ERPF
East Riding Pension Fund

2012/2013

Annual Report & Accounts

contents

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 2013 the Fund was valued at £3,078.1m, having paid out £128.5m during the year for the benefit of Scheme members. This is an increase of £421.8m from 31 March 2012, as global equity markets were exceptionally strong due to continued loose monetary policy, an improvement in risk appetite as investors sought higher returns given historically low bond yields, increased central bank support for peripheral European economies, and stronger than expected economic data in both developed and developing economies.

All employees, other than teachers, of the Administering Authority and 109 Scheme Employers are entitled to participate in the Scheme. Employees of the 32 Admitted Bodies may be nominated for membership by their employer. There has been a significant increase in the number of Employers during the year, predominantly due to the increase in the number of Academies in the Fund. Teachers, police officers and firefighters have separate pension arrangements.

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

At 31 March 2013 the total membership records administered by the East Riding Pension Fund was 93,748, an increase of 2.4% during the year. For active members, each separate employment contract is classed as a record where an individual has multiple employments, and the number of active member records has increased by 0.3% to 35,969. 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 4.2% to 24,404. 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 £4,290.32 per annum, equivalent to a weekly payment of £82.28.

The Fund generated a return of 14.5% for the year ended 31 March 2013, compared to the strategic benchmark return of 14.0%, and the Local Authority average return of 13.8%. Over the three years to 31 March 2013, the Fund has returned 8.8% per annum, compared to the strategic benchmark return of 8.5% per annum, the Local Authority average return of 8.1% per annum, and the long term investment objective of 7.1% per annum.

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

The Pension Fund faces a number of challenges in the year ahead including the triennial actuarial valuation, the strategic asset allocation review, and preparation for the implementation of the new Scheme from 1 April 2014. The Fund 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
The East Riding of Yorkshire Council
20 September 2013

the local government pension scheme

Legal Framework

The Local Government Pension Scheme (LGPS) is governed by the Superannuation Act 1972. The current scheme rules are contained within the LGPS (Benefit, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008, which became effective on the 1 April 2008. Whilst the Regulations are fixed on a national basis, the Scheme is managed by a designated Administering Authority, and throughout England and Wales there are 89 such authorities.

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

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

HM Revenues and Customs (HMRC) has granted the LGPS "exempt approval" for the purposes of the Income and Corporation Taxes Act 1988. Since April 2006, the LGPS has been classified as a Registered Pension Scheme under Part 4 of Chapter 2 of the Finance Act 2004.

The Regulations specify the type and amounts of pension and other benefits payable in respect of Scheme members who leave, retire or die, and also fix the member contributions rates payable on an ongoing basis. Employees have the freedom to opt-out and make their own pension provision. Each Scheme member pays a contribution rate of 5.5% to 7.5%, of their full time pensionable earnings.

Employer contribution rates are set by the Fund's Actuary every 3 years following the valuation of the Fund, in order to maintain the solvency of the Fund. New rates were set by the Actuary from 1 April 2011 following the 2010 Actuarial Valuation and the Actuary set the common rate of employers' contributions across the Fund, as 25.8% of pensionable pay, with individual employer rates being adjusted by reason of any circumstances peculiar to that employer. As part of the 2010 Actuarial Valuation the Actuary specified the rates that will be paid for the 3 years to 31 March 2014.

Changes to the LGPS in 2012/13

Further detailed amendments to the scheme rules were made by the Local Government Pension Scheme (Miscellaneous) Regulations 2012 including important changes to the LGPS with regard to automatic enrolment, admission bodies and employer cessations.

Reform of the LGPS

Following the Government's acceptance of the agreement reached in December 2011 by the Local Government Association and Trade Unions on how to take forward the future reform of the LGPS, the statutory consultation exercise on LGPS 2014 started in December 2012. The exercise began by looking at the provisions relating to membership, contributions and benefits and has been extended to cover transitional provisions for existing scheme members. Further consultation will take place later in 2013 on cost control and governance.

The main parameters forming the basis of the statutory consultation are set out below:

- **A start date of April 2014 with core elements of the new scheme regulations in place by Spring 2013**
- **A pension scheme design based on career average and actual pay**
- **An accrual rate of 1/49th of pensionable earnings each year**

- **Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)**
- **A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service**
- **A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate**
- **Pensions in payment and deferred benefits to increase in line with a price Index (currently Consumer Prices Index)**
- **Average member contribution yield of 6.5%, with tiered contributions (Higher-earners paying a higher proportion of their earnings in contributions than lower-earners)**
- **Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations**
- **Early/late retirement factors from age 55 on an actuarially neutral basis**
- **A vesting period of two years**
- **Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit**
- **Ill-health retirement pensions to be based on the current ill-health retirement arrangements.**

There will be transitional protection in respect of:

- **All accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme**
- **Protection underpin for members aged 57 to 59**
- **Rule of 85 protection as in the current scheme.**

Scheme Benefits

The Local Government Pension Scheme (LGPS) provides the following benefits for its members:

- **An inflation proofed pension with the option to convert part of the pension to secure a lump sum payment (subject to HMRC limits). Benefits are based on final year's pay and periods of scheme membership accrued within the scheme;**
- **Early payment of pension benefits when retirement is necessary due to permanent ill-health;**
- **Early payment of pension benefits if aged 55 or over if:**
  - **made redundant;**
  - **retired through efficiency of the service;**
  - **the Scheme employer agrees to allow early voluntary retirement or agrees to the release of all or part of the member's pension benefits where the member continues to work on a lower grade and/or reduced hours;**
- **A lump sum death grant payable to the deceased's nominated beneficiary or the most appropriate recipient(s) deemed by the ERPF, plus an inflation proofed dependant's pension if death occurs before retirement;**
- **An inflation proofed dependant's pension for death after retirement and a guarantee to pay any balance of pension as a lump sum death grant if the death occurs within ten years of retirement.**

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

- **Preserved and inflation proofed, to be paid at normal retirement age or at any time before age 75 by election; or**

- **Transferred to another pension scheme arrangement including a personal pension plan or retirement annuity contract; or**
- **Refunded generally if Scheme membership is less than 3 months.**

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

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

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

Contributing Employers

ADMINISTERING AUTHORITY

East Riding of Yorkshire Council

SCHEME EMPLOYERS (109)

Anlaby Common Parish Council
Archbishop Sentamu Academy
Barton upon Humber Town Council
Beverley and North Holderness Internal Drainage Board
Beverley Grammar School
Beverley Town Council
Bishop Burton College
Bottesford Town Council
Bridlington Town Council
Brigg Town Council
Broughton Town Council
Bursar Primary Academy
Burton upon Stather Parish Council
Cambridge Park Academy
Cleethorpes Academy
Cottingham High School
Crowle Academy
Driffield Town Council
East Ravendale Academy
East Riding College
East Riding Valuation Tribunal
Edward Heneage Academy
Elloughton cum Brough Parish Council
Epworth Academy
Franklin College
Goole High School
Goole Town Council
Grimsby Institute of Further & Higher Education
Hall Road Academy
Havelock Academy
Healing Science Academy Limited
Hedon Town Council
Hessle High School
Hessle Penshurst Primary School
Hibaldstow Academy
Hornsea Town Council
Hull College
Hull Studio School
Humber Bridge Board
Humberside Fire Authority
Humberside Magistrates' Courts Committee
Humberston Academy
Humberston Park Academy
Humberside Police Authority
Humberside Probation Trust
Huntcliff Academy
Immingham Town Council
Invenio Academy
John Leggott College
John Whitgift Academy
Kingston upon Hull City Council
Kingstown Works Limited
Kirk Ella and West Ella Parish Council
Kirton in Lindsey Town Council
Lisle Marsden Academy
Macaulay Academy
Market Weighton Town Council
Melior Community College Academy
Middlethorpe Academy
New Waltham Academy
Newington Academy
North East Lincolnshire Council
North Eastern Inshore Fisheries and Conservation Authority
North Lincolnshire Council
North Lindsey College
Oasis Academy Henderson Avenue
Oasis Academy Immingham
Oasis Academy Nunsthorpe
Oasis Academy Parkwood
Oasis Academy Wintringham
Ormiston Maritime Academy

SCHEME EMPLOYERS (109) (Continued)

Ormiston South Parade Academy
Ouse and Humber Drainage Board
St Augustine Webster Academy
St Bede's Academy
St Bernadette's Academy
St Joseph's Academy
St Mary's Academy
St Mary's Catholic Academy
St Norbert's Academy
Scartho Junior Academy
Scawby Academy
Signhills Academy
Signhills Infants Academy
Sirius Academy
South Axholme Academy
South Hunsley School (Hunsley Trust)
Strand Academy
Swanland Primary School Academy Trust
The Axholme Academy
The Green Way Academy
The St. Lawrence Academy
The Thomas Ferens Academy
The Vale Academy
Thrunscoe Primary Academy
Tollbar Academy Limited
Trinity House Academy
University of Lincoln
Waltham Leas Primary Academy
Weelsby Primary Academy
Westwoodside Academy
Wilberforce College
Winterton Academy
Withernsea Town Council
Worlaby Academy
Wybers Wood Academy
Wyke College
Yarborough Primary Academy
Yorkshire and Humber Grid for Learning

COMMUNITY ADMISSION BODIES (19)

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

TRANSFEREE ADMISSION BODIES (13)

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

scheme management and advisers

Fund Managers	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	Schroder Investment Management (UK) Limited 31 Gresham Street London EC2V 7QA
Secretary to the Pensions Committee	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Custodian	State Street Bank and Trust Company 20 Churchill Place, Canary Wharf London E14 5HJ	
AVC Provider	Prudential Craigforth, Stirling FK94UE	
Actuary	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	
Legal Adviser	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Banker	RBS 60 Market Place, Beverley HU17 8AA	
Fund Accountant	Head of Finance East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Fund Auditor	KPMG The Embankment, Leeds LS1 4DW	
Scheme Administrator	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Independent Adviser	Mrs S Bates c/o Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	

Performance Management	The World Markets Company 525 Ferry Road Edinburgh EH5 2AW	
Officers	Malcolm Sims Director of Corporate Resources East Riding of Yorkshire Council County Hall, Beverley Beverley HU17 9BA	Caroline Lacey Head of Finance East Riding of Yorkshire Council County Hall, Beverley 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

The arrangements for the management of the Fund are:

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

Custodial Arrangements

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

risk management

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

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

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

The Council has a formal risk management strategy which is regularly reviewed and developed in response to changes within the Council and the external environment. The risk management strategy includes a risk register which identifies risk, details the consequence of that risk and provides the controls which are currently in place to mitigate those 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.

The Pension Fund has its own dedicated risk register which is shown below.

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**

No.	Risk	Consequences	Controls
1	**Inappropriate long-term investment strategy**	Failure to meet the long term investment rate of return target. Asset classes fail to provide adequate returns irrespective of investment strategy or manager performance. Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. Deterioration in funding position. Increase, and/or volatility, in employer contribution rates. Concentration risk in assets that have similar characteristics. Insufficient liquid assets to meet liabilities as they fall due.	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. 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. Statement of Investment Principles discloses the permitted asset classes, allocation, and ranges. Fund-specific benchmark is used, informed by Asset-Liability modelling of liabilities. Regular review of long-term investment strategy to ensure it remains appropriate. Investment management responsibilities split between internal and external investment managers. Robust investment process including detailed research and analysis. Performance monitored by the Head of Finance on a quarterly basis. Detailed analysis of investment managers' performance on an annual basis and reviewed by the Pensions Committee. Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund specific benchmark. Independent assurance received on internal controls of the Fund's investment managers on an annual basis. Analysis of Fund liquidity position on a weekly basis.
2	**Under-performance of investment managers relative to benchmark**	Failure to meet long term investment rate of return target. Deterioration in funding position. Increase in employer contribution rates.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis by independent company. Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund specific benchmark. Robust investment process including detailed research and analysis Detailed analysis of investment managers' performance on an annual basis and reviewed by the Pensions Committee. Ability to switch funds under management between the internal and external investment managers. Key personnel changes at investment managers are highlighted to the Pensions Committee on a quarterly basis Ability to terminate external investment managers' contract in its entirety.

No.	Risk	Consequences	Controls
3	Objectives within the Treasury Management Strategy not met – e.g. capital security, liquidity, interest rate	Potential risk of financial loss in the event of counterparty default. Inability to pay short term liabilities. Damage to reputation.	Treasury Management Policy establishes limits on investments. Treasury Management Policy reviewed by the Pensions Committee on an annual basis. Treasury Management activity reviewed by the Pensions Committee on a semi-annual basis. Controls within systems audited on an annual basis. Restriction on institutions and counterparties. Operational Treasury Management Board meets monthly to review investment criteria.
4	Decrease in UK government bond yields	Reduction in future returns from UK government bonds. Increase in the value placed on liabilities through a reduction in the discount rate. Deterioration in funding position. Increase in employer contribution rates.	Monitoring of investment performance relative to the estimated growth in liabilities on an annual basis. Some investment in bonds helps to mitigate this risk.
5	Pay and price inflation significantly higher than anticipated	Increase in the Fund's liabilities. Deterioration in funding position. Increase in employer contribution rates.	Actuarial valuation process focuses on real returns on assets, net of price and pay increases. Monitoring of investment performance relative to the estimated growth in liabilities on an annual basis. Some investment in index-linked bonds (and other inflation-linked investments) helps to mitigate this risk. Employers pay for their own salary awards. Employers are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees.
6	Pensioners in receipt of pensions for longer	Increase in the Fund's liabilities. Deterioration in funding position. Increase in employer contribution rates.	Mortality assumptions are set with some allowance for future increases in life expectancy. Fund actuary monitors combined experience of around 50 funds to look for early warnings of pension payments being made for longer than assumed in the actuarial valuation. 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.

No.	Risk	Consequences	Controls
7	Changing patterns of early retirement	Reducing employer payrolls due to redundancy exercises increases past service liabilities and consequently deficit recovery. Ill-health retirements significantly higher than anticipated.	Employers are charged the extra capital cost of non-ill health retirement following each individual decision. Employer ill health retirement experience is monitored and reported to larger employers. The employer may be charged additional contributions if this exceeds the ill-health assumption already built in. Ill-health liability insurance offered to all employers.
8	Reductions in payroll including: • Scheme members opting out • Recruitment freeze • Increase in employer redundancy exercises • Outsourcing projects including conversions to academy status	Insufficient deficit recovery payments. Increased employer costs for future service liabilities.	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. However, there are protections where there is concern regarding redundancy exercises and outsourcing, as follows: • For employers in the stabilisation mechanism, the employer may be brought out of that mechanism to permit an appropriate increase in contributions. • For other employers, review of contributions is permitted between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. • Actuarial calculation of employer contribution rates ensures that employers are in no worse a position when schools convert to academies. • Communicating benefits of being a scheme member via website, newsletters, employer briefing notes and face to face contact with members. • Within Phase 2 of UPM (the Fund’s new 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.

No.	Risk	Consequences	Controls
9	**Securities Lending**	Borrower default resulting in financial loss. Value of collateral falling below the value of the securities lent. Loss on the reinvestment of cash collateral. Securities delivered to the borrower before the collateral is received. Inability to settle a transaction involving a security on loan. Not receiving income (dividends or interest) from securities on loan. Unable to exercise voting rights for securities on loan. Potential loss from tax treatment of "manufactured overseas dividends".	Indemnity with State Street, the Fund's global custodian, provides full protection in the event of borrower default. Diversification of borrowers. Approval of list of counterparties. Approval of types of collateral. Excess collateral (2 – 5% above the value of the securities lent) required. Mark to market on a daily basis with a commensurate change in the value of the collateral. Cash is not accepted as collateral. State Street will not release the securities until the collateral has been received. Indemnity agreement ensures that transaction proceeds and income are credited irrespective of any issues arising from the securities being on loan. Ability to recall stock, subject to investment manager discretion, that is subject to a vote. Use of tax experts to reclaim inappropriately levied tax. Independent review of controls undertaken by Ernst and Young and reported through Independent Service Auditor's Report.
10	**A company admitted to the Fund as an admission body may become financially unviable**	If the Admitted Body is a transferee admission body the contracting authority will pick up the pension liabilities and potentially will increase their employer contribution rate. If the Admitted Body is a community admission body, all fund employers will pick up a share of the liabilities which may potentially make smaller bodies financially unviable.	For transferee admission bodies (TAB's), admitted to the LGPS prior to 1 October 2012, a surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this is reviewed regularly to ensure it provides adequate cover for the financial risks involved. For community admission bodies (CAB's), admitted to the LGPS prior to 1 October 2012, they would not be admitted to the fund unless there is a guarantor, eg. a Local Authority. From 1 October 2012, the bond/guarantor distinction between TAB's and CAB's has been removed so that all new admitted bodies from this date are required to undertake a risk assessment to the satisfaction of the administering authority (and, in the case of a TAB, the employing authority as well). The admitted body is now 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.

No.	Risk	Consequences	Controls
11	Failure by Scheme employer to carry out statutory functions	Supply of poor quality data which may affect the calculation and payment of benefits. Incorrect employer contribution rates. Missing and incomplete member records. Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.	Timetables in place and deadlines communicated effectively to employers. Pension Liaison Officers working with employers to provide information required. Clear allocation of responsibilities. Regular reports to employers on performance. Training sessions organised for Scheme employers. Guidance issued and updated on a regular basis. Pensions Administration Strategy to be incorporated into Phase 2 of UPM as an interactive tool as part of the data submission process. Carry out data quality checks in accordance with the Pensions Regulator data requirements from 2013. Ongoing integration of internal office guidance notes into UPM process mapping.
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**	An employer may cease to exist with insufficient funding or adequacy of a bond. If the employer is a transferee admission body the contracting authority will pick up the pension liabilities and potentially will increase their employer contribution rate. If the employer is a community admission body, all fund employers will pick up a share of the liabilities which may potentially make smaller bodies financially unviable.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • Seeking a funding guarantee from another scheme employer, or external body, where-ever possible; • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice; • Vetting prospective employers before admission; • Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed; • Reviewing bond or guarantor arrangements at regular intervals; and • Reviewing contribution rates if considered appropriate. From 1 October 2012, the bond/guarantor distinction between TAB's and CAB's has been removed so that all new admitted bodies from this date are required to undertake a risk assessment to the satisfaction of the administering authority (and, in the case of a TAB, the employing authority as well). The admitted body is now 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.

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)	Employer paying incorrect contribution rate. Employers funding position deteriorates. Possible short term increase in employer contribution rates.	The Administering Authority monitors membership movements on a quarterly basis. 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. Deficit contributions are expressed as monetary amounts and disclosed in Annex B of the Funding Strategy Statement. Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading, phasing in of contribution rises and possible pooling of contributions.
14	Failure to comply with the regulations i.e. current, new, external e.g. HMRC, DWP.	Issue of out of date literature. Out of date software leading to incorrect calculations. Staff training and guidance notes not up to date. Failure to communicate changes to employers who in turn may not meet their statutory requirements. Changes to national pension requirements are not communicated effectively. Loss of reputation. Financial penalties. Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.	Individuals' responsibilities are clearly identified. Service plan includes key targets and dates that are monitored quarterly. Formal structure in place for impact assessment of new legislation and codes of practice. System testing and checking in place to ensure legislation changes are implemented correctly. Staff training and identification of training requirements through the EDR process. Annual audit of fundamental systems by the Internal Audit Section. Audit recommendations are followed up and implemented. Member of Pensions Advisory Network, NEPOF, LAPFF to assist in keeping abreast of new developments. Attend seminars and conferences to keep abreast of latest developments. The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. The Administering Authority considers all consultation papers issued by the CLG and comments where appropriate. 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. 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. UPM has the facility to "lock down" records ensuring more audit controls are in place and that fixes to the system will be quicker e.g. changes that will be required to accommodate the LGPS 2014 scheme changes. The IDRP procedure has been streamlined to provide compensation payments earlier in the process without having to invoke a Stage 1. This will result in savings to costs and staff time.

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	Potential financial loss. Increase in pension liabilities. Increase in adherence costs.	Use of tax experts to advise on tax changes. Member of Pension Advisory Network, NEPOF, LAPFF to assist in keeping abreast of new developments. Regular attendance at conferences. Regular contact with Fund advisers including external investment manager, independent adviser, actuary, and external auditors. Participation in government consultations.
16	Professional standards and/or section procedures not applied	Potential financial loss. Negative impact on reputation. Incorrect calculation of pensions. Fraud/collusion by senior staff. Inaccurate information/ data leading to incorrect decisions. Risk of underperformance from investment managers.	Staff training and identification of training requirements through the EDR process. Regular attendance and feedback from industry conferences. Independent verification and quality control procedures including external verification by the Audit Commission and internal audit. 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. Compliance Manual updated on an annual basis and signed by all staff in the Investments Section. Internal office guidance notes updated in March 2012 and are now being incorporated into UPM process mapping. Full review of training notes to be adapted to reflect UPM. 75% of office literature has been rebranded and reworded to reflect UPM. Work will continue in this area on all outstanding documents.

No.	Risk	Consequences	Controls
17	**Unforeseen/ unplanned customer demands placed on the Pensions section**	Failure to fulfil statutory requirements of the pension scheme. Employers' failure to understand obligations and liabilities under the LGPS. Failure to meet targets, financial implications e.g. late payment equals interest, loss of reputation, poor customer service	Internal Task Management system to monitor workflow. Pension Liaison Officers (PLO's) working with employers to provide information required. Clear allocation of responsibilities. Training sessions organised for internal departments and/or employers. Guidance issued and updated on a regular basis. Unitary Finance Officers to cascade employer plans early to avoid unforeseen occurrences. PLO's hold six monthly employer meetings to address workforce issues. Within Phase 2 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.
18	**Insecure storage and unsafe transmission of data**	Breach of data protection i.e. theft or loss of data. Inability to verify pensions data. Transmission of data to incorrect recipient. Inappropriate levels of access to confidential data. Potential for fraud. Inability for employers to provide data electronically. Greater need to perform manual calculations. Increased formal complaints leading to members invoking the Internal Resolution Dispute Procedure and potentially the Pensions Ombudsman.	Authentication controls including regular password changes and robust user administration procedures are in place. Access rights are restricted. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. No home working permitted on UPM by Pensions Section staff. Pension system is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met. Regular data matching exercise. Adhere to the ICT Security Policy. Review the security of data sent within office emails. Procedures are now in place to ensure that data is sent by secure systems. Office staff have completed an in-house training session and completed an e-learning package on data security.

No.	Risk	Consequences	Controls
19	**Failure of supplier e.g. IT supplier, Bloomberg, Custodian, External Investment Manager**	Unable to access LGPS member records; pay benefits; access information e.g. e-mails, training notes, payroll. Failure to pay pensions, to collect contributions, lack of funding. Failure to settle trades, corporate actions, undertake stock lending, and exercise voting rights. Potential negative impact on the Fund's investment performance. Loss of staff work time. Unable to communicate with members and employers e.g. ABS, newsletters, employer updates. Custody risk including missed dividends or corporate actions, and delays in trade settlements. Unable to trade due to incomplete information. No updates, no support, lack of training and information.	Procurement process assesses technical ability and financial stability. Disaster recovery in place for each IT system e.g. Pensions and Payroll, Payments, Masterpiece, I Notes, Bloomberg. Back up systems in place and completed daily. Business continuity plans in place. Payroll protocol and regular meetings with IT development staff. Regular performance monitoring. Regular reconciliation of custody data to internal records. Funds under management can be transferred to the internal investment manager. WEB based facility to access IT system. Disaster Recovery plan and Business Continuity plan for UPM.
20	**Business disruption eg unable to access the building/ workspace**	Failure to fulfil statutory requirements of the pension scheme. Employers' failure to understand obligations and liabilities under the LGPS. Potential negative impact on the Fund's investment performance.	Remote working or alternative sites. Key control for accessing workspace should rest with Asset management. Disaster recovery plan would provide limited emergency office space. Senior managers could work from home. Senior managers have out of office contact details for all staff. Disaster Recovery plan and Business Continuity plan in place. Department-wide business continuity exercise conducted in March 2013.

No.	Risk	Consequences	Controls
21	Failure to recruit and retain staff including long term staff absence	Insufficient staff to administer tasks on a daily basis. 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. Potential for financial penalties if work not completed correctly. Potential negative impact on the Fund's investment performance. Potential for additional costs to be incurred e.g. additional temporary staff, transfer of investment assets to an external provider.	Sickness reviewed monthly and dealt with in accordance with the sickness policy. Regular EDRs to identify well-being issues, skill gaps and training requirements. Workforce development action plan in place to identify future workforce requirements, training needs and recruitment/retention measures. Review of vacant posts and re-evaluation /regrading/ restructuring considered as appropriate. Detailed records of rationale for investment decisions. Key processes are documented. HR policies and procedures in place.
22	Insufficient training for personnel responsible for the Fund (Members and Officers).	Failure to fulfil statutory requirements of the pension scheme. Employers' failure to understand obligations and liabilities under the LGPS. Potential negative impact on the Fund's investment performance.	Induction and training programme for Members and Officers. Regular EDRs to identify training requirements and well being issues. Sickness absence policy. Mini induction on return to work from long term absence. Detailed records of rationale for investment decisions. Key processes are documented.

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 80 to 101) and Note X Disclosure Relating to Financial Instruments (page 73).

Third party risks

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

In addition, assurance to access 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 its investment activities. 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.**
- **State Street's control procedures audited 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 audits concluded that the control procedures are suitably designed and operated as described during the period under review.

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 30 to 43.

Fund Account	2011 / 12	2012 / 13	Notes
	£000	£000	
Net Contributions	29,594	31,562	Stable number of active members; higher level of net transfers out; increase in number of pensions in payment offset by decrease in lump sums
Return on Investments	53,272	390,201	Significant capital appreciation in the majority of asset classes; increase in income particularly in Equities, Property, and Alternatives
Net increase in the Fund	82,866	421,763	

Net Asset Statement	2011 / 12	2012 / 13	Notes
	£000	£000	
Fixed Interest	29,594	31,562	Market movements and additional investment in UK Government, UK Corporate, Global High Yield, and Emerging Market Government
Index-linked	45,092	31,236	Market movements and net disposals of UK Government partly offset by additions to UK Corporate and Overseas
Equities	1,258,916	1,455,824	Significant capital appreciation in the majority of markets and strong stock selection from the investment managers
Pooled Funds	907,851	1,075,165	Income and net contributions predominantly reinvested into Equities, Property, and Alternatives
Cash	197,581	196,816	
Other	10,348	14,647	
Total Investment Assets	2,634,314	3,067,810	

Analysis of pension contributions

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

	Total	On Time		Late	
	£000	£000	%	£000	%
Employee	33,133	32,848	99.1	285	0.9
Employer	120,408	119,444	99.2	964	0.8
	153,541	152,292	99.2	1,249	0.8

In total 78 monthly contribution payments were received late of which 70 were received within the month, 7 received between 1 and 3 months later and 1 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 2014.

Fund Account	2011 / 12		2012 / 13		2013 / 14
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Contributions	180,000	168,082	170,000	162,097	171,000
Payments	(120,000)	(136,084)	(135,000)	(128,543)	(131,000)
Admin expenses	(2,027)	(1,854)	(2,193)	(1,992)	(2,248)
Net investment Income	70,000	70,476	77,000	80,159	88,000
Investment expenses	(2,529)	(2,725)	(2,668)	(2,774)	(2,678)
Change in market value	88,076	(14,479)	125,104	312,816	129,329
Net increase in the Fund	213,520	83,416	232,243	421,763	252,403

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

Net Asset Statement	2011 / 12		2012 / 13		2013 / 14
	Forecast	Actual	Forecast	Actual	Forecast
	£000	£000	£000	£000	£000
Equities	1,939,832	1,762,568	2,091,139	2,044,134	2,254,248
Fixed Income	271,613	259,618	286,823	325,358	302,885
Cash	219,106	197,580	257,101	196,816	300,408
Property	125,865	158,217	134,046	179,764	142,759
Alternatives	230,005	245,982	249,555	307,091	270,767
Other	-	32,352	-	24,917	-
Total Investment Assets	2,786,421	2,656,317	3,018,664	3,078,080	3,271,067

The forecasts for total investment assets are based on the actual figures for 2009/10 multiplied by the forecast long term returns for each asset class used at the last strategic asset allocation review in 2010. 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	Long term forecast return
Equities	7.8%
Fixed Income	5.6%
Cash	4.8%
Property	6.5%
Alternatives	8.5%
Total	7.4%

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 next review taking place in 2013/14.

Operational Expenses

	2011 / 12		2012 / 13		2013 / 14
	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000
Pensions Administration					
Employees	1,079	1,018	1,079	1,055	1,152
Supplies and Services	326	229	297	242	309
Professional Fees	75	41	270	136	245
Central costs	547	566	547	559	542
	2,027	1,854	2,193	1,992	2,248
Investment Management					
Employees	574	566	574	559	574
Supplies and Services	243	298	262	263	272
External Fund Manager	1,485	1,510	1,485	1,638	1,485
Custodian	125	106	125	85	125
Stock Lending	-	128	120	114	120
Professional Fees	10	10	10	10	10
Central costs	92	107	92	105	92
	2,529	2,725	2,668	2,774	2,678
Total	**4,556**	**4,579**	**4,861**	**4,776**	**4,926**

The increase in the budget for professional fees in 2012/13 was due to the implementation of the new pension administration system which are now expected to be incurred in 2013/14.

Analysis of Pension Overpayments

	2008 / 09	2009 / 10	2010 / 11	2011 / 12	2012 / 13	Total
	£	£	£	£	£	£
Overpayments Recovered	0	19,182	3,230	4,470	3,738	30,619
Overpayments Written Off						
Deaths	0	559	6,349	5,125	4,178	16,210
Axis Payroll Check	0	0	359,071	0	0	359,071
Total	**0**	**559**	**365,420**	**5,125**	**4,178**	**375,281**
Annual Payroll	74,126,529	79,982,561	82,950,742	91,427,495	98,119,729	426,607,056
Write offs as a % of Payroll	0.1%	<0.1%	0.4%	<0.1%	<0.1%	0.1%
Number of cases - Written Off	129	101	441	156	143	970
Number of cases - Recovered	0	5	16	26	13	60
Number of cases - In process of Recovery	0	3	9	12	16	40

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 2013 CIPFA Pensions Administration benchmarking club report, issued in September 2013, compares the performance of ERYC in 2012/13 with 52 local authorities who administer the Local Government Pension Scheme (LGPS). The key findings for 2012/13 were as follows:

- **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 2012/13 was £17.10 (2011/12: £16.37) compared to the average of £21.42 (2011/12: £21.54). The table below is an analysis of the Fund's cost per member compared with the average cost for the authorities in the benchmarking club.

Cost per member 2012/13	East Riding Pension Fund	Average
	£	£
Staff	7.82	9.29
Payroll	3.19	3.41
Direct costs eg communications and actuarial fees	1.28	2.93
Overheads eg IT, accommodation, central charges	4.91	6.51
Income	-0.11	-0.27
Net cost per member	17.10	21.42*

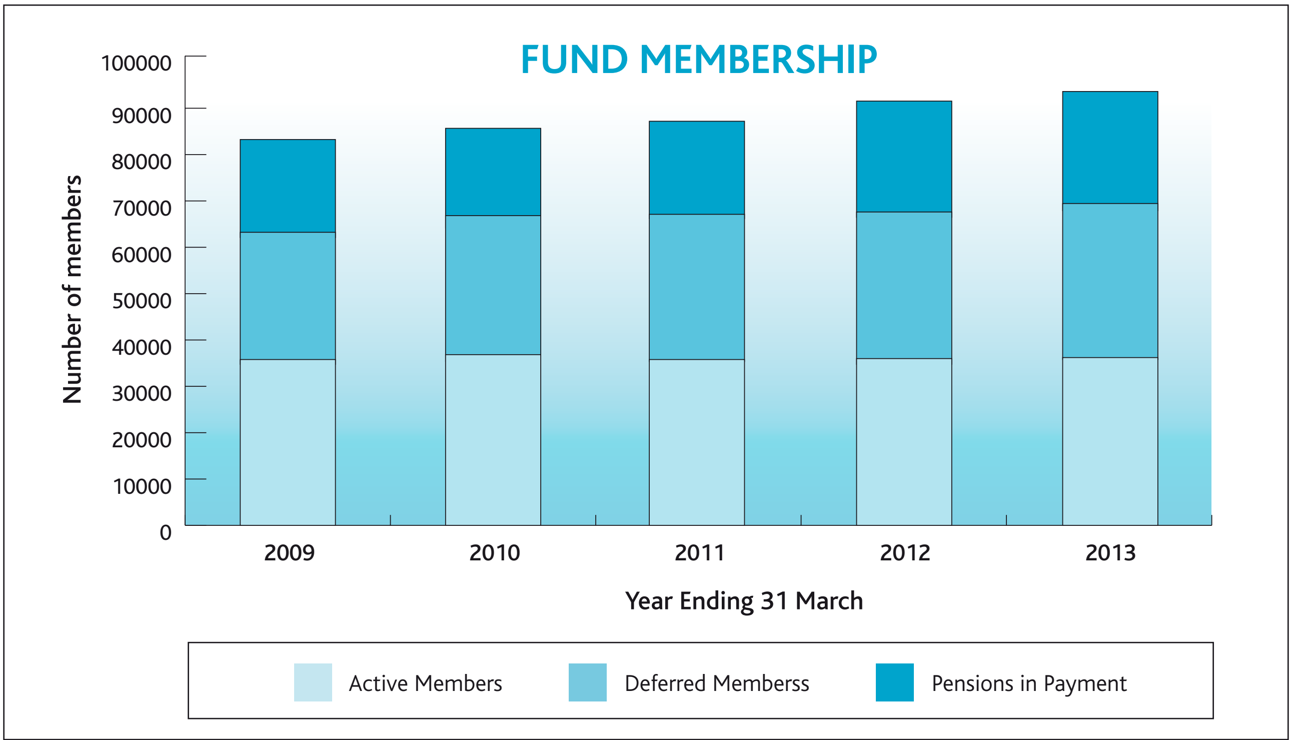
* difference between the average total and the sum of the sub averages is due to rounding and quality control methods applied by CIPFA

- **The annual cost of employing a full time equivalent (FTE) member of staff to administer the LGPS.** The Fund's staff cost for 2012/13 was £26,198 pa per FTS staff (2011/12: £26,000 pa) compared to the average of £33,308 (2011/12: £34,082).

5 Year Analysis of Fund Membership Data

	2009	2010	2011	2012	2013
Active Members	35,439	36,395	36,310	35,856	35,969
Deferred Beneficiaries	27,779	28,924	30,413	32,312	33,375
Deferred Members	25,520	26,953	28,603	30,704	31,791
Frozen Refunds	2,259	1,971	1,810	1,608	1,584
Pensions in Payment	20,349	21,124	22,025	23,426	24,404
Total Membership	**83,567**	**86,443**	**88,748**	**91,594**	**93,748**

5 Year analysis of Fund Membership



Age Profile of Fund Membership at 31 March 2013

	Pensioner Type (% of Members)					
Age Band Years	**Active**	**Beneficiary**	**Deferred**	**Pensioner**	**Preserved Refund**	**Total**
<20	1	6	<1	0	2	**1**
20 - 24	5	1	3	0	2	**3**
25 - 29	7	<1	7	<1	4	**5**
30 - 34	8	<1	9	<1	10	**6**
35 - 39	10	<1	11	<1	13	**8**
40 - 44	15	1	16	<1	18	**12**
45 - 49	18	2	19	1	17	**14**
50 - 54	17	3	18	1	14	**13**
55 - 59	12	4	14	6	8	**11**
60 - 64	6	7	3	26	5	**9**
65 - 69	1	11	<1	27	4	**7**
70 - 74	<1	12	<1	16	2	**4**
75 - 79	0	15	0	11	1	**3**
80 - 84	0	17	0	7	<1	**2**
85 - 89	0	13	0	4	<1	**1**
>90	0	8	0	1	0	**1**

Employer and Employee Primary Contributions by Band

		Contribution Bands									
	Employers Contributions	5.50% up to £13'500	5.80% £13'501-£15'800	5.90% £15'801-£20'400	6.00%	6.50% £20'401-£34'000	6.80% £34'001-£45'500	7.20% £45'501-£85'300	7.50% Over £85'300	Total Employee Contributions	Total Contributions
Employers	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Anlaby with Anlaby Common Parish Council	2	-	-	-	-	1	-	-	-	1	3
Apetito	5	-	1	-	-	-	-	-	-	1	7
Archbishop Sentamu	176	7	26	17	-	15	6	2	-	72	249
Arvato	1,357	2	50	148	-	127	42	4	-	372	1,729
Balfour Beatty	692	2	8	39	-	128	16	4	-	197	889
Barton Upon Humber Parish Council	11	-	-	-	-	3	-	-	-	3	14
Beverley Grammar	141	8	8	9	-	7	3	-	-	34	175
Beverley Town Council	12	-	1	1	-	2	-	-	-	3	16
Bishop Burton College	626	14	19	49	-	75	21	7	-	184	810
Bottesford Town Council	5	-	0	-	-	1	-	-	-	1	6
Bridlington Town Council	6	-	-	0	-	1	-	-	-	2	8
Brigg Town Council	7	-	1	2	-	-	-	-	-	3	10
Broughton Town Council	4	-	-	-	-	1	-	-	-	1	5
Bursar Academy	37	2	1	1	-	2	-	-	-	6	43
Burton Upon Stather Parish Council	2	-	-	1	-	-	-	-	-	1	3
Cambridge Park	275	31	13	13	-	8	-	-	-	64	338
Cleethorpes Academy	81	6	11	5	-	2	-	-	-	23	105
Cottingham Academy	274	17	16	15	-	5	3	-	-	56	330
Crowle Primary Academy	12	1	1	0	-	1	-	-	-	3	16
Driffield Town Council	14	-	-	1	-	3	-	-	-	4	18
East Ravendale Academy	32	1	3	0	-	1	-	-	-	5	37
East Riding College	474	18	18	46	-	39	6	13	-	139	613
East Riding Yorkshire Council	19,107	1,031	1,231	1,556	33	2,480	940	273	139	7,683	26,790
Edward Heneage Academy	19	2	1	1	-	2	-	-	-	5	25
Elloughton cum Brough Parish Council	11	-	-	-	-	1	2	-	-	3	15
EMIH Limited ("The Deep")	180	0	5	12	-	16	12	5	-	50	230
Epworth Academy	31	4	0	1	-	1	-	-	-	6	37
Franklin College	206	7	9	16	-	24	-	8	-	64	270
Future Cleaning Services	13	5	-	-	-	-	-	-	-	5	18
Goole Academy	253	20	17	17	-	12	3	-	-	70	322
Goole Town Council	76	1	5	3	-	11	-	3	-	24	100
Grimsby College	1,300	25	21	130	-	197	30	19	-	423	1,723
Hall Road Primary Academy	47	1	1	3	-	2	-	-	-	7	54
Havelock Academy	194	3	8	8	-	21	0	2	4	46	240
Healing Science Academy	119	16	5	6	-	6	5	-	-	38	157
Hedon Town Council	11	-	0	2	-	1	-	-	-	3	13
Henderson Ave Primary Academy	47	5	1	2	-	5	-	-	-	12	59
Hessle Academy	228	22	14	5	-	7	2	-	-	50	278
Hibaldstow Academy	31	2	-	3	-	1	-	-	-	6	37
Hornsea Town Council	20	-	1	3	-	1	-	-	-	5	25
Hull & Goole Port Health Authority	52	-	1	-	-	5	7	2	-	15	67
Hull Charterhouse Trustees	17	1	-	2	-	2	-	-	-	5	22
Hull City Council	33,017	332	815	1,522	26	3,379	1,092	418	118	7,703	40,719
Hull City Vision	22	-	-	1	-	7	3	-	-	11	33
Hull College	1,956	13	67	242	-	239	51	20	1	634	2,590
Hull Resettlement Project	21	-	-	-	-	3	3	-	-	6	27

Employer and Employee Primary Contributions by Band (Continued)

		Contribution Bands									
	Employers Contributions	5.50% up to £13'500	5.80% £13'501-£15'800	5.90% £15'801-£20'400	6.00%	6.50% £20'401-£34'000	6.80% £34'001-£45'500	7.20% £45'501-£85'300	7.50% Over £85'300	Total Employee Contributions	Total Contributions
Employers	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Hull Studio School	7	-	-	2	-	0	-	-	-	2	9
Humber Bridge Board	432	2	6	10	-	73	8	8	-	107	539
Humbercare Ltd	15	-	-	-	-	-	-	4	-	4	19
Humberside Fire Brigade	985	4	46	63	-	126	33	22	7	301	1,286
Humberside Indep Care Assoc (HICA)	120	1	3	1	-	2	5	9	7	27	148
Humberside International Airport	164	-	2	3	-	23	4	19	-	52	215
Humberside Police	6,780	-	16	326	-	1,699	279	86	23	2,428	9,208
Humberston Academy	138	7	1	14	-	10	2	-	-	34	172
Humberston Park	219	14	15	13	-	9	2	3	-	56	274
Huntcliff Academy	155	9	4	9	-	5	-	-	-	26	181
ICS Chiltern	3	0	-	1	-	-	-	-	-	1	4
ICS Thorpepark	1	-	0	-	-	-	-	-	-	0	2
Immingham Town Council	34	-	2	3	-	1	-	4	-	9	43
Invenio Academy	159	10	3	8	-	9	3	-	-	34	193
ISS Facility Services	1	-	-	0	-	-	-	-	-	0	1
John Leggott College	323	8	13	36		30	8	4		99	422
Kier Sheffield LLP	1,469	-	-	-	-	-	-	-	-	-	1,469
Kingstown Works	1,859	8	8	64	-	350	18	33	-	482	2,342
Kingswood College	222	2	6	13	-	24	3	4	-	51	274
Kirk Ella & West Ella Parish Council	1	-	-	0	-	-	-	-	-	0	2
Lisle Marsden Academy	111	13	3	4	-	2	-	-	-	21	132
Macaulay Academy	56	5	1	2	-	1	-	-	-	9	65
Market Weighton Town Council	10	1	-	-	1	-	-	-	-	3	13
Melior Community College Academy	57	3	1	3	-	3	1	-	-	9	66
Middlethorpe Academy	43	3	2	2	-	2	-	-	-	8	51
NEIFCA	65			1	-	15	7	-	-	23	87
New Waltham Academy	50	3	2	2	-	1	-	-	-	8	59
Newington Primary Academy	49	2	1	3	-	2	-	-	-	7	56
North Axholme Academy	98	5	3	5	-	3	-	-	-	16	114
North East Lincolnshire Council	8,525	189	284	566	4	979	216	185	38	2,460	10,985
North East Lincs CTP	84	-	0	4	-	25	8	2	-	40	124
North Lincolnshire Council	15,220	467	460	651	19	1,731	603	300	39	4,272	19,492
North Lincolnshire Homes	1,270	1	19	48	-	199	62	40	21	390	1,660
North Lindsey College	569	9	33	65	-	51	2	20	-	180	749
NPS Humber	545	-	1	20	-	83	56	21	-	181	726
Nunsthorpe Academy	62	4	0	7	-	2	-	-	-	13	76
Oasis Academy (Immingham)	112	6	5	13	-	12	3	-	-	39	151
Oasis Academy (Wintringham)	156	16	7	13	-	18	6	3	-	62	218
Ormiston Maritime Academy	301	14	16	11	-	22	3	-	-	66	367
Ouse & Humber Drainage Board	70	-	-	10	-	3	3	4	-	20	90
Parkwood Primary Academy	18	2	0	1	-	1	-	-	-	5	23
Penhurst Academy	48	5	3	3	-	-	-	-	-	11	59
Pickering Homes Trust	173	-	1	1	-	33	-	16	-	51	224
Pocklington School	113	5	2	7	-	13	3	-	-	30	143
Probation Committee	2,208	0	1	28	-	387	148	20	-	583	2,791
Reel Cinemas Ltd	8	-	-	0	-	2	-	-	-	2	10
Riverside	52	-	-	6	-	3	3	-	-	12	64
RM Education PLC	13	2	-	-	-	2	-	-	-	4	16

Employer and Employee Primary Contributions by Band (Continued)

	Employers Contributions	Contribution Bands								Total Employee Contributions	Total Contributions
		5.50% up to £13'500	5.80% £13'501-£15'800	5.90% £15'801-£20'400	6.00%	6.50% £20'401-£34'000	6.80% £34'001-£45'500	7.20% £45'501-£85'300	7.50% Over £85'300		
Employers	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Robertson FM	35	2	-	1	-	4	-	-	-	8	42
Scartho Academy	41	2	1	-	-	2	-	-	-	5	47
Scawby Academy	56	3	-	2	-	3	-	-	-	8	64
Serco Limited	200	-	-	12	-	11	10	28	-	61	261
Shoreline	447	2	2	10	-	70	8	7	8	108	555
Signhills Academy	49	4	3	1	-	2		-	-	9	58
Signhills Infants Academy	72	6	2	2	-	1	-	-	-	11	83
Sirius Academy	221	6	14	20	-	14	4	8	-	66	287
Sodexo	1	0	-	-	-	-	-	-	-	0	1
South Axholme Academy	163	14	2	2	-	8	3	-	-	30	192
South Hunsley Academy	357	20	40	13	-	19	6	-	-	97	455
South Parade Academy	74	3	6	4	-	2	-	-	-	14	89
Sports Leisure Management Ltd	133	1	8	18	-	9	3	-	-	38	172
St Augustine Webster Academy	72	8	1	2	-	3	-	-	-	14	86
St Bede's Academy	140	6	6	5	-	4	3	-	-	23	164
St Bernadettes Academy	49	5	1	2	-	2	-	-	-	10	59
St Joseph's Catholic Academy	58	5	2	1	-	1	-	-	-	9	67
St Lawrence Academy	149	8	7	8	-	15	3	4	-	45	194
St Mary's Academy	42	3	0	1	-	3	-	-	-	7	49
St Mary's Catholic Primary Academy	26	2	1	1	-	-	-	-	-	4	30
St Mary's College	309	17	15	11	-	17	5	4	-	69	378
St Norbetts Academy	10	1	0	1	-	-	-	-	-	2	12
Strand Academy	39	3	1	1	-	2	-	-	-	7	46
Swanland Academy	57	8	3	0	-	2		-	-	14	72
Sydney Smith School	207	2	3	9	0	31	2	-	-	48	256
The Green Way Primary Academy	97	2	4	3	-	4	-	-	-	14	111
Thomas Ferens Academy	115	2	4	8	-	3	2	-	-	19	134
Thrunscoe Academy	50	4	2	-	-	2	-	-	-	8	58
Tollbar Academy	324	14	6	17	-	34	2	9	-	83	406
Trinity House Academy	97	3	2	1	-	8	-	-	-	15	111
University of Lincoln Students' Union	29	-	1	1	-	7	-	2	-	11	40
University of Lincoln	3,319	8	19	81	-	457	225	113	25	928	4,247
Vale Academy	136	7	3	9	-	6	2	-	-	28	163
Waltham Leas Academy	97	8	2	2	-	-	2	-	-	15	112
Weeslby Academy	73	5	2	4	-	1	-	-	-	12	86
Westwoodside Academy	22	2	0	1	-	1	-	-	-	4	26
Whitgift Academy	205	10	11	6	-	12	-	-	-	39	244
Wilberforce College	145	4	10	9	-	20	3	-	-	45	190
Winterton Academy	58	3	3	2	-	3	-	-	-	10	69
Withernsea Town Council	14	-	-	3	-	1	-	-	-	4	19
Worlaby Academy	3	0	-	0	-	-	-	-	-	1	3
Wybers Wood Primary Academy	26	2	1	1	-	2	-	-	-	5	30
Wyke College	138	7	5	9	-	12	3	7	-	43	181
Yarborough Academy	47	1	5	2	-	-	-	-	-	8	55
Yorks & Humber Grid for Learning	90	-	1	3	-	3	17	14	-	38	128
Young Peoples Institute	-	-	-	-	-	-	-	-	-	-	-
	112,496	2,629	3,550	6,211	84	13,601	4,040	1,784	432	32,330	144,825

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 current strategic asset allocation of the Pension Fund, as set out in the Statement of Investment Principles on page 102, is as follows:

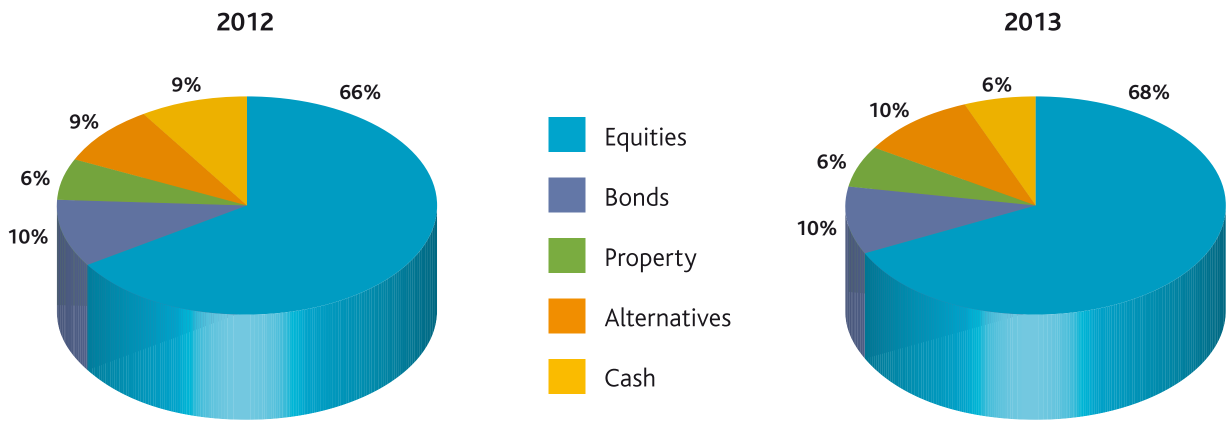
	Strategic Allocation	Range
Equities	65%	60 – 75%
Bonds[1]	17%	10 – 30%
Property	8%	0 – 15%
Alternatives	10%	0 – 15%

[1] Including Cash

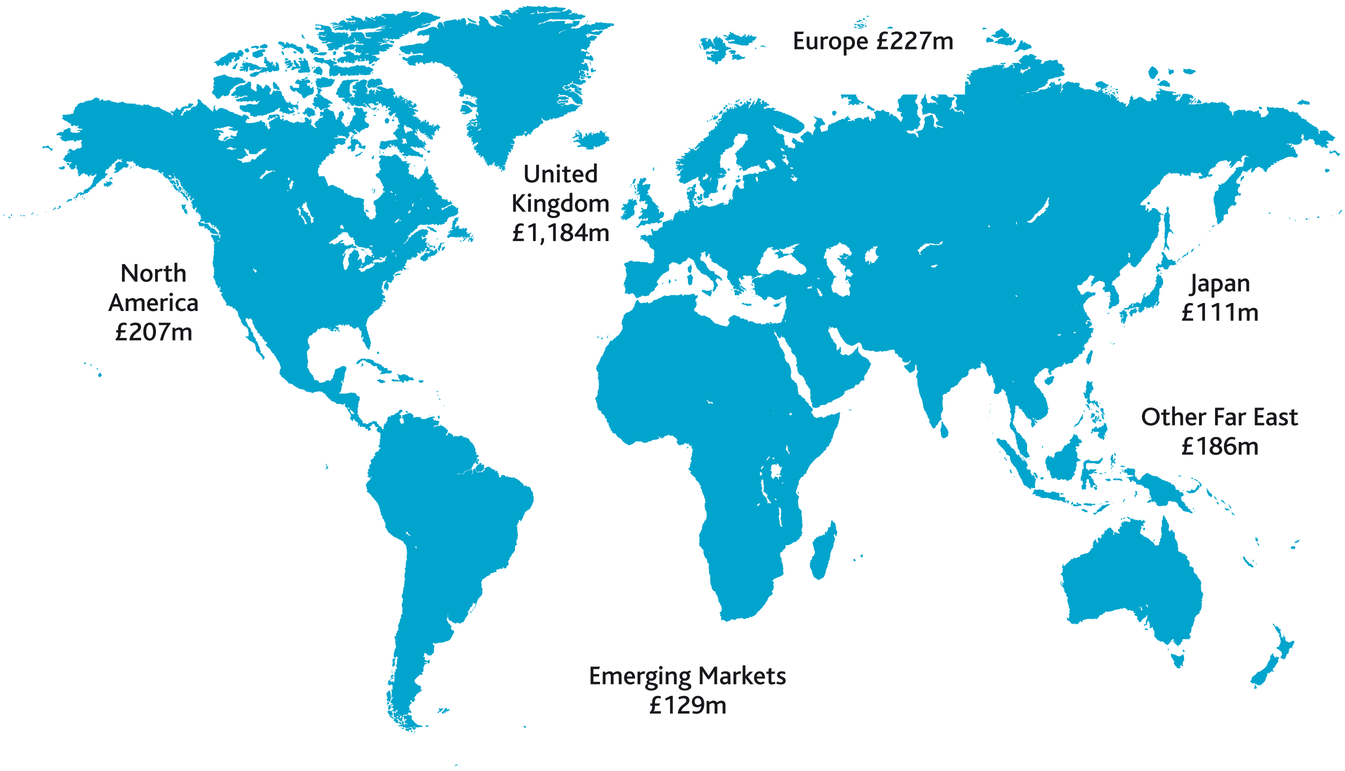
The actual asset allocation is shown in Note X on page 73.

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.



GEOGRAPHIC DISTRIBUTION OF EQUITY INVESTMENT AS AT 31 MARCH 2013



DETAILS OF THE LARGEST EQUITY INVESTMENTS AS AT 31 MARCH 2013

Top 15 UK Equities	Market Value £m
Vodafone Group Plc	65.3
Royal Dutch Shell Plc - A and B shares	54.2
BP Plc	52.0
Glaxosmithkline Plc	48.7
HSBC Holdings Plc	37.1
British American Tobacco Plc	30.3
Astrazeneca Plc	29.7
Unilever Plc	29.5
BG Group Plc	26.8
Rio Tinto Plc	26.5
Arm Holdings Plc	24.4
Biotech Growth Trust	22.3
Tesco Plc	21.3
Henderson Smaller Companies Inv Trust	20.2
Prudential Plc	20.1

Top 15 Overseas Equities	Market Value £m
Jupiter European Opportunities Trust Plc	12.2
JP Morgan European Smaller Companies Trust Plc	10.3
Montanaro European Smaller Co's Fund Plc	9.2
Sanofi	6.4
Roche Holdings AG	6.3
Sumitomo Mitsui Financial Group Inc	5.3
Pernod-Ricard SA	5.2
Mitsubishi UJF Financial Group Inc	4.9
Anheuser-Busch Inbev NV Common	4.6
Heineken	4.3
Kabel Deutschland	4.2
Novartis AG	4.2
Siemens AG	4.1
TR European Growth Trust Plc	4.1
Fidelity European Values Plc	4.0

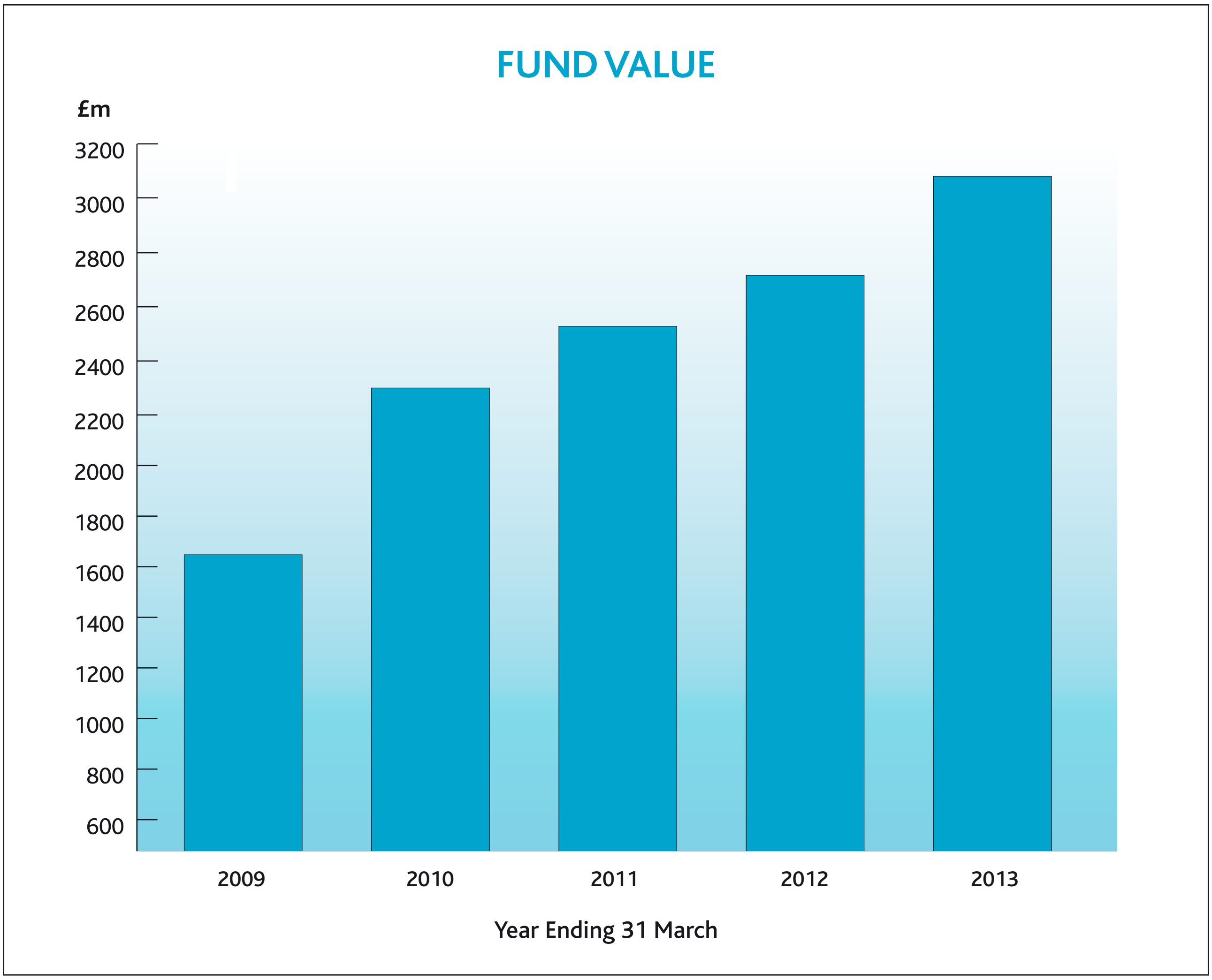
DETAILS OF INSTITUTIONAL UNIT TRUSTS AS AT 31 MARCH 2013

Global Equity Funds	£m
Schroder Funds	
SGST North American Equity Fund	206.9
Institutional Pacific Fund	161.5
Emerging Markets Fund	129.3
Developing Markets Fund	24.4
UK Smaller Companies Fund	24.2
Recovery Fund	12.2
European Smaller Companies Fund	9.2
Japan Smaller Companies Fund	3.8

Property Funds

The Fund holds a portfolio of nineteen Property Funds valued at £179.8m as at 31 March 2013. 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.

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



Investment Markets

Global equity markets were exceptionally strong during the year as a result of continued loose monetary policy in the developed economies, an improvement in risk appetite as investors sought higher returns given historically low bond yields, increased central bank support for European sovereign bonds, and stronger than expected economic data in both developed and developing economies.

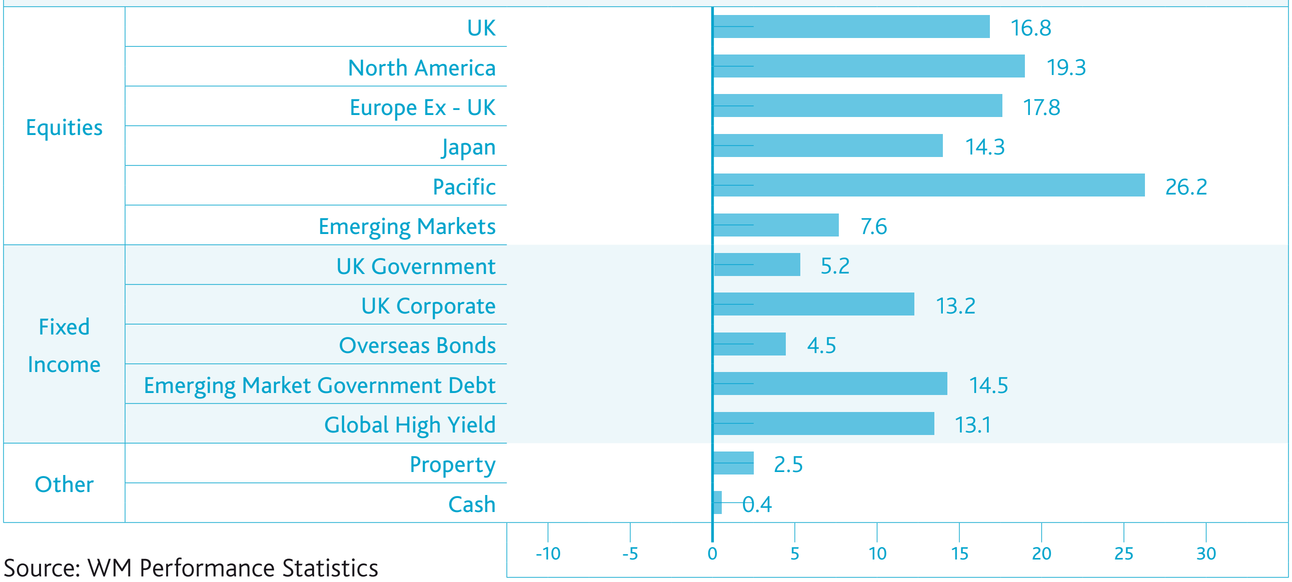
Equities

- The best performing equity region, in sterling terms, was the Pacific region due to strong returns from consumer and property-related stocks in Australia, Singapore, and Hong Kong.
- North America benefited from the conclusion of the US presidential election and the temporary avoidance of the "fiscal cliff" in addition to relatively strong economic growth and continued loose monetary policy.
- Europe ex-UK was supported by increased central bank intervention and relatively strong economic growth in the core European economies, particularly Germany, and despite an escalation of the sovereign debt crisis as a result of the Cypriot bail-out and the inconclusive Italian elections.
- The UK market benefited from an exposure to good quality global companies partly offset by a large weighting to commodity-related companies and the impact of austerity measures on domestic-focused companies.
- Japan benefited from the new government announcing an aggressive set of monetary and fiscal policy measures in late 2012 designed to increase export competitiveness, by depreciating the Yen, and boost domestic demand.
- Emerging Markets was the worst performing equity region due to concerns regarding the sustainability of economic growth, the continuing issues in the Eurozone, a large export market for the region, and concerns regarding government and consumer debt levels in some countries, such as India and Brazil.
- Returns from overseas equity markets also benefited from the modest depreciation in Sterling during the year.

Fixed Income

- There was a marked divergence between developed and emerging government bond markets.
- The UK fixed income market was supported by historically low bond yields and its status as a relative safe haven particularly during the escalation of the Eurozone sovereign debt crisis.
- In the Overseas developed markets, the US market was supported by exceptionally loose monetary policy and its safe haven status, a number of European markets experienced a sharp fall in yields due to additional central bank support, and the Japanese market suffered from the sharp depreciation in the Yen as a result of the policy intervention to weaken the currency.
- Emerging Market Government Bonds performed strongly due to the sharp fall in interest spreads as a result of a modest improvement in credit quality and investor demand for higher income returns in a low interest rate environment.
- Corporate bonds also performed strongly, both investment grade and high yield, as a result of a sharp narrowing of credit spreads due to strong corporate balance sheets, low default rates, and investor demand for higher income.

Performance data for the year ended 31 March 2013



Source: WM Performance Statistics

Property

- The recovery in the UK property market slowed during the financial year with performance being driven by rental income offset by relatively high vacancy rates and a modest fall in capital values.
- The best performing sector was Central London Offices due to strong tenant demand and the lack of supply of good quality space.
- The worst performing sector was High Street Retail due to an increase in vacancy rates as weaker tenants continue to be impacted by lacklustre consumer spending.

Looking forward, there are concerns that sub-par economic growth in developed economies caused by household deleveraging, weak labour markets, and fiscal austerity could have a negative impact on equity markets. This could be exacerbated by a sharp slowdown in developing economies, particularly China, India, and Brazil. Equity markets have been supported by exceptionally loose monetary policy as investors have sought higher returns in a low interest rate environment, and so markets could be vulnerable if this support is curtailed. Corporate balance sheets remain relatively strong but profit margins could be at risk of mean reversion from historically high levels, particularly in the US. However, although market valuations are not as attractive as they were a couple of years ago they remain indicative of returns in line with the long term historical average. Companies with robust balance sheets, visible revenue and earnings growth, and strong cash generation remain attractive in the current uncertain environment.

Although interest rates are at historically low levels in developed markets they are likely to remain low in the medium term as central banks are reluctant to remove monetary support until there is a sustained improvement in economic growth. However, these markets do not offer attractive long term returns and bond yields will be susceptible to the eventual normalisation of interest rates. Emerging market government bonds could be vulnerable to an increase in risk aversion, particularly as credit spreads have narrowed, but local currency investments offer the potential to benefit from long term currency appreciation. Investment grade and high yield corporate bonds are susceptible to a widening in credit spreads if there is a deterioration in balance sheet quality and there are concerns regarding the liquidity of these markets in a weaker environment. However, there are attractive opportunities within alternative credit investments such as corporate mezzanine debt, senior secured loans, asset-backed securities, and healthcare royalty bonds.

Property markets are likely to remain weak due to high vacancy rates and minimal rental growth. Central London offices are likely to continue to outperform due to the lack of availability of prime properties but returns are likely to be lower than in the past few years due to a slowdown in rental growth. Retail will remain under pressure due to high vacancy rates, minimal rental growth, and the increasing cost of rental incentives. Residential values will be supported by under-supply of new properties, particularly in London and the South East, and recent government initiatives but valuations based on traditional metrics remain above the long term average. However, there are attractive opportunities within Property, particularly in debt-related investments.

Investment Performance

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

Annualised performance	1 year	3 years	5 years	10 years
East Riding Pension Fund	14.5%	8.8%	6.8%	10.1%
Strategic benchmark	14.0%	8.5%	7.6%	10.2%
Local Authority Average	13.8%	8.1%	6.5%	9.4%
Quartile	2nd	2nd	2nd	1st

Source: WM Annual Performance Review 2012 – 13

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

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

Annualised performance	1 year	3 years	5 years	10 years
Equities				
Fund	18.6%	10.2%	8.7%	12.6%
Strategic benchmark	16.9%	8.1%	7.3%	11.3%
Local authority average	17.6%	8.7%	7.5%	11.2%
Fixed Income[1]				
Fund	5.7%	4.8%	5.5%	5.4%
Strategic benchmark	7.2%	6.3%	7.4%	6.6%
Local authority average	10.5%	9.6%	8.6%	6.9%
Property				
Fund	2.1%	4.8%	(0.9%)	4.5%
Strategic benchmark	2.5%	6.5%	0.9%	5.8%
Local authority average	2.8%	6.0%	(1.0%)	4.9%
Alternatives				
Fund	13.4%	11.2%	5.1%	N/A
Strategic benchmark	13.0%	11.5%	11.6%	N/A
Local authority average	9.5%	6.2%	2.0%	2.0%

[1] Including Cash
Source: WM Annual Performance Review 2012 – 13

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:

	Internal Investment Manager		Schroder IM	
Asset Class	2011 / 12	2012 / 13	2011 / 12	2012 / 13
	£000	£000	£000	£000
Equities	1,151,253	1,333,417	611,315	710,718
Fixed Income[1]	338,811	405,640	118,386	116,563
Property	158,217	179,764	-	-
Alternatives	245,983	307,061	-	-
Total	1,894,264	2,225,882	729,701	827,281

[1] Including Cash

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

Annualised performance	1 year	3 years	5 years	10 years
Internal Manager	13.9%	8.9%	5.8%	9.6%
Strategic benchmark	13.6%	8.6%	7.0%	9.9%
Schroder IM	16.4%	8.6%	9.6%	11.5%
Strategic benchmark	15.0%	7.8%	8.7%	10.9%

Source: WM Annual Performance Review 2012 – 13

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 FRC UK Stewardship Code. The Pension Fund's Statement of Compliance with the Stewardship Code is shown on pages 38 to 40.

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

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

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

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

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

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

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

The 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	197	2,446	2,371	75
North America	571	6,088	5,711	377
Europe ex – UK	64	839	784	55
Japan	71	901	870	31
Pacific ex – Japan	65	553	553	-
Emerging Markets	347	3,489	3,188	301
Total	1,315	14,316	13,477	839

Statement of Compliance with the UK Stewardship Code for Institutional Investors

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

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

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

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

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

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

More details on the Fund's corporate governance strategy can be found in its Statement of Investment Principles, which is available on **www.erpf.org.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 note S on pages 71 and 72.

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.

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 Corporate Governance Policy 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 it is the intention of the Fund to publish summary details of voting activity in its Annual Report and Accounts.

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

The Fund publishes details of its stewardship and voting activities in the Annual Report and Accounts.

The Fund publishes the agendas and minutes of Pension Committee meetings on its website.

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	• The Pensions Committee meets on a quarterly basis to discuss current issues, future policy, and tactical asset allocation. • Working Groups are formed when an issue requires particular attention. A Working Group was set up in November 2010 to consider the Pension Fund's strategic asset allocation following the initial results of the triennial actuarial valuation. A new Working Group will be formed in 2013 to consider the strategic asset allocation following the initial results of the latest actuarial valuation. • The Committee have appointed suitably qualified investment managers to manage the investments of the Fund on their behalf. • The Fund takes advice from its independent advisor and external investment manager, both of whom attend the quarterly Pensions Committee meetings. This is in addition to the advice received from the Director of Corporate Resources and the Fund's actuary. • A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented.
Clear Objectives	• The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. • The Fund's strategic asset allocation is specifically designed to achieve the fund objective, with tactical asset allocation reviewed at the quarterly meetings. Specific asset allocation weightings are detailed in the Statement of Investment Principles. • In determining the Fund's asset allocation, the Committee consider all asset classes in terms of their suitability and diversification benefits.
Risk and Liabilities	• The Administering Authority has an active risk management programme in place including a Pension Fund-specific risk register and risk management schedule. • The Pension Fund's risk register identifies the key risks inherent in the Pension Fund, an estimate of the severity of each risk, a summary of current control measures, and the identification of additional control measures. • A description of the risk assessment framework used for potential and existing investments is included in the Statement of Investment Principles under "Risk and diversification of investments". • The Committee reviews the Pension Fund's risk management schedule on a quarterly basis and the risk register on a semi-annual basis.

Principle	Evidence of compliance
Performance Assessment	• The performance of the Fund's investment managers is assessed on a regular basis, using data provided by WM Company, a specialist performance measurement organisation. • Investments made by the Fund's investment managers are reviewed by the Committee on a quarterly basis. • The internal and external fund managers have Fund-specific performance benchmarks that are reviewed on a regular basis. Peer group benchmarks are used for comparison purposes only.
Responsible Ownership	• The Committee's policies on corporate governance, socially responsible investment, and shareholder voting are outlined in the Statement of Investment Principles.
Transparency and Reporting	• The following core documents are published on the Pension Fund's website: • Pension Fund Annual Report and Accounts. In addition, a summary is sent annually to all Members in a newsletter • Statement of Investment Principles • Governance Compliance Statement • Funding Strategy Statement • Corporate Governance and Voting Policy • Pension Committee Agendas and Minutes

Funding Strategy Statement and new employers

Of the 42 new employers joining the East Riding Pension Fund in 2012/13, three Scheme employers opted to phase in their contribution increases over one year and 4 new employers joined the small scheduled and resolution bodies pool given that they were employers with similar characteristics to those already in the pool.

As part of the management of admitted bodies, risk assessments are carried out on any new admitted bodies to ensure that they are able to meet their obligations under their admission agreements with the Fund.

- There was one new community admission body in the Fund and a risk assessment was not required as the body has a Scheme employer acting as its' guarantor.
- There were also two new transferee admission bodies and risk assessments were carried out to see if a bond was required.
  - The first transferee admission body entered into two admission agreements and bonds were put in place to be reviewed on an annual basis.
  - For the second transferee admitted body, there was only one active member and a bond was put in place. The active member retired after 2 months triggering a cessation valuation which will be carried out as part of the 2013 Valuation.

scheme administration report

Administration

The two key administrative challenges facing the East Riding Pension Fund over the last year have been the increase in the number of Fund employers, which will continue to grow in 2013/14 as more academies are created, and the implementation of a new pensions administration system.

In 2012/13, there were 42 new employers including 35 academies and this alone requires significant resources, as each new Fund employer is required to participate in a 'new employer meeting' so that they are aware of their roles and responsibilities in terms of providing information and meeting their regulatory requirements.

Supplied by Civica, the Universal Pensions Management (UPM) is a modern, integrated pensions administration system and is being implemented in three phases.

- The first phase, the UPM Pensions Administration System, went live in November 2012 with over 150,000 individual scheme member records and 1.5 million documents migrated from the existing system, Axise, to UPM. The aim is to review and re-engineer every business process in the Pensions section within 12 months of implementation including recreating all existing letters and documents in UPM. Extensive data quality checks have been carried out after implementation in line with guidance issued by The Pensions Regulator and 99% of the common data held on 95,000 records tested met the compliance standards.

- The second phase of the implementation, scheduled for October 2013, is the UPM Pensioner payroll system which will enable the Pensions Section to bring the pensioner payroll administration, currently provided by arvato government services (ERYC) Limited, in-house. As the UPM Pensioner payroll system is strongly interlinked with the administration system, there will be significant implications for the way the Pensions section currently works, for example, it will end the need for any paperwork to move between pensions staff and payroll staff and also the need for any manual updating of the payroll system.

- The final phase, which will commence in late 2013/early 2014, is the UPM Web access project which will allow Fund employers to carry out enquiries and update scheme member records and allow members to view data and update their records via the internet. It will also enable the Fund to communicate more effectively with its 36,000 active members, 24,000 pensioner members and 33,000 deferred members to keep them fully informed of scheme and regulation changes. To facilitate this we will be undertaking a complete overhaul of our existing website, which contains comprehensive information for members, to encourage greater use, including the potential introduction of Twitter and facebook facilities.

The Pensions section, which provides the administration function for the Pension Fund and over 140 employers, is made up of the following four teams:

- **The Member Services team** set up new members, monitor and maintain records, pay benefits to retiring and early leaver members and in respect of deceased members, and deal with incoming and outgoing transfer payments as well as Additional Voluntary Contributions.
- **The Systems and Communications team** provide the technical IT support to the section as well as ensuring all booklets, letters, and external communication issues are dealt with. The team also facilitates regular liaison with all Fund employers and provides a diverse range of scheme member face-to-face communication events ranging from pension planning sessions to open clinics where queries can be raised and answered.
- **The Projects and Development team** undertake routine and non-routine tasks and deal with monthly, quarterly, annual and triennial events and with issues resulting from receipt of new legislation. They also monitor, collect and reconcile payments required from Fund employers in respect of employee and employer pension contributions, and rechargeable amounts due to the Fund.

- **The Technical and Training team** provide a comprehensive training role for the whole section and provide education, advice on the interpretation of the Local Government Pension Scheme (LGPS) Regulations, as well as support and guidance to all employers in the Pension Fund.

Staffing numbers in the Pensions section

The number of full time posts in the Pensions section increased from 39 to 42 during 2012/13. This was in recognition of the increase in workloads and ongoing complexities of the LGPS Regulations since the last review in 2002, in particular the 264% rise in deferred members and the 54% rise in pensioner members in the intervening 10 years. However, the section carried an average of three vacant full-time posts throughout 2012/13.

There are 28 staff who are responsible for pensions administration work, comprising of 23 staff in the Member Services team and 5 from the Projects and Development team. Based on the total fund membership of 93,748, this equates to a staff to fund-member ratio of one full-time staff to 3,348 members.

The Systems and Communications team (7 staff), the Technical and Training team (2 staff) and three staff from the Projects and Development team have been responsible for the communication of the new LGPS 2014 to all Fund employers and members as well as the procurement and implementation of a new pensions administration system. All aspects of their work has been impacted on by the increase in the number of Fund employers over the last two years from 80 to 142.

The Pensions Manager and Assistant Pensions Manager posts make up the remaining 2 posts.

Communications

At the same time as moving towards more digital forms of communications, our face to face sessions have continued to be very popular. During 2012/2013 we organised, delivered or attended:

- **148 One to one pension surgeries**
- **25 Bespoke pension presentations**
- **21 Drop-in sessions**
- **21 Corporate inductions**
- **7 Pension Days**

Across all these sessions we met with over 2,200 of our scheme members, helping them with a range of pension queries at a very personal and detailed level.

Newletters are issued annually to active members (Foresight), deferred members (who are sent Intouch with their deferred benefit statement) and pensioner members (Reflection).

Employers are kept up to date with regular email briefings covering major national initiatives that we need to communicate to our scheme employers and members including the imminent changes to the Local Government Pension Scheme due in 2014 and the introduction of automatic enrolment. 36 such briefings were issued in 2012/13 and this is backed up by inviting all employers to regular Joint Employer Update meetings. Employers are encouraged to raise any issues for inclusion on the agenda or discussion at the meetings and 3 Joint Employer Update meetings were held in 2012/13, with the meeting in March hosting 53 Fund employer representatives.

Our communication methods and the ways in which we engage with our members will play a significant role in ensuring our future success, keeping members in the scheme (for example, through attending corporate inductions), discouraging opt outs during these financially difficult times, and encouraging non members to reconsider the benefits of the scheme.

The communications policy is on page 107.

It sets out:

- **How we communicate with our stakeholders.**
- **The format, frequency and method of our communications.**
- **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 by Internal Audit. The latest Audit report focussed on key controls due to the significance of the implementation of the new UPM system. Both the control framework and control compliance were assessed overall as adequate.

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 the East Riding of Yorkshire Council, as the administering authority for the East Riding Pension Fund.

How does the Procedure work?

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 a decision that has 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 put right 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 which ensures the stage 1 decision is independent of the Council. The member must apply for a review under stage 1 within 6 months of the date of the notification of the decision the member wishes to make a complaint about.

If the member is dissatisfied with the stage 1 decision, they must move to stage 2 of the IDRP within 6 months of the stage 1 decision and this is reviewed by the Pensions Manager who will not have had any previous involvement in the complaint.

If the member is still dissatisfied, they can contact The Pensions Advisory Service (TPAS) and ask for their assistance. Where the complaint or dispute cannot be resolved after the intervention of TPAS, the member has three years in which to apply to the Pensions Ombudsman for an 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 2012/13, there were 4 complaints which went to stage 2 against decisions made by the administering authority. Three of the complaints were dismissed and one was upheld . In addition, 2 complaints against decisions made by employers under stage 1 were dismissed at stage 2 by the Pensions Manager and three complaints were also resolved informally by the Assistant Pensions Manager.

Compliments

During the financial year to 31 March 2013, the Fund received 48 compliments from members and employers expressing their satisfaction with the level of service provided by the Pensions section. The compliments ranged from appreciation of customer service provided by individual members of staff to the quality of service provided by the section over a number of years.

report of the actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the East Riding of Yorkshire Council Funding Strategy Statement (FSS), dated 9 March 2011. In summary, the key funding principles are as follows:

- **to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;**
- **to ensure that employer contribution rates are as stable as possible;**
- **to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;**
- **to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;**
- **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 demonstrates 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 50% chance that the Fund will return to full funding over 24 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 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £2302 million, were sufficient to meet 74.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £808 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from East Riding of Yorkshire Council, administering authority to the Fund.

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 31 March 2011.

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 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases*	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

Experience over the period since April 2010

The funding level is likely to have worsened since the latest formal funding valuation. There have been significant falls in Government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal funding valuation have been higher than the long term assumption made at the 2010 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
16 May 2013

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 2010 and resulted in a funding level of 74% (2007 80%). The total required rate of employer contributions was certified by the Fund Actuary as 25.8% of pay. The next triennial valuation is due as at 31 March 2013 and any change in employers' contribution rates as a result of that valuation will take effect from 1 April 2014.

The results of the 2007 and 2010 valuations are set out in the tables below:

	2007	2010
Past Service Liabilities	**£m**	**£m**
Active Members	1,258	1,397
Deferred Pensioners	355	506
Pensioners	977	1,207
Total Past Service Liabilities	**2,590**	**3,110**
Assets	2,062	2,302
Deficit	**-528**	**-808**

The common employer contribution rates for the whole Fund at 31 March 2007 and 2010 are shown below:

	% of Pay	
Employer Contribution Rates	**2007**	**2010**
Future service funding rate	15.0	17.2
Past service adjustment	6.0	8.6
Total Contribution Rate	**21.0**	**25.8**

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 2010 valuation were as follows:

- **The future service funding requirement has risen from 15.0% to 17.2%. The past service adjustment has risen from 6.0% to 8.6%, reflecting a deterioration in the funding position.**
- **The fall in the funding level during the three years to 31 March 2010 was the result of a number of factors, the principal one being the return on investment markets during the period not meeting the assumptions made at the previous valuation.**

actuarial assumptions

Monitoring demographic risks during the inter-valuation period

The Fund is aware of the impact of demographic assumptions on estimates of pension liabilities and proactively monitors trends in such assumptions including ill health retirement, longevity, scheme membership and the use of discretionary powers, and where appropriate, the Fund takes corrective action.

In setting the future service contribution rates for each employer in the 2010 valuation exercise, the actuary made an allowance for retirements due to ill-health to cover the strain costs. The Fund informed employers that the allowance was effectively an ill-health budget calculated on an annual basis and indicated how much of the employer contribution rate covered the cost of ill-health retirement.

During the inter-valuation period, the Fund has monitored ill health retirements on a quarterly basis. Where the cumulative strain costs for ill health experienced by an employer have exceeded their allowance, the Fund has notified the employer and agreed whether any additional payments would be needed ahead of the 2013 Valuation to mitigate the risk of a significant increase in the employer's contribution rate. The Fund has also alerted employers to the possibility of paying ill health insurance premiums to cover strain payments arising from ill health retirements and 4 employers have taken out ill health liability insurance plans.

The Fund is also concerned that standard mortality assumptions can lead to over and under-funding at triennial valuations and that there is a greater need to assess longevity based on the Fund's own membership data. Ahead of the 2013 valuation, the Fund is therefore currently investigating options to use specialised data in the setting of the baseline longevity assumptions for the next valuation.

Monitoring membership numbers for each Fund employer is carried out on a regular basis to identify those employers whose active membership has dropped significantly in between assessments so that the Fund can engage with employers to ensure their long-term solvency. All new Fund employers are actively encouraged to complete their statement of policy on discretions as required under the LGPS Regulations to ensure that they are aware that the use of discretions will incur additional costs which must be met by immediate payment to the Fund.

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

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

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

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

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

Pensions Committee as at 31 March 2013

Pensions Committee as at 31 March 2013 Members	Number of meetings attended (max 8)
Councillor E Aird	6
Councillor M Boatman	6
Councillor A Burton	6
Councillor C Chadwick	8
Councillor N Evans	7
Councillor M Grove	3
Councillor J Head	8
Councillor A Hodgson	5
Councillor K Hough	6
Councillor B Pearson	5
Unitary Councillor Representatives	
Councillor I Glover (North Lincolnshire)	2
Councillor P Webster (Hull City)	0
Councillor D Billard (North East Lincolnshire)	2

Trade Union Observers

Mr C Crisp (GMB)	1
Mr M Burgess (UNITE)	5
Mr S Cunliffe (Unison)	4
Mr B Smith (Unison)	3

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 the East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils and four trade union representatives attend Committee meetings to ensure that the views of the other major employers and individual members of the scheme are taken into account. A list of those who served on the Committee, 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, changes to regulations, 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 102 to 106) 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 the individual investment managers;**
- **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 2011 – 12;**
- **Reviewed the audit and assurance reports of the Fund's investment managers and the global custodian;**
- **Reviewed the Fund's strategic risk register;**
- **Submitted responses to government consultations on changes to LGPS investment and administration regulations;**
- **Received training as part of the Member training programme (more details on page 53); and**
- **Considered the potential impact of proposed changes to the Local Government Pension Scheme.**

Following on from the recommendations of the Independent Public Services Pensions Commission ("Hutton") Report, a project entitled "The New LGPS 2014" was set up by the Government, the Local Government Association (LGA) and the major trade unions to consider the scheme design and the future cost management and governance of the Local Government Pension Scheme. The intention of this project is for the new scheme to be implemented from April 2014. It is anticipated that there will 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.

For the year ended 31 March 2013, the Fund generated a return of 14.5%, compared to the strategic benchmark return of 14.0%, the Local Authority average return of 13.8%, and the Retail Price Index, which was 3.3% over the period. A relatively high weighting to Equities and strong stock selection from the Fund's investment managers in the majority of asset classes was partly offset by a higher relative weighting to Cash.

Over the three years to 31 March 2013, the Fund has generated a return of 8.8% per annum, compared to the strategic benchmark return of 8.5% per annum, the Local Authority Average of 8.1% 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.

Councillor Chad Chadwick
Chairman
20 September 2013

Training and Development

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

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

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

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

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

The following training has been provided during the financial year:

- **Formal training sessions have been given on the following topics:**
  - **Fixed Income**
  - **Real Estate**
  - **Private Equity**
  - **Infrastructure**
- **Officer, advisor, and external investment manager feedback on the following topics:**
  - **Current trends in asset allocation including Equities, Fixed Income, Emerging Markets, Property, Commodities, and Infrastructure.**

- **Current trends in global macroeconomics including the sovereign debt crisis in Europe, global inflation, and Emerging Markets.**
- **Current opportunities in credit-related investments including high yield bonds, senior secured loans, real estate and infrastructure debt, asset-backed securities, corporate mezzanine debt, and emerging market debt.**
- **Overview of the actuarial valuation including methodology and expected trends in discount rates and longevity assumptions.**
- **Cost efficiency and cost effectiveness within the Local Government Pension Scheme including joint procurement projects and investment management fee structures.**
- **The impact of the potential changes to the Local Government Pension Scheme including changes to regulations and increased governance requirements.**
- **Corporate governance issues including executive remuneration, board representation and diversity, board responsibility, shareholder litigation, accounting standards, social investment, employee rights, and environmental issues.**
- **Analysis of the Fund's investment performance.**
- **Overview of risks within a Pension Fund.**
- **Overview of Liability-Driven Investment.**

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**

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.

Administering Authority

The Administering Authority is required to:

- **make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance;**
- **manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;**
- **prepare, approve and publish a statement of accounts in accordance with the Accounts and Audit Regulations 2011.**

Head of Finance

The Head of Finance is responsible for the preparation of the Fund's financial statements, which in terms of the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Based on International Reporting Standards (the Code), are required to present a true and fair view of the financial position of the Fund and its income and expenditure for the year ended 31 March 2013. 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 2013 and its income and expenditure for the financial year then ended.

Caroline Lacey
Head of Finance
East Riding Pension Fund
20 September 2013

fund account, net assets statement and notes

FUND ACCOUNT

For the year ended 31 March 2013

Note	Dealings With Members and Employers	(Restated) 2011/12	2012/13
		£000	£000
	Contributions	149,992	153,541
	Augmentation	10,320	2,802
G	Contributions receivable	160,312	156,343
	Individual transfer values receivable	5,220	5,142
	Group transfer values receivable	2,546	524
	Reinstatement of pension opt-outs	4	88
		168,082	**162,097**
H	Benefits payable	-128,586	-119,904
I	Payments to and on account of leavers	-7,498	-8,639
J	Pensions administration expenses	-1,854	-1,992
		-137,938	**-130,535**
	Net additions from dealings with Members	**30,144**	**31,562**
	Returns on investments		
K	Investment income	70,982	80,660
L	Less: Taxes on income	-506	-501
M	Profit and losses on disposal of investments and changes in market value of investments	-14,479	312,816
J	Less: Investment management expenses	-2,725	-2,774
	Net Return on Investments	**53,272**	**390,201**
	Net increase / (decrease) in the net assets available for benefits during the year	**83,416**	**421,763**
	Net Assets of the Fund		
	Opening assets as at 1 April	2,572,901	2,656,317
	Closing assets as at 31 March	**2,656,317**	**3,078,080**

NET ASSETS STATEMENT

Note		(Restated) 2011/12	2012/13
		£000	£000
M	**INVESTMENT ASSETS**		
	Fixed Interest Securities		
	UK - Public Sector	71,095	100,669
	UK - Other Quoted	38,247	51,057
	Overseas - Public Sector	70,907	69,537
	Overseas - Corporate Fixed Interest	18,003	20,010
	Global High Yield - Quoted	16,274	29,470
	Global High Yield - Unquoted	0	3,383
	Emerging Market Government	0	19,996
		214,526	**294,122**
	Equities		
	United Kingdom	984,249	1,133,798
	Overseas	274,667	322,026
		1,258,916	**1,455,824**
	Index Linked Securities		
	UK - Public Sector	39,131	16,062
	UK - Corporate Bonds	0	4,312
	Overseas - Public Sector	5,961	10,862
		45,092	**31,236**
	Pooled Investment Assets		
	Managed Funds	503,652	588,310
	Property - Quoted	11,147	23,149
	Property - Unquoted	147,070	156,615
	Private Equity - Quoted	55,747	68,037
	Private Equity - Unquoted	76,157	83,750
	Infrastructure - Quoted	12,224	17,326
	Infrastructure - Unquoted	35,150	38,139
	Other Investments - Quoted	55,630	65,190
	Other Investments - Unquoted	11,074	34,649
		907,851	**1,075,165**
	Cash		
M	Fixed Term Deposits	186,126	188,934
	External Manager	11,454	7,882
		197,580	**196,816**
	Other Investment Balances		
	Accrued interest on temporary investments	723	723
	Unsettled sales	817	3,604
	Income held by Custodian	2,178	1,864
	Accrued dividends	6,631	8,456
		10,349	**14,647**
	TOTAL INVESTMENT ASSETS	**2,634,314**	**3,067,810**
	INVESTMENT LIABILITIES		
	Cash with internal manager	-17	-69
	Unsettled purchases	-1,281	-6,500
	Tax on accrued dividends	-19	-305
	Liabilities with Custodian	-58	0
	TOTAL INVESTMENT LIABILITIES	**-1,375**	**-6,874**
N	**CURRENT ASSETS**	**26,748**	**19,796**
O	**LESS CURRENT LIABILITIES**	**-3,370**	**-2,652**
	NET CURRENT ASSETS	**23,378**	**17,144**
	NET INVESTMENT ASSETS	**2,656,317**	**3,078,080**

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

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

Notes to the Accounts

A Type of Scheme

The Fund is a funded defined benefits scheme.

B Audit

These Accounts are subject to external audit. The independent auditor's report can be found on page 110.

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 2012/13, based on International Financial Reporting Standards which requires that the Fund's Accounts comply with IAS 26 Accounting and Reporting by Benefit Plans subject to the interpretations and adaptations detailed in the Code and Statement of Recommended Practice on Financial Reports of Pensions Schemes (SORP).

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

2. Income

a) Contributions income

Contributions receivable are included in the Accounts in the year to which they relate. Any amounts due but not received are shown in the Net Asset Statement as a current asset. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which liability arises. Employers' contributions are based on a percentage of employees' pensionable pay as recommended by the Actuary of the Fund in his valuation of 31 March 2010 effective from 1 April 2011. Further information regarding the Actuary's Report and Actuarial Valuation as at 31 March 2010, effective from 1 April 2011, can be found on pages 47 to 49 of these accounts. Deficit funding payments are payable over a maximum of 20 years.

b) Transfer values receivable

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

c) Investment income

i) Dividend income

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

ii) Interest income

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

iii) Distributions from pooled investment assets

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

iv) Movement in the net market value of investments

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

3. Expenditure

a) Benefits payable

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

b) Transfer values payable

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

4. Expenses

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

5. Valuation of Assets

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

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

Investments made through the UK Stock Exchanges are valued at bid market price at the close of business on 31 March 2013. Investments made on overseas stock exchanges are valued at bid price or last trade price.

Investments held in foreign currencies are translated in the Accounts by the application of the appropriate rate of exchange ruling at 31 March 2013. 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, otherwise unquoted investments are valued at the lower of cost and fair value.

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

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

6. Future Liabilities

The Accounts summarise the transactions and net assets of the Fund and do not take into account liabilities to pay pensions and other benefits in the future. The adequacy of the Fund's investments and contributions in relation to its overall obligations is dealt with in the report by the Actuary, on page 47 of this report and these accounts should be read in conjunction with the report.

The Actuarial information disclosed on pages 47 to 50 complies with the accounting requirements of International Accounting Standard 19 Employee Benefits.

7. Taxation

The scheme is a Registered Pension Scheme in accordance with Paragraph 1 (1) of Schedule 36 to the Finance Act 2004 and for UK taxation purposes is wholly exempt from income tax and capital gains tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

8. Value Added Tax

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

9. Pension and Investment Management Expenses

Administration expenses, including fees paid to advisers, are charged to the Fund as provided in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Central, finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by East Riding of Yorkshire Council staff.

The external manager's fee paid to Schroder Investment Management Limited is based on the market value of funds under management at the end of each quarter and is calculated on a sliding scale, where percentage fee diminishes on marginal value. Custody fees are agreed in the mandate for the provision of custodian services. Internal management costs are based on actual costs.

10. Currency Conversion Rates

Overseas investments have been converted at the exchange rates quoted at close of business on 31 March 2013 to arrive at the sterling values in the Net Assets Statement.

11. Additional Voluntary Contributions

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

12. Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is based on the triennial valuation of the Fund by the Actuary, with liabilities at 31 March 2013 being projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. The Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the accounts.

13. Reclassification of Investment Assets

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

14. Critical Judgements in Applying Accounting Policies

Pension Fund liability

The Fund liability is calculated every three years by the Fund's Actuary with the purpose of the valuation being to establish that the Fund is able to meet its liabilities to past and present contributors. The valuation is carried out in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and complies with IAS 19. The principal actuarial assumptions and method used to value the liabilities are shown in the report of the Actuary which can be found on pages 47 to 48.

Unquoted Investments

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

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

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

15. Assumptions Made About the Major Source of Estimation Uncertainty

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

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

Actuarial present value of promised retirement benefits

The calculation of the actuarial present value of promised retirement benefits is undertaken by the Actuary and is projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. 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 estimation techniques and non-marketable observable inputs. Certain unquoted Private Equity, Infrastructure, Property, Global High Yield and Other alternative investments are stated at the lower of cost and fair value.

The fair value of unquoted investments at 31 March 2013 was £352.9m (2012: £302.3m) compared to the lower of cost and fair value of £316.5m (2012: £269.5m). There is a risk that unquoted investments may be under or over stated in the accounts.

16. Policy for Funding the Promised Benefits

The funding policy is set out in the Funding Strategy Statement. Fund liabilities were assessed by the Actuary using an accrual benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership. A market-related approach was taken to valuing the liabilities for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Financial Assumptions	Nominal at March 2010	Real at March 2010
	% p.a.	% p.a.
Discount Rate	6.1%	2.8%
Pay Increases*	5.3%	2.0%

*plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% thereafter.

They key demographic assumption was the allowance made for longevity. The base line longevity assumptions adopted at this valuation were in line with standard SAPA mortality tables and included improvements based on medium cohort projections and a 1% p.a. underpin effect from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Age in Years	
	Males	Females
Current Pensioners	22.9	25.7
Future Pensioners	24.9	27.7

D Concentration of Investments

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

2011/12				2012/13		
Number of Units	Value £000	% of Net Assets		Number of Units	Value £000	% of Net Assets
25,710,684.220	174,113	6.6	Schroder North American Equity Fund	26,225,614.077	206,910	6.7
25,206,050.84	140,653	5.3	Schroder Institutional Pacific Fund	23,510,848.27	161,527	5.2

Investments which fall into the second category are as follows:

2011/12				2012/13		
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			UK Fixed Interest - Public Sector			
11,625,000	13,912	19.6	Treasury 4.5% 2019	13,125,000	15,836	15.7
9,978,000	11,575	16.3	Treasury 4% 2022	11,928,000	14,303	14.2
0	0	0.0	Treasury 2% 2016	6,770,000	7,120	7.1
0	0	0.0	Treasury 2.25% 2014	6,250,000	6,378	6.3
4,414,000	5,610	7.9	Treasury 5% 2025	4,427,000	5,806	5.8
4,650,000	5,495	7.7	Treasury 4.25% 2027	3,400,000	4,175	4.1
3,330,000	4,064	5.7	Treasury 4.75% 2020	3,330,000	4,125	4.1
			UK Fixed Interest - Other			
0	0	0.0	Lloyds TSB Bank 1.5% 2017	10,000,000	10,323	20.2
7,309,000	7,318	19.1	Nationwide Building Society 7.971% 2049	7,309,000	7,467	14.6
4,710,000	5,363	14.0	Tesco Plc 5.5% 2019	5,060,000	5,985	11.7
4,000,000	4,602	12.0	Southern Water Services Finance Ltd 6.125% 2019	4,650,000	5,563	10.9
5,000,000	4,923	12.9	SSE PLC 5.453% 2049	5,000,000	5,171	10.1
0	0	0.0	SSE PLC 5.% 2018	4,000,000	4,629	9.1
3,505,000	3,981	10.4	Network Rail Infrastructure Finance Plc 4.875% 2015	4,105,000	4,573	9.0
0	0	0.0	Pennon Group 6.75% 2049	3,500,000	3,615	7.1
4,000,000	2,380	6.2	Prudential PlC 6.5% 2049	4,000,000	2,637	5.2
4,000,000	4,279	11.2	SSEnergy Plc 5.75% 2014	0	0	0.0
			Overseas Fixed Interest - Public Sector			
12,164,000	8,825	12.4	US Treasury 4% 2018	12,164,000	9,357	13.5
4,727,000	4,495	6.3	Germany 4% 2016	4,727,000	4,509	6.5
486,600,000	3,760	5.3	Japan 1.1% 2021	555,400,000	4,114	5.9
5,403,000	3,780	5.3	Australia 6.25% 2015	5,403,000	3,957	5.7
5,868,000	4,090	5.8	Canada 3.5% 2020	5,268,000	3,863	5.6
4,000,000	3,581	5.1	France 3.25% 2016	4,000,000	3,676	5.3
0	0	0.0	US Treasury 2.625% 2018	5,000,000	3,605	5.2
440,000,000	3,575	5.0	Japan 1.7% 2017	440,000,000	3,278	4.7
4,537,000	4,286	6.0	Germany 3.25% 2020	0	0	0.0
			Overseas Corporate Securities			
4,600,000	5,544	30.8	European Investment Bank 5.5% 2025	5,100,000	6,484	32.4
5,000,000	5,618	31.2	Temasek Financial Ltd 4.625% 2022	5,000,000	5,885	29.4
5,000,000	4,999	27.8	RWE AG 7% 2049	5,000,000	5,357	26.8
1,600,000	1,843	10.2	Bank Nederlandse Gemeenten NV 5.375% 2021	1,850,000	2,284	11.4
			Global High Yield			
0	0	0.0	Nomura US High Yield	80,016.8141	11,490	35.0
8,431,200	8,364	51.4	NB Global Floating Rate Income Fund	9,539,895	10,208	31.1
8,887,521	7,910	48.6	Harbourvest Senior Loans Europe Ltd	8,887,521	5,733	17.5
0	0	0.0	Oberon Credit Investment Fund 1	10,000,000	3,412	10.4
0	0	0.0	NB Global Floating Rate Income Fund C	2,000,000	2,040	6.2
			Emerging Market Government			
0	0	0.0	Pictet Global Emerging Debt 1	45,237.05959	10,154	50.8
0	0	0.0	Pictet Institutional Emerging Debt 1	82,000.82001	9,842	49.2
			Equities - United Kingdom			
35,000,000	60,270	6.1	Vodafone Group Plc	35,000,000	65,310	5.8
2,495,072	54,789	5.6	Royal Dutch Shell	2,495,072	54,209	4.8
11,100,000	51,343	5.2	BP Plc	11,300,000	51,963	4.6
			UK Index Linked - Public Sector			
7,355,000	10,852	27.7	Treasury 1.875% 2022	6,626,000	10,761	67.0
4,595,000	6,593	16.8	Treasury 1.25% 2017	3,510,000	5,301	33.0
708,800	2,453	6.3	Treasury 2.5% 2016	0	0	0.0
670,000	2,208	5.6	Treasury 2.5% 2024	0	0	0.0
			UK Index Linked - Corporate Bonds			
0	0	0.0	Network Rail Infrastructure Finance Plc 1.75% 2027	2,680,000	4,312	100.0
			Overseas Index Linked - Public Sector			
5,578,000	4,343	72.8	US Treasury 1.625% 2018	5,578,000	4,711	43.4
0	0	0.0	US Treasury 0.125% 2022	6,170,000	4,503	41.5
1,000,000	1,619	27.2	Kommunalbanken 2.6225% 2016	1,000,000	1,649	15.2

2011/12				2012/13		
Number of Shares	Value £000	% of Asset Type		Number of Shares	Value £000	% of Asset Type
			Managed Funds			
25,710,684.217	174,113	34.6	Schroder North American Equity Fund	26,255,614.077	206,910	35.2
25,206,050.84	140,653	27.9	Schroder Institutional Pacific Fund	23,510,848.27	161,527	27.5
4,806,605	112,028	22.2	Schroder Emerging Markets Fund	5,106,495.3508	129,272	22.0
			Property			
25,000,000	13,842	8.7	European Real Estate Debt Fund	25,000,000	22,330	12.4
553,306.85	27,267	17.2	Standard Life Property Pension Fund	418,806.86	20,764	11.6
171,120.637	15,276	9.7	Invesco Real Estate European Fund	216,794.982	19,356	10.8
5,626,105.92	19,523	12.3	Countrywide Assured Property Pension Fund	5,044,033.750	17,382	9.7
14,666,666	11,147	7.0	Medicx Fund Limited	14,666,666	12,723	7.1
0	0	0.0	The Careplaces Unit Trust	15,000,000	11,192	6.2
8,164.0813	8,488	5.4	Henderson Central London Office Fund II	9,777.6281	10,618	5.9
0.0000	0	0.0	Starwood European Real Estate Finance	10,000,000	10,425	5.8
18,000,000	9,314	5.9	M & G Real Estate Debt Fund LP	18,000,000	10,238	5.7
7,722	10,777	6.8	UBS Triton Property Unit Trust	7,722	9,071	5.0
1,826,000	8,126	5.1	Hermes Property Unit Trust	1,826,000	8,007	4.5
			Private Equity			
1,680,191	12,854	9.7	Pantheon International Participations Ord Plc	1,655,191	17,628	11.6
1,500,000	11,100	8.4	Pantheon International Participations Red Plc	1,500,000	15,225	10.0
n/a	7,961	6.0	BNP Paribas Clean Energy Fund A	n/a	9,884	6.5
700,000	6,805	5.2	HG Capital Trust Plc	829,993	9,819	6.5
n/a	8,349	6.3	Impax New Energy Investments LP	n/a	8,255	5.4
			Infrastructure			
n/a	8,057	17.0	Innisfree PFI Continuation Fund	n/a	9,100	16.4
n/a	7,982	16.9	Equitix Fund I LP	n/a	8,415	15.2
4,504,036	5,418	11.4	HICL Infrastructure Company Ltd	5,412,022	6,841	12.3
n/a	3,392	7.2	Innisfree PFI Secondary Fund	n/a	6,104	11.0
n/a	5,057	10.7	AMP Capital Infrastructure Debt Fund LP	n/a	5,233	9.4
3,500,000	3,721	7.9	John Laing Infrastructure Fund Ltd	4,250,000	4,828	8.7
n/a	2,589	5.5	Equitix Fund II LP	n/a	4,664	8.4
n/a	5,705	12.0	Henderson PFI Secondary Fund II	n/a	4,623	8.3
1,936,501	2,316	4.9	International Public Partnership Ltd	2,259,251	2,910	5.2
0	0	0.0	Greencoat UK Wind	2,700,000	2,747	5.0
n/a	2,369	5.0	Innisfree PFI Fund III	n/a	1	0.0
			Other Investments			
14,460,000	9,140	13.7	NB Distressed Debt Investment Fund	17,960,000	13,098	13.1
0	0	0.0	Twentyfour Income Fund	12,500,000	12,938	13.0
5,000,000	10,850	16.3	Doric Nimrod Air Two Ltd	5,000,000	12,200	12.2
0	0	0.0	Investec Aircraft Syndicate 1	16,000,000	9,918	9.9
36,900.93	5,226	7.8	Scott's Cove Special Credits Offshore Fund I Ltd	36,913.492	5,906	5.9
3,307,200	5,311	8.0	Bluecrest Allblue Fund Limited	3,307,200	5,755	5.8
4,500,000	5,130	7.7	Doric Nimrod Air One Ltd	4,500,000	5,535	5.5
179.58	3,946	5.9	Apollo Fund Plc	179.58	4,524	4.5
3,224,478	3,360	5.0	Martin Currie Global Alpha Fund	3,236,987.980	4,040	4.0
3,408,456	3,996	6.0	Thames River Multi Hedge PCC Limited	906,462	1,133	1.1
2,725,000	3,897	5.8	Close UK Index Growth Fund 2012	0	0	0.0
			Cash			
n/a	15,000	8.1	Ignis Sterling Liquidity Fund	n/a	15,000	7.9
n/a	15,000	8.1	Federated Prime Rate Capital Sterling Liquidity Fund	n/a	15,000	7.9
n/a	10,000	5.4	Coventry Building Society	n/a	10,000	5.3
n/a	10,000	5.4	Leeds Building Society	n/a	10,000	5.3
n/a	10,000	5.4	Nationwide Building Society	n/a	10,000	5.3
n/a	10,000	5.4	Nottingham Building Society	n/a	10,000	5.3
n/a	5,000	2.7	United Overseas Bank	n/a	10,000	5.3
n/a	10,000	5.4	Bank of Scotland	n/a	10,000	5.3
n/a	5,000	2.7	Barclays Bank	n/a	10,000	5.3
n/a	9,500	5.1	Development Bank of Singapore	n/a	9,500	5.0
n/a	10,000	5.4	Close Brothers Limited	n/a	8,000	4.2
n/a	15,000	8.1	Deutsche Global Liquidity Sterling Fund	n/a	0	0.0
n/a	10,000	5.4	The Co-operative 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 2013 stock lending income of £386,705 (2012: £427,741) was raised against expenditure for the activity of £114,247 (2012: £128,304). At 31 March 2013 the total value of securities on loan was £100,916,853 (2012: £70,884,848) and are analysed by asset class as follows:

	31 March 2012	31 March 2013
	£000	£000
UK Fixed Interest - Public Sector	30,973	43,908
Equities - UK	32,149	30,417
Equities - Overseas	7,469	13,954
UK Index Linked - Public Sector	0	10,835
Overseas Fixed Interest - Public Sector	294	1,803
	70,885	**100,917**

Against the stock on loan the Fund held collateral at 31 March of £104,592,019 (2012: £74,563,533) analysed by asset class as follows:

	31 March 2012	31 March 2013
	£000	£000
Overseas Fixed Interest - Public Sector	39,512	57,387
UK Fixed Interest - Public Sector	23,892	22,652
UK Fixed Interest - Other	2,670	18,774
UK Index Linked - Public Sector	31	5,751
Overseas Index Linked - Public Sector	698	28
Equities - UK	7,761	0
,	**74,564**	**104,592**

F Scheme Registration Number

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

G Contributions Receivable

	(Restated) 2011/12	2012/13
	£000	£000
Employers - Primary	109,480	**112,496**
Employers - Additional	17,094	**10,714**
Employees - Primary	32,893	**32,329**
Employees - Additional	845	**804**
	160,312	**156,343**
Administering Authority	34,020	**32,853**
Scheduled Bodies	118,424	**115,526**
Admitted Bodies	7,868	**7,964**
	160,312	**156,343**

Contributions relating to deficit funding payments amounted to £29,579,675 (2012: £27,489,719).

H Benefits Payable

	2011/12	2012/13
	£000	£000
Pensions	91,428	98,120
Commutations, compounded and lump sum retirement benefits	34,486	19,383
Lump sum death benefits	2,672	2,401
	128,586	119,904
Administering Authority	16,921	17,538
Scheme Employers	103,529	94,731
Transferee Admission Bodies	8,136	7,635
	128,586	119,904

I Payments to and on account of leavers

	2010/11	2012/13
	£000	£000
Refunds to Members leaving service	76	16
Individual transfer values payable	7,422	8,623
	7,498	8,639

J Pension and Investment Management Expenses

Administration expenses, including fees paid to advisors, are charged to the Fund as provided in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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

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

	Pensions		Investments	
	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000
Internal Management Costs	1,286	1,423	949	906
External Managers Fee	0	0	1,510	1,638
Advisors Fee	0	0	10	10
Auditors Fee	0	0	46	30
Auditors Fee Rebate	0	0	-4	0
Custodians Fee	0	0	107	85
Support Services	568	569	107	105
	1,854	1,992	2,725	2,774

Acquisition Costs

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

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

	Administration Expenses		Commission Paid		Total Costs		Funds Under Management		Total Costs as % of FUM	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	£000	£000	£000	£000	£000	£000	£000	£000	%	%
Internally managed	1,215	1,136	355	438	1,570	1,574	1,925,052	2,250,407	0.08	0.07
Externally managed	1,510	1,638	142	164	1,652	1,802	731,265	827,673	0.23	0.22
Total Fund	**2,725**	**2,774**	**497**	**602**	**3,222**	**3,376**	**2,656,317**	**3,078,080**	**0.12**	**0.11**

K Investment Income

		2011/12	2012/13
		£000	£000
Fixed Interest Securities	United Kingdom	**2,622**	2,621
	Overseas	**2,096**	1,976
	Corporate Bonds	**2,287**	1,472
	Global High Yield - quoted	**221**	584
		7,226	**6,653**
Index Linked	United Kingdom	**472**	434
	Overseas	**88**	83
	Corporate Bonds	**0**	22
		560	**539**
Equities	United Kingdom	**28,537**	30,527
	Overseas	**8,276**	7,643
		36,813	**38,170**
Managed Funds	Equities	**11,314**	12,553
	Quoted property	**810**	825
	Unquoted property	**2,642**	3,717
	Quoted private equity	**364**	528
	Unquoted private equity	**246**	478
	Quoted infrastructure	**365**	586
	Unquoted infrastructure	**802**	1,046
	Other investments	**747**	1,557
	Accrued interest on Ex-dividend Investments	**6,631**	8,456
		23,921	**29,746**
	Underwriting	**209**	88
	Currency Loss (-) / gain	**-68**	-7
	Stock lending	**428**	387
	Cash deposits	**1,871**	2,140
	Class actions	**22**	26
	Other income	**0**	2,918
		2,462	**5,552**
	TOTAL INVESTMENT INCOME	**70,982**	**80,660**

L Taxes on Income

		2011/12	2012/13
		£000	£000
Withholding Tax	Overseas Equities	**506**	355
	Infrastructure	**0**	99
	Other Investments	**0**	47
		506	**501**

M Reconciliation of Movements in Investments

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

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

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

2011/12 Investment Assets		Value at 01/04/2011 £000	Reclassified 01/04/2011 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2012 £000
Fixed Interest Securities	UK - Public Sector	61,590	0	33,860	-31,304	6,949	71,095
	UK - Other Quoted	68,497	-18,550	9,822	-21,669	147	38,247
	Overseas - Public Sector	71,465	0	77,255	-78,957	1,144	70,907
	Overseas - Corporate	15,242	-3,392	5,025	0	1,128	18,003
	Global High Yield	0	4,823	11,764	0	-313	16,274
		216,794	-17,119	137,726	-131,930	9,055	214,526
Equities	UK	987,931	0	70,039	-70,665	-3,056	984,249
	Overseas	309,544	0	84,482	-98,532	-20,827	274,667
		1,297,475	0	154,521	-169,197	-23,883	1,258,916
Index Linked Securities	UK - Public Sector	33,922	0	12,069	-12,153	5,293	39,131
	Overseas - Public Sector	6,493	0	0	-1,066	534	5,961
		40,415	0	12,069	-13,219	5,827	45,092
Pooled Investment Vehicles	Managed Funds	501,998	0	17,045	-4,250	-11,141	503,652
	Property - Quoted	0	10,780	0	0	367	11,147
	Property - Unquoted	118,183	0	34,882	-7,009	1,014	147,070
	Private Equity - Quoted	50,557	0	14,946	-10,367	611	55,747
	Private Equity - Unquoted	65,479	6,700	19,654	-21,878	6,202	76,157
	Infrastructure - Quoted	18,301	-10,780	4,426	0	277	12,224
	Infrastructure - Unquoted	29,267	0	7,988	-1,000	-1,105	35,150
	Other Investments - Quoted	41,324	10,419	11,792	-4,752	-1,706	57,077
	Other Investments - Unquoted	7,058	0	2,507	0	62	9,627
		832,167	17,119	113,240	-49,256	-5,419	907,851
		2,386,851	0	417,556	-363,602	-14,420	2,426,385
Temporary Investments	Sterling	153,331	0	521,079	-490,461	0	183,949
	Euros	1,249	0	73,263	-72,849	-92	1,571
	US Dollar	212	0	43,853	-43,492	33	606
		154,792	0	638,195	-606,802	-59	186,126
		2,541,643	0	1,055,751	-970,404	-14,479	2,612,511

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

All investments are stated at market value with the exception of certain unquoted Private Equity, Infrastructure, Global High Yield, Property and Other alternative investments which are stated at the lower of cost and fair value. The fair value of these investments at 31 March 2012 was £302,270,910 (2011: £248,334,308), compared to the lower of cost and fair value of these investments at 31 March 2012 of £269,450,751 (2011: £228,099,052).

N Current Assets

	(Restated) 2011/12	2012/13
	£000	£000
Contributions Due - Employers	9,284	7,634
Contributions Due - Employees	2,751	4,947
Recharge of Pensions increase and supplementary allowance	1,855	2,048
Other Debtors	12,858	5,167
	26,748	**19,796**
Current Assets by Government Body		
Central government bodies	1,272	1,292
Other local authorities	22,929	15,345
NHS Bodies	0	0
Public corporations and trading funds	0	0
Bodies external to government	2,547	3,159
	26,748	**19,796**

O Current Liabilities

	2011/12	2012/13
	£000	£000
ERYC	1,133	417
Overdaim of Recharges	1,501	1,722
Other creditors	736	513
	3,370	**2,652**
Current Liabilities by Government Body		
Central government bodies	1,251	1,700
Other local authorities	1,447	771
NHS Bodies	0	0
Public corporations and trading funds	0	0
Bodies external to government	672	181
	3,370	**2,652**

P Managerial Arrangements

	2011/12		2012/13	
The value of the assets managed by each manager was as follows:	%	£000	%	£000
Internal Manager	72	1,925,052	73	2,250,407
External Manager (Schroder Investment Management Limited)	28	731,265	27	827,673
	100	**2,656,317**	**100**	**3,078,080**

Q Contingent Liabilities and Contractual Commitments

At 31 March 2013 the Fund had commitments to the purchase of Alternative Assets investments of £174.0m (2012: £116.8m) analysed as follows:

	2011/12		2012/13	
	Foreign Currency	£000	Foreign Currency	£000
Sterling Denominated (£)	-	51,190	-	47,536
US Dollar Denominated ($)	31,945,275	19,993	113,123,671	74,497
Euro Denominated (€)	54,708,008	45,597	61,487,575	51,998
Total		**116,780**		**174,031**

R Members Allowances

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

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 £4.766m (2012: £4.579m) comprising pensions administration costs of £1.992m (2012: £1.854m) and investment management costs of £2.774m (2012: £2.725m). 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 £32.853m to the Fund (2012: £33.471m). As at 31 March 2013 the Council was a net debtor to the Fund of £4.316m (2012: £13.415m).
- Under legislation introduced in 2003/04, Councillors are entitled to join the Pension Scheme. No councillors received pension benefits from the Fund during the financial year. Councillors M Boatman, E A Burton, N Evans, C Chadwick, M Grove and A Hodgson, 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 on page 63 of the East Riding of Yorkshire Council's Statement of Accounts. No financial consideration is included within these accounts as an accurate apportionment to the Pension Fund is not possible.
- The Head of Investments is a member of the Investment Advisory Committee for the Montanaro European MidCap Fund, an open ended investment company managed by Montanaro Asset Management Limited, for which he is paid a fee. The Pension Fund had the following investments in funds managed by Montanaro Asset Management Limited:

	Market Value at 31 March 2012	Purchases	Sales	Change in market value	Market Value at 31 March 2013
	£000	**£000**	**£000**	**£000**	**£000**
Montanaro UK Smaller Companies Investment Trust Plc	10,365	0	0	2,561	12,926
Montanaro Growth and Income Fund LP No. 3	4,033	0	0	642	4,675
Montanaro European Smaller Companies Investment Trust Plc	7,136	0	0	2,041	9,177
Montanaro European Smaller Companies Fund Plc	2,735	0	0	603	3,338
	24,269	**0**	**0**	**5,847**	**30,116**

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 2013 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:

Australian Dollar	1.4565
Canadian Dollar	1.5427
Danish Krone	8.8154
Euro	1.1825
Japanese Yen	142.7650

Norwegian Krona	8.8563
Swedish Krona	9.8730
Swiss Franc	1.4379
US Dollar	1.5185

U Additional Voluntary Contributions

The Fund's approved Additional Voluntary Contribution (AVC) provider is Prudential and during the year to 31 March 2013 scheme members made contributions to this facility of £2,167,690 (2012: £2,412,511). The total value of the funds invested by Prudential on behalf of members of the East Riding Pension Fund at 31 March 2013 is £20,928,990 (2012: £20,961,262). 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 102 to 106.

W The Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits at 31 March 2013 was £4,837m (2012: £3,894m). Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. 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.

(Restated) 31 March 2012		31 March 2013
£000	**Financial Assets at Fair value through profit or loss**	£000
	Financial Assets	
214,526	Fixed Interest Securities	294,122
1,258,916	Equities	1,455,824
45,092	Index-Linked Securities	31,236
907,851	Pooled Investment Vehicles	1,075,165
2,177	Foreign Currency	1,156
10,349	Other Investment Balances	14,647
2,438,911	Total Financial Assets	2,872,150
	Loans and Receivables	
195,403	Cash Deposits - Sterling	195,660
26,748	Current Assets	19,796
222,151	Total Loans and Receivables	215,456
	Financial Liabilities at fair value through profit or loss	
-1,375	Other Investment Balances	-6,874
	Financial Liabilities at Amortised Cost	
-3,370	Current liabilities	-2,652
2,656,317	**Net Financial Assets**	3,078,080

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 the categories of financial assets and liabilities presented in the Net Assets Statement.

(Restated) 31 March 2012			31 March 2013	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000	**Financial Assets**	£000	£000
2,472,043	2,438,911	Trading and other financial assets at fair value through profit and loss	2,908,543	2,872,150
222,151	222,151	Loans and receivables	215,456	215,456
2,694,194	2,661,062	Total financial assets	3,123,999	3,087,606
		Financial Liabilities		
1,375	1,375	Trading and other financial liabilities at fair value through profit and loss	6,874	6,874
3,370	3,370	Financial liabilities at amortised cost	2,652	2,652
4,745	4,745	Total financial liabilities	9,526	9,526

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

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

The key risks inherent in the Pension Fund are:

Market risk

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

- An appropriate strategic asset allocation is determined on a triennial basis in conjunction with the actuarial valuation exercise. This aims to meet the target long term rate of return with an acceptable level of risk and includes an appropriate diversification of asset classes. The allocation is agreed by the Pensions Committee and the Fund's advisers and investment managers.
- The strategic asset allocation is disclosed in the Fund's Statement of Investment Principles including the permitted asset classes, their allocations and the permitted ranges.
- Tactical asset allocation is determined on a quarterly basis by the Pensions Committee in light of financial market conditions and following advice from the Fund's advisers and investment managers.
- The Pensions Committee regularly reviews the long term investment strategy to ensure that it remains appropriate.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 prescribe a maximum limit on types of investment. The table below shows the position as at 31 March 2013.

	31 March 2012		31 March 2013	
	%		%	
Investment	Limit	Actual	Limit	Actual
Any single sub-underwriting contract	5	0	5	0
All contributions to any single partnership	5	0.7	5	0.7
All contributions to partnerships	15	7.6	15	7.6
The sum of all loans and any deposits with any local authority	10	7.5	10	6.5
All investments of unlisted securities of companies	15	0	15	0
Any single holding	10	6.6	10	6.7
All deposits with any single bank, institution or person	10	0.6	10	0.5
All sub-underwriting contracts	15	0	15	0
All investments in units or shares of the investments subject to the trusts of the unit trust scheme managed by any one body	35	18.5	35	18.6
All investments in OEIC's where the collective investments schemes constituted by the companies are managed by one body	35	18.5	35	18.6
All investments in unit or other shares of the investments subject to the trusts of unit schemes and all investments in OEIC's where the unit trust schemes and the collective investment schemes constituted by those companies managed by one body	35	22.8	35	23.0
Any single insurance contract	35	0	35	0
All securities transferred by the authority under stock lending arrangements	35	2.7	35	3.3

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

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

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

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

Performance risk

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

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

Valuation risk

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

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

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

(Restated) Values 31 March 2012					Values 31 March 2013			
Level 1	Level 2	Level 3	TOTAL		Level 1	Level 2	Level 3	TOTAL
£000	£000	£000	£000		£000	£000	£000	£000
1,799,073	487,325	152,513	2,438,911	Financial Assets	1,560,059	1,118,718	193,373	2,872,150
222,151	0	0	222,151	Loans and Receivables	215,456	0	0	215,456
2,021,224	**487,325**	**152,513**	**2,661,062**	**TOTAL**	**1,775,515**	**1,118,718**	**193,373**	**3,087,606**
4,745	0	0	4,745	Financial Liabilities	9,526	0	0	9,526
2,016,479	**487,325**	**152,513**	**2,656,317**	**TOTAL**	**1,765,989**	**1,118,718**	**193,373**	**3,078,080**

Credit risk

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

31/03/2012			31/03/2013
Actual		Maximum Limit	Actual
£000		£000	£000
0	UK Government	No Limit	0
15,000	Institutions or Funds with a minimum rating of AAA/A2	20,000	15,000
10,000	Institutions with a minimum rating of AA/A2	15,000	10,000
10,000	Institutions with a minimum rating of A/A2	10,000	10,000
5,000	Local Authorities	5,000	5,000
10,000	Building Societies - top 15 ranked by asset value	10,000	10,000

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

31/03/2012		31/03/2013
£000		£000
0	UK Government	0
52,904	Institutions or Funds with a minimum rating of AAA/A2	37,555
14,500	Institutions with a minimum rating of AA/A2	30,381
43,722	Institutions with a minimum rating of A/A2	34,998
35,000	Local Authorities	46,000
40,000	Building Societies - top 15 ranked by asset value	40,000
186,126		**188,934**

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 2013	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
Assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	46,919	105,500	0	0	44,397	**196,816**
Investments	0	16,529	82,742	173,239	2,583,837	**2,856,347**
Other investment balances	14,241	406	0	0	0	**14,647**
Current assets	19,796	0	0	0	0	**19,796**
Total assets	80,956	122,435	82,742	173,239	2,628,234	**3,087,606**
Liabilities	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Other investment balances	6,874	0	0	0	0	**6,874**
Current liabilities	2,652	0	0	0	0	**2,652**
Total liabilities	9,526	0	0	0	0	**9,526**
Liquidity Gap	71,430	122,435	82,742	173,239	2,628,234	**3,078,080**

As at 31 March 2012	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
Assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	59,631	78,500	0	0	59,449	**197,580**
Investments	0	839	84,360	158,145	2,183,041	**2,426,385**
Other investment balances	9,947	402	0	0	0	**10,349**
Current assets	26,748	0	0	0	0	**26,748**
Total assets	96,326	79,741	84,360	158,145	2,242,490	**2,661,062**
Liabilities	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Other investment balances	1,375	0	0	0	0	**1,375**
Current liabilities	3,370	0	0	0	0	**3,370**
Total liabilities	4,745	0	0	0	0	**4,745**
Liquidity Gap	91,581	79,741	84,360	158,145	2,242,490	**2,656,317**

Interest rate risk

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

Asset Type	31 March 2012 £000	31 March 2013 £000
Cash and cash equivalents	59,449	44,397
Fixed interest securities	243,344	303,995
TOTAL	302,793	348,392

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

As at 31 March 2012	USD £000	EUR £000	JPY £000	CHF £000	SEK £000	AUD £000	DDK £000	CAD £000	NOK £000	TOTAL £000
Fixed Interest Securities										
UK Other quoted	2,380	846	0	0	0	0	0	0	0	**3,226**
Overseas Public Sector	23,446	23,456	13,268	0	1,955	4,192	250	4,340	0	**70,907**
Equities										
Overseas	0	106,113	85,949	25,691	11,527	0	4,509	0	2,890	**236,679**
Index Linked Securities										
Overseas Public Sector	4,343	0	0	0	0	0	0	0	0	**4,343**
Pooled Investment Vehicles										
Managed Funds	308,515	0	0	0	0	0	0	0	0	**308,515**
Property - unquoted	0	36,709	0	0	0	0	0	0	0	**36,709**
Private Equity - quoted	1,243	0	0	0	0	0	0	0	0	**1,243**
Private Equity - unquoted	18,534	46,428	0	0	0	0	0	0	0	**64,962**
Infrastructure - unquoted	0	5,057	0	0	0	0	0	0	0	**5,057**
Other investments - quoted	0	12,082	0	0	0	0	0	0	0	**12,082**
Other investments - unquoted	5,243	0	0	0	0	0	0	0	0	**5,243**
TOTAL	**363,704**	**230,691**	**99,217**	**25,691**	**13,482**	**4,192**	**4,759**	**4,340**	**2,890**	**748,966**

Y Contingent Assets

As at 31 March 2013 the Fund had submitted claims totalling £7.42m relating to the reclaiming of UK and overseas withholding tax on investment income received, of which £0.45m has been received to date. Professional costs to date have totalled £0.58m.

Z Accounting standard 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

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").

The FSS is a summary of the Fund's approach to funding employers pension liabilities under the Local Government Pension Scheme.

This statement sets out how the Administering Authority has sought to balance the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across the range of employers participating in the Fund.

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 independent adviser and is effective from 31 March 2011.

1.1 Regulatory framework

Benefits payable under the Local Government Pension Scheme are guaranteed by statute and are met by employees and employers contributions and investment returns. Members' contributions are fixed in the LGPS Regulations (Local Government Pension Scheme Benefits, Membership and Contribution Regulations 2007 (as amended)) at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members (the employer contribution). The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- **the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);**
- **the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);**
- **the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;**
- **actuarial factors for valuing early retirement costs and the cost of buying extra service; and**
- **the 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.

In preparing the FSS, account has been taken of:

- **FSS guidance produced by CIPFA**
- **the Fund's Statement of Investment Principles (SIP)**

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Review of the FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out and whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The next full review is due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

In reviewing the FSS the Administering Authority will consult with all relevant interested parties involved with the Fund, before preparing and publishing the funding strategy.

The FSS is not an exhaustive statement of policy on all issues. If you have any queries please contact:
Graham Ferry (Pensions Manager) – graham.ferry@eastriding.gov.uk

2 Purpose

2.1 Purpose of the FSS

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;**
- **support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and**
- **take a prudent longer-term view of funding those liabilities.**

The FSS is a cohesive and comprehensive statement for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced. Whilst the position of all employers will be reflected in the FSS, the FSS must remain as a single strategy for the Administering Authority to implement and maintain.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered.

The Fund:

- **receives contributions, transfer payments and investment income;**
- **invests monies held within the fund in accordance with the SIP**
- **pays scheme benefits, transfer values and administration costs.**

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The sound management of the fund relies on all interested parties exercising their duties and responsibilities conscientiously and diligently.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex C.

2.3 Aims of the Funding policy

The objectives of the Fund's funding policy are to:

- **ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;**
- **ensure that sufficient funds are available to meet all benefits as they fall due for payment;**
- **inform the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;**
- **help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business and to the Fund, in view of the employer's strength of covenant, where the Administering Authority considers this appropriate;**
- **minimise the degree of short-term change in the level of each employer's contributions by implementing a tiered stabilisation mechanism, reviewable after a 3 year period, which restricts the movement in employer contributions, where the Administering Authority considers it reasonable to do so;**
- **use reasonable measures, such as obtaining bonds and guarantees from employers, to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;**
- **address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and**
- **maintain the affordability of the fund to employers as far as is reasonable over the longer term.**

3 Solvency issues and target funding levels

3.1 Solvency and target funding levels

The Fund's actuary is required under Regulation 36(1) of The Local Government Pension Scheme (Administration) Regulations 2008 to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's ongoing funding basis. This quantity is known as a "funding level".

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern. The demographic and financial assumption used in calculating the funding level are set out at Annex A.

In the circumstances where:

- **the employer is an Admission Body but not a Transferee Admission Body, and**
- **the employer has no guarantor, and**
- **the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe.**

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 (eg using 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 when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those 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.

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

3.2 Derivation of employer contributions

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 (or "solvency") of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit, a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which individual employers are actually required to pay. The types of "peculiar" factors which are considered are set out in Section 3.7.

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 spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.6.9.

Annex B contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision). Instalments can be paid up to a maximum of 3 years after the decision where the Administering Authority considers this appropriate.

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.3 Future service contribution rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted.

3.3.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method with a one year control period.

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.

3.3.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.4 Asset share calculations for individual employers

Adjustments to individual employer contribution rates are applied through both the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- **past contributions relative to the cost of accruals of benefits to date;**
- **different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);**
- **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;**
- **the additional costs of any non ill-health retirements relative to any extra payments made;**

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. 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.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation (see section 3.6 below), including, but not limited to:

- **the actual timing of employer contributions within any financial year;**
- **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.

3.5 Asset share calculations for individual employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. 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 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 having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.6 Stability of employer contributions

3.6.1 Solvency issues and target funding levels

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 prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- **capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation").**
- **the use of extended deficit recovery periods.**
- **the phasing in of contribution increases / decreases.**
- **the pooling of contributions amongst employers with similar characteristics.**

3.6.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes from 1 April 2011 to 31 March 2014, subject to the following conditions being met:

- **the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and**
- **there were no material events up until 1 April 2011 which rendered the stabilisation unjustifiable.**

The Administering Authority has adopted the following tiered stabilisation policy:

Tier 1 Employers:	East Riding of Yorkshire Council
	North East Lincolnshire Council
	North Lincolnshire Council
	Kingston Upon Hull City Council

The four Unitary Councils will have no increases to their contribution rates from 1 April 2011 to 31 March 2014. They will pay the same rate as the year ending 31 March 2011, no decrease in employers contributions will be permitted in this period e.g. if employee contributions increase.

Tier 2 Employers:	Town Councils
	Humber Bridge Board
	Small Scheduled and Resolution Bodies Pool

These employers will have no increase to their contribution rate from 1 April 2011 to 31 March 2012 and will pay the same rate as the year ending 31 March 2011. Their contribution rates will then increase by 1% of payroll per annum in the year to 31 March 2013 and a further 2% of payroll per annum in the year to 31 March 2014.

Tier 3 Employers:	Universities
	Colleges
	Humberside Probation Trust

It has been agreed for these stable employers with no tax raising powers to reduce their deficit recovery period from 20 years to 15 years. Their contribution rate increases are to be phased in over the three year period from 1 April 2011 to 31 March 2014 using a back end loading approach.

Fund employers outwith the above three tiers will not be subject to stabilisation.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore 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.

The Fund currently has a stable net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.6.3 Deficit recovery periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers and Resolution bodies	a maximum period 20 years
Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 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 to improve the stability of contributions.

3.6.4 Deficit recovery payments

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- **the employer is an admitted body with a relatively large deficit recovery contribution rate (eg 15% or more), 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.**

3.6.5 Surplus spreading periods

As part of the overall Funding Strategy it was agreed to adopt a 'stabilisation mechanism' that limits increases and reductions in contribution rates for public sector bodies. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

For Transferee Admission Bodies, the aim is to be 100% funded at cessation, and so the preferred approach would be to reduce contributions by spreading the surplus over the remaining contract term, although the approach taken may be discussed and agreed with the employer associated with the body.

For any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions may be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions.

3.6.6 Phasing in of contribution rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be entitled to phase in contribution rises as follows:

- **for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;**
- **for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.**

3.6.7 Phasing in of contribution reductions

Any contribution reductions will be put in place with immediate effect for employers not subject to stabilisation.

3.6.8 The effect of opting for longer spreading or phasing in

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

3.6.9 Pooled contributions

The Administering Authority allows smaller employers 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.

Those employers that have been pooled are identified in Annex B.

3.7 Regular Reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by 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 payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

3.8 Admission bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement (notwithstanding the provisions of the agreement):

- **Last active member ceasing participation in the LGPS;**
- **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 appropriate alternative guarantor as required by the Fund.**

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) **For Transferee Admission Bodies, the assumptions applying at the end of the contract would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.**

b) **For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers. It will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. In order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.**

c) **For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.**

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

As an alternative to (b) above, 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 or guarantee to be held against any deficit, and would carry out the cessation valuation on an ongoing valuation basis: deficit recovery payments would be derived from this cessation amount.

This approach would be monitored as part of each triennial valuation and 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.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

3.9 Early retirement costs

3.9.1 Non ill-health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement 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. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. Depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years.

3.9.2 Ill-health monitoring

The Fund monitors each employer's, or pool of employers, 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.

3.9.3 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;**
- **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.

3.10 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond 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 employer's contract**
- **allowance for the risk of asset underperformance**
- **allowance for the risk of a fall in gilt yields**
- **allowance for unpaid contributions**

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis. This is included within the Fund's risk register.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but the Fund has a policy to formally review the asset allocation, following the completion of the triennial valuation of the Fund, or perhaps more frequently to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as Equities, Bonds and Cash, and Alternatives. As at 31 March 2010, the proportion held in Equities and Alternatives was 84% of the total Fund assets.

The investment strategy of lowest default or volatility risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Investments in Equities and Alternatives would not be consistent with this.

The Fund's benchmark includes a significant holding in Equities and Alternatives in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with funding basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on fixed interest gilts. This resulted in a return on the Fund's assets of 6.1% p.a. to be adopted for the

2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in Equities and Alternatives brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of investments in Equities and Alternatives.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities.

4.4 Inter-valuation monitoring of funding position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted. The Fund also reports back to employers annually at its Annual General Meeting.

5 Key risks and controls

5.1 Types of risk

The Administering Authority's has an active risk management programme in place including a Fund specific risk register. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

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

5.2 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	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations subject to market experience.
Inappropriate long-term investment strategy	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Regular review of long-term investment strategy to ensure it remains appropriate. Tactical asset allocation reviewed by the Pensions Committee, in light of financial market conditions, on a quarterly basis. Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund specific benchmark.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark	Analysis of market performance and active managers performance relative to their index benchmark on a quarterly basis.
Pay and price inflation significantly more than anticipated	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds (and other inflation-linked investments) also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading, phasing in of contribution rises and possible pooling.

5.3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer	Set mortality assumptions with some allowance for future increases in life expectancy. Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.
A company admitted to the Fund as an admission body may become financially unviable	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this is reviewed regularly to ensure it provides adequate cover for the financial risks involved.
Ill-health retirements significantly more than anticipated	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.
Reductions in payroll causing insufficient deficit recovery payments	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: For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increase. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

5.4 Regulatory

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.
It considers all consultation papers issued by the CLG and comments where appropriate.
The Administering Authority will consult employers where it considers that it is appropriate.
In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.
The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</td></tr>
<tr><td>Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification, budget changes for higher earners and the Hutton Review of public sector pensions.</td></tr>
</table>

5.5 Governance

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</td><td rowspan="2">The Administering Authority monitors membership movements on a quarterly regular basis

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

Deficit contributions are expressed as monetary amounts (see Annex B).</td></tr>
<tr><td>Administering Authority not advised of an employer closing to new entrants.</td></tr>
<tr><td>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.</td><td rowspan="2">The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.

The risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

Reviewing bond or guarantor arrangements at regular intervals.

Reviewing contributions if thought appropriate.</td></tr>
<tr><td>An employer ceasing to exist with insufficient funding or adequacy of a bond.</td></tr>
</table>

Annex A – Key assumptions used in calculating the funding level

a) Demographic

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

b) Investment Return

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on 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.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

c) Salary Growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11 and 2011/12. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

d) Pension Increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010.

At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

e) General

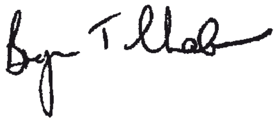
The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation. Demographic assumptions vary by member characteristics and so reflect the different profiles of the employers.

Annex B – Rates and adjustments certificate

In accordance with regulation 36(1) of the Administration Regulations I have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2011 to 31 March 2014 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the current Funding Strategy Statement and my report on the actuarial valuation dated 31 March 2011.

The required minimum contribution rates are set out in the table below.

Signature: 

Date: 31 March 2011

Name: Bryan T Chalmers

Qualification: Fellow of the Institute and Faculty of Actuaries

Firm: Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 is 25.8% p.a. of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Code	Employer name as at 31 March 2010	Minimum Contributions for the Year Ending		
		31 March 2012	31 March 2013	31 March 2014
		% of pay	% of pay	% of pay
	EAST RIDING OF YORKSHIRE POOL			
80	East Riding of Yorkshire Council	15.3[1]	15.3[1]	15.3[1]
	NORTH EAST LINCOLNSHIRE POOL			
81	North East Lincolnshire Council	21.8[2]	21.8[2]	21.8[2]
	NORTH LINCOLNSHIRE POOL			
82	North Lincolnshire Council	22.3	22.3	22.3
	KINGSTON UPON HULL CITY COUNCIL POOL			
7	Kingston Upon Hull City Council	27.1	27.1	27.1
	INDIVIDUAL EMPLOYERS			
14	National Probation Service - Humberside	22.8	24.1	25.4
21	Humber Bridge Board	25.1	26.1	27.1
29	North Eastern Inshore Fisheries and Conservation Authority	18.8	18.8	18.8
31	Pocklington School	23.5[3]	23.5[3]	23.5[3]
40	Hornsea Town Council	22.3	23.3	24.3
44	Humberside International Airport Limited	21.2[4]	21.2[4]	21.2[4]
45	Withernsea Town Council	18.2	19.2	20.2
46	University of Lincoln	20.4	23.3	26.3
49	Humberside Independent Care Association	29.9[5]	29.9[5]	29.9[5]
52	Bishop Burton College	18.8	21.3	23.9
54	Grimsby Institute of Further and Higher Education	17.6	19.2	20.7
55	Hull College	16.9	19.2	21.6
56	North Lindsey College	17.7	19.4	21.1
63	Goole Town Council	19.6	20.0	21.0
67	Humberside Police	17.3	18.1	19.0
71	Humberside Fire Authority	20.7	20.7	20.7
74	Hull and East Yorkshire Community Foundation Ltd	13.5	13.5	13.5
75	Humbercare Limited	25.5[6]	25.5[6]	25.5[6]
91	Sports and Leisure Management Ltd	21.0	21.0	21.0
101	Yorkshire & Humberside Grid for Learning	16.0	16.0	16.0
104	Shoreline Housing Partnership Limited	26.2	26.2	26.2
106	Arvato Government Services (ERYC) Limited	22.5	22.5	22.5
107	Brigg Town Council	16.5	16.5	16.5
109	North Lincolnshire Homes Limited	18.6	21.1	23.7
110	Kier Support Services Limited	18.1	20.1	23.2
112	Kingstown Works Limited	16.8	16.8	16.8
113	Havelock Academy	19.4	19.4	19.4
115	Immingham Academy	17.3	17.3	17.3

116	Wintringham Academy	15.1	15.1	15.1
117	Care Trust Plus	19.1[7]	19.1[7]	19.1[7]
125	Archibishop Sentamu Academy	14.7	14.7	14.7
126	St Lawrence Academy	20.6	20.6	20.6
127	NPS Humber Ltd	19.8	19.8	19.8
129	Reel Cinemas (UK) Ltd	21.1	21.1	21.1
130	Sirius Academy (Pickering)	20.7	20.7	20.7
	SMALL SCHEDULED AND RESOLUTION BODIES POOL			
23	Immingham Town Council	21.8	22.8	23.8
25	Lower Ouse Internal Drainage Board	21.8	22.8	23.8
26	Market Weighton Internal Drainage Board	21.8	22.8	23.8
27	Market Weighton Town Council	21.8	22.8	23.8
72	Driffield Town Council	21.8	22.8	23.8
76	Elloughton Cum Brough Parish Council	21.8	22.8	23.8
77	Beverley Town Council	21.8	22.8	23.8
83	Burton Upon Stather Parish Council	21.8	22.8	23.8
84	Bottesford Town Council	21.8	22.8	23.8
87	Bridlington Town Council	21.8	22.8	23.8
89	Barton Upon Humber Town Council	21.8	22.8	23.8
97	Hedon Town Council	21.8	22.8	23.8
98	Beverley & North Holderness Internal Drainage Board	21.8	22.8	23.8
	SMALL SCHEDULED AND RESOLUTION BODIES POOL			
20	Hull and Goole Port Health Authority	22.8	22.8	22.8
37	Hull Young People's Christian & Literary Institute	22.8	22.8	22.8
47	Pickering and Ferens Homes	22.8	22.8	22.8
48	Hull Resetlement Project Limited	22.8	22.8	22.8
69	Hull Charterhouse Trustees	22.8	22.8	22.8
79	The Deep (EMIH Ltd)	22.8	22.8	22.8
	EAST RIDING COLLEGES POOL			
90	East Riding College	17.8	20.8	23.7
	SMALL COLLEGES POOL			
57	Franklin College	17.9	19.9	21.8
58	Wilberforce College	17.9	19.9	21.8
59	Wyke College	17.9	19.9	21.8
60	John Leggott College	17.9	19.9	21.8

Further comments

Stabilisation

The following employers have had their contribution rates stabilised following a separate modelling exercise that I carried out on their behalf:

- **East Riding of Yorkshire Council**
- **Kingston Upon Hull City Council**
- **North East Lincolnshire Council**
- **North Lincolnshire Council**

Notes

Contributions expressed as a percentage should be paid into East Riding of Yorkshire Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentation using methods and factors issued by me from time to time.

Further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

1. **East Riding of Yorkshire Council will pay the pooled Future Service Rate of 15.3%. The deficit of the pool will be paid by the Council and will be recovered by means of monetary amounts. The required monetary amounts for the period of 1 April 2011 to 31 March 2014 are as follows;**

   2011/2012 £5.967m 2012/2013 £6.027m 2013/2014 £6.087m

2. **In addition to their certified minimum contribution rate as stated in the Rates and adjustments certificate, North East Lincolnshire Council are required to pay monetary lump sum amounts for the period of 1 April 2011 to 31 March 2014 as follows;**

   2011/2012 £530k 2012/2013 £536k 2013/2014 £541k

3. **The certified minimum contribution rate as stated in the Rates and adjustments certificate for Pocklington School is 23.5%. Where the total deduction of 23.5% of pensionable pay at the end of each financial year is less than £225k then the employer must pay a lump sum to make up the difference so that the total employer pension contributions for each financial year is a minimum of £225k. The lump sum must be paid by the end of the financial year that it relates to.**

4. **In addition to their certified minimum contribution rate as stated in the Rates and adjustments certificate, Humberside International Airport Limited are required to pay monetary lump sum amounts for the period of 1 April 2011 to 31 March 2014 as follows;**

   2011/2012 £107k 2012/2013 £113k 2013/2014 £119k

5. **The certified minimum contribution rate as stated in the Rates and adjustments certificate for Humberside Independent Care Association is 29.9%. Where the total deduction of 29.9% of pensionable pay at the end of each financial year is less than £190k then the employer must pay a lump sum to make up the difference so that the total employer pension contributions for each financial year is a minimum of £190k. The lump sum must be paid by the end of the financial year that it relates to.**

6. **In addition to their certified minimum contribution rate as stated in the Rates and adjustments certificate, Humbercare Limited are required to pay monetary lump sum amounts for the period of 1 April 2011 to 31 March 2014 as follows;**

   2011/2012 £26k 2012/2013 £26k 2013/2014 £26k

7. **In addition to their certified minimum contribution rate as stated in the Rates and adjustments certificate, Care Trust Plus are required to pay monetary lump sum amounts for the period of 1 April 2011 to 31 March 2014 as follows;**

   2011/2012 £32k 2012/2013 £34k 2013/2014 £36k

Annex C – Responsibilities of the key parties

The **Administering Authority** will:

- collect, account and reconcile employer and employee contributions from the employer bodies;
- receive monies due from all sources including contributions, investment, income and transfer values
- invest monies not required for the immediate payment of benefits, transfers and administration costs in accordance with the Investment Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process and bulk transfers in consultation with the Fund's Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP as required; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

The **Individual Employer** will:

- deduct contributions from employees' pay correctly.
- pay all contributions (employees and employers), including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework and inform the Administering Authority of their individual policies on discretions;
- make additional contributions in accordance with agreed arrangements, for example, augmentation of scheme benefits, early retirement strain;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- engage with the Administering Authority in all required consultation processes; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

The **Fund actuary** will:

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

The **Pensions Committee** will:

- carry out statutory functions relating to local government pensions under regulations made under Sections 7, 12 and 24 of the Superannuation Act 1972. Broadly this enables them to oversee the general framework within which the Fund is managed;
- monitor investment and administration performance;
- carry out regular reviews of investments and investment strategy;
- determine and keep under constant review, an overall asset allocation policy for the Fund, including appointment and termination of fund managers;
- consider appropriate professional advice on all matters with a material impact on the Fund;
- approve significant internal decisions and documents for the Fund including the valuation, Annual Report and Accounts and the FSS; and
- determine and keep under constant review, all policies and strategies of the Fund.

statement of investment principles

Introduction

The East Riding Pension Fund is required to maintain a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The SIP for the East Riding Pension Fund is set out below, and complies with the Local Government Pension Scheme Regulations. The Pensions Committee agreed this SIP at its meeting on 27 April 2012.

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 2011. The FSS, which was approved by the Pensions Committee at its meeting on 17 June 2011, 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 **www.erpf.org.uk**.

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. This SIP is consistent with these powers and does not restrict the Pensions Committee's investment powers.

Investment managers and advisor

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

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

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

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

Sub-Delegation

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

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

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

Asset Class	Range	Benchmark
UK equities	35 – 45%	FTSE All Share
Overseas equities	20 – 30%	
North America	7%	FTSE North America
Europe ex UK	7%	FTSE Developed Europe ex UK
Japan	4%	FTSE Japan
Pacific ex Japan	3.5%	FTSE Pacific ex Japan
Emerging Markets	3.5%	MSCI Emerging Markets
UK Government bonds	0 – 10%	FTSE UK Gilts All Stocks
UK Corporate bonds	0 – 5%	iBoxx £ Corporate
Overseas bonds	0 – 10%	JP Morgan ex UK
Emerging Market Government bonds	0 – 5%	JP Morgan GBI Emerging Markets
Global High Yield Corporate bonds	0 – 5%	JP Morgan Global High Yield
Property	0 – 15%	IPD All Properties Monthly
Other Investments	0 – 15%	
Private Equity	4%	FTSE All Share + 3%
Infrastructure	3%	FTSE UK Index-linked + 3%
Other	3%	3 month LIBOR + 3%
Cash	0 – 10%	LIBID 7 day

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 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) Regulations 2009 for investment through limited partnerships to the maximum 15%, for a period of 5 years, and the decision is to be reviewed annually as part of the consideration of the SIP. This increase in the limit is required to facilitate investment in the range of investments set out in 'Types of investments to be held and the balance between these investments' above, and by allowing greater diversification should reduce overall portfolio risk.

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

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

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

The suitability of investments

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

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

The expected return on investments

The Actuarial valuation, at 31 March 2010, was prepared on the basis of an expected real return on assets of 2.8% over the long term, a nominal return of 6.1% assuming inflation to be 3.3%.

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

Equities	65%
Bonds and Cash	17%
Alternative Investments	18%

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

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

The realisation of investments

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

Corporate Governance

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

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

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

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

Pensions Committee's policy on socially responsible investment

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

Pensions Committee's policy on shareholder voting

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

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

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

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

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

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

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

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

Stock Lending

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

Compliance and Monitoring of the SIP

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

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

communications policy

Responsibilities and resources

The Pensions Section has four staff with responsibility for internal and external communications. The team consists of two office based staff and two Pension Liaison Officers (PLOs) who are mainly field based.

The team produce and design all communications including web-based and electronic material. They are also responsible for arranging the forums, workshops and meetings mentioned in this statement.

How we communicate

We are increasingly using electronic methods to communicate with our customers. Our website (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, newsletters, Annual Benefit Statements and other scheme literature such as our Welcome Pack and Simple Scheme Guide.

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

A key method of our communication is face to face which involves our Pension Liaison Officers visiting workplace sites and presenting information events. These include one-to-one pension surgeries, drop in sessions, a range of pension presentations and attendance at corporate inductions. We find that face to face communication provides the very best in two-way dialogue and understanding and we see this as an integral part of our communication strategies.

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

We provide our communications in alternative formats (such as Braille or audio) for our members with special needs, ensuring customers have access to relevant information at all times.

Communication with our scheme members

When communicating with our members, our objectives are:

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

Frequency of pension information events

We provide three one-to-one surgery sessions per month for each unitary employer. In addition, we also arrange pension events for our non-unitary employers based on their size and requirements.

We hold a Pension Information Event each month at different locations across the fund area. The event includes presentations on Retirement, Additional Voluntary Contributions and The 2014 Scheme, as well as one-to-one pensions surgeries. The Pension Information Events are open to all employees throughout the fund area.

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

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

Communication with Employing Authorities

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 Employing Authorities

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

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

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

The Systems and Communications team also co-ordinate the Annual General Meeting held each November.

Communication with pension section staff

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

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

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

Performance measurement

We use paper-based survey forms to evaluate how our pension presentations are perceived by members.

We have a Member Panel who evaluate ERPF communications materials and provide feedback to the Communications team.

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

We will review our Communications Policy to ensure it meets 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 report to the members of East Riding of Yorkshire Council

We have audited the financial statements of the local government pension fund administered by East Riding of Yorkshire Council for the year ended 31 March 2013 on pages 56 to 79. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Head of Finance and auditor

The Head of Finance is responsible for the preparation of the pension fund financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for being satisfied that they give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- **give a true and fair view of the financial statements of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and**
- **have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.**

Matters on which we are required to report by exception

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

- **the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or**
- **any matters relating to the pension fund have been reported in the public interest under section 8 of 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.

Paul Lundy
For and on behalf of KPMG LLP, Appointed Auditor
The Embankment
Leeds
LS1 4DW
27 September 2013

contact points

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

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

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

The Head of Investments
Director of Corporate Resources
East Riding Pension Fund
PO Box 164
Church Street
GOOLE
East Riding of Yorkshire
DN14 5YZ

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