

2018/2019

Annual Report & Accounts



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foreword

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

At 31 March 2019 the Fund was valued at £5.058bn, having paid out £197.2m during the year for the benefit of Scheme members. This is an increase in the Fund value of £272m from 31 March 2018, due to some capital appreciation in the major equity markets resulting from continued loose monetary policy, ongoing strength in corporate earnings and a further improvement in investor risk sentiment. The strongest returns were seen in the Alternatives Sector, in particular Infrastructure and Private Equity. In addition, sterling returns from overseas investments received a significant boost due to the depreciation of the currency in the aftermath of the EU referendum. The Fund also benefitted from the strong performance of the internal manager and the recently appointed pooling partner, Border to Coast Pensions Partnership (Border to Coast).

At 31 March 2019 the number of employers in the Fund was 321 (31 March 2018: 300). The increase during the year was due mainly to the continued conversion of schools to academy status.

All employees, other than teachers, of the Administering Authority and the majority of the Scheme Employers are entitled to participate in the Scheme. Employees of Scheme Employers classed as designating bodies, such as town and parish councils, and employees of the 65 Admission Bodies may be nominated for membership by their employer. Teachers, police officers and firefighters have separate pension arrangements.

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

At 31 March 2019 the total membership records administered by the East Riding Pension Fund was 114,882, an increase of 1.8% in the year (2018: 112,882). 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 0.5% to 40,234 (2018: 40,043). 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 6.3% to 31,470 (2018: 29,611). All the membership figures 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 payment is £4,531.78 per annum, equivalent to a weekly payment of £86.91.

The Fund generated a return of 6.8% for the year to 31 March 2019 compared to the strategic benchmark return of 6.4%. Over the three years to 31 March 2019 the Fund returned 10.4% per annum, compared to the strategic benchmark return of 9.7% per annum and the long term investment objective of 6.0% per annum.

The Fund continues to be managed in a cost effective manner with total pension administration, investment management, and oversight and governance costs equating to just 0.14% (2018: 0.13%) of funds under management.

The key challenges for the Fund in the year ahead is to maintain the strong investment performance in a lower return environment whilst continuing to manage the transition of assets to Border to Coast, the Fund's chosen entity to satisfy the Government's requirement for pooling of investments. The Fund is participating fully in the pooling process and will ensure that there is appropriate governance oversight of the activities of our pooling partner.

Julian Neilson
Head of Finance
East Riding of Yorkshire Council
2 September 2019

the local government pension scheme

Legal Framework

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

The current scheme, LGPS 2014, is a Career Average Revalued Earnings (CARE) scheme. The scheme rules for LGPS 2014 are contained within the LGPS Regulations 2013 (Statutory Instrument Number 2013 No. 2356) and subsequent amendments and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (Statutory Instrument Number 2014 No 525). Amendments to LGPS 2014 are made under the Public Service Pensions Act 2013. Details of the main provisions of LGPS 2014 can be found at lgpsregs.org/schemeregs/lgpsregs2013.php.

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 freedom to opt-out and make their own pension provision.

Employer contribution rates are set by the Fund's Actuary every three years following the valuation of the Fund, in order to maintain the solvency of the Fund. New rates were set by the Actuary from 1 April 2017 to 31 March 2020 following the 2016 Actuarial Valuation.

Whilst the Regulations are fixed on a national basis, the LGPS is managed by a designated Administering Authority, and throughout England and Wales there are 89 such authorities. East Riding of Yorkshire Council is responsible for administering "The East Riding Pension Fund" for the benefit of its own employees and the employees of the scheme employers and admission bodies. Full details of the employers participating within the Fund are shown on pages 5 and 6. Teachers, Police Officers and Firefighters are excluded from the LGPS, as they are members of separate statutory pension schemes.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 make the provision in relation to the management and investment of pension funds held by administering authorities required to maintain pension funds by the Local Government Pension Scheme Regulations 2013.

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

The East Riding Pension Fund Local Pension Board

As required under section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended), the East Riding Pension Fund Local Pension Board (ERPFLPB) was established on 25 February 2015 and is made up of three employer representatives and three member representatives. The ERPFLPB is responsible for assisting East Riding of Yorkshire Council (as administering authority) in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator.

Details of the activities of the ERPFLPB can be found on the East Riding Pension Fund website at erpf.eastriding.gov.uk/local-pension-board

Fund Membership

The 321 employers, including East Riding of Yorkshire Council, with an interest in the Fund are listed below:

ADMINISTERING AUTHORITY

East Riding of Yorkshire Council

SCHEDULE 2 EMPLOYERS (255)

Adelelade Primary Academy	Emergency Services Fleet Management (Humberside) Limited	Kirton in Lindsey Town Council
Ainthorpe Primary Academy	Endike Primary School	Laceby Acres
Airmyn Park Primary School	Endsleigh Holy Child VC Academy	Lisle Marsden Academy
Alderman Cogan Primary Academy	Enfield Academy of New Waltham	Littlecoates Primary Academy
Anlaby Common Parish Council	Epworth Academy	Longhill Primary Academy
Appleton Primary Academy	Epworth Town Council	Macauley Academy
Archbishop Sentamu Academy	Estcourt Primary Academy	Malet Lambert Academy
Ashwell Academy	Fairfield Academy	Marfleet Primary Academy
Aspire Academy	Francis Askew Primary School	Market Weighton Town Council
Barrow upon Humber Parish Council	Franklin College	Maybury Primary Academy
Barton upon Humber Town Council	Frederick Holmes Academy	Melbourne Community Academy
Beacon Academy	Ganton School	Melior Community College Academy
Beverley and North Holderness Internal Drainage Board	Gilberdyke Academy	Mersey Academy
Bellfield Academy	Goole High School	Middlethorpe Academy
Beverley Grammar School	Goole Town Council	Mountbatten Academy
Beverley Town Council	Great Coates Primary Academy	Neasden Primary Academy
Biggin Hill Primary Academy	Griffin Primary Academy	New Waltham Academy
Bishop Burton College	Grimsby Institute of Further and Higher Education	Newbald Parish Council
Bottesford Town Council	Hall Road Academy	Newington Academy
Bricknell Primary Academy	Havelock Academy	Newland School for Girls
Bridgeview School	Healing Primary School	Newland St John's CE Academy
Bridlington Town Council	Healing Science Academy Limited	North Cave Parish Council
Brigg Town Council	Hedon Town Council	North East Lincolnshire Council
Broadacre Primary Academy	Hessle Community Academy	North Eastern Inshore Fisheries and Conservation Authority
Broughton Town Council	Hessle Town Council	North Ferriby Parish Council
Buckingham Primary Academy	Hibaldstow Academy	North Lincolnshire Council
Bude Park Primary Academy	Highlands Primary Academy	North Lindsey College
Bursar Primary Academy	Holderness Academy and Sixth Form College	Oasis Academy Henderson Avenue
Burton upon Stather Parish Council	Hook C of E Primary School	Oasis Academy Immingham
Cambridge Park Academy	Hornsea Town Council	Oasis Academy Nunsthorpe
Canon Peter Hall Academy	Howden School	Oasis Academy Parkwood
Chiltern Primary School	Hull College	Oasis Academy Wintringham
Christopher Pickering Primary School	Hull Culture and Leisure Limited	Old Cleve Primary Academy
Cleethorpes Academy	Hull Trinity House Academy	Ormiston Maritime Academy
Cleeve Primary Academy	Humber Bridge Board	Ormiston South Parade Academy
Clifton Primary Academy	Humber University Technical College	Ouse and Humber Drainage Board
Collingwood Academy	Humberside Fire Authority	Outwood Academy Brumby
Compass Academy	Humberside Magistrates' Courts Committee	Outwood Academy Foxhills
Coritani Academy	Humberston Academy	Outwood Junior Academy Brumby
Cottingham Croxby Primary Academy	Humberston Cloverfields Academy	Paisley Primary Academy
Cottingham High School	Humberston Park Academy	Parkstone Primary Academy
Craven Primary Academy	Hunsley Primary School	Patrington CE Primary Academy
Crowle Academy	Huntcliff Academy	Pearson Primary School
Dorchester Primary Academy	ICT 4 Collaboration	PHASE
Driffeld School	Immingham Town Council	Phoenix House PRU
Driffeld Town Council	Ings Primary School	Pilgrim Academy
Dunswell Primary Academy	John Leggott College	Pocklington Junior School
Easington CE Primary Academy	John Whitgift Academy	Pocklington Town Academy
East Ravendale Academy	Kelvin Hall School	Priory Primary Academy
East Riding College	Kingston Upon Hull City Council	Quay Academy
Eastfield Primary Academy (Immingham)	Kingstown Works Limited	Reynolds Primary Academy
Eastfield Academy (Hull)	Kingswood Academy	Rise Academy
Edward Heneage Academy	Kingswood Parks Primary Academy	Riston Primary Academy
Elliston Primary Academy	Kirk Ella and West Ella Parish Council	Rokeby Park Academy
Elloughton cum Brough Parish Council		Ron Dearing UTC

Rowley Parish Council
 St Anthonys Primary Academy
 St Augustine Webster Academy
 St Bede's Academy
 St Bernadette's Academy
 St Charles RC Primary Academy
 St George's Primary Academy
 St James' CE Academy
 St Joseph's Academy
 St Mary Queen of Martyrs VC Academy
 St Mary's Academy
 St Mary's Catholic Academy
 St Mary's College
 St Nicholas Primary Academy
 St Norbert's Academy
 St Peter's CE Primary Academy
 St Richards RC Primary School
 St Thomas More Academy
 St Vincents VC Academy
 Scartho Junior Academy
 Scawby Academy
 Sevenhills Academy
 Sidmouth Primary Academy
 Sigglesthorne Primary Academy
 Signhills Academy
 Signhills Infants Academy
 Sirius Academy North
 Sirius Academy West
 South Axholme Academy
 South Hunsley School and Sixth Form College
 Southcoates Primary Academy

Spring Cottage Academy
 Springfield Primary Academy
 Sproatley Endowed Primary Academy
 Stamford Bridge School
 Stepney Primary Academy
 Stockwell Academy
 Stoneferry Primary School
 Strand Academy
 Sullivan Centre
 Sutton Park Primary Academy
 Swanland Parish Council
 Swanland Primary School Academy Trust
 Thanet Primary Academy
 The Axholme Academy
 The Boulevard Academy
 The Boulevard Centre
 The Chief Constable of Humberside Police
 The Green Way Academy
 The Marvell College
 The Parks Academy
 The Police and Crime Commissioner for Humberside
 The St Lawrence Academy
 The Snaith School
 The Vale Academy
 Thoresby Academy
 Thorpepark Academy
 Thrunscoe Primary Academy
 Tollbar Academy Limited
 Tweenykes Academy
 Ulceby St Nicholas Primary School

University of Lincoln
 Waltham Leas Primary Academy
 Wansbeck Academy
 Weelsby Primary Academy
 Welholme Primary Academy
 Welton Parish Council
 Westcott Primary Academy
 Westwoodside Academy
 Wheeler Academy
 Whitehouse Pupil Referral Unit
 Wilberforce College
 William Barcroft Junior Academy
 Willoughby Road Primary Academy
 Willows Academy
 Winifred Holtby Academy
 Winterton Academy
 Winterton Town Council
 Withernsea Primary Academy
 Withernsea Town Council
 Wold Academy
 Woldgate School and Sixth Form College
 Wolreton School and Sixth Form College
 Woodland Primary Academy
 Woodlands Primary Academy
 Workforce Skills Limited
 Worlaby Academy
 Wybers Wood Academy
 Wyke College
 Yarborough Primary Academy
 Yorkshire and Humberside Grid for Learning

ADMISSION BODIES (65)

Aspen's Services Ltd (Pilgrim Tolbar)
 Aspen's Services Ltd (Tolbar MAT)
 Barnado's
 Bulloughs Cleaning Services Limited
 City Health Care Partnership CIC
 Civica UK Limited
 Compass Contract Services (UK) Limited (Delta MAT)
 Compass Contract Services (UK) Limited (East Ravendale)
 Compass Contract Services (UK) Limited (Hessle Academy Community Trust)
 Compass Contract Services (UK) Limited (Howden School)
 Compass Contract Services (UK) Limited (Humberston Academy)
 Compass Contract Services (UK) Limited (Lisle Marsden)
 Compass Contract Services (UK) Limited (Old Cleve)
 Compass Contract Services (UK) Limited (The Vale)
 Compass Contract Services (UK) Limited (Waltham Leas)
 Compass Contract Services (UK) Limited (Winterton Community Academy)
 Compass Contract Services (UK) Limited (Winterton Junior School)
 Compass Contract Services (UK) Limited (Wolds Learning Partnership)

Compass Contract Services (UK) Limited (Wolreton)
 ENGIE Services Limited
 Havelock Housing Association Limited
 Hull and Goole Port Health Authority
 Hull Charterhouse Trustees
 Hull Resettlement Project Limited
 Humber NHS Foundation Trust (Hull)
 Humber NHS Foundation Trust (East Riding of Yorkshire Council)
 Humercare Limited
 Humberside Independent Care Association
 Independent Cleaning Services Limited (Chiltern)
 Independent Cleaning Services Limited (Driffield)
 Independent Cleaning Services Limited (Hessle Trust)
 Independent Cleaning Services Limited (Wolreton)
 Interserve (Facilities Management) Ltd
 ISS Facility Services PFI
 KGB Cleaning Services Limited
 Lincolnshire Partnership NHS Foundation Trust
 Lincs Inspire Limited
 Mellors Catering Services Limited
 Mellors Catering Services Limited (Cottingham)
 Mellors Catering Services Limited (South Holderness College)

Mountain Healthcare Ltd
 North East Lincolnshire Clinical Commissioning Group
 NPS Humber Limited
 Ongo Homes Limited
 Pickering and Ferens Homes
 Pinnade Housing Limited
 Pocklington School
 Robertson Facilities Management Limited
 Robertson Facilities Management Limited PFI
 Sewell Facilities Management Limited
 Shoreline Housing Partnership Limited
 Sodexo Limited
 Sodexo Limited (Beacon Academy)
 Sodexo Limited Nunsthorpe
 Sodexo Limited (Oasis Community Learning)
 T(n)S Catering Management Ltd (Ise Education Trust)
 T(n)S Catering Management Ltd (Delta - Melior)
 T(n)S Catering Management Ltd (Delta - Willoughby Road)
 Taylor Shaw Limited
 Taylor Shaw Limited (Frederick Gough)
 Taylor Shaw Limited (The St Lawrence Academy)
 The Deep (EMIH) Limited
 The Riverside Group Limited
 University of Lincoln Students' Union
 University of York

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 1 London Wall Place London EC2Y 5AU
	River and Mercantile 30 Coleman Street London EC2R 5AL	
Pool Provider	Border to Coast Pension Partnership Limited (wef 1 July 2018) 5th Floor Toronto Square Toronto Street Leeds LS1 2HJ	
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 Quartermile 3 10 Nightingdale Way Edinburgh EH3 9EG	
AVC Provider	Prudential Craigforth, Stirling FK9 4UE	
Actuary	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	
Legal Adviser	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Banker	NatWest Bank 60 Market Place, Beverley HU17 8AH	
Fund Accountant/ Director of Finance	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Fund Auditor	Mazars LLP 5th Floor 3 Wellington Place Leeds LS1 4AP	

Scheme Administrator	Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	
Fund Adviser	MJ Hudson Allenbridge 8 Old Jewry London EC2R 8DN	
Performance Measurement	State Street GS Performance Services Quartermile 3 10 Nightingdale Way Edinburgh EH3 9EG	
Officers	Darren Stevens Director of Corporate Resources East Riding of Yorkshire Council County Hall Beverley HU17 9BA	Julian Neilson Head of Finance East Riding of Yorkshire Council County Hall Beverley HU17 9BA
	Kevin Dervey Head of Investments East Riding Pension Fund PO Box 164 Church Street Goole DN14 5YZ	Graham Ferry Pensions Manager East Riding Pension Fund PO Box 118 Church Street Goole DN14 5YU

Management Arrangements of Fund

The arrangements for the management of the Fund are:

- The Pensions Committee meet at quarterly intervals to determine overall strategy, to review retrospectively detailed implementation of policy and to consider performance, with a further four meetings being held to consider other matters;
- The fixed income portfolio is managed by the Corporate Resources Directorate;
- The UK equity portfolio is managed by Border to Coast Pension Partnership;
- Overseas investments are managed by Schroder Investment Management and Border to Coast Pension Partnership;
- Alternative assets are managed by the Corporate Resources Directorate;
- The derivatives portfolio is managed by River and Mercantile;
- The Corporate Resources Directorate administers obligations to pensioners and Fund contributors.

Custodial Arrangements

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



risk management

East Riding Pension Fund recognises the importance of effective risk management including the identification and management of its key risks. Risk is defined as a condition, act, situation or event with the ability or potential to impact on the Fund either by enhancing or inhibiting performance, attainment of objectives or meeting stakeholder expectations. Risk management is the process by which the Pension Fund systematically identifies, assesses and seeks to mitigate the risks associated with its activities, and is a key component of the overall governance process. Effective risk management is a clear indicator of good governance and a risk register is the primary control document for the identification, assessment and monitoring of key risks.

The Fund's key objectives are to:

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

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

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

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

The Fund's risk register is included below.

No.	Risk	Controls
1	The Pension Fund's assets do not meet expected liabilities when they fall due	<p>Strategic asset allocation, including appropriate diversification of assets, determined on a triennial basis following the latest triennial valuation and agreed by Members, Advisers, and Investment Managers. Actuarial valuation process focuses on real returns on assets, net of price and pay increases.</p> <p>Tactical asset allocation determined on a quarterly basis by Pensions Committee in light of financial market conditions and following advice from Advisers and Investment Managers.</p> <p>The Investment Strategy Statement discloses the permitted asset classes, allocation, and ranges in order to provide an appropriate level of diversification.</p> <p>Investment management responsibilities split between internal and external investment managers with ability to switch funds under management between the internal and external investment managers. Robust investment process including detailed research and analysis. 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.</p> <p>Detailed analysis of Fund performance on an absolute basis and relative to the actuarial rate of return and the Fund-specific benchmark. Performance monitored by the Head of Finance and Director of Corporate Resources on a quarterly basis and reviewed by Pensions Committee on an annual basis.</p> <p>Treasury Management Policy establishes limits on investments, institutions, and counterparties. Maintain a minimum level of liquid investments to meet liquidity requirements and analyse Fund liquidity position on a weekly basis. Operational Treasury Management Board meets on a regular basis to review investment criteria. Treasury Management activity reviewed by the Pensions Committee on a semi-annual basis. Treasury Management Policy reviewed by the Pensions Committee on an annual basis.</p> <p>A significant proportion of the Fund's assets have either explicit e.g. index-linked bonds or implicit inflation linkage e.g. property, infrastructure. The Fund can invest in inflation protection products subject to LGPS investment regulations.</p> <p>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.</p> <p>Independent assurance received on internal controls of the Fund's investment managers on an annual basis.</p> <p>Continual focus on investment costs including fees, expenses, and transaction costs.</p>

No.	Risk	Controls
2	The Fund is unable to meet the requirements of Government policy on pooling investments across LGPS funds	<p>The Pension Fund has assumed a leading role in the creation of its selected pooling arrangement – Border to Coast Pensions Partnership which meets the Government’s stated criteria for pooling.</p> <p>The Fund (through representation on the Border to Coast Joint Committee and through East Riding of Yorkshire Council as shareholder) has full participation and decision making ability into how the pooling arrangement is managed and monitored.</p> <p>The Pensions Committee receives a detailed update regarding the implementation of pooling on a regular basis.</p>
3	The potential for disruption, monetary losses, and adverse investment performance from the transfer of assets and personnel into Border to Coast Pensions Partnership Limited	<ul style="list-style-type: none"> • FCA regulation of Border to Coast • Investment professionals experienced staff transferred from internally managed partner funds • Border to Coast governance structure • Monitoring and direction by retained investments staff, the Section 151 Officer and the Pensions Committee
4	Actuarial assumptions in respect of membership are significantly different than expected	<p>Mortality assumptions are set at valuation using ‘Club Vita’.</p> <p>Employers are charged the strain cost of non-ill health retirement.</p> <p>Employers have the option to take out ill health liability insurance.</p> <p>Participation in Tell us Once and LGPS NI Database.</p> <p>Implementation of latest early retirement strain factors.</p>

No.	Risk	Controls
5	Failure by Fund to carry out administrative duties and meet the requirements of The Pensions Regulator Code of Practice 14 (TPR Code 14) – Administration	<p>Scheme employers are informed of statutory responsibilities at employer meetings, through monthly employer bulletins and online. Employer training is provided as required or identified.</p> <p>Data quality checks are carried out in accordance with The Pensions Regulator (TPR) requirements for common and conditional data.</p> <p>Dedicated training officer and structured training programme in place for internal staff and regular training events for employers. External training is completed as required along with attendance at seminars and conferences to keep informed of new developments and best practice.</p> <p>UPM facility to test calculations and processes ensures benefits are calculated in accordance with current Regulations and legislation changes are implemented correctly.</p> <p>Electronic workflow system monitors the volume and type of work to ensure resources are in place to mitigate the impact of unforeseen customer demands.</p> <p>Annual audit of fundamental systems by Internal Audit.</p> <p>Membership of Pensions Advisory Network, North East Pension Officers Forum (NEPOF), National Communications Working Group and Local Authority Pension Fund Forum (LAPFF) to keep informed of new developments and best practice.</p> <p>Consider and respond to all Ministry for Housing, Communities and Local Government (MHCLG) consultation papers.</p> <p>Regular contact with Fund advisors including external investment manager, independent advisor, actuary, external auditors and AVC provider.</p> <p>Compliance Manual updated on an annual basis and signed by all internal investment staff.</p> <p>Actuarial advice is subject to professional requirements such as peer review and advice is delivered via formal meetings with Elected Members and recorded appropriately.</p> <p>Local Pension Board assists the Fund in complying with LGPS regulations.</p> <p>Pensions Section Service Plan 18/19 ensures that scheme record keeping and administration is compliant with TPR Code 14.</p> <p>The Pensions Administration Strategy implemented from 1 January 2018.</p> <p>Common and conditional data reporting is taking place on a quarterly basis. The results from this are recorded on the data improvement plan and action taken to correct data held.</p> <p>The contact manager database ensures the Fund has the most up to date employer contacts.</p>

No.	Risk	Controls
6	Failure to recruit and retain an adequately skilled workforce and to provide sufficient training to Local Pension Board and Committee members. (TPR Code 14 – Governing the Scheme)	<p>Relevant staff members have completed competency based recruitment training and East Riding of Yorkshire Council competency framework is applied as part of the recruitment and selection process.</p> <p>Any corporate changes which may arise to the recruitment and selection process are considered and applied.</p> <p>Relevant staff undertaken attendance management training. Attendance reviewed monthly and dealt with in accordance with corporate policy.</p> <p>EDRs and learning development skills matrix used to identify skill gaps and training requirements.</p> <p>Staff members are encouraged to obtain relevant qualifications, including formal investment management qualifications e.g. CFA, IMC and pensions administration qualifications, e.g. CIPP.</p> <p>Workforce development action plan in place to identify future workforce requirements, training needs and recruitment/retention measures.</p> <p>Review of vacant posts and re-evaluation /regrading/ restructuring considered as appropriate.</p> <p>Succession planning within Sections.</p> <p>Detailed records of rationale for investment decisions.</p> <p>Key processes are documented.</p> <p>Induction and training programme for Members and Officers.</p> <p>Formal training programme for Pensions Committee and Local Pension Board members.</p> <p>Advertising extended to include local newspapers resulting in an increase in the number and quality of applicants.</p> <p>Annual review of the training needs analysis for the Local Pension Board.</p> <p>Use of the apprenticeship levy to fund bespoke courses for Pensions section staff.</p>

No.	Risk	Controls
7	Failure to establish adequate business continuity and data security arrangements	<p>IT systems are operated in line with corporate policies and procedures to ensure secure storage and safe transmission of data, including sensitive data.</p> <p>Internal staff complete e-learning and read policies in respect of IT security and data protection.</p> <p>Pensions section has a Data Protection Link Officer and attendance takes place at the GDPR working group meetings, workshops and training as required. The Fund is GDPR compliant.</p> <p>UPM has facility to restrict and control access to reduce risk of fraud and ensure audit trails are in place.</p> <p>Procurement process assesses technical ability and financial stability of each IT system.</p> <p>Disaster recovery and business continuity plans in place for each IT system.</p> <p>Regular reconciliation of custody data to internal records.</p> <p>Funds under management can be transferred to the external investment manager.</p> <p>ERPF online services ensures secure data transfer and comprehensive contact database to ensure data shared with the right employer contact.</p> <p>Memorandum of understanding issued to all scheme employers setting out their responsibilities in relation to shared data.</p> <p>Virtualisation of servers provides secure system backups and unlimited secure data storage capability.</p>
8	Failure to report a breach of the law to the Pensions Regulator (TPR)	<p>All relevant persons aware of their legal duty to report a breach through the Fund's Procedure for Reporting Breaches including members of the Pensions Committee and the Local Pension Board, and officers of Fund employers.</p> <p>Members and officers required to undertake e-learning programme on the Regulator's website.</p> <p>All reported and unreported breaches are presented to the Pensions Committee and the Local Pension Board on a six monthly basis (see Appendix 2).</p> <p>The Pensions Administration Strategy sets out the timescales for complying with TPR guidance including unsatisfactory performance and reporting to TPR.</p> <p>Pensions section targets are issued monthly and reviewed by OMT.</p> <p>A data improvement plan was produced following an analysis of the results from the common and conditional data reporting.</p>

No.	Risk	Controls
9	A Scheme employer becomes financially unviable and unable to pay contributions required	<p>The Fund requires all admitted bodies to undertake a risk assessment to assess whether a bond, indemnity or guarantor should be put in place.</p> <p>Requirement for a bond is assessed on an annual basis.</p> <p>Cessation Valuation reports are commissioned from the Fund Actuary when the Admitted Body no longer has active members.</p> <p>Option for admitted bodies to pool with letting authorities subject to Fund approval.</p> <p>Financial health checks carried out on new and existing employers by the Council's Senior Governance Officer.</p> <p>Use of Hymans online reporting tool to assess impact of market movements and contributions on employer funding positions and to measure cessation debt.</p>
10	Significant reduction in individual scheme employer membership	<p>Membership totals are monitored on a quarterly basis, which incorporates redundancy or outsourcing exercises.</p> <p>Financial Control Team monitors non unitary employer contributions monthly.</p> <p>Material changes of 10% of membership are referred to the Fund actuary.</p> <p>Employers with reducing membership are required to pay deficit contributions as fixed monetary payments, except for academy conversions where the local authority deficit is included in the calculation of the academy contribution rate.</p> <p>Various methods are used to communicate the benefits of LGPS to members and employers.</p> <p>Number of members electing for 50/50 section are monitored.</p> <p>Use of Hymans online reporting tool to assess impact of market movements and contributions on employer funding positions and to measure cessation debt.</p>

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

Other risks pertaining to the Fund are disclosed in the Funding Strategy Statement (pages 89 to 116) and Note X Disclosure Relating to Financial Instruments (pages 79 to 87).

Internal Controls and Assurance

The Investment Strategy Statement 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, Schroder Investment Management, River and Mercantile and Border to Coast Pensions Partnership.

In addition, assurance to assess the internal controls and procedures at Schroder Investment Management, Border to Coast Pensions Partnership and State Street Global Services, the Fund's custodian, is also sought.

- Schroder Investment Management prepares an Internal Controls 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, issued by the International Accounting and Assurance Standards Board, and the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06.
- Border to Coast Pension Partnership have been provided with a Controls Assurance review by their auditors KPMG which covers the part year of trading in 2018/19 prior to receiving a full controls review in subsequent years.
- State Street Global Services prepares Service Organisation Control reports on its General Fund Accounting and Custody controls and its Information Technology controls. These reports are audited by Ernst & Young in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and the ISAE 3402.
- River and Mercantile Annual Report and Accounts includes an independent audit report by their auditors BDO.

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

Audit

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

	Control Effectiveness	Risk Exposure
Investments	Satisfactory Assurance	Moderate
Pensions Administration	Satisfactory Assurance	Moderate



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 23 to 38.

Fund Account	2017/18	2018/19	Notes
	£000	£000	
Net Contributions/ - Benefits	101,117	-68,413	Pre-paid contributions received from 3 employers 2018/19
Return on Investments	150,066	340,327	Positive returns in majority of asset classes
Net increase in the Fund	251,183	271,914	

Net Asset Statement	2017/18	2018/19	Notes
	£000	£000	
Fixed Interest	562,550	613,819	
Index-linked	33,884	36,499	
Equities	1,919,577	447,658	Transition to Border to Coast (Pooled Funds)
Derivatives	71,573	70,396	
Pooled Funds	2,047,388	3,720,195	Transition to Border to Coast (Pooled Funds)
Cash	129,730	155,171	
Other	13,808	12,568	
Total Investment Assets	4,778,510	5,056,306	

Analysis of pension contributions

The following table provides an analysis of contributions:

	2018/19					2017/18				
	Total	On Time		Late		Total	On Time		Late	
	£000	£000	%	£000	%	£000	£000	%	£000	%
Employer – Primary	72,738	70,652	97.1	2,086	2.9	209,556	207,676	99.1	1,880	0.9
Employee – Primary	36,042	35,325	98.0	718	2.0	35,916	35,309	98.3	607	1.7
	108,780	105,977	97.4	2,804	2.6	245,472	242,985	99.0	2,487	1.0

In total, 100 monthly contribution payments were received late, of which 62 were received within 1 month of the due date, 14 were received within 1 and 3 months, and 24 were received after more than 3 months.

In total, 114 monthly contribution payments were received late, of which 80 were received within 1 month of the due date, 21 were received within 1 and 3 months, and 13 were received after more than 3 months.

Outturn

The following tables show the outturn for the Fund Account and the Net Asset Statement for the two years to 31 March 2019.

Fund Account	2017/18		2018/19	
	Forecast	Actual	Forecast	Actual
	£000	£000	£000	£000
Contributions	267,000	267,390	132,000	128,754
Payments	(155,000)	(166,273)	(170,000)	(197,167)
Management expenses	(6,530)	(6,530)	(7,050)	(7,258)
Net investment income	153,600	164,962	176,004	133,895
Change in market value	108,168	(8,546)	353,105	213,690
Net increase in the Fund	367,238	251,183	484,059	271,914

Contributions and payments are based on current expectations; the administration, investment management, and oversight and governance 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	2017/18		2018/19	
	Forecast	Actual	Forecast	Actual
	£000	£000	£000	£000
Equities	2,924,536	2,805,061	2,924,536	447,658
Bonds	497,696	596,434	619,695	650,318
Derivatives	0	71,573	70,028	70,396
Cash	237,506	129,730	132,584	155,171
Property	527,937	543,898	574,900	580,603
Alternatives	699,416	618,006	661,266	3,139,592
Other	-	13,808	15,000	12,568
Total Investment Assets	4,887,091	4,778,510	5,063,668	5,056,306

Operational Expenses

	2017/18		2018/19		2019/20
	Budget	Actual	Budget	Actual	Budget
	£000	£000	£000	£000	£000
Pensions Administration					
Employees	1,428	1,347	1,407	1,454	1,577
Supplies and Services	492	315	570	365	507
Professional Fees	150	181	181	119	111
Central costs	199	198	199	199	169
	2,269	1,796	2,357	1,995	2,364
Investment Management					
Employees	796	775	812	497	275
Supplies and Services	363	184	163	128	127
External Fund Manager	1,993	2,513	2,499	3,859	3,879
Custodian	137	127	120	117	120
Stock Lending	150	162	200	68	0
Professional Fees	10	17	15	121	0
Central costs	70	70	70	70	70
LGPS Pooling Costs	342	71	264	262	220
	3,861	3,919	4,143	5,122	4,691
Oversight and Governance	400	635	550	638	640
Total	6,530	6,350	7,050	7,755	7,695

The CIPFA guidance 'Accounting for LGPS Management Costs' recommends the disclosure of management fees for pooled investments that are not included in the investment management costs with a corresponding adjustment to the Fund Account and Net Asset Statement. These management costs have been obtained using financial information available for each of the Fund's unquoted pooled investments and in 2018/19 amounted to £16.394m, split between management fees (£14.601m) and performance fees (£1.793m) (2017/18 £15.177m, split between management fees of £13.305m and performance fees of £1.872m).

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

Analysis of Pension Overpayments

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	£	£	£	£	£	£
Overpayments recovered	7,146.00	10,416	93,262	65,134	42,635	218,594
Overpayments written off						
Deaths	5,753	7,010	7,487	3,672	3,859	27,782
Axis Payroll Check	0	0	0	0	0	0
GMP	0	27,812	11,430	0	0	39,242
Total	5,753	34,823	18,917	3,672	3,859	67,024
Annual Payroll (net)	107,481,388	110,001,025	111,488,388	116,419,949	122,741,476	568,132,226
Write offs as % of Payroll	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Number of cases - Written off	356	317	446	253	151	1,523
Number of cases - Recovered	15	18	314	206	136	689
Number of cases - in process of recovery	45	26	12	27	16	126



administrative management performance

East Riding of Yorkshire Council 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 2018 CIPFA Pensions Administration benchmarking club report, issued in November 2018, compared the performance of East Riding of Yorkshire Council in 2017/18 with 32 local authorities who administer the Local Government Pension Scheme (LGPS). The key findings for 2017/18 were:

- **The annual cost of administering the LGPS per member. The key benchmark for Pensions Administration is the cost of administering the LGPS per member and the Fund's cost for 2017/18 was £18.07 (2016/17: £17.62) compared to the average of £21.16 (2016/17: £20.12). The table below is an analysis of the Fund's cost per member compared with the average cost for the authorities in the benchmarking club.**

	East Riding Pension Fund	Average
	£	£
Staff	7.95	9.26
Payroll	1.72	1.13
Direct costs e.g. communications and actuarial fees	1.23	2.47
Overheads e.g. IT, accommodation, central charges	7.21	6.88
Income	(0.04)	(0.35)
Total cost per member	18.07*	21.16*

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

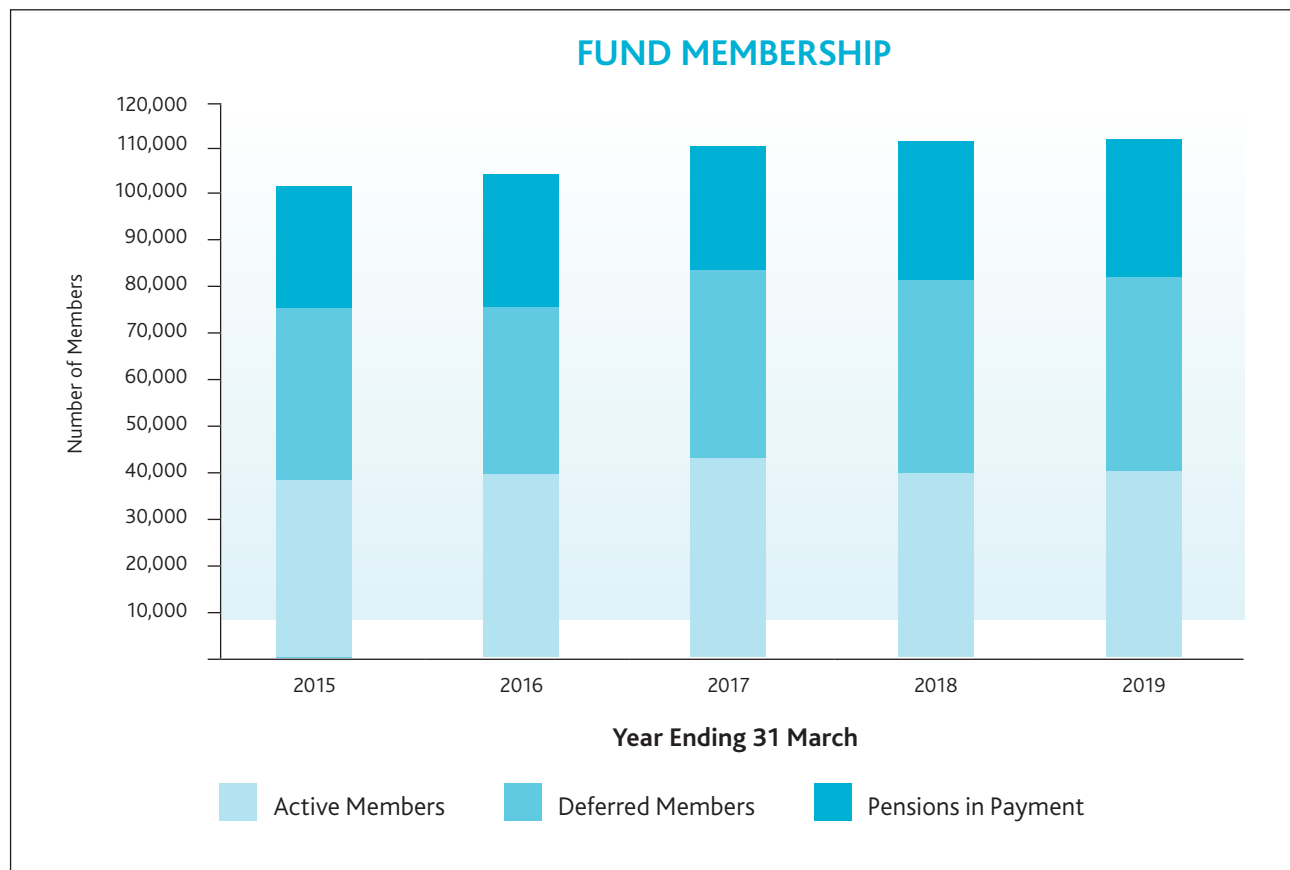
- **The annual cost of employing a full time equivalent (FTE) member of staff to administer the LGPS. The Fund's staff cost for 2017/18 was £26,676 pa per FTE staff (2016/17: £27,371 pa) compared to the average of £34,034 pa (2016/17: £34,159 pa).**

Five Year Analysis of Fund Membership Data

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

	2015	2016	2017	2018	2019
Active Members	37,472	39,227	39,475	40,043	40,234
Deferred Beneficiaries	36,859	37,450	41,585	43,228	43,178
Deferred Members	35,113	35,358	38,817	39,989	39,671
Frozen Refunds	1,746	2,092	2,768	3,239	3,507
Pensions in Payment	26,408	26,698	28,625	29,611	31,470
Total Membership	100,739	103,375	109,685	112,882	114,882

Five Year analysis of Fund Membership



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 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.

Following the triennial review in 2016/17 the Fund's strategic asset allocation, which was effective 1 April 2017, is as follows:

	Strategic Allocation	Range
Equities	55%	+/- 10%
Bonds ¹	19%	+/- 5%
Property	11%	+/- 3%
Alternatives	15%	+/- 3%

¹ Including Cash

Details of the Largest Equity Investments as at 31 March 2019

Top 15 UK Equities	Market Value £m	% Investment Assets	Top 15 Overseas Equities	Market Value £m	% Investment Assets
HSBC Holdings	89.2	1.8	Nestle	17.8	0.4
Royal Dutch Shell 'A'	268.1	1.6	Roche Holdings AG	14.8	0.3
BP	62.3	1.2	SAP SE	8.6	0.2
Astrazeneca	62.0	1.2	Itochu Corporation	6.6	0.1
Glaxosmithkline	58.7	1.2	Softbank Group	6.4	0.1
Royal Dutch Shell 'B'	58.6	1.2	Sanofi	6.3	0.1
Diageo	57.0	1.1	Mitsubishi UFJ Financial Group	6.2	0.1
British American Tobacco	41.3	0.8	Adidas	5.8	0.1
Unilever	40.4	0.8	Nokia	5.7	0.1
Prudential	40.1	0.8	Akzo Nobel	5.6	0.1
BHP Group	39.2	0.8	Danone	5.4	0.1
Lloyds Banking	34.8	0.7	SMC Corporation	5.3	0.1
Reckitt Benckiser	34.2	0.7	UPM-Kymmene	5.3	0.1
Rio Tinto	32.6	0.7	Toyota Industries Corporation	5.2	0.1
National Grid	27.0	0.5	Lonza	5.2	0.1

Details of Institutional Unit Trusts as at 31 March 2019

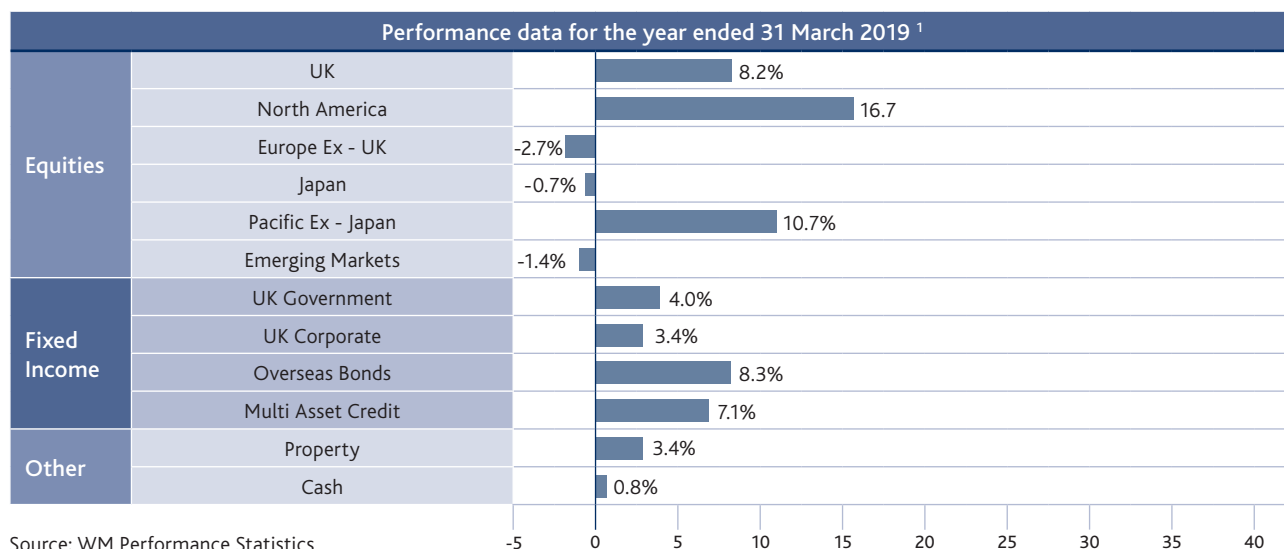
Global Equity Funds	Market Value £m	% Investment Assets
Schroder Funds		
SGST North America Equity Fund	285.7	5.7
Institutional Pacific Fund	138.7	2.7
Emerging Markets Fund	175.9	3.5
Developing Markets Fund	54.9	1.1
Japan Smaller Companies Fund	8.3	0.2

Property Funds

The Fund holds a portfolio of 36 Property investments valued at £580.6m as at 31 March 2019 in listed, pooled, and limited partnership structures. Each investment is selected on the basis of its expected risk-adjusted return and its contribution to the Fund's target return for the asset class with sector and geographic exposure reflecting the preferred areas of investment.

Investment Markets

Significant capital appreciation in the majority of equity markets and the positive impact of currency depreciation on the sterling returns from overseas investments were the main contributors to performance. This was partly offset by weaker relative returns in Property.



¹ The table shows the Fund's returns in each asset class within the strategic asset allocation

Equities

- Global equity markets were relatively strong during the year with the exceptions of Japan and Emerging Markets mainly due to a strong rally in the final quarter when investors reacted positively to news that the US Federal Reserve was pausing its monetary tightening cycle. Further the markets responded positively to signs of a rapprochement between the US and China on trade wars. This has subsequently proved to be premature with tensions continuing throughout the first half of 2019.
- The best performing equity region, in sterling terms, was North America driven by the prospect of loose monetary policy and that trade negotiations with China appeared to be reaching a positive conclusion on tariffs which would avoid a damaging future trade war.
- Emerging Markets was the weakest performer during the year as the slowdown in global trade undermined the near-term earnings outlook. The prospect of lower earnings expectations had a negative impact on emerging equity markets.
- The UK delivered a positive return, ahead of the rate of inflation, despite the ongoing uncertainty resulting from the decision to exit the EU and the potential instability during the protracted exit negotiations. Corporate balance sheets remain strong and should support future capital investment and takeover activity.
- Europe suffered as a result of the global trade dispute as well as relatively weak domestic demand and a slowdown in investment expenditure. Brexit-related economic weakness and sovereign debt issues began to have a negative impact on economic growth, investor sentiment and corporate earnings in the region.
- Japan continued to benefit from a weaker currency, ultra loose monetary policy, relatively attractive valuations and improvements in corporate governance. Domestic companies benefitted from the additional fiscal stimulus and the postponement of the proposed increase in the consumption tax.
- The Pacific region proved volatile during the year but recovered in the final quarter due to the change in the US Federal Reserve monetary policy as concerns over weak global growth emerged. Economic growth in the region is susceptible to a potential slowdown in China, falling commodity prices and rising US interest rates.

Fixed Income

- Bond yields remain low in historical terms due to low interest rate expectations in the majority of countries. Yields are expected to increase eventually in the longer term as monetary conditions normalise, although they are likely to remain below long run averages. In addition, bond markets are becoming increasingly nervous that governments will turn to fiscal policy (with an associated increase in debt levels) rather than monetary policy to stimulate growth.
- In the UK market, ten year bond yields fell below 1.0% in response to increasing Brexit worries, lower future interest rate expectations and investors looking for safe haven assets. Yields remain significantly below the long term average (c. 4%) and they are expected to remain relatively low in the short term although they are likely to rise in the longer term reflecting higher interest rates and inflation expectations resulting from the BOE normalisation strategy.
- In Overseas developed markets yields fell to historically low levels due to expectations of a loosening in monetary policy as global economic growth appeared to be slowing. Negative interest rates have become entrenched in Japan and much of continental Europe as economic growth slows and future interest rate expectations move lower.
- Emerging market bonds recovered during the year supported by continuing economic growth, relatively low inflation which remained within target in most countries and the slow and steady normalisation of interest rates designed to avoid disruption in financial markets.
- Investment-grade corporate bonds performed in line with government bonds as spreads remained stable. High yield bonds outperformed throughout the year as investors searched for yield in higher risk markets.

Property

- The UK property market stabilised during the year although returns from some traditional sectors were lower due to minimal capital growth and falling rental growth.
- Demand for industrial sector assets continued to be strong as e-commerce distribution centres drove demand. Constrained supply in London and the South East, as well as some major urban areas in other parts of the UK, is accentuating rental growth.
- In the office sector, regional office markets have seen a prolonged period of net absorption and falling vacancy rates, supporting steady rental growth over the last few years. While fundamentals remain strong in central London, rents have been largely flat or falling, which may be due to the high proportion of lettings to flexible office providers.
- The retail sector faced a difficult period as consumer confidence was below the levels of the previous year due to uncertainty over Brexit and the effect it may have on consumer disposable income. High street retail rents continue to fall as tenant distress is prompting major adjustments to rental values. The shopping centre sector also continues to suffer from falling occupier demand and waning investor interest.

Market Outlook

- Global economic growth slowed notably in the second half of 2018 due to rising trade tensions, tightening financial conditions and a decline in growth in China. Risks to the future outlook are increasing due to weak trade growth and lower capital investment. The rate of expansion may have peaked in some major economies and growth has become less uniform. Key risks include uncertainty over trade policy in the US and Europe, geopolitical tensions in the Middle East and Asia regions, volatile oil prices and the impact of monetary tightening in advanced economies. Global inflation remained relatively low mainly due to non-oil commodity prices remaining at lower levels, though inflationary pressures may build as a result of stronger labour markets in some developed economies. Within the developing economies inflation remains relatively high, but stable, in some countries notably Russia, Brazil and South Africa.
- Equity markets continue to benefit from loose monetary policy and valuations remain above the long term average although Emerging Markets continue to trade at a significant discount to developed markets following recent relative under-performance. Earnings expectations have proved volatile during the year which could have a negative impact on markets in the short term. Valuation measures are above their long term average and earnings growth is moderating. Corporate activity increase significantly during the second half of the year as companies attempt to maintain growth through acquisition – an indicator that we are in the latter stages of the market cycle. There remains a significant risk that equity markets are likely to generate below average returns and that there is a sharp correction in the medium term.
- The long bull market in global bonds appeared to be coming to an end during the second half of 2018 as US interest rates began to rise and unconventional quantitative easing programs came to an end. The move higher in interest rates to more normal levels was cut short in response to the global slowdown and the US/China trade dispute. Consequently bond yields remain unattractive to long term investors although they are likely to increase in the medium term. Rates are expected to remain relatively low as there are very few inflationary pressures and monetary policy will continue to be accommodative. Corporate bond spreads, both investment grade and sub-investment grade, have stabilised around their long term average but may be susceptible to a correction in the event of an economic slowdown and a deterioration in credit quality. Alternative credit investments, such as direct lending or mezzanine debt, offer better risk-adjusted returns as well as an illiquidity premium.
- Overall, the UK property sector continued to perform well although some sectors, notably shopping centre and high street retail continue to suffer as a result of uncertainty over Brexit. Steady rental growth was experienced across most sectors but this is unlikely to continue in the medium term and capital growth is likely to remain constrained. Consequently, returns are likely to moderate further in the short term which should mean that niche investments such as student accommodation and social housing are likely to perform relatively well.
- In recent years investors have had to adjust to a lower return environment, particularly in traditional asset classes, resulting in a switch in focus from return generation to capital protection. A diversified portfolio across a range of non-correlated alternative asset classes should help maintain returns and provide a higher level of capital protection.

Investment performance

The following table shows the performance of the Fund relative to its strategic benchmark:

Annualised performance	1 year	3 years	10 years	20 years
East Riding Pension Fund	6.8%	10.4%	11.1%	6.4%
Strategic benchmark	6.4%	9.7%	10.9%	6.5%

Source: State Street Investment Analytics

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 2016" guidance document which is available at www.pirc.co.uk.

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

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

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

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

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

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
519	6,633	6,556	77

Statement of Compliance with the UK Stewardship Code for Institutional Investors

This statement of compliance was updated in March 2017 in response to the FRC's assessment of signatories' quality of reporting against the Code and subsequent categorisation. The statement of compliance will be reviewed on an annual basis.

East Riding Pension Fund has been categorised as a Tier 1 asset owner and Schroder Investment Management Limited has been categorised as a Tier 1 asset manager. This demonstrates that both signatories "provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary".

The East Riding Pension Fund supports the UK 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 informed through the use of the Pensions Investment Research Consultants (PIRC) voting advisory service, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

Further details of PIRC's voting guidance is shown in the "UK Shareowner Voting Guidelines 2016" guidance document which is available at www.pirc.co.uk and further information regarding the engagement activities of the LAPFF is available at www.lapffforum.org.

The Pension Fund considers that social, environmental, and governance considerations can have a material impact on the value of its investments and should form part of its investment managers' investment processes.

Therefore, the Fund will take into account the guidance issued by LAPFF, which highlights corporate governance issues at investee companies and recommends appropriate voting action, 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's investment managers can exercise their discretion not to vote in accordance with best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

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

In general, the Fund's engagement activities will be based on the importance of the issue, the materiality of the Fund's exposure to companies affected by the issue, and an assessment of the likelihood of success in the event of engagement.

The Pensions Committee reviews the Fund's corporate governance and voting activity and discusses the reasons for engagement, or lack of it, with its investment managers on a quarterly basis.

In addition, the Fund publishes summary details of corporate governance and voting activity in its Annual Report and Accounts.

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.

East Riding of Yorkshire Council, the administering authority of the East Riding Pension 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. These are published on the Council's website and updated on a regular basis.

In addition, Pension Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed in the Pension Fund's Annual Report and Accounts.

In accordance with the Fund's Compliance Manual, individual employees of the internal investment manager require permission from the Head of Investments or, in the Head of Investments case, the Head of Finance prior to investing in any applicable investments on a personal basis. Individual employees are also required to disclose their personal investments on an annual basis. The Fund's Compliance Manual is an internal control document and it is not considered appropriate to disclose this publicly.

The interests and investments of the Fund's independent advisor are disclosed to the Pensions Committee on a quarterly 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. However, the Fund's investment managers are not bound to exercise their vote in accordance with these recommendations.

Issues on which the Fund has chosen to engage on in the recent past include:

- Directors' remuneration.
- Separation of the roles of Chairman and Chief Executive.
- Independence of non-executive directors.
- Issue of company shares.
- Environmental factors including carbon risk.
- Labour relations.
- Auditor rotation.

The Fund is of the opinion that its corporate governance activities are significantly more effective if they are part of a larger group of like-minded investors, such as the LAPFF. The Fund is a supporter of the LAPFF's work but is unable to commit resources to take a more active role in LAPFF's engagement over and above its current membership role.

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 present reports on their voting activity on a quarterly basis to the Pensions Committee which are then subject to challenge and debate. The Pensions Committee also receives regular reports summarising the issues being raised by LAPFF and its current areas of focus, with companies in which the Fund has current ownership specifically highlighted, which further informs this process.

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

The Fund's investment managers may choose to be made insiders in a particular company for a short period of time. In these instances, no transactions are permitted to be made from the point of disclosure until the information has been disclosed to the wider market. The specific restrictions are disclosed in the Fund's investment managers' compliance documents. As stated above, the Fund's internal investment manager's Compliance Manual is considered to be a private document that will not be disclosed publicly.

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

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

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

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 managers.

The Fund will also consider collaborating with other investors if it is considered to be appropriate and interested parties should contact the Fund's Head of Investments, if they would like to discuss this further.

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

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.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

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

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

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts. The Fund has chosen not to disclose its full voting record as it does not consider that this will add any value to an external party's understanding of its corporate governance and voting policy and practices. However, the Fund is required to respond to a formal request for information via the Freedom of Information Act 2000.

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

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

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

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

Myners' Principles

The Myners' Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2009 required local government pension funds to produce a statement in their annual report regarding compliance with these Principles on a "comply or explain" basis. Although this is no longer required under the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 it is still considered best practice.

Principle 1: Effective Decision-Making

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

Principle 2: Clear Objectives

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

Principle 3: Risk and Liabilities

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

Principle 4: Performance Assessment

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

Principle 5: Responsible ownership

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

Principle 6: Transparency and Reporting

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

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

Principle	Evidence of compliance
Effective Decision Making	<p>The Pensions Committee meets on a quarterly basis to discuss current issues, future policy, and tactical asset allocation.</p> <p>Working Groups are formed when an issue requires particular attention. A Working Group was set up in September 2016 to consider the Pension Fund's strategic asset allocation following the initial results of the latest triennial actuarial valuation and to make recommendations to the Pensions Committee.</p> <p>The Committee have appointed suitably qualified investment managers to manage the investments of the Fund on their behalf.</p> <p>The Fund takes advice from its independent advisor and external investment manager, both of whom attend the quarterly Pensions Committee meetings. This is in addition to the advice received from the Director of Corporate Resources and the Fund's actuary.</p> <p>A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented.</p>
Clear Objectives	<p>The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Investment Strategy Statement.</p> <p>The Fund's strategic asset allocation is specifically designed to achieve the fund objective, with tactical asset allocation reviewed at the quarterly meetings. Specific asset allocation weightings are detailed in the Investment Strategy Statement.</p> <p>In determining the Fund's asset allocation, the Committee consider all asset classes in terms of their suitability and diversification benefits.</p>
Risk and Liabilities	<p>The Administering Authority has an active risk management programme in place including a Pension Fund-specific risk register and risk management schedule.</p> <p>The Pension Fund's risk register identifies the key risks inherent in the Pension Fund, an estimate of the severity of each risk, a summary of current control measures, and the identification of additional control measures.</p> <p>A description of the risk assessment framework used for potential and existing investments is included in the Investment Strategy Statement under "Risk and diversification of investments".</p> <p>The Committee reviews the Pension Fund's risk management schedule on a quarterly basis and the risk register on a semi-annual basis.</p>
Performance Assessment	<p>The performance of the Fund's investment managers is assessed on a regular basis, using data provided by State Street Investment Analytics, a specialist performance measurement organisation.</p> <p>Investments made by the Fund's investment managers are reviewed by the Committee on a quarterly basis.</p> <p>The internal and external fund managers have Fund-specific performance benchmarks that are reviewed on a regular basis. Peer group benchmarks are used for comparison purposes only.</p>
Responsible Ownership	<p>The Committee's policies on corporate governance, socially responsible investment, and shareholder voting are outlined in the Investment Strategy Statement.</p>
Transparency and Reporting	<p>The following core documents are published on the Pension Fund's website:</p> <ul style="list-style-type: none"> - Pension Fund Annual Report and Accounts. In addition, a summary is sent annually to all Members in a newsletter - Investment Strategy Statement - Governance Compliance Statement - Funding Strategy Statement - Statement of Compliance with the FRC UK Stewardship Code - Pension Committee Agendas and Minutes

scheme administration report

Administration

The administration function for the Fund and 321 Scheme employers is provided by the following teams:

- **The Member Services team** is responsible for the creation and maintenance of all member records. This includes calculating benefit entitlement for members leaving the scheme, both before and at retirement, dealing with incoming and outgoing transfer payments, and calculating benefits in respect of deceased members. The team also deal with annual and ad-hoc projects, for example loading and checking year end returns for all active scheme members and liaising with the Scheme employers to ensure accurate data is received and recorded.
- **The Systems and Web team** is responsible for the development of the Universal Pensions Management (UPM) system, providing technical IT support to the section as well as maintaining the digital communication platforms.
- **The Financial Control team** undertake routine and non-routine tasks and deal with monthly, quarterly, annual and triennial events. They also monitor, collect and reconcile payments required from Scheme employers in respect of employee and employer pension contributions, and rechargeable amounts due to the Fund. The team have responsibility for the payment of all the East Riding Pension Fund pensioners.

Our website (www.erpf.org) is a principal source of information for both scheme employers and members. Telephone numbers are quoted on all our letters which means our stakeholders can communicate verbally with the pension fund staff or visit our offices in person.

In September 2018 the Fund measured the scheme data so that this could be reported in the Pension Regulator (TPR) Scheme Return. The Fund is required to keep specific data on members and beneficiaries and is required to measure how much data is held and how accurate that data is. A score for both the common and scheme-specific data was reported based on a subset of member and beneficiary data. The results provided to TPR showed that 74% of scheme-specific and 90% of common data was present and accurate.

By measuring this data TPR can determine behaviours which contribute to schemes being well run, and encourage better record keeping. A data review process is in place which will enable the Fund to review member data at least once a year. Steps have been taken to improve member data including correcting the data identified as incorrect and implementing data verification checks into work processes.

Procurement of member tracing services has taken place to enable the fund to locate over 2,000 gone away deferred members whose current address is not currently held.

Since 1 April 2018, ERPF online services has been the primary method of communication between the Fund and its scheme employers. All scheme employers are now signed up to ERPF online services and significant development has been undertaken to utilise the automation and security of the system. ERPF online services is now embedded within employer administration processes and the ongoing development of ERPF online services has achieved further efficiencies in terms of data quality and administration time to cope with the increasing number of new scheme employers.

Every year all scheme employers are required to submit a year end return which includes member pay details to enable the Fund to issue annual benefit statements to members. The results for 2017/18 showed an improvement from the previous year with 96% of scheme employers in the Fund submitting their return before the deadline.

To ensure that scheme employers had a secure platform to transfer scheme member data, scheme employers were asked to submit their year end return via ERPF online services. This also allowed the Fund to implement a mandatory employer checklist which needed to be completed before the files could be uploaded and further validations carried out by the Fund resulted in an overall increase in data accuracy. Consequently, the annual benefit statements for 29,344 active members were delivered to home addresses by the deadline of 31 August 2018.

Throughout 2018/19, the Fund has been carrying out the Guaranteed Minimum Pension (GMP) reconciliation exercise which is a national project comparing the GMP information recorded at pension schemes with that held by Her Majesty

Revenue and Customs (HMRC). The reconciliation exercise aims to agree the contracted out liabilities held by the East Riding Pension Fund (the Fund) with those held by HMRC, to identify and resolve any discrepancies between the two sets of data, so that the Fund can be confident that the scheme records match HMRC records and that the correct level of pension is paid.

In total, 13,392 data comparison queries were sent to HMRC using their automated solution. Of these queries, 12,898 were responded to using the automated solution and a further 494 required further investigation by HMRC's clerical team. A closure report will be submitted by HMRC in 2019/20, once all queries submitted have been resolved. The next step will be for the Fund to carry out a GMP value analysis and, where the values differ, the GMP value provided by HMRC on the data file will be accepted by the Fund.

The Pension Administration Strategy (PAS), which sets out what scheme employers and the Fund should expect from one another when administering the scheme, includes a number of key performance indicators (KPIs), which are monitored on a quarterly basis. Throughout 2018/19 the Fund identified a number of employers who failed to meet the KPI requirements. Training sessions to help scheme employers improve their performance and understand their responsibilities were provided during 2018/19 along with a number of site visits to support employers. The PAS was approved by Pensions Committee on 29 September 2017 and following a statutory consultation with scheme employers came into force on 1 January 2018. A copy of the PAS can be found on page 41.

Staffing numbers in the Pensions section

There are 52 full time equivalent (FTE) posts in the Pensions section with 36 staff responsible for pensions administration work. This equates to a staff to fund member ratio of one FTE employee to 3,191 members, based on the total fund membership of 114,882.

The Fund continually reviews the administration structure to ensure that sufficient resources are in place within the teams to enable the section to continue to deliver on the increasingly challenging day to day work, whilst also having the scope to carry out essential data work and other important projects.

A dedicated training officer ensures that staff receive comprehensive training to ensure they are fully conversant with the UPM system and scheme regulations. Coaching and mentoring is provided to encourage succession planning.

Funding Strategy Statement and new employers

There are 321 Scheme employers in the Fund including 65 admitted bodies. In total the Fund has 13 ceased employers with no active members but with some outstanding liabilities, as shown in the table below:

	Active	Ceased	Total
Scheduled body	252	4	256
Admitted body	56	9	65
Total	308	13	321

During 2018/19, there were 47 new employers joining the Fund including 24 academies, four parish councils and one town council.

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

There were 18 new admitted bodies in the Fund and four of the bodies provided evidence of a strong covenant by having a guarantor agreement in place.

For the remaining 14 new admitted bodies, risk assessments were carried out to see if a bond was required and the following action was taken:

- bonds were put in place for 10 admitted bodies;
- pooling arrangements with the letting authority were agreed with one admitted body; and
- following audit and legal advice, the Fund agreed that no bond was required initially for three admitted bodies.

Communications

The communications policy was updated for 2018/19 to take account of the introduction of ERPF online services which provides a secure platform to exchange electronic communications such as administration forms. All scheme employers are now signed up to ERPF Online Services and since October 2018 notifications via paper and e-mail are not accepted. All scheme member notifications must come via ERPF Online Services. This has improved data security and allowed efficiencies to be realised via automation.

The following communication activity took place during 2018/19:

- 35,050 deferred members received an annual benefit statement;
- 29,344 active members received an annual benefit statement;
- 28,092 pensioner members received a combined P60/payslip newsletter;
- All members received a newsletter in August 2018 detailing the changes to the LGPS Regulations in May 2018;
- 4 individual meetings with new employers;
- 8 workshops/training sessions for ERPF online Services, employer administration and monthly data collection;
- Attendance at the National Communications Working Group;
- Employers Annual General Meeting;
- www.erpf.org.uk has been available as a resource for both scheme employers and scheme members;
- 15 pre-retirement workshops have been hosted via Affinity Connect; and
- The Fund's 2017-2018 Report and Accounts has been published via www.erpf.org.uk.

The scheme employer workshops and online learning is continuing to develop and establishing a strong scheme employer training programme will be a key aim of 2019-2020.

The Fund's communication methods and the ways in which the Fund engages with scheme members will play a significant role in ensuring the Fund's future success, retaining members in the LGPS, discouraging opt outs, and encouraging non-members to reconsider the benefits of the LGPS. The updated version of the communications policy was approved by Pensions Committee on 15 March 2019 and can be found on page 128.

Developments for 2019/20

Continuing its commitment to the provision of digital services, the Fund has procured a member self-service platform. ERPF member self-service (ERPFMSS) will enable members to view their pension data, update their personal information, perform calculations to aid retirement planning and retire online. The Fund will be developing a member engagement strategy to implement ERPFMSS which has a projected completion date of June 2020.

The Fund is close to completing all of the bespoke development needed within Monthly Data Collection (MDC) and has started a period of testing for each of the five key stages. The submission of payroll information by employers on a monthly basis instead of an annual basis will provide more up to date member data and help identify discrepancies between the Fund and Scheme employer records more quickly.

From 1 April 2019, the Fund will utilise the MDC software to collect the monthly contribution data from scheme employers using the integrated upload and validation process. This software will validate the data at the point of upload and automatically update the employer file with the total contributions paid and the breakdown of contribution type allowing the contribution data to be audited from the point of upload.

Audit

The administration of pensions is regarded as one of the Council's major financial systems and is reviewed on an annual basis. The findings from the internal audit report issued in February 2019 indicated a satisfactory level of assurance on the controls operated over the administration of pensions.

Internal Dispute Resolution Procedure

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

IDRP is a two stage process:

- Scheme employers and the Council as administering authority have to make decisions about a member's benefits under the rules of the LGPS. If for any reason a member is not happy about a decision that has been made, or not been made, about their LGPS membership or benefits, then members are encouraged to contact the Assistant Pensions Manager at the Fund who will seek to clarify or correct any misunderstandings or inaccuracies. If the member is still not happy, they can apply to the Fund to have their complaint reviewed under stage 1 of the IDRP. For complaints against the administering authority, the review under stage 1 is undertaken by another administering authority specified by the Council. This ensures that the stage 1 decision is independent of the Council. The member must apply for a review under stage 1 within 6 months of the date of the notification of the decision about which the member wishes to make a complaint.
- 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 dispute resolution team of The Pensions Advisory Service (TPAS), free of charge. The team helps members and beneficiaries of pension schemes with disputes that they cannot sort out through mediation.

Where the complaint or dispute cannot be resolved after the intervention of the dispute resolution team, the member has the right to refer their complaint to The Pensions Ombudsman (TPO), free of charge. There is no financial limit on the amount of money that TPO can make a party award the member. Its determinations are legally binding on all parties and are enforceable in court.

Contact with TPO about a complaint needs to be made within three years of when the event(s) the member is complaining about happened or, if later, within three years of when the member first knew about it (or ought to have known about it). There is a discretion for those time limits to be extended.

In 2018/19, there were two complaints which went to stage 2 against decisions made by the administering authority. Both complaints were upheld by the Pensions Manager at stage 2. There were five complaints which went to stage 2 against decisions made by Scheme employers under stage 1. Two complaints were dismissed by the Pensions Manager at stage 2 and three complaints were upheld and referred back to the Scheme employer for reconsideration.

Compliments

The Fund received 28 compliments from members and Scheme employers expressing their satisfaction with the level of service, expertise and quality of information provided by the pensions teams.

During 2018, the Fund undertook a Scheme employer satisfaction survey using an importance/satisfaction index. The results of this survey highlighted that Scheme employers were 78% satisfied with the service that the Fund provided and rated the use of electronic methods to do business as being of high importance.

Scheme Administration

Table 1: Key performance information (Target 90% of Fund KPI%)

Process	Fund KPI's	No. of cases completed	No. of cases completed within KPI	% No. of cases completed within KPI
Deaths - Initial letter acknowledgement death of active/deferred/pensioner member	5 Days	910	867	95.27%
Deaths - Letter notifying amount of dependant's benefit	5 Days	407	262	64.37%
Retirements - Letter notifying estimate of retirement benefits (include all retirement types: normal, ill health, early, late etc)	5 Days	1,883	1,375	73.02%
Retirements - Letter notifying actual of retirement benefits (include all retirement types: normal, ill health, early, late etc)	5 Days	1,339	708	52.88%
Deferment - calculate and notify deferred benefits	5 Days	766	708	92.43%
Transfers in - Letter detailing transfer in quote	10 Days	26	16	61.54%
Transfers out - Letter detailing transfer in quote	10 Days	303	147	48.51%
Refund - Process and pay a refund	5 Days	683	672	98.39%
Joiners - Send notification of joining the LGPS to scheme member	40 Days	4,130	3,950	95.64%

New Pensioners	
Type of Retirement	Number of Retirements
Ill Health	50
Early	1,342
Normal	713

Pension Administration Strategy

1. Aims and objectives

1.1. Introduction

The East Riding Pension Fund (ERPF) administers the Local Government Pension Scheme (LGPS) on behalf of 265 Scheme employers ranging from the four unitary councils to colleges, academies, housing associations and admitted bodies within the historic Humberside area. It provides pension administration to over 100,000 Scheme members who are either actively contributing, have deferred benefits or are currently receiving a pension from ERPF.

Legislative changes continue to challenge the LGPS with the introduction of the Career Average Revalued Earnings (CARE) scheme in 2014, the additional governance requirements from the introduction of Local Pension Boards (LPB) and the Pensions Regulator (tPR) and the national changes to contracting out and the state pension.

During this period it is essential to communicate effectively with Scheme members to explain the changes and reassure them of the scheme's stability and benefit structure. To achieve this it is vital that ERPF and the Scheme employers work closely together to provide a customer focused and professional service whilst continuing to increase efficiencies and value for money.

1.2. Purpose of the strategy

The purpose of this strategy is to set out the processes and procedures that both Scheme employers and ERPF will follow to ensure effective communication and transfer of information. It will define the roles of both parties to form a clear understanding and expectation of what will be delivered. The strategy will also set out the level of performance that is expected of each party and how this will be measured and reported. Lastly the strategy sets out how underperformance will be managed with Scheme employers.

1.3. Key objectives

The key objectives of the strategy are to ensure that:

- ERPF and Scheme employers are aware of and understand their responsibilities under the LGPS regulations;
- ERPF and Scheme employers are delivering their administrative functions;
- benefits are administered in line with the LGPS regulations;
- accurate records are maintained for calculating pensions and Scheme employer liabilities;
- standards for both ERPF and Scheme employers are set, monitored and published appropriately;
- an effective method of communication is in place between both ERPF and the Scheme employer and Scheme members;
- training is provided to ensure that both ERPF and Scheme employers have the necessary skills to perform their functions; and
- ERPF deliver an online administrative service for Scheme employers to improve security and efficiency.

2. Regulatory framework

2.1. The Regulations

ERPF have made this strategy under regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013. This regulation allows the administering authority to prepare a written statement on:

- procedures for liaison and communication with Scheme employers in relation to which it is the administering authority;

- the establishment of levels of performance which the administering authority and its scheme employers are expected to achieve in carrying out their Scheme functions by:
 - the setting of performance targets;
 - the making of agreements about levels of performance and associated matters; or
 - such other means as the administering authority considers appropriate.
- procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that Scheme employer's unsatisfactory performance in carrying out its Scheme functions when measured against the levels of performance established in Section five of the strategy; and
- the publication by the administering authority of annual reports dealing with the extent to which that authority and its Scheme employers have achieved the levels of performance established and such other matters that it considers appropriate.

2.2. Preparing and amending the strategy

In line with regulation 59 ERPF must consult with all Scheme employers when preparing or reviewing and making revisions to its pension administration strategy.

ERPF must publish:

- its pension administration strategy; and
- where revisions are made to it, the strategy as revised.

When the strategy is published and revised ERPF must send a copy to all of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

Both parties must have regard to the pension administration strategy when carrying out their functions under these Regulations.

3. Communication

3.1. How we communicate with our Scheme employers

To ensure that Scheme employers have the right support and information when providing information to ERPF we provide contact details for each area of the section. The current list of ERPF contact details can be found in appendix 1.

Contact details are provided for:

- Member maintenance team (MMT) – contact for queries regarding new joiners, early leavers, transfer of pensions and changes in Scheme member details;
- Retirements, estimates and deaths (RED) – contact for all queries regarding retirements, estimates and deaths;
- Training officer – contact for information on policies and training requests;
- Financial control team – (FCT) – contact for queries regarding monthly submission of contributions, contribution rates and FRS17/FRS102/IAS19;
- Internal disputes resolution procedure (IDRP) – contact for any complaints made under IDRP;
- Online services & website – contact for any queries on our online services or website; and
- Outsourcing/potential employers – contact if you are thinking of becoming a Scheme employer or outsourcing staff.

In addition to the above ERPF take a multi channel approach when communicating with Scheme employers. This is set out in the table below:

Resource	Delivered via	Frequency
Employer website	Dedicated area of www.erpf.org.uk with information designed specifically for Scheme employers	Constant
Employer bulletins	Bulletins to Scheme employers with important regulatory and procedural information	As and when required but at least 12 per year
New employer meetings	Designed for new Scheme employers entering the Fund or those taking back payroll/HR services in-house	As and when required
Employers guides	A set of Scheme employer guides that explain forms and processes needed to administer ERPF	Available on www.erpf.org.uk Emailed on request
Employer workshops	An opportunity for Scheme employers to cover new and/or complex topics in a workshop environment	As and when required but at least 4 per year
Employers annual meeting	An annual round up of scheme events and a presentation from the actuary explaining the valuation results if a valuation year	November
Annual Report & Accounts	Electronic	Available online at www.erfp.org.uk

3.3. Additional contacts

In addition to the three main contacts above Scheme employers are asked to nominate a contact for each of the following using the additional contacts form (appendix 3):

Over 12 Month Transfer Request

If a Scheme member has not transferred their pension within 12 months of joining ERPF they may ask you if the transfer can still go ahead, this is a Scheme employer's discretion. Please enter the person who will consider the requests within your organisation.

Internal Disputes Resolution Procedure (IDRP)

From time to time we receive complaints from Scheme members that are covered by IDRP, these complaints need investigating under strict timescales and you must follow the correct procedure. You should nominate someone within your organisation to deal with IDRP and enter their details here.

Supplier of the Year End Return

Scheme employers are responsible for submitting a year end return detailing Scheme member and Scheme employer contributions and the relevant pay information to allow ERPF to reconcile their pension contributions and to send Scheme members an annual benefit statement and pension savings statements where applicable. This submission must be made by the date set by the Fund for that Scheme year.

SS22a

With each year end return an SS22a must be submitted that balances the year end and the payments made within the year. This could be different from the person that submits your year-end return.

IAS19/FRS17/FRS102

You may need an IAS19/FRS17/FRS102 report for your accounts each year. Please supply the details of the person who will require this information.

SU18 Contact

When you submit your employee and employer contributions each month you should complete an SU18 form to go with your payment. Please provide the name of the person who will supply that form.

4. ERPF duties

4.1. Scheme administration

ERPF will administer the LGPS in line with the current LGPS regulations and with regard to any overriding legislation in force at the time.

The administration of the Scheme will take account of the statutory disclosure requirements and timescales.

4.2. Scheme responsibilities

- create a Scheme member record for all new employees admitted to the LGPS;
- collect and reconcile employer and employee contributions;
- maintain and update Scheme members records with any changes received by ERPF;
- at each triennial actuarial valuation ERPF will submit the required data in respect of each Scheme member and provide statistical information over the valuation period to the Fund Actuary so that he can determine the assets and liabilities for each Scheme employer;
- communicate the results of the triennial actuarial valuation to the Fund to each Scheme employer;
- provide every active, deferred and pension credit member with a benefit statement each year;
- provide an estimate of any associated cost of retirement on request by the Scheme employer;
- calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, Scheme members' options and statutory limits; and
- comply with HMRC legislation.

4.3. Making decisions

When ERPF make a decision regarding a Scheme member's benefits under the Scheme they will be notified of the decision within ten working days and informed of their right of appeal under IDRPF.

4.4. Discretions

Under the LGPS Regulations 2013 and the LGPS (Transitional provision, Savings and Amendment regulations) 2014, ERPF have a number of discretions and a policy must be published on how these will be exercised. This policy will be reviewed, amended and publicised in line with the above regulations. A copy of ERPF's discretions can be found here:

www.erpf.org.uk/library-and-information

4.5. IDRPF

ERPF will nominate an officer to act as the adjudicator at both Stage 1 and Stage 2 of the appeals procedure where the complaint is against ERPF.

ERPF will also nominate an officer to deal with Stage 2 complaints, where the Stage 1 appeal was made against the Scheme employer.

4.6. Performance levels

The following levels of performance will be measured within the Fund and reported to East Riding Pension Funds Local Pension Board (ERPFLPB) for review and will be published in the Annual Report and Accounts each year:

4.3. Making decisions

When ERPF make a decision regarding a Scheme member's benefits under the Scheme they will be notified of the decision within 10 working days and informed of their right of appeal under IDRPF.

Service Report	Target Measures
Death in Deferment - Acknowledgement	90% of acknowledgement letters to be sent within 5 working days on receipt of all information
Death in Deferment - Benefits Payable	90% of payments to be made within 5 working days following receipt of all information
Death in Service - Benefits Payable	90% of payments to be made within 5 working days following receipt of all information
Death on Retirement - Benefits Payable	90% of payments to be made within 5 working days following receipt of all information
Death on Retirement - Acknowledgement	90% of acknowledgement letters to be sent within 5 working days following receipt of all information
Death on Retirement Acknowledgement No Liability	90% of acknowledgement letters to be sent within 5 working days following receipt of all information
Death in Service - Acknowledgement	90% of acknowledgement letters to be sent within 5 working days following receipt of all information
Deferred Retirement	90% of vouchers to be processed for payment within 5 working days on receipt of all information
Retirement - Quote	90% of letters and options to be provided to member within 5 working days of commencing a calculation
Retirement - Actual	90% of vouchers to be processed for payment within 5 working days on receipt of all information
Member Estimate	90% of Estimate and letter to be sent within 10 working days of producing a calculation
Employer Estimate	90% of Estimates and letter to be sent within 10 working days of producing a calculation
Joiners	Welcome letter to be sent within 40 working days of receipt of all information
Refund Payments	90% of vouchers to be processed for payment within 5 working days on receipt of all information
Deferred Notification to Member	90% of notifications to member within 10 working days following receipt of all information
Transfer In Quotes	90% of quotes to be provided within 10 working days after receipt of all information
Transfer Out Quotes	90% of quotes to be provided within 10 working days after receipt of all information
Payroll Member Death - Calculate Under or Overpayment	Under or Overpayment to be calculated within 30 days

5. Scheme employer duties

5.1. Responsibilities

Scheme employers are responsible for ensuring that Scheme member and Scheme employer contributions are deducted at the correct rate, including any additional contributions and submitting data to allow the Fund to maintain Scheme member records and calculate benefits.

ERPF is not responsible for verifying the accuracy of any information provided by the Scheme employer for the purpose of calculating benefits under the provisions of the LGPS. That responsibility rests with the Scheme employer.

Any over payment of pension benefits as a result of inaccurate information being supplied by the Scheme employer shall be recovered from that Scheme employer.

In the event of ERPF being fined by tPR, this fine will be passed on to the relevant Scheme employer where that Scheme employer's actions or inaction caused the fine.

5.2. ERPF Online services

Scheme employers will administer the scheme using the ERPF Online services portal. This ensures security of data transferred between Scheme employers and the fund and gives Scheme employers access to Scheme member data and information. The main contacts as detailed in section 3.2 should authorise access for users by completing the user declaration form (appendix 4). An individual account and login will be created for use by the authorised user only. If the user no longer requires access to ERPF Online services it is the responsibility of all of the three main contacts to inform ERPF to cancel the account.

5.3. Discretionary powers

The Scheme employer is responsible for exercising the discretionary powers given to them within the regulations. The Scheme employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its Scheme members.

ERPF provide a standard template for discretionary policies which can be downloaded here:

www.erpf.org.uk/employers/employer-discretions

5.4. Scheme member contribution bands

Scheme employers are responsible for assessing and reassessing the contribution band that is allocated to a Scheme member. The Scheme employer must also inform the Scheme member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

5.5. Internal Disputes Resolution Procedure (IDRP)

Scheme employers must nominate an adjudicator to deal with appeals at Stage one of the IDRP where the dispute is against a decision the Scheme employer has made or is responsible for making. Scheme employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

5.6. Year-end submission

Scheme employers are responsible for submitting a year end return detailing Scheme member and Scheme employer contributions and the relevant pay information to allow ERPF to reconcile their pension contributions and to send Scheme members an annual benefit statement and pension savings statements where applicable. This submission must be made by 24 April.

5.7. Performance levels

The following levels of performance will be measured within the fund and will be reported to ERPFLPB for review and will be published in the Annual Report and Accounts each year:

Event for notification	Approved method of submission	Timescale for submission	Performance target
New member joins the scheme	ERPF Web New Starter Bulk interface (by arrangement)	Received within 3 weeks of the member joining the scheme	90% of new starter forms received within 3 weeks
Election to change scheme section (50/50 & main scheme)	ERPF Web 50-50	Received within 6 weeks of the member changing the scheme	90% of change of scheme elections notified within 6 weeks
Early leavers (non retirement)	ERPF Web Leaver Form	Received within 6 weeks of the members last day of scheme membership	90% of notifications received within 4 weeks of the last day of membership
Retirements	ERPF Web Notification of Retirement ERPF Web Leaver Form	ERPF Web Notification of retirement to be received 10 days before the active members retirement date ERPF Web Leaver Form to be received within 2 weeks of the members retirement date	100% of Notification of Retirement forms received 10 days before retirement date 90% of Web Leaver Forms received within 2 weeks of the members retirement date
Deaths	ERPF Web Leaver Form	Received within 10 days of the date the employer received notification of the death	100% of notifications received within 10 days of the date the employer received notification of the death
Year-end submission	Standard year-end template SS22a	Received by the date set by the Fund for each of the scheme years (31 March)	100% of returns received

6. Scheme employer payments

6.1. Payments by Scheme employers

Scheme employers will make all payments required under the LGPS regulations, and any related legislations, promptly to ERPF and /or its Additional Voluntary Contribution (AVC) provider, the Prudential, as appropriate.

6.2. Paying contributions

Member and Scheme employer contributions can be paid over at any time and must be accompanied by a SU18 form and monthly break down. The breakdown as a minimum must give details of all members, personal information such as NI Number and DOB, the employee and employer contributions paid and the member's relevant pay. The latest date contributions can be paid is the 19th day of the month following the month in which the deductions were made. Where the 19th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 19th.

6.3. Late payment

Scheme employers will be reported to tPR where contributions are received late in accordance with the Regulator's code of practice.

6.4. Payment method

Contributions (but not AVCs) should be paid to ERPF by BACs payment direct to ERPF's bank account.

6.5. Early retirement and Augmentation costs

All Scheme employer's early retirement costs will be paid by lump sum following the Scheme member's retirement.

All additional pension costs must be paid in full in one payment.

6.6. Interest on late payment

In accordance with the LGPS regulations interest will be charged on any amount overdue from an employing authority by more than one month.

6.7. Scheme employer contributions

In accordance with the LGPS regulations interest will be charged on any amount overdue from an employing authority by more than one month.

6.8. Actuarial Valuation

An actuarial valuation of the Fund is undertaken every three years by the Fund's actuary. The actuary balances the Fund's assets and liabilities in respect of each Scheme employer and assesses the appropriate contribution rate for each Scheme employer for the subsequent three years.

6.9. Administration charges

The cost of running ERPF is charged directly to the Fund and the Fund's actuary takes these costs into account in assessing Scheme employers' contribution rates.

7. Unsatisfactory performance

7.1. Measuring performance

ERPF

The performance of ERPF will be monitored on a monthly basis using the UPM Civica pensions system.

The statistics will be reported to ERPFLPB who will consider the performance of ERPF and decide on any action that needs to be taken.

The minutes of the ERPFLPB meetings are available at www.erpf.org.uk for Scheme employers to review.

Scheme employer's interests are represented on the ERPFLPB by three Scheme employer representatives.

All statistics will be published each year in the Fund's Annual Report and Accounts.

Scheme employers

The performance of Scheme employers will be monitored on a quarterly basis using the UPM Civica pensions system.

Where a Scheme employer is performing at a satisfactory level, no action will be taken and performance levels will not be published, although will be available for Scheme employers to review at their request.

7.2. Unsatisfactory performance

ERPF

If the performance of ERPF consistently falls below the standards outlined in this strategy ERPF will:

- prepare a report for the ERPFLPB to consider any action that needs to be taken;
- where necessary ERPF will self-report to tPR.

Scheme employers

ERPF will seek, at the earliest opportunity, to work closely with Scheme employers to identify any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

Where persistent and ongoing failure occurs and no improvement is demonstrated by a Scheme employer, and /or unwillingness is shown by the Scheme employer to resolve the identified issue, ERPF will take the following steps in line with the unsatisfactory performance procedure to resolve the situation in the first instance.

ERPF will contact the Scheme employer to discuss the reason for the unsatisfactory performance and an informal improvement plan will be put in place with a suitable deadline for review and improvement.

A letter will be sent to confirm agreement and outline the next steps of:

- improvement notice;
- administration charge;
- interest for late payment if applicable.

If the informal improvement notice is not successful ERPF will invite the Scheme employer to attend a formal improvement meeting and a further plan of improvement will be put in place with the Scheme employer. The details of this agreement will be sent as a formal improvement notice.

Where a Scheme employer declines to discuss performance issues a formal improvement notice will be sent and an administration charge will be made. In addition any outstanding interest payments due to late payment will be charged.

Where a formal improvement notice is not successful ERPF may:

- add the Scheme employer to the Fund's Risk Register;
- report the Scheme employer to tPR or Scheme Advisory Board; and
- escalate the case to the ERPFLPB/Pensions Committee.

During this time ERPF will continue to work with the Scheme employer to resolve any performance issues and an administrative charge will be made for all additional work due to unsatisfactory performance.

7.3. Circumstances where the administering authority may levy costs associated with an Scheme employer's poor performance

Regulation 70 of the LGPS 2013 Regulations provide that an administering authority may recover from an Scheme employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that Scheme employer. Whilst ERPF will only consider this as a last resort there may be some instances where a charge is applied, for example:

- in circumstances where the performance of the Scheme employer results in fines being levied on the ERPF by tPR, Pensions Ombudsman or other regulatory body, an amount up to the amount of that fine will be recharged to that Scheme employer. In addition, there will be an additional charge equal to any associated legal, actuarial and administrative costs ERPF has incurred as a result of the Scheme employer's action or failure; and
- where the improvement plan as outlined in the last section of this strategy is not being adhered to, the ERPFLPB may determine that any other additional costs will be recharged. In these circumstances the ERPFLPB will determine the amount to be recharged and how this is to be calculated. The Scheme employer in question will be provided with a copy of that report and will be entitled to attend the ERPFLB meeting when this matter is being considered.

8. Appendices

8.1. ERPF Contacts

8.2. Main Contacts form

8.3. Additional Contacts form

8.4. User declaration

report of the actuary

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2013.

Description of Funding Policy

The funding policy is set out in the East Riding of Yorkshire Council Funding Strategy Statement (FSS) dated March 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised 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 around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,714 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £512 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report, available on the Funds website.

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 2016 valuation were as follows:

Financial assumptions	31 March 2016
	% p.a.
Discount rate	4.0
Salary Increase Assumption	2.3
Benefit Increase Assumption (CPI)	2.1

* Consumer Prices Index ** Arithmetic addition *** Geometric addition

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on the assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	24.2 Years
Future Pensioners*	23.7 years	26.4 years

*Currently aged 45

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Riding of Yorkshire Council, the administering authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the three years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Douglas Green FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
18 April 2019

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 62 of the Local Government Pension Scheme 2013 and the most recent valuation was carried out as at 31 March 2016 and resulted in a funding level of 88.0% (2013 78.2%). The next triennial valuation is due as at 31 March 2019 and any change in employers' contribution rates as a result of that valuation will take effect from 1 April 2020.

The results of the 2013 and 2016 valuations are set out in the tables below:

	2013	2016
	£m	£m
Past Service Liabilities		
Employees	1,559	1,538
Deferred Pensioners	739	835
Pensioners	1,640	1,853
Total Past Service Liabilities	3,938	4,226
Assets	3,078	3,714
Deficit	-860	-512

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

The improvement in the funding position in the three years to 31 March 2016 is mainly due to strong investment performance over the period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth.

governance

Governance Policy Statement

East Riding of Yorkshire Council, as Administering Authority (and Scheme Manager) for the Local Government Pension Scheme is required by statute to publish a governance policy statement. The function of the Administering Authority is delegated to the Pensions Committee in accordance with the Constitution of the Council.

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

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.

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 Investment Strategy Statement 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.

The terms of reference for the Pensions Committee are included in the Constitution of the East Riding of Yorkshire Council which are available at www.eastriding.gov.uk.

East Riding Pension Fund Local Pension Board

The East Riding Pension Fund Pension Board is established under the provisions of Regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

The role of the Board includes:

- securing compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS;
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- ensuring the effective and efficient governance and administration of the Scheme, including the governance arrangements in respect of pooling; and
- such other matters as the LGPS Regulations may specify.

The Board meets three times a year and is made up of six members, three employer representatives and three scheme member representatives.

The terms of reference for the Board are available on the Pension Fund's website erpf.org.uk

This governance policy statement complies with Regulation 55 of the Local Government Pension Scheme Regulations 2013 and the guidance issued by the Secretary of State in 'Governance Compliance Statements Statutory Guidance – November 2008'.

The Governance Policy Statement was approved by the Pensions Committee on 16 March 2018, will take effect from 1 April 2018, and is reviewed on an annual basis.

East Riding Pension Fund Pension Board - Appendix 1

Terms Of Reference

1. Introduction

The purpose of this document is to set out the Terms of Reference for the Pension Board (the Board) of the East Riding Pension Fund.

2. Responsibility and Role of the Board

The responsibility of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (East Riding of Yorkshire Council) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:

- securing compliance with the LGPS Regulations and other legislation relating to the governance and administration of the LGPS;
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and,
- such other matters as the LGPS Regulations may specify.

The Administering Authority retains ultimate responsibility for the administration and governance of the scheme. The role of the Board is to support the Administering Authority to fulfil that responsibility and secure compliance with any requirements imposed by the Pensions Regulator.

In its role, the Board will have oversight of the administration and governance of the Fund including:

- the effectiveness of the decision making process;
- the direction of the Fund and its overall objectives;
- the level of transparency in the conduct of the Fund's activities; and,
- the administration of benefits and contributions.
- Subject to further details, the activity of the Board will include:
 - reviewing the Fund's governance and policy documents;
 - reviewing compliance with the Fund's governance and policy documents;
 - reviewing the administrative and investment performance of the Fund;
 - reviewing shareholder voting and engagement arrangements;
 - reviewing the Fund's Risk Register;
 - reviewing Audit and Assurance reports; and
 - reviewing the Fund's website.

3. Membership

The Board shall consist of six voting members and be constituted as follows:

- three Employer Representatives – Administering Authority (1), other scheme employers (i.e. organisations other than the Administering Authority who, under the Regulations, can participate in the LGPS) (2); and
- three Scheme Member Representatives – active members (1), pensioner members (1), active/pensioner or deferred member (1).
- Elected Members and Officers involved in the management and administration of the Fund are not permitted to become Board members.
- Members of the Board will serve for a term of three years following which they may either retire from the Board or seek nomination for an additional term. The term of office may otherwise come to an end:
 - for Scheme Member Representatives if they cease to be a member of the relevant group; and
 - for Employer Representatives who are councillors if they cease to hold office as a Councillor.

The Chair of the Board will be elected by the Board at its first meeting and will serve for a period of three years.

The Board may, with the approval of the Administering Authority, co-opt persons to advise and support them. Co-optees are not Board members and do not have voting rights. Due to the specialist knowledge and understanding required, Members will not be permitted to send substitutes to meetings when they are unable to attend themselves.

4. Appointment of Board Members

Three Employer Representatives:

- one Employer Representative will be a Councillor from East Riding of Yorkshire Council who is not a member of the Pensions Committee and will be selected by the Council having taken account of their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS; and
- two Employer Representatives to be nominated by the employer's forum – having demonstrated their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS. In the event of there being more than two nominations, the Scheme Manager will carry out a selection process.
- Three Scheme Member Representatives:

To be identified as follows: the Administering Authority shall contact all Scheme Members including unions and professional associations affiliated to the Authority advising them of the role, the necessary knowledge and understanding required and the process applying toward becoming a Board Member; individual Scheme Members may put themselves forward; there will then be a selection process carried out by the Scheme Manager to assess relevant experience, their capacity to represent scheme members and their knowledge and understanding of the LGPS.

Members in all categories will only be appointed to the Pension Board by the Administering Authority if they either meet the knowledge and skills requirements set out in the relevant regulations and guidance (see Section 9) or commit to do so within three months of the appointment date.

5. Meetings

The Board shall meet twice a year, at the Council's Offices in Goole during working hours.

An extraordinary meeting will be called when the Chair considers this necessary and/or in circumstances where the Chair receives a request in writing by 50% of the voting membership of the Board.

6. Quorum

A quorum will comprise three of the six members of which at least one shall be an Employer Representative and one a Scheme Member Representative.

7. Decision Making

Each Member of the Board will have an individual voting right but it is expected that the Board will, as far as possible, reach a consensus.

8. Standards of Conduct and Conflicts of Interest

The principles included in the East Riding of Yorkshire Council's Code of Conduct for Members will apply to all Members of the Board. The Code is set out in the Council's Constitution www2.eastriding.gov.uk/council/committees/the-council/council-constitution-political-control-and-councillor-information.

In accordance with s5(5) of the Public Service Pensions Act 2013, a Board Member must not have a financial or other interest that could prejudice them in carrying out their Board duties. Conflicts of interest shall be managed taking into account both the regulations set out in East Riding of Yorkshire Council's Constitution and the advice provided by the Pensions Regulator. This does not include a financial or other interest arising merely by virtue of being a member of the LGPS.

9. Knowledge and Skills

Following appointment, each Member of the Board should be conversant with:

- the legislation and associated guidance of the LGPS; and
- any document recording policy about the administration of the LGPS which is for the time being adopted by the Fund.

The Administering Authority will provide a training programme which all Board Members will be required to attend.

10. Accountability

The Board will refer all relevant recommendations and decisions to the Pensions Committee of the Administering Authority and, where appropriate to Full Council. It will present a report on its work each year within the Pension Fund's Annual Report and Accounts.

11. Publication of Pension Board Information

The Administering Authority will publish up to date information on the Council's website including:

- the names of the Board Member;
- the Board's Terms of Reference; and
- papers, agendas and minutes of Board meetings.

12. Data Protection

The Administering Authority is and remains the data controller responsible for Data Protection Act compliance.

13. Expense Reimbursement

Board Members will be reimbursed travel and subsistence costs in line with the Administering Authority's Members Allowance Scheme.

Pensions Committee as at 31 March 2019

Members	Number of meetings attended (max 8)
Councillor E Aird	7
Councillor I Billinger	8
Councillor B Birmingham	2
Councillor J Head	2
Councillor D Healy	7
Councillor J Holtby	8
Councillor R Meredith	8
Councillor C Mole	5
Councillor M Stathers	6
Councillor N Wilkinson	7
Councillor J Whittle (substitute for Head)	3
Councillor R Jump (substitute for Head)	1
Unitary Councillor Representatives	
Councillor I Glover (North Lincolnshire)	4
Councillor D Watson (North East Lincolnshire)	1
Councillor P Webster (Hull City)	0
Trade Union Observers	
C Burn (GMB)	1
P Foster (Unison) (left December 2018)	4
N Jadhav (Unison) (joined December 2018)	2
D Harding (UNITE)	2
R Weightman (UNITE)	4

Report of the Pensions Committee

The Pensions Committee is responsible for the administration of the East Riding Pension Fund in accordance with Statutory Regulations, under delegation contained in the Constitution of East Riding of Yorkshire Council. During the past year the Committee consisted of ten Members of East Riding of Yorkshire Council. In addition, a Member from each of the other three unitary Councils and four trade union representatives attend Committee meetings to ensure that the views of the other major employers and individual members of the scheme are taken into account.

The Committee met quarterly to consider investment reports from the Director of Corporate Resources, the external managers and the independent advisor. The Committee also met on four further occasions to consider pension administration issues and to receive training as part of the member training programme.

During the year the committee:

- Approved the Investment Strategy Statement (ISS) which sets out in detail how the Fund is managed and the Governance Policy Statement which sets out in detail how the Fund is governed;
- Approved the proposed amendments to the Fund's Communication Policy;
- Approved the Annual Report and Accounts 2017/18;
- Reviewed the management of the Fund and analysed the performance of the Fund and 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;
- Reviewed the audit and assurance reports of the Fund's investment managers and the global custodian;
- Reviewed the Fund's expenditure against budget for the 2017/18 financial year and approved the budget for the 2018/19 financial year;
- Reviewed the Fund's strategic risk register;
- Reviewed a number of the Fund's pension administration policies;
- Reviewed the Government Actuary Department's (GAD) Section 13 report with regards to the 2016 actuarial valuation;
- Received training as part of the Member training programme;
- Received a number of reports on the development of Border to Coast, the pool selected by the Pension Fund to meet its requirements of the Government's LGPS reform process; and
- Approved the legal documentation relating to the creation of Border to Coast.

For the year ended 31 March 2019, the Fund generated a return of 6.8%, compared to the strategic benchmark return of 6.4% and the Retail Price Index, which was 2.4% over the period. Significant capital appreciation in the majority of equity markets, the positive impact of currency depreciation on the sterling returns from overseas investments, and strong stock selection from the Fund's internal manager and Border to Coast in the majority of asset classes were the main contributors to performance.

Over the three years to 31 March 2019, the Fund has generated a return of 10.4% per annum, compared to the strategic benchmark return of 9.7% per annum and the long term investment objective of 6.0% per annum. Strong stock selection from the Fund's investment managers has been the main contributor to performance over this period.

The Government issued a consultation document in November 2015 which required LGPS funds to enter into pooling arrangements with other LGPS funds in order to generate economies of scale and facilitate investment in infrastructure. The Pension Fund is actively participating in the Border to Coast, a pool of 12 LGPS funds with c. £48bn in assets. Border to Coast became fully operational in July 2018 and is an alternative investment manager, authorised and regulated by the Financial Conduct Authority (FCA). It is wholly owned by the twelve LGPS administering authorities including East Riding of Yorkshire Council. During the year some £1.767bn of internally managed equities were successfully transitioned to Border to Coast. Other asset classes such as Alternatives and Fixed Income are expected to transition during the next

two years.

It is important to note that this only relates to the pooling of assets and the associated management arrangements. The Pensions Committee will still be responsible for determining the Pension Fund's strategic and tactical asset allocation and pension administration responsibilities will remain with East Riding of Yorkshire Council.

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

Councillor Richard Meredith (wef May 2019)

Councillor John Holtby (to May 2019)

Chair

2 September 2019

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 Interim Director of Corporate Resources 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 or external providers at the quarterly Pensions (Administration) Committee and Local Pension Board 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:

- **Overview of Equities, Fixed Income and Property;**
- **Responsible Investment and Environmental, Social and Governance factors;**
- **Employer performance;**
- **Demonstration of ERPF online services;**
- **Role of The Pensions Regulator; and**
- **Standards required for administering the LGPS.**

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 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 Interim Director of Corporate Resources can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

statement of responsibilities for the financial statements

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

a) The Administering Authority

The Administering Authority is East Riding of Yorkshire Council.

The Administering Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

b) The Head of Finance

The Head of Finance is responsible for the preparation of the Fund's Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (the Code).

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certificate

I hereby certify that the following accounts give a true and fair view of the financial position of the East Riding Pension Fund as at 31 March 2019 and its income and expenditure for the financial year then ended.

Julian Neilson
Section 151 Officer
31 July 2019
East Riding of Yorkshire Council
County Hall
Beverley, East Riding of Yorkshire, HU17 9BA

fund account, net assets statement and notes

Fund Account

2017/18	Dealings With Members and Employers	Note	2018/19
£000			£000
	Contributions		
256,939	Contributions receivable	G	119,882
9,927	Individual transfer values receivable		8,348
524	Group transfer values receivable		524
267,390			128,754
	Benefits		
-150,459	Benefits payable	H	-159,232
-15,814	Payments to and on account of leavers	I	-37,935
101,117	Net additions/withdrawals (-) from dealings with Members		-68,413
	Management expenses	J	
-6,350			-7,258
94,767	Net additions/withdrawals (-) including Fund Management Expenses		-75,671
	Returns on investments		
165,655	Investment income	K	134,724
-693	Taxes on income	L	-829
-8,546	Profit and losses (-) on disposal of investments and changes in the market value of investments	M	213,690
156,416	Net Return on Investments		347,585
251,183	Net increase in the net assets available for benefits during the year		271,914
	Net Assets of the Fund		
4,534,622	Opening net assets as at 1 April		4,785,805
251,183	Surplus on the pension fund for the year		271,914
4,785,805	Closing net assets as at 31 March		5,057,719

Net Assets Statement

31 March 2018		Note	31 March 2019
£000			£000
0	Long Term Investments	M	833
4,778,510	Investment Assets	M	5,056,306
4,778,510			5,057,139
-6,928	Investment Liabilities		-13,340
4,771,582	Total net investment		5,043,799
16,731	Current assets	N	15,475
4,788,313			5,059,274
-2,508	Current Liabilities	O	-1,555
4,785,805	Net assets of the scheme available to fund benefits at 31 March		5,057,719

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

The above Net Assets Statement should be read in conjunction with the Actuarial Certificate (page 50) and Funding Strategy Statement (page 89).

Notes to the Accounts

A Fund Status

The Fund is a funded defined benefits scheme.

B Audit of the East Riding Pension Fund Accounts

These accounts are subject to external audit.

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 2018/19 based on International Financial Reporting Standards, which requires that the Fund's Accounts comply with IAS 26 Accounting and Reporting by Retirement Benefit Plans, subject to the interpretations and adaptations detailed in the Code and the Statement of Recommended Practice on Financial Reports of Pension Schemes (the SORP).

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

The accounts have been prepared on a going concern basis.

2. Changes in Accounting Policies

2.1 Previously, the Code required the disclosure of an analysis of debtors and creditors across public sector organisations. This is no longer a requirement.

3. Income

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay. Any amounts due but not received are shown in the Net Asset Statement as a current asset;
- Employer contributions are set at the percentage rate recommended by the Fund Actuary for the period to which they relate.

Employers' pensions strain contributions are accounted for in the period in which liability arises. Employers' contributions are based on a percentage of employees' pensionable pay as recommended by the Actuary of the Fund in his valuation of 31 March 2016 effective from 1 April 2017. Further information regarding the Actuary's Report and Actuarial Valuation, as at 31 March 2016, effective from 1 April 2017, can be found on pages 50 to 53 of these accounts. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of scheme contributions set by the scheme Actuary or on receipt if earlier than the due date. Deficit funding payments are payable over a maximum of 20 years.

b) Transfer values receivable

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

c) Investment income

i. Dividend income

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

ii. Interest income

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

iii Stock Lending Income

Stock lending income is accounted for on an accrual basis and any outstanding amount is included in the Net Asset Statement as an investment asset.

iv. 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.

v. Movement in the net market value of investments

Changes in the net market value of investments, including all realised and unrealised profits/losses are shown as returns on investments.

vi. Currency conversion

Investment income received in overseas currency is converted at the appropriate exchange rate quoted in the Financial Times on the date of receipt.

4. Expenditure

a. Benefits payable

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

b. Transfer values payable

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

5. Expenses

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

6. Valuation of Assets

Investments are included in the Net Assets Statement at their fair value.

Investments made through the UK Stock Exchanges are valued at bid market price at the close of business on 31 March 2019. Investments made on overseas stock exchanges are valued at bid price or last trade price.

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

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

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

7. Future Liabilities

The Accounts summarise the transactions and net assets of the Fund and do not take into account liabilities to pay pensions and other benefits in the future. The adequacy of the Fund's investments and contributions in relation to its overall obligations is dealt with in the report by the Actuary on pages 50 to 52 of these accounts and should be read in conjunction with the report.

The Actuarial information disclosed on pages 50 to 53 complies with the accounting requirements of International Accounting Standard 19 Employee Benefits.

8. Taxation

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

9. Value Added Tax

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

10. Management Expenses

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

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

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

External manager Border to Coast fee is based on an agreed budget.

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

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

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

11. Currency Conversion Rates

Overseas investments have been converted at the exchange rate quoted in the Financial Times at close of business on 31 March 2019 to arrive at sterling values in the Net Asset Statement.

12. Additional Voluntary Contributions

An additional voluntary contribution (AVC) scheme is provided for members of 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 2016 see note U.

13. Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is based on the triennial valuation of the Fund by the Actuary, with liabilities at 31 March 2019 being projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the accounts, see note W.

14. Policy for Funding the Promised Retirement Benefits

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

Financial assumptions	31 March 2016
	% p.a.
Discount rate	4.0
Salary Increase Assumption	2.3
Benefit Increase Assumption (CPI)	2.1

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

	Females	Males
Current Pensioners	24.2 Years	21.7 years
Future Pensioners*	26.4 years	23.7 years

*Currently aged 45

15. Derivatives

The Pension Fund has entered into a series of derivative transactions which are designed to protect the value of the Fund's UK and US equity portfolios from a fall in market prices. This is managed by River and Mercantile and the basis of valuing the over the counter derivatives is the Black-Scholes model.

16. 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 62 of the Local Government Pension Scheme Regulations 2013 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 50 to 52.

17. Assumptions Made About the Future and Other Major Source of Estimation Uncertainty

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

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

Actuarial present value of promised retirement benefits

The calculation of the actuarial present value of promised retirement benefits is undertaken by the Actuary and is projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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. For example a 0.5% decrease in the discount rate used would result in an increase in the pension liability of 11%, equivalent to £767m, a 0.5% increase in the salary increase rate used would increase the value of liabilities by 2% or £116m, and a 0.5% increase in the pensions increase rate used would increase the pension liability by 9% or £604m. A one year increase in life expectancy would approximately increase the liabilities by around 3% to 5%.

Unquoted Investments

By definition these investments are not publicly quoted and the valuation depends on estimation techniques and non-marketable observable inputs. Unquoted investments are stated at market value where available, otherwise fair value is used. Unquoted investments are valued at £1.1bn in the financial statements and a 10% variance in the valuation risks these investments being under or overstated in the accounts by up to £11m.

18. Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed in the notes.

D Concentration of Investments

The Code require disclosure where there is a concentration of investment which exceeds 5% of the total value of the net assets of the scheme.

2017/18				2018/19		
Number of Units	Value £000	% of Net Assets		Number of Units	Value £000	% of Net Assets
28,868,024.470	343,667	7.2	Schroder North American Equity Fund	22,954,247.123	285,728	5.6
0.000	0	0.0	Border to Coast PE UK Listed Equity A	1,565,628,704.780	1,553,416	30.7

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 2019 stock lending income of £0.247m (2018 £0.550m) was raised against expenditure for the activity of £0.068m (2018 £0.162m). At 31 March 2019 the total value of securities on loan was £61.5m (2018 £200.7m) and are analysed by asset class as follows:

31 March 2018		31 March 2019
£000		£000
87,225	Equities - UK	0
83,857	UK Bonds - Public Sector	57,436
22,001	Equities - Overseas	58
7,650	Overseas Bonds - Public Sector	4,004
200,733		61,498

Against the stock on loan the Fund held collateral at 31 March 2019 of £63.4m (2018 £211.6m) analysed by asset class as follows:

31 March 2018		31 March 2019
£000		£000
93,815	Equities - UK	0
86,250	UK Bonds - Public Sector	59,239
23,459	Equities - Overseas	63
8,072	Overseas Bonds - Public Sector	4,087
211,596		63,389

F Derivatives

In June 2017 the Pension Fund entered into a contract with River and Mercantile to manage a derivatives portfolio. A derivative, which is a permitted investment under the LGPS Investment Regulations, is a contract between two or more parties whose value is derived from the performance of an underlying financial asset, for example an equity index such as FTSE 100 index. Derivatives can be used for a number of purposes, including the issuing against price movements i.e. hedging, increasing exposure to expected price movements, or getting access to otherwise hard to trade assets or markets.

In a simple form the contract that the Fund has entered into will generate a return based on the current value of the index plus any increase in that index up to a certain point, irrespective of the actual value at the end of the contract term. The duration of the contract is between 2.75 and 3.25 years.

Equities continue to be the largest asset class in the Pension Fund and as such the Fund needs to generate a suitable rate of return from the equity portfolio, over the long term, in order to meet the investment rate of return required to fund its liabilities. The long term total return from UK equities has been c9% however, the return profile has been very volatile with the potential for significant drawdowns in any one year. Therefore it was agreed in 2016 to implement an equity protection product to protect a proportion of the UK and US equity portfolios from an equity market correction whilst continuing to participate in some of the upside. However, there is obviously a cost to protecting the downside but this can be offset by sacrificing the upside potential beyond a certain point.

The movement in the value of the derivative can be seen in note m, Reconciliation of Movements in Investments. At 31 March 2019 the value of the derivative holding was as follows:

Equity Option				
Value at 31 March 2018	Counterparty	Maturity Date	Notional	Value at 31 March 2019
£000				£000
2,615	Barclays	16 June 2020	£125m	1,935
2,833	Goldman Sachs	20 July 2020	£125m	2,089
1,150	Investec	20 July 2020	£50m	800
-4,174	Investec	10 August 2020	\$130m	-5,495
2,424				-671
Collateral				
58,975		UK Bonds		59,572
6,000		Cash		6,000
64,975				65,572
67,399				64,901

G Contributions Receivable

2017/18		2018/19	
£000		£000	£000
65,613	Employers - Normal	71,575	
154,496	Employers - Deficit Recovery	11,588	83,163
36,830	Employees		36,719
256,939			119,882
	From		
74,379	Administering Authority		16,248
173,257	Schedule 2 Employers		94,261
9,303	Admitted Bodies		9,373
256,939			119,882

Contributions relating to deficit funding payments amounted to £11.592m (2018 £155.443m) during the year.

H Benefits Payable

2017/18		2018/19
£000		£000
119,510	Pensions	126,515
27,373	Commutations, compounded and lump sum retirement benefits	29,023
3,576	Lump sum death benefits	3,694
150,459		159,232
	Paid to	
26,536	Administering Authority	27,496
112,471	Scheme Employers	120,218
11,452	Transferee Admission Bodies	11,518
150,459		159,232

I Payments to and on account of leavers

2017/18		2018/19
£000		£000
398	Refunds to members leaving service	452
15,416	Individual transfer values payable	11,565
0	Group transfer values payable	25,918
15,814		37,935

J Pension, Investment Management and Oversight and Governance Expenses

2017/18		2018/19
£000		£000
1,796	Pension Administration Expenses	1,629
3,919	Investment Management Expenses	4,991
635	Oversight and Governance	638
6,350		7,258

Of the Investment Management expenses in 2018/19, a total of £0.087m was in respect of performance related fees paid to the Fund's internal investment manager (2017/18 £0.061m).

Of the Oversight and Governance expenses in 2018/19, the external audit fee payable to Mazars LLP is £0.033m (2017/18 £0.032m).

Externally managed funds are managed by Schroder Investment Management Ltd and Border to Coast.

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

K Investment Income

2017/18		2018/19
£000		£000
	Bonds	
2,239	United Kingdom	2,232
1,828	Overseas	1,720
748	Corporate	901
1,362	Multi Asset Credit - quoted	1,446
9,791	Multi Asset Credit - unquoted	15,235
15,968		21,534
	Index Linked	
12	United Kingdom	13
21	Overseas	32
53	Corporate Bonds	58
86		103
	Equities	
48,574	United Kingdom	16,872
11,948	Overseas	11,279
60,522		28,151
	Managed Funds	
31,056	Equities	38,974
5,161	Property - quoted	7,757
17,238	Property - unquoted	10,695
8,464	Private equity - quoted	1,642
233	Private equity - unquoted	2,805
2,114	Infrastructure - quoted	2,639
4,115	Infrastructure - unquoted	5,130
3,909	Other investments - quoted	4,574
4,689	Other investments - unquoted	4,700
76,979		78,916
709	Derivatives	934
10,038	Accrued Interest on Ex-dividend Investments	3,962
164,302		133,600
10	Underwriting	12
-192	Currency Loss (-)/Gain	-393
550	Stock Lending	248
985	Cash Deposits	1,257
1,353		1,124
165,655	Grand Total	134,724

L Taxes on Income

2017/18		2018/19
£000		£000
	Withholding Tax	
693	Overseas Equities	829
693		829

M Reconciliation of Movements in Investments

2018/19	Value at 01/04/18	Reclassified 01/04/18	Restated Value 01/04/18	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2019
Investment Assets	£000	£000	£000	£000	£000	£000	£000
Bonds							
UK - Public Sector	125,491	0	125,491	1,834	0	2,375	129,700
UK - Other Quoted	59,254	0	59,254	0	0	-77	59,177
Overseas - Public Sector	67,240	0	67,240	0	0	3,612	70,852
Overseas - Corporate	43,102	0	43,102	0	0	3,181	46,283
Multi Asset Credit - quoted	70,217	0	70,217	0	0	3,873	74,090
Multi Asset Credit - unquoted	197,246	0	197,246	69,812	-34,348	1,007	233,717
	562,550	0	562,550	71,646	-34,348	13,971	613,819
Equities							
UK	1,411,721	0	1,411,721	3,874	-1,487,798	108,311	36,108
BCPP Share Capital	0	0	0	833	0	0	833
Overseas	507,856	0	507,856	382,397	-465,038	-13,665	411,550
	1,919,577	0	1,919,577	387,104	-1,952,836	94,646	448,491
Derivatives							
UK Treasury	58,975	0	58,975	1,138	0	-541	59,572
Cash	6,000	0	6,000	0	0	0	6,000
Derivatives Option	2,424	0	2,424	0	0	-3,095	-671
	67,399	0	67,399	1,138	0	-3,636	64,901
Index-Linked Bonds							
UK - Public Sector	15,294	0	15,294	0	0	967	16,261
UK Corporate	6,702	0	6,702	0	0	354	7,056
Overseas - Public Sector	11,888	0	11,888	0	0	1,294	13,182
	33,884	0	33,884	0	0	2,615	36,499
Pooled Investment Vehicles							
Managed Funds	885,484	0	885,484	1,805,415	-260,081	26,097	2,456,915
Property - Quoted	159,656	0	159,656	13,001	0	3,033	175,690
Property - Unquoted	384,242	0	384,242	63,372	-60,623	17,922	404,913
Private Equity - Quoted	97,700	0	97,700	0	-1,938	11,196	106,958
Private Equity - Unquoted	122,154	0	122,154	37,689	-33,928	13,207	139,122
Infrastructure - Quoted	41,542	0	41,542	15,315	-8,421	6,217	54,653
Infrastructure - Unquoted	152,610	0	152,610	28,978	-23,901	18,620	176,307
Other Investments - Quoted	71,497	0	71,497	10,641	-2,876	-3,338	75,924
Other Investments - Unquoted	132,503	0	132,503	32,038	-47,877	13,049	129,713
	2,047,388	0	2,047,388	2,006,449	-439,645	106,003	3,720,195
	4,630,798	0	4,630,798	2,466,337	-2,426,829	213,599	4,883,905
Current Assets							
Sterling	116,334	0	116,334	685,219	-667,300	0	134,253
Euros	382	0	382	10,628	-9,049	1	1,962
US Dollar	1,092	0	1,092	17,148	-18,187	90	143
	117,808	0	117,808	712,995	-694,536	91	136,358
	4,748,606	0	4,748,606	3,179,332	-3,121,365	213,690	5,020,263

Net Gains and Losses on Financial Instruments

All net gains and losses on financial instruments are fair value through profit and loss.

Reconciliation to Net Asset Statement

	2018/19
	£000
Net Asset Statement	
Long term Investments	833
Investment Assets	5,056,306
	5,057,139
Net Asset Statement	
Cash	-155,171
Other Investment balances	-12,568
Investment Liability	-5,495
Value 31/03/19 Reconciliation of Movements in Investments	4,883,905

Further Analysis of Multi Asset Credit, Derivatives Option and Managed Funds

	Value at 01/04/2018			Value at 31/03/2019		
	UK	Overseas	Total	UK	Overseas	Total
	£000	£000	£000	£000	£000	£000
Multi Asset Credit - quoted	27,436	42,781	70,217	26,428	47,662	74,090
Multi Asset Credit - unquoted	54,788	142,458	197,246	72,147	161,570	233,717
Derivatives Option	6,598	-4,174	2,424	4,824	-5,495	-671
Managed Funds	277,436	608,048	885,484	1,940,470	516,445	2,456,915

Derivatives - Two UK Treasury bonds 1.5% 22 July 2047 totalling £1.834m were purchased during the financial year.

2017/18	Value at 01/04/2017	Reclassified 01/04/17	Restated Value 01/04/17	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2018
Investment Assets	£000	£000	£000	£000	£000	£000	£000
Bonds							
UK - Public Sector	122,066	0	122,066	14,188	-8,520	-2,243	125,491
UK - Other Quoted	54,113	0	54,113	14,054	-8,567	-346	59,254
Overseas - Public Sector	74,990	0	74,990	2,293	-5,311	-4,732	67,240
Overseas - Corporate	45,198	0	45,198	17,448	-15,267	-4,277	43,102
Multi Asset Credit - quoted	0	74,275	74,275	0	0	-4,058	70,217
Multi Asset Credit - unquoted	0	142,710	142,710	72,322	-17,038	-748	197,246
Global High Yield - quoted	45,235	-45,235	0	0	0	0	0
Global High Yield - unquoted	88,676	-88,676	0	0	0	0	0
Emerging Market Government	14,259	-14,259	0	0	0	0	0
	444,537	68,815	513,352	120,305	-54,703	-16,404	562,550
Equities							
UK	1,421,788	0	1,421,788	24,186	-7,182	-27,071	1,411,721
Overseas	473,485	0	473,485	156,182	-151,479	29,668	507,856
	1,895,273	0	1,895,273	180,368	-158,661	2,597	1,919,577
Derivatives							
UK Treasury	0	0	0	60,709	0	-1,734	58,975
Cash	0	0	0	6,000	0	0	6,000
Derivatives Option	0	0	0	0	0	2,424	2,424
	0	0	0	66,709	0	690	67,399
Index-Linked Bonds							
UK - Public Sector	18,580	0	18,580	0	-3,371	85	15,294
UK Corporate	4,865	0	4,865	1,955	0	-118	6,702
Overseas - Public Sector	11,032	0	11,032	7,453	-5,182	-1,415	11,888
	34,477	0	34,477	9,408	-8,553	-1,448	33,884
Pooled Investment Vehicles							
Managed Funds	848,194	0	848,194	19,788	0	17,502	885,484
Property - Quoted	109,546	0	109,546	68,655	-7,672	-10,873	159,656
Property - Unquoted	389,921	0	389,921	53,994	-64,161	4,488	384,242
Private Equity - Quoted	97,921	0	97,921	501	-3,626	2,904	97,700
Private Equity - Unquoted	106,207	0	106,207	33,692	-22,819	5,074	122,154
Infrastructure - Quoted	42,178	0	42,178	3,171	0	-3,807	41,542
Infrastructure - Unquoted	122,987	0	122,987	33,134	-8,846	5,335	152,610
Other Investments - Quoted	81,536	-14,781	66,755	14,900	-7,696	-2,462	71,497
Other Investments - Unquoted	202,831	-54,034	148,797	42,213	-46,360	-12,147	132,503
	2,001,321	-68,815	1,932,506	270,048	-161,180	6,014	2,047,388
	4,375,608	0	4,375,608	646,838	-383,097	-8,551	4,630,798
Current Assets							
Sterling	122,623	0	122,623	808,732	-815,021	0	116,334
Euros	6	0	6	10,594	-10,181	-37	382
US Dollar	0	0	0	28,792	-27,742	42	1,092
	122,629	0	122,629	848,118	-852,944	5	117,808
	4,498,237	0	4,498,237	1,494,956	-1,236,041	-8,546	4,748,606

N Current Assets

31 March 2018		31 March 2019
£000		£000
5,402	Contributions due - Employers	5,242
2,018	Contributions due - Employees	2,165
719	Recharge of Pensions increase and supplementary allowance	864
6,786	East Riding of Yorkshire Council	4,642
1,806	Other Debtors	2,562
16,731		15,475

O Current Liabilities

31 March 2018		31 March 2019
£000		£000
1,116	East Riding of Yorkshire Council	118
860	Overclaim of Recharges	671
532	Other creditors	766
2,508		1,555

P Managerial Arrangements of Assets

31 March 2018			31 March 2019	
£000	%		£000	%
3,687,409	77	Internally managed	2,197,382	43
1,098,396	23	Externally managed (Schroder Investment Management Limited)	1,092,977	22
0	0	Externally managed (Border to Coast Pensions Partnership)	1,767,360	35
4,785,805	100		5,057,719	100

Q Contingent Liabilities and Contractual Commitments

At 31 March 2019 the Fund had commitments to the purchase of investments of £570.653m (2018 £506.080m) analysed as follows:

2017/18			2018/19	
Foreign Currency	£000		Foreign Currency	£000
£000	200,771	Sterling Denominated (£)	£000	211,374
294,553	209,975	US Dollar Denominated (\$)	296,180	226,316
108,738	95,334	Euro Denominated (€)	154,304	132,963
	506,080			570,653

In two separate Employment Tribunal cases involving members of the Judiciary and Firefighter pensions' schemes, there are appeals in respect of possible age discrimination in the transitional arrangements to new pension schemes. HM Government is appealing in both cases and it is unclear what the impact of any decision will be on similar transitional arrangements across public sector pension schemes. The Local Government Pension Scheme (LGPS) have commissioned the Government Actuarial Department (GAD) to prepare an assessment of the potential impact on a LGPS scheme wide basis. Initial estimates place the potential impact in the region of ½% to 1% of total liabilities.

R Members Allowances

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

S Related Party Transactions

In accordance with International Accounting Standard (IAS) 24 and International Public Sector Accounting Standard (IPSAS) 20 'Related Party Disclosures', material transactions with related parties not disclosed elsewhere are detailed below.

- The officer responsible for the proper administration of the financial affairs of the East Riding Pension Fund (the Section 151 officer) is also the Section 151 officer 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 £7.2580m (2018 £6.350m) comprising pensions administration costs of £1.629m (2018 £1.796m), investment management costs of £4.991m (2018 £3.919m) and oversight and governance costs of £0.638m (2018 £0.635m). 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 £16.160m to the Fund (2018 £74.036m). £9.269m of this total sum is in respect of contributions paid by members of the Pension Fund. As at 31 March 2019 the Council was a net debtor to the Fund of £4.524m (2018 £5.782m).
- Under legislation introduced in 2003/04, Councillors were entitled to join the Pension Scheme. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 removed this entitlement for Councillors from the later of 1 April 2014 or the end of their current term in office (or to age 75 if earlier). Therefore, no members of the Pension Committee made contributions to the Fund during the financial year in their member capacity.
- 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. The charge to the Pension Fund for these two posts in 2018/19 was £41,463.

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 2019 to arrive at the sterling values in the Net Assets Statement.

The exchange rates used per £1 sterling were:

Australian Dollar	1.8344
Canadian Dollar	1.7408
Danish Krone	8.6635
Euro	1.1605
Japanese Yen	144.2281
New Zealand Dollar	1.9106
Norwegian Krona	11.2213
Swedish Krona	12.0862
Swiss Franc	1.2977
US Dollar	1.3031

U Additional Voluntary Contributions

The Fund's approved Additional Voluntary Contribution (AVC) provider is Prudential and during the year to 31 March 2019 scheme members made contributions to this facility of £1.866m (2018 £1.584m). The total value of the funds invested by Prudential on behalf of members of the East Riding Pension Fund at 31 March 2019 is £18.609m (2018 £19.095m).

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 2016.

V Investment Strategy Statement

The East Riding Pension Fund is required to maintain an Investment Strategy Statement (ISS) in accordance with the LGPS Regulations. Full details of the ISS for the Fund are set out within the East Riding Pension Fund Annual Report and Accounts. The Pensions Committee approved the ISS at its meeting on 16 March 2018, and it complies with the LGPS Regulations.

The Fund is also required to maintain a Funding Strategy Statement (FSS) in accordance with the LGPS Regulations. The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 31 March 2017. The FSS, which was approved by the Pensions Committee at its meeting on 16 March 2018, complies with these Regulations.

In preparing the ISS and the FSS, the Pensions Committee has taken professional advice from its advisers 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.

The investment managers and the investment advisers are required to adhere to the principles set out in the ISS. The Pensions Committee requires an annual, written statement from its investment managers confirming that they have adhered to the principles set out in the statement.

The ISS of the Fund is reviewed by the Pensions Committee on an annual basis.

W The Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits at 31 March 2019 was £7.096bn (31 March 2018 £6.264bn). The value includes an allowance for the 'McCloud ruling', i.e. an estimate of the potential increase in past service benefits from this case affecting public sector pension schemes. Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The actuarial valuation carried out as at 31 March 2016 revealed that the Fund's assets valued at £3.714bn were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £512m. The assumptions made by the Actuary can be found on page 68 note 17. Significant actuarial assumptions are shown below:

Year ended	31 March 2019	31 March 2018
	% p.a.	% p.a.
Pension Increase Rate	2.5	2.4
Salary Increase Rate	2.7	2.6
Discount Rate	2.4	2.7

X Disclosures Relating to Financial Instruments

The accounting standards for financial instruments have changed between financial years. In 2017/18 the accounting standard was International Accounting Standard 39 (IAS39) and in 2018/19 the accounting standard is International Financial Reporting Standard 9. The change in accounting standards has not changed the treatment of the Fund's financial instruments, but financial assets classified as loans and receivables under IAS39 are classified as financial instruments at amortised cost under IFRS9.

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

31 March 2018		31 March 2019
£000		£000
	Financial Assets at fair value through profit or loss	
562,550	Bonds	613,819
1,919,577	Equities	447,658
33,884	Index-Linked Securities	36,499
2,047,388	Pooled Investment Vehicles	3,720,195
71,573	Derivatives	70,396
1,474	Foreign Currency	3,739
13,808	Other Investment Balances	12,568
4,650,254	Total Financial Assets at Fair Value Through Profit or Loss	4,904,874
0	Long term investments	833
4,650,254	Total Financial Assets	4,905,707
	Financial Assets at Amortised Cost	
128,256	Cash Deposits - Sterling	151,432
16,731	Current Assets	15,475
144,987	Total Financial Assets at Amortised Cost	166,907
	Financial Liabilities at fair value through profit or loss	
-6,928	Other Investment Balances	-13,340
	Financial Liabilities at Amortised Cost	
-2,508	Current liabilities	-1,555
4,785,805	Net Financial Assets	5,057,719

NB Financial Assets at Amortised Cost entitled Loans and Receivables in 2017/18 financial statements.

The methodology used for the valuation of investment assets is described in Note to the Accounts 6 Valuation of Assets.

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 in relation to its financial assets 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 Investment Strategy Statement 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 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 2016 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.

The Fund has determined that the following movements in market price risk are possible for the 2018/19 reporting period:

Asset Type	Potential market movements (+/-) %
Bonds	3.1
Index Linked Bonds	8.0
UK Equities	9.5
Overseas Equities	10.1
Pooled property investments	1.5
Other Pooled Investments	2.8
Private Equity	2.8
Cash	0.6

Had the market price of the fund investments increased or decreased in line with the above, the change in the net assets available to fund benefits would have been as follows:

Asset Type	Value as at 31 March 2019	Value on Increase	Value on Decrease
	£000	£000	£000
Bonds	673,391	694,266	652,516
Index Linked Bonds	36,499	39,419	33,579
UK Equities	36,270	39,716	32,824
Overseas Equities	411,550	453,117	369,983
Pooled property investments	580,603	589,312	571,894
Other Pooled Investments	2,893,512	2,974,530	2,812,494
Private Equity	246,080	252,970	239,190
Cash	161,171	162,138	160,204
TOTAL	5,039,076	5,205,468	4,872,684

Asset Type	Value as at 31 March 2018	Value on Increase	Value on Decrease
	£000	£000	£000
Bonds	621,525	645,143	597,907
Index Linked Bonds	33,884	36,527	31,241
UK Equities	1,418,319	1,554,478	1,282,160
Overseas Equities	507,856	559,657	456,055
Pooled property investments	543,898	554,232	533,564
Other Pooled Investments	1,283,636	1,320,861	1,246,411
Private Equity	219,854	226,230	213,478
Cash	135,730	136,680	134,780
TOTAL	4,764,702	5,033,808	4,495,596

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. Products classified as level 1 include quoted equities.
- Level 2 – Level 2 valuations are those where quoted market prices are not available. Products 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. Products classified as level 3 include unquoted investments.

31 March 2018					31 March 2019			
Level 1 £000	Level 2 £000	Level 3 £000	TOTAL £000		Level 1 £000	Level 2 £000	Level 3 £000	TOTAL £000
2,356,422	1,386,301	907,531	4,650,254	Financial Assets	2,903,226	958,151	1,022,023	4,883,400
144,987	0	0	144,987	Financial Assets at amortised cost	189,214	0	0	189,214
2,501,409	1,386,301	907,531	4,795,241	TOTAL	3,092,440	958,151	1,022,023	5,072,614
9,436	0	0	9,436	Financial Liabilities	14,895	0	0	14,895
9,436	0	0	9,436		14,895	0	0	14,895
2,491,973	1,386,301	907,531	4,785,805	TOTAL	3,077,545	958,151	1,022,023	5,057,719

Level 3 Analysis				
Value at 01/04/18 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/19 £000
907,531	231,889	-200,677	83,280	1,022,023

Level 3 Analysis				
Value at 01/04/17 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/18 £000
830,258	236,255	-159,224	242	907,531

The main characteristic of Level 3 assets is the absence of any observable market data. The inputs used to determine the fair value of Level 3 assets includes audited and unaudited financial information from the underlying investment managers.

No investment assets transferred between the levels of fair value hierarchy during the year.

The table below shows the effect of potential market movements on those assets classified at Level 3.

	Value at 31/03/19	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£000	%	£000	£000
Multi Asset Credit	233,717	3.1	240,962	226,472
Property	351,537	1.5	356,810	346,264
Private Equity	139,122	2.8	143,017	135,227
Infrastructure	176,307	2.8	181,244	171,370
Other	121,340	2.8	124,738	117,942
	1,022,023		1,046,770	997,275

	Value at 31/03/18	Potential market movements (+/-)	Potential value on increase	Potential value on decrease
	£000	%	£000	£000
Multi Asset Credit	197,246	3.8	204,741	189,751
Property	303,018	1.9	308,775	297,261
Private Equity	122,154	2.9	125,696	118,612
Infrastructure	152,610	2.9	157,036	148,184
Other	132,503	2.9	136,346	128,660
	907,531		932,594	882,468

Credit risk

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

31 March 2018		31 March 2019	
Actual £000		Maximum Limit £000	Actual £000
0	UK Government	No Limit	0
22,000	Institutions or Funds with a minimum rating of AAA/A2	25,000	25,000
15,000	Institutions with a minimum rating of AA/A2	20,000	15,000
5,000	Institutions with a minimum rating of A/A2	15,000	15,000
10,000	Local Authorities	10,000	10,000
5,000	Building Societies - top 15 ranked by asset value	10,000	0

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

31 March 2018		31 March 2019
£000		£000
0	UK Government	0
41,287	Institutions or Funds with a minimum rating of AAA/A2	52,153
35,000	Institutions with a minimum rating of AA/A2	15,000
3,521	Institutions with a minimum rating of A/A2	54,205
33,000	Local Authorities	15,000
5,000	Building Societies - top 15 ranked by asset value	0
117,808		136,358

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. The accounts do not take into account liabilities to pay pensions and other benefits.

The table below profiles investment assets by maturity date, however it should be noted that those investments in the 1 - 5 years and more than 5 years categories, i.e. bonds, can be liquidated at any given time.

As at 31 March 2019	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash	45,000	25,000	0	0	91,171	161,171
Investments	0	0	134,986	267,097	4,481,317	4,883,400
Other investment balances	12,568	0	0	0	0	12,568
Current assets	15,475	0	0	0	0	15,475
Total assets	73,043	25,000	134,986	267,097	4,572,488	5,072,614
Liabilities						
Other investment balances	13,340	0	0	0	0	13,340
Current liabilities	1,555	0	0	0	0	1,555
Total liabilities	14,895	0	0	0	0	14,895
Liquidity Surplus	58,148	25,000	134,986	267,097	4,572,488	5,057,719

As at 31 March 2018	Not more than 3 months	3 - 12 months	1 - 5 years	More than 5 years	No specific maturity	Total
	£000	£000	£000	£000	£000	£000
Assets						
Cash	46,000	30,000	0	0	53,730	129,730
Investments	0	0	99,674	285,850	4,249,448	4,634,972
Other investment balances	13,808	0	0	0	0	13,808
Current assets	16,731	0	0	0	0	16,731
Total assets	76,539	30,000	99,674	285,850	4,303,178	4,795,241
Liabilities						
Other investment balances	6,928	0	0	0	0	6,928
Current liabilities	2,508	0	0	0	0	2,508
Total liabilities	9,436	0	0	0	0	9,436
Liquidity gap	67,103	30,000	99,674	285,850	4,303,178	4,785,805

Interest rate risk

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

31 March 2018		31 March 2019
£000		£000
	Asset Type	
41,808	Cash and cash equivalents	75,327
596,434	Fixed interest securities	650,318
638,242		725,645

The table below shows the impact on income exposed to interest rate changes of + / - 100 basis points in interest rates:

Assets exposed to interest rate risk	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	75,327	753	76,080	74,574
Bonds	650,318	6,503	656,821	643,815
TOTAL	725,645	7,256	732,901	718,389

Assets exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	41,808	418	42,226	41,390
Bonds	596,434	5,964	602,398	590,470
TOTAL	638,242	6,382	644,624	631,860

The table below shows the impact on income exposed to interest rate changes of + / - 100 basis points change in interest rates:

Income exposed to interest rate risk	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	1,257	13	1,270	1,244
Bonds	21,637	216	21,853	21,421
TOTAL	22,894	229	23,123	22,665

Income exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and cash equivalents	985	10	995	975
Bonds	16,054	161	16,215	15,893
TOTAL	17,039	171	17,210	16,868

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 2019	USD	EUR	JPY	CHF	SEK	DKK	NOK	AUD	CAD	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Bonds										
Overseas Public Sector	24,890	18,696	18,876	0	1,642	0	0	3,605	3,143	70,852
Multi Asset Credit - quoted	47,662	0	0	0	0	0	0	0	0	47,662
Multi Asset Credit - unquoted	68,518	93,052	0	0	0	0	0	0	0	161,570
Overseas Corporate	32,420	4,545	0	0	0	0	0	0	0	36,965
Equities										
Overseas	-5,495	162,591	172,524	53,121	11,854	2,258	10,844	0	0	407,697
Index-Linked Bonds										
Overseas Public Sector	13,182	0	0	0	0	0	0	0	0	13,182
Pooled Investment Vehicles										
Managed Funds	516,444	0	0	0	0	0	0	0	0	516,444
Property - unquoted	20,513	54,214	0	0	0	0	0	0	0	74,727
Private Equity - quoted	11,392	0	0	0	0	0	0	0	0	11,392
Private Equity - unquoted	47,278	57,444	0	0	0	0	0	0	0	104,722
Infrastructure - unquoted	20,121	47,731	0	0	0	0	0	0	0	67,852
Other investments - unquoted	101,591	19,750	0	0	0	0	0	0	0	121,341
Total	898,516	458,023	191,400	53,121	13,496	2,258	10,844	3,605	3,143	1,634,406

As at 31 March 2018	USD	EUR	JPY	CHF	SEK	DKK	NOK	AUD	CAD	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Bonds										
Overseas Public Sector	22,588	18,537	18,158	0	1,684	0	2,911	3,363	2,162	69,403
Multi Asset Credit - quoted	42,781	0	0	0	0	0	0	0	0	42,781
Multi Asset Credit - unquoted	43,281	99,177	0	0	0	0	0	0	0	142,458
Global High Yield	0	0	0	0	0	0	0	0	0	0
Emerging Market Government	0	0	0	0	0	0	0	0	0	0
Overseas Corporate	33,771	0	0	0	0	0	0	0	0	33,771
Equities										
Overseas	0	245,422	193,368	40,926	11,379	14,600	0	0	0	505,695
Index-Linked Bonds										
Overseas Public Sector	11,888	0	0	0	0	0	0	0	0	11,888
Pooled Investment Vehicles										
Managed Funds	583,328	24,720	0	0	0	0	0	0	0	608,048
Property - unquoted	16,796	34,294	0	0	0	0	0	0	0	51,090
Private Equity - quoted	20,848	0	0	0	0	0	0	0	0	20,848
Private Equity - unquoted	34,133	57,185	0	0	0	0	0	0	0	91,318
Infrastructure - unquoted	18,262	44,524	0	0	0	0	0	0	0	62,786
Other investments - unquoted	101,814	22,694	0	0	0	0	0	0	0	124,508
Total	929,490	546,553	211,526	40,926	13,063	14,600	2,911	3,363	2,162	1,764,594

A percentage strengthening or weakening of sterling against the various currencies in which the Fund holds investments would, it has been calculated using the likely volatility associated with foreign exchange movements, increase or decrease the net assets available to fund benefits as follows:

Assets exposed to currency risk	Asset value at 31 March 2019	Potential market movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Public Sector Bonds	70,852	6,235	77,087	64,617
Multi Asset Credit - quoted	47,662	4,194	51,856	43,468
Multi Asset Credit - unquoted	161,570	14,218	175,788	147,352
Overseas Corporate	36,965	3,229	40,194	33,736
Overseas Public Sector I/L Bonds	13,182	1,160	14,342	12,022
Overseas Equities	407,697	35,877	443,574	371,820
Managed Funds	516,444	45,447	561,891	470,997
Property - unquoted	74,727	6,576	81,303	68,151
Private Equity - quoted	11,392	1,003	12,395	10,389
Private Equity - unquoted	104,722	9,216	113,938	95,506
Infrastructure - unquoted	67,852	5,971	73,823	61,881
Other investments - unquoted	121,341	10,678	132,019	110,663
TOTAL	1,634,406	143,804	1,778,210	1,490,602

Assets exposed to currency risk	Asset value at 31 March 2018	Potential market movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Public Sector Bonds	69,403	7,688	76,765	61,389
Multi Asset Credit - quoted	42,781	4,150	46,931	38,631
Multi Asset Credit - unquoted	142,458	13,124	135,582	129,334
Overseas Corporate	33,771	3,276	37,047	30,495
Overseas Public Sector I/L Bonds	11,888	1,153	13,041	10,735
Overseas Equities	505,695	57,726	519,245	447,969
Managed Funds	608,048	58,808	666,856	553,690
Property - unquoted	51,090	4,716	55,806	46,374
Private Equity - quoted	20,848	2,022	22,870	18,826
Private Equity - unquoted	91,318	8,458	99,776	82,860
Infrastructure - unquoted	62,786	5,778	68,564	57,008
Other investments - unquoted	124,508	11,919	136,427	112,589
TOTAL	1,764,594	178,818	1,878,910	1,589,900

Y Contingent Assets

As at 31 March 2019 the Fund had submitted claims totalling £8.23m relating to the reclaiming of UK and overseas withholding tax on investment income received, of which £1.10m has been received to date. Professional costs to date have totalled £0.68m.

Z Accounting standards that have been issued but not yet adopted

Accounting standards that have been issued before 1 January 2019 but not yet adopted by the Code relate to:

- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest

The introduction of/amendments to the above accounting standards are not expected to have a material impact on the 2019/20 Pension Fund Accounts.

AA Events after Balance Sheet Date

This note considers events that arise after the balance sheet date, which concerns conditions that did not exist at that time and are of such materiality that their disclosure is required for the fair presentation of the final statements. Events after the balance sheet date are reflected up to the date when the Statement of Accounts was authorised by the Head of Finance as Section 151 Officer on 31 May 2019.

At the date of signing there has been no adjusting or non-adjusting events after the reporting period.

AB Scheme Registration Number

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



funding strategy statement

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

1.2 What is the East Riding Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, which are:

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

1.6 How do I find my way around this document?

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

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

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

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

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

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

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

2.1 How does the actuary calculate a contribution rate?

In essence this is a three-step process in which the actuary:

1. Calculates the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determines the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details; and
3. Calculates the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.2 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The funding target is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and a longer period to lower contributions (all other things being equal). Employers may be given a shorter time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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

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

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

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

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

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options

will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

On request from an employer, the Administering Authority may permit an employer to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies				Community Admission Bodies and closed Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Town Councils	Academies	Police, Fire, Colleges	Open to new members	Closed to new members	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)				Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)						
Stabilised contributions?	Yes - see Note (b)	Yes - see Note (b)	Yes Note (b)	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	Colleges - 15 Other – 20 yrs	20 years (or less if no guarantee)	20 years (or less if no guarantee)	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount			Monetary amount
Treatment of surplus	Covered by stabilisation arrangement			Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term. Surplus is not usually used to reduce the contributions where the contract length exceeds 4 years, however the Admin. Authority may consider this on request
Probability of achieving target – Note (e)	c.66%	70%	66%	75%	75%	80%	50%
Phasing of contribution changes	Covered by stabilisation arrangement			None	Not usually		None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						Particularly reviewed in last 3 years of contract
New employer	n/a		Note (g)		Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).				Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and designating employers closed to new entrants)

In the circumstances where:

- the employer is a designating employer, or an admission body but not a transferee admission body; and
- the employer has no guarantor; and

- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding.

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) Stabilisation

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

The stabilisation mechanism is only available to employers who have tax raising powers (unitary authorities, town and parish councils) or a government guarantee (academies).

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Unitary Authorities *	Town and Parish Councils *	Academy ***
Starting rate**	Actual contribution in 2016-17, expressed as % of pay	Actual contribution in 2016-17, expressed as % of pay	Actual contribution in 2016-17, expressed as % of pay
Max cont increase from 2017-18 onwards**	1%	2%	2%
Max cont decrease**	1%	2%	2%

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

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

*** The academy contribution rates are subject to a minimum of at least the Primary rate. The stabilisation

criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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 time horizons, for example where there were no new entrants.

The requirement for a shorter recovery period for colleges is on the basis that colleges have neither tax raising powers nor a government guarantee.

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

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

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary rate for each employer covering the three year period until the next valuation will typically be set in lump sum monetary terms.

The payment of Secondary rate contributions set in lump sum monetary terms must be paid in monthly instalments by employers. Transitional arrangements will be allowed in 2017/18 only at the Fund's discretion. Requests will only be considered from employers who paid by annual lump sum payment in 2016/17 and are not in arrears as at 31 March 2017.

For some employers, the Secondary rates are expressed as a percentage of payroll, as opposed to monetary lump sums, as follows:

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

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

- the employer is relatively mature, i.e. has a large Secondary rate (e.g. above 15% of payroll); 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.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers;

- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

- The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

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

Note (h) (New Admission Bodies)

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

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

Transferee admission bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) on the next page.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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

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

Note (j) (Admission Bodies Ceasing)

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

- the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The

current Fund policy is that this is left as a discretion and may or may not be applied in any given case;

- The insolvency, winding up or liquidation of an admission body;
- Any breach by an 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 an admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by an admission body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

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

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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

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

3.4 Pooled contributions

From time to time, with the advice of the Fund's actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (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).
- Local authority maintained schools generally are also pooled with their relevant Unitary Authority. However there may be exceptions for specialist or independent schools.
- Academies within a Multi Academy Trust may be pooled for contribution setting purposes, at the MAT's request. However the position of each academy would continue to be tracked individually.
- Smaller transferee admission bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree. See 3.3 Note (i).

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

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community admission bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external 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.

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

3.9 Employers with no remaining active members

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

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

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

3.10 Policies on bulk transfers

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

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG requirement may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS??

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

“to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;

to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

to take a prudent longer-term view of funding those liabilities.”

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to all participating employers in December 2016 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 15 December 2016 at which questions regarding the FSS could be raised and answered;

- d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

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

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at www.erpf.org.uk.

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:

1. operate the Fund as per the LGPS Regulations and guidance from the Pensions Regulator;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;

6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary);
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate; and
14. enable the Local Pension Board to review the valuation process as part of the Board's role to support the Administering Authority as set out in their terms of reference.

B2 The Individual Employer should:

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. comply with statutory obligations by providing the Fund with accurate and timely member data
4. have a policy on discretions and exercise these within the regulatory framework;
5. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
6. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding; and
7. pay any exit payments on ceasing participation of the Fund.

B3 The Fund Actuary should:

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
5. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements; and
6. the Pensions Regulator should work with the Fund to promote and improve understanding of, the good administration of work-based pension schemes such as the LGPS.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below. The Fund's Risk Register can be found on pages 10 to 20.

Risk	Summary of Control Mechanisms
Fund assets do not meet expected liabilities when they fall due.	Key mechanisms include strategic and tactical asset allocation.
Securities lending activities have an adverse impact on the Fund's assets	Indemnities provide full protection in the event of a borrower default.
Impact of Government policy on pooling investments across LGPS funds	The Fund has assumed a leading role in the creation of its selected pooling arrangement and has participated fully in consultation.
Changing patterns of pension payments	Assumptions are set at valuation and employers are charged strain costs.
Failure to carry out administrative duties	Quality checks, training and testing measures are all in place. Employers are informed of statutory responsibilities.
Failure to provide Local Pension Board and Committee members and officers with LGPS knowledge and understanding	Induction and training programmes in place.
Failure to establish and operate internal controls	IT systems are operated to ensure secure storage and safe transmission of data. Disaster recovery and business continuity plans in place.
Failure to report a breach of the law to the Pensions Regulator (TPR)	Procedure for reporting breaches in place and training for members and officers carried out.

Financial stability of an admitted body	Procedures in place including risk assessments, the requirement for a bond to be in place and cessation valuations reports.
Failure to recruit and retain staff	Responsible staff have undertaken training and follow procedures in line with East Riding of Yorkshire Council requirements. Review of vacant posts and restructuring is considered as appropriate.
Significant reduction in individual scheme employer membership	Membership totals are monitored and material changes of membership are referred to the Fund actuary.

Appendix D – The calculation of Employer contributions

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

All three steps below are considered when setting contributions:

1. The funding target is based on a set of assumptions about the future, e.g. investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The required probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund's actuary: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has used a long term AOA of 1.8% per annum relative to long term gilt yields. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this AOA is within a range that would be considered acceptable for the purposes of the funding valuation. This is a higher AOA than that used at the 2013 valuation (1.6%), which reduces the funding target all other things being equal.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. the retail prices index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target. The main assumptions will relate to the discount rate, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit. It is calculated on a chosen set of actuarial assumptions.

Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary rate	The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer’s membership or liability reflects various measurements of that employer’s members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary rate	The difference between the employer’s actual and Primary rates. In broad terms, this relates to the shortfall of its asset share to its funding target. See Appendix D for further details.

Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Funding Strategy Statement and new employers

During 2017/18, there were 47 new employers joining the Fund including 24 academies, four parish councils and one town council.

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

There were 18 new admitted bodies in the Fund and four of the bodies provided evidence of a strong covenant by having a guarantor agreement in place.

For the remaining 14 new admitted bodies, risk assessments were carried out to see if a bond was required and the following action was taken:

- bonds were put in place for 10 admitted bodies;
- pooling arrangements with the letting authority were agreed with one admitted body; and
- following audit and legal advice, the Fund agreed that no bond was required initially for three admitted bodies.



investment strategy statement

Introduction

The East Riding Pension Fund ("the Fund"), which is administered by the East Riding of Yorkshire Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS has been prepared by the Committee having taken advice from the Director of Corporate Resources.

The ISS, which was approved by the Committee on 17th March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statement ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2017. The FSS, which was approved by the Pensions Committee on 17th March 2017, complies with these Regulations.

Investment Strategy

The primary investment objective is to ensure that the Fund will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overall objective, the Fund's investment strategy is to:

- Maximise the return from investments whilst maintaining risk within acceptable levels with a current long term nominal return objective of 6% p.a.;
- Maintain and improve the future funding level of the Fund with the aim of achieving a funding level of 100%; and
- Enable employer contributions to be kept as stable as possible.

In order to discharge its responsibilities, the Pensions Committee will take advice, where appropriate, from a wide range of sources including, but not limited to, the Director of Corporate Resources, the independent advisor, the Fund's investment managers, and the Council's S151 and Monitoring Officers.

The core investment beliefs of the East Riding Pension Fund are as follows:

1. The key objective is to generate a suitable rate of return on its investments, whilst accepting an appropriate level of risk, to ensure that the Fund's assets are sufficient to pay the scheme's benefits as they fall due.
2. Good governance, including appropriate knowledge, skills and resources, enhances the decision making process.
3. Strategic asset allocation decisions are the most important drivers of the Fund's investment return.
4. The Fund has a long term time horizon in line with its maturity profile and the covenants of its participating employers.
5. The long term time horizon enables the Fund to take advantage of the "illiquidity premium" present in private market investments.
6. Diversification through effective portfolio construction can reduce risk both within and across asset classes and factors.
7. Active management can add value net of all costs.
8. Internal investment management, either directly or through the proposed arrangements with Border to Coast, is effective both in terms of lower costs and the potential for enhanced performance but external investment will be used where appropriate.
9. The Fund will hedge its risks where it is considered to be appropriate.
10. The Fund is a responsible investor, recognises the importance of good governance, and will engage with its investee companies both on an individual and a collective basis in order to enhance or protect investment returns.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the East Riding Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market risk and the nature of the Fund's liabilities.

Asset class	Strategic allocation	Range	Maximum
EQUITIES	55%	+/- 10%	70%
UK equities	33%	+/- 5%	40%
Overseas equities	22%	+/- 5%	30%
North America	6%		
Europe ex-UK	6%		
Japan	3%		
Pacific ex-Japan	2%		
Emerging Markets	5%		
BONDS AND CASH	19%	+/- 5%	30%
UK Government bonds	5%		
UK Corporate bonds	2%		
Overseas bonds	4%		
Multi-Asset Credit	5%		
Cash	3%		
ALTERNATIVES	26%	+/- 5%	35%
Property	11%		
Other	15%		
Private Equity	6%		
Infrastructure	4%		
Other Alternatives	5%		

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

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.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's investment managers will endeavour to bring the asset allocation back within the range within an appropriate period of time. The asset allocation will not be permitted to exceed the stated maximum for each asset class.

The suitability of particular investments and types of investments

The Pensions Committee will review the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the investment managers and independent advisor to ensure the returns risk and volatility are appropriately managed and meet the requirements of the overall investment strategy.

It is intended that the Fund's investment strategy will be reviewed at least every three years following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 1.9% over the long term, a nominal return of 4.0% assuming inflation (CPI) to be 2.1%. The Pensions Committee has set the investment objective of producing a nominal long term return of 6% p.a. (3.9% p.a. real) assessed on a rolling three year basis.

The Committee used the following long term assumptions about investment returns (as at December 2016) when determining an appropriate investment strategy, following the results of the latest actuarial valuation and advice from its investment managers and independent advisor:

Asset class	Expected return (% p.a.)	Expected Volatility (%)
EQUITIES		
UK equities	6.8%	17.0%
Overseas equities		
North America	5.8%	18.0%
Europe ex-UK	6.0%	20.8%
Japan	3.9%	21.1%
Pacific ex-Japan	6.6%	24.2%
Emerging Markets	8.2%	29.0%
BONDS AND CASH		
UK Government bonds	2.9%	5.0%
UK Corporate bonds	3.8%	6.1%
Overseas bonds	2.7%	9.3%
Multi-Asset Credit	6.0%	9.0%
Cash	2.2%	0.2%
ALTERNATIVES		
Property	5.7%	11.9%
Other		
Private Equity	8.4%	20.7%
Infrastructure	5.6%	7.8%
Other Alternatives	6.4%	9.5%

At 31 December 2016, the expected return of this portfolio was 6% p.a. with an expected volatility of 11% p.a.

The Pensions Committee has set the following benchmarks against which performance of the Fund will be measured:

Asset class	Benchmark
EQUITIES	
UK equities	FTSE All Share
Overseas equities	
North America	FTSE Developed North America
Europe ex-UK	FTSE Developed Europe ex-UK
Japan	FTSE Japan
Pacific ex-Japan	MSCI Pacific ex-Japan
Emerging Markets	MSCI Emerging Markets
BONDS AND CASH	
UK Government bonds	FTSE UK Gilts All Stocks
UK Corporate bonds	iBoxx £ Corporate Bonds All Stocks
Overseas bonds	JP Morgan GBI ex-UK
Multi-Asset Credit	3 month LIBOR + 4%
Cash	LIBID 7 day
ALTERNATIVES	
Property	AREF/IPD UK Quarterly Property Fund Index
Other	
Private Equity	FTSE All Share + 3%
Infrastructure	UK Index-linked + 3%
Other Alternatives	3 month LIBOR + 5%

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 the Fund's custodian, State Street Global Services on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

The approach to risk

The Fund's primary long term risk is that the Fund's assets do not meet its liabilities i.e. the benefits payable to its members. Therefore, the aim of the Fund's investment management is to achieve the long term target rate of return with an acceptable level of risk. The Fund achieves this through setting the strategic asset allocation on a triennial basis, following the latest actuarial valuation, which is expected to achieve the target rate of return over the long term. The Fund's appetite for risk will vary depending on market conditions and the types of investments available to it but will be commensurate with meeting the long term target investment rate of return.

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

The key risks inherent in the Pension Fund, and how these risks are mitigated, are:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	<p>Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis.</p> <p>Tactical asset allocation on a quarterly basis taking into account current market conditions.</p> <p>Derivatives may be used for portfolio management purposes or to hedge specific risks, in order to protect the value of the Fund's assets from risks that may materialise.</p>
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	<p>Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis.</p> <p>Detailed analysis of investment managers' performance on an annual basis.</p>
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data.
Credit	The Fund's counterparties or service providers e.g. custodian fail to pay amounts due.	<p>Appropriate credit limits are established, and regularly reviewed, by the Fund for individual counterparties.</p> <p>Regular performance monitoring of service providers and indemnities secured where appropriate.</p>
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund maintains sufficient liquid funds at all times to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates, and may consider hedging, through the use of derivatives, in order to protect the value of the Fund's assets from risks that may materialise.

Foreign exchange	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure, and may consider hedging, through the use of derivatives, in order to protect the value of the Fund's assets from risks that may materialise.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis.
Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

Approach to pooling investments

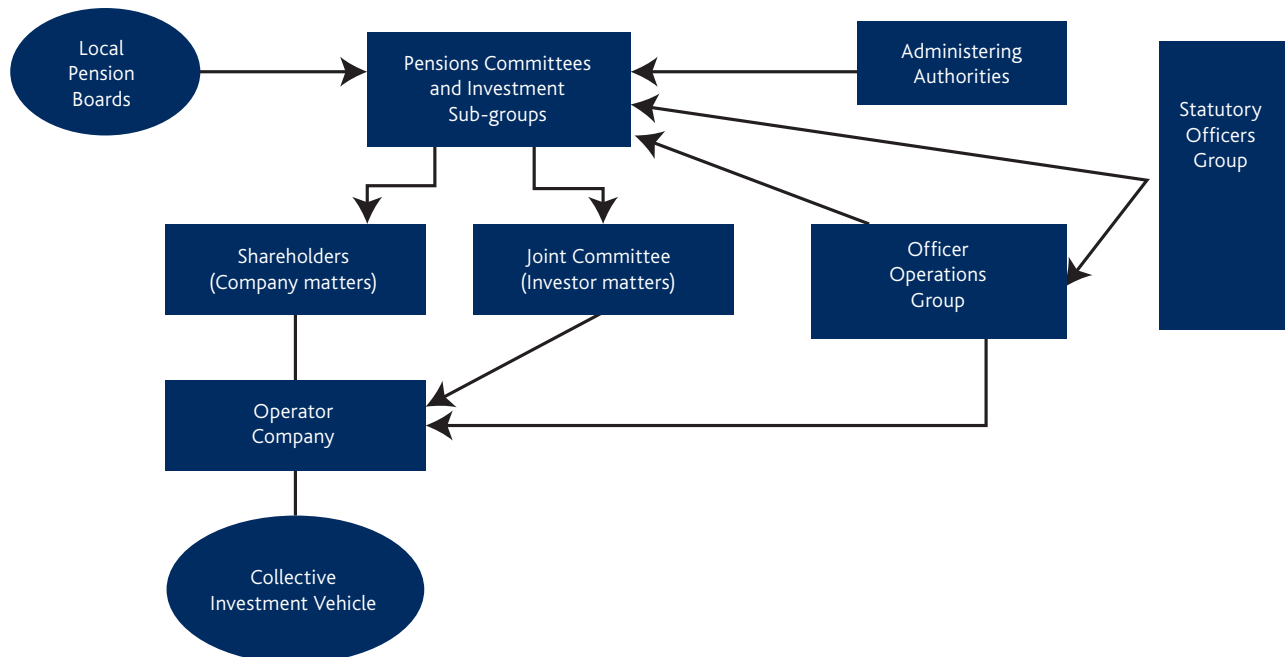
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015 the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

Border to Coast is a partnership of the following administering authorities:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Minister to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015.

The proposed governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited.

It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited once it is fully operational. It is expected that BCPP Limited will be operational from June 2018 but assets will transfer into the pool on a phased basis. Where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred, it is expected that once these investments mature the proceeds will be reinvested into Border to Coast. At the current time, it is estimated that c. 70% of the Fund's assets will be managed by Border to Coast within 3 years subject to it having suitable management arrangements in place.

The Fund will perform an annual review of assets that are determined to be held outside of Border to Coast to ensure that they continue to demonstrate value for money. Following this review, it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and corporate governance (ESG) factors

Environmental, social and corporate governance factors relate to non-financial factors that can have a material impact on the value of a Fund's investments. They include factors such as carbon emissions, labour relations and shareholder rights.

The Pension Fund, and its investment managers, considers that ESG considerations can have a material impact on the value of its investments. As a result, the consideration of ESG factors are incorporated into its investment managers' investment processes.

The Fund will take into account the guidance issued by the Local Authority Pension Fund Forum (LAPFF), which highlights corporate governance issues at investee companies and recommends appropriate voting action. It will also take into account any other appropriate guidance and information, including information provided by Border to Coast once it is operational, 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 will take non-financial considerations, including ESG factors, into account in the selection, retention and realisation of investments but not where it is considered to have a detrimental financial impact.

The Fund has made, and will continue to make, “social investments” whereby an investment can have a positive social impact as well as generating a suitable financial return. However, the overriding consideration for any such investment is whether it generates an acceptable risk-adjusted return for the Fund.

The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard.

It is considered that the Pensions Committee, which receives advice from its investment managers and independent advisor, represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The exercise of rights attaching to investments

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 as shown below:

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 informed through the use of the Pensions Investment Research Consultants (PIRC) voting advisory service, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

Further details of PIRC’s voting guidance is shown in the “UK Shareowner Voting Guidelines 2017” guidance document which is available at www.pirc.co.uk and further information regarding the engagement activities of the LAPFF is available at www.lapfforum.org.

The Pension Fund considers that social, environmental, and governance considerations can have a material impact on the value of its investments and should form part of its investment managers’ investment processes.

Therefore, the Fund will take into account the guidance issued by LAPFF, which highlights corporate governance issues at investee companies and recommends appropriate voting action. It will also take into account any other appropriate guidance and information including information provided by Border to Coast once it is operational, 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’s investment managers can exercise their discretion not to vote in accordance with best practice. Where this discretion is exercised, the rationale for this decision is reported to the Pensions Committee on a quarterly basis.

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

In general, the Fund’s engagement activities will be based on the importance of the issue, the materiality of the Fund’s exposure to companies affected by the issue, and an assessment of the likelihood of success in the event of engagement.

The Pensions Committee reviews the Fund’s corporate governance and voting activity and discusses the reasons for engagement, or lack of it, with its investment managers on a quarterly basis.

In addition, the Fund publishes summary details of corporate governance and voting activity in its Annual Report and Accounts.

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.

East Riding of Yorkshire Council, the administering authority of the East Riding Pension 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. These are published on the Council's website and updated on a regular basis.

In addition, Pension Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed in the Pension Fund's Annual Report and Accounts.

In accordance with the Fund's Compliance Manual, individual employees of the internal investment manager require permission from the Head of Investments or, in the Head of Investments case, the Head of Finance prior to investing in any applicable investments on a personal basis. Individual employees are also required to disclose their personal investments on an annual basis. The Fund's Compliance Manual is an internal control document and it is not considered appropriate to disclose this publicly.

The interests and investments of the Fund's independent advisor are disclosed to the Pensions Committee on a quarterly 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. However, the Fund's investment managers are not bound to exercise their vote in accordance with these recommendations.

Issues on which the Fund has chosen to engage on in the recent past include:

- Directors' remuneration.
- Separation of the roles of Chairman and Chief Executive.
- Board diversity
- Independence of non-executive directors.
- Supply chain management.
- Environmental factors including carbon risk.
- Labour relations.
- Auditor rotation and independence.
- Corporate taxation.
- Accounting standards.

The Fund is of the opinion that its corporate governance activities are significantly more effective if they are part of a larger group of like-minded investors, such as the LAPFF. The Fund is a supporter of the LAPFF's work but is unable to commit resources to take a more active role in LAPFF's engagement over and above its current membership role.

The current 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.

Once the company is operational, Border to Coast will discharge its corporate governance responsibilities in accordance with

its Responsible Investment Policy and Corporate Governance and Voting Guidelines. The Pension Fund, through the Joint Committee and Officer Operations Group has, and will continue to have, input into the development of Border to Coast's corporate governance policies and activities.

The Fund's investment managers present reports on their voting activity on a quarterly basis to the Pensions Committee which are then subject to challenge and debate. The Pensions Committee also receives regular reports summarising the issues being raised by LAPFF and its current areas of focus, with companies in which the Fund has current ownership specifically highlighted, which further informs this process.

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

The Fund's investment managers may choose to be made insiders in a particular company for a short period of time. In these instances, no transactions are permitted to be made from the point of disclosure until the information has been disclosed to the wider market. The specific restrictions are disclosed in the Fund's investment managers' compliance documents. As stated above, the Fund's internal investment manager's Compliance Manual is considered to be a private document that will not be disclosed publicly.

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

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

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

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. Once the company is operational, Border to Coast will manage assets on behalf of the 12 shareholder funds and will have greater scale and resources to focus on corporate governance issues.

If deemed appropriate, the Fund will participate in shareholder litigation either independently or in conjunction with its investment managers.

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 currently 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.

The Fund will also consider collaborating with other investors if it is considered to be appropriate and interested parties should contact the Fund's Head of Investments, Mark Lyon if they would like to discuss this further. It is envisaged that once it is operational, Border to Coast will be the main conduit for collaborative engagement.

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

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.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, 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, the types of resolution on the meeting agenda, and the corporate governance policies, and their interpretation, of the Fund's investment managers.

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

Once it is operational, Border to Coast will be responsible for the exercise of voting rights attaching to investments that are managed by them on behalf of the Fund. Border to Coast will vote in accordance with its Responsible Investment Policy and Corporate Governance and Voting Guidelines. In due course, the policy and guidelines will be published on www.bordertocoast.org.uk.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts. The Fund has chosen not to disclose its full voting record as it does not consider that this will add any value to an external parties understanding of its corporate governance and voting policy and practices. However, the Fund is required to respond to a formal request for information via the Freedom of Information Act 2000.

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

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

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

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

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. 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 Investment Strategy Statement of the East Riding Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate.

communications policy

Introduction

East Riding Pension Fund (ERPF) communicates with more than 300 scheme employers and 114,882 scheme members in relation to the Local Government Pension Scheme (LGPS). These members are split into the following categories and the figures shown are as at 31 March 2019:

- 40,234 Active scheme members;
- 43,178 Deferred scheme members; and
- 31,470 Pensioner members.

The Communications Policy has been prepared in conjunction with ERPFs Pension Administration Strategy which details the requirements of ERPF and scheme employers to fulfil their administration responsibilities and the Memorandum of Understanding which sets out an agreement between ERPF and the scheme employer to ensure that the 2018 Data Protection (with GDPR) Regulations are adhered to.

Objectives

ERPF aims to deliver a consistently high level of customer service and performance to our stakeholders and recognises that effective communication plays a vital role in driving efficiencies within the Fund. It is also important to acknowledge that different stakeholders require information delivered via different methods and wherever possible, we will look towards digital communication for both members and employers.

All our communications aim to:

- provide clear, accurate and relevant information in a timely manner;
- cut out jargon;
- use a multi-channel approach to communication, ensuring a best fit for the stakeholder;
- ensure members are able to make informed decisions regarding their pension with the information made available;
- be compliant with all legislative requirements when communicating with members; and
- work towards having digital communication at the centre of our policy.

Our stakeholders

- Scheme members
- Representatives of members
- Prospective members
- Scheme employers
- Prospective scheme employers

How we communicate

ERPF are increasingly using digital methods to communicate. Our website (www.erpf.org) is a principal source of information for both scheme employers and members. We also communicate by email with our stakeholders. In addition to electronic methods, and where appropriate, we use paper based communication methods such as letters, Annual Benefit Statements (ABSs) and other scheme literature such as the New Member Welcome Pack.

Telephone numbers are quoted on all our letters which means our stakeholders can communicate verbally with the pension fund staff. In addition, scheme employers are provided with contact details for all key pension fund staff on a regular basis.

Scheme members who require alternative formats (such as Braille or audio) can request this to ensure access to relevant information at all times.

For scheme members with extenuating circumstances due to ill health we will, at the scheme employer's request, provide a visit to discuss options and implications.

Developments

ERPF are increasingly using ERPF online services to collect scheme member data and communicate with scheme employers. Since October 2018, no paper or e-mail notifications have been accepted. This has increased the security of the data transmission and ensured that system automation can be maximised.

The development and pilot of Monthly Data Collection (MDC) is now under way with 15 pilot scheme employers. Work has commenced on the development of procedures and systems to ensure that the data collected can be validated and where possible processed automatically to realise efficiencies. MDC will be live with the pilot scheme employers by October 2019.

Monthly workshops for scheme employers continue to develop and over the next 12 months the workshops will be supported by both online training such as webinars and e-learning and with the introduction of an improved scheme employer area on www.erpf.gov.uk.

Work is also continuing on the introduction of ERPF online services for scheme members. Initial design and development work has taken place with the aim of rolling this out to members in early 2020. This will allow us to deliver more of our communications, including ABS, payslips and P60s via digital methods.

ERPF's new website, which was due to be launched in late 2018, is now in the final stages of construction. This offers scheme members and scheme employers more in depth and relevant information and will also ensure that the website is compatible with mobile devices.

Communication events for scheme members

When communicating with scheme members, the ERPF's objectives are to:

- encourage and retain membership of the scheme;
- highlight the benefits of LGPS 2014;
- provide more opportunities for two-way communication;
- reduce the number of enquiries and complaints; and
- reassure stakeholders.

Resource	Audience	Delivered via	Frequency
Member website	Prospective scheme members/ active/deferred /pensioner	Dedicated area of www.erpf.org.uk with information designed specifically for members	Constant
Pension enquiries (via telephone or email)	Prospective scheme members/ active/deferred /pensioner	The direct telephone number or dedicated e-mail address	Monday to Thursday; 9.00 to 17.00 Friday; 9.00 to 16.30
Visits in person	Prospective scheme members/ active/deferred /pensioner	Scheme members are welcome to visit the pension fund offices and have a 1-1 discussion with a member of staff	Monday to Thursday; 9.00 to 17.00. Friday; 9.00 to 16.30
Scheme member guides	Prospective scheme members/ active/deferred /pensioner	Electronic - Available online at www.erpf.org.uk	Constant
Newsletters for active, deferred and pensioner	Active/deferred Members/pensioner	Post/Electronic	As and when required
Annual report & accounts	Prospective scheme members/ active/deferred/pensioner	Electronic	Available online at www.erpf.org.uk
Bespoke communications	Active/deferred /pensioner	Post/Electronic	As and when required – usually following regulatory change
Annual Benefit Statement for active and deferred members	Active/ deferred	Post	Annual
Pre-retirement presentations (in partnership with Affinity connect)	Active	Face to face presentation	A minimum of 10 sessions per year
Payslips for pensioner members	Pensioner	Post	April & May each year or where the monthly pension changes by more than £1
P60 for pensioner members	Pensioner	Post	Annual

Communication events for scheme employers and prospective employers

When communicating with scheme employers, the ERPF objectives are to:

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

Resource	Delivered via	Frequency
Employer website	Dedicated section of www.erpf.org.uk includes information designed specifically for scheme employers	Constant
Employer bulletins	Email bulletins to scheme employers with important regulatory and procedural information	As and when required but at least six per year
New employer meetings	Designed for new scheme employers entering the fund or those taking back payroll/HR services in-house	As and when required
Employers guides	A set of employer guides that go through forms and processes needed to administer the LGPS	Available on www.erpf.org.uk Emailed on request
Employer workshops	An opportunity for employers to cover new and/or complex topics in a workshop environment	As and when required
Employers annual meeting	An annual round up of scheme events and a presentation from the actuary explaining the valuation results if a valuation year	Annual
Employer enquiries	Employers can submit enquiries via ERPF Online Services or where appropriate to ERPF's training officers	Constant
Guidance and Training	ERPF's training officers provide support and guidance to scheme employers to ensure they understand their responsibilities.	As and when required
Annual report & accounts	Electronic	Available online at www.erpf.org.uk

The policy

This policy is made under Regulation 61 of the LGPS Regulations 2013. ERPF will revise this policy on an annual basis and following any material change in policy.

Feedback

ERPF welcomes feedback on this policy and any communications. Please e-mail us at ERPFtraining@eastriding.gov.uk or contact us at:

ERPF Training Officer, East Riding Pension Fund, Council Offices, Church Street , Goole, DN14 5BG

Tel: (01482) 394039

report of the east riding pension fund local pension board

The Public Service Pensions Act 2013 required Local Pension Boards to be established to assist administering authorities with all aspects of governance and administration of the Local Government Pension Scheme (LGPS). The Terms of Reference for the East Riding Pension Fund Local Pension Board (the Board) were approved by the Pensions Committee on 6 February 2015 for recommendation to Full Council and were adopted on 25 February 2015.

Recruitment to the Board

Under the Terms of Reference, the Board consists of six voting members constituted as follows:

- three Employer Representatives – Administering Authority (1), other scheme employers (ie organisations other than the Administering Authority who, under the Regulations, can participate in the LGPS) (2); and
- three Scheme Member Representatives – active members (1), pensioner members (1), active/pensioner or deferred member (1).

During 2018/19, Caroline Bell and Martin Eaden retired from the Board as Scheme Member representatives following the completion of three years service. Caroline Bell was replaced by Jayne Karlsen as an active member representative. The pensioner member representative vacancy was advertised and Lynda Bowen was selected in April 2019 as the replacement for Martin Eaden.

Information on the key features of being an Employer or Scheme Member representative and the role of the Board can be found on the East Riding Pension Fund (the Fund) website at www.erpf.org.uk/local-pension-board/job-description-and-person-specification

Employer representatives during 2018/19

Councillor A Burton, East Riding of Yorkshire Council;

Natasha McLean - Pensions Manager, University of Lincoln; and

Guy Lonsdale – Deputy S151 Officer, North East Lincolnshire Council.

Scheme Member representatives during 2018/19

Caroline Bell – active member (up to 31 July 2018);

Jayne Karlsen – active member (from 11 October 2018);

Julie Davey – active member; and

Martin Eaden – pensioner member (up to 31 July 2018).

Board Meetings

During 2018/19, the Board has met three times to consider reports from the Director of Corporate Resources on Investment and Pension Administration issues and to receive training as part of the Board's training programme. At the meeting on 22 June 2018, nominations were sought for the position of Chair and, in the absence of a nomination, Councillor Burton agreed to act as Chair on a meeting by meeting basis. Nominations were subsequently sought for the position of Chair at the meeting on 2 November 2018 and Guy Lonsdale was elected as Chair.

The Board have:

- reviewed the internal controls and procedures in place at:
 - Schroder Investment Management Limited (the Fund's external investment manager);
 - State Street Global Services (The Fund's global custodian);
 - the Investments section (the Fund's internal investment manager); and
 - the Pensions Administration section.
- reviewed the Fund's Investment Strategy Statement and the Fund's Governance Policy Statement effective from 1 April 2019;
- agreed the process for the re-election of Employer representatives and Scheme Member representatives and the number of times a Board member may seek re-election;
- reviewed the Local Government Pension Scheme (Amendments) Regulation 2018 and the Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018;
- received an update on ERPF online services for scheme employers;
- reviewed the Scheme Employer Year End Return exercise 2017/18;
- received updates on the Pension Administration Strategy including scheme employer performance;
- agreed the annual report of the Board for 2017/18 for the Pension Fund Report and Accounts;
- reviewed the Board's Terms of Reference;
- agreed a programme of work and training for 2019;
- reviewed reports on Local Authority Pension Fund Forum meetings;
- reviewed the draft Pension Fund Annual Report and Accounts 2017/18;
- reviewed the Fund's corporate governance and voting activity;
- reviewed minutes from the Pensions Committee;
- reviewed the Annual Performance Report and Review 2017/18;
- reviewed the Fund's Communications policy;
- ensured the Fund's compliance with the General Data Protection Regulation (GDPR);
- reviewed the timetable for the 2019 actuarial valuation;
- received an update on the Guaranteed Minimum Pension (GMP) reconciliation exercise;
- reviewed the Fund's performance in the 2018 Chartered Institute of Public Finance and Accountancy Pensions Administration benchmarking club;
- received an update on the Pensions Managers Conference 2018;
- reviewed the Fund's Risk Register including record of breaches; and
- received updates on the Border to Coast Pension Partnership (BCPP).

The Board members are keen to ensure their work assists the Pensions Committee and attended the Pension Committee meeting on 2 November 2018 to gain a greater understanding of how the Committee carries out its delegated function of making arrangements for the investment and management of the Fund.

The attendance rates at the meetings were as follows:

- 67% on 22 June 2018;
- 67% on 2 November 2018; and
- 67% on 22 February 2019.

Training

All Board members are required to complete self assessment training questionnaires to identify their level of knowledge and understanding. Based on an analysis of their training needs, a training programme is in place for members.

Training sessions take place before each meeting and the following training has been delivered:

- Border to Coast presentation – 22 June 2018 delivered by Julian Neilson, Head of Finance, and Kevin Dervey, Head of Investments
- Investment performance – 22 June 2018 delivered by Schroders; and
- 2019 Actuarial Valuation – 22 February 2019 delivered by Douglas Green and Paula McCall from Hymans Robertson;

The attendance rates at the training sessions were as follows:

- 67% on 22 June 2018; and
- 67% on 22 February 2019.

The training sessions were also attended by members of the Pensions Committee.

Individually, members have been requested to complete all the modules in The Pensions Regulator's Public Service toolkit and five members have provided copies of their Development record as evidence of completing the following modules:

1. Conflicts of interest;
2. Managing risk and internal controls;
3. Maintaining accurate member data;
4. Maintaining member contributions;
5. Providing information to members and others;
6. Resolving internal disputes; and
7. Reporting breaches of the law.

Costs

The cost of the implementation and running of the Board has been minimal, having been included in existing officer workloads.

Work plan for 2019

Topics will include:

- review of internal controls assurance reports;
- update on Pension Administration Strategy;
- update on ERPF online services;
- update on Monthly Data Collection pilot;
- Scheme Employer Year end return exercise 2018/19;
- update on Member Web;
- review of the Pension Fund Risk Register;
- ISA 260 plus Annual Report and Accounts 2018/19;

- review of the Board's Terms of Reference;
- Fund Annual Performance Review 2018/19; and
- update on 2019 actuarial valuation.
- ISA 260 plus Annual Report and Accounts 2017/18;
- Fund Performance 2017/18; and
- review of the Board's Terms of Reference.

The main challenge facing the Fund in 2019/20 is to engage the Fund's members with the ERPF member self service (ERPFMSS) project. ERPFMSS will enable members to access their pension data and update their personal information online. The Board will oversee the project and advise the Fund on an effective Member Engagement Strategy to ensure that members are aware of the benefits of using ERPFMSS.

Details of the Board activities including papers, agendas and minutes of Board meetings can be found at **www.erpf.org.uk/local-pension-board**

East Riding Pension Fund Local Pension Board
June 2019

auditor report

Independent Auditor's Statement to the Members of East Riding of Yorkshire Council on the Pension Fund Financial Statements included within East Riding Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the East Riding Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of East Riding of Yorkshire Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of East Riding of Yorkshire Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of East Riding of Yorkshire Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of East Riding of Yorkshire Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of East Riding of Yorkshire Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of East Riding of Yorkshire Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than East Riding of Yorkshire Council and East Riding of Yorkshire Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Mark Kirkham

For and on behalf of Mazars LLP

5th Floor

3 Wellington Place

Leeds

LS1 4AP

contact points

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

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

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

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

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

