

2014/2015

# Annual Report & Accounts



# contents

Section	Page
Foreword	3
The Local Government Pension Scheme	4
Scheme Management and Advisers	7
Risk Management	9
Financial Performance	21
Administrative Management Performance	25
Investment Policy and Performance	32
Scheme Administration Report	45
Report of the Actuary	48
Actuarial Valuation	50
Governance	51
Statement of Responsibilities for the Financial Statements	55
Accounts	56
Funding Strategy Statement	81
Statement of Investment Principles	109
Communication	114
Auditor Report	116
Contacts	117

# 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 2015 the Fund was valued at £3,677.4m, having paid out £196.9m during the year for the benefit of Scheme members. This is an increase in the Fund value of £311.8m from 31 March 2014, as equity markets, particularly in the US and Japan, benefited from a continuation of loose economic policy and modest economic growth, the former also benefitting from significant currency appreciation. This was partly offset by weaker relative returns in UK equities due to the large exposure to commodity companies in the wake of significant falls in commodity prices during the year. Fixed income markets were also exceptionally strong due to a further fall in bond yields driven by reduced inflation expectations and the introduction of quantitative easing in Europe.

At 31 March 2015 the number of employers in the Fund was 218 (2014: 186). The increase during the year was due to a number of schools converting to academy status.

All employees, other than teachers, of the Administering Authority and the majority of the Scheme Employers are entitled to participate in the Scheme. Employees of Scheme Employers classed as designating bodies, such as town and parish councils, and employees of the 34 Admitted Bodies may be nominated for membership by their employer. Teachers, police officers and firemen have separate pension arrangements.

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

At 31 March 2015 the total membership records administered by the East Riding Pension Fund was 100,739, an increase of 2.3% in 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 1.3% to 37,472. 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 3.0% to 26,408. All the membership figures in the report are based on the up to date position recorded on the pension administration system, with all previous years restated on a consistent basis. The average pension in payment is £4,636.41 per annum, equivalent to a weekly payment of £88.92.

The Fund generated a return of 10.8% for the year ended 31 March 2015, compared to the strategic benchmark return of 10.9%, and the Local Authority average return of 13.2%. Over the three years to 31 March 2015, the Fund returned 10.7% per annum, compared to the strategic benchmark return of 10.2% per annum, the Local Authority Average of 11.0% 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 0.13% (2014: 0.15%) of funds under management.

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**  
**September 2015**

# the local government pension scheme

## Legal Framework

The Local Government Pension Scheme (LGPS) has been in existence since 1922 and has developed into a comprehensive scheme providing pensions for all members and their spouses, civil partners or eligible cohabiting partners and eligible children.

The current scheme rules for LGPS 2014 are contained within the LGPS Regulations 2013 (Statutory Instrument Number 2013 No. 2356) and subsequent amendments and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (Statutory Instrument Number 2014 No. 525). Amendments to LGPS 2014 are made under the Public Service Pensions Act 2013. Whilst the Regulations are fixed on a national basis, the LGPS is managed by a designated Administering Authority, and throughout England and Wales there are 89 such authorities.

East Riding of Yorkshire Council is responsible for administering 'The East Riding Pension Fund' for the benefit of its own employees and the employees of the scheme employers and admission bodies. Full details of the employers participating within the Fund are shown on pages 5 and 6. Teachers, Police Officers and Firefighters are excluded from the LGPS as they are members of separate statutory pension schemes.

LGPS 2014 is a Career Average Revalued Earnings (CARE) scheme and is contracted-out for the purposes of the State Second Pension. This enables most scheme members to pay a lower rate of National Insurance contribution (NICs). From April 2016 the Government plans to remove the reduction in NICs for all contracted out pension schemes. More details on how this will work are expected during 2015.

HM Revenues and Customs 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 Part 4 of Chapter 2 of the Finance Act 2004. It complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995, and 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 2014 to 31 March 2017 following the 2013 Actuarial Valuation and the Actuary set the common rate of employers' contributions across the Fund, as 29.2% of pensionable pay, with individual employer rates being adjusted by reason of any circumstances peculiar to that employer.

Details of the main provisions of LGPS 2014 can be found on the East Riding Pension Fund website at [www.erpf.org.uk](http://www.erpf.org.uk).

## Changes to the governance of the LGPS effective from 1 April 2014

From 1 April 2015, under the provisions of section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended), the East Riding Pension Fund must establish and operate a Local Pension Board.

The East Riding Pension Fund Local Pension Board (ERPFLPB) was established on 25 February 2015 and will be made up of three employer representatives and three member representatives. The ERPFLPB is responsible for assisting East Riding of Yorkshire Council (as administering authority) in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator.

## Fund Membership

The 218 employers, including East Riding of Yorkshire Council, with an interest in the Fund are listed below:

### ADMINISTERING AUTHORITY

East Riding of Yorkshire Council

### SCHEME EMPLOYERS (183)

Ainthorpe Primary Academy	Grimsby Institute of Further & Higher Education	Oasis Academy Wintringham
Anlaby Common Parish Council	Hall Road Academy	Old Clee Primary Academy
Appleton Primary Academy	Havelock Academy	Ormiston Maritime Academy
Archbishop Sentamu Academy	Healing Primary School	Ormiston South Parade Academy
Ashwell Academy	Healing Science Academy Limited	Outwood Academy Brumby
Aspire Academy	Hedon Town Council	Ouse and Humber Drainage Board
Barton upon Humber Town Council	Hessle High School	Patrington CE Primary Academy
Beverley and North Holderness Internal Drainage Board	Hessle Penshurst Primary School	PHASE
Bellfield Academy	Hibaldstow Academy	Phoenix House PRU
Beverley Grammar School	Highlands Primary Academy	Police and Crime Commissioner for Humberside
Beverley Town Council	Holy Family Catholic Academy	Priory Primary Academy
Biggin Hill Primary Academy	Hornsea Town Council	Quay Academy
Bishop Burton College	Hull College	Reynolds Primary Academy
Bottesford Town Council	Hull Studio School	St Augustine Webster Academy
Bricknell Primary Academy	Humber Bridge Board	St Bede's Academy
Bridlington Town Council	Humberside Fire Authority	St Bernadette's Academy
Brigg Town Council	Humberside Magistrates' Courts Committee	St James' CE Academy
Broughton Town Council	Humberston Academy	St Joseph's Academy
Buckingham Primary Academy	Humberston Cloverfields Academy	St Mary Queen of Martyrs VC Academy
Bude Park Primary Academy	Humberston Park Academy	St Mary's Academy
Bursar Primary Academy	Humberside Probation Trust	St Mary's Catholic Academy
Burton upon Stather Parish Council	Huntcliff Academy	St Norbert's Academy
Cambridge Park Academy	ICT 4 Collaboration	St Richards RC Primary School
Canon Peter Hall Academy	Immingham Town Council	St Vincents VC Academy
Christopher Pickering Primary School	Invenio Academy	Scartho Junior Academy
Cleethorpes Academy	John Leggott College	Scawby Academy
Cleeve Primary Academy	John Whitgift Academy	Sevenhills Academy
Collingwood Academy	Kingston upon Hull City Council	Signhills Academy
Coritani Academy	Kingstown Works Limited	Signhills Infants Academy
Cottingham High School	Kingswood Academy	Sirius Academy
Craven Primary Academy	Kingswood Parks Primary Academy	South Axholme Academy
Crowle Academy	Kirk Ella and West Ella Parish Council	South Hunsley School (Hunsley Trust)
Dawes Lane Academy	Kirton in Lindsey Town Council	Southcoates Primary Academy
Dorchester Primary Academy	Laceby Acres	Spring Cottage Academy
Driffield Town Council	Lincs Inspire Limited	Stockwell Academy
Dunswell Primary Academy	Lisle Marsden Academy	Strand Academy
Easington CE Primary Academy	Longhill Primary Academy	Sutton Park Primary Academy
East Ravendale Academy	Macaulay Academy	Swanland Primary School Academy Trust
East Riding College	Maybury Primary Academy	The Axholme Academy
East Riding Valuation Tribunal	Market Weighton Town Council	The Boulevard Academy
Eastfield Primary Academy (Immingham)	Melior Community College Academy	The Chief Constable of Humberside Police
Eastfield Academy (Hull)	Mersey Academy	The Green Way Academy
Edward Heneage Academy	Middlethorpe Academy	The Parks Academy
Elliston Primary Academy	Neasden Primary Academy	The St. Lawrence Academy
Elloughton cum Brough Parish Council	New Waltham Academy	The Snaith School
Endike Primary School	Newington Academy	The Thomas Ferens Academy
Endsleigh Holy Child VC Academy	Newland St John's CE Academy	The Vale Academy
Epworth Academy	North East Lincolnshire Council	Thoresby Academy
Estcourt Primary Academy	North Eastern Inshore Fisheries and Conservation Authority	Thrunscoe Primary Academy
Fairfield Academy	North Lincolnshire Council	Tollbar Academy Limited
Francis Askew Primary School	North Lindsey College	Trinity House Academy
Franklin College	Oasis Academy Henderson Avenue	Tweendykes Academy
Ganton School	Oasis Academy Immingham	Ulceby St Nicholas Primary School
Goole High School	Oasis Academy Nunthorpe	University of Lincoln
Goole Town Council	Oasis Academy Parkwood	Waltham Leas Primary Academy
		Wansbeck Academy



Weelsby Primary Academy  
 Welholme Primary Academy  
 Westwoodside Academy  
 Wheeler Academy  
 Wilberforce College  
 Willoughby Road Primary Academy  
 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

#### ADMITTED BODIES (34)

apetito Limited  
 Bulloughs Cleaning Services Limited  
 Cofely Workplace Limited  
 Future Cleaning Services Limited  
 Havelok Housing Association Limited  
 Hull and East Yorkshire Community Foundation Limited  
 Hull and Goole Port Health Authority  
 Hull Charterhouse Trustees  
 Hull Resettlement Project Limited  
 Hull Young Peoples Christian and Literary Institute  
 Humbarcare Limited  
 Humberside Independent Care Association  
 Independent Cleaning Services Limited (Chiltern)  
 Independent Cleaning Services Limited (Thorpepark)  
 ISS Facility Services - Education  
 ISS Facility Services - PFI  
 Mellors Catering Services Limited

North East Lincolnshire Clinical Commissioning Group  
 North Lincolnshire Homes Limited  
 NPS Humber Limited  
 Pickering and Ferens Homes  
 Pocklington School  
 Reel Cinemas (UK) Limited  
 RM Education plc  
 Robertson Facilities Management Limited  
 Serco Limited  
 Sewell Facilities Management Limited  
 Shoreline Housing Partnership Limited  
 Sodexo Limited  
 Sodexo Limited Nunsthorpe  
 The Deep (EMIH) Limited  
 The Riverside Group Limited  
 University of Lincoln Students' Union  
 University of York



# scheme management and advisers

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

**Performance  
Measurement**

State Street Global Services  
525 Ferry Road  
Edinburgh EH5 2AW

**Officers**

Malcolm Sims  
Director of Corporate Resources  
East Riding of Yorkshire Council  
County Hall  
Beverley HU17 9BA

Caroline Lacey  
Head of Finance  
East Riding of Yorkshire Council  
County Hall  
Beverley HU17 9BA

Mark Lyon  
Head of Investments  
East Riding Pension Fund  
PO Box 164  
Church Street  
Goole DN14 5YZ

Graham Ferry  
Pensions Manager  
East Riding Pension Fund  
PO Box 118  
Church Street  
Goole DN14 5YU

## 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 fixed income portfolio is managed by 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 Pension Fund recognises the importance of effective risk management including the identification and management of its key risks. 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. Risk management is the process by which the Pension Fund systematically identifies, assesses and seeks to mitigate the risks associated with its activities, and is a key component of the overall governance process. Effective risk management is a clear indicator of good governance and a risk register is the primary control document for the identification, assessment and monitoring of key risks.

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 management strategy includes a risk register which identifies its key risks, details the consequence of those risks, and highlights the controls which are currently in place to mitigate those risks. For each risk the register includes:

- a brief description of each risk;
- the potential consequences;
- an estimate of the severity of the risk before any risk controls have been implemented;
- a description of the controls currently in place to mitigate the risk;
- the revised severity of the risk as a result of the controls already in place; and
- additional control requirements that have been identified.

The Fund's risk register is reviewed on a semi-annual basis by the Pensions Committee and the latest risk register is included on the next page. In the interests of brevity the risk scores, which are based on the likelihood of the risk occurring and the potential impact on the Fund, have been omitted from the table.

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"> <li>• Active v. Passive</li> <li>• In-house v. External management</li> <li>• Equities v. Bonds</li> <li>• Investment in Alternatives</li> <li>• Liquidity of investments</li> </ul>	<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, using external provider of performance measurement services, 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	Under-performance of investment managers relative to benchmark	<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, using external provider of performance measurement services, 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>Increase in the Fund's cash flow requirements.</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>Pension Fund can invest in inflation protection products subject to LGPS investment regulations.</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.</p>

No.	Risk	Consequences	Controls
7	Changing patterns of early retirement	<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, where appropriate, employers are advised of the option to take out ill health liability insurance.</p>
8	<p>Reductions in contributing members</p> <ul style="list-style-type: none"> <li>• Scheme members opting out</li> <li>• Recruitment freeze</li> <li>• Increase in employer redundancy exercises</li> <li>• Outsourcing projects including conversions to academy status</li> </ul>	<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"> <li>• For employers in the stabilisation mechanism, the employer may be brought out of that mechanism to permit an appropriate increase in contributions.</li> <li>• 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.</li> <li>• Actuarial calculation of employer contribution rates ensures that employers are in no worse position when schools convert to academies.</li> <li>• Communicating benefits of being a scheme member via website, newsletters, employer briefing notes and face to face contact with members.</li> <li>• 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.</li> </ul>

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>Subject to the Fund's internal auditors' recommendations, 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	Failure by Scheme employer to carry out statutory functions	<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>Carried out data quality checks in accordance with the Pensions Regulator data requirements from 2013.</p> <p>Pensions Administration Strategy to be incorporated into Phase 3 of UPM as an interactive tool as part of the data submission process.</p> <p>Training officer to set up regular employer training events covering employer responsibilities and statutory duties.</p>
12	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>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"> <li>• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</li> <li>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>• Vetting prospective employers before admission.</li> <li>• 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.</li> <li>• Reviewing bond or guarantor arrangements at regular intervals.</li> <li>• Reviewing contribution rates if considered appropriate.</li> </ul> <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	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>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 the 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	Failure to comply with the regulations i.e. current, new, external e.g. HMRC, DWP.	<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>Fund inherits incorrect Guaranteed Minimum Pension (GMP) liabilities when contracting out for defined benefit schemes ends in April 2016.</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> <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.</p> <p>The IDR procedure has been streamlined to provide compensation payments earlier in the process resulting in savings to costs and staff time.</p> <p>Project group to be set up to reconcile GMP data held by the Fund with data held by HM Revenue and Customs.</p>

No.	Risk	Consequences	Controls
15	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>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>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>
16	Professional standards and/or section procedures not applied	<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>Dedicated Pensions training officer provides bespoke training for internal staff and regular training events for employers.</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>Dedicated WEB team to be set up following the implementation of Phase 3 of the roll-out of the Pensions Administration Strategy incorporating the professional standards applied by the Pensions Section.</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 equals 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>Six monthly meetings held with all Fund employers to address workforce issues.</p> <p>Unitary Finance Officers to cascade employer plans early to avoid unforeseen occurrences.</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 a daily basis.</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 e.g. GCSX secure e-mail account used for transmission of sensitive data.</p>

No.	Risk	Consequences	Controls
19	Failure of supplier e.g. IT supplier, Bloomberg, Custodian, External Investment Manager	<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 for UPM system.</p> <p>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>
20	Business disruption e.g. unable to access the building/workspace	<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 and Business Continuity plan for UPM in place to provide web-based access to UPM and/or emergency office space.</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> <p>Advertising extended to include local newspapers resulting in an increase in the number and quality of applicants.</p> <p>Potential introduction of trainee Investment Analyst posts offers greater resilience to the internal investment manager.</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>Failure to attract suitably skilled and experienced members for the S101 Pensions Committee and the imminent local pension board.</p>	<p>Induction and training programme for Members and Officers.</p> <p>Regular training sessions for Committee members to be extended to local pension board once created.</p> <p>Regular EDRs to identify training requirements and well being issues.</p> <p>Relevant staff are encouraged to obtain formal investment management qualifications e.g. CFA, IMC where relevant.</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 completion of Phase 3 of UPM.</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 81 to 108) and Note X Disclosure Relating to Financial Instruments (pages 74 to 79).

## Internal Controls and Assurance

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. Both of these assurance reports included unqualified opinions and no material issues were identified.

## Audit

During the financial year the East Riding of Yorkshire Council Internal Audit section reviewed the operations of the Investments and Pension 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
<b>Investments</b>	Significant Assurance	Significant Assurance
<b>Pensions Administration</b>	Significant Assurance	Significant 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 32 to 44.

Fund Account	2013/14	2014/15	Notes
	£000	£000	
Net Contributions	31,918	-29,815	£60.2m payment relating to the transfer of employees from the Humberside Probation Trust to Community Rehabilitation Companies and the National Probation Service .
Return on Investments	255,618	341,590	Significant capital appreciation in Equities, particularly Overseas Equities, Fixed Income, and Alternatives.
Net increase in the Fund	287,536	311,775	

Net Asset Statement	2013/14	2014/15	Notes
	£000	£000	
Fixed Interest	298,636	320,210	Market movements and additional investment in Global High Yield.
Index-linked	28,344	26,515	Market movements offset by net disposals.
Equities	1,572,484	1,670,142	Capital appreciation, particularly in Overseas Equities, and strong stock selection from the investment managers partly offset by net disposals.
Pooled Funds	1,237,967	1,507,296	Capital appreciation and additional investments in Property and Alternatives.
Cash	204,521	125,565	Income and net contributions predominantly reinvested into Property and Alternatives. Payment relating to the transfer of Humberside Probation Trust .
Other	23,664	27,663	
Total Investment Assets	3,365,616	3,677,391	

## Analysis of Investment Income Accrued 31 March 2015

Asset Class	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities	5,653	64	0	5,717
Bonds	1,418	1,033	0	2,451
Property (direct holdings)	259	0	0	259
Alternatives	0	0	0	0
Cash and cash equivalents	164	0	0	164
Other	0	0	0	0
Total	7,494	1,097	0	8,591

## Analysis of pension contributions

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

	2013/14					2014/15				
	Total	On Time		Late		Total	On Time		Late	
	£000	£000	%	£000	%	£000	£000	%	£000	%
Employer – Primary	124,243	118,558	95.4	5,685	4.6	127,887	122,693	95.9	5,193	4.1
Employee – Primary	33,485	31,783	94.9	1,702	5.1	34,149	32,676	95.7	1,473	4.3
	157,728	150,341	95.3	7,387	4.7	162,036	155,369	95.9	6,666	4.1

**2014/15:** In total 142 monthly payments were received late, of which 122 were received within the month, 12 between 1 and 3 months late and 8 received more than 3 months late.

**2013/14:** In total 166 monthly contribution 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	2013/14		2014/15		2015/16
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Contributions	171,000	167,296	160,000	167,041	160,000
Payments	(131,000)	(135,378)	(197,000)	(196,856)	(137,000)
Admin expenses	(2,248)	(1,886)	(1,789)	(1,449)	(1,619)
Net investment Income	88,000	83,181	88,000	106,710	105,000
Investment expenses	(2,678)	(2,724)	(2,885)	(2,965)	(2,590)
Oversight and Governance expenses	0	(416)	0	(379)	(400)
Change in market value	129,329	128,313	129,039	239,673	(24,744)
Net increase in the Fund	252,403	238,386	175,365	311,775	98,647

Net Asset Statement	2013/14		2014/15		2015/16
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Equities	2,254,248	2,178,554	2,254,248	2,359,463	2,526,968
Fixed Income	302,885	326,980	302,885	346,725	359,809
Cash	300,408	204,521	300,408	125,565	209,976
Property	142,759	208,668	142,759	330,168	235,484
Alternatives	270,767	423,229	270,767	487,807	443,801
Other	0	23,664	0	27,663	0
Total Investment Assets	3,271,067	3,365,616	3,271,067	3,677,391	3,776,038

The forecasts for total investment assets for 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 allocation review in 2010.

The forecasts for total investment assets for 2014/15 and 2015/16 are based on the actual figures for 2013/14 multiplied by the forecast long term returns for each asset class used at the strategic 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 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

	2013/14		2014/15		2015/16
	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000
<b>Pensions Administration</b>					
Employees	1,152	1,109	1,168	1,077	1,193
Supplies and Services	309	160	304	142	304
Professional Fees	245	266	145	4	95
Central costs	542	523	523	226	177
	2,248	2,058	2,140	1,449	1,769
<b>Investment Management</b>					
Employees	574	589	574	584	796
Supplies and Services	272	309	262	168	334
External Fund Manager	1,485	1,765	1,473	1,868	1,391
Custodian	125	93	125	101	100
Stock Lending	120	88	120	168	150
Professional Fees	10	10	10	10	10
Central costs	92	114	114	66	59
	2,678	2,968	2,678	2,965	2,840
<b>Oversight and Governance</b>	-	-	-	379	-
<b>Total</b>	4,926	5,026	4,818	4,793	4,609

## Analysis of Pension Overpayments

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£	£	£	£	£	£
Overpayments recovered	3,644	5,016	9,889	4,507	7,146	30,202
Overpayments written off						
Deaths	6,349	5,125	4,178	3,593	5,753	24,998
Axis Payroll check	359,071	-	-	-	-	359,071
<b>Total</b>	<b>365,420</b>	<b>5,125</b>	<b>4,178</b>	<b>3,593</b>	<b>5,753</b>	<b>384,069</b>
Annual Payroll	82,950,742	91,427,495	98,119,729	103,025,314	107,481,388	483,004,668
Write offs as % of Payroll	0.4%	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Number of cases - Written off	441	156	143	103	356	1,199
Number of cases - Recovered	16	26	13	16	15	86
Number of cases - in process of recovery	9	12	16	12	45	94



# 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 2015 CIPFA Pensions Administration benchmarking club report, issued in October 2015, compares the performance of ERYC in 2014/15 with 43 local authorities who administer the Local Government Pension Scheme (LGPS). The key findings for 2014/15 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 2014/15 was £15.88 (2013/14: £16.56) compared to the average of £19.17 (2013/14: £20.75). 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.

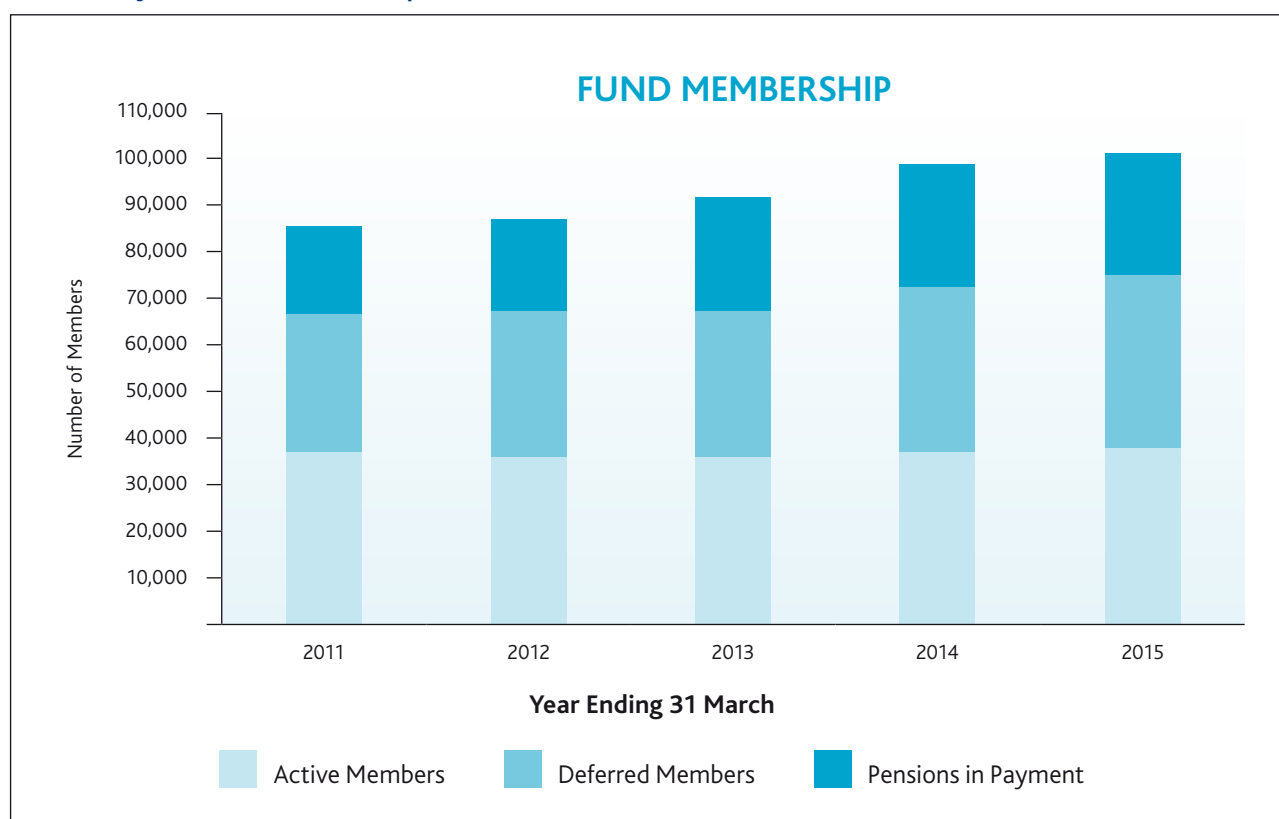
	East Riding Pension Fund	Average
	£	£
Staff	7.48	7.83
Payroll	1.04	1.85
Direct costs e.g. communications and actuarial fees	2.25	4.34
Overheads e.g. IT, accommodation, central charges	5.17	5.38
Income	0.06	0.23
Net cost per member	15.88	19.17

- The annual cost of employing a full time equivalent (FTE) member of staff to administer the LGPS. The Fund's staff cost for 2014/15 was £24,265 pa per FTE staff (2013/14: £23,700 pa) compared to the average of £32,429 pa (2013/14: £31,133).

## 5 Year Analysis of Fund Membership Data

	2011	2012	2013	2014	2015
Active Members	36,310	35,856	35,969	36,978	37,472
Deferred Beneficiaries	30,413	32,312	33,375	35,867	36,859
Deferred Members	28,603	30,704	31,791	34,293	35,113
Frozen Refunds	1,810	1,608	1,584	1,574	1,746
Pensions in Payment	22,025	23,426	24,404	25,656	26,408
Total Membership	88,748	91,594	93,748	98,501	100,739

## 5 Year analysis of Fund Membership



## Age Profile of Fund Membership at 31 March 2015

Age Band Years	Active	Beneficiary	Deferred	Pensioner	Preserved Refund	Total
<20	489	203	69	0	9	770
20-24	2,132	21	979	0	57	3,189
25-29	2,874	6	2,607	1	81	5,569
30-34	3,297	6	3,306	2	155	6,766
35-39	3,779	7	3,676	9	206	7,677
40-44	5,462	29	5,332	33	313	11,169
45-49	6,512	77	6,961	100	299	13,949
50-54	6,300	133	6,691	259	256	13,639
55-59	4,476	175	4,574	1,825	158	11,208
60-64	1,789	263	864	5,977	91	8,984
65-69	313	481	49	6,217	72	7,132
70-74	49	457	5	3,531	29	4,071
75-79	0	566	0	2,421	16	3,003
80-84	0	599	0	1,493	2	2,094
85-89	0	414	0	652	2	1,068
>90	0	233	0	218	0	451
<b>Total</b>	<b>37,472</b>	<b>3,670</b>	<b>35,113</b>	<b>22,738</b>	<b>1,746</b>	<b>100,739</b>



## Employer and Employee Primary Contributions by Band

	Contribution Bands												Total Contributions
	Employer contributions £000	5.50%	5.80%	6.00%	6.50%	6.80%	8.50%	9.90%	10.50%	11.40%	12.50%	Total Employee Contributions	
		up to £13,500	£13,501 - £21,000		£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,001+		
Employers	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Ainthorpe Primary Academy	73	9	3	0	3	0	0	0	0	0	0	15	88
Anlaby with Anlaby Common Parish Council	3	1	0	0	0	0	0	0	0	0	0	1	4
Apetito	4	1	0	0	0	0	0	0	0	0	0	1	5
Appleton Primary Academy	77	9	5	0	0	0	0	0	0	0	0	13	90
Archbishop Sentamu	284	20	44	0	26	5	5	0	0	0	0	100	384
Ashwell Pupil Referral Unit Academy	101	1	6	0	9	0	0	0	0	0	0	17	118
Aspire Academy	33	1	9	0	2	0	0	0	0	0	0	12	45
Barton Upon Humber Parish Council	12	0	1	0	2	0	0	0	0	0	0	3	15
Bellfield Academy	68	9	3	0	2	0	0	0	0	0	0	14	82
Beverley Grammar	157	16	13	0	6	0	4	0	0	0	0	39	196
Beverley Town Council	14	0	1	0	3	0	0	0	0	0	0	3	17
Biggin Hill Primary Academy	159	5	21	0	5	0	0	0	0	0	0	31	190
Bishop Burton College	668	18	78	0	88	23	13	0	0	0	0	219	887
Bottesford Town Council	6	0	1	0	0	0	0	0	0	0	0	1	7
Bricknell Primary Academy	136	15	6	0	6	0	0	0	0	0	0	27	163
Bridlington Town Council	7	1	1	0	0	0	0	0	0	0	0	2	9
Brigg Town Council	8	0	2	0	1	0	0	0	0	0	0	3	11
Broughton Town Council	5	0	0	0	1	0	0	0	0	0	0	1	6
Brumby Engineering College Academy	153	11	17	0	5	0	0	0	0	0	0	33	186
Buckingham Primary School	99	12	4	0	0	0	0	0	0	0	0	17	116
Bude Park Primary Academy	102	10	4	0	3	0	0	0	0	0	0	18	120
Bulloughs Cleaning Services Ltd	13	3	0	0	0	0	0	0	0	0	0	3	16
Bursar Academy	52	5	2	0	4	0	0	0	0	0	0	11	63
Burton Upon Stather Parish Council	3	1	0	0	0	0	0	0	0	0	0	1	4
Cambridge Park	305	43	14	0	11	0	4	0	0	0	0	72	377
Canon Peter Hall Academy	39	8	2	0	0	0	0	0	0	0	0	10	49
Chiltern Primary	112	2	16	0	6	0	0	0	0	0	0	24	136
Christopher Pickering Primary Academy	25	2	1	0	1	0	0	0	0	0	0	4	29
Cleethorpes Academy	106	12	14	0	3	0	0	0	0	0	0	29	135
Cleeve Primary Academy	159	8	18	0	3	0	0	0	0	0	0	30	189
Cofely	562	10	28	0	95	23	6	0	0	0	0	160	722
Collingwood Academy	76	7	3	0	3	0	4	0	0	0	0	17	93
Coritani Academy	10	0	1	0	0	0	0	0	0	0	0	2	12
Cottingham Academy	242	17	27	0	9	5	0	0	0	0	0	58	300
Craven Primary Academy	66	7	3	0	3	0	0	0	0	0	0	12	78
Crowle Primary Academy	53	6	2	0	0	3	0	0	0	0	0	11	64
Dawes Lane Academy	34	0	1	0	7	0	0	0	0	0	0	8	42
Dorchester Primary Academy	120	6	9	0	8	0	0	0	0	0	0	22	142
Driffield Town Council	15	0	1	0	0	3	0	0	0	0	0	4	19
Dunswell Primary Academy	32	6	1	0	0	0	0	0	0	0	0	6	38
Easington Academy	29	5	2	0	0	0	0	0	0	0	0	7	36
East Ravendale Academy	32	6	1	0	0	0	0	0	0	0	0	7	39
East Riding College	535	37	58	0	36	13	9	0	9	0	0	161	696

## Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands											Total Employee Contributions	Total Contributions
	Employer contributions £000	5.50%	5.80%	6.00%	6.50%	6.80%	8.50%	9.90%	10.50%	11.40%	12.50%		
		up to £13,500	£13,501 - £21,000		£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,001+		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
East Riding of Yorkshire Council	22,763	2,289	2,300	0	2,421	863	385	52	103	70	11	8,496	31,259
Eastfield Academy	154	16	10	0	3	0	5	0	0	0	0	34	188
Eastfield Primary Academy	61	6	6	0	0	0	0	0	0	0	0	12	73
Edward Heneage Academy	68	6	4	0	3	0	0	0	0	0	0	14	82
Elliston Academy	8	1	0	0	0	0	0	0	0	0	0	2	10
Elloughton cum Brough Parish Council	13	0	1	0	0	2	0	0	0	0	0	3	16
EMIH Limited ("The Deep")	227	7	14	0	21	6	13	7	0	0	0	67	294
Endike Primary Academy	88	8	9	0	2	0	0	0	0	0	0	18	106
Endsleigh Holy Child RC Primary Academy	66	7	7	0	1	0	0	0	0	0	0	16	82
Epworth Academy	48	7	3	0	1	0	0	0	0	0	0	11	59
ERYC Councillors	82	0	0	32	0	0	0	0	0	0	0	32	114
Estcourt Primary Academy	112	11	6	0	4	0	0	0	0	0	0	21	133
Fairfield Academy (DRET)	17	3	1	0	1	0	0	0	0	0	0	4	21
Francis Askew Primary Academy	85	7	7	0	2	0	0	0	0	0	0	16	101
Franklin College	288	19	25	0	15	6	7	7	0	0	0	80	368
Future Cleaning Services	20	3	1	0	0	0	0	0	0	0	0	4	24
Ganton School	221	15	27	0	5	0	0	0	0	0	0	47	268
Goole Academy	288	32	30	0	10	3	0	0	0	0	0	74	362
Goole Town Council	88	5	7	0	10	0	2	0	0	0	0	25	113
Grimsby College	1,635	86	171	0	204	33	38	13	0	0	0	545	2,180
Hall Road Primary Academy	86	11	2	0	0	0	0	0	0	0	0	13	99
Havelock Academy	510	10	21	0	29	11	4	48	28	11	20	182	692
Healing Primary Academy	40	5	2	0	1	0	0	0	0	0	0	8	48
Healing Science Academy	153	16	13	0	8	7	0	0	0	0	0	44	197
Hedon Town Council	13	1	2	0	0	0	0	0	0	0	0	3	16
Henderson Ave Primary Academy	136	15	16	0	8	0	0	0	0	0	0	40	176
Hessle Academy	271	26	28	0	9	8	0	0	0	0	0	70	341
Hibaldstow Academy	26	3	1	0	2	0	0	0	0	0	0	6	32
Highlands Primary Academy	103	10	7	0	7	0	0	0	0	0	0	24	127
Holy Family Catholic Academy	117	11	10	0	4	0	0	0	0	0	0	25	142
Hornsea Town Council	24	0	3	0	1	0	0	0	0	0	0	5	29
Hull & Goole Port Health Authority	49	0	3	0	8	0	3	0	0	0	0	14	63
Hull Charterhouse Trustees	17	1	2	0	2	0	0	0	0	0	0	5	22
Hull City Council	28,962	1,007	1,640	19	2,446	746	548	172	145	39	0	6,762	35,725
Hull City Vision	31	0	1	0	9	2	3	0	0	0	0	15	46
Hull College	2,051	142	243	0	186	34	47	6	0	0	0	659	2,710
Hull Resettlement Project	20	0	0	0	0	3	4	0	0	0	0	7	27
Hull Studio School	2	1	0	0	0	0	0	0	0	0	0	1	3
Humber Bridge Board	341	4	13	0	54	15	9	0	9	0	0	105	446
Humberside Fire Brigade	964	36	95	0	113	52	25	10	0	0	0	332	1,296
Humberside Indep Care Assoc (HICA)	66	1	2	0	2	3	0	0	11	0	0	19	85
Humberston Academy	181	18	13	0	9	3	0	0	0	0	0	42	223
Humberston Cloverfields Primary Academy	53	12	0	0	0	0	0	0	0	0	0	12	65

## Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands											Total Employee Contributions	Total Contributions
	Employer contributions £000	5.50%	5.80%	6.00%	6.50%	6.80%	8.50%	9.90%	10.50%	11.40%	12.50%		
		up to £13,500	£13,501 - £21,000		£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,001+		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Humberston Park	224	23	22	0	6	0	9	0	0	0	0	60	284
Huntcliff School	120	9	12	0	3	3	0	0	0	0	0	27	147
ICS Chiltern	5	0	1	0	0	0	0	0	0	0	0	1	6
ICT 4 Collaboration	61	0	2	0	10	4	10	0	0	0	0	26	87
Immingham Town Council	37	0	4	0	1	0	4	0	0	0	0	10	47
John Leggott College	376	11	47	0	20	14	10	0	0	0	0	101	477
Kelvin Hall School	309	6	40	0	20	2	0	0	0	0	0	68	377
Kingstown Works	1,721	14	108	0	376	27	18	22	0	13	0	579	2,300
Kingswood College	154	6	14	0	12	0	4	0	0	0	0	35	189
Kingswood Park Primary	14	2	1	0	1	0	0	0	0	0	0	3	17
Kirk Ella & West Ella Parish Council	2	0	0	0	0	0	0	0	0	0	0	0	2
Laceby Acres	65	8	2	0	0	0	0	0	0	0	0	10	75
Lincs Inspire Limited	321	15	32	0	28	5	6	0	0	0	0	86	407
Lisle Marsden Academy	109	17	5	0	2	0	0	0	0	0	0	24	133
Longhill Primary Academy	128	11	6	0	4	2	0	0	0	0	0	22	150
Macaulay Academy	139	16	7	0	3	0	0	0	0	0	0	27	166
Market Weighton Town Council	13	0	1	0	3	0	0	0	0	0	0	3	16
Maybury Primary Academy	70	3	7	0	3	0	0	0	0	0	0	13	83
Melior Community College Academy	180	11	16	0	7	2	1	0	0	0	0	36	216
Mersey Primary Academy	53	5	5	0		0	0	0	0	0	0	10	63
Middlethorpe Academy	39	5	3	0	3	0	0	0	0	0	0	10	49
Neasden Primary Academy	82	10	1	0	3	0	0	0	0	0	0	15	97
NEIFCA	75	0	4	0	8	4	6	0	0	0	0	22	97
New Waltham Academy	57	7	3	0	2	0	0	0	0	0	0	12	69
Newington Primary Academy	80	9	5	0	2	0	0	0	0	0	0	16	96
Newland St Johns CofE Primary Academy	14	2	0	0	0	0	0	0	0	0	0	3	17
North Axholme Academy	79	5	7	0	5	0	0	0	0	0	0	17	96
North East Lincolnshire Council	5,677	329	581	3	742	292	186	100	10	36	0	2,280	7,957
North East Lincs CTP	44	0	0	0	3	5	0	0	0	0	0	8	52
North Lincolnshire Council	15,056	1,013	897	0	1,350	482	359	62	19	29	0	4,212	19,268
North Lincolnshire Homes	1,755	5	59	0	184	84	48	14	11	25	0	430	2185
North Lindsey College	548	31	70	0	43	8	13	14	0	0	0	177	725
NPS Humber	709	1	13	0	99	41	57	0	2	0	0	213	922
Nunthorpe Academy	79	9	11	0	4		0	0	0	0	0	23	102
Oasis Academy (Wintringham)	226	23	28	0	18	7	0	0	0	0	0	76	302
Oasis Accademy (Immingham)	161	14	18	0	9	0	3	0	0	0	0	45	206
Old Cleve Primary Academy	178	17	6	0	5	0	0	0	0	0	0	28	206
Ormiston Maritime Academy	256	24	24	0	9	4	0	0	0	0	0	61	317
Ouse & Humber Drainage Board	82	0	9	0	4	0	8	0	0	0	0	22	104
Outwood Academy (Foxhills)	168	14	12	0	9	0	0	0	0	0	0	34	202
Parkwood Primary Academy	69	11	6	0	4	0	0	0	0	0	0	20	89
Patrington Academy	49	12	2	0	0	0	0	0	0	0	0	15	64
Pearson Primary	59	0	9	0	3	0	0	0	0	0	0	13	72

## Employer and Employee Primary Contributions by Band (Continued)

	Contribution Bands												Total Contributions
	Employer contributions £000	5.50%	5.80%	6.00%	6.50%	6.80%	8.50%	9.90%	10.50%	11.40%	12.50%	Total Employee Contributions	
		up to £13,500	£13,501 - £21,000		£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,001+		
Employers	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Penhurst Academy	59	8	8	0	0	0	0	0	0	0	0	16	75
Phoenix House PRU	22	1	3	0	1	0	0	0	0	0	0	5	27
Pickering Homes Trust	183	4	8	0	20	5	0	13	0	8	0	58	241
Pocklington School	115	3	11	0	8	0	4	0	0	0	0	26	141
Priory Primary Academy	84	7	3	0	5	0	0	0	0	0	0	15	99
Probation Committee	446	20	11	0	46	18	1	4	0	0	0	100	546
Quay Academy	13	3	1	0	0	0	0	0	0	0	0	3	16
Reel Cinemas Ltd	2	0	0	0	0	0	0	0	0	0	0	0	2
Reynolds Primary Academy	85	11	6	0	1	0	0	0	0	0	0	18	103
Riverside	54	3	1	0	6	0	4	0	0	0	0	14	68
RM Education PLC	7	0	0	0	2	0	0	0	0	0	0	2	9
Robertson FM	15	3	1	0	0	0	0	0	0	0	0	4	19
Scartho Academy	29	3	1	0	2	0	0	0	0	0	0	5	34
Scawby Academy	73	7	2	0	5	0	0	0	0	0	0	13	86
Serco Limited	134		7	0	7	5	17	0	11	0	0	47	181
Sevenhills Academy	10	1	1	0	1	0	0	0	0	0	0	2	12
Sewell Facilities Management Limited	6	0	1	0	0	0	0	0	0	0	0	1	7
Shoreline	361	3	8	0	55	18	6	13	0	0	0	104	465
Signhills Academy	61	10	1	0	2	0	0	0	0	0	0	13	74
Signhills Infants Academy	64	10	1	0	0	0	0	0	0	0	0	11	75
Sirius Academy	262	15	35	0	15	5	1	7	0	0	0	78	340
South Axholme Academy	136	17	4	0	7	0	4	0	0	0	0	32	168
South Hunsley Academy	432	38	45	0	16	0	8	0	0	0	0	107	539
South Parade Academy	159	22	4	1	4	3	0	0	0	0	0	35	194
Southcoates Primary	111	8	6	0	5	0	0	0	0	0	0	19	130
Spring Cottage Academy	122	9	9	0	4	0	0	0	0	0	0	23	145
St Augustine Webster Academy	72	12	3	0	3	0	0	0	0	0	0	18	90
St Bede's Academy	123	12	8	0	3	3	0	0	0	0	0	26	149
St Bernadettes Academy	49	9	4	0		0	0	0	0	0	0	13	62
St James CofE Primary Academy	10	1	1	0	0	0	0	0	0	0	0	2	12
St Joseph's Catholic Academy	60	9	2	0	1	0	0	0	0	0	0	12	72
St Lawrence Academy	153	9	16	0	11	3	5	0	0	0	0	44	197
St Mary's Academy	32	5	1	0	2	0	0	0	0	0	0	7	39
St Mary's Catholic Primary Academy	70	10	3	0	0	0	0	0	0	0	0	13	83
St Mary's College	428	37	28	0	19	0	9	0	0	0	0	94	522
St Marys Queen of Martyrs RC Academy	65	9	5	0	1	0	0	0	0	0	0	15	80
St Norbetts Academy	19	4	2	0		0	0	0	0	0	0	6	25
St Richards RC Primary Academy	26	2	3	0	1	0	0	0	0	0	0	6	32
St Vincents RC Primary academy	38	4	2	0	3	0	0	0	0	0	0	9	47
Stepney Primary	49	1	7	0	3	0	0	0	0	0	0	11	60
Stockwell Academy	12	1	1	0		0	0	0	0	0	0	3	15
Strand Academy	80	11	2	0	5	0	0	0	0	0	0	18	98
Sutton Park Primary Academy	82	2	10	0	5	0	0	0	0	0	0	17	99

## Employer and Employee Primary Contributions by Band (Continued)

Employers	Contribution Bands											Total Employee Contributions	Total Contributions
	Employer contributions £000	5.50%	5.80%	6.00%	6.50%	6.80%	8.50%	9.90%	10.50%	11.40%	12.50%		
		up to £13,500	£13,501 - £21,000		£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,001+		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Swanland Academy	78	13	3	0	0	2	0	0	0	0	0	19	97
Sydney Smith School	24	0	1	0	3	1	0	0	0	0	0	6	30
The Boulevard Academy	44	0	6	0	1	0	4	0	0	0	0	10	54
The Chief Constable of Humberside	7,919	0	611	0	1,458	162	55	29	6	16	0	2,336	10,255
The Green Way Primary Academy	149	17	5	0	6	0	0	0	0	0	0	28	177
The Parks Academy	79	4	9	0	2	0	0	0	0	0	0	15	94
The Police and Crime Commissioner for Humberside	214	0	20	0	47	5	2	1	0	1	0	75	290
The Snaith School	139	15	7	0	6	2	0	0	0	0	0	30	169
Thomas Ferens Academy	214	10	19	0	4	2	0	0	0	0	0	36	250
Thoresby Academy	111	11	10	0	3	0	0	0	0	0	0	23	134
Thrunsoe Academy	71	11	2	0	2	0	0	0	0	0	0	15	86
Tollbar Academy	332	22	21	0	38	5	0	14	0	0	0	99	431
Trinity House Academy	96	3	7	0	6	0	0	0	0	0	0	17	113
Tweendykes Academy	242	8	27	0	8	4	0	0	0	0	0	48	290
Ulceby St Nicholas	6	0	0	0	1	0	0	0	0	0	0	2	8
University of Lincoln Students' Union	70	0	9	0	9	4	0	7	0	0	0	28	98
University of Lincolnshire & Humberside	4,727	50	152	0	473	170	193	75	0	39	0	1,151	5,878
Vale Academy	128	9	14	0	3	3	0	0	0	0	0	30	158
Waltham Leas Academy	84	11	4	0	2	0	0	0	0	0	0	18	102
Wansbeck Academy	53	6	5	0	0	0	0	0	0	0	0	11	64
Warter C of E Primary School	21	5	1	0	0	0	0	0	0	0	0	6	27
Weesby Academy	113	15	6	0	2	0	0	0	0	0	0	22	135
Welholme Primary Academy	68	10	5	0	1	0	0	0	0	0	0	16	84
Westwoodside Academy	44	5	4	0	0	0	0	0	0	0	0	9	53
Wheeler Academy	188	20	9	0	6	0	0	0	0	0	0	36	224
Whitgift Academy	188	12	15	0	13	0	0	0	0	0	0	40	228
Wilberforce College	180	14	16	0	14	3	0	0	0	0	0	46	226
Willoughby Road Primary Academy	83	15	4	0	2	0	0	0	0	0	0	21	104
Willow Academy	35	5	2	0	0	0	0	0	0	0	0	7	42
Winifred Holtby Academy	297	2	20	0	36	2	4	0	0	0	0	65	362
Winterton Academy	98	7	6	0	9	0	0	0	0	0	0	22	120
Winterton Town Council	3	0	0	0	1	0	0	0	0	0	0	1	4
Withernsea Town Council	15	0	3	0	1	0	0	0	0	0	0	4	19
Wold Academy	104	13	6	0	2	0	0	0	0	0	0	21	125
Wold Newton Junior School	23	5	0	0	1	0	0	0	0	0	0	7	30
Worlaby Academy	11	3	0	0	0	0	0	0	0	0	0	3	14
Wybers Wood Primary Academy	92	12	4	0	2	0	0	0	0	0	0	18	110
Wyke College	200	14	15	0	14	0	12	0	0	0	0	55	255
Yarborough Academy	77	13	2	0	2	0	0	0	0	0	0	17	94
Yorks & Humberside Grid for Learning	72	1	1	0	2	3	24	0	0	0	0	31	103
Young Peoples Support CIC	60	1	8	0	5	2	0	0	0	0	0	16	76
	116,144	6,594	8,608	55	11,413	3,290	2,233	690	363	287	31	33,564	149,708

# 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.

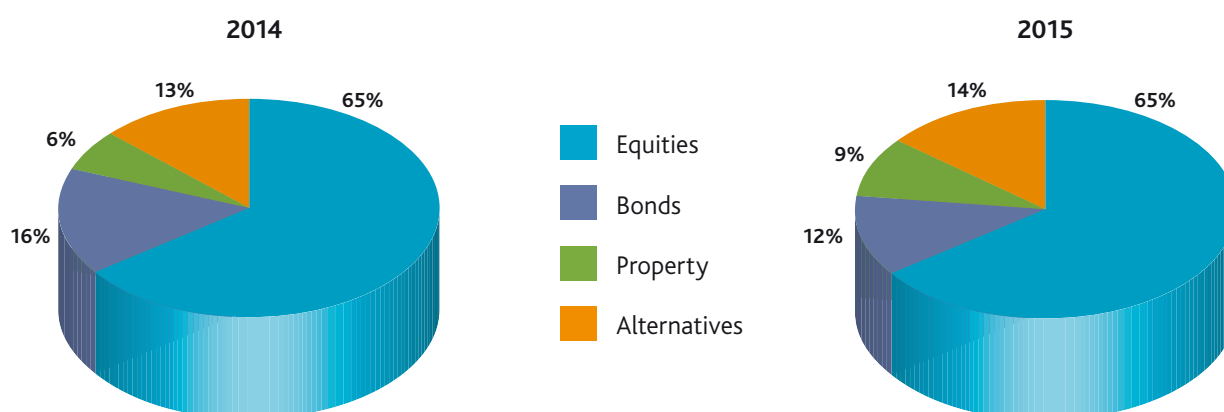
The strategic asset allocation of the Pension Fund effective during the year ended 31 March 2015 is as follows:

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

<sup>1</sup> 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.

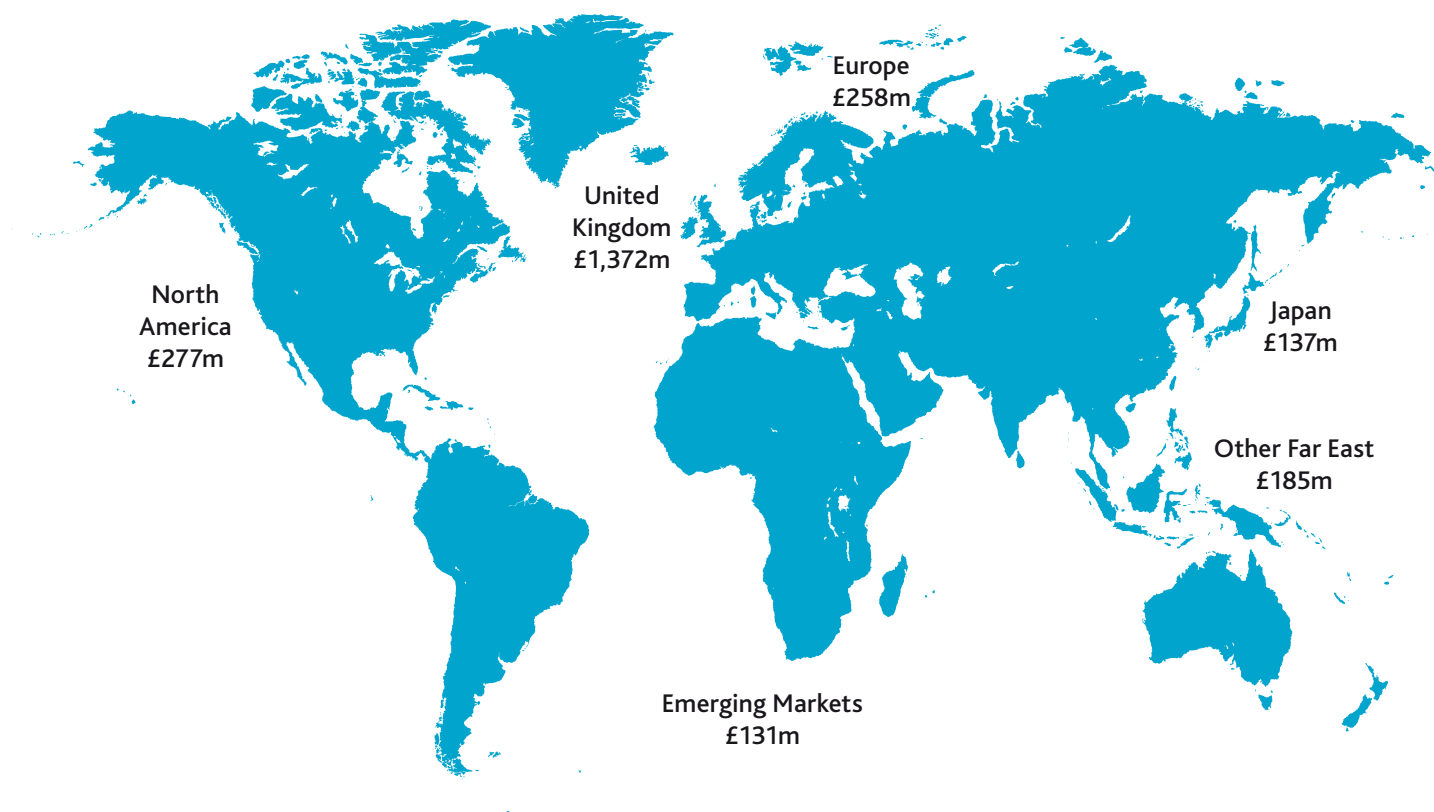




## Geographical Analysis of Fund Assets as at 31 March 2015

Asset Class	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	1,371.6	987.9	-	2,359.5
Bonds	223.9	122.8	-	346.7
Property (direct holdings)	-	-	-	-
Alternatives	558.8	259.2	-	818.0
Cash and cash equivalents	153.2	-	-	153.2
Other	-	-	-	-
<b>Total</b>	<b>2,307.5</b>	<b>1,369.9</b>	<b>-</b>	<b>3,677.4</b>

## Geographic Distribution of Equity Investment as at 31 March 2015



## Details of the Largest Equity Investments as at 31 March 2015

Top 15 UK Equities	Market Value £m	% Investment Assets	Top 15 Overseas Equities	Market Value £m	% Investment Assets
Royal Dutch Shell Plc - A and B Shares	53.1	1.4	Roche Holding AG	10.7	0.3
BP Plc	50.0	1.4	Montanaro European Smaller Companies Trust Plc	9.1	0.2
Glaxosmithkline Plc	48.9	1.3	Jupiter European Opportunities Trust Plc	9.1	0.2
Vodafone Group Plc	42.1	1.1	JP Morgan Smaller Companies Trust Plc	8.8	0.2
HSBC Holdings Plc	41.7	1.1	Sanofi	8.2	0.2
Astrazeneca Plc	41.6	1.1	Toyota Motor Corp	7.5	0.2
Shire Plc	40.2	1.1	Novo-Nordisk A/S	6.7	0.2
Biotech Growth Trust	37.7	1.0	SAP SE	6.7	0.2
Prudential Plc	31.5	0.9	Novartis AG	6.0	0.2
Unilever Plc	31.0	0.8	Sumitomo Mitsui Financial Group Inc	5.4	0.1
BT Group Plc	30.9	0.8	Mitsubishi UFJ Financial Group Inc	5.3	0.1
Verizon Communications Inc	30.4	0.8	KDDI Corp	5.0	0.1
British American Tobacco Plc	30.0	0.8	Anheuser-Busch Inbev NV Common	4.9	0.1
Arm Holdings Plc	29.3	0.8	Danone	4.8	0.1
Rio Tinto Plc	25.2	0.7	Vivendi SA	4.5	0.1

## Details of Institutional Unit Trusts as at 31 March 2015

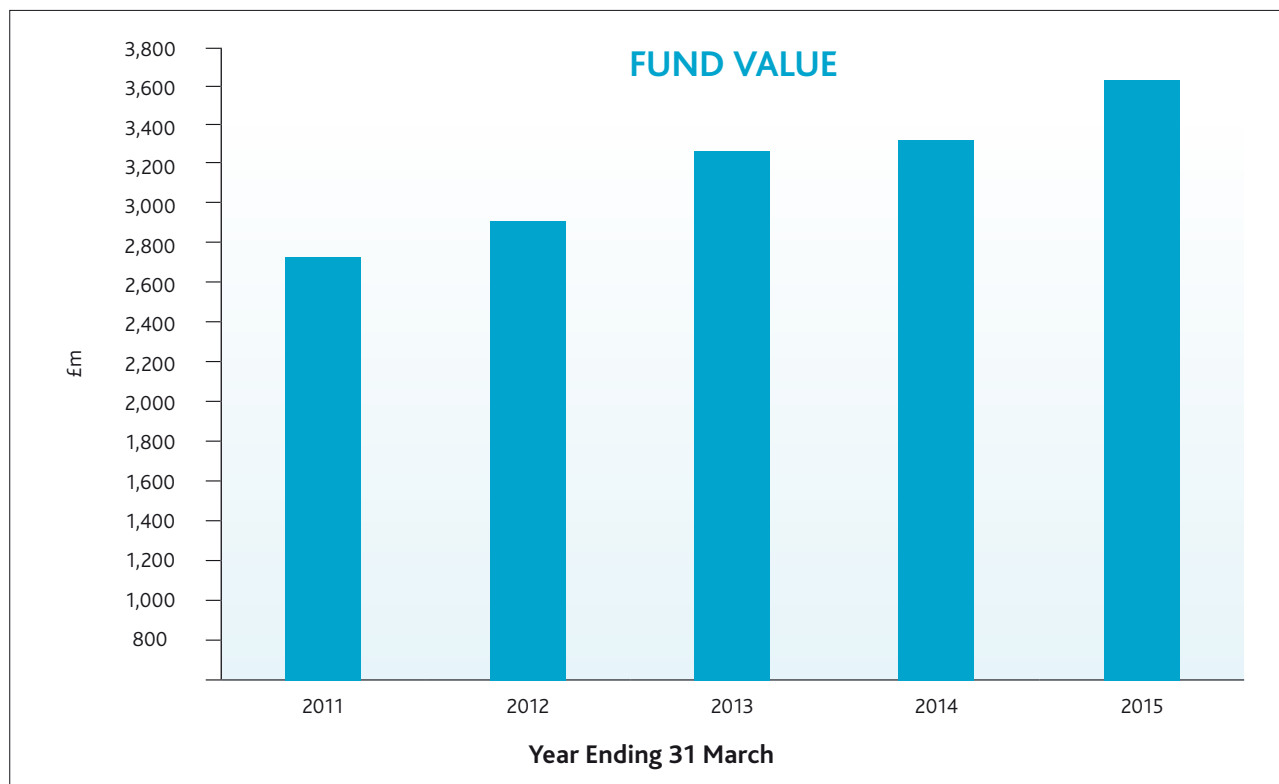
Global Equity Funds	Market Value £m	% Investment Assets
Schroder Funds		
SGST North America Equity Fund	274.4	7.5
Institutional Pacific Fund	144.8	4.0
Emerging Markets Fund	130.7	3.6
Developing Markets Fund	40.5	1.1
UK Smaller Companies Fund	31.1	0.8
Recovery Fund	15.4	0.4
European Smaller Companies Fund	12.9	0.4
Japan Smaller Companies Fund	4.8	0.1

## Property Funds

The Fund holds a portfolio of 31 Property investments valued at £330.2m as at 31 March 2015 in listed, pooled, and limited partnership structures. 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

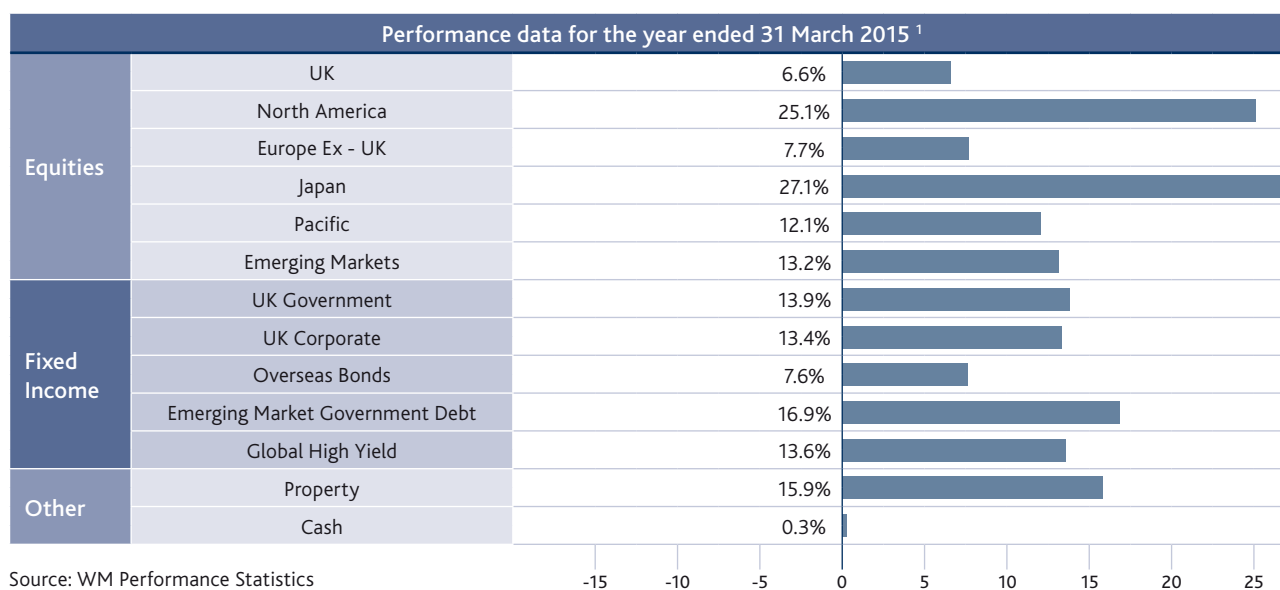
The value of the Fund over the last five years is shown in the following graph.



## Performance

### Investment Markets

All major asset classes generated total returns in excess of their long term average due to relatively stable global economic growth, a continued improvement in investor risk sentiment, and the impact of exceptionally loose monetary policy on bond yields and asset allocation decisions.



<sup>1</sup> The table shows the Fund's benchmark returns in each asset class within the strategic asset allocation

## 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 continued to seek higher returns given historically low bond yields.
- The best performing equity region, in sterling terms, was Japan due to the continued impact of the aggressive set of monetary and fiscal policy measures introduced by the Abe government in 2012 with only modest depreciation in the Yen.
- North America benefited from a continued improvement in economic growth whilst monetary policy remained relatively loose. In addition, sterling investors also benefited from significant appreciation in the \$US.
- Emerging Markets recovered following significant weakness in the previous year due to a stabilisation in economic growth, a modest recovery in the Eurozone, a large export market for the region, an improvement in leading indicators, and the positive impact of continued loose monetary policy in the developed economies.
- The Pacific region also recovered following weakness in the previous year due to its proximity to China and despite the negative impact of lower commodity prices on the Australian economy.
- Europe was a strong performer as a result of an improvement in economic growth, the boost from the introduction of quantitative easing, and improving investor sentiment as concerns regarding the sovereign debt issues were, at the time, relatively benign. However, sterling investors did not benefit as much due to the sharp depreciation in the Euro.
- The UK was the worst performing equity region due to its high weighting to commodity companies which were adversely affected by the sharp fall in commodity prices during the year as a result of weaker demand growth at a time when supply growth was accelerating.

## Fixed Income

- Fixed income markets were very strong during the year more than reversing the weakness in the previous year. This was due to a sharp fall in bond yields as a result of a reduction in interest rate expectations and the expected continuation of loose monetary policy. This was driven by a sharp fall in inflation expectations as a result of the significant reduction in commodity prices caused by weaker demand growth and stronger supply growth and the absence of inflationary pressures in labour markets.
- The UK market benefited from the expectation that interest rates would remain low and monetary policy would remain loose as stronger than expected economic growth had not had an impact on inflation expectations.
- In the Overseas developed markets, local currency returns were very strong as global bond yields fell significantly. The European markets, particularly Italy and Spain, benefited from the introduction of quantitative easing by the ECB in early 2015. However, changes in exchange rates had a material impact on returns to sterling investors with significant strength in the US dollar being positive but weakness in the Australian dollar, Yen, and Euro having a negative impact on sterling returns.
- Emerging Market bonds recovered as concerns regarding the impact of rising interest rates in the US on the asset class receded. Hard currency bonds benefited from strength in the US dollar but local currency bonds significantly under-performed as a result of significant depreciation in emerging market currencies.
- Corporate bonds performed relatively strongly, both investment grade and high yield, as a result of falling bond yields and a continued narrowing of credit spreads due to strong corporate balance sheets, low default rates, and investor demand for income. High yield also benefited from the strength in the US dollar.

## Property

- The UK property market was exceptionally strong again due to a further increase in capital values, as investors sought higher-yielding investments, 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 driving rental growth, and capital appreciation driven by investor demand.
- The worst performing sector was Supermarkets as yields have increased from exceptionally low levels, relatively low rental growth due to a tendency to be linked to inflation, and concerns regarding the trading performance of the major tenants and, consequently, excess supply.
- European property markets have lagged the UK as a result of weaker occupational markets and a lack of investor demand with the significant weakness in the Euro having a further adverse impact on sterling investors.

## 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. Economic growth in emerging markets is likely to be lower than its long term average and there may be adverse effects on asset values in the region in the short term as these economies adjust to a lower growth environment. 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 and there is a risk of a sharp correction in the short term. As a result, companies with robust balance sheets, visible revenue and earnings growth, and strong cash generation remain attractive in the current 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 is also likely to be support from continued loose monetary policy in the developed world and a potential 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, in the event of an equity market correction, or an escalation of the Eurozone crisis. 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, although emerging market currencies are likely to remain volatile in the short term.
- 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 the event of a correction. However, there are attractive opportunities within alternative credit investments such as corporate mezzanine debt, direct lending, senior secured loans, and healthcare royalty bonds.
- The UK property market could be adversely affected by a normalisation of interest rates and 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. The divergence in performance between Offices, particularly Central London, and Retail is likely to continue although not to the same extent as in the recent past as supply growth in the capital accelerates in the next 2 – 3 years. Industrial and logistic assets should continue to benefit from a changing retail environment and the lack of supply of suitable space. Residential values will be supported by under-supply of new properties, particularly in London and the South East, but valuations based on traditional metrics remain above the long term average and mortgage financing is likely to become more expensive. Social housing provides an attractive opportunity provided the final proposals for reform are sensible.

## 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	10.8%	10.7%	8.8%	8.1%
Strategic benchmark	10.9%	10.2%	8.5%	8.4%
Local Authority Average	13.2%	11.0%	8.7%	7.9%
Quartile	4th	3rd	2nd	2nd

Source: WM Annual Performance Review 2014 – 15

The Pension Fund has out-performed the strategic benchmark over 3 and 5 years and has out-performed the Local Authority Average over the long term. 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
<b>Equities</b>				
Fund	12.3%	13.6%	10.6%	10.0%
Strategic benchmark	10.3%	11.5%	8.4%	8.7%
Local authority average	13.7%	13.2%	9.6%	9.0%
<b>Fixed Income</b>				
Fund	8.5%	4.0%	5.1%	5.9%
Strategic benchmark	12.7%	5.4%	5.7%	6.8%
Local authority average	13.0%	7.1%	7.9%	6.7%
<b>Cash</b>				
Fund	0.6%	0.7%	0.7%	2.7%
Strategic benchmark	0.3%	0.4%	0.4%	2.3%
Local authority average	1.8%	2.0%	1.8%	2.9%
<b>Property</b>				
Fund	12.3%	7.0%	6.7%	3.8%
Strategic benchmark	15.9%	10.6%	9.8%	5.7%
Local authority average	15.8%	9.7%	8.9%	4.6%
<b>Alternatives</b>				
Fund	10.9%	10.5%	10.4%	N/A
Strategic benchmark	10.7%	9.7%	10.1%	N/A
Local authority average	12.5%	8.6%	6.4%	6.8%

Source: WM Annual Performance Review 2014 – 15

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	
	(Restated) 2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Equities	1,461,288	1,531,784	717,266	827,678
Fixed Income <sup>1</sup>	420,687	464,208	110,814	8,082
Property	206,452	330,168	-	-
Alternatives	425,445	487,807	-	-
Total	2,513,872	2,813,967	828,080	835,760

<sup>1</sup> 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	8.7%	10.7%	9.0%	7.3%
Strategic benchmark	9.2%	10.1%	8.5%	8.2%
Schroder IM	17.5%	11.1%	8.6%	10.3%
Strategic benchmark	17.0%	10.8%	8.2%	9.2%

Source: WM Annual Performance Review 2014/15

## 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 40 to 42.

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](http://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 2015" guidance document which is available at [www.pirc.co.uk](http://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](http://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	185	2,482	2,399	83
North America	496	5,845	5,662	183
Europe ex-UK	111	1,806	1,723	83
Japan	154	1,619	1,587	32
Pacific ex-Japan	57	471	471	0
Emerging Markets	171	1,803	1,720	83
<b>Total</b>	<b>1,174</b>	<b>14,026</b>	<b>13,562</b>	<b>464</b>

## 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](http://www.frc.org.uk)

### Principle 1 – Institutional investors should publicly 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](http://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](http://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	<p>The Pensions Committee meets on a quarterly basis to discuss current issues, future policy, and tactical asset allocation.</p> <p>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.</p> <p>The Committee have appointed suitably qualified investment managers to manage the investments of the Fund on their behalf.</p> <p>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.</p> <p>A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented.</p>
Clear Objectives	<p>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.</p> <p>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.</p> <p>In determining the Fund's asset allocation, the Committee consider all asset classes in terms of their suitability and diversification benefits.</p>
Risk and Liabilities	<p>The Administering Authority has an active risk management programme in place including a Pension Fund-specific risk register and risk management schedule.</p> <p>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.</p> <p>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".</p> <p>The Committee reviews the Pension Fund's risk management schedule on a quarterly basis and the risk register on a semi-annual basis.</p>
Performance Assessment	<p>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.</p> <p>Investments made by the Fund's investment managers are reviewed by the Committee on a quarterly basis.</p> <p>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.</p>
Responsible Ownership	<p>The Committee's policies on corporate governance, socially responsible investment, and shareholder voting are outlined in the Statement of Investment Principles.</p>
Transparency and Reporting	<p>The following core documents are published on the Pension Fund's website:</p> <ul style="list-style-type: none"> <li>- Pension Fund Annual Report and Accounts.</li> <li>- Statement of Investment Principles.</li> <li>- Governance Compliance Statement.</li> <li>- Funding Strategy Statement.</li> <li>- Corporate Governance and Voting Policy.</li> <li>- Pension Committee Agendas and Minutes.</li> </ul>

# scheme administration report

## Administration

The introduction of LGPS 2014 provided many challenges for the East Riding Pension Fund in 2014/15. Paramount was the training of all staff to ensure that they were fully conversant with LGPS 2014 so that the changes could be effectively communicated to all members and employers. However the challenges proved greater than anticipated as the delay in the issue of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, which set out how accrued rights up to 31 March 2014 were protected resulted in guidance not being issued until Summer 2014. This impacted on the software development of the new calculation routines for LGPS 2014 which resulted in the manual calculation of pension benefits for the first quarter of 2014/15.

Throughout 2014/15, work procedures have been continuously updated following the issue of regular advice from the Local Government Employers on all aspects of LGPS 2014. Consequently the final phase of the implementation of the Universal Pensions Management (UPM) pensions administration system, the Web access project, was delayed as the supplier, Civica, concentrated resources on developing software changes for LGPS 2014. Fixes were provided by Civica to the Fund on a regular basis during 2014/15.

The first full year of running the pensioner payroll in house was successful and eight compliments were received on the service provided. As the UPM Pensioner payroll system is strongly interlinked with the administration system, there have been significant efficiencies achieved in terms of staff time and reducing costs.

There was a comprehensive review of the work carried out by the Pensions section during 2014/15 to ensure that firstly the office structure was aligned with the UPM pensions administration system to achieve efficiencies. Secondly, the review was to ensure flexibility to adapt to changing workloads as a result of LGPS 2014 and changes in work procedures arising from a web based approach to work and the increasing number of employers.

Following the review, the Pensions section, which provides the administration function for the Pension Fund and 215 employers, is made up of the following four teams:

- The Member Maintenance team is responsible for the setting up, monitoring and maintaining of all members records, including calculating benefit entitlement for members leaving the scheme before retirement and dealing with incoming and outgoing transfer payments. They also deal with annual and ad-hoc projects, for example loading and checking year end returns for all active scheme members and liaising with the Fund employers to ensure accurate data is received and recorded.
- The Systems and Web team is responsible for the development of the UPM system, providing technical IT support to the section as well as liaising with all Fund employers. The team is working towards web based communication with employers and members including developing on line self service facilities.
- The Financial Control and Pensioner Payroll team undertake routine and non-routine tasks and deal with monthly, quarterly, annual and triennial events. 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 team have responsibility for the payment of all the East Riding Pension Fund pensioners.
- The Benefits, Technical and Training team pay benefits to retiring, early leaver members and in respect of deceased members. They provide a comprehensive training role for the whole section and provide education, advice on the interpretation of the LGPS Regulations.

### Staffing numbers in the Pensions section

There are 45 full time equivalent (FTE) posts in the Pensions section with 30 staff responsible for pensions administration work. This equates to a staff to fund-member ratio of one FTE employee to 3,358 members, based on the total fund membership of 100,739.

Throughout 2014/15 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 2013/14 annual returns to generate the annual

benefit statements and annual allowance checks. This has allowed the Pensions section to develop new ways of working to maximise the efficiencies of the UPM system and the changes were formalised in the review of the Pensions section which was implemented on 1 April 2015.

### Communications

The delays experienced with the UPM Web access project due to the resources required for LGPS 2014 meant that the Communications policy was put on hold during 2014/15. The implementation of the UPM Web access project is now scheduled for Spring 2016 and initially will allow Fund employers to carry out enquiries and update scheme member records. Access to allow members to view data and update their records via the internet will follow in Autumn 2016. 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.

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 2014/15 with 50 email briefings covering in the main LGPS 2014 updates including new forms, discretions, ill health guidance and HR and Payroll guidance. The briefings were backed up by inviting all employers to regular Joint Employer Update meetings which took place in September and October 2014 and in February and March 2015. 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 completing LGPS 2014 forms.

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 – [www.erpf.org.uk](http://www.erpf.org.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.

### Audit

The administration of pensions is regarded as one of the Council's major financial systems and is reviewed on an annual basis. The latest Audit review was a full coverage review of pensions administration and an opinion of significant assurance was provided on the control framework and significant assurance for control compliance.

## 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 by 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 that 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 2014/15, there were two complaints which went to stage 2 against decisions made by the administering authority. Both complaints were dismissed. One complaint against a decision made by an employer under stage 1 was dismissed at stage 2 by the Pensions Manager.

A complaint which went to stage 2 against a decision made by the administering authority, and dismissed in 2013/14, was referred by the member to the Pensions Ombudsman in 2014/15. The Pensions Ombudsman did not uphold the complaint.

## Compliments

The Fund received 61 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 training provided to employers.



# report of the actuary

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

## 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 78.2% 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 £860 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 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically causing the liability to rise, and the effect of this has been only partially offset by the effect of strong asset returns. The funding level is likely to have worsened and deficit increased over this period.

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  
27 July 2015

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

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

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

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'.

The Governance Policy Statement was approved by the Pensions Committee on 21 March 2014, took effect from 1 April 2014, and is reviewed on an annual basis.

## Pensions Committee as at 31 March 2015

<b>Members</b>	<b>Number of meetings attended (max 8)</b>
Councillor E Aird	7
Councillor A Burton	7
Councillor C Chadwick	8
Councillor M-R Hardy (wef September 2014)	4
Councillor J Head (to May 2014)	1
Councillor A Hodgson	4
Councillor J Holtby	7
Councillor S Horton	5
Councillor K Hough (to July 2014)	3
Councillor G Mathieson (wef June 2014)	5
Councillor C Mole (wef June 2014)	5
Councillor K Moore	6
<b>Unitary Councillor Representatives</b>	
Councillor D Billard (North East Lincolnshire)	1
Councillor I Glover (North Lincolnshire)	6
Councillor P Webster (Hull City)	0
<b>Trade Union Observers</b>	
Ms A Bentley (GMB)	3
Mr M Burgess (UNITE)	6
Mr J Wharvell (Unison)	1
Mr B Smith (Unison)	1

## 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 51.

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.

During the year the Committee:

- Agreed a Statement of Investment Principles (SIP) which sets out in detail how the Fund is managed (pages 109 to 113) and a Governance Policy Statement, which sets out in detail how the Fund is governed (page 51);
- Reviewed the management of the Fund and analysed the performance of the Fund and individual investment managers;
- Exercised the options to extend the external investment management and actuarial services contracts;
- 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 2013 – 14;
- Reviewed the audit and assurance reports of the Fund's investment managers and the global custodian;
- Reviewed the Fund's strategic risk register;
- Reviewed a number of the Fund's pension administration policies;
- Approved the terms of reference for the Local Pension Board;
- Received training as part of the Member training programme (more details on pages 53 to 54);
- 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 2015, the Fund generated a return of 10.8%, compared to the strategic benchmark return of 10.9%, the Local Authority average return of 13.2%, and the Retail Price Index, which was 0.9% 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 lower relative weighting to Fixed Income and a higher relative weighting to Cash.

Over the three years to 31 March 2015, the Fund has generated a return of 10.7% per annum, compared to the strategic benchmark return of 10.2% per annum, the Local Authority Average of 11.0% 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 is expected to issue a consultation on the potential reform of investment management arrangements within the LGPS with an emphasis on the pooling of assets across LGPS funds. 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 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 John Holtby**  
**Chairman**  
**September 2015**

## 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:

- Current trends in asset allocation including Equities, Fixed Income, and Alternatives.
- Current trends in Equities including passive v. active, smart beta, responsible investment, and management fees.
- Current trends in Fixed Income including absolute return, multi-asset credit, high yield, emerging markets, private debt, and alternative credit opportunities.
- Current opportunities in Alternative investments including infrastructure, private equity, and real estate.
- Current trends in global macroeconomics including inflation, interest rates, and the potential impact of long term demographic trends.
- Current trends in liability driven investment strategies and liability matching.
- Review of the 2013 Actuarial Valuation exercise.
- 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, the work of the Shadow Scheme Advisory Board, and increased governance requirements.
- Potential changes to accounting requirements for the LGPS.
- Corporate governance issues including executive remuneration, board representation and diversity, shareholder activism, corporate taxation, accounting standards, roles and responsibilities of auditors, infrastructure investment and regeneration, employee rights, 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 experiences 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

Both the Pension Fund's internal and external investment managers are subject to an annual performance review conducted by the Head of Finance and the Pension Fund's independent advisor.

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 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 Based on International Reporting Standards (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 2015 and its income and expenditure for the financial year then ended.

**Caroline Lacey**  
**Head of Finance**  
**East Riding Pension Fund**  
**September 2015**

# fund account, net assets statement and notes

## Fund Account

For the year ended 31 March 2015

(Restated) 2013/14	Note	Dealings With Members and Employers	2014/15
£000			£000
157,728		Contributions	162,036
3,823		Augmentation	3,028
161,551	G	Contributions receivable	165,064
5,221		Individual transfer values receivable	1,977
524		Group transfer values receivable	0
167,296			167,041
-127,931	H	Benefits payable	-132,223
-7,447	I	Payments to and on account of leavers	-64,633
31,918		Net additions/reductions (-) from dealings with Members	-29,815
		Returns on investments	
83,555	K	Investment income	107,113
-374	L	Taxes on income	-403
177,463	M	Profit and losses on disposal of investment and changes in the market value of investments	239,673
-5,026	J	Management Expenses	-4,793
255,618		Net Return on Investments	341,590
287,536		Net increase in the net assets available for benefits during the year	311,775
		Net Assets of the Fund	
3,078,080		Opening assets as at 1 April	3,365,616
287,536		Surplus on the pension fund for the year	311,775
3,365,616		Closing net assets as at 31 March	3,677,391

## NET ASSETS STATEMENT

Restated 2013/14	Note		2014/15
£000			£000
	<b>M</b>	<b>INVESTMENT ASSETS</b>	
		<b>Fixed Interest Securities</b>	
95,470		UK - Public Sector	99,824
56,675		UK - Other Quoted	57,600
68,920		Overseas - Public Sector	62,300
19,221		Overseas - Corporate Fixed Interest	31,122
27,997		Global High Yield - Quoted	26,049
13,090		Global High Yield - Unquoted	24,325
17,263		Emerging Market Government	18,990
298,636			320,210
		<b>Equities</b>	
1,227,197		United Kingdom	1,296,231
345,287		Overseas	373,911
1,572,484			1,670,142
		<b>Index Linked Securities</b>	
14,929		UK - Public Sector	9,942
4,019		UK - Corporate Bonds	4,451
9,396		Overseas - Public Sector	12,122
28,344			26,515
		<b>Pooled Investment Assets</b>	
606,070		Managed Funds	689,321
40,762		Property - Quoted	78,732
167,905		Property - Unquoted	251,436
68,088		Private Equity - Quoted	77,668
108,074		Private Equity - Unquoted	101,252
28,183		Infrastructure - Quoted	34,141
65,058		Infrastructure - Unquoted	68,724
84,622		Other Investments - Quoted	88,326
69,205		Other Investments - Unquoted	117,696
1,237,967			1,507,296
	<b>M</b>	<b>Cash</b>	
198,412		Fixed Term Deposits	114,779
102		Internal Manager	2,704
6,007		External Manager	8,082
204,521			125,565
		<b>Other Investment Balances</b>	
356		Accrued interest on temporary investments	164
2,337		Unsettled sales	1,209
1,288		Income held by Custodian	1,471
7,239		Accrued dividends	8,427
11,220			11,271
3,353,172		<b>TOTAL INVESTMENT ASSETS</b>	3,660,999
		<b>INVESTMENT LIABILITIES</b>	
-633		Cash with internal manager	0
-2,592		Unsettled purchases	-102
-5		Tax on accrued dividends	0
-41		Liabilities with Custodian	-46
-3,271		<b>TOTAL INVESTMENT LIABILITIES</b>	-148
19,623	<b>N</b>	<b>CURRENT ASSETS</b>	20,848
-3,908	<b>O</b>	<b>LESS CURRENT LIABILITIES</b>	-4,308
15,715		<b>NET CURRENT ASSETS</b>	16,540
3,365,616		<b>NET INVESTMENT ASSETS</b>	3,677,391

The Accounts summarise the transactions and deals 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.

The 2013/14 net assets have been restated from £3,316,466k to £3,365,616k due to a change in valuation method of unquoted investments (see Note C Changes in Accounting Policies on page 58). This affects the comparative figures in a number of notes within the Pension Fund accounts, which have been restated where necessary.

## 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 116.

### 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 2014/15 Based on International Financial Reporting Standards, which requires that the Fund's Accounts comply with IAS 26 Accounting and Reporting by Retirement Benefit Plans, subject to the interpretations and adaptations detailed in the Code and the Statement of Recommended Practice on Financial Reports of Pension Schemes (the SORP).

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

#### 2. Changes in Accounting Policies

##### a) Valuation of Unquoted Investments

The previous accounting policy on unquoted investments valued these investments at their market value at the date of the Statement, where this was available, or the lower of cost and fair value. This was not in accordance with the SORP which stated that unquoted investments 'should be included at the fair market value estimates by the administering authority, based on the advice of the investment managers or other appropriate professional adviser'. The accounting policy now values unquoted investments at their market value, where this is available, or their fair value. The methodology for calculation of fair value remains the same.

The impact on the value of unquoted investments as a result of the change in accounting policy as at 1 April 2014 is as follows:

	Original	Change	Restated
	£000	£000	£000
Property	165,689	2,216	167,905
Private Equity	77,675	30,399	108,074
Infrastructure	48,634	16,424	65,058
Other	69,094	111	69,205
	361,092	49,150	410,242

##### b) CIPFA Guidance document 'Accounting for LGPS Management Costs'

The CIPFA Guidance document 'Accounting for LGPS Management Costs' recommends the introduction of a third Fund cost category to the Fund Account – oversight and governance costs, in addition to investment management costs and pension administration costs.

The change in the Fund Account has been reflected in the 2014/15 accounts with a restatement of prior year comparators. Other disclosures in the Notes to the Accounts have been affected by this change and have been restated as at 31 March 2014.

The CIPFA Guidance also recommends the disclosure of all fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties, and any performance related fees. The Guidance will be adopted for 2014/15 with a restatement of prior year comparators. The Fund has opted to disclose this information in a note to the accounts.

### 3. 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' 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 2013 effective from 1 April 2014. Further information regarding the Actuary's Report and Actuarial Valuation as at 31 March 2013, effective from 1 April 2014, can be found on pages 48 to 50 of these accounts. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of scheme contributions set by the scheme Actuary or on receipt if earlier than the due date. 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. Transfer values are disclosed as individual transfers and group transfers.

#### 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.

### 4. 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 paid relating to members leaving the Fund during the financial year and are accounted for in the year of receipt.

### 5. Expenses

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

## 6. 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 fair value.

Investments made through the UK Stock Exchanges are valued at bid market price at the close of business on 31 March 2015. Investments made on overseas stock exchanges are valued at bid price or last trade price.

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.

Investments held in foreign currencies are translated in the Accounts by the application of the appropriate rate of exchange ruling at 31 March 2015. Note T lists the exchange rates applied to investments held as quoted in the Financial Times.

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.

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 statements, the Fund will consider writing down the value of the investment.

## 7. 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 pages 49 and 50 of these accounts and should be read in conjunction with the report.

The Actuarial information disclosed on pages 47 to 49 complies with the accounting requirements of International Accounting Standard 19 Employee Benefits.

## 8. 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.

## 9. Value Added Tax

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

## 10. Management Expenses

Management expenses are disclosed in accordance with the CIPFA Guidance Accounting for LGPS Management Costs.

All pension administration expenses are accounted for on an accruals basis. All employee costs of the pension administration section are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

All investment management expenses are accounted for on an accruals basis. All employee costs of the investment section are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.



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

Custody fees are agreed in the mandate for the provision of custodian services.

All oversight and governance costs are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management costs for the Fund's unquoted pooled investments are obtained using financial information from the relevant investment manager. However, it should be noted that the accounting period to which this relates may differ from the Fund's accounting period and, therefore, the costs incurred may not be directly comparable.

#### **11. Currency Conversion Rates**

Overseas investments have been converted at the exchange rate quoted in the Financial Times at close of business on 31 March 2015 to arrive at sterling values in the Net Asset Statement.

#### **12. 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).

#### **13. 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 2013 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, see note W.

#### **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 48 and 49.

##### **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 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.

#### **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 a significant risk of material adjustment in the forthcoming financial 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 technique and non-marketable observable inputs. Unquoted investments are stated at fair value.

### 16. Policy for Funding the Promised Retirement 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 / Pay 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	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. This note has been restated following the change in accounting policy on the valuation of unquoted investments. One investment falls into this former category as follows:

2013/14				2014/15		
Number of Units	Value £000	% of Net Assets		Number of Units	Value £000	% of Net Assets
26,715,120.192	228,829	6.8	Schroder North American Equity Fund	27,176,423.722	274,419	7.5

Investments which fall into the second category are as follows:

2013/14				2014/15		
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			<b>UK Fixed Interest - Public Sector</b>			
13,125,000	14,787	15.5	Treasury 4.5% 2019	13,125,000	14,958	15.0
10,407,000	11,577	12.1	Treasury 4% 2022	10,407,000	12,261	12.3
6,400,000	7,702	8.1	Treasury 5% 2025	6,400,000	8,407	8.4
2,124,000	2,425	2.5	Treasury 4.25% 2032	6,100,000	8,028	8.0
3,400,000	3,842	4.0	Treasury 4.25% 2027	6,000,000	7,677	7.7
1,000,000	1,132	1.2	Treasury 4.25% 2036	5,000,000	6,718	6.7
2,138,000	2,640	2.8	Treasury 4.75% 2038	4,000,000	5,851	5.9
0	0	0.0	Treasury 2.75% 2024	5,000,000	5,499	5.5
0	0	0.0	Treasury 2.0% 2020	4,800,000	4,999	5.0
5,600,000	5,730	6.0	Treasury 5% 2014	0	0	0.0
			<b>UK Fixed Interest - Other</b>			
0	0	0.0	Standard Chartered Bank 5.375% 2049	7,000,000	7,240	12.6
6,012,000	6,257	11.0	Nationwide Building Society 6.0% 2049	6,012,000	6,257	10.9
5,060,000	5,624	9.9	Tesco Plc 5.5% 2019	5,060,000	5,577	9.7
4,650,000	5,295	9.3	Southern Water Services Finance Ltd 6.125% 2019	4,650,000	5,393	9.4
5,000,000	5,286	9.3	Pennon Group 6.75% 2049	5,000,000	5,334	9.3
0	0	0.0	SSE 3.875% 2049	5,000,000	4,970	8.6
0	0	0.0	Network Rail Infrastructure Finance Plc 1.0% 2017	4,500,000	4,523	7.9
4,000,000	4,441	7.8	SSE PLC 5.0% 2018	4,000,000	4,475	7.8
10,000,000	10,020	17.7	Lloyds Bank 1.5% 2017	4,000,000	4,063	7.1
0	0	0.0	NGG Finance 5.625% 2073	3,650,000	4,040	7.0
3,000,000	2,887	5.1	Nationwide Building Society 5.769% 2049	3,000,000	2,997	5.2
5,000,000	5,157	9.1	SSE PLC 5.453% 2049	0	0	0.0
4,500,000	4,405	7.8	Network Rail Infrastructure Finance Plc 4.875% 2015	0	0	0.0
			<b>Overseas Fixed Interest - Public Sector</b>			
12,164,000	8,078	11.7	US Treasury 4% 2018	12,164,000	9,015	14.5
1,000,000,000	5,800	8.4	Japan 0.6% 2023	1,000,000	5,753	9.2
6,368,000	4,238	6.1	Canada 3.5% 2020	5,118,000	3,097	5.0
9,000,000	5,398	7.8	US Treasury 0% 2014	0	0	0.0
4,727,000	4,245	6.2	Germany 4% 2016	0	0	0.0
4,000,000	3,512	5.1	France 3.25% 2016	0	0	0.0
			<b>Overseas Corporate Securities</b>			
5,100,000	6,128	31.9	European Investment Bank 5.5% 2025	5,100,000	6,852	22.0
5,000,000	5,561	28.9	Temasek Financial Ltd 4.625% 2022	5,000,000	5,934	19.1
5,000,000	5,382	28.0	RWE AG 7% 2049	5,000,000	5,419	17.4
0	0	0.0	Electricite de France 5.875% 2049	5,000,000	5,415	17.4
0	0	0.0	Temasek Financial Ltd 3.375% 2042	8,195,000	5,243	16.8
1,850,000	2,150	11.2	Bank Nederlandse Gemeenten NV 5.375% 2021	1,850,000	2,260	7.3
			<b>Global High Yield</b>			
80,016.8141	11,489	28.0	Nomura US High Yield	80,016.8100	13,137	26.0
0	0	0.0	Oberon Credit Investment Fund 2	n/a	13,007	25.7
13,491,742	13,397	32.6	NB Global Floating Rate Income Fund	13,491,742	12,912	25.5
n/a	13,090	31.9	Oberon Credit Investment Fund 1	n/a	11,565	22.8
8,887,521	3,111	7.6	Harbourvest Senior Loans Europe Ltd	0	0	0.0
			<b>Emerging Market Government</b>			
45,237.05959	9,144	53.0	Pictet Global Emerging Debt 1	45,237.05959	10,862	57.2
82,000.82001	8,119	47.0	Pictet Institutional Emerging Debt 1	82,000.82001	8,128	42.8
			<b>UK Index Linked - Public Sector</b>			
0	0	0.0	Treasury 0.125% 2024	4,550,000	5,315	53.5
6,626,000	9,863	66.1	Treasury 1.875% 2022	3,000,000	4,627	46.5
3,510,000	5,067	33.9	Treasury 1.25% 2017	0	0	0.0
			<b>UK Index Linked - Corporate Bonds</b>			
2,680,000	4,019	100.0	Network Rail Infrastructure Finance Plc 1.75% 2027	2,680,000	4,451	100.0
			<b>Overseas Index Linked - Public Sector</b>			
5,578,000	4,057	43.2	US Treasury 1.625% 2018	5,578,000	4,466	36.8
6,170,000	3,750	39.9	US Treasury 0.125% 2022	6,170,000	4,335	35.8
0	0	0.0	US Treasury 0.125% 2024	5,000,000	3,322	27.4
1,000,000	1,589	16.9	Kommunalbanken 2.6225% 2016	0	0	0.0

2013/14				2014/15		
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			<b>Managed Funds</b>			
26,715,120.192	228,829	37.8	Schroder North American Equity Fund	27,176,423.722	274,419	39.8
24,273,136.06	148,775	24.5	Schroder Institutional Pacific Fund	21,851,828.56	144,793	21.0
5,170,928.3978	115,990	19.1	Schroder Emerging Markets Fund	5,170,928.3978	130,741	19.0
1,251,015.2125	21,641	3.6	Schroder Institutional Developing Markets	2,084,293.4348	40,446	5.9
5,000,000	30,200	5.0	Schroder Institutional UK Smaller	5,000,000	31,155	4.5
			<b>Property</b>			
15,000,000	15,938	7.7	Tritax Big Box REIT	27,347,333	31,655	9.6
0	0	0.0	AEW UK South East Office Fund	n/a	29,512	8.9
418,806.86	24,884	12.1	Standard Life Property Pension Fund	418,806.86	28,999	8.8
0	0	0.0	Empiric Student Property	20,926,829	21,502	6.5
0	0	0.0	Lucent Strategic Land Fund	17,111	21,213	6.4
216,794.982	19,278	9.3	Invesco Real Estate European Fund	216,794.980	17,173	5.2
17,737,557	14,900	7.2	Medicx Fund Limited	18,046,870	15,250	4.6
9,777.6281	12,595	6.1	Henderson Central London Office Fund II	9,777.6281	12,706	3.8
n/a	18,320	8.9	European Real Estate Debt Fund	n/a	8,185	2.5
n/a	12,568	6.1	The Careplaces Unit Trust	n/a	7,321	2.2
			<b>Private Equity</b>			
1,500,000	15,600	10.7	Pantheon International Participations Red Plc	1,500,000	18,900	10.6
1,404,191	15,348	10.5	Pantheon International Participations Ord Plc	1,190,000	16,053	9.0
n/a	10,054	6.9	Glenmont Clean Energy Fund A	n/a	11,312	6.3
809,993	8,513	5.8	HG Capital Trust Plc	809,993	9,153	5.1
n/a	7,771	5.3	Partners Group Global Opportunities	n/a	6,577	3.7
			<b>Infrastructure</b>			
n/a	7,316	9.5	Equitix Fund I LP	n/a	17,915	17.4
n/a	9,723	12.7	Innisfree PFI Continuation Fund	n/a	11,543	11.2
n/a	7,711	10.0	Innisfree PFI Secondary Fund	n/a	10,336	10.0
n/a	5,627	7.3	Equitix Fund II LP	n/a	9,210	9.0
5,600,000	6,591	8.6	John Laing Infrastructure Fund Ltd	5,600,000	7,062	6.9
4,350,000	5,912	7.7	HICL Infrastructure Company Ltd	4,350,000	6,808	6.6
1,812,500	3,292	4.3	The Renewables Infrastructure Group	6,420.00	6,613	6.4
n/a	5,743	7.5	AMP Capital Infrastructure Debt Fund LP	n/a	5,551	5.4
n/a	6,643	8.6	Henderson PFI Secondary Fund II	n/a	0	0.0
			<b>Other Investments</b>			
12,000,000	12,780	8.3	Doric Nimrod Air Three Ltd	20,040,008	22,445	10.9
5,000,000	11,300	7.4	Doric Nimrod Air Two Ltd	7,250,000	17,473	8.5
12,500,000	15,250	9.9	Twentyfour Income Fund	12,500,000	15,938	7.7
20,000,000	11,996	7.8	Investec Aircraft Syndicate 1	20,000,000	15,068	7.3
20,000,000	11,996	7.8	Investec Air India	20,000,000	13,473	6.5
17,097,920	13,128	8.5	NB Distressed Debt Investment Fund	17,519,050	12,893	6.3
n/a	3,876	2.5	Elegantree Fund	n/a	10,618	5.2
12,500,000	12,750	8.3	NB Distressed Debt Global Fund	12,500,000	9,563	4.6
			<b>Cash</b>			
n/a	15,000	7.6	Federated Investors	n/a	15,000	13.1
n/a	15,000	7.6	Ignis Sterling Liquidity Fund	n/a	15,000	13.1
n/a	15,000	7.6	Insight Sterling Fund	n/a	15,000	13.1
n/a	4,566	2.3	State Street Global Services	n/a	13,017	11.3
n/a	10,000	5.0	National Bank of Canada	n/a	10,000	8.7
n/a	10,000	5.0	Sumitomo Mitsui Banking Corporation	n/a	10,000	8.7
n/a	0	0.0	Handelsbanken	n/a	10,000	8.7
n/a	0	0.0	Goldman Sachs	n/a	6,000	5.2
n/a	10,000	5.0	Bank of Scotland	n/a	5,000	4.4
n/a	10,000	5.0	Leeds Building Society	n/a	5,000	4.4
n/a	10,000	5.0	Rabobank	n/a	5,000	4.4
n/a	10,000	5.0	Nationwide Building Society	n/a	2,000	1.7
n/a	10,000	5.0	Barclays Bank	n/a	0	0.0
n/a	10,000	5.0	Close Brothers	n/a	0	0.0
n/a	10,000	5.0	Coventry Building Society	n/a	0	0.0
n/a	10,000	5.0	National Australia Bank	n/a	0	0.0
n/a	10,000	5.0	United Overseas Bank	n/a	0	0.0

## 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 2015 stock lending income of £565,087 (2014: £295,569) was raised against expenditure for the activity of £168,022 (2014: £87,902). At 31 March 2015 the total value of securities on loan was £202,244,785 (2014: £209,649,911) and are analysed by asset class as follows:

31 March 2014		31 March 2015
£000		£000
113,167	Equities - UK	104,499
75,252	UK Fixed Interest - Public Sector	73,736
14,947	Equities - Overseas	23,265
5,230	UK Index Linked - Public Sector	745
1,054	Overseas Fixed Interest - Public Sector	0
209,650		202,245

Against the stock on loan the Fund held collateral at 31 March 2015 of £214,062,058 (2014: £219,256,886) analysed by asset class as follows:

31 March 2014		31 March 2015
£000		£000
118,815	Equities - UK	111,630
78,185	UK Fixed Interest - Public Sector	76,914
15,689	Equities - Overseas	24,756
5,492	UK Index Linked - Public Sector	762
1,076	Overseas Fixed Interest - Public Sector	-
219,257		214,062

## F Scheme Registration Number

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

## G Contributions Receivable

2013/14		2014/15
£000		£000
117,029	Employers - Primary	116,144
11,037	Employers - Additional	14,771
32,712	Employees - Primary	33,564
773	Employees - Additional	585
161,551		165,064
34,646	Administering Authority	36,820
120,854	Scheme Employers	121,765
6,051	Admitted Bodies	6,479
161,551		165,064

Contributions relating to deficit funding payments amounted to £37,354,571 (2014: £32,472,966) during the year.

## H Benefits Payable

2013/14		2014/15
£000		£000
103,025	Pensions	107,481
21,668	Commutations, compounded and lump sum retirement benefits	21,288
3,238	Lump sum death benefits	3,454
127,931		132,223
18,986	Administering Authority	21,201
100,132	Scheme Employers	102,014
8,813	Admitted Bodies	9,008
127,931		132,223

## I Payments to and on account of leavers

2013/14		2014/15
£000		£000
2	Refunds to members leaving service	49
7,445	Individual transfer values payable	64,584
7,447		64,633

During the year the Fund made a payment of £60.202m following the transfer of employees from the Humberside Probation Trust to Community Rehabilitation Companies and the National Probation Service. The payment was made to the Greater Manchester Pension Fund, the administering authority.

## J 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 (Amended 2013) Central, Finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by East Riding of Yorkshire Council staff.

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

2013/14		2014/15
£000		£000
1,886	Pension Administration Expenses	1,449
2,724	Investment Management Expenses	2,965
416	Oversight and Governance	379
5,026		4,793

Of the investment management expenses in 2014/15, a total of £0.055m was in respect of performance related fees paid to the Fund's internal investment manager (2013/14: £0.047m).

Of the oversight and governance expenses in 2014/15 a total of £0.031m was in respect of auditors fee (2013/14: £0.031m).



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.

	Investment Management		Commission Paid		Total Costs		Funds Under Management		Total Costs as % of FUM	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£000	£000	£000	£000	£000	£000	£m	£m	%	%
Internal fund	959	1,096	385	353	1,344	1,449	2,537,287	2,842,068	0.05	0.05
External fund	1,765	1,869	134	154	1,899	2,023	828,329	835,323	0.23	0.24
Total Fund	2,724	2,965	519	507	3,243	3,472	3,365,616	3,677,391	0.10	0.09

The CIPFA Guidance 'Accounting for LGPS Management Costs' recommends the disclosure of management fees for pooled investments that are not included in the investment management costs disclosed in the above table with a corresponding adjustment to the Fund Account and Net Assets Statement. These management costs have been obtained using financial information available for each of the Fund's unquoted pooled investments and in 2014/15 amounted to £9.652m (2013/14 £7.023m).

However, it should be noted that the accounting periods of these investments may differ from the Fund's accounting period and, therefore, the costs incurred may not be directly comparable. As a result, it has been deemed prudent to show these costs in a disclosure note rather than adjust the Fund Account and Net Asset Statement as per the recommended guidance.

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

Externally managed funds are managed by Schroder Investment Management Ltd.

It should be noted that the Net Asset Statement and any performance data disclosed in the Annual Report are disclosed net of all costs incurred.





## K Investment Income

2013/14		2014/15
£000		£000
	<b>Fixed Interest Securities</b>	
3,250	United Kingdom	3,230
1,955	Overseas	1,873
1,914	Corporate Bonds	1,761
593	Global High Yield - Quoted	537
5	Global High Yield - Unquoted	-
7,717		7,401
	<b>Index Linked</b>	
136	United Kingdom	144
86	Overseas	74
37	Corporate Bonds	38
259		256
	<b>Equities</b>	
32,952	United Kingdom	35,002
7,746	Overseas	8,249
40,698		43,251
	<b>Managed Funds</b>	
13,350	Equities	22,702
856	Property - Quoted	2,805
4,890	Property - Unquoted	7,113
596	Private Equity - Quoted	977
661	Private Equity - Unquoted	752
609	Infrastructure - Quoted	1,660
1,352	Infrastructure - Unquoted	2,611
2,187	Other Investments - Quoted	3,577
2,098	Other Investments - Unquoted	3,963
26,599		46,160
7,239	Accrued Interest on Ex-dividend Investments	8,427
103	Underwriting	180
-797	Currency Loss (-)/Gain	-114
296	Stock Lending	565
1,430	Cash Deposits	984
7	Class Actions	2
4	Other Investment Income	1
8,282		10,045
83,555	<b>TOTAL INVESTMENT INCOME</b>	107,113

## L Taxes on Income

2013/14		2014/15
£000		£000
	Withholding Tax	
374	Overseas Equities	403
374		403

## M Reconciliation of Movements in Investments

2014/15	Value at 01/04/2014	Fair Value Revaluation 01/04/14	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2015
Investment Assets	£000	£000	£000	£000	£000	£000
<b>Fixed Interest Securities</b>						
UK - Public Sector	95,470	0	124,436	-127,763	7,681	99,824
UK - Other Quoted	56,675	0	20,122	-20,164	967	57,600
Overseas - Public Sector	68,920	0	82,959	-91,401	1,822	62,300
Overseas - Corporate	19,221	0	15,912	-5,230	1,219	31,122
Global High Yield - Quoted	27,997	0	0	-3,277	1,329	26,049
Global High Yield - Unquoted	13,090	0	13,936	-563	-2,138	24,325
Emerging Market Government	17,263	0	0	0	1,727	18,990
	298,636	0	257,365	-248,398	12,607	320,210
<b>Equities</b>						
UK	1,227,197	0	34,403	-34,282	68,913	1,296,231
Overseas	345,287	0	94,905	-104,952	38,671	373,911
	1,572,484	0	129,308	-139,234	107,584	1,670,142
<b>Index-Linked Securities</b>						
UK - Public Sector	14,929	0	8,853	-14,521	681	9,942
UK Corporate Bonds	4,019	0	0	0	432	4,451
Overseas - Public Sector	9,396	0	3,051	-1,575	1,250	12,122
	28,344	0	11,904	-16,096	2,363	26,515
<b>Pooled Investment Vehicles</b>						
Managed Funds	606,070	0	30,575	-25,118	77,794	689,321
Property - Quoted	40,762	0	34,979	-1,166	4,157	78,732
Property - Unquoted	165,689	2,216	107,520	-34,797	10,808	251,436
Private Equity - Quoted	68,088	0	2,938	-5,129	11,771	77,668
Private Equity - Unquoted	77,675	30,399	7,769	-21,717	7,126	101,252
Infrastructure - Quoted	28,183	0	3,824	-107	2,241	34,141
Infrastructure - Unquoted	48,634	16,424	16,026	-5,627	-6,733	68,724
Other Investments - Quoted	84,622	0	13,848	-11,081	937	88,326
Other Investments - Unquoted	69,094	111	41,405	-2,072	9,158	117,696
	1,188,817	49,150	258,884	-106,814	117,259	1,507,296
	3,088,281	49,150	657,461	-510,542	239,813	3,524,163
<b>Current Assets</b>						
Sterling	198,213	0	597,246	-683,114	0	112,345
Euros	146	0	21,587	-21,335	-66	332
US Dollar	53	0	56,670	-54,547	-74	2,102
	198,412	0	675,503	-758,996	-140	114,779
	3,286,693	49,150	1,332,964	-1,269,538	239,673	3,638,942

2013/14	Value at 01/04/2013	Reclassified 01/04/13	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2014
Investment Assets	£000	£000	£000	£000	£000	£000
<b>Fixed Interest Securities</b>						
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	298,636
<b>Equities</b>						
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
<b>Index-Linked Securities</b>						
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
<b>Pooled Investment Vehicles</b>						
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	8,945	167,905
Private Equity - Quoted	68,037	0	3,938	-6,851	2,964	68,088
Private Equity - Unquoted	83,750	0	11,564	-16,817	29,577	108,074
Infrastructure - Quoted	17,326	0	12,088	-2,010	779	28,183
Infrastructure - Unquoted	38,139	0	10,518	-2,698	19,099	65,058
Other Investments - Quoted	66,637	-1,447	24,548	-7,365	2,249	84,622
Other Investments - Unquoted	33,202	1,447	36,980	-2,383	-41	69,205
	1,075,165	0	164,740	-61,572	59,634	1,237,967
	2,856,347	0	455,944	-352,272	177,412	3,137,431
<b>Current Assets</b>						
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	177,463	3,335,843

## N Current Assets

31 March 2014		31 March 2015
£000		£000
6,531	Contributions due - Employers	9,401
5,384	Contributions due - Employees	2,784
2,253	Recharge of Pensions increase and supplementary allowance	2,839
4,597	East Riding of Yorkshire Council	4,430
858	Other Debtors	1,394
19,623		20,848

31 March 2014		31 March 2015
£000		£000
1,876	Central government bodies	2,452
14,633	Other local authorities	13,740
0	NHS Bodies	0
0	Public corporations and trading funds	0
3,114	Bodies external to government	4,656
19,623		20,848

## O Current Liabilities

31 March 2014		31 March 2015
£000		£000
1,169	East Riding of Yorkshire Council	947
2,089	Overclaim of Recharges	2,743
650	Other creditors	618
3,908		4,308

31 March 2014		31 March 2015
£000		£000
2,454	Central government bodies	3,001
1,431	Other local authorities	1,233
0	NHS Bodies	0
0	Public corporations and trading funds	0
23	Bodies external to government	74
3,908		4,308

## P Managerial Arrangements of Assets

31 March 2014 (Restated)			31 March 2015	
£000	%		£000	%
2,537,287	75	Internally managed	2,842,068	77
828,329	25	Externally managed (Schroder Investment Management Limited)	835,323	23
3,365,616	100		3,677,391	100

## Q Contingent Liabilities and Contractual Commitments

At 31 March 2015 the Fund had commitments to the purchase of investments of £335,863,641 (2014: £291,833,042 analysed as follows:

31 March 2014			31 March 2015	
Foreign Currency	£		Foreign Currency	£
0	102,773,564	Sterling Denominated (£)	0	119,709,531
176,969,606	106,147,796	US Dollar Denominated (\$)	231,705,303	156,083,060
100,289,970	82,911,682	Euro Denominated (€)	83,030,205	60,071,050
	291,833,042			335,863,641

## R Members Allowances

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

## 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 £4.793m (2014: £5.026m) comprising pensions administration costs of £1.449m (2014: £1.886m), investment management costs of £2.965m (2014: £2.724m) and oversight and governance costs of £0.379m (2014: £0.416m). 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 £38.037m to the Fund (2014: £34.646m). £8.620m (2014: £8.131m) of this total is in respect of contributions paid by members of the Pension Fund. As at 31 March 2015 the Council was a net debtor to the Fund of £3.483m (2014: £3.428m).
- 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 E A Burton, C Chadwick, M-R Hardy, A Hodgson, S Horton and G Matheison, 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 11 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 31/03/14	Purchases	Sales	Change in Market Value	Market Value at 31/03/15
	£000	£000	£000	£000	£000
Montanaro UK Smaller Companies Investment Trust Plc	15,041	0	0	-1,251	13,790
Montanaro Growth and Income Fund LP No. 3	10,227	0	0	549	10,776
Montanaro European Smaller Companies Investment Trust Plc	9,585	0	0	-444	9,141
Montanaro European Smaller Companies Fund	3,574	58	0	30	3,662
	38,427	58	0	-1,116	37,369

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 2015 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:

Australian Dollar	1.9432
Canadian Dollar	1.8801
Danish Krone	10.3261
Euro	1.3822
Japanese Yen	178.0280
Norwegian Krona	11.9637
Swedish Krona	12.8024
Swiss Franc	1.4419
US Dollar	1.4845

## U Additional Voluntary Contributions

The Fund's approved Additional Voluntary Contribution (AVC) provider is Prudential and during the year to 31 March 2015 scheme members made contributions to this facility of £2,028,417 (2014: £2,131,934). The total value of the funds invested by Prudential on behalf of members of the East Riding Pension Fund at 31 March 2015 is £21,353,366 (2014: £21,633,803). 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 109 to 113.

## W The Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits at 31 March 2015 was £5.642bn (31 March 2014: £4.657bn). 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 2014 (Restated)		31 March 2015
£000		£000
	<b>Financial Assets at fair value through profit or loss</b>	
298,636	Fixed Interest Securities	320,210
1,572,484	Equities	1,670,142
28,344	Index-Linked Securities	26,515
1,237,967	Pooled Investment Vehicles	1,507,296
199	Foreign Currency	2,434
11,220	Other Investment Balances	11,271
3,148,850	<b>Total Financial Assets</b>	3,537,868
	<b>Loans and Receivables</b>	
204,322	Cash Deposits - Sterling	123,131
19,623	Current Assets	20,848
223,945	<b>Total Loans and Receivables</b>	143,979
	<b>Financial Liabilities at fair value through profit or loss</b>	
-3,271	Other Investment Balances	-148
	<b>Financial Liabilities at Amortised Cost</b>	
-3,908	Current liabilities	-4,308
3,365,616	<b>Net Financial Assets</b>	3,677,391

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 2014 (Restated)			31 March 2015	
Carrying Value £000	Fair Value £000		Carrying Value £000	Fair Value £000
		<b>Financial Assets</b>		
3,148,850	3,148,850	Trading and other financial assets at fair value through profit and loss	3,537,868	3,537,868
223,945	223,945	Loans and receivables	143,979	143,979
3,372,795	3,372,795	<b>Total financial assets</b>	3,681,847	3,681,847
		<b>Financial Liabilities</b>		
3,271	3,271	Trading and other financial liabilities at fair value through profit and loss	148	148
3,908	3,908	Financial liabilities at amortised cost	4,308	4,308
7,179	7,179	<b>Total financial liabilities</b>	4,456	4,456

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 (Amended 2013) prescribe a maximum limit on types of investment. The table below shows the position as at 31 March 2015.

31 March 2014			31 March 2015	
% Limit	% Actual		% Limit	% Actual
		<b>Investment</b>		
5	0	Any single sub-underwriting contract	5	0
5	0.8	All contributions to any single partnership	5	0.8
30	9.3	All contributions to partnerships	30	11.9
10	6.0	The sum of all loans and any deposits with any local authority	10	3.4
15	0	All investments of unlisted securities of companies	15	0
10	6.9	Any single holding	10	7.5
10	0.5	All deposits with any single bank, institution or person	10	0.4
15	0	All sub-underwriting contracts	15	0
34	17.4	All investments in units or shares of the investments subject to the trusts of the unit trust scheme managed by any one body	35	23.5
35	17.4	All investments in OEIC's where the collective investments schemes constituted by the companies are managed by one body	35	17.9
35	22.4	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	23.5
35	0	Any single insurance contract	35	0
35	6.3	All securities transferred by the authority under stock lending arrangements	35	5.5

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.

(Restated) 31 March 2014					31 March 2015			
Level 1 £000	Level 2 £000	Level 3 £000	TOTAL £000		Level 1 £000	Level 2 £000	Level 3 £000	TOTAL £000
1,783,343	1,039,204	326,303	3,148,850	Financial Assets	1,969,278	1,002,891	565,699	3,537,868
223,945	0	0	223,945	Loans and Receivables	143,979	0	0	143,979
2,007,288	1,039,204	326,303	3,372,795	<b>TOTAL</b>	2,113,257	1,002,891	565,699	3,681,847
7,179	0	0	7,179	Financial Liabilities	4,456	0	0	4,456
2,000,109	1,039,204	326,303	3,365,616	<b>TOTAL</b>	2,108,801	1,002,891	565,699	3,677,391

### 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 March 2014		31 March 2015	
Actual £000		Maximum Limit	Actual £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
7,000	Local Authorities	10,000	0
10,000	Building Societies - top 15 ranked by asset value	10,000	5,000

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

31 March 2014		31 March 2015
£000		£000
0	UK Government	0
58,815	Institutions or Funds with a minimum rating of AAA/A2	51,000
39,960	Institutions with a minimum rating of AA/A2	28,017
50,637	Institutions with a minimum rating of A/A2	28,762
19,000	Local Authorities	0
30,000	Building Societies - top 15 ranked by asset value	7,000
198,412		114,779

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 2015	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
Cash	37,000	0	0	0	88,565	125,565
Investments	4,044	802	63,183	209,332	3,246,802	3,524,163
Other investment balances	11,271	0	0	0	0	11,271
Current assets	20,848	0	0	0	0	20,848
<b>Total assets</b>	<b>73,163</b>	<b>802</b>	<b>63,183</b>	<b>209,332</b>	<b>3,335,367</b>	<b>3,681,847</b>
<b>Liabilities</b>						
Other investment balances	148	0	0	0	0	148
Current liabilities	4,308	0	0	0	0	4,308
<b>Total liabilities</b>	<b>4,456</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,456</b>
<b>Liquidity gap</b>	<b>68,707</b>	<b>802</b>	<b>63,183</b>	<b>209,332</b>	<b>3,335,367</b>	<b>3,677,391</b>

(Restated) As at 31 March 2014	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
	£000	£000	£000	£000	£000	£000
<b>Assets</b>						
Cash	35,000	103,500	0	0	66,021	204,521
Investments	1,560	20,745	104,903	141,422	2,868,801	3,137,431
Other investment balances	11,038	182	0	0	0	11,220
Current assets	19,623	0	0	0	0	19,623
<b>Total assets</b>	<b>67,221</b>	<b>124,427</b>	<b>104,903</b>	<b>141,422</b>	<b>2,934,822</b>	<b>3,372,795</b>
<b>Liabilities</b>						
Other investment balances	3,271	0	0	0	0	3,271
Current liabilities	3,908	0	0	0	0	3,908
<b>Total liabilities</b>	<b>7,179</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,179</b>
<b>Liquidity gap</b>	<b>60,042</b>	<b>124,427</b>	<b>104,903</b>	<b>141,422</b>	<b>2,934,822</b>	<b>3,365,616</b>

### 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:

31 March 2014		31 March 2015
£000		£000
	<b>Asset Type</b>	
66,021	Cash and cash equivalents	88,565
326,979	Fixed interest securities	346,726
<b>393,000</b>		<b>435,291</b>

## 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 2015	USD £000	EUR £000	JPY £000	CHF £000	SEK £000	DKK £000	AUD £000	CAD £000	NOK £000	Total £000
<b>Fixed Interest Securities</b>										
Overseas Public Sector	23,750	16,830	13,656	0	1,576	0	3,391	3,097	0	62,300
Global High Yield	13,137	24,325	0	0	0	0	0	0	0	37,462
Emerging Market Government	10,862	0	0	0	0	0	0	0	0	10,862
<b>Equities</b>										
Overseas	0	181,529	131,958	45,468	5,810	6,686	0	0	2,460	373,911
<b>Index-Linked Securities</b>										
Overseas Public Sector	12,122	0	0	0	0	0	0	0	0	12,122
<b>Pooled Investment Vehicles</b>										
Managed Funds	445,606	0	0	0	0	0	0	0	0	445,606
Property - unquoted	12,607	15,546	0	0	0	0	0	0	0	28,153
Private Equity - quoted	15,766	0	0	0	0	0	0	0	0	15,766
Private Equity - unquoted	24,898	58,609	0	0	0	0	0	0	0	83,507
Infrastructure - unquoted	4,596	15,125	0	0	0	0	0	0	0	19,721
Other investments - quoted	0	0	0	0	0	0	0	0	0	0
Other investments - unquoted	103,244	8,834	0	0	0	0	0	0	0	112,078
<b>Total</b>	<b>666,588</b>	<b>320,798</b>	<b>145,614</b>	<b>45,468</b>	<b>7,386</b>	<b>6,686</b>	<b>3,391</b>	<b>3,097</b>	<b>2,460</b>	<b>1,201,488</b>

(Restated) As at 31 March 2014	USD £000	EUR £000	JPY £000	CHF £000	SEK £000	DKK £000	AUD £000	CAD £000	NOK £000	Total £000
<b>Fixed Interest Securities</b>										
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	3,522	4,839	252	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
<b>Equities</b>										
Overseas	0	184,185	106,647	36,758	11,419	5,068	0	0	1,210	345,287
<b>Index-Linked Securities</b>										
Overseas Public Sector	7,806	0	0	0	0	0	0	0	0	7,806
<b>Pooled Investment Vehicles</b>										
Managed Funds	366,459	15,788	0	0	0	0	0	0	0	382,247
Property - unquoted	7,931	60,796	0	0	0	0	0	0	0	68,727
Private Equity - quoted	5,150	0	0	0	0	0	0	0	0	5,150
Private Equity - unquoted	11,571	68,648	0	0	0	0	0	0	0	80,219
Infrastructure - unquoted	2,230	9,487	0	0	0	0	0	0	0	11,717
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
<b>Total</b>	<b>487,787</b>	<b>377,927</b>	<b>122,995</b>	<b>36,758</b>	<b>13,266</b>	<b>8,590</b>	<b>4,839</b>	<b>252</b>	<b>1,210</b>	<b>1,053,624</b>

## **Y Contingent Assets**

As at 31 March 2015 the Fund had submitted claims totalling £7.66m relating to the reclaiming of UK and overseas withholding tax on investment income received, of which £1.10m has been received to date. Professional costs to date have totalled £0.64m.

## **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](mailto: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 years Other - 20 years	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](http://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](http://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 dis-investment) 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>
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. 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
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>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>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	<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>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<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>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<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> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

## 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 2014/15, there were 35 new employers joining the Fund including 30 academies and the Chief Constable of Humberside Police. 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 was one new designated body in the Fund and the body provided evidence of a strong covenant by being under the control of a local authority.
- There were also three new transferee admission bodies and risk assessments were carried out to see if a bond was required. Bonds were put in place for all three bodies.



# 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 21 March 2014 with an effective date of 1 April 2014.

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 1 April 2014. 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](http://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 by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013. This SIP is consistent with these powers and does not restrict the Pensions Committee's investment powers.

## Investment managers and advisor

The Pensions Committee's investment powers are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013. This SIP is consistent with these powers and does not restrict the Pensions Committee's investment powers.

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 Fund<sup>1</sup>. The following guidelines are set for the Fund's asset allocation mix:

Asset Class	Allocation	Range	Benchmark
<b>Equities</b>	60%	+/- 10%	
UK	38%	+/- 5%	FTSE All Share
Overseas	22%	+/- 5%	
North America	6%		FTSE Developed North America
Europe ex-UK	6%		FTSE Developed Europe ex UK
Japan	3%		FTSE Japan
Pacific	2%		MSCI Pacific ex Japan
Emerging	5%		MSCI Emerging Markets
<b>Bonds And Cash</b>	19%	+/- 5%	
UK Government	5%		FTSE UK Gilts All Stocks
UK Corporate	2%		iBoxx £ Corporate Bonds All Stocks
Overseas	4%		JP Morgan GBI ex UK
Emerging Markets	2.5%		JP Morgan EMBI
Global High Yield	2.5%		JP Morgan Global High Yield Index
Cash	3%		LIBID 7 day
<b>Alternatives</b>	21%	+/- 5%	
Property	10%	+/- 3%	AREF/IPD UK Quarterly All Property Index
Other	11%	+/- 3%	
Private Equity	4%		FTSE All Share + 3%
Infrastructure	3%		UK Index-linked + 3%
Other	4%		3 month LIBOR +3%
<b>Total</b>	<b>100%</b>		

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 2013, was prepared on the basis of an expected real return on assets of 2.1% over the long term, a nominal return of 4.6% assuming inflation to be 2.5%.

The Pensions Committee has set the investment objective of producing a nominal long term return of 7.1% p.a. (4.6% p.a. real) assessed on a rolling three year basis. In order to achieve this, the strategic asset allocation approved by the Pensions Committee is:

Equities	60%
Bonds and Cash	19%
Alternative Investments	21%

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, State Street Global Services, 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](http://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](http://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 2014" guidance document which is available at [www.pirc.co.uk](http://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](http://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 and the Fund publishes summary details of corporate governance and voting activity in its Annual Report and Accounts.

## Stock Lending

The Fund engages in stock lending, via its custodian, State Street Global Services, 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. The Fund will seek 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.

## 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

As part of the review of the Pensions section in 2014/15 to align staffing resources with the implementation of the UPM pensions administration system, the methods of delivering internal and external communications have been re-evaluated.

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 has resulted in a move away from predominantly face to face communications. As part of the review, the three existing posts dedicated to carrying out communications have been deleted including the role of the two Pension Liaison Officers who were mainly field based and were responsible for arranging the forums, workshops and meetings. The third post was a specialist IT post responsible for web-based and electronic communications.

Following the review, the responsibility for communications is with the Principal Pensions Officer for Systems and Communications. The current Communications policy is on hold as an interim measure until the Web access module is fully implemented and the Systems and Communications team is fully resourced.

The new communications policy will be focused on web based communication with employers and members including developing on line self service facilities over the next two years. We will, however, continue to use a variety of media to ensure no members are disadvantaged by a technology biased approach.

## How we communicate

We are increasingly using electronic methods to communicate with our customers. Our website ([www.erpf.org.uk](http://www.erpf.org.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.

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. Employers are provided with contact details for all ERPF staff on a regular basis.

Although, we are in the process of investigating greater use of web based solutions to replace face to face communications given that there are over 200 employer sites, 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.

We provide our communications in alternative formats (such as Braille or audio) according to the needs of our members, ensuring all 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 LGPS 2014
- to provide more opportunities for two-way communication
- to reduce the number of queries and complaints
- to reassure stakeholders.

## Frequency of pension information events

We invited all active members to hear more about the LGPS 2014 changes at presentations which were held across the Fund area in April and May 2014 at Grimsby, Scunthorpe, Hull, Beverley, Bridlington and Goole.



As and when required, we will attend inductions with the aim of providing pension information to new employees to enable them to make an informed decision regarding membership of the LGPS. We will also 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
- 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 Resources staff to discuss pension related issues in an open forum. In addition, an employer can ask for a separate meeting to discuss any pension issues they may have, for example, on pooling employer contributions within a Multi Academy Trust.

We 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 fund 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
- to agree and monitor service standards.

Staff meetings, seminars and written and electronic communications 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 Spring 2016. 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 2015 on pages 56 to 80.

### Respective responsibilities of the Head of Finance and the auditor

As explained more fully in the Statement of Responsibilities for the Financial Statements, the Head of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 & Accounts 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 2014/15.

In addition, we read the information given in the Pension Fund Annual Report & Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

### Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements include in the annual published statement of accounts of East Riding of Yorkshire Council for the year ended 31 March 2015 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### 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 & Accounts 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 Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.
- We have nothing to report in respect of these matters.

#### Rashpal Khangura

For and on behalf of KPMG LLP Appointed Auditor

Chartered Accountants

1 The Embankment

Neville Street

Leeds

LS1 4DW

24 September 2015



# 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](http://erpf.eastriding.gov.uk)

