academy	127	17	5	6	-	7	5	-	-	40	167
Hedon Town Council	12	-	-	2	-	1	-	-	-	3	15
Henderson Ave Primary Academy	185	15	2	8	-	13	-	-	-	38	223
Hessle Academy	242	23	19	8	-	6	6	-	-	62	304
Hibaldstow Academy	29	2	-	1	-	3	-	-	-	6	35
Highlands Primary Academy	103	6	6	6	-	5	-	-	-	23	126
Holy Family Catholic Academy	70	3	3	5	-	3	-	-	-	14	84
Hornsea Town Council	21	-	1	3	-	1	-	-	-	5	26
Hull & Goole Port Health Authority	47	-	1	-	-	5	6	2	-	14	61
Hull Charterhouse Trustees	17	1	-	2	-	2	-	-	-	5	22
Hull City Council	31,290	380	724	1,388	28	3,239	1,038	369	128	7,294	38,584
Hull City Vision	22	-	1	-	-	7	3	-	-	11	33
Hull College	2,363	16	79	251	-	255	52	24	-	677	3,040
Hull Resettlement Project	19	-	-	-	-	3	3	-	-	6	25
Hull Studio School	13	-	-	2	-	2	-	-	-	4	17
Humber Bridge Board	440	2	6	14	-	66	6	10	-	104	544
Humbercare Ltd	12	-	-	-	-	-	-	3	-	3	15
Humberside Fire Brigade	1,042	4	45	70	-	143	29	13	14	318	1,360
Humberside Indep Care Assoc (HICA)	100	2	2	1	-	2	5	4	7	23	123
Humberston Academy	149	7	6	13	-	9	2	-	-	37	186
Humberston Park	215	15	13	11	-	8	2	6	-	55	270
Huntcliff School	157	8	5	8	-	6	-	-	-	27	184
ICS Chiltern	6	-	-	1	-	-	-	-	-	1	7
ICS Thorpepark	3	-	1	-	-	-	-	-	-	1	4
ICT 4 Collaboration	1	-	-	-	-	-	1	-	-	1	2
Immingham Town Council	35	-	-	4	-	2	-	4	-	10	45
Invenio Academy	164	13	2	8	-	9	2	-	-	34	198
John Leggott College	306	5	5	40	-	24	10	3	-	87	393
Kingstown Works	1,350	12	7	68	-	385	9	27	8	516	1,866
Kingswood College	172	1	2	15	-	16	4	1	-	39	211
Kirk Ella & West Ella Parish Council	2	-	-	1	-	-	-	-	-	1	3
Lacey Acres	11	1	-	-	-	-	-	-	-	1	12
Lincs Inspire Limited	143	2	5	18	-	14	3	-	-	42	185
Lisle Marsden Academy	120	14	3	4	-	2	-	-	-	23	143
Longhill Primary Academy	67	2	3	1	-	4	1	-	-	11	78
Macaulay Academy	148	11	4	5	-	3	-	-	-	23	171
Market Weighton Town Council	13	-	1	1	-	1	-	-	-	3	16
Maybury Primary Academy	36	1	1	3	-	1	-	-	-	6	42
Melior Community College Academy	224	10	5	9	-	10	3	-	-	37	261
Mersey Primary Academy	27	-	1	2	-	2	-	-	-	5	32
Middlethorpe Academy	46	3	2	2	-	2	-	-	-	9	55
Neasden Primary Academy	44	1	3	1	-	2	-	-	-	7	51
NEIFCA	69	-	-	2	-	16	6	-	-	24	93
New Waltham Academy	58	4	3	1	-	2	-	-	-	10	68

Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands									Total Employee Contributions	Total Contributions
	Employers Contributions	5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%		
	£000	up to £13'500	£13'501-£15'800	£15'801-£20'400		£20'401-£34'000	£34'001-£45'500	£45'501-£85'300	Over £85'300		
Newington Primary Academy	91	3	2	4	-	4	-	-	-	13	104
North Axholme Academy	97	5	3	5	-	3	-	-	-	16	113
North East Lincolnshire Council	10,197	150	279	517	5	956	183	191	36	2,317	12,514
North East Lincs CTP	30	-	-	-	-	-	7	3	-	10	40
North Lincolnshire Council	14,690	508	437	593	17	1,828	418	277	31	4,109	18,799
North Lincolnshire Homes	1,455	-	14	49	-	213	61	41	22	400	1,855
North Lindsey College	605	9	32	71	-	40	5	19	-	176	781
NPS Humber	569	1	1	23	-	81	65	18	-	189	758
Nunthorpe Academy	116	8	1	11	-	5	-	-	-	25	141
Oasis Academy (Wintringham)	177	17	10	15	-	18	11	-	-	71	248
Oasis Accademy (Immingham)	118	6	7	15	-	10	3	-	-	41	159
Old Clew Primary Academy	139	13	2	4	-	7	-	-	-	26	165
Ormiston Maritime Academy	310	16	14	17	-	16	-	4	-	67	377
Ouse & Humber Drainage Board	75	-	-	10	-	3	3	4	-	20	95
Parkwood Primary Academy	82	9	3	3	-	2	-	-	-	17	99
Penhurst Academy	51	6	4	3	-	-	-	-	-	13	64
Pickering Homes Trust	173	-	1	2	-	33	-	15	-	51	224
Pocklington School	107	5	2	6	-	12	3	-	-	28	135
Priory Primary Academy	33	1	2	1	-	1	-	-	-	5	38
Probation Committee	2,303	-	3	29	-	399	140	21	-	592	2,895
Reel Cinemas Ltd	7	-	-	-	-	2	-	-	-	2	9
Reynolds Primary Academy	66	6	2	1	-	1	-	-	-	10	76
Riverside	49	-	-	3	-	6	3	-	-	12	61
RM Education PLC	11	-	-	1	-	2	-	-	-	3	14
Robertson FM	22	2	-	1	-	1	-	-	-	4	26
Scartho Academy	41	2	2	-	-	1	-	-	-	5	46
Scawby Academy	88	4	2	2	-	4	-	-	-	12	100
Serco Limited	144	-	-	8	-	8	9	12	7	44	188
Sewell Facilities Management Limited	2	-	-	1	-	-	-	-	-	1	3
Shoreline	428	-	-	7	-	69	14	5	9	104	532
Signhills Academy	54	5	3	1	-	1	-	-	-	10	64
Signhills Infants Academy	69	8	1	1	-	-	-	-	-	10	79
Sirius Academy	222	7	12	23	-	12	5	7	-	66	288
South Axholme Academy	174	13	3	3	-	10	3	-	-	32	206
South Hunsley Academy	369	32	29	14	-	18	5	-	-	98	467
South Parade Academy	150	6	12	6	-	5	-	-	-	29	179
Spring Cottage Academy	20	1	-	1	-	1	-	-	-	3	23
St Augustine Webster Academy	79	9	2	2	-	3	-	-	-	16	95
St Bede's Academy	149	8	6	5	-	3	3	-	-	25	174
St Bernadettes Academy	53	5	1	2	-	3	-	-	-	11	64
St Joseph's Catholic Academy	62	6	2	1	-	1	-	-	-	10	72
St Lawrence Academy	147	10	5	8	-	14	3	4	-	44	191
St Mary's Academy	46	3	-	1	-	3	-	-	-	7	53
St Mary's Catholic Primary Academy	84	6	3	4	-	-	-	-	-	13	97
St Norbetts Academy	22	2	1	2	-	-	-	-	-	5	27
Strand Academy	85	6	3	2	-	5	-	-	-	16	101
Sutton Park Primary Academy	79	2	5	4	-	5	-	-	-	16	95

Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands									Total Employee Contributions	Total Contributions
	Employers Contributions	5.50%	5.80%	5.90%	6.00%	6.50%	6.80%	7.20%	7.50%		
	£000	up to £13'500	£13'501-£15'800	£15'801-£20'400		£20'401-£34'000	£34'001-£45'500	£45'501-£85'300	Over £85'300		
Swanland Academy	69	11	3	2	-	-	2	-	-	18	87
The Boulevard Academy	14	-	-	2	-	1	1	-	-	4	18
The Green Way Primary Academy	177	4	9	5	-	8	-	-	-	26	203
The Parks Academy	30	-	2	2	-	1	-	-	-	5	35
The Police and Crime Commissioner for Humberside	7,244	-	26	410	-	1,707	223	70	23	2,459	9,703
Thomas Ferens Academy	167	3	4	16	-	7	3	-	-	33	200
Thoresby Academy	88	1	7	3	-	5	-	-	-	16	104
Thrunscoe Academy	89	6	3	1	-	3	-	-	-	13	102
Tollbar Academy	347	19	10	13	-	36	-	10	-	88	435
Trinity House Academy	92	2	1	2	-	9	-	-	-	14	106
Tweendykes Academy	197	1	16	7	-	11	-	-	-	35	232
University of Lincoln Students' Union	54	-	3	5	-	8	-	4	-	20	74
University of Lincolnshire & Humberside	3,989	7	26	99	-	495	220	116	24	987	4,976
Vale Academy	143	9	3	9	-	8	-	-	-	29	172
Waltham Leas Academy	107	8	2	2	-	2	2	-	-	16	123
Wansbeck Academy	40	1	3	2	-	1	-	-	-	7	47
Weesby Academy	113	8	3	7	-	1	-	-	-	19	132
Westwoodside Academy	45	3	-	2	-	3	-	-	-	8	53
Wheeler Academy	46	3	2	1	-	2	-	-	-	8	54
Whitgift Academy	211	10	11	-	-	7	13	-	-	41	252
Wilberforce College	154	4	10	11	-	15	3	-	-	43	197
Willow Academy	29	3	1	1	-	-	-	-	-	5	34
Winifred Holtby Academy	276	7	7	28	-	10	-	3	-	55	331
Winterton Academy	122	8	3	3	-	8	-	-	-	22	144
Winterton Town Council	2	-	-	-	-	1	-	-	-	1	3
Withernsea Town Council	15	-	2	1	-	1	-	-	-	4	19
Wold Academy	45	2	5	2	-	1	-	-	-	10	55
Worlaby Academy	7	1	-	-	-	-	-	-	-	1	8
Wybers Wood Primary Academy	86	6	1	5	-	4	-	-	-	16	102
Wyke College	159	10	6	8	-	12	3	6	-	45	204
Yarborough Academy	80	3	8	1	-	2	-	-	-	14	94
Yorks & Humberside Grid for Learning	83	-	2	2	-	6	14	11	-	35	118
	117,029	3,134	3,623	6,271	82	13,719	3,751	1,701	417	32,698	149,727

investment policy and performance

Asset Allocation

The strategic asset allocation of the Pension Fund is determined on a triennial basis in conjunction with the actuarial valuation exercise. It aims to meet the long term target rate of return with an acceptable level of risk and includes an appropriate diversification of asset classes. The strategic asset allocation is agreed by the Pensions Committee and the Fund's advisers and investment managers.

The strategic asset allocation of the Pension Fund effective during the year ended 31 March 2014 is as follows:

	Strategic Allocation	Range
Equities	65%	60 – 75%
Bonds ¹	17%	10 – 30%
Property	8%	0 – 15%
Alternatives	10%	0 – 15%

¹ Including Cash

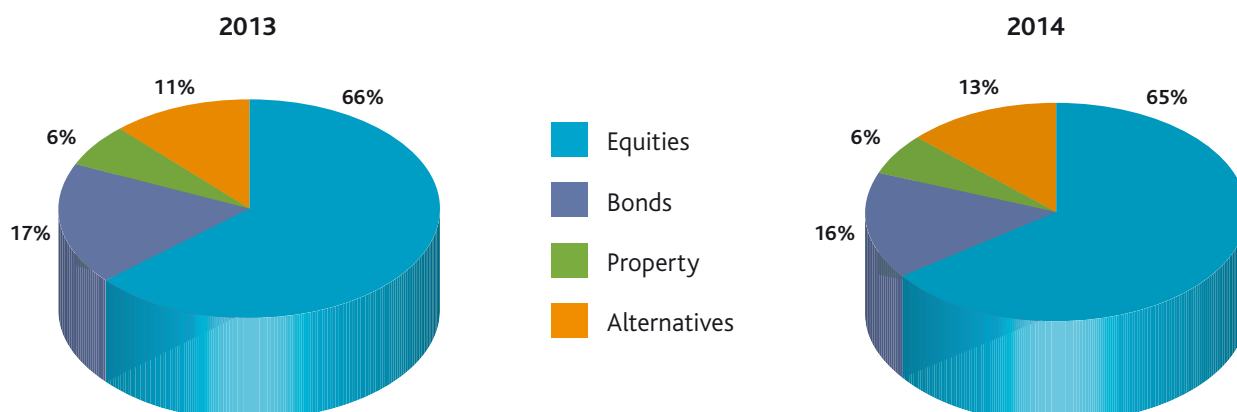
Following the strategic asset allocation review in 2013 the revised strategic asset allocation, effective 1 April 2014, is as follows:

	Strategic Allocation	Range
Equities	60%	+/- 10%
Bonds ¹	19%	+/- 5%
Property	10%	+/- 3%
Alternatives	11%	+/- 3%

¹ Including Cash

The Pensions Committee determines the tactical asset allocation of the Pension Fund on a quarterly basis in light of financial market conditions and following advice from the Fund's advisers and investment managers. The Pensions Committee also regularly reviews the long term investment strategy to ensure that it remains appropriate.

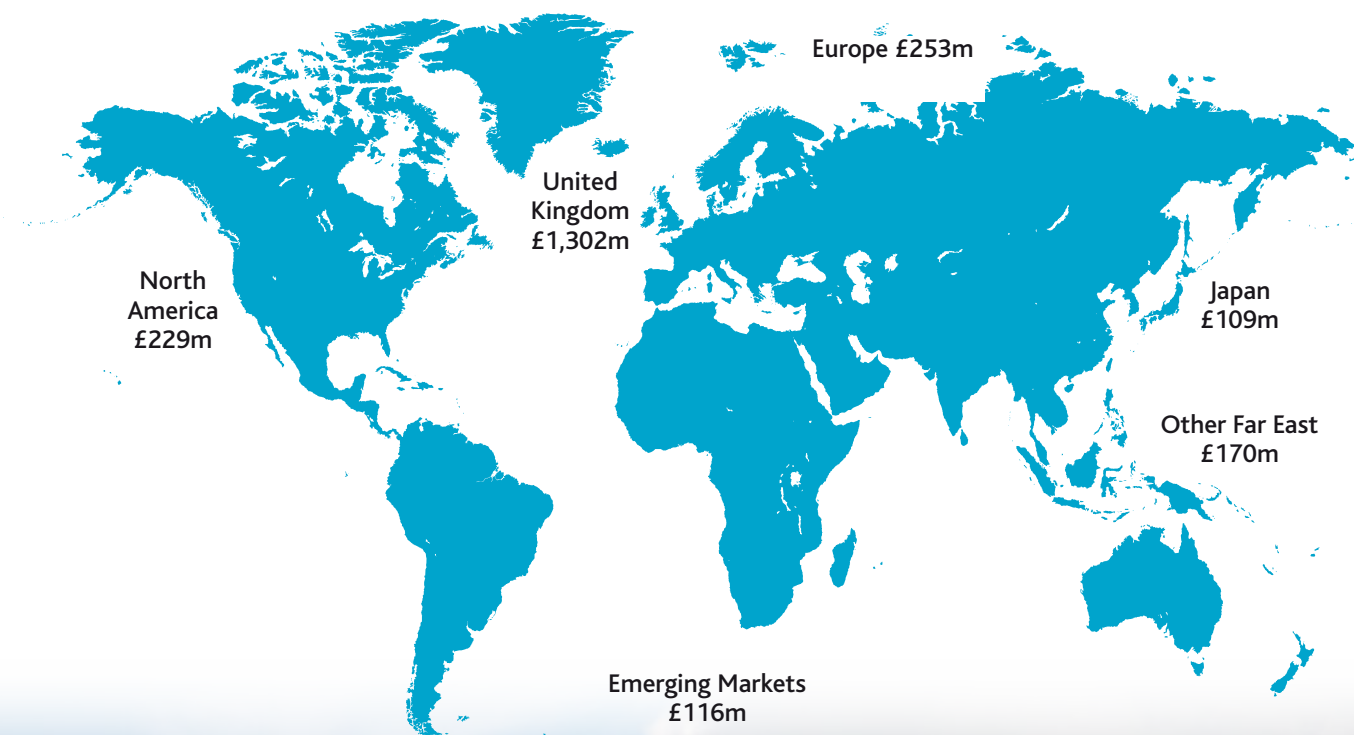
The asset allocation of the Pension Fund at the start and end of the financial year is set out below. The figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pensions Committee. There have been no material changes to asset allocation during the financial year.



Geographical Analysis of Fund Assets as at 31 March 2014

Asset Class	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	1,302.0	876.5	-	2,178.5
Bonds	232.1	94.9	-	327.0
Property (direct holdings)	-	-	-	-
Alternatives	376.3	206.5	-	582.8
Cash and cash equivalents	228.2	-	-	228.2
Other	-	-	-	-
Total	2,138.6	1,177.9	-	3,316.5

Geographic Distribution of Equity Investment as at 31 March 2014



Details of the Largest Equity Investments as at 31 March 2014

Top 15 UK Equities			Top 15 Overseas Equities		
	Market Value £m	% Investment Assets		Market Value £m	% Investment Assets
Royal Dutch Shell Plc - A and B Shares	58.9	1.8	JP Morgan European Smaller Companies Trust Plc	13.1	0.4
BP Plc	54.2	1.6	Jupiter European Opportunities Trust Plc	12.6	0.4
Glaxosmithkline Plc	50.4	1.5	Montanaro European Smaller Co's Fund Plc	9.6	0.3
Vodafone Group Plc	42.0	1.3	Roche Holdings AG	8.4	0.3
HSBC Holdings Plc	35.1	1.1	Novartis AG	7.9	0.2
Astrazeneca Plc	34.9	1.1	Vivendi SA	5.1	0.2
Rio Tinto Plc	29.5	0.9	Novo-Nordisk A/S	5.1	0.2
British American Tobacco Plc	28.7	0.9	Sumitomo Mitsui Financial Group Inc	5.0	0.2
Unilever Plc	28.2	0.9	Pernod-Richard SA	4.8	0.1
BT Group Plc	26.8	0.8	Total SA	4.7	0.1
BG Group PLC	26.5	0.8	BNP Paribas AG	4.6	0.1
Shire Plc	26.5	0.8	Honda Motor Company Limited	4.4	0.1
Arm Holdings Plc	26.4	0.8	Anheuser-Busch Inbec NV Common	4.4	0.1
Verizon Communications INC	26.3	0.8	Sanofi	4.4	0.1
Biotech Growth Trust	24.0	0.7	KDDI Corporation NPV	4.4	0.1

Details of Institutional Unit Trusts as at 31 March 2014

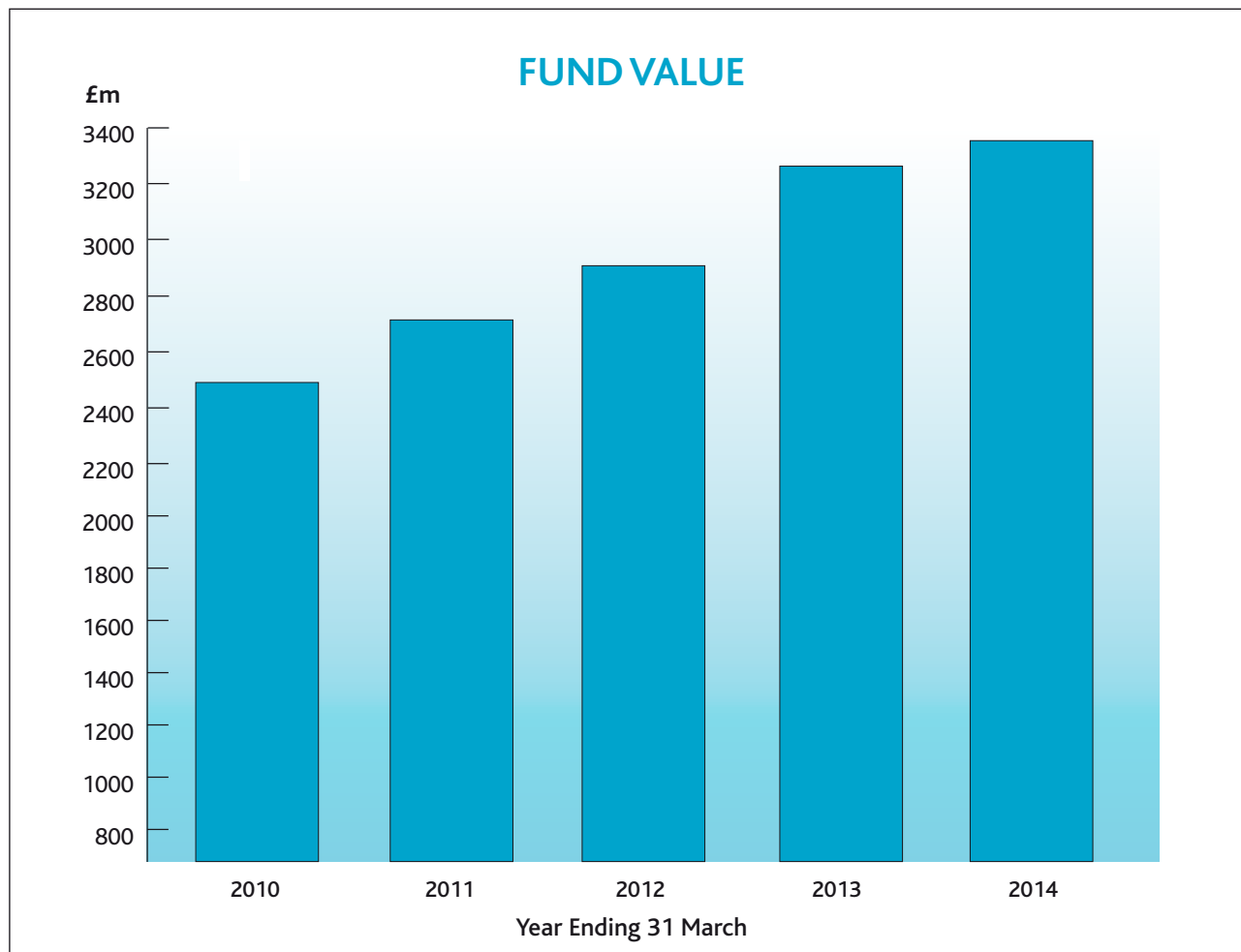
Global Equity Funds	£m	% Investment Assets
Schroder Funds		
SGST North America Equity Fund	228.8	6.9
Institutional Pacific Fund	148.8	4.5
Emerging Markets Fund	116.0	3.5
Developing Markets Fund	21.6	0.7
UK Smaller Companies Fund	30.2	0.9
Recovery Fund	14.8	0.4
European Smaller Companies Fund	12.2	0.4
Japan Smaller Companies Fund	3.7	0.1

Property Funds

The Fund holds a portfolio of 25 Property investments valued at £206.5m as at 31 March 2014. 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.

Fund Value

The value of the Fund over the last five years is shown in the following graph.



Performance

Investment Markets

Equity markets significantly out-performed Fixed Income markets during the financial year due to an improvement in global economic growth, a continued improvement in investor risk sentiment, and the impact of historically low bond yields on asset allocation decisions.

Equities

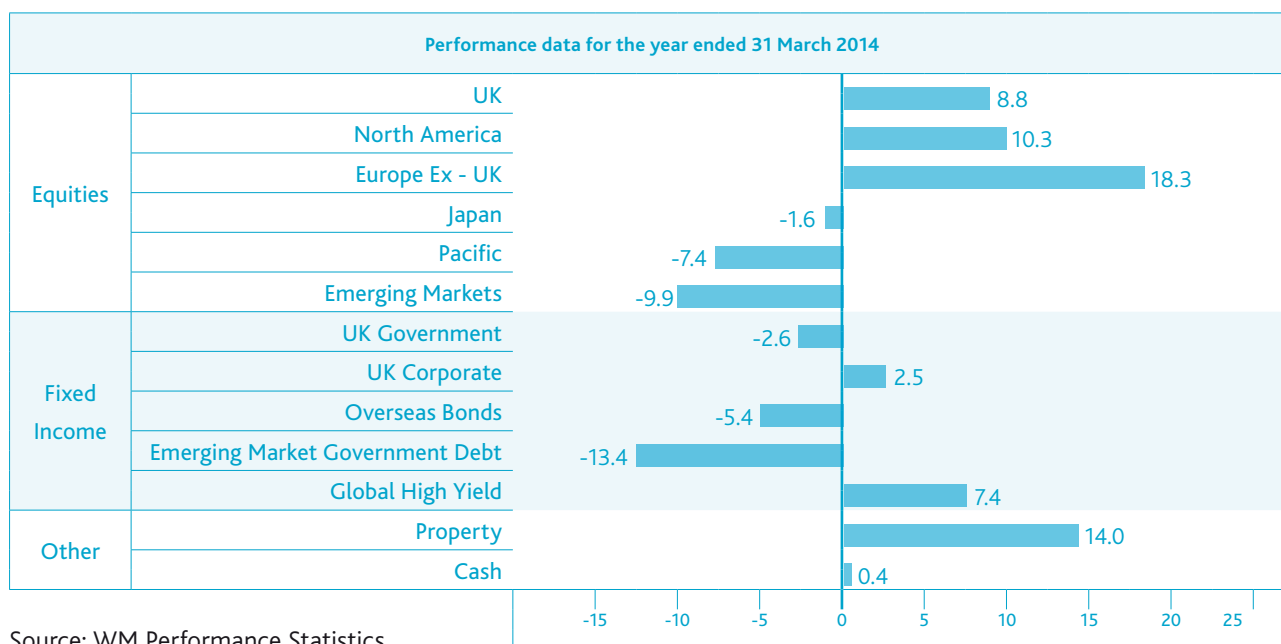
- Global equity markets were relatively strong during the year as a result of stronger than expected economic data and continued loose monetary policy in the developed economies, and an improvement in risk appetite as investors sought higher returns given historically low bond yields.
- The best performing equity region, in sterling terms, was Europe ex-UK due to an improvement in economic growth, albeit from a low base, in the core European economies and an improvement in investor sentiment as the sovereign debt issues that have beset the region in recent years abated in the short term.
- North America benefited from a continued improvement in economic growth whilst monetary policy remained relatively loose despite the tapering of quantitative easing in the US.
- The UK market benefited from the improvement in both domestic and global economic growth as well as an increase in takeover activity.
- Japan continued to benefit from the aggressive set of monetary and fiscal policy measures introduced by the Abe government in 2012 but returns in sterling terms were offset by the 20% depreciation in the Yen.
- The Pacific region was relatively weak due to its proximity to China amid concerns regarding the impact of a potential “hard landing” in that economy on exports, particularly commodity-related products.
- Emerging Markets was the worst performing equity region due to concerns regarding the sustainability of economic growth, relatively sluggish growth in the Eurozone, a large export market for the region, the potential impact of tighter monetary policy in the developed economies following the US taper, and concerns regarding government and consumer debt levels in some countries, such as India and Brazil.
- Returns from overseas equity markets were offset by the appreciation in Sterling during the year.

Fixed Income

- Fixed income markets were relatively weak during the year due to concerns regarding a potential increase in bond yields as a result of stronger economic growth and the possibility that monetary conditions in developed markets would be tightened.
- The UK market was impacted by a modest increase in bond yields due to the relatively strong improvement in economic growth potentially resulting in an increase in interest rates ahead of market expectations.
- In the Overseas developed markets, local currency returns were negligible but the sharp appreciation in sterling resulted in significantly lower returns, particularly in Australia, Canada, and Japan. A number of European markets, particularly Spain and Italy, experienced a sharp fall in yields due to continued central bank support and an improvement in investor sentiment towards the region.
- Emerging Market bonds suffered as a result of significant investor outflows as the US started to scale back its accommodative monetary conditions, which also had a negative impact on emerging market currencies.
- Corporate bonds performed relatively strongly, both investment grade and high yield, as a result of a continued narrowing of credit spreads due to strong corporate balance sheets, low default rates, and investor demand for income.

Property

- The UK property market performed exceptionally well due to a significant increase in capital values, rental income growth, and a fall in vacancy rates.
- The best performing sector was Central London Offices due to strong tenant demand and the lack of supply of good quality space.
- The worst performing sector was Supermarkets due to exceptionally low income yields, relatively low rental growth due to a tendency to be linked to inflation, and concerns regarding the trading performance of the major tenants.



Source: WM Performance Statistics



Market Outlook

- There are signs of a sustainable improvement in economic growth in a number of developed economies, including the UK and US, although concerns remain regarding the pace of growth in Europe, Japan, and the Pacific region. Despite concerns regarding growth in a number of emerging markets, economic activity in these areas will remain relatively robust, although perhaps not as strong as in the last decade. Although monetary policy is likely to be tightened, particularly in developed economies, it is likely to remain accommodative unless there is a sustained increase in inflationary pressures.
- Equity markets have benefited from an improvement in global economic growth and relatively loose monetary policy in the last few years. However, valuations for the majority of developed markets are above their long term average and markets could be susceptible to a correction if economic growth deteriorates or monetary policy is tightened. Although corporate balance sheets remain relatively strong, profit margins are above their long term average and so top-line growth will be required to maintain earnings growth. On balance, equity markets are likely to generate returns below their long term historical average. As a result, companies with robust balance sheets, visible revenue and earnings growth, and strong cash generation remain attractive in the current uncertain environment.
- Although bond markets will be adversely affected by an increase in interest rates, yields are likely to remain below their long term averages in the medium term. There could also be support from an increase in investor risk aversion in the short term as a result of the geopolitical uncertainty in Eastern Europe, the Middle East, and North Africa. However, bond markets in the developed economies do not offer attractive long term returns and yields will be susceptible to the eventual normalisation of interest rates. Emerging market bonds appear to offer better value as credit spreads have widened during the last year and local currency investments offer the potential to benefit from long term currency appreciation.
- Investment grade and high yield corporate bonds are susceptible to an increase in interest rates and a widening in credit spreads if there is a deterioration in balance sheet quality and an increase in default rates. There are also concerns regarding the liquidity of these markets in a weaker credit environment. However, there are attractive opportunities within alternative credit investments such as corporate mezzanine debt, direct lending, senior secured loans, asset-backed securities, and healthcare royalty bonds.
- Property markets could be adversely affected by a normalisation of interest rates and recent sterling appreciation making it a less attractive market for overseas buyers. However, the market environment is more supportive with lower vacancy rates, higher rental growth, and increased availability of credit. Central London offices are likely to continue to out-perform although it could be argued that this highly cyclical sub-market is approaching its peak after a number of years of strong performance. The retail environment has improved with lower vacancy rates but rental growth remains minimal and there is increased competition from online operators which is likely to be beneficial for logistics assets. Residential values will be supported by under-supply of new properties, particularly in London and the South East, and recent government initiatives but valuations based on traditional metrics remain above the long term average. However, there are attractive opportunities within Property including development and debt-related investments.



Investment performance

The following table shows the performance of the Fund relative to its strategic benchmark and the Local Authority Average:

Annualised performance	1 year	3 years	5 years	10 years
East Riding Pension Fund	7.1%	7.9%	14.0%	8.4%
Strategic benchmark	5.9%	7.5%	13.8%	8.5%
Local Authority Average	6.4%	7.5%	12.7%	7.8%
Quartile	2nd	2nd	1st	1st

Source: WM Annual Performance Review 2013/14

The Pension Fund has out-performed the strategic benchmark over 1, 3 and 5 years and has out-performed the Local Authority Average over all time periods under review. The Fund has also generated returns significantly higher than the target rate of investment return (currently 7.1% p.a.) over the long term.

The performance of the Fund can be analysed further by asset class:

Annualised performance	1 year	3 years	5 years	10 years
Equities				
Fund	10.1%	9.7%	18.0%	10.3%
Strategic benchmark	7.5%	7.8%	15.6%	9.0%
Local authority average	8.4%	8.4%	15.9%	9.0%
Fixed Income				
Fund	(3.3%)	4.6%	4.2%	5.6%
Strategic benchmark	(3.4%)	4.0%	3.7%	6.2%
Local authority average	(1.6%)	7.0%	8.3%	6.0%
Cash				
Fund	0.3%	0.8%	0.9%	3.2%
Strategic benchmark	0.4%	0.4%	0.4%	2.7%
Local authority average	1.4%	1.7%	1.8%	3.2%
Property				
Fund	6.7%	4.5%	6.5%	4.2%
Strategic benchmark	14.0%	7.6%	9.9%	5.9%
Local authority average	11.0%	6.4%	7.7%	4.8%
Alternatives				
Fund	7.4%	8.5%	12.9%	N/A
Strategic benchmark	5.5%	8.2%	13.9%	N/A
Local authority average	3.9%	2.2%	5.3%	5.3%

Source: WM Annual Performance Review 2013/14

The management of the Fund's assets are split between the internal investment manager and the external investment manager, currently Schroder Investment Management Limited, as follows:

Asset Class	Internal Investment Manager		Schroder IM	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Equities	1,333,417	1,461,288	710,718	717,266
Fixed Income ¹	405,640	420,687	116,563	110,814
Property	179,764	206,452	-	-
Alternatives	307,061	376,295	-	-
Total	2,225,882	2,464,722	827,281	828,080

¹ Including Cash

The performance of the Fund by investment manager is as follows:

Annualised performance	1 year	3 years	5 years	10 years
Internal Manager	9.5%	8.7%	14.3%	8.0%
Strategic benchmark	7.6%	8.2%	13.9%	8.4%
Schroder IM	0.4%	5.7%	13.0%	9.3%
Strategic benchmark	1.2%	5.8%	11.4%	8.7%

Source: WM Annual Performance Review 2013/14

Corporate Governance

As a responsible investor, the East Riding Pension Fund wishes to promote corporate social responsibility, high standards of corporate governance, good practice, and improved corporate performance amongst all companies in which it invests. The Fund supports the principles underpinning the UK Corporate Governance Code and has adopted the Principles of the Financial Reporting Council's (FRC) UK Stewardship Code. The Pension Fund's Statement of Compliance with the Stewardship Code is shown on pages 42 to 43.

The Fund views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to discharge its corporate governance responsibilities through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF). Further details of LAPFF's guidance on environmental, social, and governance issues can be found on www.lapfforum.org.

In addition to the above, the Fund will take into account the guidance issued by LAPFF, and any other appropriate guidance and information, in determining any relevant social, environmental, or governance considerations when selecting, retaining, and realising any of its investments. However, the overriding objective for the Pensions Committee will be to discharge its fiduciary duty in managing the Fund's investments in the best interests of the scheme's beneficiaries.

The Fund subscribes to the Pensions Investment Research Consultants (PIRC) advisory voting service which provides voting recommendations based on industry best practice. Further details of PIRC's voting guidance is shown in the "UK Shareowner Voting Guidelines 2013" guidance document which is available at www.pirc.co.uk.

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

The external investment manager will vote in accordance with its "Investment and Corporate Governance" policy which is available at www.schroders.com.

The Fund's investment managers can exercise their discretion not to vote in accordance with best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee.

The Pensions Committee reviews the Fund's corporate governance and voting activity on a quarterly basis.

The voting activity of the Pension Fund during the financial year is summarised in the following table:

	Number of meetings	Number of resolutions	Voted in accordance with stated policy	Not voted in accordance with stated policy
UK	171	2,180	2,101	79
North America	653	6,859	6,625	234
Europe ex – UK	109	1,601	1,545	56
Japan	69	846	815	31
Pacific ex – Japan	61	476	476	0
Emerging Markets	329	3,128	2,992	136
Total	1,392	15,090	14,554	536

Statement of Compliance with the UK Stewardship Code for Institutional Investors

This statement of compliance was updated in March 2014 to reflect the revised UK Stewardship Code, effective September 2012, and will be reviewed on an annual basis.

The East Riding Pension Fund supports the FRC Stewardship Code and, as part of its commitment to best practice, seeks to apply the Principles in the Code to its investment activity.

The management of the Fund's assets is split between the internal investment manager and Schroder Investment Management Limited. Schroder's Statement of Compliance with the UK Stewardship Code can be viewed at www.frc.org.uk

Principle 1 – Institutional investors should publically disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to apply the Code through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

More details on the Fund's corporate governance strategy can be found in its Statement of Investment Principles, which is available on erpf.eastriding.gov.uk.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publically disclosed.

The Fund maintains and monitors a Register of Interests which is completed both by Members of the Pensions Committee and by the individual employees of the internal investment manager. In addition, Pension Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed in the Annual Report and Accounts.

In accordance with the Fund's Compliance Manual, individual employees of the internal investment manager require permission from the Head of Investments or, in the Head of Investments case, the Head of Finance prior to investing in any applicable investments on a personal basis. Individual employees are also required to disclose their personal investments on an annual basis.

The external investment manager's policy on conflict of interests is disclosed in its Statement of Compliance with the UK Stewardship Code.

Principle 3 – Institutional Investors should monitor their investee companies.

The Pensions Committee delegates responsibility for managing the Fund's assets to the Investment Managers, who are expected to monitor companies and intervene where necessary.

The Fund subscribes to the Pension Investment Research Consultants (PIRC) voting and advisory service which provides voting recommendations based on industry best practice and receives an "Alerts" service from the LAPFF which highlights corporate governance issues of concern at investee companies.

The external investment manager discharges its corporate governance responsibilities in accordance with its Investment and Corporate Governance Policy, which is also based on industry best practice.

The Fund's investment managers can exercise their discretion not to vote in accordance with industry best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

The Fund's investment managers may choose to be made insiders in a particular company for a short period of time. In these instances, no transactions are permitted to be made from the point of disclosure until the information has been disclosed to the wider market.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's Investment Managers, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, the Investment Managers will consult with the Head of Finance.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation.

Any such actions and subsequent outcomes are reported to the Pensions Committee in order to monitor activity and assess effectiveness.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

Collaborative engagement is a key part of a responsible investment strategy and the Fund will seek to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members, and also its relationship with the external investment manager.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attaching to its investments, where practical.

The Fund supports the principles underpinning the UK Corporate Governance Code and subscribes to the PIRC advisory voting service which provides voting recommendations based on best practice. 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 Corporate Governance Code on which the Fund will take a view.

As a general rule, the Fund will vote in favour of resolutions which are in line with the UK Corporate Governance Code 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.

The external investment manager is responsible for the exercise of voting rights attaching to investments that are managed by them on behalf of the Fund. The external investment manager's policy on voting is disclosed in its Statement of Compliance with the UK Stewardship Code.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending and seeks to recall stock on loan prior to a shareholder vote if it is deemed to be suitable and practical. Examples of this will include resolutions that are not considered to be in accordance with the UK Corporate Governance Code or where the Fund has a material holding and could potentially influence the outcome of the vote.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

The Pensions Committee reviews a detailed corporate governance and voting report, which includes the voting activity of both the internal and external investment managers, on a quarterly basis.

In addition:

- The Administering Authority publishes the agendas and minutes of Pensions Committee meetings on its website – www.eastriding.gov.uk
- The Fund publishes details of its stewardship and voting activities in its Annual Report and Accounts. This includes summary details of voting activity, and activity undertaken through the LAPFF as well as other collaborative engagement.

Myners' Principles

The Myners' Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners' Principles are:

Principle 1: Effective Decision-Making

- Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice, and resources necessary to take them effectively and monitor their implementation.
- Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear Objectives

- Trustees should set out an overall investment objective for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant, and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and Liabilities

- In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include sponsor covenant strength, the risk of sponsor default, and longevity risk.

Principle 4: Performance Assessment

- Trustees should arrange for the formal measurement of the performance of investments.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report this to scheme members.

Principle 5: Responsible ownership

- Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should periodically report to members on the discharge of such responsibilities.

Principle 6: Transparency and Reporting

- Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against objectives.
- Trustees should provide regular communication to members in the form they consider most appropriate.

The Pension Fund's compliance with the Myners' Principles is shown in the following table:

Principle	Evidence of compliance
Effective Decision Making	<ul style="list-style-type: none"> • The Pensions Committee meets on a quarterly basis to discuss current issues, future policy, and tactical asset allocation. • Working Groups are formed when an issue requires particular attention. A Working Group was set up in July 2013 to consider the Pension Fund's strategic asset allocation following the initial results of the latest triennial actuarial valuation. • The Committee have appointed suitably qualified investment managers to manage the investments of the Fund on their behalf. • The Fund takes advice from its independent advisor and external investment manager, both of whom attend the quarterly Pensions Committee meetings. This is in addition to the advice received from the Director of Corporate Resources and the Fund's actuary. • A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented.
Clear Objectives	<ul style="list-style-type: none"> • The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. • The Fund's strategic asset allocation is specifically designed to achieve the fund objective, with tactical asset allocation reviewed at the quarterly meetings. Specific asset allocation weightings are detailed in the Statement of Investment Principles. • In determining the Fund's asset allocation, the Committee consider all asset classes in terms of their suitability and diversification benefits.
Risk and Liabilities	<ul style="list-style-type: none"> • The Administering Authority has an active risk management programme in place including a Pension Fund-specific risk register and risk management schedule. • The Pension Fund's risk register identifies the key risks inherent in the Pension Fund, an estimate of the severity of each risk, a summary of current control measures, and the identification of additional control measures. • A description of the risk assessment framework used for potential and existing investments is included in the Statement of Investment Principles under "Risk and diversification of investments". • The Committee reviews the Pension Fund's risk management schedule on a quarterly basis and the risk register on a semi-annual basis.
Performance Assessment	<ul style="list-style-type: none"> • The performance of the Fund's investment managers is assessed on a regular basis, using data provided by WM Company, a specialist performance measurement organisation. • Investments made by the Fund's investment managers are reviewed by the Committee on a quarterly basis. • The internal and external fund managers have Fund-specific performance benchmarks that are reviewed on a regular basis. Peer group benchmarks are used for comparison purposes only.

Principle	Evidence of compliance
Responsible Ownership	<ul style="list-style-type: none"> • The Committee’s policies on corporate governance, socially responsible investment, and shareholder voting are outlined in the Statement of Investment Principles.
Transparency and Reporting	<ul style="list-style-type: none"> • The following core documents are published on the Pension Fund’s website: <ul style="list-style-type: none"> - Pension Fund Annual Report and Accounts. - Statement of Investment Principles. - Governance Compliance Statement. - Funding Strategy Statement. - Corporate Governance and Voting Policy. - Pension Committee Agendas and Minutes.



scheme administration report

Administration

2013/14 has been a very challenging year for the East Riding Pension Fund with the ongoing implementation of the Universal Pensions Management (UPM) pensions administration system including a pensioner payroll system, the 2013 triennial valuation and preparing for the introduction of the Local Government Pension Scheme (LGPS) 2014.

Following on from the implementation of the UPM pensions administration system, in November 2012, the supplier, Civica, has provided extensive training to all pensions administration staff throughout 2013/14 including training on pension sharing, paying credit and debit members, annual allowance, pensions increase, implementing system release updates and hot fixes.

The implementation of the UPM Pensioner payroll system started in October 2013 and went live in February 2014. This was a significant milestone for the Fund as it enabled over 25,000 pensioners to receive their monthly pensions for the first time from an inhouse pensioner payroll. Prior to February 2014, pensioner payroll administration was provided by arvato government services (ERYC) Limited. As the UPM Pensioner payroll system is strongly interlinked with the administration system, there will be significant implications for the way the Pensions section works in the future and in terms of reducing costs.

The 2013 triennial valuation proved more challenging than previous valuations due to the increase in the number of new employers entering the Fund in the last three years (from 79 to 142) with a significant number having their own payroll providers, resulting in an increase in data and contribution queries. Having a new pensions administration system meant that data reports were being produced for the first time which required greater resources to ensure that all the validation checks required by the Fund actuary were met. Despite the challenges, all Fund employers were provided with their initial draft valuation results on time (January 2014).

The Regulations for the new LGPS 2014 were due to be in place by April 2013 but were delayed as three drafts of the Regulations were issued for consultation until they were finally issued in September 2013. However, consultations were still taking place on the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, and the issue of these Regulations were key as they would set out how accrued rights up to April 2014 were protected. It was not until March 2014, with the issue of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, that work could begin on updating pensions administration procedures including LGPS 2014 specific process maps for the different calculation routines so that the Pensions section could provide retirement estimates for post 2014 requests and process retirement calculations.

The Pensions section, which provides the administration function for the Pension Fund and over 180 employers, is made up of the following four teams:

- **The Member Services team** set up new members, monitor and maintain records, pay benefits to retiring and early leaver members and in respect of deceased members, and deal with incoming and outgoing transfer payments as well as Additional Voluntary Contributions.
- **The Systems and Communications team** provide the technical IT support to the section as well as ensuring all booklets, letters, and external communication issues are dealt with. The team also facilitates regular liaison with all Fund employers and provides a diverse range of scheme member face-to-face communication events ranging from pension planning sessions to open clinics where queries can be raised and answered.
- **The Projects and Development team** undertake routine and non-routine tasks and deal with monthly, quarterly, annual and triennial events and with issues resulting from receipt of new legislation. They also monitor, collect and reconcile payments required from Fund employers in respect of employee and employer pension contributions, and rechargeable amounts due to the Fund. The new pensioner payroll function is housed within this team.
- **The Technical and Training team** provide a comprehensive training role for the whole section and provide education, advice on the interpretation of the Local Government Pension Scheme (LGPS) Regulations, as well as support and guidance to all employers in the Pension Fund. The team is responsible for developing and maintaining process maps for all pensions administration procedures on the UPM system.

Staffing numbers in the Pensions section

There are 42 full time equivalent (FTE) posts in the Pensions section with 30 staff responsible for pensions administration work across the four teams. This equates to a staff to fund-member ratio of one FTE employee to 3,283 members, based on the total fund membership of 98,501.

Throughout 2013/14 all staff have worked flexibly and across the different teams to ensure they are fully conversant with the UPM system and to meet the dead-lines for cleansing data for the 2013 valuation, the annual benefit statements and the implementation of the pensioner payroll system. This has allowed the Pensions section to develop new ways of working to maximise the efficiencies of the UPM system and a restructure of the section is planned for 2014/15 following the implementation of the final phase of the UPM system, the Web access project, in early 2015.

Communications

2013/14 marked the beginning of the transition from the more traditional methods of communicating with members such as newsletters and face to face sessions to more digital forms of communication. The transition will be facilitated by the UPM Web access project which will allow Fund employers to carry out enquiries and update scheme member records and allow members to view data and update their records via the internet. It will also enable the Fund to communicate more effectively with its members to keep them fully informed of scheme and regulation changes. Key to the project will be a complete overhaul of our existing website.

In Spring 2013, we issued newsletters to active members (Foresight), deferred members (who are sent Intouch with their deferred benefit statement) and pensioner members (Reflection) for the final time. The newsletters have been replaced by more tailored communications such as the communication sent out in January 2014 to all pensioners setting out the new payroll arrangements, in particular the new contact details. This proved very successful with over 5,000 contact forms being returned informing the Section not only of new contact details including address changes and alternative contact details in the event that the Section is unable to contact the pensioner, but also notifications of deaths of pensioners which the Section had not previously been informed about.

A two sided communication was issued to all active members explaining the LGPS 2014 changes with an invitation to hear more about the changes at presentations being held across the Fund area in April and May 2014 at Grimsby, Scunthorpe, Hull, Beverley, Bridlington and Goole.

Employers were kept up to date during 2013/14 with 36 email briefings covering major national initiatives that we need to communicate to our scheme employers and members including LGPS 2014 and automatic enrolment. The briefings were backed up by inviting all employers to regular Joint Employer Update meetings. Employers are encouraged to raise any issues for inclusion on the agenda or discussion at the meetings. Specific Joint Employer Update meetings were held on the 2013 valuation, employer discretions and HR and payroll responsibilities under LGPS 2014.

As a result of the LGPS (Transitional Provisions etc) Regulations 2014, the Pensions section has informed all councillor members that they will cease to be members of the LGPS at the end of their current term of office they were serving on 1 April 2014.

Our communication methods and the ways in which we engage with our members will play a significant role in ensuring our future success, retaining members in the scheme, discouraging opt outs during these financially difficult times, and encouraging non members to reconsider the benefits of the scheme.

The updated version of the communications policy statement will be available on our website – erpf.eastriding.gov.uk

It sets out:

- How we communicate with our stakeholders;
- The format, frequency and method of our communications; and
- How we promote the scheme to prospective members and employers.

Internal Dispute Resolution Procedure

The Internal Dispute Resolution Procedure (IDRP) is a way of dealing with complaints from active, deferred or pensioner members of the Local Government Pension Scheme (LGPS) about decisions relating to their pension benefits made by either their employer or East Riding of Yorkshire Council, as the administering authority for the East Riding Pension Fund.

IDRP is a two stage process:

- Fund employers and the council as administering authority have to make decisions about a member's benefits under the rules of the LGPS. If for any reason a member is not happy about a decision that has been made, or not been made, about their LGPS membership or benefits, then members are encouraged to contact the Assistant Pensions Manager at the Fund who will seek to clarify or correct any misunderstandings or inaccuracies. If the member is still not happy, they can apply to the Fund to have their complaint reviewed under stage 1 of the IDRP. For complaints against the administering authority, the review under stage 1 is undertaken by another administering authority specified by the council. This ensures the stage 1 decision is independent of the council. The member must apply for a review under stage 1 within 6 months of the date of the notification of the decision the member wishes to make a complaint about.
- If the member is dissatisfied with the stage 1 decision, they must move to stage 2 of the IDRP within 6 months of the stage 1 decision and this is reviewed by the Pensions Manager who will not have had any previous involvement in the complaint.

If the member is still dissatisfied, they can contact The Pensions Advisory Service (TPAS) and ask for their assistance. Where the complaint or dispute cannot be resolved after the intervention of TPAS, the member has three years in which to apply to the Pensions Ombudsman for adjudication.

The Pension Ombudsman can investigate any type of complaint about a member's pension, but the member must have been through stages 1 and 2 above of the IDRP before they contact the Ombudsman.

In 2013/14, there were two complaints which went to stage 2 against decisions made by the administering authority. Both complaints were dismissed. Three complaints against decisions made by employers under stage 1 were dismissed at stage 2 by the Pensions Manager.

Compliments

The Fund received 27 compliments from members and employers expressing their satisfaction with the level of service provided by the Pensions section. The compliments ranged from appreciation of customer service provided by individual members of staff to the quality of service provided by the section over a number of years.



report of the actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, and the solvency of each of the notional sub-funds allocated to the individual employers;
- use a prudent long term view to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than two-thirds chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £3,078 million, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £859 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6	2.1
Pay increases	3.8	1.3
Price inflation/Pension increases	2.5	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.1 years
Future Pensioners*	24.2 years	26.7 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from East Riding of Yorkshire Council, the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been ahead of expectations meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



Douglas Green FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
19 May 2014

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

actuarial valuation

Legislation requires an actuarial valuation of the 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 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and the most recent valuation was carried out as at 31 March 2013 and resulted in a funding level of 78.2% (2010: 74.0%). The total required rate of employer contributions was certified by the Fund Actuary as 29.2% of pay. The next triennial valuation is due as at 31 March 2016 and any change in employers' contribution rates as a result of that valuation will take effect from 1 April 2017.

The results of the 2010 and 2013 valuations are set out in the tables below:

	2010	2013
Past Service Liabilities	£m	£m
Employees	1,397	1,559
Deferred Pensioners	506	739
Pensioners	1,207	1,640
Total Past Service Liabilities	3,110	3,938
Assets	2,302	3,078
Deficit	-808	-860

The common employer contribution rates for the whole Fund at 31 March 2010 and 2013 are shown below:

	% of Pay	
Employer Contribution Rates	2010	2013
Future service funding rate	17.2	20.0
Past service adjustment	8.6	9.2
Total Contribution Rate	25.8	29.2

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

The common employer contribution rate is an average across the whole Fund. In practice, each employer has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement.

The principal conclusions from the 2013 valuation were as follows:

- The future service funding requirement has risen from 17.2% to 20.0%. The past service adjustment has risen from 8.6% to 9.2%, reflecting a deterioration in the funding position.
- The increase in deficit level during the three years to 31 March 2013 reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

governance

Governance Policy Statement

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

The Pensions Committee consists of ten Members of the East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils in the East Riding Pension Fund, and four trade union representatives attend Committee meetings to ensure that views of other interested parties are properly considered by the Committee. Only the ten Members of the East Riding of Yorkshire Council have voting rights but all Members have equal access to relevant committee papers, documents and advice. In addition, the Members' training programme is designed to help in evaluating expert advice.

There are no representatives of admitted bodies on the Committee, so the Committee holds an Annual Meeting to which all employers are invited. This provides them with the opportunity to raise any concerns they may have directly with the Committee, which then ensures they can be properly considered by the Committee.

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

The Statement of Investment Principles sets out how the Pension Fund will be invested, while the Annual Report, which is submitted to the Annual Meeting of the Fund, completes the cycle of accountability.

This governance policy statement complies with the guidance issued by the Secretary of State in 'Governance Compliance Statements Statutory Guidance – November 2008'.

Pensions Committee as at 31 March 2014

Pensions Committee as at 31 March 2014	Number of meetings attended (max 8)
Members	
Councillor E Aird	8
Councillor A Burton	7
Councillor M Boatman (to May 2013)	1
Councillor C Chadwick	8
Councillor J Head	6
Councillor A Hodgson	5
Councillor J Holtby (wef June 2013)	4
Councillor S Horton	6
Councillor K Hough	7
Councillor K Moore (wef June 2013)	4
Councillor B Pearson	7
Unitary Councillor Representatives	
Councillor I Glover (North Lincolnshire)	5
Councillor P Webster (Hull City)	0
Councillor D Billard (North East Lincolnshire)	0
Trade Union Observers	
Mr C Crisp (GMB)	0
Mr M Burgess (UNITE)	5
Mr S Cunliffe (Unison)	3
Mr B Smith (Unison)	2

Report of the Pensions Committee

The Pensions Committee is responsible for the administration of the East Riding Pension Fund in accordance with Statutory Regulations, under delegation contained in the Constitution of the East Riding of Yorkshire Council. During the past year the Committee consisted of ten 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. A list of those who served on the Committee, and their attendance at Pensions Committee meetings, is on page 54.

The Committee met quarterly to consider investment reports from the Director of Corporate Resources, the external manager, and the independent advisor. The Committee also met on a further four occasions to consider pension administration issues, potential changes to the investment, administration, and governance arrangements within the LGPS, and to receive training as part of the member training programme. A summary of the work undertaken by the Pensions Committee is shown below:

- Considered the results and impact of the 2013 actuarial valuation;
- Completed the strategic asset allocation review of the Fund following the latest actuarial valuation;
- Agreed a Statement of Investment Principles (SIP) which sets out in detail how the Fund is managed (pages 111 to 115) and a Governance Policy Statement, which sets out in detail how the Fund is governed (page 54);
- Reviewed the management of the Fund and analysed the performance of the Fund and individual investment managers;
- Reviewed the operational costs of the Fund compared to the LGPS average;
- Reviewed the current status of the Fund's outstanding UK and Overseas Withholding Tax reclaims;
- Reviewed the Fund's Treasury Management policy and treasury activity during the year;
- Reviewed the Fund's corporate governance and voting activity;
- Approved the Annual Report and Accounts 2012/13;
- Reviewed the audit and assurance reports of the Fund's investment managers and the global custodian;
- Reviewed the Fund's strategic risk register;
- Received training as part of the Member training programme (more details on pages 56 to 57);
- Submitted responses to government consultations on potential changes to the investment, administration, and governance arrangements within the LGPS; and
- Considered the potential impact of proposed changes to the Local Government Pension Scheme.

For the year ended 31 March 2014, the Fund generated a return of 7.1%, compared to the strategic benchmark return of 5.9%, the Local Authority average return of 6.4%, and the Retail Price Index, which was 2.5% over the period. A relatively high weighting to Equities and strong stock selection from the Fund's investment managers in the majority of asset classes was partly offset by a higher relative weighting to Cash.

Over the three years to 31 March 2014, the Fund has generated a return of 7.9% per annum, compared to the strategic benchmark return of 7.5% per annum, the Local Authority Average of 7.5% per annum, and the long term investment objective of 7.1% per annum. Strong stock selection from the Fund's investment managers has been the main contributor to performance over this period.

On 1 April 2014 scheme rules were amended nationally and a new scheme was introduced with pension calculated on career average revalued earnings rather than final salary along with other changes, all of which have had to be implemented in an extremely short timescale.

The Government have recently issued a consultation on the potential reform of the investment management arrangements of the LGPS. Fund mergers will not be pursued at the current time but the Government are consulting on the potential to save costs via an increase in passive management and the use of collective investment vehicles for alternative assets. With a long and demonstrable track record of consistent out-performance using low cost, predominantly internal, active management it is important that any proposed changes do not have a detrimental impact on the Pension Fund.

New governance arrangements within the LGPS are also expected in the coming year with the introduction of Pension Board's – at the national level to provide advice and guidance to both Pension Fund's and the Secretary of State, and at the local level to oversee the effective operation and administration of the Pension Fund by the Administering Authority.

It is anticipated that there will continue to be significant changes to the Local Government Pension Scheme in the next few years which will represent a considerable challenge to the Pension Fund. The Pensions Committee will strive to ensure the long term sustainability of the Pension Fund in the light of these proposed changes, and ensure members are made aware of there potential impact.

**Councillor Chad Chadwick
Chairman**

19 September 2014

Training and Development

As an administering authority of the Local Government Pension Scheme, East Riding of Yorkshire Council recognises the importance of ensuring that all officers and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge their duties and responsibilities. Training is provided for officers and members to enable them to acquire and maintain an appropriate level of experience, knowledge and skills.

The Pensions Committee has designated the Head of Finance to be responsible for ensuring that the authority's training policies and strategies are implemented with respect to the Pensions Committee and officers managing the Pension Fund.

The council has implemented a training programme for members which reflects the recommended knowledge and skill levels set out in the CIPFA Pensions Finance Knowledge and Skills Framework. The programme consists of:

- **Dedicated training sessions delivered by senior officers at the quarterly Pensions (Administration) Committee meetings; and**
- **Dissemination of information relating to current investment themes by senior officers and the Pension Fund's external investment manager at the quarterly Pensions Committee meetings.**

In addition, the Pensions Committee has an independent advisor whose knowledge and experience is used to assist the Committee in the development of the strategic asset allocation of the Pension Fund, and also to understand and challenge the tactical asset allocation recommendations of the investment managers.



The following training has been provided during the financial year:

- Formal training sessions have been given on the following topics:
 - Alternative Investments
 - Portfolio Management
 - Strategic Asset Allocation
 - Actuarial Valuations
- Officer, advisor, and external investment manager feedback on the following topics:
 - Current trends in asset allocation including Equities, Fixed Income, Emerging Markets, Property, and Infrastructure.
 - Current trends in global macroeconomics including inflation; corporate, sovereign, and household debt levels; and emerging markets.
 - Current opportunities in Alternative investments including infrastructure, private equity, real estate, insurance-linked investments, and hedge funds.
 - Overview of the actuarial valuation including methodology and expected trends in discount rates and longevity assumptions.
 - Cost efficiency and cost effectiveness within the Local Government Pension Scheme including joint procurement projects and investment management fee structures.
 - The impact of the potential changes to the Local Government Pension Scheme including structural reform and increased governance requirements.
 - Corporate governance issues including executive remuneration, board representation and diversity, board responsibility, shareholder activism, corporate taxation, accounting standards, roles and responsibilities of auditors, social investment, employee rights, health and safety, and environmental issues.
 - Analysis of the Fund's investment performance.
 - Overview of risks and risk management within the Pension Fund.

The Fund has in place a robust recruitment and selection procedure to ensure it appoints officers who are both capable and experienced. Formal training programmes within the office and through external qualifications courses (e.g. Chartered Financial Analyst) are in place to develop the experience and skills of officers. A dedicated training manager ensures pension administration staff remain up to date with all changes to regulations and procedures. Development needs are formally reviewed on a six monthly basis through the council's Employee Development Review process.

In addition, officers maintain and develop their understanding and experience of investment and portfolio management as part of their career development. During the financial year this has included:

- Continual critical analysis of external research;
- Attendance at a number of conferences;
- Meetings with economists and investment managers;
- Active participation in regular internal investment strategy meetings; and
- Membership and attendance at regional networks and the CIPFA Pensions Network

As the officer nominated by the Pensions Committee responsible for ensuring that the authority's training policies and strategies are implemented, the Head of Finance can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

statement of responsibilities for the financial statements

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

a) The Administering Authority

The Administering Authority is East Riding of Yorkshire Council.

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 Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

b) Head of Finance

The Head of Finance is responsible for the preparation of the Fund's Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This document includes the financial statements for the Pension Fund only. The financial statements of the East Riding of Yorkshire Council are published separately.

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Head of Finance has also:

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

Certificate

I hereby certify that the following Annual Report and Accounts give a true and fair view of the financial position of the East Riding Pension Fund as at 31 March 2014 and its income and expenditure for the financial year then ended.

Caroline Lacey
Head of Finance
East Riding Pension Fund
19 September 2014

fund account, net assets statement and notes

Fund Account

For the year ended 31 March 2014

2012/13	Note	Dealings With Members and Employers	2013/14
£000			£000
153,541		Contributions	157,728
2,802		Augmentation	3,823
156,343	G	Contributions receivable	161,551
5,142		Individual transfer values receivable	5,221
524		Group transfer values receivable	524
88		Reinstatement of pension opt-outs	0
162,097			167,296
-119,904	H	Benefits payable	-127,931
-8,639	I	Payments to and on account of leavers	-7,447
-1,992	J	Pensions administration expenses	-2,058
-130,535			-137,436
31,562		Net additions from dealings with Members	29,860
		Returns on investments	
80,660	K	Investment income	83,693
-501	L	Less: Taxes on income	-512
312,816	M	Profit and losses on disposal of investments and changes in market value of investments	128,313
-2,774	J	Less: Investment management expenses	-2,968
390,201		Net Return on Investments	208,526
421,763		Net increase / (decrease) in the net assets available for benefits during the year	238,386
		Net Assets of the Fund	
2,656,317		Opening assets as at 1 April	3,078,080
3,078,080		Closing assets as at 31 March	3,316,466

NET ASSETS STATEMENT

2012/13	Note		2013/14
£000			£000
	M	INVESTMENT ASSETS	
		Fixed Interest Securities	
100,669		UK - Public Sector	95,470
51,057		UK - Other Quoted	56,675
69,537		Overseas - Public Sector	68,920
20,010		Overseas - Corporate Fixed Interest	19,221
29,470		Global High Yield - Quoted	27,997
3,383		Global High Yield - Unquoted	13,090
19,996		Emerging Market Government	17,263
294,122			298,636
		Equities	
1,133,798		United Kingdom	1,227,197
322,026		Overseas	345,287
1,455,824			1,572,484
		Index Linked Securities	
16,062		UK - Public Sector	14,929
4,312		UK - Corporate Bonds	4,019
10,862		Overseas - Public Sector	9,396
31,236			28,344
		Pooled Investment Assets	
588,310		Managed Funds	606,070
23,149		Property - Quoted	40,762
156,615		Property - Unquoted	165,690
68,037		Private Equity - Quoted	68,088
83,750		Private Equity - Unquoted	77,675
17,326		Infrastructure - Quoted	28,183
38,139		Infrastructure - Unquoted	48,633
65,190		Other Investments - Quoted	84,622
34,649		Other Investments - Unquoted	69,094
1,075,165			1,188,817
		Cash	
188,934	M	Fixed Term Deposits	198,412
-		Internal Manager	102
7,882		External Manager	6,007
196,816			204,521
		Other Investment Balances	
723		Accrued interest on temporary investments	356
3,604		Unsettled sales	2,337
1,864		Income held by Custodian	1,288
8,456		Accrued dividends	7,239
14,647			11,220
3,067,810		TOTAL INVESTMENT ASSETS	3,304,022
		INVESTMENT LIABILITIES	
-69		Cash with internal manager	-633
-6,500		Unsettled purchases	-2,592
-305		Tax on accrued dividends	-5
-		Liabilities with Custodian	-41
-6,874		TOTAL INVESTMENT LIABILITIES	-3,271
19,796	N	CURRENT ASSETS	19,623
-2,652	O	LESS CURRENT LIABILITIES	-3,908
17,144		NET CURRENT ASSETS	15,715
3,078,080		NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH	3,316,466

The Accounts summarise the transactions and deal with the net assets of the Fund and do not take into account liabilities to pay pensions and other benefits in the future.

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

Notes to the Accounts

A Type of Scheme

The Fund is a funded defined benefits scheme.

B Audit

These Accounts are subject to external audit. The independent auditor's report can be found on page 119.

C Accounting Policies

1. General

These Accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, based on International Financial Reporting Standards which requires that the Fund's Accounts comply with IAS 26 Accounting and Reporting by Benefit Plans subject to the interpretations and adaptations detailed in the Code and Statement of Recommended Practice on Financial Reports of Pensions Schemes (SORP).

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

2. Income

a) Contributions income

Contributions receivable are included in the Accounts in the year to which they relate. Any amounts due but not received are shown in the Net Asset Statement as a current asset. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which liability arises. Employers' contributions are based on a percentage of employees' pensionable pay as recommended by the Actuary of the Fund in his valuation of 31 March 2010 effective from 1 April 2011. Further information regarding the Actuary's Report and Actuarial Valuation as at 31 March 2010, effective from 1 April 2011, can be found on pages 51 to 53 of these accounts. Deficit funding payments are payable over a maximum of 20 years.

b) Transfer values receivable

Transfer values receivable relate to amounts received for members joining the Fund during the financial year and are accounted for in the year of receipt.

c) Investment income

i) Dividend income

Dividend income is accounted for on an accruals basis and any outstanding amount is included in the Net Asset Statement as an investment asset. Dividend income is recognised on the date the asset is quoted ex-dividend.

ii) Interest income

Interest income is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of origination. Accrued interest income is shown in the Net Assets Statement as an investment asset.

iii) Distributions from pooled investment assets

Distributions from pooled investment vehicles are recognised at the date of issue. Distribution income is accounted for on an accruals basis and any outstanding amount is included in the Net Asset Statement as an investment asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are shown as investment income in the Fund Account and include all realised and unrealised profits / losses in the year.

3. Expenditure**a) Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are shown in the Net Assets Statement as current liabilities.

b) Transfer values payable

Transfer values payable relate to amounts received for members leaving the Fund during the financial year and are accounted for in the year of receipt.

4. Expenses

Expenses are accrued appropriately to ensure charges are incurred within the relevant accounting period.

5. Valuation of Assets

Investments are included in the Net Assets Statement at their market value at the date of the Statement, with the exception of unquoted investments, which are shown at their market value at the date of the Statement, where this is available, or the lower of cost and fair value.

The Pensions Committee considers this to be a more prudent measure of valuation than the method recommended in the SORP.

Investments made through the UK Stock Exchange are valued at bid market price at the close of business on 31 March 2014. Investments made on overseas 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 2014. Note T lists the exchange rates applied to investments held as quoted in the Financial Times.

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Unquoted investments are inherently difficult to value and rely, to a certain extent, on estimation techniques and non-market observable inputs; where market values are available at the date of the Statement these are used as above, otherwise unquoted investments are valued at the lower of cost and fair value.

Fair value is calculated as the net asset value as at the date of the Statement in accordance with recognised valuation standards e.g. Royal Institute of Chartered Surveyors (RICS). Where the net asset value at the date of the Statement is not available, fair value is calculated based on the last available set of audited financial statements, adjusted for subsequent cash flows. Where there has been a material reduction in the valuation of the investment since the date of the last available set of audited financial statements, the Fund will consider writing down the value of the investment.

The total fair value of unquoted investments is disclosed in Note M Reconciliation of Movements in Investments.

6 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 51 of this report and these accounts should be read in conjunction with the report.

The Actuarial information disclosed on pages 51 to 53 complies with the accounting requirements of International Accounting Standard 19 Employee Benefits.

7 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. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

8 Value Added Tax

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

9 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 2009. 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 paid to Schroder Investment Management Limited 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. Custody fees are agreed in the mandate for the provision of custodian services. Internal management costs are based on actual costs.

10 Currency Conversion Rates

Overseas investments have been converted at the exchange rates quoted at close of business on 31 March 2014 to arrive at the sterling values in the Net Assets Statement.

11 Additional Voluntary Contributions

An additional voluntary contribution (AVC) scheme is provided for the Fund by Prudential. Contributions are paid to Prudential by scheme members and are specifically for providing additional benefits for individual contributors. AVC's do not form part of the Fund accounts in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 Regulation 4 (2) (b).

12 Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is based on the triennial valuation of the Fund by the Actuary, with liabilities at 31 March 2014 being projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the accounts.

13 Reclassification of Investment Assets

Some investment assets have been reclassified to a more appropriate asset class to more accurately reflect the underlying investment and this is shown in Note M Reconciliation of Movements in Investments.

14 Critical Judgements in Applying Accounting Policies**Pension Fund liability**

The Fund liability is calculated every three years by the Fund's Actuary with the purpose of the valuation being 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 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and complies with IAS 19. The principal actuarial assumptions and method used to value the liabilities are shown in the report of the Actuary which can be found on pages 51 to 53.

Unquoted Investments

Unquoted investments are inherently difficult to value and rely, to a certain extent, on estimation techniques and non-market observable inputs; where market values are available at the date of the Statement these are used as above, otherwise unquoted investments are valued at the lower of cost and fair value.

Fair value is calculated as the net asset value as at the date of the Statement in accordance with recognised valuation standards e.g. Royal Institute of Chartered Surveyors (RICS). Where the net asset value at the date of the Statement is not available, fair value is calculated based on the last available set of audited financial statements, adjusted for subsequent cash flows. Where there has been a material reduction in the valuation of the asset since the date of the last available set of audited financial statements, the Fund will consider writing down the value of the investment.

15 Assumptions Made About the Major Source of Estimation Uncertainty

The Statement of Accounts includes estimated figures that are based on assumptions and estimates, which take into account historical experience, current trends and other relevant factors. Therefore, these estimated figures cannot be determined with certainty and actual results could be materially different from the assumptions and estimates.

The items in the Statement of Accounts for which there is significant risk of material adjustment in the forthcoming year are as follows:

Actuarial present value of promised retirement benefits

The calculation of the actuarial present value of promised retirement benefits is undertaken by the Actuary and is projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. Estimates and assumptions are made in a number of judgements including discount rate, salary increases, inflation, pensions increase rate, longevity of current and future pensioners, type of member in scheme and commutation sums.

Any variance in the estimates and assumptions in any of the elements used to calculate the actuarial present value of promised retirement benefits would impact on the quoted figure.

Unquoted Investments

By definition these investments are not publicly quoted and the valuation depends on estimation techniques and non-market observable inputs. Certain unquoted Private Equity, Infrastructure, Property, Global High Yield and Other alternative investments are stated at the lower of cost and fair value.

The fair value of unquoted investments at 31 March 2014 was £423.3m (2013: £352.9m) compared to the lower of cost and fair value of £374.2m (2013: £316.5m). There is a risk that unquoted investments may be under or over stated in the accounts.

16. Policy for Funding the Promised Benefits

The funding policy is set out in the Funding Strategy Statement. Fund liabilities were assessed by the Actuary using an accrual benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership. A market-related approach was taken to valuing the liabilities for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	Nominal at March 2013	Real at March 2013
	% p.a.	% p.a.
Discount Rate	4.6%	2.1%
Pay Increases	3.8%	1.3%
Price Inflation/Pension Increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy model assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Age in Years	
	Males	Females
Current Pensioners	21.9	24.1
Future Pensioners*	24.2	26.7

*Currently aged 45

D Concentration of Investments

The SORP and Code require disclosure where there is a concentration of investment which exceeds either 5% of the total value of the net assets of the scheme or of any class or type of security. Two investments fall into this former category as follows:

2012/13				2013/14		
Number of Units	Value £000	% of Net Assets		Number of Units	Value £000	% of Net Assets
26,225,614.077	206,910	6.7	Schroder North American Equity Fund	26,715,120.192	228,829	6.9
23,510,848.27	161,527	5.2	Schroder Institutional Pacific Fund	24,273,136.06	148,775	4.5



2012/13			2013/14			
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			UK Fixed Interest - Public Sector			
13,125,000	15,836	15.7	Treasury 4.5% 2019	13,125,000	14,787	15.5
11,928,000	14,303	14.2	Treasury 4% 2022	10,407,000	11,577	12.1
4,427,000	5,806	5.8	Treasury 5% 2025	6,400,000	7,702	8.1
0	0	0.0	Treasury 5% 2014	5,600,000	5,730	6.0
6,770,000	7,120	7.1	Treasury 2% 2016	3,170,000	3,255	3.4
6,250,000	6,378	6.3	Treasury 2.25% 2014	0	0	0.0
			UK Fixed Interest - Other			
10,000,000	10,323	20.2	Lloyds Bank 1.5% 2017	10,000,000	10,020	17.7
0	0	0.0	Nationwide Building Society 6.0% 2049	6,012,000	6,257	11.0
5,060,000	5,985	11.7	Tesco Plc 5.5% 2019	5,060,000	5,624	9.9
4,650,000	5,563	10.9	Southern Water Services Finance Ltd 6.125% 2019	4,650,000	5,295	9.3
3,500,000	3,615	7.1	Pennon Group 6.75% 2049	5,000,000	5,286	9.3
5,000,000	5,171	10.1	SSE PLC 5.453% 2049	5,000,000	5,157	9.1
4,000,000	4,629	9.1	SSE PLC 5.0% 2018	4,000,000	4,441	7.8
4,105,000	4,573	9.0	Network Rail Infrastructure Finance Plc 4.875% 2015	4,500,000	4,405	7.8
0	0	0.0	Nationwide Building Society 5.769% 2049	3,000,000	2,887	5.1
4,000,000	2,637	5.2	Prudential PLC 6.5% 2049	4,000,000	2,399	4.2
7,309,000	7,467	14.6	Nationwide Building Society 7.971% 2049	1,709,000	1,778	3.1
			Overseas Fixed Interest - Public Sector			
12,164,000	9,357	13.5	US Treasury 4% 2018	12,164,000	8,078	11.7
0	0	0.0	Japan 0.6% 2023	1,000,000,000	5,800	8.4
0	0	0.0	US Treasury 0% 2014	9,000,000	5,398	7.8
4,727,000	4,509	6.5	Germany 4% 2016	4,727,000	4,245	6.2
5,268,000	3,863	5.6	Canada 3.5% 2020	6,368,000	4,238	6.1
4,000,000	3,676	5.3	France 3.25% 2016	4,000,000	3,512	5.1
555,400,000	4,114	5.9	Japan 1.1% 2021	555,400,000	3,404	4.9
5,403,000	3,957	5.7	Australia 6.25% 2015	5,403,000	3,114	4.5
5,000,000	3,605	5.2	US Treasury 2.625% 2018	0	0	0.0
			Overseas Corporate Securities			
5,100,000	6,484	32.4	European Investment Bank 5.5% 2025	5,100,000	6,128	31.9
5,000,000	5,885	29.4	Temasek Financial Ltd 4.625% 2022	5,000,000	5,561	28.9
5,000,000	5,357	26.8	RWE AG 7% 2049	5,000,000	5,382	28.0
1,850,000	2,284	11.4	Bank Nederlandse Gemeenten NV 5.375% 2021	1,850,000	2,150	11.2
			Global High Yield			
9,539,895	10,208	31.1	NB Global Floating Rate Income Fund	13,491,742	13,397	32.6
10,000,000	3,412	10.4	Oberon Credit Investment Fund 1	16,000,000	13,090	31.9
80,016,814	11,490	35.0	Nomura US High Yield	80,016,814	11,489	28.0
8,887,521	5,733	17.5	Harbourvest Senior Loans Europe Ltd	8,887,521	3,111	7.6
2,000,000	2,040	6.2	NB Global Floating Rate Income Fund C	0	0	0.0
			Emerging Market Government			
45,237.05959	10,154	50.8	Pictet Global Emerging Debt 1	45,237.05959	9,144	53.0
82,000.82001	9,842	49.2	Pictet Institutional Emerging Debt 1	82,000.82001	8,119	47.0
			Equities - United Kingdom			
35,000,000	65,310	5.8	Vodafone Group Plc	19,090,909	42,048	3.4
			UK Index Linked - Public Sector			
6,626,000	10,761	67.0	Treasury 1.875% 2022	6,626,000	9,863	66.1
3,510,000	5,301	33.0	Treasury 1.25% 2017	3,510,000	5,067	33.9
			UK Index Linked - Corporate Bonds			
2,680,000	4,312	100.0	Network Rail Infrastructure Finance Plc 1.75% 2027	2,680,000	4,019	100.0
			Overseas Index Linked - Public Sector			
5,578,000	4,711	43.4	US Treasury 1.625% 2018	5,578,000	4,057	43.2
6,170,000	4,503	41.5	US Treasury 0.125% 2022	6,170,000	3,750	39.9
1,000,000	1,649	15.2	Kommunalbanken 2.6225% 2016	1,000,000	1,589	16.9
			Managed Funds			
26,225,614.077	206,910	35.2	Schroder North American Equity Fund	26,715,120.192	228,829	37.8
23,510,848.27	161,527	27.5	Schroder Institutional Pacific Fund	24,273,136.06	148,775	24.5
5,106,495.3508	129,272	22.0	Schroder Emerging Markets Fund	5,170,928.3978	115,990	19.1
5,000,000	24,150	4.1	Schroder Institutional UK Smaller	5,000,000	30,200	5.0

2012/13				2013/14		
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			Property			
418,806.86	20,764	11.6	Standard Life Property Pension Fund	418,806.86	24,884	12.1
216,794.982	19,356	10.8	Invesco Real Estate European Fund	216,794.982	19,278	9.3
25,000,000	22,330	12.4	European Real Estate Debt Fund	25,000,000	18,320	8.9
0	0	0.0	Tritax Big Box REIT	15,000,000	15,938	7.7
14,666,666	12,723	7.1	Medicx Fund Limited	17,737,557	14,900	7.2
9,777.6281	10,618	5.9	Henderson Central London Office Fund II	9,777.6281	12,595	6.1
15,000,000	11,192	6.2	The Careplaces Unit Trust	15,000,000	12,568	6.1
10,000,000	10,425	5.8	Starwood European Real Estate Finance	10,000,000	9,925	4.8
7,722	9,071	5.0	UBS Triton Property Unit Trust	7,722	9,638	4.7
18,000,000	10,238	5.7	M & G Real Estate Debt Fund LP	18,000,000	6,149	3.0
5,044,033.750	17,382	9.7	Countrywide Assured Property Pension Fund	945,655.280	3,418	1.7
			Private Equity			
1,500,000	15,225	10.0	Pantheon International Participations Red Plc	1,500,000	15,600	10.7
1,655,191	17,628	11.6	Pantheon International Participations Ord Plc	1,404,191	15,348	10.5
n/a	9,884	6.5	Glenmont Clean Energy Fund A	n/a	10,054	6.9
829,993	9,819	6.5	HG Capital Trust Plc	809,993	8,513	5.8
n/a	7,112	4.7	Partners Group Global Opportunities	n/a	7,771	5.3
n/a	8,255	5.4	Impax New Energy Investments LP	n/a	4,079	2.8
			Infrastructure			
n/a	9,100	16.4	Innisfree PFI Continuation Fund	n/a	9,723	12.7
n/a	6,104	11.0	Innisfree PFI Secondary Fund	n/a	7,711	10.0
n/a	8,415	15.2	Equitix Fund I LP	n/a	7,316	9.5
n/a	4,664	8.4	Equitix Fund II LP	n/a	5,627	7.3
n/a	4,623	8.3	Henderson PFI Secondary Fund II	n/a	6,643	8.6
4,250,000	4,828	8.7	John Laing Infrastructure Fund Ltd	5,600,000	6,591	8.6
5,412,022	6,841	12.3	HICL Infrastructure Company Ltd	4,350,000	5,912	7.7
n/a	5,233	9.4	AMP Capital Infrastructure Debt Fund LP	n/a	5,743	7.5
2,700,000	2,747	5.0	Greencoat UK Wind	2,700,000	2,822	3.7
2,259,251	2,910	5.2	International Public Partnership Ltd	2,000,000	2,566	3.3
			Other Investments			
12,500,000	12,938	13.0	Twentyfour Income Fund	12,500,000	15,250	9.9
17,960,000	13,098	13.1	NB Distressed Debt Investment Fund	17,097,920	13,128	8.5
0	0	0.0	Doric Nimrod Air Three Ltd	12,000,000	12,780	8.3
0	0	0.0	NB Distressed Debt Global Fund	12,500,000	12,750	8.3
16,000,000	9,918	9.9	Investec Aircraft Syndicate 1	20,000,000	11,996	7.8
0	0	0.0	Investec Air India	20,000,000	11,996	7.8
5,000,000	12,200	12.2	Doric Nimrod Air Two Ltd	5,000,000	11,300	7.4
36,913.492	5,906	5.9	Scott's Cove Special Credits Offshore Fund I Ltd	36,913.492	5,871	3.8
3,307,200	5,755	5.8	Bluecrest Allblue Fund Limited	3,307,200	5,722	3.7
4,500,000	5,535	5.5	Doric Nimrod Air One Ltd	4,500,000	5,130	3.3
			Cash			
n/a	15,000	7.9	Federated Investors	n/a	15,000	7.6
n/a	15,000	7.9	Ignis Sterling Liquidity Fund	n/a	15,000	7.6
n/a	0	0.0	Insight Sterling Fund	n/a	15,000	7.6
n/a	10,000	5.3	Bank of Scotland	n/a	10,000	5.0
n/a	10,000	5.3	Barclays Bank	n/a	10,000	5.0
n/a	8,000	4.2	Close Brothers	n/a	10,000	5.0
n/a	10,000	5.3	Coventry Building Society	n/a	10,000	5.0
n/a	10,000	5.3	Leeds Building Society	n/a	10,000	5.0
n/a	0	0.0	National Australia Bank	n/a	10,000	5.0
n/a	0	0.0	National Bank of Canada	n/a	10,000	5.0
n/a	10,000	5.3	Nationwide Building Society	n/a	10,000	5.0
n/a	0	0.0	Rabobank	n/a	10,000	5.0
n/a	0	0.0	Sumitomo Mitsui Banking Corporation	n/a	10,000	5.0
n/a	10,000	5.3	United Overseas Bank	n/a	10,000	5.0
n/a	9,500	5.0	Development Bank of Singapore	n/a	9,500	4.8

E Stock Lending

State Street, the Fund's Custodian, has authorisation to release stock to third parties as determined by the contract between State Street and the Fund.

During the year to 31 March 2014 stock lending income of £295,569 (2013: £386,705) was raised against expenditure for the activity of £87,902 (2013: £114,247). At 31 March 2014 the total value of securities on loan was £209,649,911 (£2013: £100,916,853) and are analysed by asset class as follows:

31 March 2013		31 March 2014
£000		£000
30,417	Equities - UK	113,167
43,908	UK Fixed Interest - Public Sector	75,252
13,954	Equities - Overseas	14,947
10,835	UK Index Linked - Public Sector	5,230
1,803	Overseas Fixed Interest - Public Sector	1,054
100,917		209,650

Against the stock on loan the Fund held collateral at 31 March 2014 of £219,256,886 (2013: £104,592,019) analysed by asset class as follows:

31 March 2013		31 March 2014
£000		£000
0	Equities - UK	118,815
22,652	UK Fixed Interest - Public Sector	78,185
18,774	Equities - Overseas	15,689
5,751	UK Index Linked - Public Sector	5,492
57,387	Overseas Fixed Interest - Public Sector	1,076
28	Overseas Index Linked - Public Sector	0
104,592		219,257

F Scheme Registration Number

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

G Contributions Receivable

2012/13		2013/14
£000		£000
112,496	Employers - Primary	117,029
10,714	Employers - Additional	11,037
32,329	Employees - Primary	32,712
804	Employees - Additional	773
156,343		161,551
32,853	Administering Authority	34,646
115,526	Scheduled Bodies	120,854
7,964	Admitted Bodies	6,051
156,343		161,551

Contributions relating to deficit funding payments amounted to £32,472,966 (2013: £29,579,675).

H Benefits Payable

2012/13		2013/14
£000		£000
98,120	Pensions	103,025
19,383	Commutations, compounded & lump sum retirement benefits	21,668
2,401	Lump sum death benefits	3,238
119,904		127,931
17,538	Administering Authority	18,986
94,731	Scheduled Bodies	100,132
7,635	Admitted Bodies	8,813
119,904		127,931

I Payments to and on account of leavers

2012/13		2013/14
£000		£000
16	Refunds to members leaving service	2
8,623	Individual transfer values payable	7,445
8,639		7,447

J Pension and Investment Management Expenses

Administration expenses, including fees paid to advisors, are charged to the Fund as provided in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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 paid to Schroder Investment Management Limited 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 decreases on marginal value. Internal management costs are based on actual costs.

	Pensions		Investments	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Internal Management Costs	1,423	1,535	906	955
External Managers Fee	0	0	1,638	1,765
Advisors Fee	0	0	10	10
Auditors Fee	0	0	30	31
Custodians Fee	0	0	85	93
Support Services	569	523	105	114
	1,992	2,058	2,774	2,968

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 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 having regard to security of principal. No commission is paid to any money broker for this activity.

	Administration Expenses		Commission Paid		Total Costs		Funds Under Management		Total Costs as % of FUM	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000	£000	£000	£m	£m	%	%
Internal fund	1,136	1,203	438	385	1,574	1,588	2,250,407	2,488,137	0.07	0.06
External fund	1,638	1,765	164	134	1,802	1,899	827,673	828,329	0.22	0.23
Total Fund	2,774	2,968	602	519	3,376	3,487	3,078,080	3,316,466	0.11	0.11

K Investment Income

		2012/13	2013/14
		£000	£000
Fixed Interest Securities	United Kingdom	2,621	3,250
	Overseas	1,976	1,955
	Corporate Bonds	1,472	1,914
	Global High Yield - Quoted	584	593
	Global High Yield - Unquoted	0	5
		6,653	7,717
Index Linked	United Kingdom	434	136
	Overseas	83	86
	Corporate Bonds	22	37
		539	259
Equities	United Kingdom	30,527	32,952
	Overseas	7,643	7,746
		38,170	40,698
Managed Funds	Equities	12,553	13,350
	Quoted Property	825	856
	Unquoted Property	3,717	4,890
	Quoted Private Equity	528	596
	Unquoted Private Equity	478	661
	Quoted Infrastructure	586	609
	Unquoted Infrastructure	1,046	1,490
	Quoted other investments	1,409	2,187
	Unquoted other investments	148	2,098
		21,290	26,737
Accrued Interest on Ex-dividend Investments		8,456	7,239
Underwriting		88	103
Currency Loss (-)/Gain		-7	-797
Stock Lending		387	296
Cash Deposits		2,140	1,430
Class Actions		26	7
Other Investment Income		2,918	4
		14,008	8,282
TOTAL INVESTMENT INCOME		80,660	83,693

L Taxes on Income

		2012/13	2013/14
		£000	£000
Withholding Tax	Overseas Equities	355	374
	Infrastructure	99	138
	Other Investments	47	-
		501	512

M Reconciliation of Movements in Investments

2013/14		Value at 01/04/2013	Reclassified 01/04/2013	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2014
		£000	£000	£000	£000	£000	£000
Investment Assets							
Fixed Interest Securities	UK - Public Sector	100,669	0	68,185	-67,192	-6,192	95,470
	UK - Other Quoted	51,057	0	19,131	-13,132	-381	56,675
	Overseas - Public Sector	69,537	0	43,927	-36,540	-8,004	68,920
	Overseas - Corporate	20,010	0	0	0	-789	19,221
	Global High Yield - quoted	29,470	0	3,000	-5,132	659	27,997
	Global High Yield - unquoted	3,383	0	10,079	-103	-269	13,090
	Emerging Market Government	19,996	0	0	0	-2,733	17,263
			294,122	0	144,322	-122,099	-17,709
Equities	UK	1,133,798	0	43,630	-56,444	106,213	1,227,197
	Overseas	322,026	0	101,436	-110,318	32,143	345,287
		1,455,824	0	145,066	-166,762	138,356	1,572,484
Index Linked Securities	UK - Public Sector	16,062	0	1,816	-1,839	-1,110	14,929
	UK Corporate Bonds	4,312	0	0	0	-293	4,019
	Overseas - Public Sector	10,862	0	0	0	-1,466	9,396
		31,236	0	1,816	-1,839	-2,869	28,344
Pooled Investment Vehicles	Managed Funds	588,310	0	21,996	0	-4,236	606,070
	Property - Quoted	23,149	0	17,315	0	298	40,762
	Property - Unquoted	156,615	0	25,793	-23,448	6,730	165,690
	Private Equity - Quoted	68,037	0	3,938	-6,851	2,964	68,088
	Private Equity - Unquoted	83,750	0	11,564	-16,817	-822	77,675
	Infrastructure - Quoted	17,326	0	12,088	-2,010	779	28,183
	Infrastructure - Unquoted	38,139	0	10,518	-2,698	2,674	48,633
	Other Investments - Quoted	65,190	0	24,548	-7,365	2,249	84,622
	Other Investments - Unquoted	34,649	0	36,980	-2,383	-152	69,094
		1,075,165	0	164,740	-61,572	10,484	1,188,817
		2,856,347	0	455,944	-352,272	128,262	3,088,281
Temporary Investments	Sterling	187,778	0	595,990	-585,555	0	198,213
	Euros	169	0	27,158	-27,241	60	146
	US Dollar	987	0	32,300	-33,225	-9	53
		188,934	0	655,448	-646,021	51	198,412
		3,045,281	0	1,111,392	-998,293	128,313	3,286,693

All investments are stated at market value with the exception of certain unquoted Private Equity, Infrastructure, Global High Yield, Property and Other alternative investments which are stated at the lower of cost and fair value. The fair value of these investments at 31 March 2014 was £423,332,781 (2013: £352,928,045), compared to the lower of cost and fair value of these investments at 31 March 2014 of £374,183,056 (2013: £316,535,359).

2012/13		Value at 01/04/2012	Reclassified 01/04/2012	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2013
Investment Assets		£000	£000	£000	£000	£000	£000
Fixed Interest Securities	UK - Public Sector	71,095	0	51,528	-23,381	1,427	100,669
	UK - Other Quoted	38,247	0	21,798	-10,461	1,473	51,057
	Overseas - Public Sector	70,907	0	33,700	-37,417	2,347	69,537
	Overseas - Corporate	18,003	0	2,405	-1,477	1,079	20,010
	Global High Yield - quoted	16,274	0	12,695	-870	1,371	29,470
	Global High Yield - unquoted	0	0	3,412	0	-29	3,383
	Emerging Market Government	0	0	20,351	0	-355	19,996
		214,526	0	145,889	-73,606	7,313	294,122
Equities	UK	984,249	0	54,693	-47,348	142,204	1,133,798
	Overseas	274,667	0	81,537	-80,201	46,023	322,026
		1,258,916	0	136,230	-127,549	188,227	1,455,824
Index Linked Securities	UK - Public Sector	39,131	0	2,898	-27,253	1,286	16,062
	UK Corporate Bonds	0	0	3,997	0	315	4,312
	Overseas - Public Sector	5,961	0	4,312	0	589	10,862
		45,092	0	11,207	-27,253	2,190	31,236
Pooled Investment Vehicles	Managed Funds	503,652	0	12,576	-12,069	84,151	588,310
	Property - Quoted	11,147	0	10,000	0	2,002	23,149
	Property - Unquoted	147,070	0	24,295	-12,436	-2,314	156,615
	Private Equity - Quoted	55,747	0	2,711	-7,233	16,812	68,037
	Private Equity - Unquoted	76,157	0	16,001	-15,185	6,777	83,750
	Infrastructure - Quoted	12,224	0	5,364	-1,247	985	17,326
	Infrastructure - Unquoted	35,150	0	7,304	-4,885	570	38,139
	Other Investments - Quoted	57,077	-1,447	14,717	-11,660	6,503	65,190
	Other Investments - Unquoted	9,627	1,447	26,989	-2,836	-578	34,649
		907,851	0	119,957	-67,551	114,908	1,075,165
		2,426,385	0	413,283	-295,959	312,638	2,856,347
Temporary Investments	Sterling	183,949	0	558,140	-554,311	0	187,778
	Euros	1,571	0	25,718	-26,971	-149	169
	US Dollar	606	0	29,293	-29,239	327	987
		186,126	0	613,151	-610,521	178	188,934
		2,612,511	0	1,026,434	-906,480	312,816	3,045,281

During the financial year some investments were reclassified to a more appropriate asset class to more accurately reflect the underlying investments.

All investments are stated at market value with the exception of certain unquoted Private Equity, Infrastructure, Global High Yield, Property and Other alternative investments which are stated at the lower of cost and fair value. The fair value of these investments at 31 March 2013 was £352,928,045 (2012: £302,270,910), compared to the lower of cost and fair value of these investments at 31 March 2013 of £316,535,359 (2012: £269,450,751).

N Current Assets

	2012/13	2013/14
	£000	£000
Contributions Due - Employers	7,634	6,531
Contributions Due - Employees	4,947	5,384
Recharge of PI & SA	2,048	2,253
ERYC	4,732	4,597
Other Debtors	435	858
	19,796	19,623
Current Assets by Government Body		
Central Government bodies	1,292	1,876
Other local authorities	15,345	14,633
NHS bodies	-	-
Public corporations and trading funds	-	-
Bodies external to government	3,159	3,114
	19,796	19,623

O Current Liabilities

	2012/13	2013/14
	£000	£000
ERYC	417	1,169
Overclaim of Recharges	1,722	2,136
Other Creditors	513	603
	2,652	3,908
Current Liabilities By Government Body		
Central government bodies	1,700	2,454
Other local authorities	771	1,431
NHS bodies	-	-
Public corporations and trading funds	-	-
Bodies external to government	181	23
	2,652	3,908

P Managerial Arrangements of Assets

	2012/13		2013/14	
The value of the assets managed by each manager was as follows:	%	£000	%	£000
Internal Manager	73	2,250,407	75	2,488,137
External Manager (Schroder Investment Management Limited)	27	827,673	25	828,329
	100	3,078,080	100	3,316,466

Q Contingent Liabilities and Contractual Commitments

The Ministry of Justice has introduced a new system for the management and rehabilitation of offenders in England and Wales. This will result in employees transferring from existing Probation Trusts to Community Rehabilitation Companies and the newly created National Probation Service. The new bodies are participating in only one Local Government Pension Scheme fund, the Greater Manchester Pension Fund, and therefore there will be a bulk transfer of assets for the Humberside Probation Trust to the Greater Manchester Pension Fund, currently estimated at £60m, during the financial year 2014/15.

At 31 March 2014 the Fund had commitments to the purchase of Alternative Assets investments of £291,833,042 (2013: £174,030,800) analysed as follows:

	2012/13		2013/14	
	Foreign Currency	£	Foreign Currency	£
Sterling Denominated (£)	-	47,535,866	-	102,773,564
US Dollar Denominated (\$)	113,123,671	74,496,985	176,969,606	106,147,796
Euro Denominated (€)	61,487,575	51,997,949	100,289,970	82,911,682
Total		174,030,800		291,833,042

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 on the council's website.

S Related Party Transactions

In accordance with International Accounting Standard (IAS) 24 and International Public Sector Accounting Standard (IPSAS) 20 '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.
- The East Riding Pension Fund is administered by East Riding of Yorkshire Council. During the financial year the council incurred costs of £5.026m (2013: £4.766m) comprising pensions administration costs of £2.058m (2013: £1.992m) and investment management costs of £2.968m (2013: £2.774m). The council was subsequently reimbursed by the Fund for these expenses. The council is also the largest employer of members of the Pension Fund and, during the financial year, made contributions of £34.646m to the Fund (2013: £32.853m). £8.131m of this total is in respect of contributions paid by members of the Pension Fund. As at 31 March 2014 the council was a net debtor to the Fund of £3.428m (2013: £4.316m).
- Under legislation introduced in 2003/04, Councillors are entitled to join the Pension Scheme. No councillors received pension benefits from the Fund during the financial year. Councillors M Boatman, E A Burton, C Chadwick, A Hodgson and S Horton, members of the Pensions Committee, made contributions to the Fund during the financial year.
- 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 key management personnel of the Pension Fund are the Director of Corporate Resources and the Head of Finance. Details of the remuneration for these two posts are included in note 12 of the East Riding of Yorkshire Council's financial statements. No financial consideration is included within these accounts as an accurate apportionment to the Pension Fund is not possible.

- The Head of Investments is a member of the Investment Advisory Committee for the Montanaro European MidCap Fund, an open ended investment company managed by Montanaro Asset Management Limited, for which he is paid a fee. The Pension Fund had the following investments in funds managed by Montanaro Asset Management Limited:

	Market Value at 31 March 2013	Purchases	Sales	Change in market value	Market Value at 31 March 2014
	£000	£000	£000	£000	£000
Montanaro UK Smaller Companies Investment Trust Plc	12,926	0	0	2,115	15,041
Montanaro Growth and Income Fund LP No. 3	4,675	5,204	0	348	10,227
Montanaro European Smaller Companies Investment Trust Plc	9,177	0	0	408	9,585
Montanaro European Smaller Companies Fund Plc	3,338	27	0	209	3,574
	30,116	5,231	0	3,080	38,427

In order to avoid a potential conflict of interest all transactions undertaken by the Fund in investments managed by Montanaro Asset Management Limited are approved by the Head of Finance.

T Currency Conversion Rates

Overseas investments have been converted at the exchange rates quoted in the Financial Times at close of business on 31 March 2014 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:

Australian Dollar	1.7988	Norwegian Krona	9.9813
Canadian Dollar	1.8401	Swedish Krona	10.8091
Danish Krone	9.0310	Swiss Franc	1.4727
Euro	1.2096	US Dollar	1.6672
Japanese Yen	171.6910		

U Additional Voluntary Contributions

The Fund's approved Additional Voluntary Contribution (AVC) provider is Prudential and during the year to 31 March 2014 scheme members made contributions to this facility of £2,131,934 (2013: £2,167,690). The total value of the funds invested by Prudential on behalf of members of the East Riding Pension Fund at 31 March 2014 is £21,633,803 (2013: £20,928,990). AVC's do not form part of the Pension Fund Accounts in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 Regulation 4 (2) (b).

V Statement of Investment Principles

Please see pages 111 to 115.

W The Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits at 31 March 2014 was £4.657bn (31 March 2013: £4.837bn). Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

X Disclosures Relating to Financial Instruments

The items in the Net Asset Statement are made up of the following categories of financial instrument.

31 March 2013			31 March 2014	
£000		Financial Assets at Fair value through profit or loss	£000	
294,122		Fixed Interest Securities	298,636	
1,455,824		Equities	1,572,484	
31,236		Index-Linked Securities	28,344	
1,075,165		Pooled Investment Vehicles	1,188,817	
1,156		Foreign Currency	199	
14,647		Other Investment Balances	11,220	
2,872,150		Total Financial Assets	3,099,700	
		Loans and Receivables		
195,660		Cash Deposits - Sterling	204,322	
19,796		Current Assets	19,623	
215,456		Total Loans and Receivables	223,945	
		Financial Liabilities at fair value through profit or loss		
-6,874		Other Investment Balances	-3,271	
		Financial Liabilities at Amortised Cost		
-2,652		Current liabilities	-3,908	
3,078,080		Net Financial Assets	3,316,466	

The methodology used for the valuation of investment assets is described in Note to the Accounts 10 (c) 5 Valuation of Assets.

The following table summarises the carrying values of categories of financial assets and liabilities presented in the Net Assets Statement.

31 March 2013			31 March 2014	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000	Financial Assets	£000	£000
2,908,543	2,872,150	Trading and other financial assets at fair value through profit and loss	3,148,850	3,099,700
215,456	215,456	Loans and receivables	223,945	223,945
3,123,999	3,087,606	Total financial assets	3,372,795	3,323,645
		Financial Liabilities		
6,874	6,874	Trading and other financial liabilities at fair value through profit and loss	3,271	3,271
2,652	2,652	Financial liabilities at amortised cost	3,908	3,908
9,526	9,526	Total financial liabilities	7,179	7,179

The Fund's primary long term risk is that the Fund's assets do not meet its liabilities i.e. the benefits payable to members. Therefore, the aim of the Fund's investment management is to achieve the long term expected rate of return with an acceptable level of risk. The Fund achieves this by setting a strategic asset allocation on a triennial basis which is expected to achieve the target rate of return over the long term. The tactical asset allocation is determined by the Pensions Committee on a quarterly basis.

The Fund has a dedicated strategic risk register which identifies the key risks within the Pension Fund and the risk controls that are in place to mitigate these risks. The risk register is reviewed by the Pensions Committee on a semi-annual basis. In addition, an investment risk management schedule is reviewed by the Pensions Committee on a quarterly basis which considers issues such as performance; regulation and compliance; and personnel and structure.

The key risks inherent in the Pension Fund are:

Market risk

Market risk is the risk that the value of an investment decreases as a result of changing market conditions. The risk is mitigated by:

- An appropriate strategic asset allocation is determined on a triennial basis in conjunction with the actuarial valuation exercise. This aims to meet the target long term rate of return with an acceptable level of risk and includes an appropriate diversification of asset classes. The allocation is agreed by the Pensions Committee and the Fund's advisers and investment managers.
- The strategic asset allocation is disclosed in the Fund's Statement of Investment Principles including the permitted asset classes, their allocations and the permitted ranges.
- Tactical asset allocation is determined on a quarterly basis by the Pensions Committee in light of financial market conditions and following advice from the Fund's advisers and investment managers.
- The Pensions Committee regularly reviews the long term investment strategy to ensure that it remains appropriate.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 prescribe a maximum limit on types of investment. The table below shows the position as at 31 March 2014.

31 March 2013			31 March 2014	
%			%	
Limit	Actual	Investment	Limit	Actual
5	0	Any single sub-underwriting contract	5	0
5	0.7	All contributions to any single partnership	5	0.8
15	7.6	All contributions to partnerships	30	9.3
10	6.5	The sum of all loans and any deposits with any local authority	10	6.0
15	0	All investments of unlisted securities of companies	15	0
10	6.7	Any single holding	10	6.9
10	0.5	All deposits with any single bank, institution or person	10	0.5
15	0	All sub-underwriting contracts	15	0
35	18.6	All investments in units or shares of the investments subject to the trusts of the unit trust scheme managed by any one body	35	17.4
35	18.6	All investments in OEIC's where the collective investments schemes constituted by the companies are managed by one body	35	17.4
35	23.0	All investments in unit or other shares of the investments subject to the trusts of unit schemes and all investments in OEIC's where the unit trust schemes and the collective investment schemes constituted by those companies managed by one body	35	22.4
35	0	Any single insurance contract	35	0
35	3.3	All securities transferred by the authority under stock lending arrangements	35	6.3

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 Fund has adopted the CIPFA Code of Practice for Treasury Management in Public Services and maintains and operates a Treasury Management Policy comprising an overview of the principles and practices to which the activity will comply. The Treasury Management Policy is approved by the Pensions Committee on an annual basis and they also receive a half-yearly and annual report on treasury activity.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 state the following regarding the use and investment of Pension Fund monies:

- an administering authority must invest any fund money that is not needed immediately to make payments from the fund;
- they may vary their investments;
- their investment policy must be formulated with a view to the advisability of investing fund money in a wide variety of investments and to the suitability of particular investments and types of investments;
- an administering authority must obtain proper advice at reasonable intervals about their investments; and
- the authority must consider such advice in taking any steps about their investments.

Performance risk

Performance risk is the risk that the Fund's investment managers fail to deliver returns in line with the underlying asset classes. This risk is mitigated by:

- Investment management responsibilities are split between the internal and external investment managers.
- Each investment manager has a robust investment process including detailed research and analysis.
- Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis by an independent third party.
- Detailed analysis of investment managers' performance on an annual basis.

Valuation risk

This is the risk that the valuations disclosed in the financial statements are not reflective of the value that could be achieved on disposal.

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

- Level 1 – Level 1 valuations are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments classified as level 1 include quoted equities.
- Level 2 – Level 2 valuations are those where quoted market prices are not available. Investments classified as level 2 include property funds, fixed interest securities, index linked securities and unit trusts.
- Level 3 – Level 3 valuations are those where at least one input which could have a significant effect on an instruments valuation is not based on observable market data. Investments classified as level 3 include unquoted investments.

Values 31 March 2013					Values 31 March 2014			
Level 1	Level 2	Level 3	TOTAL		Level 1	Level 2	Level 3	TOTAL
£000	£000	£000	£000		£000	£000	£000	£000
1,560,059	1,118,718	193,373	2,872,150	Financial Assets	1,783,343	1,039,204	277,153	3,099,700
215,456	0	0	215,456	Loans and Receivables	223,945	0	0	223,945
1,775,515	1,118,718	193,373	3,087,606	TOTAL	2,007,288	1,039,204	277,153	3,323,645
9,526	0	0	9,526	Financial Liabilities	7,179	0	0	7,179
1,765,989	1,118,718	193,373	3,078,080	TOTAL	2,000,109	1,039,204	277,153	3,316,466

Credit risk

This is the risk that the Fund's counterparties fail to pay amounts due. Appropriate credit limits have been established by the Fund for individual counterparties for Treasury Management purposes. The Pension Fund Treasury Management Policy specifies the following framework for credit limits for individual counterparties:

31/03/2013			31/03/2014
Actual		Maximum Limit	Actual
£000		£000	£000
0	UK Government	No Limit	0
15,000	Institutions or Funds with a minimum rating of AAA/A2	20,000	15,000
10,000	Institutions with a minimum rating of AA/A2	15,000	10,000
10,000	Institutions with a minimum rating of A/A2	10,000	10,000
5,000	Local Authorities	10,000	7,000
10,000	Building Societies - top 15 ranked by asset value	10,000	10,000

The investment balances at the end of the financial year were:

31/03/2013		31/03/2014
£000		£000
0	UK Government	0
37,555	Institutions or Funds with a minimum rating of AAA/A2	59,386
30,381	Institutions with a minimum rating of AA/A2	39,500
34,998	Institutions with a minimum rating of A/A2	50,526
46,000	Local Authorities	19,000
40,000	Building Societies - top 15 ranked by asset value	30,000
188,934		198,412

Treasury credit risk has been managed dynamically during the year, responding to national and international events in financial markets. Security of principal sums invested continues to be the prime objective. The duration of investments is limited to a maximum of twelve months to enable a reasonable exit strategy to be implemented if necessary. The Pension Fund makes use of Money Market Funds which are instant access funds whose objectives match those of the Pension Fund, being security of principal and diversification of investments. The present restrictions within the approved Treasury Management Policy will continue until economic and market conditions normalise.

Liquidity risk

Liquidity risk is the risk that the Pension Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost. The Pension Fund's policy is to maintain sufficient funds in a liquid form at all times to ensure that it can cover all fluctuations in cash flow and meet its financial obligations.



As at 31 March 2014	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
Assets	£000	£000	£000	£000	£000	£000
Cash	35,000	103,500	0	0	66,021	204,521
Investments	1,560	20,745	104,903	141,422	2,819,651	3,088,281
Other investment balances	11,038	182	0	0	0	11,220
Current assets	19,623	0	0	0	0	19,623
Total assets	67,221	124,427	104,903	141,422	2,885,672	3,323,645
Liabilities						
Other investment balances	3,271	0	0	0	0	3,271
Current liabilities	3,908	0	0	0	0	3,908
Total liabilities	7,179	0	0	0	0	7,179
Liquidity gap	60,042	124,427	104,903	141,422	2,885,672	3,316,466
As at 31 March 2013	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
Assets	£000	£000	£000	£000	£000	£000
Cash	46,919	105,500	0	0	44,397	196,816
Investments	0	16,529	82,742	173,239	2,583,837	2,856,347
Other investment balances	14,241	406	0	0	0	14,647
Current assets	19,796	0	0	0	0	19,796
Total assets	80,956	122,435	82,742	173,239	2,628,234	3,087,606
Liabilities						
Other investment balances	6,874	0	0	0	0	6,874
Current liabilities	2,652	0	0	0	0	2,652
Total liabilities	9,526	0	0	0	0	9,526
Liquidity gap	71,430	122,435	82,742	173,239	2,628,234	3,078,080

Interest rate risk

Interest rate risk is the risk that a change in interest rates will result in a change in the valuation of an investment. The Fund's direct exposure to changes in interest rates is as follows:

Asset Type	31 March 2013	31 March 2014
	£000	£000
Cash and cash equivalents	44,397	66,021
Fixed interest securities	303,995	326,979
	348,392	393,000

Foreign exchange risk

Foreign exchange risk is the risk that an adverse movement in foreign exchange rates will impact on the value of the Fund's investments denominated in foreign currencies.

The following table summarises the Fund's currency exposure:

As at 31 March 2014	USD £000	EUR £000	JPY £000	CHF £000	SEK £000	AUD £000	DKK £000	CAD £000	NOK £000	TOTAL £000
Fixed Interest Securities										
UK Other quoted	2,399	1,331	0	0	0	0	0	0	0	3,730
Overseas Public Sector	23,458	18,654	16,348	0	1,847	252	4,839	3,522	0	68,920
Global High Yield	0	13,090	0	0	0	0	0	0	0	13,090
Emerging Market Government	9,144	0	0	0	0	0	0	0	0	9,144
Equities										
Overseas	0	184,185	106,647	36,758	11,419	5,068	0	0	1,210	345,287
Index-Linked Securities										
Overseas Public Sector	7,806	0	0	0	0	0	0	0	0	7,806
Pooled Investment Vehicles										
Managed Funds	366,459	15,788	0	0	0	0	0	0	0	382,247
Property - unquoted	7,931	57,967	0	0	0	0	0	0	0	65,898
Private Equity-quoted	5,150	0	0	0	0	0	0	0	0	5,150
Private Equity-unquoted	11,218	55,013	0	0	0	0	0	0	0	66,231
Infrastructure-unquoted	2,128	9,487	0	0	0	0	0	0	0	11,615
Other investments-quoted	0	0	0	0	0	0	0	0	0	0
Other investments-unquoted	51,639	5,948	0	0	0	0	0	0	0	57,587
TOTAL	487,332	361,463	122,995	36,758	13,266	5,320	4,839	3,522	1,210	1,036,705

As at 31 March 2013	USD £000	EUR £000	JPY £000	CHF £000	SEK £000	AUD £000	DKK £000	CAD £000	NOK £000	TOTAL £000
Fixed Interest Securities										
UK Other quoted	2,637	1,095	0	0	0	0	0	0	0	3,732
Overseas Public Sector	27,262	19,737	11,953	0	2,091	4,367	265	3,863	0	69,538
Global High Yield	11,490	3,412	0	0	0	0	0	0	0	14,902
Emerging Market Government	10,154	0	0	0	0	0	0	0	0	10,154
Equities										
Overseas	0	168,691	104,823	30,728	11,287	0	3,966	0	2,532	322,027
Index-Linked Securities										
Overseas Public Sector	9,214	0	0	0	0	0	0	0	0	9,214
Pooled Investment Vehicles										
Managed Funds	360,546	12,553	0	0	0	0	0	0	0	373,099
Property - unquoted	0	40,931	0	0	0	0	0	0	0	40,931
Private Equity-quoted	2,651	0	0	0	0	0	0	0	0	2,651
Private Equity-unquoted	14,993	52,627	0	0	0	0	0	0	0	67,620
Infrastructure-unquoted	0	5,233	0	0	0	0	0	0	0	5,233
Other investments-quoted	13,098	0	0	0	0	0	0	0	0	13,098
Other investments-unquoted	19,467	4,792	0	0	0	0	0	0	0	24,259
TOTAL	471,512	309,071	116,776	30,728	13,378	4,367	4,231	3,863	2,532	956,458

Y Contingent Assets

As at 31 March 2014 the Fund had submitted claims totalling £7.66m relating to the reclaiming of UK and overseas withholding tax on investment income received, of which £0.64m has been received to date. Professional costs to date have totalled £0.62m.

Z Accounting standards that have been issued but not yet adopted

No accounting standards are currently issued but not yet adopted in the Fund accounts.



funding strategy statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the East Riding Pension Fund ('the Fund'), which is administered by East Riding of Yorkshire Council, ('the Administering Authority').

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment advisers. It is effective from 1 April 2014.

1.2 What is the East Riding Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the East Riding Pension Fund, in effect the LGPS for public sector bodies in East Riding of Yorkshire, North Lincolnshire, North-East Lincolnshire and Kingston-upon-Hull, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets and income to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, and the solvency of each of the notional sub-funds allocated to the individual employers;
- use a prudent long term view to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed;
- B. who is responsible for what;
- C. what issues the Fund needs to monitor, and how it manages its risks;
- D. some more details about the actuarial calculations required;
- E. the assumptions which the Fund actuary currently makes about the future; and
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Graham Ferry, Pensions Manager in the first instance at email address graham.ferry@eastriding.gov.uk or on telephone number (01482) 394171.

2 Basic Funding issues *(More detailed and extensive descriptions are given in Appendix D).*

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the 'future service rate'; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the 'past service adjustment'. If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the 'deficit recovery period').

2.2 How is a deficit (or surplus) calculated?

An employer's 'funding level' is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the 'liabilities'). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the Common Contribution Rate is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 28 March 2014, including an analysis at Fund Level of the Common Contribution Rate. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, is also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as 'Scheduled Bodies', the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a 'community of interest' with another scheme employer – community admission bodies (CAB) or those providing a service on behalf of a scheme employer – transferee admission bodies (TAB). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.



2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:

- capping of employer contribution rate changes within a pre-determined range ('stabilisation')
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies and Designating Employers (open to new members)			Community Admission Bodies and closed Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Town Councils, Fire, Chief Constable, Colleges etc	Academies	Open to new members	Closed to new members	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	Yes (optional) - see Note (b)	No	No	No
Max. deficit recovery period – Note (c)	20 years	Uni/College – 15 Other – 20 yrs	20 years	20 years (or less if no guarantee)	20 years (or less if no guarantee)	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Spread over same as maximum deficit recovery period above		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	Covered by stabilisation arrangement	Not usually - Note (e)	Not usually - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) Basis for CABs and Designating Employers, who are closed to new members

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe (e.g. 5 to 10 years) considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

In all cases the Administering Authority will discuss the approach with the employer.

Note (b) Stabilisation

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been 'stabilised' (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below); and
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).



On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	'Standard' Council *	'Mature' Council *	Academy
Starting rate**	Actual contribution in 2013/14, expressed as % of pay	Actual contribution in 2013/14, expressed as % of pay	27% of pay***
Max cont increase from 2014-15 onwards**	Nil until 2017, then +1% of pay	+1% of pay	nil
Max cont decrease**	Nil until 2017, then -1% of pay	-1% of pay	nil

* The actuary analyses the position for all four Unitary Authorities, and will identify if any council is in a materially more mature position (i.e. high liabilities relative to payroll). Any such 'mature' council will be required to increase contributions at a higher rate than standard, or else pay an additional contribution at the outset which broadly matches that excess increase.

** In practice, the required council contributions will be split between percentage of pay and monetary lump sum. This table shows just % of pay for ease of summary and comparison.

*** The Academy has the choice whether to pay the above stabilised rate, or its own theoretical calculated rate. In practice, only Academies with theoretical rates higher than 27% are likely to effect this option, in which case they should note the comments made in 3.2 above.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) Deficit Recovery Periods

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate changes from year to year in line with the stabilisation mechanism, as opposed to being directly affected by the deficit recovery period.

Admission Bodies without a funding guarantee will have a maximum deficit recovery period of the expected future working lifetime of the remaining active scheme members, allowing for expected leavers.

Note (d) Deficit Recovery Payments

For most employers, the deficit recovery payments will typically be set in lump sum monetary terms. This ensures that appropriate deficit recovery payments are made over the three years until the next valuation.

Monetary deficit payments have a built-in payroll growth assumption, so that each year's payment is higher than the last. (If deficit payments were not to increase each year, these would need to be set at a higher level from the outset).

For some employers, deficit recovery payments are expressed as a percentage of payroll, as opposed to monetary lump sums, as follows:

- Academies (due to their anticipated continued payroll growth); and
- Employers within pools (see 3.4) where it would not be practical to split out each employer's deficit payment amount.

For other employers, the Administering Authority may in its discretion agree that deficit payments can be a percentage of salaries instead of monetary lump sums. In those cases, the Administering Authority reserves the right between valuations to amend such rates and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

If deficit repair contributions are paid as a percentage of payroll, and that payroll does not rise as expected, then the employer's deficit will grow by more than anticipated over the period to the next valuation.

Note (e) Phasing in of contribution changes, other than Scheduled Bodies

Normally the Administering Authority will implement contribution rate changes in full, with effect from the 1 April following completion of the triennial valuation.

Where a contribution rate increase is particularly large then the Administering Authority may permit the increase to be phased in over the three year period, subject to being satisfied as to the strength of the employer's covenant. The first year's phased step will normally be to a level no less than the future service rate.

Note (f) Regular Reviews

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) New Academy employers

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the council's active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council's funding position and membership data, all as at the day prior to conversion;
- v. As an alternative to iv, the academy will have the option to elect to pay contributions initially at a stabilised rate of 27.0% of payroll instead (see Note (b) above). However, this election will not alter its asset or liability allocation as per ii and iii above. Ultimately, all academies remain responsible for their own allocated deficit; and
- vi. The maximum deficit recovery period for academies is 20 years due to the government guarantee.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies iv and v above will be reconsidered at each valuation.

Note (h) New Admission Bodies

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) New Transferee Admission Bodies

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which 'outsource' have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which it may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) Admission Bodies Ceasing

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E.
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a 'gilts cessation basis', which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a 'gilts cessation basis' and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. In particular:

- With the advice of the Actuary, the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.
- Schools (other than academies) are generally pooled with their relevant Unitary Authority. However there may be exceptions for specialist or independent schools.
- Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.
- Transferee Admission Bodies are usually ineligible for pooling.
- Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree. In particular, this may be part of a risk-sharing agreement – see 3.3 Note (i).

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. The Administering Authority requires the 'strain' costs to be paid immediately.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged; and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations; or
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund; and
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

There are a number of ceased employers whose assets and liabilities are covered by the four Unitary Authorities (as opposed to all Fund employers) in set proportions. The relevant liabilities are calculated at each valuation and the pro-rata asset share allocated to the Unitary Authorities.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a 'prudent longer-term view' of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- **Prudence** – the Fund should have a reasonable expectation of being fully funded in the long term;
- **Affordability** – how much can employers afford;
- **Stewardship** – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- **Stability** – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling; this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the changes in asset values quarterly and reports these to the regular Pensions Committee meetings. The changes are also reported in the annual report and accounts of the Fund and are presented at the Annual General Meeting.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to 'consultation with such persons as the authority considers appropriate', and should include 'a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers'.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2014 for comment;
- b) Comments were requested within 21 days; and
- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at erpf.eastriding.gov.uk;
- A copy sent by email to each participating employer in the Fund;
- A copy sent to union representatives;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Policy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at erpf.eastriding.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority:

- operates the Fund as per the LGPS Regulations;
- effectively manages any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collects employer and employee contributions, and investment income and other amounts due to the Fund;
- ensures that cash is available to meet benefit payments as and when they fall due;
- pays from the Fund the relevant benefits and entitlements that are due;
- invests surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicates appropriately with employers so that they fully understand their obligations to the Fund;

- takes appropriate measures to safeguard the Fund against the consequences of employer default;
- manages the valuation process in consultation with the Fund's actuary;
- prepares and maintains a FSS and a SIP, after consultation;
- notifies the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitors all aspects of the fund's performance and funding and amends the FSS/SIP as necessary and appropriate.

B2 The Individual Employer:

- deducts contributions from employees' pay correctly;
- pays all contributions, including their own as determined by the actuary, promptly by the due date;
- has a policy and exercise discretions within the regulatory framework;
- makes additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notifies the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary:

- prepares valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provides advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepares advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assists the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advises on the termination of Admission Bodies' participation in the Fund; and
- fully reflects actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and disinvestment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required; and
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p>

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund.	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Maturing Fund – i.e. proportion of actively contributing employees' declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments.	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
<p>Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer’s contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies’ memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the 'future service rate'; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, 'past service adjustment'. If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed 'peculiar' to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the 'ongoing' valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the 'Projected Unit Method' of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the 'Attained Age' funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non ill-health retirements relative to any extra payments made; over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as 'analysis of surplus'.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year; and
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ('the liabilities'). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the 'basis'. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the 'ongoing basis', which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This 'discount rate' assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ('gilts'). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this 'pay freeze' does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, the actuary derives his assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, the actuary proposes a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of 'VitaCurves', produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with 'medium cohort' and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to reduce around 1 year from life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's 'trustees'.
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide future service rate plus past service adjustment. It should be noted that this will differ from the actual contributions payable by individual employers.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation.
Funding level	The ratio of assets value to liabilities value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be 'fixed interest', where the interest payments are level throughout the gilt's term, or 'index-linked' where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service deficit repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members versus their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and crime commissioners, chief constables and fire and rescue authorities etc. other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% funding level, i.e. where the assets value equals the liabilities value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both future service rate and past service adjustment, which would be calculated on the standard actuarial basis, before any allowance for stabilisation or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Funding Strategy Statement and new employers

During 2013/14, there were 42 new employers joining the Fund including 37 academies. Of the 37 academies, five opted to phase in their contribution increases over one year. One employer joined the small scheduled and resolution bodies pool given that they were an employer with similar characteristics to those already in the pool.

As part of the management of designated bodies and admitted bodies, risk assessments are carried out to ensure that there is a strong covenant in place and that a new employer has the ability to meet its long term Fund commitments.

- There were two new designated bodies in the Fund and both provided evidence of a strong covenant by being under the control of local authorities.
- There were also two new transferee admission bodies and risk assessments were carried out to see if a bond was required.
 - The first new transferee admission body did not require a bond and this was validated following a review by the council's Legal and Audit teams.
 - The second new transferee admission body did require a bond and one was put in place.

statement of investment principles

Introduction

The East Riding Pension Fund is required to maintain a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The SIP for the East Riding Pension Fund is set out below, and complies with the Local Government Pension Scheme Regulations.

East Riding of Yorkshire Council is the administering authority for the East Riding Pension Fund. The council has delegated all its functions as administering authority to the Pensions Committee. The Pensions Committee agreed this SIP at its meeting on 15 March 2013 with an effective date of 1 April 2013.

The East Riding Pension Fund is also required to maintain a Funding Strategy Statement (FSS) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The FSS for the East Riding Pension Fund has been revised to take into account the results of the actuarial valuation, effective 31 March 2013. The FSS, which was approved by the Pensions Committee at its meeting on 21 March 2014, complies with these Regulations.

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

Scheme Governance

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

The six principles set out in the CIPFA Pensions Panel 'Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom – A Guide to the Application of the Myners' Principles' are complied with in the arrangements made for managing the investments of the Fund. The six principles, and the Pension Fund's evidence of compliance, can be viewed at erpf.eastriding.gov.uk.

The council has a formal training programme in place to ensure that Members and Officers charged with the financial management and decision making with regard to the Pension Fund are fully equipped with the knowledge and skills to discharge their duties and responsibilities.

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 2009 (as amended). This SIP is consistent with these powers and does not restrict the Pensions Committee's investment powers.

Investment managers and advisor

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

In addition, Mrs. S. Bates is employed by the Pensions Committee to provide independent advice, and Hymans Robertson has been appointed as the Fund's actuary.

The East Riding of Yorkshire Council, as Administering Authority for the East Riding Pension Fund, has signed client agreements with the external investment manager and independent advisor.

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

Types 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 Fund¹. The following guidelines are set for the Fund's asset allocation mix:

Asset Class	Allocation	Range	Benchmark
EQUITIES	65%	60 – 75%	
UK	40%	35 – 45%	FTSE All Share
Overseas	25%	20 – 30%	
North America	7%		FTSE Developed North America
Europe ex UK	7%		FTSE Developed Europe ex UK
Japan	4%		FTSE Japan
Pacific	3.5%		MSCI Pacific ex Japan
Emerging	3.5%		MSCI Emerging Markets
BONDS AND CASH	17%	10 – 30%	
UK Government	5%	0 – 10%	FTSE UK Gilts All Stocks
UK Corporate	2%	0 – 5%	iBoxx £ Corporate Bonds All Stocks
Overseas	4%	0 – 10%	JP Morgan GBI ex UK
Emerging Markets	2.5%	0 – 5%	JP Morgan GBI – Emerging Markets
Global High Yield	2.5%	0 – 5%	JP Morgan Global High Yield
Cash	1%	0 – 10%	LIBID 7 day
ALTERNATIVES	18%	10 – 30%	
Property	8%	0 – 15%	IPD All Properties Monthly
Other	10%	0 – 15%	
Private Equity	4%		FTSE All Share + 3%
Infrastructure	3%		UK Index-linked + 3%
Other	3%		3 month LIBOR +3%
TOTAL	100%		

¹The Pensions Committee has subsequently approved a new strategic asset allocation for the Pension Fund with effect from 1 April 2014. This new strategic asset allocation can be viewed in the current Statement of Investment Principles at erpf.eastriding.gov.uk

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

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

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

The Pensions Committee reviews the tactical asset allocation of the Fund on a quarterly basis, following advice from the investment managers and independent advisor.

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 takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund. The Pensions Committee reviews the asset allocation of the Pension Fund on a quarterly basis. 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, the investment 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) (Amendment) Regulations 2013 for investment through limited partnerships to the maximum 30%, 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 'Types 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.

An investment risk management schedule is reviewed by the Pensions Committee on a quarterly basis. The schedule considers issues such as performance; regulation and compliance; and personnel and structure.

The Pension Fund's risk register identifies the key risks inherent in the Pension Fund; an estimate of the severity of each risk; a summary of current control measures; and the identification of additional control measures. The risk register is reviewed by the Pensions Committee on a semi-annual basis.

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 2010, was prepared on the basis of an expected real return on assets of 2.8% over the long term, a nominal return of 6.1% assuming inflation to be 3.3%.

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	65%
Bonds and Cash	17%
Alternative Investments	18%

In order to monitor the investment objective, 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 on an annual basis.

In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

The realisation of investments

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

Corporate Governance

As a responsible investor, the East Riding Pension Fund wishes to promote corporate social responsibility, high standards of corporate governance, good practice, and improved corporate performance amongst all companies in which it invests. As a result, the Fund has adopted the Principles of the Financial Reporting Council's (FRC) UK Stewardship Code. The Pension Fund's Statement of Compliance can be viewed at erpf.eastriding.gov.uk.

The Fund views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to discharge its corporate governance responsibilities through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF). Further details of LAPFF's guidance on environmental, social, and governance issues can be found on www.lapfforum.org.

Pensions Committee's policy on socially responsible investment

In addition to the above, the Fund will take into account the guidance issued by LAPFF, and any other appropriate guidance and information, in determining any relevant social, environmental, or governance considerations when selecting, retaining, and realising any of its investments. However, the overriding objective for the Pensions Committee will be to discharge its fiduciary duty in managing the Fund's investments in the best interests of the scheme's beneficiaries.

Pensions Committee's policy on shareholder voting

The Fund supports the principles underpinning the UK Corporate Governance Code and has adopted the Principles of the FRC UK Stewardship Code.

The Fund subscribes to the Pensions Investment Research Consultants (PIRC) advisory voting service which provides voting recommendations based on industry best practice. Further details of PIRC's voting guidance is shown in the "UK Shareowner Voting Guidelines 2012" guidance document which is available at www.pirc.co.uk

The Fund also takes into account guidance and information from the LAPFF which highlights corporate governance issues at investee companies and recommends appropriate voting action.

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

As a general rule, the Fund will vote in favour of resolutions which are in line with the UK Corporate Governance Code 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.

The external investment manager will vote in accordance with its 'Investment and Corporate Governance' policy which is available at www.schroders.com

The Fund's investment managers can exercise their discretion not to vote in accordance with best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee.

The exercise of any other rights attaching to a particular investment will be considered on a case by case basis.

The Pensions Committee reviews the Fund's corporate governance and voting activity on a quarterly basis.

Stock Lending

The Fund engages in stock lending in order to generate additional income. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the securities that are transferred under stock lending arrangements do not exceed 25% of the total value of the investment portfolio.

Compliance and Monitoring of the SIP

The investment managers 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 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.

communications policy

Responsibilities and resources

Internal and external contributions until 2013/14 were carried out by a dedicated team of four staff consisting of two office based staff and two Pension Liaison Officers (PLOs) who were mainly field based. The team produced and designed all communications including web-based and electronic material and were responsible for arranging the forums, workshops and meetings.

A number of factors including the increase in the number of employers, the complexities of the new LGPS 2014 and the opportunity to use the Web access module of the UPM system (see the scheme administration report on pages 48 to 50 for more details) has resulted in the current Communications policy being put on hold and the dedicated team absorbed into the Member Services team. Responsibility for communications is with the Principal Pensions Officers as an interim measure until the Web access module is fully implemented

How we communicate

We are increasingly using electronic methods to communicate with our customers. Our website (erpf.eastriding.gov.uk) is a principal source of information for both employers and scheme members. We also communicate by email with our stakeholders. In addition to electronic communications, we continue to use traditional paper based communication methods such as letters, Annual Benefit Statements and other scheme literature such as our Welcome Pack and Simple Scheme Guide.

Direct telephone numbers are quoted on all our letters and we have a dedicated Pensions Hotline which enables our members to communicate verbally with our staff.

A key method of our communication is face to face which involves our PLOs visiting workplace sites and presenting information events and attendance at corporate inductions. We are in the process of investigating greater use of web based solutions to replace face to face communications given that there are over 180 employer sites but we will still ensure that there is two way dialogue and understanding, for example, through web chats, and we see this as an integral part of our communication strategies.

Employers are provided with contact details for all ERPF staff on a regular basis. We provide our communications in alternative formats (such as Braille or audio) for our members with special needs, ensuring customers have access to relevant information at all times.

Communication with our scheme members

When communicating with our members, our objectives are:

- to encourage and retain membership of the scheme;
- to highlight the benefits of the LGPS;
- to provide more opportunities for two-way communication;
- to reduce the number of queries and complaints; and
- to reassure stakeholders.

Frequency of pension information events

During 2013/14, the number of pension events taking place across the Fund area was greatly reduced as a result of the delay in the legislation for implementing LGPS 2014 in particular with regard to protections (see the scheme administration report on page 48 for more details). This meant that we were unable to provide the members with the detailed pension information required to run the events.

Our PLOs attend monthly corporate inductions arranged by the unitary employers as well as occasional ad hoc inductions as and when required. The aim is to provide pension information to new employees to enable them to make an informed decision regarding membership of the LGPS.

If required, the PLOs can provide ill health home visits for those members who require the service.

Communication with employers

When communicating with our employers, our objectives are:

- to improve relationships;
- to help them understand costs/funding issues;
- to work together to maintain accurate data;
- to ensure the smooth transfer of staff;
- to ensure they understand the benefits of being an LGPS employer; and
- to assist them in making the most of the discretionary areas within the LGPS.

Services provided to employers

Employer update meetings are held every six months in Goole, hosted by the ERPF and all fund employers are invited to attend. The meeting enables Payroll and Human Resource staff to discuss pension related issues in an open forum. In addition, an employer can ask for a separate meeting to discuss any issues they may have.

The PLOs are available to help with employer projects such as redundancy or TUPE transfer issues. On these occasions, our staff can provide invaluable information to those worried about changes to their contracts of employment.

We also provide meetings to welcome new employers to the fund where the roles and responsibilities of both the employer and the pension fund are discussed in detail. This helps new employers to gain a better understanding of what is required of them and how the communications team can meet their needs.

All employers are invited to attend the Annual General Meeting held each November.

Communication with pension section staff

When communicating with staff within the pensions section, our objectives are:

- to ensure they are aware of changes and proposed changes to the scheme;
- to develop improvements to services and changes to processes as required; and
- to agree and monitor service standards.

Staff meetings, seminars and written and electronic communication are used by the pensions section to liaise between pension fund staff, members of the scheme, scheme employers and any other relevant stakeholders.

Performance measurement

We use feedback from scheme members, employers and pension fund staff to evaluate how our pension presentations and electronic communications are perceived and the feedback is discussed at staff meetings.

Selected employers also provide feedback on key ERPF communications materials as and when required. We encourage our employers to provide ongoing feedback, in any format, regarding the services we provide and also any suggestions for improvements to the service.

Review process

Our Communications policy is currently on hold pending the implementation of the final phase of the UPM system, the Web access project, in early 2015. We will then ensure the revised policy will meet the needs of our customers and any regulatory requirements on an annual basis. This Communications policy statement is a brief summary of our Communications policy, which is currently undergoing revision and will be available on our website once it has been updated.



auditor report

Independent auditor's statement to the members of East Riding of Yorkshire Council on the East Riding Pension Fund Financial Statements

We have examined the pension fund financial statements for the year ended 31 March 2014, on pages 59 to 82.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the Code of Audit Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the annual published statement of accounts of East Riding of Yorkshire Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we also read the information given in the pension fund annual report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of East Riding of Yorkshire Council for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- The information given in the pension fund annual report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- Any matters relating to the pension fund have been reported in the public interest under section 8 of the Audit Commission Act 1988 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

John Graham Prentice

For, and on behalf of, KPMG LLP Appointed Auditor
Chartered Accountants
1 The Embankment,
Neville Street,
Leeds LS1 4DW
25 September 2014

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 5BG

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

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

General information can be found on the East Riding Pension Fund website erpf.eastriding.gov.uk

