

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

29 SEPTEMBER 2011

## NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2010/11

**Report of the Corporate Director – Finance and Central Services and  
Treasurer to the Pension Fund****1.0 PURPOSE OF REPORT**

- 1.1 To receive the North Yorkshire Pension Fund Annual Report for the financial year 2010/11.

**2.0 ANNUAL REPORT**

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2010/11 incorporates the Accounts of the North Yorkshire Pension Fund (NYPF) and is dealt with under **Item 6, Statement of Final Accounts including Letter of Representation.**
- 2.2 To comply with Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008 an Annual Report must also be produced for the Pension Fund, which includes the NYPF Accounts as well as certain governance documents and other information. The Annual Report for 2010/11 was taken to the Pension Fund Committee for approval on 22 September 2011 and is attached for information to Members of the Audit Committee as **Appendix 1.**
- 2.3 Deloitte LLP has indicated that an unmodified opinion of the NYPF Annual Report 2010/11 will be given.

**3.0 RECOMMENDATIONS**

- 3.1 Members are asked to note the North Yorkshire Pension Fund Annual Report for 2010/11.

JOHN MOORE

Corporate Director – Finance and Central Services and Treasurer to the Pension Fund

Finance and Central Services  
County Hall  
Northallerton  
19 September 2011

**Background documents:** None



North

Yorkshire County Council

# North Yorkshire Pension Fund

Annual Report and Accounts  
2010/11



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## PART A – MANAGEMENT OF THE FUND

### 1. Scheme Management and Advisers as at 31 March 2011

<b>Administering Authority:-</b>	North Yorkshire County Council
<b>Pension Fund Committee Members as at 31 March 2011</b>	J Weighell (Chairman) R Harrison-Topham (Vice-Chairman) M-A de Courcey-Bayley B Bateman MBE J Blackie H Swiers P Mulligan J Clark (District Councils' representative of Local Government North Yorkshire and York) R Moore, City of York Council (J Gunnell from June 2011 onwards)
<b>Treasurer</b>	John Moore, Corporate Director – Finance and Central Services, North Yorkshire County Council
<b>Investment Adviser</b>	Ms C Dobson of Investment Trustee and Adviser Services
<b>Investment Consultant</b>	Aon Hewitt
<b>Independent Professional Observer</b>	Peter Scales (AllenbridgeEpic)
<b>Fund Managers</b>	Baillie Gifford Life Ltd (Baillie Gifford & Co) Standard Life Pension Funds Ltd (Standard Life Investments) FIL Pensions Management (Fidelity International) European Credit Management Ltd Amundi Asset Management R C Brown Investment Management Plc YFM Venture Finance Ltd (Yorkshire Fund Managers)
<b>Actuary</b>	Mercer Ltd
<b>Legal Services</b>	Head of Legal Services North Yorkshire County Council Ward Hadaway
<b>Auditor</b>	Deloitte LLP
<b>Banker</b>	Barclays Bank Plc
<b>Custodian for Fund Assets: (+ fund accounting and performance measurement)</b>	The Bank of New York Mellon (BNY Mellon Asset Servicing)
<b>Custodian Monitoring</b>	Thomas Murray Ltd
<b>Shareholder Voting Advisor</b>	Pensions Investment Research Consultants Ltd (PIRC)
<b>AVC Provider</b>	Prudential Plc (Prudential Assurance Company)

## 2. Management Report

### (a) Introduction

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

The Pensions Section of the Finance and Central Services Directorate in NYCC administers all aspects of the benefits regulations, member records etc. Other staff within Finance and Central Services look after the accounting and management information requirements of the Fund and the PFC. In contrast all aspects of the day to day management of investment funds are undertaken by independent fund managers (see page 27 et seq).

During the year the Committee formally met on five occasions, plus an additional three meetings to consider the reports of the investment managers. During the financial year ended 31 March 2011, the Committee received professional advice from its Independent Investment Adviser, Ms C Dobson of Investment Trustee and Adviser Services, its firm of Investment Consultants, Aon Hewitt, its Independent Professional Observer (Mr P Scales of AllenbridgeEpic) as well as the Treasurer. The Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

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

The Corporate Director - Finance and Central Services, acting as Treasurer to the Pension Fund is responsible for preparing this Annual Report in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007)*, *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010*, a *Statement of Recommended Practice and Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008*.

### (b) Membership

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

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

Employees therefore have various options:-

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

There has been a consistent growth in overall membership numbers over the past 5 years that is evident from the table below. (The reduction in Current Contributors in 2007/08 was substantially due to a data cleansing exercise).

<b>Membership Type</b>	<b>As at 31 March 2007</b>	<b>As at 31 March 2008</b>	<b>As at 31 March 2009</b>	<b>As at 31 March 2010</b>	<b>As at 31 March 2011</b>
Current Contributors	28,401	27,535	28,372	28,623	29,295
Deferred Pensions	14,246	17,246	19,953	22,079	23,800
Pensioners receiving Benefits	11,721	12,491	13,333	14,119	14,888

See **Appendix 1** (page 121) for a more detailed analysis of membership numbers at 31 March 2011, with comparative numbers for 31 March 2010.

### (c) Income

The Fund is primarily financed by contributions from both employees and employers together with income earned from investments. The surplus of income received from these sources, net of benefits and other expenses payable, is invested as described in **PART I, STATEMENT OF INVESTMENT PRINCIPLES** (see page 85).

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2009 as follows:-

- for those previously paying at 6%, and for all new starters the rates paid per range of pensionable pay are shown in the table below:

Band	Range	Contribution rate
1	£0 to £12,600	5.5%
2	£12,601 to £14,700	5.8%
3	£14,701 to £18,900	5.9%
4	£18,901 to £31,500	6.5%
5	£31,501 to £42,000	6.8%
6	£42,001 to £78,700	7.2%
7	More than £78,700	7.5%

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

- For those employees who are protected at the "manual worker" contribution rate, the rate for these members was 6.5% for the year 2010/11 unless the rate in the standard contribution rate table is lower. From 2011/12 the tabulated bandings and rates will apply.

The basis of the employer contribution rates is explained further in **section (e) Employer Contributions** below and in **PART C ACTUARIAL REPORT** (starting on page 24).

#### (d) Benefits

The Benefits payable under the Regulations are largely mandatory allowing little discretion to the employing bodies. A summary of benefits payable under the Local Government Pension Scheme (LGPS) is provided in Part K from page 116.

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

#### (e) Employer Contributions

The following is a list of the 69 employers who contributed to the Fund in 2010/11, showing the specific contribution rate per employer which applied. The Fund average was 18.8%. During the year, one employer transferred to another LGPS Fund.

**Scheduled Bodies (45):**

<i>Employer</i>	<i>Contribution Rate % of pensionable pay</i>
North Yorkshire County Council	19.2
City of York Council	18.0
Craven District Council	24.9
Hambleton District Council	17.7
Harrogate Borough Council	22.5
Richmondshire District Council	21.4
Ryedale District Council	20.2
Scarborough Borough Council	19.8
Selby District Council	21.8
North Yorkshire Police Authority	19.3
North Yorkshire Fire & Rescue Authority	15.2
North Yorkshire Probation Service	22.3
Yorkshire Dales National Park	21.8
North York Moors National Park	16.1
University of Hull, Scarborough Campus	17.2
Askham Bryan College	16.2
Selby College	13.5
Craven College	14.0
Scarborough Sixth Form College	15.7
York College	16.0
Skipton Town Council	24.2
Riccall Parish Council	13.0
Harrogate Grammar School	19.2

<i>Employer</i>	<i>Contribution Rate % of pensionable pay</i>
Scheduled Bodies grouped for setting contribution rates:	21.9
Foss Internal Drainage Board	
Marston Moor Internal Drainage Board	
Thornton Internal Drainage Board	
Great Ayton Parish Council	
Whitby Town Council	
Fulford Parish Council	
Sutton-in-Craven Parish Council	
Selby Town Council	
Norton on Derwent Town Council	
Knaresborough Town Council	
Glusburn Parish Council	
Richmond Town Council	
Northallerton & Romanby Joint Burial Committee	
Northallerton Town Council	
Malton Town Council	
Pickering Town Council	
Hunmanby Parish Council	
Haxby Town Council	
Ripon City Council	
Kirkbymoorside Parish Council	
Easingwold Town Council	
Filey Town Council	



**Admitted Bodies (24):**

<i>Employer</i>	<i>Contribution Rate % pensionable pay</i>
York St. John University	15.0
York Archaeological Trust	32.3
Welcome to Yorkshire	18.2
Joseph Rowntree Charitable Trust	20.9
Yorkshire Housing	16.5
Community Leisure (formerly Ryedale Sport)	17.3
North Yorkshire Business and Education Partnership	41.2
Balfour Beatty Infrastructure Services Ltd	20.4
York Museum and Galleries Trust	14.1
Craven Housing Ltd	12.2
Yorkshire Coast Homes Ltd	13.8
Richmondshire Leisure Trust	15.5
Jacobs (UK) Ltd	15.3
Superclean Services	19.2
Scarborough Museums Trust	21.9
Inspace	16.4
Veritau Ltd	12.0
Enterprise	16.2
Wigan Leisure and Culture Trust	20.3
Mellors Catering Services	19.2
Elite Cleaning	19.2
Grosvenor Facilities Management	19.2
ISS Mediclean Ltd	18.0
Chartwells Compass	18.0

**Appendix 2** contains a breakdown of each employer's minimum contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14.

## PART B – STATEMENT OF FINANCIAL ACCOUNTS 2010/11

### NORTH YORKSHIRE PENSION FUND FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2011

2009/10 £000		2010/11 £000	2010/11 £000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions</b>		
76,276	Employers - Normal	77,388	
512	- Special	548	
2,102	- Early Retirement Costs Recharged	3,284	
25,689	Employees - Normal	25,802	
557	- Additional Voluntary	550	
105,136	Total Contributions (note 11)		107,572
16,215	<b>Transfers in</b> - Individual Transfers		10,957
	<b>Less</b>		
	<b>Benefits</b>		
(49,672)	Pensions	(51,972)	
(14,467)	Commutation of Pensions and Lump Sum Retirement Benefits	(19,783)	
(1,129)	Lump Sums Death Benefits	(2,072)	
(65,268)	Total Benefits (note 11)		(73,827)
	<b>Leavers</b>		
(181)	Refunds of contributions	(40)	
7	State Scheme Premiums	(1)	
(9,502)	Transfers out - Individual Transfers	(10,213)	
(9,676)	Total Leavers		(10,254)
(1,224)	<b>Administrative and Expenses (note 13)</b>		(1,425)
45,183	<b>Net additions from dealings with members</b>		33,023
	<b>RETURNS ON INVESTMENTS</b>		
21,116	Investment income (note 15)		14,311
453,318	Change in market value of investments (note 16)		111,685
(370)	Taxation (Irrecoverable Withholding Taxes) (note 15)		(375)
(3,446)	Investment management expenses (note 14)		(5,285)
470,618	<b>Net returns on investments</b>		120,336
515,801	<b>Net Increase in the Fund during the year</b>		153,359
828,821	<b>Opening Net Assets of the Scheme</b>		1,344,622
1,344,622	<b>Closing Net Assets of the Scheme</b>		1,497,981

**NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT**

31 March 2010		31 March 2011	
£000		£000	£000
	<b>INVESTMENT ASSETS (note 16)</b>		
	<b>Fixed Interest Securities</b>		
0	Government	0	
<u>109,805</u>	Corporate	<u>115,959</u>	
109,805	Total Fixed Interest Securities		115,959
616,351	<b>Equities</b>		672,043
	<b>Pooled Investment Vehicles</b>		
361,976	Unitised Insurance Funds	414,640	
<u>231,385</u>	Other Managed Funds	<u>273,592</u>	
593,361	Total Pooled Investment Vehicles		688,232
	<b>Derivative Contracts (note 16c)</b>		
10	Forward Foreign Exchange Contracts (Receivable)		0
	<b>Cash Deposits</b>		
5,665	Cash and Cash Funds		10,811
	<b>Other Investment Balances</b>		
<u>8,822</u>	Investment Debtors		<u>4,428</u>
<u>1,334,014</u>	<b>Total Investment Assets</b>		<u>1,491,473</u>
	<b>INVESTMENT LIABILITIES (note 16)</b>		
	<b>Derivative Contracts (note 16c)</b>		
(3,920)	Forward Foreign Exchange Contracts (Payable)		(3,185)
	<b>Other Investment Balances</b>		
<u>(5,555)</u>	Investment Creditors		<u>(2,477)</u>
<u>(9,475)</u>	<b>Total Investment Liabilities</b>		<u>(5,662)</u>
<u>1,324,539</u>	<b>NET INVESTMENT ASSETS</b>		<u>1,485,811</u>
	<b>CURRENT ASSETS</b>		
7,914	Contributions due from employers		8,780
137	Other Non-Investment Debtors		467
	Cash		
13,144	Invested with North Yorkshire County Council		7,005
<u>21,195</u>	<b>Total Current Assets</b>		<u>16,252</u>
	<b>CURRENT LIABILITIES</b>		
<u>(1,112)</u>	Non-investment creditors		<u>(4,082)</u>
<u>(1,112)</u>	<b>Total Current Liabilities</b>		<u>(4,082)</u>
<u>1,344,622</u>	<b>Total Net Assets (note 8)</b>		<u>1,497,981</u>

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall after the end of the Fund year.

**NOTES TO THE PENSION FUND CORE STATEMENTS****1. General Description of the Fund**

The North Yorkshire Pension Fund (NYPF) is a local government pension fund operated under the Local Government Pension Scheme (LGPS) Regulations 1997 (as Amended), providing pensions to employees of the principal local authorities and other admitted bodies in North Yorkshire. The Fund does not cover teachers, police and fire fighters for whom separate statutory pension arrangements exist.

The NYPF is financed by contributions from both employees and employers together with income earned from investments. The benefits payable under the 1997 Regulations (as Amended) are largely mandatory although there are some discretions available to the employing bodies. Any monies which are not immediately required to pay pensions and other benefits are invested in accordance with a predetermined investment policy.

The contributions payable by employees are prescribed by the Regulations. A banded system of rates is now in place, based on the pay levels of individual members. The employer contributions are determined every three years by an independent assessment of NYPF carried out by the appointed Actuary.

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

Membership of the LGPS is not compulsory. Employees have the option of being part of an occupational pension scheme, such as the NYPF, or alternatively purchasing a personal plan managed by a private sector company, or participating in the State Second Pension or a Stakeholder Pension. Employees over 16 years old, however, are automatically admitted to the NYPF unless they elect otherwise.

**2. Membership**

The following summarises the membership of the NYPF at 31 March 2011:-

	31 March 2010	in year variation +/-	31 March 2011
Category of Members			
Contributors	28,623	+672	29,295
Deferred Pensioners	22,079	+1,721	23,800
Pensioners	14,119	+769	14,888
Contributing Employer Organisations	64	+5	69

### 3. Administration and Management of the Fund

The County Council is the administering authority for the NYPF. The County Council's responsibilities are fulfilled by the Pension Fund Committee, which has powers delegated to it by the County Council. The majority of the assets of the NYPF are allocated to five principal investment managers, which as at 31 March 2011 were as follows:-

- Baillie Gifford & Co
- Fidelity International Pensions Management
- Standard Life Investments
- Amundi Asset Management
- European Credit Management

The Fund also has a small portfolio of assets (£2.3m) held by RC Brown Investment Management PLC. This equity mandate is based around ethical criteria and has been invested at the request of one particular employing body.

In addition, the Fund has made direct investments in the following:-

- Yorkshire and Humber Equity Fund (£3m committed, £1.5m drawn down by March 2011)
- A separate currency hedging account with the Fund's global custodian (see Note 7).

The investment managers are given wide discretion in the selection of securities in which investment can be made, limited only by the Regulations and any specific instructions given by the Committee. Further details of the investment policy of the Fund are included in Note 7.

During the year the Committee formally met on five occasions, plus an additional four meetings to consider performance reports of the investment managers. The Committee receives professional advice from the following:-

- an independent Investment Adviser, Ms C Dobson of Investment Trustee and Adviser Services, (replaced Mr P Williams of AllenbridgeEpic in June 2010)
- a firm of Investment Consultants, Aon Hewitt (replaced Mercer in April 2010)
- the Treasurer (who is the Corporate Director – Finance and Central Services of North Yorkshire County Council).

Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their investment strategies. Finance and Central Services staff of North Yorkshire County Council (NYCC) liaise with the investment managers, the Investment Consultant, and the Investment Adviser on day to day matters and are responsible for associated administrative and accounting functions relating to the Fund.

#### 4. Scheduled and Admitted Bodies contributing to the Fund

The following are the 69 Scheduled and Admitted Bodies which contributed to the NYPF during 2010/11

##### 45 Scheduled Bodies:

North Yorkshire County Council	Norton on Derwent Town Council
City of York Council	Knaresborough Town Council
Craven District Council	Glusburn Parish Council
Hambleton District Council	Skipton Town Council
Harrogate Borough Council	Richmond Town Council
Richmondshire District Council	Northallerton and Romanby Joint Burial Ctte
Ryedale District Council	Northallerton Town Council
Scarborough Borough Council	Malton Town Council
Selby District Council	Pickering Town Council
North Yorkshire Police Authority	Hunmanby Parish Council
North Yorkshire Fire and Rescue Authority	Haxby Town Council
North Yorkshire Probation Service	Ripon City Council
Yorkshire Dales National Park	Easingwold Town Council
North York Moors National Park	Kirkbymoorside Parish Council
Foss Internal Drainage Board	Filey Town Council
Marston Moor Internal Drainage Board	University of Hull, Scarborough Campus
Thornton Internal Drainage Board	Askham Bryan College
Great Ayton Parish Council	Selby College
Whitby Town Council	Craven College
Fulford Parish Council	Scarborough Sixth Form College
Sutton-in-Craven Parish Council	Harrogate Grammar School
Selby Town Council	York College
Riccall Parish Council	

##### 24 Admitted Bodies:

York St John University	York Archaeological Trust
Yorkshire Housing	Joseph Rowntree Charitable Trust
Welcome to Yorkshire	Community Leisure Ltd
North Yorks Business Enterprise Partnership	Balfour Beatty Infrastructure Services Ltd
York Museum and Galleries Trust	Yorkshire Coast Homes
Craven Housing	Jacobs Engineering UK
Richmondshire Leisure Trust	Superclean Services
Inspace	Veritau Limited
Scarborough Museums Trust	Wigan Leisure and Culture Trust
North Yorkshire LMS Pool	Enterprise
- Mellors Catering Services	York LMS Pool
- Grosvenor Facilities Management	- Chartwells compass
- Elite	- ISS Mediclean Ltd

#### 5. Accounting Policies

The Accounts have been prepared in accordance with the provisions of Section 2, Statement of Recommended Accounting Practice of the Pension SORP 2007 and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010 which has adopted International Financial Reporting Standards (IFRS) for financial statements produced from 2010/11.

## Basis of Preparation

Except where otherwise stated below, the Accounts have been prepared on an accruals basis.

### (a) Fund Account Transactions

- i) Benefits payable and withdrawal of contributions have been brought into the Accounts on the basis of all valid payments due in the year. Transfer values are those sums payable by, or receivable from, other pension schemes for individuals only and relate to periods of previous pensionable employment. Transfer values receivable are brought into the Accounts in the year in which they were received. The same basis is used for transfer values paid.
- ii) Dividends and interest on Government Stocks, Corporate Bonds, loans and deposits have been credited to the Fund in the year in which they are declared. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rate applicable at 31 March 2011 where amounts were still outstanding at the year end.
- iii) a proportion of relevant NYCC officers' salaries have been charged to the Pension Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged direct to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.
- iv) the investment managers are paid quarterly fees, in arrears, on a sliding scale based on the market value of the investments managed at the end of each quarter. In addition performance related fees are payable to Baillie Gifford & Co and Standard Life Investments. A performance related fee was paid to Baillie Gifford & Co during 2010/11.

### (b) Current Assets and Liabilities

- i) Debtors and creditors are raised for all investment transactions made up to and including 31 March 2011 but not settled until later.
- ii) Dividend income accrued at 31 March 2011 but not received until 1 April or afterwards has been brought into the Fund's Accounts as a debtor on the accruals basis.
- iii) Debtors are raised for known contributions due at 31 March 2011. No provision has been made for employees' and employers' contributions related to sums due on pay awards for 2010/11 not paid until 2011/12.
- iv) Retirement allowances and death grants where the date of leaving/death was up to and including 31 March 2011 are shown on a cash basis.

### (c) Valuation of Investments

Investments are shown in the Accounts at their market value which have been determined as follows:-

- i) Securities quoted in the UK are valued at the last traded price quotations at close of business on 31 March 2011. In order to comply with the latest Statement of Recommended Practice (see above) bid prices are used for the valuation of securities wherever possible, otherwise mid prices are used.
- ii) Securities quoted overseas are valued at the last traded price quotations of their local stock exchange as at 31 March 2011, and again bid prices are used for the valuation.
- iii) Unit trusts and managed fund investments are stated at the bid prices quoted by their respective managers as at 31 March 2011.
- iv) Other unlisted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.

- v) All overseas securities and cash are translated into sterling at the rate ruling at the Net Assets Statement date.
- vi) Derivative contracts used to hedge against foreign currency movements are valued using exchange rates as at 31 March 2011.

No allowance has been made for liabilities to pay pensions and other benefits after the 31 March 2011. The actuarial position of the Scheme is dealt with in the Certificate of the Actuary included in the Annual Report.

## 6. Actuarial position of the Fund

In common with other Local Government Pension Schemes an actuarial valuation is carried out every three years. The Valuation of the Fund on which employer contributions for 2010/11 were based was conducted as at 31 March 2007. This Valuation was effective for a period of three years beginning 1 April 2008.

The Common Rate of employers' contributions, required from all employers, for the three years is 12.3% of pensionable pay (10.4% in the 2004 Valuation). This Common Rate was calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date.

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

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

In order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow Communities and Local Government guidance and stabilise contribution rates by adopting a deficit recovery period of 27 years from 1 April 2008, (30 years at the 2004 Valuation). Therefore, an average additional contribution rate of 6.5% (over 27 years) was required to fund the deficit, implying an average employer contribution rate of 18.8% (12.3% + 6.5%) of pensionable pay, compared to 17.5% at the 2004 Valuation.

The Valuation process was repeated as at 31 March 2010. A number of material developments affecting the Fund since 2007 led to changes in actuarial assumptions used in this Valuation which decreased the Common Contribution Rate (CCR) to 12.2%, effective from 1 April 2011. The most significant changes were:

- changes in demographic assumptions
- changes in membership profile
- changes in average member contributions.

In order to assist with keeping the CCR down, some changes were made to the actuarial assumptions used in the 2007 Valuation, the major ones being :-

- giving an opportunity to some employers to allow for improved investment returns in the calculation of their individual contribution rate
- assuming that on average, 50% of retiring members will take the standard 3/80ths cash sum only, based on accrued service up to 31 March 2008 and 50% will take the maximum tax-free cash available at retirement.

The 2010 Valuation was concluded in February 2011. The maximum deficit recovery period was revised to 30 years from April 2011 substantially due to poor investment returns resulting from the



global economic crisis during 2008 and early 2009. This approach contributed to the reduction in the additional contribution rate required to fund the deficit of 6.4%, implying an average employer contribution rate of 18.6% (12.2% + 6.4%) of pensionable pay.

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

At 31 March 2011, the Fund's assets were valued at £1,498m, with the deficit being estimated at £643m, giving a solvency position of 70%. This improvement in solvency was due to a combination of good investment returns and the relative slow growth in the value of liabilities resulting from changes in actuarial assumptions following the 2010 Triennial Valuation as well as a small but significant increase in the discount rate during the year.

The actuarial assumptions for the 2010 Valuation in respect of Future Service were as follows:

	For future service liabilities
Investment Return	6.75% per annum
RPI Price Inflation	3.00% per annum
Salary Increases *	4.75% per annum
Pensions Increases	3.00% per annum

\* plus salary scale for officers to allow for incremental increases

Some employing bodies took advantage of the "controlled flexibility" policy that was permitted by the Pension Fund Committee and chose either a shorter deficit recovery period than 30 years, or a bespoke investment strategy specifically assigned to a particular employer.

A statement by the Fund's Actuary, Mercer, showing the actuarial present value of promised retirement benefits is included in **Part C – Actuarial Report** on page 24.

## 7. Investment Policy

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, require the County Council, as administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. The Regulations set the limits for classes of investments and require the Fund to have a suitably diversified portfolio of investments. Apart from these legal constraints and prohibitions on trading in speculative derivatives and on stock lending and, from time to time, requiring a certain minimum level of investment held in cash, bonds and other similar securities, the Pension Fund Committee places no restrictions on the investment managers regarding the investment they can, in their judgement, make relevant to the benchmark and performance mandate they have been given.

NYPF has two global fixed income managers, both of which were appointed on 1 July 2005, being Amundi Asset Management and European Credit Management (ECM). Amundi has as their benchmark the "least risk portfolio" as agreed with the Actuary. This is 85% UK index linked gilts and 15% UK fixed income gilts, with maturities exceeding 15 years in both cases. Amundi's out-performance target is 2.5%. ECM's benchmark is 1 month LIBOR with an out performance target of 3% per annum. Both investments are held in pooled funds by both managers.

The Fund employs three equity managers each investing in a particular market with a bespoke benchmark and performance target. Baillie Gifford & Co manages two global (i.e. including UK) equity portfolios, namely Global Alpha and an unconstrained portfolio, the Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than made up of separate direct holdings (i.e. 'segregated' holdings). The former has been set a target of +2% relative to the FTSE All World index, and the latter a target of +3% relative to the same benchmark.

Fidelity manages a segregated overseas equities (ex UK) portfolio with a target of +2% relative to a composite MSCI index, weighted 35% North America, 35% Europe excluding UK, 15% Pacific and 15% Emerging Markets.

Standard Life manages a UK equity portfolio with a target of +3% relative to the FTSE 350 Equally Weighted index excluding investment trusts. This portfolio comprises segregated holdings in UK companies.

The Fund hedges against 25% of the exposure to the major currencies as a result of overseas equity investments using forward foreign exchange contracts. This hedge was reduced from 50% following an Investment Strategy Review completed in late 2009. This is managed by NYCC staff working directly with the NYPF's global custodian (see below).

The market values as at 31 March 2011 of the separate portfolios, together with their proportions of the Fund, are shown in Note 8.

The global custodian is BNY Mellon Asset Servicing. The main services provided are custodianship of the Fund's assets, including settlement of trades and collection of income, investment accounting and performance measurement (of the fund managers).

## 8. Analysis of Net Assets

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

Investment Manager	31 March 2011		31 March 2010	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	251,129	16.8	222,402	16.5
Baillie Gifford & Co. - LTGG	163,511	10.9	139,574	10.4
Fidelity International	365,879	24.4	326,603	24.3
Standard Life Investments	367,407	24.5	345,748	25.7
European Credit Management	115,959	7.7	109,818	8.2
Amundi Asset Management	219,345	14.6	180,820	13.4
RC Brown Investment Management	2,312	0.2	1,919	0.1
Hermes Focus Asset Management-Europe	0	0.0	1	0.0
Currency Hedging	(1,073)	(0.1)	(3,857)	(0.3)
Yorks & Humber Equity Fund	1,339	0.1	1,509	0.1
Transition Accounts	0	0.0	2	0.0
Internally Managed (cash and net debtors)	12,170	0.9	20,083	1.6
	<u>1,497,978</u>	<u>100.0</u>	<u>1,344,622</u>	<u>100.0</u>

The following table shows the total of investments analysed by type as at 31 March. All investments are in quoted securities other than £1,340k included in UK assets.

		31 March 2011 £000	31 March 2010 £000
UK Assets	- including pooled investments	780,146	706,553
Foreign Assets	- including pooled investments	<u>696,088</u>	<u>609,053</u>
Total Invested		1,476,234	1,315,606
Cash and other Short Term Assets		<u>21,747</u>	<u>29,016</u>
		<u>1,497,981</u>	<u>1,344,622</u>

**9. Details of the ten largest segregated equity holdings as at 31 March 2011**

	Market Value £000	Percentage of Value of Fund %
GKN	18,250	1.2
Rio Tinto	14,485	1.0
Xstrata	13,090	0.9
Vedanta Resources	11,241	0.8
BP	11,227	0.7
Lloyds Banking Group	9,825	0.7
Balfour Beatty	8,040	0.5
Cookson Group	7,908	0.5
Nestle	7,058	0.5
Spectris	6,912	0.5
	<u>108,036</u>	<u>7.3</u>

**10. Analysis of Debtors and Creditors**

	2010/11 £000	2009/10 £000
<b>Debtors</b>		
<b>Investment Assets</b>		
Investment Transactions (excl Forward Foreign Currency)	2,439	6,344
Accrued Dividends	1,632	2,196
Withholding Taxes Recoverable	357	282
	<u>4,428</u>	<u>8,822</u>
<b>Other Assets</b>		
Contributions due from Employing Authorities	8,780	7,914
Pensions Rechargeable	36	49
Interest on Deposits	6	12
Other	425	76
	<u>9,247</u>	<u>8,051</u>
<b>Total Debtors</b>	<u><b>13,675</b></u>	<u><b>16,873</b></u>
	2010/11 £000	2009/10 £000
<b>Creditors</b>		
<b>Investment Assets</b>		
Investment Transactions (excl Forward Foreign Currency)	5,662	5,555
	<u>5,662</u>	<u>5,555</u>
<b>Other Assets</b>		
Management Fees	911	1,018
Other	3,171	94
	<u>4,082</u>	<u>1,112</u>
<b>Total Creditors</b>	<u><b>9,744</b></u>	<u><b>6,667</b></u>

**11. Contributions and Benefits**

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

	2010/11 £000	2009/10 £000
Contributions Receivable		
North Yorkshire County Council	46,525	45,661
Other scheduled bodies	54,862	54,353
Admitted bodies	<u>6,185</u>	<u>5,122</u>
	<u>107,572</u>	<u>105,136</u>

Members of the Fund can also make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned. A statement of the value of these investments is given in Note 21.

	2010/11 £000	2009/10 £000
Benefits Payable		
North Yorkshire County Council	31,504	28,393
Other scheduled bodies	38,965	33,720
Admitted bodies	<u>3,358</u>	<u>3,155</u>
	<u>73,827</u>	<u>65,268</u>

**12. Group Transfers**

There were no group transfers in or out of the Fund in 2010/11.

**13. Administration Expenses**

	2010/11 £000	2009/10 £000
Administration and Processing	1,243	1,114
Actuarial Fees	120	58
Legal and Audit Fees	<u>62</u>	<u>52</u>
	<u>1,425</u>	<u>1,224</u>

**14. Investment Management Expenses**

	2010/11 £000	2009/10 £000
Administration, Management and Custody	4,996	3,206
Performance Measurement Services	28	30
Other Advisory Fees	<u>261</u>	<u>210</u>
	<u>5,285</u>	<u>3,446</u>

**15. Investment Income**

	2010/11 £000	2009/10 £000
Interest from Fixed Interest and Index Linked Securities	5	834
Dividends from Equities	14,105	13,602
Interest on Cash Deposits	101	306
Interest on Interest Rate Swaps	0	6,324
Underwriting Commission Received	100	50
	<u>14,311</u>	<u>21,116</u>
Irrecoverable withholding tax	(375)	(370)
Total Investment Income	<u>13,936</u>	<u>20,746</u>

The irrecoverable tax relates to the element of the withholding tax deducted from overseas dividends not reclaimable. For 2010/11 the figure consisted of:-

	£000
Irrecoverable withholding tax on dividends receivable in 2010/11	376
Less withholding tax received	(1)
Net Irrecoverable Tax 2010/11	<u>375</u>

**16. Investments****(a) Market Value Reconciliation**

	Value at 31 March 2011 £000	Change in market value at 31 March 2011 £000	Sales proceeds and derivative receipts £000	Purchases at cost and derivative payments £000	Value at 1 April 2010 (as restated) £000
Fixed Interest Securities	115,959	6,154	0	0	109,805
Equities	672,043	4,477	(318,431)	369,646	616,351
Pooled investment vehicles	688,232	66,583	(1,688)	29,976	593,361
Derivative Contracts	(3,185)	735	(626,149)	626,139	(3,910)
Total Invested	<u>1,473,049</u>	<u>77,949</u>	<u>(946,268)</u>	<u>1,025,761</u>	<u>1,315,607</u>
Cash Deposits	10,811				5,665
Net Investment Debtors	1,951				3,267
Net Investment Assets	<u>1,485,811</u>				<u>1,324,539</u>

Transaction costs are included in the cost of purchases and sale proceeds and include costs charged directly to the Pension Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £1,200k (2009/10 £1,743k). In addition indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund.

Pooled investment vehicles includes a fund managed by Fidelity, also disclosed under other managed funds in the Net Asset Statement. This was shown against equities in the 2009/10 accounts. Comparative year figures have been restated.

### (b) Analysis of Realised and Unrealised Profits / Losses

	2010/11 £000	2009/10 £000
Net Realised Profit on sales	31,508	651
Net Realised Profit on Currencies	2,228	10,419
Unrealised Profit as at 31 March 2011	<u>77,949</u>	<u>442,248</u>
	<u>111,685</u>	<u>453,318</u>

### (c) Derivative Contracts

All positions in derivative contracts shown on the accounts as at 31 March 2011 are Forward Foreign Exchange Contracts and are classed as Over the Counter contracts. Expiration dates are up to three months following 31 March. The total nominal value is £179m and the market value £176m. The Fund objective in using derivatives is to reduce risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio, without disturbing the underlying assets and to mitigate the effect of currency risk on overseas investments.

## 17. Taxation

### (a) United Kingdom Tax

The Fund is an exempt approved Fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income or to capital gains tax. Since the Budget changes of 1997, however, the Fund has not been able to recover UK Advance Corporation Tax on dividends.

### (b) Value Added Tax

As North Yorkshire County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investment expenses.

### (c) Withholding Taxes

Investment income from overseas suffers a withholding tax in the country of origin, except for income from the United States of America and certain European countries, where reciprocal agreements are in force and partial exemption exists.

## 18. Material Transactions with related parties

During the year no material transactions arose with related parties, other than those disclosed elsewhere in the Statement of Accounts. No material related party transactions occurred in respect of members of the Pension Fund Committee during 2010/11 (£nil in 2009/10).

## 19. Stock Lending Arrangements

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or any previous years.

## 20. Material Contingent Liabilities

The Fund had no material contingent liabilities at the period end (£nil in 2009/10).

## 21. Additional Voluntary Contributions (AVCs)

As stated in note 11, members may make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned.

The AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

The value of the Additional Voluntary Contributions Fund increased in the year by £1,015k, (£989k in 2009/10). As at 31 March 2011 there were 1,634 active members in the AVC Fund (1,877 as at 31 March 2010), and there were 160 withdrawals from the AVC Fund during 2010/11 (133 during 2009/10). The total value of the AVC Fund serviced by these contributions as at 31 March was:

	31 March 2011 £000	31 March 2010 £000
With Profits Retirement Benefits	14,723	14,699
Unit Linked Retirement Benefits	1,463	1,037
Deposit Fund Benefits	1,354	789
	<u>17,540</u>	<u>16,525</u>
Death in Service Benefits in Force	<u>5,210</u>	<u>6,459</u>

The change in value of the AVC Fund during the year was:-

	31 March 2011 £000	31 March 2010 £000
<b>Opening Balance</b>	16,525	15,536
<b>Income</b>		
Contributions received	2,284	1,997
Interest and Bonuses / Change in Market Value	786	904
Transfers In	14	44
<b>Expenditure</b>		
Life Assurance Premiums	(14)	(15)
Retirement Benefits	(1,952)	(1,892)
Transfers Out and Withdrawals	(67)	(27)
Death - Return of Funds	(36)	(22)
<b>Closing Balance</b>	<u>17,540</u>	<u>16,525</u>

## 22. Statement of Investment Principles (SIP)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, and review from time to time, a written statement recording the investment policy of NYPF.

The Pension Fund Committee approved the latest version of the SIP for the NYPF on 23 June 2011. The SIP is reviewed as and when necessary with the latest version being available on the NYPF website at [www.nypf.org.uk](http://www.nypf.org.uk) together with other key documents, such as previous years' Annual Reports, the current Funding Strategy Statement, the Triennial Actuarial Valuation Report (see note 6), Interim Actuarial Reviews and Policy Statements in relation to Governance Compliance and Communications.

## **23. Annual Report**

The Annual Report 2010/11 of the NYPF, which gives further details on the management of the Fund and on investment performance, will be available from October 2011 from Finance and Central Services, County Hall, Northallerton, DL7 8AL, or at [www.nypf.org.uk](http://www.nypf.org.uk).



## PART C – ACTUARIAL REPORT

# MERCER

## NORTH YORKSHIRE PENSION FUND

### Accounts for the year ended 31 March 2011

#### Statement by Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the North Yorkshire Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,345 million represented 67% of the Funding Target of £2,004 million at the valuation date. The valuation also showed that a common rate of contribution of 12.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.4% of pensionable pay for 30 years. This would imply an average employer contribution rate of 18.6% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.



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As a result of the valuation, a revised Rates and Adjustments Certificate was prepared for the three years commencing 1 April 2011. The rates payable by the main Councils were certified as follows:

	Future Service Rate (% of pay) plus lump sum (£)		
	2011/12	2012/13	2013/14
City of York Council	12.2% plus £4,961,800	12.2% plus £5,197,500	12.2% plus £5,444,400
Harrogate Borough Council	12.3% plus £2,629,500	12.3% plus £2,754,400	12.3% plus £2,885,200
North Yorkshire County Council	12.4% plus £13,312,00	12.4% plus £13,944,30	12.4% plus £14,606,70
Scarborough Borough Council	12.6% plus £1,451,100	12.6% plus £1,796,400	12.6% plus £2,171,300

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

### **Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 is £2,200 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,919 million.

Ian Kirk  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
May 2011

## PART D – INVESTMENT POLICY AND PERFORMANCE REPORT

### 1. INVESTMENT POLICY

#### (a) Regulations

NYCC is required, as administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, the purpose of which is to limit the exposure risk of an LGSP fund. Full details of the investment policy are shown in **PART I - STATEMENT OF INVESTMENT PRINCIPLES** (see page 85).

#### (b) Investment Management arrangements

As at 31 March 2011

specialist equity mandates were managed by the following

- Baillie Gifford and Co
- Fidelity International Pensions Management
- Standard Life Investments

fixed income by

- Amundi Asset Management
- European Credit Management

→ **Baillie Gifford** managed two **global** (ie including UK) **equity** portfolios, namely **Global Alpha** and an unconstrained portfolio, the **Long Term Global Growth (LTGG)**. Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings

→ **Fidelity** managed an **overseas equities (ex UK)** portfolio comprising segregated holdings in overseas companies

→ **Standard Life** managed a **UK equity** portfolio comprising segregated holdings in UK companies.

The Fund also has a small portfolio of assets (£2.3m) held by R C Brown Investment Management Plc. This equity mandate is based on ethical criteria and has been invested on this basis at the request of one particular employing body.

The NYPF is committed to an investment of £3m in the Yorkshire and Humber Equity Fund (formerly the Yorkshire and Humber Regional Venture Capital Fund), the first tranche of £300k having been drawn down in July 2002, with further instalments to be drawn down on request. A further £1.2m was drawn down during 2009/10 making £1.5m in total at 31 March 2010. No money was drawn down in 2010/11.

Finally, a currency hedging account is operated directly with the Fund's global custodian, BNY Mellon Asset Servicing, in respect of 25% of the Fund's overseas equities exposure to the major currencies.

### (c) Custody of Investments

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

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

- (i) Yorkshire and Humber Equity Fund, whose bankers are the Royal Bank of Scotland plc
- (ii) Internally Managed Cash which is held either in the North Yorkshire Pension Fund Account, or swept into the North Yorkshire County Council County Fund Account, both held at Barclays Bank, Northallerton. In accordance with the Regulations a formal service agreement exists between NYCC and NYPF so that NYPF receives an interest rate return equivalent to that achieved by NYCC.

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

## 2. PERFORMANCE REPORT

Fund performance is measured and assessed on a quarterly basis primarily by Mellon Analytical Services (MAS), a division of BNY Mellon. A second tier of analysis is provided by the WM Company for the purpose of assessing comparisons with the WM Local Authority Universe which comprises performance data of all other local authority pension funds. Performance of the Fund and individual managers is assessed relative to the defined benchmarks specified by the PFC.

Pension Fund investment is a long term business so as well as considering the annual performance of the Fund performance over extended periods and in comparison to peers is also considered; this principle is applied both to individual managers and the overall Investment Strategy of the Fund.

The return produced by the Fund is a contributory factor in setting the employer contribution rates. The mix of assets within the Fund has been established to generate the greatest possible return within sensible limits of risk.

Performance for the year was +9.2%. This generated a healthy improvement in the value of the Fund. NYPF was ranked 16<sup>th</sup> within the WM Local Authority Universe. The average LGPS Fund returned +8%.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2011 compared with their defined benchmarks is shown in the following table:

<i>Fund Manager</i>	<i>Share of Fund @ March 2011 %</i>	<i>Fund Performance %</i>	<i>Customised Benchmark %</i>	<i>+/- %</i>
Baillie Gifford & Co - Global Alpha	16.8	12.9	8.4	+4.5
Baillie Gifford - LTGG	10.9	17.1	8.4	+8.7
Fidelity International	24.4	8.7	7.7	+1.0
Standard Life Investments	24.5	6.4	16.4	-10.0
European Credit Management	7.7	4.7	0.3	+4.4
Amundi Asset Management	14.6	5.3	5.6	-0.3
R C Brown Investment Management	0.2	12.9	8.7	+4.2
Currency Hedging	(0.1)	-	-	-
Yorkshire & Humber Equity Fund	0.1	-11.2	8.7	-19.9
Internally Managed Cash	0.9	0.8	0.4	+0.4
<b>Total Fund</b>	<b>100.0</b>	<b>9.2</b>	<b>10.0</b>	<b>-0.8</b>

Performance over the longer term has been disappointing. Over the 3 year period to 31 March 2011 the Fund achieved an annualised return of +3.6% against the customised benchmark of +8.6% resulting in an underperformance of -5%. Against the “least-risk” portfolio, which is a notional measure of the growth of liabilities of the Fund the Fund underperformed by -0.6%. This is a reflection of the relatively heavy weighting the Fund carries in equities, which endured the worst decade since records began.

The year 2008/09 was the worst recorded by the WM Local Authority Universe, with no local authority pension fund managing to achieve a positive return. Conversely 2009/10 saw a corresponding recovery when all asset classes performed well. It was not until later that year that the markets began to discriminate between good and bad investments. Volatility significantly reduced in the year 2010/11 despite continuing concerns such as the Eurozone crisis.

UK equities performed at +7% for the year and overseas equities by +12%, as reported by WM Company. UK and Overseas Bonds returned a combined +6%. In most cases NYPF investment managers outperformed these average market returns (see the table above).

### 3. FINANCIAL PERFORMANCE

Prior to the start of the 2010/11 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2010/11 forecast a net cash surplus of **£37.1m**, which compared with the actual surplus for the year of **£27.6 m** (see table below). The overall decrease of **£9.5m** was due to a decrease in income of **£1.8m** and an increase in expenditure of **£7.7m**.

The main differences between the Budget and the actual income/expenditure were:

#### Income:

- an increase in contributions income (employees' plus employers') of **£0.7m**, due mainly to an increase in the number of contributing members during the year. (see page 5)
- recharges to employers of early retirement costs being greater than expected by **£2.6m**
- a net decrease in income received from Transfers of **£4.9m**
- a net decrease in other income of **£0.2m**

#### Expenditure:

- higher than expected lump sum costs (retirement allowances, death grants, refunds of contributions), **£5.4m**
- an increase of **£0.1m** in the payment of performance related investment fees
- an increase in expenditure of **£2.3m** in pensions in payment due to a rise in pensioner numbers (see page 5)
- an decrease in administration and investment expenditure of **£0.1m**

Investment income is received by the investment managers, and is reinvested accordingly. It is, therefore, not included in the Budget monitored by the PFC. The Budget also does not include investment fees where they are deducted directly from the investment portfolios. However the Budget does include:

- investment management fees, custodian fees and other investment expenses where these are paid from the NYPF's centrally managed cash (held at Barclays Bank, Northallerton)
- class action proceeds where these are paid into the NYPF's centrally managed cash

Referring to the Fund Account on page 9, the cash surplus of £27.6m consists of:

	£m	£m
Net additions from dealing with members		33.0
Less investment management expenses	-5.3	
Other income	-0.1	
		<u>-5.4</u>
Reported cash surplus		<u><u>27.6</u></u>

## PART E – SCHEME ADMINISTRATION

### (a) Pension Fund Accounts

The Fund's accounts are the responsibility of:

**John Moore,**  
**Corporate Director – Finance & Central Services**

assisted by:

**Tom Morrison**  
**Principal Accountant – Pensions & Projects**

and:

**Karen Scott**  
**Operations Manager - Pensions**

Staff within the Pension Section of the Finance & Central Services Directorate are responsible for administering the Scheme, including the calculation and administration of benefit payments and transfer values, as well as recording employee and employer contributions and the maintenance of employees' pension records.

Staff within the Corporate Accountancy Section of the Finance & Central Services Directorate maintain the Fund's accounts and investment records, prepare quarterly reports to the Pension Fund Committee (PFC), produce the Annual Report and Accounts and act as a point of contact with the Fund's managers, advisers and auditors.

### **EXTERNAL AUDIT**

The annual accounts of the Fund are audited by:

**Deloitte LLP**  
1 City Square  
Leeds LS1 2AL

### (b) Pension Fund Committee responsibilities

The Terms of Reference of the PFC as per the Constitution of the County Council are detailed in the Governance Compliance Statement **paragraph 3.4 page 39**. This also shows the delegated powers held by the Pension Fund Committee.



(c) Training for Pension Fund Committee Members

**(i) Internal**

At the PFC meeting on 20 May 2010 a decision was made to conduct an Investment Strategy Review through a series of workshops. Aon Hewitt took the lead.

The workshops, all of which were well attended by PFC Members took place as follows:

The first Workshop was held on 24 June 2010. This session agreed the strategy review process which included establishing goals and objectives for the Fund, discussed the strategy review cycle and received a presentation from Aon Hewitt on how the Triennial Valuation process would contribute to an Asset Liability Modelling Study.

The second Workshop was held on 23 July 2010. Members considered a presentation from Aon Hewitt on the diversification benefits from exposure to property as an asset class, and the variety of options available in terms of public or private, listed or unlisted, geographical and sector alternatives and the investment route such as multi manager or fund of funds.

Workshop 3 was held on 30 September 2010. The presentation of Aon Hewitt concentrated on bonds and covered the mechanics of the asset class, its liability matching characteristics, credit ratings and credit spreads, and active bond management. The portfolio characteristics of the current bond managers (Amundi and ECM) were discussed including how they might fit within a redefined asset structure of the Fund.

Workshop 4 was held on 22 October 2010. Aon Hewitt presented the results of their Asset Liability Modelling Study and some options for changes to the asset mix of the Fund (i.e. what proportions of the Fund should be invested in return seeking assets and in liability matching assets). This, in turn, informed the subsequent discussion around options for asset and manager diversification. The session concluded with a review of property as an asset class, building on progress made at the second Workshop.

Workshop 5 was held on 18 February 2011. The topic was Equities. Among the issues considered was volatility within this asset class – related both to its share of the overall asset allocation of the Fund and the stock selection risk inherent in the mandates given to certain managers.

As a result of the above, Members agreed the following asset class structure for the investment portfolio

	Minimum Allocation to Bonds/Property %	Maximum Allocation to Bonds/Property %
Equities	75	50
Bonds	15	30
Alternatives (ex Property)	5	10
Property	5	10
<b>Total</b>	<b>100</b>	<b>100</b>

## (ii) Externally Provided

In addition to the training provided to Members in Workshops as described above, Members are encouraged to attend courses, conferences and other events supplied by organisations other than North Yorkshire County Council. These events provide a useful source of knowledge and guidance from speakers who are experts in their field.

Events attended by PFC Members during 2010/11 were:

Event	Place	Date
Pensions Age Spring Conference	London	16 April 2010
LGC Investment Summit	Newport	9-10 September 2010
Baillie Gifford Local Authority Investment Seminar	Edinburgh	6-7 October 2010
8 <sup>th</sup> Annual Local Government Investment Forum IIR Ltd	London	12 October 2010
Schroders Autumn Conference	London	14 October 2010
LGE Trustee Fundamentals	Leeds	11 November 2010, 02 December 2010
LAPFF Conference	Bournemouth	1-3 December 2010
BNY Mellon Engage Learning Series for Pensions Professionals	Manchester	24 February 2011
LGC Investment Seminar	Chester	3-4 March 2011
NAPF Investment Conference	Edinburgh	9-11 March 2011

In addition, a "Knowledge and Skills" toolkit from Hymans Robertson has been accessed which consists of an on-line library and Training Needs Analysis package. The outcome of an ongoing pilot being undertaken by PFC Members will determine whether this toolkit is to be used more widely.

## PART F – GOVERNANCE COMPLIANCE STATEMENT

The LGPS (Administration) Regulations 2008 included a requirement for Administering Authorities to prepare a **Governance Compliance Statement** for publication. The current version was approved at the PFC meeting on 23 June 2011. It can also be viewed on [www.nypf.org.uk](http://www.nypf.org.uk)





## **North Yorkshire Pension Fund**

# **Governance Compliance Statement**

**June 2011**

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## 1.0 BACKGROUND

- 1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Administration) Regulations 2008 and its predecessor Regulation 73A(c) of the LGPS Regulations 1997 (as amended) . These Regulations describe how the Fund must assess its governance arrangements against a set of best practice principles and require an explanation of the reasons for not complying with any of the principles listed in the guidance.
- 1.2 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in accordance with these Regulations. This Statement has been prepared in consultation with the membership of the Pension Fund Committee and the Advisory Panel.

### Requirement for the Governance Compliance Statement

- 1.3 The Regulations referred to above require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written Compliance Statement setting out
- (a) *whether it delegates its function or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or an officer of the authority*
  - (b) *and, if so, it must state:*
    - *the frequency of any committee/sub-committee meetings*
    - *the terms of reference, structure and operational procedures of the delegation*
    - *whether the committee/sub-committee includes representatives of*
      - *employing authorities (including non-scheme employers)*
      - *scheme members*
    - *and, if there are such representatives, whether they have voting rights.*
  - (c) *the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.*
- 1.4 Thus, the Compliance Statement should include information about all of the pension fund governance arrangements operated by the administering authority. Information about the representation of employers should cover any arrangements for representing admitted body employers (non-scheme employers).
- 1.5 The Statement must be revised and re-published by the administering authority following a material change in policy on any of the matters set out above.
- 1.6 The degree of compliance of this Statement with the best practice principles of the CLG, is provided in the **Appendix** to the Statement.

## 2.0 OVERALL GOVERNANCE FRAMEWORK

2.1 NYCC has identified six key principles on which it has based the overall governance framework for the NYPF.

2.2 These key principles are –

- **Appropriate Accountability**  
which requires clarity about roles, areas of responsibility between Committee members and officers, employers and scheme members
- **Effective Delegation**  
the effectiveness of the Committee and the officers to whom any delegated function has been passed; this will include areas such as decision making processes, knowledge and competencies
- **Written Plans and Policies**  
whether policies are established and to what degree they are recorded
- **Rigorous Supervision and Monitoring**  
the ability of the Committee and / or officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas
- **Effective Information Flow**  
the ability of the Committee and / or officers to communicate clearly and regularly with all stakeholders
- **Underpinned by Risk Management**  
the management of risks and internal controls to underpin the governance framework.

2.3 Overall responsibility for the governance of the LGPS, as it is organised and operated in North Yorkshire and for this Compliance Statement, resides with the North Yorkshire County Council's Pension Fund Committee.

## 3.0 DEFINITION OF RESPONSIBILITIES AND KEY FUNCTIONS

### **Pension Fund Committee**

3.1 Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the governance structure that is set out below.

3.2 Under this system the County Council has delegated both investment policy issues and administration policy matters to the Pension Fund Committee (PFC). This is a deliberate decision in recognition of the fact that management of the respective assets and liabilities of the Fund cannot be separated effectively because of the many interactions between policy making and operational management in both areas.

3.3 As well as having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms members of the PFC have a clear fiduciary duty to

participating employers, local tax payers and scheme beneficiaries in the performance of their functions.

### **Terms of Reference**

3.4 As part of the formal Constitution of the County Council, the Terms of Reference of the PFC are as follows –

- (a) to exercise the powers of the County Council (as administering authority) to invest monies forming part of the Pension Fund, including -
- to determine and periodically review the Investment Strategy of the Fund
  - to appoint managers to manage and invest Fund monies on the County Council's behalf
  - to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
  - to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
  - from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon; and
  - to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
  - from time to time reporting to the Executive.
- (b) to exercise all the County Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council
- (c) to carry out the County Council's functions relating to local government pensions under
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
  - The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended);
  - The Local Government Pension Scheme (Administration) Regulations 2008 (as amended);
  - The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended);
  - The Local Government Pension Scheme Regulations 1997 (as amended)
- and any future Regulations that relate specifically to the Council's responsibility to administer the LGPS in North Yorkshire.



## **Officer delegation**

- 3.5 In addition, the Constitution sets out the duties of the Corporate Director – Finance and Central Services in relation to the Pension Fund. Essentially, the Corporate Director acts as the Treasurer (and is referred to as such in the remainder of this Statement) of the Fund providing information and advice to the Committee whilst also managing the day to day affairs of the Fund.
- 3.6 In particular the Treasurer is required to manage from day to day the Pension Fund, including:
- the exercise of the County Council’s function as administering authority, where such exercise does not involve use of discretion
  - the power to seek professional advice and to devolve day to day handling of the Fund to professional advisers within the scope of the Pension Regulations; and
  - to change the mandate of a fund manager, in consultation with the Chairman and at least one other Member of the PFC, in circumstances when not to do so would lead to a real, or potential, loss in value of the Fund’s investments. Any such action to be reported to the PFC as soon as practicable.
- 3.7 In undertaking these duties detailed above, the Treasurer is not empowered to change the fund manager structure, the professional advisers or Actuary, of the Pension Fund without the approval of the PFC.

## **Advisory Panel**

- 3.8 NYPF has established an Advisory Panel which will widen representation amongst the Fund’s stakeholders and scrutinise the performance of the PFC. The Panel has defined its own Terms of Reference as follows -
- to represent all stakeholders of the North Yorkshire Pension Fund, in particular the contributing Employing Bodies to the Fund
  - to express the views of stakeholders to the PFC on matters of policy
  - to scrutinise the performance of the PFC
  - to liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)
  - to ensure compliance with all relevant legislation and Guidance
- 3.9 The Panel meetings will be synchronised with the PFC meetings so as to consider the same quarterly agenda plus any other relevant consultation exercises. Members of the Panel will be entitled to the same level of training, advice and access to the same information as members of the PFC.
- 3.10 The Chairman of the Panel can attend any meeting of the Committee (see **paragraph 4.1(e) below**).

## Independent Professional Observer

- 3.11 In order to provide an independent assessment of the Fund's governance arrangements the PFC has appointed an Independent Professional Observer (IPO). The IPO will report annually to the PFC at its June meeting on the level of compliance of the Fund against the CLG's best practice principles and also offer advice on all governance related matters.
- 3.12 The assessment of the IPO will be based upon attendance at both PFC and Advisory Panel meetings, discussion with the Treasurer, the independent Investment Consultant and the independent Investment Adviser, as well as a critical review of this Statement.

## Key Functions

- 3.13 These responsibilities are carried out in relation to the key management functions of the Fund as follows –

### (a) Scheme Administration

**Task** this includes, but not exclusively, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes

**Responsibility** delegated by the County Council to the PFC which has empowered the Treasurer to manage on a day to day basis. This delegation enables the administrative function to operate effectively being able to seek most decisions from the Treasurer, taking appropriate advice where deemed necessary, with only a small number of key decisions (such as Admission Agreements for non-Best Value organisations and the apportionment of Death Grants) being referred to the PFC

### (b) Investment of the Fund's assets

**Task** including, but not exclusively, setting of an appropriate investment strategy, selection of investment managers, setting of performance benchmarks and monitoring of performance

**Responsibility** delegated by the County Council to the PFC who take appropriate advice from the appointed independent Investment Consultant, independent Investment Adviser and the Treasurer. The Committee is responsible for maintaining the **Statement of Investment Principles**

(c) **Funding**

**Task** including, but not exclusively, setting of the appropriate funding target for the Fund under the rules of the Local Government Pension Scheme

**Responsibility** delegated by the County Council to the PFC who approve the **Funding Strategy Statement** which is monitored and updated by the Treasurer in conjunction with the independent Investment Consultant, the Investment Adviser and the Fund Actuary

(d) **Communications**

**Task** including the preparation of the Communications Policy Statement, the Annual Communications Strategy, issuing, or arranging to be issued, benefit statements, annual newsletters, annual report, etc

**Responsibility** the PFC approves the **Communications Policy Statement** and the **Annual Communications Strategy**. It is then the responsibility of the Treasurer to implement the actions in the Annual Strategy

(e) **Risk Management**

**Task** including the identification, evaluation and monitoring of risks for the Fund inherent within the Local Government Pension Scheme. The risks are analysed within the Funding Strategy Statement and then reviewed, with reference to appropriate professional advice, on an annual basis

**Responsibility** the Treasurer will produce as part of the **Funding Strategy Statement** an assessment of all the specific risks that can be identified in relation to the management of NYPF. The **Funding Strategy Statement** is then reviewed and approved annually by the PFC

#### 4.0 REPRESENTATION

##### **Committee membership and voting rights**

4.1 The current membership of the PFC is as follows (as at June 2011)

- (a) seven elected Members representing the administering authority (ie North Yorkshire County Council) who each hold one vote on the Committee. These Councillors are listed below –

Cllr John Weighell (Chairman)  
Cllr Roger Harrison-Topham (Deputy-Chairman)  
Cllr John Blackie  
Cllr Helen Swiers  
Cllr Patrick Mulligan  
Cllr Margaret-Ann de Coursey-Bayley  
Cllr Bernard Bateman

- (b) two further elected Members representing the Fund's other largest employing bodies each holding one vote as detailed below –

Vacancy (City of York Council representative)

Cllr Jim Clark (District Councils' representative of Local Government North Yorkshire and York)

- (c) in addition, a number of substitute Members have been nominated to attend in the absence of each of the main Committee Members listed above
- (d) an invitation is also extended to allow three union representatives to attend every Committee Meeting, although no voting rights are allocated to these positions
- (e) the Chairman of the Advisory Panel can also attend all PFC meetings but in a non-voting capacity
- (f) the quorum required for Committee Meetings is three.

- 4.2 All of the nine elected Members of the PFC accept that their role whilst serving on the PFC requires them to act in the best interests of the North Yorkshire Pension Fund rather than the local authority of which they are a Member.
- 4.3 The procedure for appointing to vacancies on the Committee is dependent on the representative body. For the administering authority (NYCC) the seven Members are appointed to reflect the political make-up of the County Council with each Party nominating Members who must then be approved by the full County Council. The representative for City of York Council is nominated by that Council, and the District Council's representative is appointed by Local Government North Yorkshire and York.
- 4.4 Scheme members (ie employees contributing to the Fund) are not directly represented on the PFC. However active and deferred/pensioner members are represented by three Union members on the Advisory Panel (see **paragraph 4.8** below), and through the invitation to Union representatives to attend the PFC meetings (see **paragraph 4.1(d)** above).
- 4.5 Formal statutory responsibility for the LGPS in North Yorkshire remains with the Administering Authority (ie North Yorkshire County Council) which is answerable for the effective and prudent management of the Scheme. Therefore, whilst the County Council decided to invite other interested bodies to be represented on the PFC it was considered essential that those with the ultimate legal responsibility (ie the County Council Members) should have the majority of votes (ie **paragraph 4.1** above). However, an open invitation exists for any Employing Body, or group of

bodies, in the Fund to make representations to the PFC through the addition of an item on the agenda of the next PFC meeting; this is additional to the role of the Advisory Panel (see **paragraph 4.7** below).

- 4.6 The representation set out above gives representation to about 80% of the membership (contributors plus pensioners) of the NYPF and is considered to be the optimal balance of Committee size for representation achieved. The last review of these arrangements was in 2004. The practicalities of increasing the Committee size by having representatives from more employers were considered. On balance it was decided that a meaningful increase in proportional representation could not be achieved without at least doubling the size of the Committee and this was considered unworkable given the specialist role of the Committee and the issue referred to in **paragraph 4.5** regarding the ultimate responsibility of the County Council for the administration of the affairs of the Fund. Issues relating to the declaration of interests, etc, that apply to elected Members also cause a problem if extended to employers in the Fund who would not be represented by elected Members. The Committee will continue to review the position particularly in the light of any further guidance that may be issued by the CLG in due course.

### **Advisory Panel**

- 4.7 However, in order to improve representation amongst all stakeholders the Fund has supported the establishment of an Advisory Panel (see **paragraph 3.8**). Whilst being an informal group, the Panel will be representative of all employers within the Fund as well as active/pensioner members.
- 4.8 In order to fulfil its role the Panel includes representatives from each of the following groups:
- District Councils (x3) (including Elected Member as Chair)
  - City of York Council
  - Police, Fire, Probation Services and National Park Authorities
  - Colleges & Universities
  - Town & Parish Councils (including Internal Drainage Boards)
  - Admitted Bodies
  - Unions (x3)
  - Pensioners
- 4.9 The Panel consists of Elected Member representatives wherever possible, who will otherwise be senior officers. There are no formal voting procedures. Each member of the Panel is entitled to express opinions at Advisory Panel meetings.
- 4.10 The Chairman's appointment requires a proposal by a member of the Advisory Panel and is passed by a consensus of opinion. The appointment of the Vice Chairman follows the same procedure.
- 4.11 The Chairman of the Panel is ideally an Elected Member and will attend PFC meetings in a non voting capacity to express the majority and minority views of the Panel.
- 4.12 The Panel may at its discretion appoint replacement or additional representatives. Should the Panel request it, the Administering Authority will canvas interest through NYPF OG.

## **NYPFOG**

- 4.13 The North Yorkshire Pension Fund Officer Group (NYPFOG) meets periodically to provide an opportunity for officer representatives of all employers to meet NYPF officers and address any issues related to the administrative arrangements of the Fund.
- 4.14 The effectiveness of these arrangements and their relationship to the policy making and management responsibilities of the PFC will be reviewed annually.

## **Agenda Papers**

- 4.15 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 4.1** above, including substitute members, union representatives and Advisory Panel Members, along with all employing bodies within the Fund. In addition, the Investment Adviser and Investment Consultant (who also attend every meeting), Fund Managers and the Fund Actuary are given the opportunity to view all items on the public agenda of each meeting.
- 4.16 PFC papers are also publicly available on the County Council's website. The Communication Policy Statement explains in more detail the arrangements for engagement with all stakeholders.

## **Frequency of Meetings**

- 4.17 Being a full Committee of the County Council, the PFC is governed by the decision making procedures defined in the Constitution of the County Council. These are fully compliant with the terms of the Local Government Act 2000. In addition, the PFC must comply with any procedural requirements defined in LGPS Regulations.
- 4.18 The PFC currently convenes no less frequently than 4 times per year. Meetings are held at County Hall in Northallerton. The Fund's Investment Managers are scheduled to attend one or more of six meetings a year where the PFC specifically considers fund manager performance and related matters. Also in attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF (eg Operating Manager, Fund Accountant), an observer from City of York Council and a Committee Clerk (NYCC).
- 4.19 The Committee has added a specific meeting in June to its programme. This is in order to meet the formal requirement to consider the Statement of Final Accounts and Annual Governance Statement before 30 June in the year following the financial year to which the Statements relate.
- 4.20 At present, the Committee has not appointed a separate Investment Sub-Committee but prefers to deal with all matters (both of an administrative and investment nature) as a single body to ensure that all Members of the Committee are involved in all the decisions of the Committee. The only time a Sub-Committee is established is for the appointment of a new Investment Manager(s), known as a Selection Panel, where it would not be practical for the full Committee to meet regularly during the appointment process; the Selection Panel would, however, be required to report all decisions back to the PFC.

## 5.0 OPERATIONAL PROCEDURES

### **Competencies, knowledge and understanding**

- 5.1 CIPFA has recently published guidance for a knowledge and skills framework. A practical application of this guidance has been developed by CIPFA in association with Hymans Robertson called the Trustee Knowledge and Understanding (TKU) Toolkit, which provides modular training based on a self assessment. This is aimed at complementing the training Members already undertake through workshops and conferences to ensure that they have the appropriate knowledge, understanding and competency to carry out their responsibilities. One element of this TKU Toolkit is the self assessment Training Needs Analysis (TNA) which is currently in the process of being piloted by two Members of the Committee.
- 5.2 Members of the Committee are regularly provided with details of forthcoming training opportunities and are encouraged to attend. In addition, in-house training is provided via topic specific workshops. A register of all training events attended by each Member is maintained and reported to each PFC meeting.
- 5.3 The costs incurred by Members of the PFC in attending training sessions are met by the Fund in accordance with the policies of the administering authority.
- 5.4 Advisory Panel members are afforded the same training opportunities as are members of the PFC. Costs and expenses are met in accordance with the policy described in the County Council's "Guidance and Toolkit for Managers and Head-teachers on Recruiting and Working with Volunteers" document.

### **Reporting and Monitoring**

- 5.5 The PFC has a clearly defined Work Plan that is agreed at the start of each financial year and
- (a) is reviewed regularly
  - (b) is included in the Agenda papers for each meeting
- 5.6 In relation to investment matters, the Investment Adviser, Investment Consultant and each Investment Manager for the Fund is required to submit a quarterly report to the PFC summarising the investment activities within the Fund's portfolios during the preceding quarter and reporting the value and performance of the investments at the end of each such quarter. In addition, the Fund Custodian presents an independent report on the overall investment performance of the Fund, together with details relating to individual managers and different classes of asset.
- 5.7 In addition, the Treasurer will present reports to every PFC meeting detailing performance in relation to the administration activities of the Fund and other significant matters for Members' attention as determined by the Work Plan; topics will include reports on the budget position, updates on the Regulations, communication with stakeholders, training events and Admission Agreements, etc.

## 5.8 Outside of this periodic reporting to the Committee

- (a) the activities of the Benefits Administration Team are regularly monitored by the Treasurer as part of the ongoing performance monitoring arrangements operated with the Finance and Central Services Directorate of the County Council. In addition, the Fund participates in benchmarking and related value for money exercises with other Funds
- (b) the performance of the investment managers is monitored on an ongoing basis by the Investment Consultant, Investment Adviser and the Treasurer. Meetings are held with the investment managers on a routine basis and/or when particular issues arise (eg staff changes) that may affect the performance of that manager on behalf of the Fund

## 6.0 KEY POLICY / STRATEGY DOCUMENTS

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS for Scheme members and employers the Fund publishes a number of other key documents relating to the administration and governance of the Fund. In addition to this Compliance Statement, these additional documents are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Communications Policy Statement
- Annual Communication Strategy + related Action Plan
- Pensions Administration Strategy
- Risk Register
- Treasury Management SLA
- Annual Report

6.2 All of these documents are available on the NYPF website. See **paragraph 8.2** for details.

## 7.0 REVIEW OF THIS COMPLIANCE STATEMENT

7.1 This Statement will be reviewed by the Treasurer no less frequently than annually and be (re)-approved by the PFC.

7.2 This document will also be reviewed/amended on an as and when basis if there are any material changes in the County Council's constitutional framework that affects the operation of the PFC or the officer delegated powers.



## 8.0 FURTHER INFORMATION

- 8.1 If you would like to know more about our governance arrangements, or have a query about any aspect of the North Yorkshire Pension Fund, you can contact us in the following ways:

### **In writing**

The Treasurer  
North Yorkshire Pension Fund  
Room 66  
County Hall  
Northallerton  
North Yorkshire DL7 8AL

### **By telephone**

John Moore – Corporate Director  
01609 780780 extension 2114

Tom Morrison – Principal Accountant  
01609 780780 extension 2123

### **By e-mail**

[pensions@northyorks.gov.uk](mailto:pensions@northyorks.gov.uk)

- 8.2 Further information can also be found on the NYPF website at

**<http://www.nypf.org.uk>**

**ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES**

[NOTE – paragraph references relate to Governance Compliance Statement]

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
<b>A</b>	<b>Structure</b>	(a) <i>the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council</i>	<b>Yes – see paragraph 3.3(a)</b>
		(b) <i>that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee</i>	<b>Yes</b> – a combination of the main Pension Fund Committee (PFC) and the Advisory Panel enables all Stakeholders to participate in the governance of NYPF <b>Paragraphs 4.5/4.6</b> explain the rationale behind these arrangements.
		(c) <i>that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	<b>Yes</b> – the Advisory Panel (AP) has access to all agenda papers, training sessions and workshops provided to the PFC . In addition, AP meetings are scheduled to take place the day before the PFC, and NYPF officers will attend – see <b>paragraphs 3.8 / 3.9 / 3.10.</b>
		(d) <i>that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	<b>Yes</b> – the Chairman of the Advisory Panel will have a formal seat on the PFC but will not have voting rights – <b>see paragraph 4.1(e)</b>
<b>B</b>	<b>Representation</b>	(a) <i>that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include</i>  (i) <i>employing authorities (including non-scheme employers, eg admitted bodies) (see Note 1 below)</i>  (ii) <i>scheme members (including deferred and pensioner scheme members)</i>	<b>Yes</b>  <b>Yes</b>  } <b>see paragraphs 4.1 – 4.6</b>

	Principle	Narrative from Guidance Note	Full Compliance?
		<i>(iii) where appropriate, independent professional observers (See Note 2 and Principle H below)</i>	<b>Yes – see paragraph 3.11</b>
		<i>(iv) expert advisers</i>	<b>Yes</b> - the Fund has appointed an independent Investment Adviser (from Investment Trustee and Adviser Services) and an independent Investment Consultant (Aon Hewitt). Both attend all meetings of the main Committee as well as Workshops and Training Sessions, etc. See <b>paragraphs 3.13(b) and 5.5</b>
		<i>(b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</i>	<b>Yes –</b> papers for all PFC meetings are provided to Advisory Panel members. Panel members are entitled to the same level of training and advice as are members of the PFC. Advisory Panel views are represented through the Chair who may attend PFC meetings. See <b>paragraphs 3.9, 4.11 and 4.15</b>
<p><b>Notes</b></p> <p>(1) NYCC, CoYC and District Councils (via ANYC) are represented covering 80% of employer contributions received. Admitted bodies represent 5% of contributions in the Fund, Colleges 3%. and other public sector bodies 12%</p> <p>(2) The guidelines envisage “an independent professional observer could be invited to participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels which would improve the public perception that high standards of governance are a reality and not just an aspiration. Moreover the independent observer would be ideally placed to carry out independent assessments of compliance against the Myners’ principles, both in terms of the 2004 follow up report and the latest NAPF consultation on the next steps, together with other benchmarks that the fund authority’s performance is measured against.”</p>			

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
<b>C</b>	<b>Selection and Role of Lay Members</b>	(a) <i>that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i>  (It is the role of the administering authority to make places available for lay members (ie non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all time.)	<b>Yes</b> – the Members of the PFC are made fully aware by means of training sessions, Workshops, etc. A Training needs Analysis is used to identify any shortfall, and appropriate training is then provided.
			<b>Yes</b> - the members of the Advisory Panel are afforded the same training facilities as the PFC. The Terms of Reference of the Advisory Panel enable all interested parties to participate if they so wish. See <b>paragraphs 3.8 / 3.9 / 3.10.</b>
		(b) <i>that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters in the agenda.</i>	<b>Yes</b> – Committee members are invited to declare interests at the start of each meeting. This principle is enshrined in the constitution of the Administering Authority.
<b>D</b>	<b>Voting</b>	(a) <i>the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	<b>Yes</b> - see <b>paragraph 4.1</b> re voting rights and <b>paragraphs 4.5/4.6</b> for the justification of limiting voting rights to elected Members on the PFC
<b>E</b>	<b>Training/ Facility Time/ Expenses</b>	(a) <i>that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i>	<b>Yes- see paragraphs 5.1 / 5.2 / 5.3 / 5.4</b>
		(b) <i>that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	<b>Yes</b> - see <b>paragraph 3.9</b>
		(c) <i>that the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</i>	<b>Yes</b> – Suitable training is made available to members and a record of attendance maintained. Consideration is being given to more formal annual training plans for PFC Members.

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
<b>F</b>	<b>Meetings – Frequency</b>	(a) <i>that an administering authority's main committee or committees meet at least quarterly.</i>	<b>Yes – see paragraphs 4.18 / 4.19</b>
		(b) <i>that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	<b>Yes – the Advisory Panel meets the day before each meeting of the PFC</b>
		(c) <i>that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	<b>Yes – the membership of the Advisory Panel is open to all Stakeholders as are the meetings of NYPFOG</b>
<b>G</b>	<b>Access</b>	(a) <i>that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</i>	<b>Yes – all agenda papers, etc, provided to the PFC are available to the Advisory Panel – see paragraph 4.15</b>
<b>H</b>	<b>Scope</b>	(a) <i>that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	<b>Yes –</b> (i) the Terms of Reference of the PFC require it to deal with all aspects of NYPF (see <b>paragraphs 3.3(a) (b) (c)</b> ) (ii) NYPF has also appointed an Independent Professional Observer (from AllenbridgeEpic) – see <b>paragraph 3.11</b>
<p>The CLG point out that traditionally LGPS committees have focused on the management and investment of funds under their supervision. In recent times and reflecting the trend towards decentralisation, administering authorities have become responsible for formulating a significant number of policy decisions on issues like abatement, compensation and the exercise of discretions under the scheme's regulations, which are key decisions which should be subject to the rigorous supervision of the main committee. Also, with the prospect of other key issues, like a cost sharing mechanism to be in place by 2010, there are other key scheme issues outside the investment field that the main committee may need to address in future. Given the not insignificant costs involved in running funds, LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are met and targeted.</p>			

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
		<p>This would involve reviewing the committee's governance arrangements and the effective use of its advisers to ensure sound decision making. Here the CLG advises the use of an <b>independent professional observer</b>, free of conflicts of interest, would enable a wholly objective approach to be taken to the stewardship of the fund. All the above points to LGPS committees perhaps becoming more multi disciplined than in the past. Although the future may see LGPS committees having a broader role than at present, individual administering authorities may adopt different strategies to meet these new demands. The more traditional approach might be to extend the scope of existing investment committees to include general scheme and other administrative issues.</p>	
<b>I</b>	<b>Publicity</b>	<p>(a) <i>that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i></p>	<b>Yes</b> - All NYPF Governance Statements and Policy documents are on the NYPF website and published via Newsletters etc. The Communications Policy Statement provides further details

## PART G – BENCHMARKING REPORT

### (a) Pension administration performance

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. North Yorkshire Pension Fund's performance in these areas for the year to 31 March 2011, is shown below.

Indicator	Target	Performance against Target 1/4/2010 -31/3/2011
Letter detailing transfer in	10 days	98%
Letter detailing quote of transfer value	10 days	100%
Letter notifying estimated retirement benefit amount	10 days	99%
Letter notifying actual retirement benefit amount	5 days	100%

#### Actual Calculations processed:

Task	Number of calculations
Retirements	1,195
Transfers In	268
Refunds	397
Frozen Refunds	399
Preserved Benefits	3,729
AVCs/ARCs	84
Divorce cases	208
Deaths in Service	23
Deaths of Pensioners	414
Retirement Estimates	2,853
Transfer Estimates	864
Data Changes Received	9,915

### Administration Costs per scheme member

The administration cost per member of NYPF was **£14.09** in 2010/11.

This compares with the average cost per member in the comparative group of local authority pension funds of **£22.68**.

The number of staff (FTE's) at North Yorkshire County Council involved in Pensions administration was **24.1**.

The total numbers of joiners and leavers during 2010/11 were:

<b>Joining</b>	<b>4,512</b>
<b>Retiring</b>	<b>1,195</b>
<b>Deaths</b>	<b>437</b>
<b>Other Leavers</b>	<b>3,729</b>





## PART H – FUNDING STRATEGY STATEMENT

The LGPS (Administration) Regulations 2008 stipulate that Local Authority Pension Funds must produce and maintain a Funding Strategy Statement (FSS). The current FSS was approved at the PFC meeting on 17 February 2011. It is shown on **page 56** and can also be viewed on the NYPF website, [www.nypf.org.uk](http://www.nypf.org.uk)



# NORTH YORKSHIRE PENSION FUND

## FUNDING STRATEGY STATEMENT 2011

*This Funding Strategy Statement (FSS) has been prepared by North Yorkshire County Council (**the Administering Authority**) to set out the Funding Strategy for the North Yorkshire Pension Fund (**NYPF**), in accordance with Regulation 35 of the Local Government Pension Scheme (**the Scheme**) (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. This FSS incorporates the results of the 2010 Triennial Valuation.*

### 1.0 INTRODUCTION

1.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Regulations”) provide the statutory framework under which the Administering Authority is required to prepare a **Funding Strategy Statement** (FSS). The key requirements for preparing the FSS can be summarised as follows:

- after consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their FSS
- in preparing the FSS, the Administering Authority must have regard to:-
  - ➔ the guidance issued by CIPFA for this purpose, and
  - ➔ the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)
- the FSS must be revised and published whenever there is a material change in either the policy or the matters set out in the FSS or the SIP

1.2 Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise to employees is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability to all stakeholders through improved transparency and disclosure.

1.3 The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”). Changes to the benefits under the Scheme took place from April 2008. The required levels of employee contributions are also specified in the Regulations.

- 1.4 Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an Actuarial Valuation is undertaken every three years by the Fund Actuary, including a rates and adjustments certificate. The most recent Valuation was undertaken at 31 March 2010 with the resultant employer contribution rates coming into effect for the 2011/12 financial year.
- 1.5 Whilst the employer contribution rate to the NYPF should be set so as to “secure its solvency” the Actuary, in undertaking the Valuation, must also have regard to:
- the desirability of maintaining as nearly constant a rate of contribution as possible
  - the terms of this FSS

## 2.0 STRUCTURE OF THIS STRATEGY STATEMENT

2.1 This FSS is structured as follows:

- |   |                   |
|---|-------------------|
| • Purpose of the FSS  | <b>Section 3</b>  |
| • Aims and purpose of NYPF  | <b>Section 4</b>  |
| • Responsibilities of the key parties   | <b>Section 5</b>  |
| • Solvency issues and target funding levels                                     | <b>Section 6</b>  |
| • Link to Investment Strategy set out in the Statement of Investment Principles | <b>Section 7</b>  |
| • Identification of risks and counter measures                                  | <b>Section 8</b>  |
| • Monitoring and review of this Statement                                       | <b>Section 9</b>  |
| • Contact details   | <b>Section 10</b> |
| • Method and assumptions used in 2010 Actuarial Valuation                       | <b>Appendix 1</b> |
| • Results of the 2010 Triennial Valuation                                       | <b>Appendix 2</b> |

## 3.0 PURPOSE OF THE FSS

3.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the Funding Strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

### 3.2 The purpose of this Funding Strategy Statement is therefore:

- 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 requirement to maintain as nearly constant employer contribution rates as possible, and
- to take a prudent longer-term view of funding those liabilities

3.3 The intention is for this Strategy to be both cohesive and comprehensive for NYPF as a whole, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the different circumstances of individual employers must be recognised in the Statement, it must express a single Strategy for the Administering Authority to implement and maintain.

## 4.0 AIMS AND PURPOSE OF NYPF

### 4.1 The aims of NYPF are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies. This philosophy applies equally to potential increases or reductions in contributions, including taking into account the desirability of recovery to full funding over a reasonable period of time
- maximise the returns from investments within reasonable risk parameters

4.2 Because of the current solvency position of NYPF (see **Section 6** below), an additional long term aim is to achieve, and then maintain, assets equal to 100% of projected accrued liabilities assessed on an ongoing basis including the appropriate allowance for projected final pay.

### 4.3 The purpose of NYPF is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

as defined in the Local Government Pension Scheme Administration Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

## 5.0 RESPONSIBILITIES OF THE KEY PARTIES

5.1 The management of NYPF can only be achieved if all interested parties exercise their statutory duties and responsibilities diligently. Although a number of parties including investment managers and external auditors have responsibilities to NYPF the following are regarded as having responsibilities with particular relevance for the purposes of this Strategy Statement.

5.2 The **Administering Authority** will:

- collect employer and employee contributions by the due dates
- invest surplus monies in accordance with the regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the Triennial Valuation process in consultation with the Fund Actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of NYPF's performance and funding and amend the FSS/SIP accordingly and when necessary
- comply with the Pension Administration Strategy

5.3 Each **Individual Employer** will:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay all contributions, including their deficit contribution as determined by the Actuary, to the Administering Authority by the due date
- exercise benefit discretions within the regulatory framework and provide a policy / statement to NYPF
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership, or as may be proposed, which affect future funding
- comply with the Pension Administration Strategy

5.4 The **Fund Actuary** will:

- undertake the Triennial Valuation, including the setting of employers' contribution rates and deficit contributions, after agreeing assumptions with the Administering Authority and having regard to the FSS
- undertake interim valuations at the intermediate year ends between the formal Triennial Valuation dates
- prepare advice and undertake calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on the preparation of the FSS, and the inter-relationship between the FSS and the SIP

## 6.0 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

- 6.1 To satisfy the requirements of the Regulations the long-term funding objective of NYPF is to achieve and then maintain assets equal to 100% of projected accrued liabilities (the Funding Target), assessed on an ongoing basis including the appropriate allowance for projected final pay.
- 6.2 The principal method and assumptions used in the calculation of the Funding Target are set out in **Appendix 1**. Underlying these assumptions are the following two tenets:
- that the LGPS and therefore NYPF will continue for the foreseeable future, and
  - favourable investment performance can play a valuable role in achieving adequate funding over the longer term
- 6.3 The current actuarial Valuation of NYPF is effective as at 31 March 2010. The results of this Valuation indicate that overall the assets of NYPF represented 67.1% of projected accrued liabilities at the Valuation date. This Valuation result is summarised in **Appendix 2**.
- 6.4 As part of each Valuation, separate contribution rates are assessed by the Actuary for each participating employer or group of employers. These rates are assessed taking into account the circumstances of each employer or group of employers, and following a principle of no cross subsidy between the various employers in NYPF. A pro-rata principle is adopted in attributing the overall investment performance obtained on the assets of NYPF to each employer or group of employers. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for NYPF as a whole (except where an employer adopts a bespoke investment strategy - see **paragraph 6.15**).
- 6.5 Following consultation with participating employers on the results of the 2010 Actuarial Valuation, the Administering Authority has adopted the following overall objectives to achieve the Funding Target. Certain objectives may be varied under the Controlled Flexibility Policy (see **paragraph 6.11**):
- a default deficit recovery period of 24 years will apply
  - within the parameters of the Strategy to achieve the Funding Target, seek to avoid increases in the overall average level of the required employer contributions.
  - on the cessation of an employer's participation in NYPF, the Actuary will be asked to make a termination assessment. Any deficit in NYPF in respect of the employer will be due to NYPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within NYPF to another participating employer

- the following employer groupings will be adopted (see also **paragraphs 8.5/8.6**)

Low Risk	←————→	Strong Covenant
Medium Risk	←————→	Medium Covenant
High Risk	←————→	Weak Covenant

### **Deficit Recovery Plan**

- 6.6 If the 'notional' assets of NYPF relating to an employer are less than the Funding Target at the effective date of the Valuation, a Recovery Plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums indexed in line with the rate of salary growth assumed for the actuarial Valuation and this will be subject to review at the 2013 and subsequent actuarial valuations.

In determining the actual recovery period to apply for any particular employer (or employer group), the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall
  - the business plans of the employer
  - the assessment of the financial covenant of the employer (see **paragraph 6.5**)
  - any contingent security available to NYPF or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.
- 6.7 For certain employers (ie low risk / strong covenant), an allowance may be made (at the discretion of the Administering Authority) as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the Funding Target. This higher level of assumed return will reflect the actual Investment Strategy of the Fund (as defined in the SIP), on the basis that this is to be maintained over the entire recovery period.
- 6.8 The assumptions to be used in these Recovery Plan calculations are set out in **Appendix 1**.

### **The Normal Cost (future service contribution rate)**

- 6.9 In addition to any contributions required to rectify a shortfall of assets below the Funding Target, contributions will be required to meet the cost of future accrual of benefits for members after the Valuation date (the normal cost). These contributions will be expressed as a percentage of the employers pensionable payroll, subject to review at the 2013 and subsequent actuarial valuations. The method and assumptions for assessing these contributions are also set out in **Appendix 1**.

## Approach to the Actuarial Valuation

6.10 In relation to the above, and as a result of the consultation process with employers regarding the results of the Triennial Valuation and the preparation of this FSS, the NYPF offers:

- a policy of Controlled Flexibility in relation to the setting of employer contribution rates under the Triennial Valuation process, and
- the ability for any employer to adopt a bespoke Investment Strategy for their proportion of the assets held in the Fund,

the details of which are explained below.

### Controlled Flexibility

6.11 Under this policy an individual employer may, at the time of the Triennial Valuation, opt for

- a Recovery Plan on the basis of a shorter deficit recovery period if they so wish. This may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see **paragraph 6.6** above)
- where an increase in the employer rate is required from 1 April 2011, progress towards that higher contribution rate to be phased over the three year period to the next Valuation date, unless the Administering Authority does not consider phasing to be appropriate due to employer specific circumstances
- making lump sum contributions, provided that:
  - ➔ any payments to be made on or by 31 March 2011 are notified by 1 February 2011 so they can be reflected by the Actuary in the target contribution rate for 2011/12
  - ➔ any subsequent lump sum payments, whilst having a beneficial effect on the target contribution rate to be set at the 2013 Valuation, will not impact on the target contribution rate set by the Actuary at the 2010 Valuation
- a longer deficit recovery period (up to 30 years) for certain employers, at the discretion of the Administering Authority, if the Administering Authority believes this will not pose undue risk to the NYPF in order to maintain the contribution rate at the 2010/11 level or to keep any increase to a minimum
- a decrease in the contribution rate based on increasing the deficit recovery period established at the 2007 Valuation to a maximum of 15 years
- adopting an Additional Investment Return whereby credit is given in the Actuary's assumptions for additional investment performance which can then be used to further offset potential increases in the employer contribution rate. This option is only available to strong covenant employers (see **paragraph 8.6**)



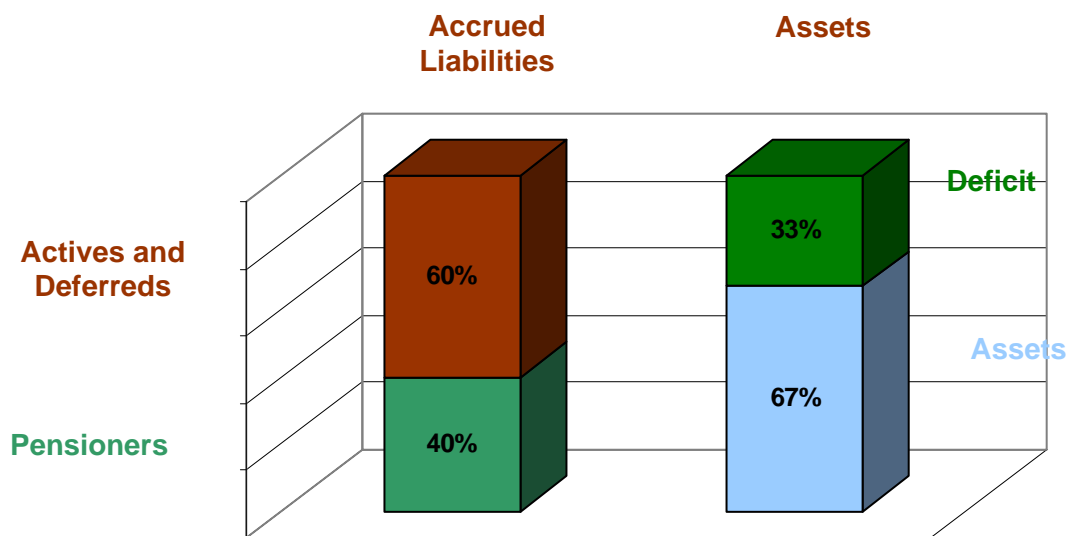
**NYPF will not therefore accept any proposal from an employer to reduce its target contribution rate below that payable in 2010/11, unless the employer's recovery period is at most 15 years.** However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from this policy.

### **Bespoke Investment Strategy**

- 6.12 The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.
- 6.13 NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% equities or 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.
- 6.14 In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.
- 6.15 One employer has previously requested a Bespoke Investment Strategy based upon an ethical investment policy. NYPF agreed that the relevant portion of NYPF's assets be placed with a fund manager of that employer's choice. The fund manager was appointed in July 2005 and is subject to the same performance monitoring arrangements as all the other fund managers. In addition, one employer requested a Bespoke Investment Strategy based on investment solely in Government bonds.

## 7.0 LINK TO INVESTMENT STRATEGY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

7.1 The results of the 2010 Valuation show the accrued liabilities to be 67.1% covered by the current assets, with the funding deficit being 32.9%.



7.2 In assessing the value of the Scheme's liabilities above, allowance has been made for asset out-performance as described in **Appendix 1**, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

7.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

7.4 Investment of NYPF's assets in line with this **notional least risk portfolio** would minimise fluctuations in NYPF's ongoing funding level between successive actuarial valuations.

7.5 However, if, at the Valuation date, NYPF had been invested in this notional portfolio, then in carrying out the Valuation it would not be appropriate to make an allowance for any out-performance of the investments. On this basis (using a lower discount rate) the assessed value of NYPF's liabilities at the 2010 Valuation would have been significantly higher, by approximately 38% and the declared funding level would be correspondingly reduced to approximately 49%. In addition there would be no prospect of improving the solvency level of NYPF other than by increasing the contribution rates of employers over a sustained period.

7.6 Departure from such a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the relevant assets will, over time, reduce the contribution rate requirements from employers. The Funding Target could therefore in practice be achieved by a combination of employer contributions, investment strategy and investment performance.

## **Investment Strategy**

7.7 The current Investment Strategy, as set out in the SIP, is summarised in the following paragraphs:

### **General Principles and diversification**

7.8 NYPF firmly believes that the emphasis of investment over the long term should be on real assets, particularly equities; these are considered most likely to maximise the long term returns for NYPF. The balance between UK and Overseas equities is, however, a matter of investment judgement. Investment should also be diversified to include other real assets, such as Bonds and Property. At present NYPF has no property holdings but the Committee has agreed to appoint a suitable manager as soon as practicable.

7.9 The neutral benchmark proportions of the various asset classes are determined by NYPF in consultation with the incumbent investment managers together with the Investment Adviser and Investment Consultant and are reviewed at least once every three years to coincide with the Triennial Valuation. The outcome of the latest review of the Investment Strategy is referred to in **paragraph 7.11** et seq below.

### **Risk Budgeting and review of Strategy**

7.10 In 2005 and 2006 two Global Fixed Income fund managers were appointed to manage portfolios previously incorporated in 'Balanced' mandates and three fund managers previously managing customised global equity mandates took on specialist equity mandates, based upon an assessment of their particular strengths. In addition, a Global Tactical Asset Allocation (GTAA) mandate was established as a means of attempting to capture returns from asset allocation decisions which may have been lost in the shift away from 'Balanced' mandates.

7.11 As a result of the periodic review of the Investment Strategy since 2006 a number of small changes to the composition of the Fund have been made. The most significant has been to remove the GTAA mandate from the Fund after its failure to contribute to the investment performance of the NYPF. The latest review, conducted in 2010 and 2011 included an Asset Liability Modelling Study. The results of this review have resulted in some technical changes to the way the Investment Strategy is implemented which are reflected in the revised SIP (updated February 2011).

7.13 In essence, these changes are designed to seek maximum performance from managers by allocating funds for specific asset classes (e.g. bonds, equities) and specialised mandates.

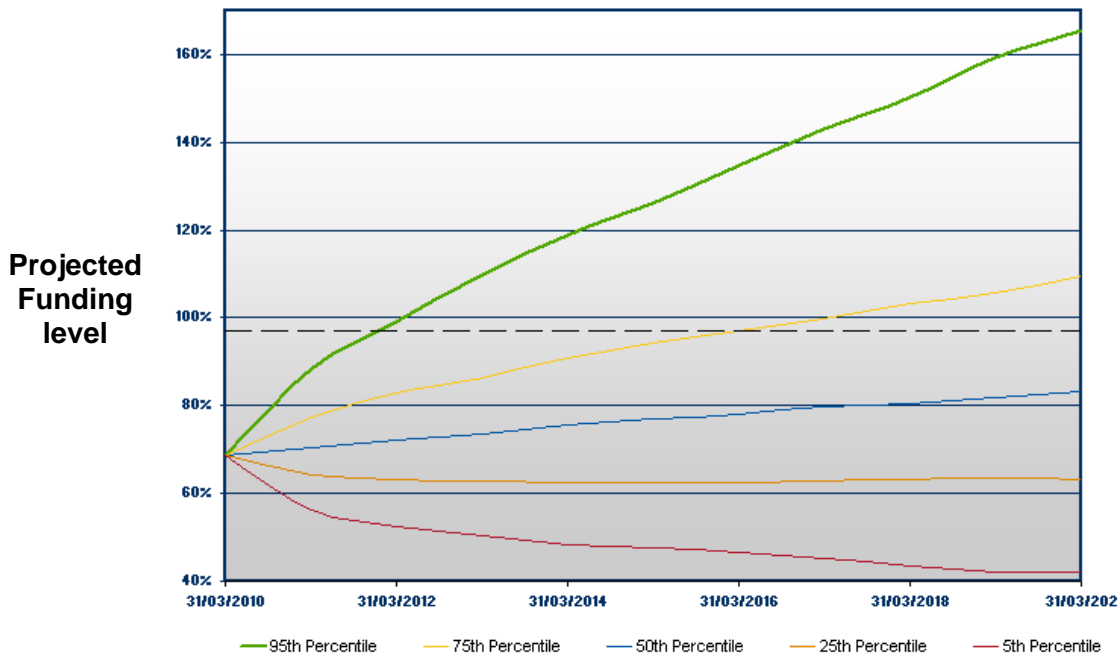
### **Specific Benchmarks**

7.14 NYPF applies specific benchmarks to each investment mandate so as to provide individual investment managers with clearly defined performance targets; in certain cases these are also linked to performance related fee structures. Further details are provided in the Statement of Investment Principles.

- 7.15 Clearly, these specific benchmarks need to be linked to the assumptions used in the Risk Budgeting exercise and be consistent with those used by the Actuary in the Triennial Valuation. The Funding Strategy adopted by the Actuary for the 2010 Valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities (see **Appendix 1**). **Based on the current liability profile of the Scheme this equates to an overall weighted asset out-performance allowance of 1.9% p.a.** The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance that is compatible with the assumptions used in the Risk Budgeting exercise on which the changes to the Investment Strategy, now reflected in the SIP, were based.
- 7.16 In addition, the Administering Authority has agreed to adopt a more aggressive asset out-performance target of 2.75% when determining the contribution rates of strong covenant employers (see **paragraph 6.7**). This exceeds the standard out-performance assumption of 6.4% by 0.85%. Therefore a greater level of out-performance by NYPF's assets is required in order to deliver this additional return assumed by the Actuary (see **Appendix 1 paragraph 2.13 et seq**).

## 8.0 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

- 8.1 The funding of defined benefits is by its nature uncertain. The funding of NYPF has to reflect both financial and demographic assumptions. These assumptions are specified in the Triennial Valuation report of the Actuary. When actual experience is not in line with the assumptions made a surplus or shortfall will emerge at the next Actuarial Valuation and will require a subsequent adjustment to employer contributions to bring the funding back into line with the Funding Target.
- 8.2 The Administering Authority has been advised by the Actuary **that the greatest risk to NYPF's long term funding objective (i.e. 100% solvency) is the investment risk inherent in the predominantly equity based strategy. Therefore, if the actual asset out-performance between successive valuations diverges adversely from the out-performance currently required on the basis of the 2010 Valuation assumptions, as set out in Appendix 1, this may have a negative effect on the Recovery Plan.**
- 8.3 The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the Funding Target adopted in the Valuation. Using a simplified statistical model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the Valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



8.4 In addition to the asset out-performance risk referred to above, a number of specific risks to the Funding Strategy can be identified. These are summarised below with their appropriate counter measure(s).

Risk	
Financial	
F1 Investment markets fail to perform in line with expectations	The asset allocation derived from the Investment Strategy is monitored on an ongoing basis and considered quarterly by the Pension Fund Committee (PFC). The Committee receives advice about market conditions (past/present and future) from the Investment Adviser, Investment Consultant and the Treasurer; each investment fund manager also includes a “market commentary” in their quarterly report. If the asset allocation, and the performance generated therefrom, is at odds with the out performance assumption used by the Actuary the Committee has an obligation to consider changing the Investment Strategy.
F2 Market yields move at variance with Valuation/ SIP assumptions	The Risk Budgeting exercise (referred to in <b>paragraph 7.10</b> ) also provided a range of investment market scenarios that the Committee can refer to, and refresh, if it is considering changes to the Investment Strategy.

Risk	
Financial	
F3 Fund Investment Managers fail to achieve performance targets over the longer term	The performance of individual fund managers is reviewed as part of the quarterly monitoring process referred to in <b>F1/F2</b> above. Although asset allocation has a greater impact on overall Fund investment performance than that of an individual manager, the PFC reserves the right to amend and/or terminate the mandate of any manager at any time. In considering such action the Committee will take into account the cyclical nature of investment returns and the fact that all managers cannot outperform their benchmark all of the time.
F4 Asset re-allocations in volatile markets may lock in past losses	In reviewing the asset allocation the PFC will take into account best advice regarding future market conditions and not just be reactive to past events. Therefore, any asset reallocation will only be undertaken on the basis of reworking and/or updating the Risk Budgeting model used to establish the Investment Strategy reflected in the SIP.
F5 Pay and price inflation significantly more or less than anticipated	All the assumptions used in the Valuation ( <b>see Appendix 1</b> ) are monitored on an ongoing basis because they can impact, independently, on the value of assets or the projected costs of liabilities, both of which affect the ongoing solvency position. In practice the pay and price assumptions can only be formally modified at each Triennial Valuation; therefore any significant variation in these two factors between Valuations will be identified by the monitoring process and then discussed with the Actuary as part of the assumption setting for the subsequent Valuation.  The impact of this risk is potentially different for Medium and High Risk employers - see <b>paragraphs 8.5/8.6</b> below.
F6 Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies	The Fund has adopted a risk assessment methodology for all employers in the Fund, or wishing to join the Fund in the future - see <b>paragraph 8.5</b> below

Risk	
Financial	
<p>F7 Budget and annual cash surplus not materialising due to shortfall of income or overspending on costs</p>	<p>The PFC approves an annual Income/Expenditure Budget which is reviewed on a quarterly basis. Any unders/overs in levels of anticipated income or projected costs will impact on the projected annual surplus (which is invested as the year progresses) and therefore the Committee will need to consider any remedial action that may be appropriate.</p> <p>In addition to this budgetary control procedure the Committee also benchmarks its costs against other LGPS Funds.</p>
<p>F8 Monitoring of Solvency level between Triennial Valuations</p>	<p>Because any of the factors identified in the Financial Section of this Risk Table can impinge on the ongoing solvency level, the PFC receives:</p> <ul style="list-style-type: none"> <li>• quarterly updates from the Actuary (using current market factors in a pre-set Fund specific model)</li> <li>• a quarterly comparison of investment performance to date with a notional least risk portfolio</li> <li>• Annual Interim Valuations.</li> </ul> <p>Whilst these various reports cannot be as comprehensive as the Triennial Valuation they will, taken together, reveal any underlying trends in the solvency level and identify where variances are emerging relative to the assumptions used by the Actuary.</p>

<b>Risk</b>	
<b>Demographic</b>	
D1 Longevity horizon continues to expand	This is reviewed at each Triennial Valuation by the Actuary. Any abnormal trend for a particular employer will be identified by the Actuary and the employer will have the option to address the consequential funding implications.
D2 Deteriorating pattern of early retirements	The pattern of ill health retirements is monitored at employer level by the PFC on a quarterly basis against the assumptions made by the Actuary in his Valuation.
D3 Strain on the Fund payments relating to early retirements	For early retirements NYPF has a policy that requires an employer to pay into the Fund a single lump sum, or staged payments over 2 to 5 years, equivalent to the financial Strain on the Fund and, if appropriate, augmentation cost created by approving the early retirement. This approach means there is no requirement to address this specific issue as part of the Triennial Valuation process.

<b>Risk</b>	
<b>Regulatory</b>	
R1 Changes to Regulations, (e.g. more favourable benefits package, potential new entrants to scheme)	<p>NYPF encourages each employer to “sell” the benefits of the LGPS to all its employees.</p> <p>NYPF ensures that all employers are made aware of the implications (financial or otherwise) of any proposed changes to the Regulations. Employers can then respond to the CLG via the NYPFOG arrangements or individually. The Actuary will identify the impact on the Fund, and/or an individual employer of any Regulation change.</p>
R2 Changes to national pension requirements and/or HM Revenue & Customs rules	<p>In practice however, it will ultimately be for the employer to fund the cost of any such changes, increased membership levels etc.</p> <p>NYPF will comply with rule changes and will aim to provide members with accurate information on their circumstances but will not provide financial advice. Employees will, in some cases, need to seek independent financial advice.</p>



## Risk

### Administration

A1 Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	If the various monitoring arrangements referred to above (e.g. <b>F7</b> , <b>D2</b> ) do not proactively identify this issue the reactive position for NYPF is the risk assessment methodology applied to different "types" of employer (see paragraphs <b>8.5 / 8.6</b> ).
A2 Administering authority not advised of an employer closing to new entrants	Depending on the risk category of an employer, NYPF has developed model terms and conditions for inclusion in the Admission Agreement. These terms and conditions are designed to safeguard NYPF against various possible 'default' scenarios that may befall an individual employer.
A3 An employer ceasing to exist with insufficient funding or adequacy of a bond	
A4 Pension Administration Strategy	In accordance with LGPS (Administration) Regulations 2007 the Administering Authority has prepared and consulted upon a Pension Administration Strategy which includes an agreed set of protocols for the Administering Authority and individual Employers to follow.

## Risk

### Governance

<p>G1 Frequency of meetings</p>	<p>The Pension Fund Committee (PFC) deals with all aspects of NYPF. The Committee is scheduled to meet a minimum 4 times in each financial year; these meetings are scheduled within 8 weeks of the end of an investment quarter in order to consider the latest performance / monitoring information (see <b>F1, F3, F5, F7, D2</b>). Each meeting has a pre-planned schedule of items although Agendas are flexible to deal with additional matters as they might arise.</p> <p>In addition to these formal meetings there are a further 6 meetings a year where the Members meet the investment managers to consider performance, strategy, etc.</p>
<p>G2 Member training</p>	<p>The PFC is committed to training for its Members. In addition to a training register, the Committee considers at each meeting any external courses that may be appropriate to Members. In addition in-house training is provided via topic specific workshops. Members also complete the Trustee Knowledge and Understanding Toolkit, a training questionnaire to identify any knowledge gaps that can be addressed through future training events.</p>
<p>G3 Decision procedures</p>	<p>Being a full Committee of North Yorkshire County Council, the PFC is governed by decision making procedures defined in the Constitution of North Yorkshire County Council. These are fully compliant with the terms of the Local Government Act 2000. In addition the PFC will comply with any procedural requirements defined in Scheme Regulations.</p>
<p>G4 Committee membership</p>	<p>The PFC currently comprises:</p> <ul style="list-style-type: none"> <li>7 North Yorkshire County Council Members</li> <li>1 City of York Council Member</li> <li>1 District Council representative of Local Government North Yorkshire and York</li> <li>3 Unison Representatives as observers</li> </ul> <p style="text-align: right;">/cont...</p>

Risk	
Governance	
	<p>Supported by:</p> <p>Independent Investment Adviser Investment Consultant</p> <p>Corporate Director – Finance &amp; Central Services (acting as Treasurer to the Fund)</p> <p>Committee Services</p> <p style="text-align: right;">} County Council</p> <p>Because of the specialised and technical nature of much of the agenda material considered by the Committee, any new Member of the Committee will be expected to undergo training and familiarisation referred to in <b>G2</b>.</p> <p>Under the terms of the LGPS Management and Investment Funds Regulations 2009, the Committee has approved a Governance Policy Statement which will be reviewed on an annual basis, and particularly in the light of 'best practice' guidance published during 2007.</p> <p>Under the same Regulations, the Fund has also published a Communications Policy Statement to reflect its annual Communications Strategy. This is reviewed on an annual basis (see <b>G5 below</b>).</p>
G5 Annual Report	<p>NYPF currently publishes its Final Accounts (in accordance with current Accounting Standards) on an annual basis in a comprehensive Annual Report - the document includes narrative regarding investment performance, the latest Valuation, membership levels, administration issues and governance arrangements.</p> <p>The Committee will produce an Annual Report for the year 2010/11 in line with proposed 'best practice' Guidelines as required under the LGPS (Administration) Regulations 2007.</p>

8.5 In the risk table above a number of references are made to the risk assessment of employer types within NYPF (eg. **F5, F6, A1**). Apart from the circumstances relating to the valuation of assets and liabilities the implementation of this Funding Strategy, and its implications for the contribution rates of individual employers, needs to have regard to the sustainability of an employer and/or their ability to continue to meet their liabilities within the agreed Funding Strategy.

8.6 The Administering Authority has therefore adopted the following High/Medium/Low risk categorisation of employers.

### **LOW RISK**

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS. This category covers:

- any local authority, or equivalent
- any body which has a funding deficiency guarantee from local or central government

### **MEDIUM RISK**

Scheduled bodies not considered as low risk and admitted bodies with no statutory underpin but:

- a body for which NYPF has a guarantee of liabilities from a local authority (or its equivalent)
- a body which receives funding from local or central government (e.g. colleges and universities)
- a best value type body for which a local authority already within NYPF effectively stands as the ultimate guarantor on the termination of the admission agreement as a result of Regulation 78 (2A)
- can provide satisfactory evidence of financial security (e.g. parent company guarantee, bond, indemnity, insurance)
- is part of a group of related or pooled bodies which share funding on default

### **HIGH RISK**

An admitted body:

- with no external funding guarantee or reserves
- with a known limited lifespan or fixed contract term of admission to NYPF
- which has no active contributors and/or is closed to new joiners
- which relies on voluntary or charitable sources of income

- 8.7 Each of these risk categories will have a different set of requirements from a NYPF perspective and hence the Administering Authority, and the employers involved, may need to consider alternative approaches to contribution rates, deficit recovery periods and investment strategies either individually or as a group depending on the specific circumstances applying to that employer (or group).
- 8.8 NYPF will therefore consider the strength of the covenant with each employer and assess the risk accordingly. Thus
- **for existing employers with admission agreements** this will require a formal review of that agreement with a possible need to renegotiate certain clauses and/or address any omissions
  - **for any new employers seeking to join NYPF**, a model admission agreement is available that fully addresses the risks identified in the table in **paragraph 8.6**
- 8.9 In order to facilitate the requirements of individual employers the controlled flexibility policy (**paragraph 6.11**) has been adopted that allows employers to determine, following consultation with the Administering Authority during the Valuation process, a contribution rate calculated using a shorter deficit recovery period which could be phased over the period to the next Valuation. Alternatively, employers may wish to make lump sum contributions in respect of any deficit to reduce ongoing contribution rates.

## 9.0 MONITORING AND REVIEW OF THIS STATEMENT

- 9.1 The Administering Authority has taken advice from the Actuary in preparing this Funding Strategy Statement, and has also consulted with employers during its preparation.
- 9.2 As a minimum a full review of this Statement will take place every three years, to coincide with the Triennial Valuation by the Actuary. Any review will take account of economic conditions prevailing at the time and will also reflect any legislative changes.
- 9.3 The Administering Authority will monitor the progress of the Funding Strategy between full actuarial valuations. If considered appropriate, the Funding Strategy will be reviewed (other than as part of the Triennial Valuation process), for example:
- if there has been a significant change in investment market conditions, and/or deviation in the progress of the Funding Strategy
  - if there have been significant changes to the fund membership, or Scheme benefits that affect more than one employer
  - if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the Funding Strategy
  - if there have been any significant special contributions paid into NYPF

## 10.0 CONTACT DETAILS

10.1 For further details regarding any aspect of this Statement, please contact the Treasurer to the NYPF by one of the following methods:

- telephone - 01609 532531
- email - [john.moore@northyorks.gov.uk](mailto:john.moore@northyorks.gov.uk)
- correspondence -

c/o Room 66  
North Yorkshire County Council  
County Hall  
Northallerton  
North Yorkshire DL7 8AL

## METHOD AND ASSUMPTIONS USED IN 2010 ACTUARIAL VALUATION

### 1.0 METHOD

- 1.1 The actuarial method to be used in the calculation of the Funding Target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the LGPS on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

### 2.0 PRINCIPAL ASSUMPTIONS

#### *Investment return (discount rate)*

- 2.1 A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of NYPF's accrued liabilities, plus an Asset Out-performance Assumption (AOA) of 2.5% pa for the pre-retirement period and 1.0% pa post-retirement.
- 2.2 The AoAs represent the allowance made, in calculating the Funding Target, for the long term additional investment performance of the assets of NYPF relative to the yields available on long dated gilt stocks as at the Valuation date. The allowance for this out-performance is based on the liability profile of NYPF, with a higher assumption in respect of the pre-retirement (i.e. active and deferred pensioner) liabilities than for the post-retirement (ie pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting in the Investment Strategy as the liability profile of the membership matures over time.

#### *Individual Employers*

- 2.3 Having determined the AoAs as above for the Fund overall, it is important to consider how the financial assumptions impact on individual participating employers. As employers in NYPF will have different mixes of active, deferred and pensioner members, adopting a different pre / post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with NYPF practice, as set out in this FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. Therefore, in completing the calculations for individual employers, a single, composite, pre and post retirement AoA of 1.9% pa has been calculated which, for NYPF as a whole, gives the same value of the funding target as the separate pre and post retirement AoAs.

### ***Inflation (Consumer Prices Index)***

2.4 The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments.

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an allowance for pensions being increased annually in future by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June 2010. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary

The overall reduction to RPI inflation implied by the investment market at the valuation date is 0.8% per annum.

### ***Salary increases***

2.5 The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% pa over the inflation assumption as described above. This includes an allowance for promotional increases.

### ***Pension increases***

2.6 Increases to pensions are assumed to be in line with the Inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with CPI (eg Guaranteed Minimum Pensions in respect of service prior to April 1997).

### ***Mortality***

2.7 The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The derivation of the mortality assumption is based on Fund specific analysis. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

### **Method and assumptions used in calculating the cost of future accrual**

2.8 The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the Funding Target except that the financial assumptions adopted will be as described below.



- 2.9 The financial assumptions for assessing the future service contribution rate should take account of the following points:
- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the Valuation, and which are not directly linked to market conditions at the Valuation date; and
  - the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities
- 2.10 The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the Valuation date itself, but are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% pa.
- 2.11 Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2010 Valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding Target.
- 2.12 At each Valuation the cost of the benefits accrued since the previous Valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the Funding Target is fully taken into account in assessing the funding position.

## Summary of assumptions used for the Funding Target

2.13 The key financial assumptions used for calculating the whole Fund Funding Target and cost of future accrual (the “normal cost”) for the 2010 Valuation is as follows:

	Assumption	Past Service		Future Service	
		2010	2007	2010	2007
a	Market Implied Inflation (RPI)	3.8%	3.1%	N/A	N/A
b	Real Index Linked Gilt Yield	0.7%	1.3%	N/A	N/A
c	Inflation Adjustment*	0.8%	0.0%	N/A	N/A
d	Inflation**	3.0%	3.1%	3.0%	2.75%
e	Salary Growth	1.75%	1.75%	1.75%	1.75%
	Asset Out-Performance (AOA)				
f	- Pre Retirement	2.5%	2.0%	N/A	N/A
g	- Post Retirement	1.0%	0.5%	N/A	N/A
h	<b>Net AOA</b>	<b>1.9%</b>	<b>1.4%</b>	N/A	N/A
i	Real Return Forecast	N/A	N/A	<b>3.75%</b>	<b>3.75%</b>
j	Pension Increases = Inflation (d)	3.0%	3.1%	3.0%	2.75%
k	Salary Increases = Inflation + Salary growth (d + e)	4.75%	4.85%	4.75%	4.5%
l	Fixed Interest Gilt Yields = Market Implied Inflation (RPI) + Real Index Linked Gilt Yield (a + b)	4.5%	4.4%	N/A	N/A
	Required Investment Return				
m	- Pre-Retirement (f + l)	7.0%	6.4%	6.75%	6.5%
n	- Post Retirement (g + l)	5.5%	4.9%	6.75%	6.5%
o	- Pre and Post Retirement (h + l)	6.4%	5.8%	= Inflation + Real Return Forecast	
	<b>Investment Offset Assumptions</b>				
p	Improved Investment Return (IIR)	0.85%	1.35%	N/A	N/A
q	Total Investment Return including IIR (o + p)	7.25%	7.15%	N/A	N/A
r	<b>AOA (h + p)</b>	<b>2.75%</b>	<b>2.75%</b>	N/A	N/A

\* The inflation adjustment allows for both the inclusion of an Inflation Risk Premium (IRP) and the decision to link pensions to CPI rather than RPI.

\*\* Therefore inflation at 2010 is an assumption for future CPI, whereas at 2007 it was an assumption for future RPI. For past service inflation is derived as (a – c), for future service inflation is a long term assumption, not directly related to current market yields.

## Assumptions used in calculating contributions payable under the Recovery Plan

2.14 The contributions payable under the Recovery Plan are calculated using the same assumptions as those used to calculate the Funding Target (**row o, paragraph 2.13**), with the exception that, for certain employers, the required contributions are adjusted to allow for the following variation in assumptions during the period of the Recovery Plan.

### Investment return on existing assets and future contributions

2.15 An overall return effective as at the Valuation date of 2.75% pa (over the liabilities) for strong covenant employers reflecting the underlying Investment Strategy of NYPF and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities (see **paragraph 7.16**).

2.16 This overall additional effective return (2.75%) is assessed relative to the liabilities consistent discount rate, and is based upon the assumptions that the Fund continues to invest a significant proportion of assets in return seeking investments over the duration of the recovery period.

2.17 The total required investment return then is the liability yield consistent with the assumed liability discount rate of the Fund at the Valuation Date (4.5%pa) plus the overall additional investment return assumption of 2.75%pa which produces a required investment return from the assets of **7.25%** pa effective as at the Valuation date. This can be compared with the current rate of return required to meet the assumptions used by the Actuary in determining the funding target for the Fund's and all other employers' liabilities of **6.4%**.

Key	Assumption	Investment Offset Assumption	Actuarial Liability Assumption
a	Liability Discount Rate	4.5%	4.5%
b	Overall Investment Return Assumption	2.75%	-
c	Average Asset Out-Performance Assumption for funding target	-	1.9%
d	<b>Required Investment Return</b>	<b>7.25%</b>	<b>6.4%</b>
		<b>(a+b)</b>	<b>(a+c)</b>

2.18 The investment return assumed for the contributions under the Recovery Plan is taken to apply throughout the recovery period. As a result, any change in Investment Strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the Funding Strategy.

2.19 The above variation to assumptions in relation to the Recovery Plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant (**paragraph 6.5**) to support the anticipation of investment returns, based on the current Investment Strategy, over the entire duration of the Recovery Plan period. No such variation in the assumptions will apply in the case of any employer which does not have a funding deficit at the Valuation (and therefore for which no Recovery Plan is applicable). Where the variation in the assumptions does apply, the resultant total employer contribution rate implemented following the 2010 Valuation will be subject to a minimum of the normal future service contribution rate for the employer concerned.

## APPENDIX 2

### 3.0 RESULTS OF THE 2010 ACTUARIAL VALUATION

3.1 The results of the 2010 actuarial Valuation are shown below:

Line	Component	@ 31/3/07	@ 31/3/10	+ / - %
<b>a</b>	<b>Market Value of assets</b> £m	1265.7	1344.6	+6.2
<b>b</b>	<b>Past Service Liabilities</b>			
	active - accrued	855.6	884.7	+ 3.4
	deferred	288.6	317.3	+ 9.9
	pensioners	723.4	802.0	+ 10.9
	<b>£m</b>	<b>1867.6</b>	<b>2004</b>	+ 7.3
<b>a-b</b>	<b>Past Service deficit</b> £m	<b>601.9</b>	<b>659.4</b>	+ 9.6
<b>a / b</b>	<b>Funding level</b> %	<b>67.8</b>	<b>67.1</b>	

3.2 The same information expressed in the form of an employer contribution rate for the Whole Fund is as follows

Component	@ 31/3/07 %	@ 31/3/10 %
Cost of ongoing accrual (i.e. future liabilities of current members)	18.7	18.5
- Employees contributions	- 6.4	-6.3
= Future service contribution rate	12.3	12.2
+ Deficit recovery contributions	6.5	6.4
= <b>Required Employer Contribution rate for the Whole Fund</b>	<b>18.8</b>	<b>18.6</b>

## PART I – STATEMENT OF INVESTMENT PRINCIPLES

An updated Statement of Investment Principles (SIP) was agreed at the PFC meeting on 23 June 2011. The Statement of Investment Principles (SIP) has been updated to reflect the move away from a strategic benchmark with fixed percentage asset allocations to one with a range of percentages for each asset class, and also to include a Statement of Compliance with the FRC Stewardship Code.

This latest SIP is set out in the following pages and can also be accessed on the NYPF website: [www.nypf.org.uk](http://www.nypf.org.uk)



## NORTH YORKSHIRE PENSION FUND

### STATEMENT OF INVESTMENT PRINCIPLES

#### 1. INTRODUCTION

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, and review from time to time, a written statement recording the investment policy of the pension fund. The purpose of this document is to satisfy the requirements of these Regulations for the North Yorkshire Pension Fund (NYPF). In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers referred to in **paragraph 9** below.
- 1.2 The Statement will be reviewed from time to time to ensure that it remains accurate, up to date and comprehensive. The Statement will in any event be amended within six months of any material change to the investment arrangements of the Fund.
- 1.3 As the statutory Administering Authority for the Fund, North Yorkshire County Council (NYCC) is responsible for making sure appropriate arrangements are in place to administer all aspects of the Fund. This is achieved by the County Council delegating responsibility for managing all aspects of the Fund to the Pension Fund Committee (PFC).
- 1.4 The Administering Authority (AA) is committed to maintaining the accuracy of this Statement on an ongoing basis. This latest Statement was approved by the PFC on 23 June 2011 to reflect changes to the Investment Strategy effective up to that date and was subsequently circulated to all Fund Managers to update their Investment Management Agreements.
- 1.5 The Administering Authority (AA) is also required to publish and maintain a **Funding Strategy Statement** (FSS) following consultation with all of the Employing Bodies in the Fund. The current FSS was reaffirmed by the PFC on 23 June 2011. This Statement reflects the details of the investment arrangements adopted by NYPF to achieve its Aims as expressed in the FSS.

#### 2. DESCRIPTION OF SCHEME'S LIABILITIES

- 2.1 The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. It is a defined benefit scheme which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and length of service and is unaffected by the investment return achieved on the Fund's assets. Full details of the employee's benefits are set out in the NYPF Scheme document.
- 2.2 All active members of the Scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations.
- 2.3 NYCC administers the NYPF on behalf of 90 employers, including itself. These employers are ultimately responsible for meeting the balance of costs necessary to finance the benefits payable from the Scheme. Employers' contribution rates are reassessed triennially by the Fund Actuary and are also subject to monitoring via interim valuations undertaken by the Actuary at each of the financial year ends falling between the formal triennial valuations. The last Triennial Valuation was undertaken as at 31 March 2010; its implications are explained in the Funding Strategy Statement.

### 3. INVESTMENT POLICY

#### Types of investment

- 3.1 Investment returns are a combination of income and capital gains/losses. The major kinds of investment available to the Fund, and their characteristics, are: -
- **UK Equities** provide an equitable share in the assets and profits of public companies. Income is provided through share dividends which, although variable in amount from year to year, have historically risen on average more rapidly than inflation. Equities also produce capital gains/losses as share prices fluctuate to reflect investors' expectations of the prospects of a specific company, sector or market
  - **Overseas Equities** are similar to UK Equities but with exposure to the currency of the market where the share price is listed. The investment returns will be enhanced, or reduced, by the appreciation or depreciation respectively of the market currency relative to sterling
  - **Bonds** are debt instruments issued by a variety of borrowers including governments and corporations. Bonds provide a fixed rate of interest and are generally redeemed at par by the issuer at a known future date. Their price primarily reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Prices of bonds tend to fluctuate less than the prices of equities
  - **Index-Linked** are bonds issued by the UK Government. They provide interest and redemption value directly linked to price inflation as measured by an appropriate index
  - **Property** is investment in land and/or buildings such as offices, retail and industrial. The income comes from the rents payable. Property prices primarily reflect the rents they are able to produce and investor demand
  - **Cash** is usually deposited with institutions for very short periods and will attract interest at current market rates

#### Suitability of these types of Investment

- 3.2 All the kinds of investments listed above, and representative individual holdings thereof, are considered suitable investments for an LGPS Fund.

#### Realisation of Investments

- 3.3 The vast majority of the assets identified above are readily marketable, usually within two weeks. Investment managers are instructed not to hold any investment inappropriate in terms of its marketability.

#### General investment principles adopted by NYPF

- 3.4 NYPF firmly believes that the emphasis of investment over the long term should be on real assets, particularly equities. These are most likely to maximise long term returns for the Fund. The balance between UK and Overseas equities is a matter of investment judgement and has most recently been considered as part of the Investment Strategy Review concluded in 2011 (see **paragraph 3.6** below). This review also reaffirmed diversification into UK property to further enhance returns and reduce short term volatility (see **paragraph 3.8** below). The new ranges for benchmark proportions (see **paragraph 3.15** below) are a departure from having fixed percentage allocations to each asset class, and were determined by the PFC in consultation with the Investment Consultant and the independent Investment Adviser as part of this Review and are linked to the results of the 2010 Triennial Valuation (see **paragraph 9.5** below).
- 3.5 The investment bias will continue to be towards equities; however, for risk management purposes the Fund acknowledges the need to diversify and thereby include other real assets, such as Property, Index-Linked and 'monetary' assets, such as Bonds and Cash.
- 3.6 The Investment Strategy Review completed in February 2011 reaffirmed the decision made in 2005 to have investment managers with separate active UK and Global Equity mandates. A single UK Equity mandate is now complemented by three Global Equity mandates ranging from Global (ex UK) and High Alpha to Long Term Growth (Unconstrained). In order to reduce the level of risk attached to the



Overseas Equities mandates, the Fund's Custodian has been instructed to put a 25% currency hedge in place on the major currencies updated on a monthly basis.

- 3.7 Two fixed income mandates have been in place since 2005. Following a decision to change the benchmark for one investment manager the portfolio has been reclassified from Bonds to Alternatives (see **paragraph 3.27** below).
- 3.8 Following the 2011 Investment Strategy Review activity is underway to add an indirect property mandate to further diversify the range of investments in the portfolio. This has traditionally been one of the best performing asset classes over an extended period although commencement of the investment has yet to start and will require careful judgement in the current economic climate.

#### **Fund Specific Benchmark**

- 3.9 The Fund specific benchmark established from 1 April 2001 was reviewed during the 2011 Investment Strategy Review (see **paragraph 3.4** above). The use of a risk budgeting model (see **paragraph 5.2** below) provided the PFC with the opportunity to consider how the strategic asset class allocation decision can affect risk levels. Once the level of tolerable risk has been agreed a customised Fund specific benchmark was designed to target optimum investment performance from the various asset classes. Consequent changes to the investment management structure mean that while the total Fund performance is measured against this customised benchmark individual fund managers will be measured against a benchmark specific to the assets they manage. The customised benchmark is also monitored against a **least risk portfolio** (defined by the Actuary as part of the Triennial Valuation process) to assess how asset performance is matching, or otherwise, the growth in the liabilities of the Fund (see **paragraph 3.16**).

#### **Balance/Diversification between asset classes**

- 3.10 The strategic balance/diversification of investments adopted by the Fund will inevitably reflect a compromise between the anticipated enhanced long term investment returns derived from holding equities and property and the consequent greater short term market price risk. The Fund specific benchmark (see **paragraph 3.9** above) provides the framework for investment decisions appropriate to the degree of investment risk considered acceptable by the Fund.

#### **Aims of Fund in relation to investment**

- 3.11 In the FSS the Aims of the Fund are defined as follows
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
  - manage employers' liabilities effectively
  - ensure that sufficient resources are available to meet all liabilities as they fall due, and
  - maximise the returns from investments within reasonable risk parameters

This Statement expresses how the NYPF will manage its investment arrangements to address the fourth of these Aims.

#### **Employer Specific (bespoke) Investment Strategy**

- 3.12 Following the consultation process carried out during 2010 for the Funding Strategy Statement, and as part of the Triennial Valuation process, the PFC reaffirmed its policy that any employing body in the Fund could opt for a bespoke Investment Strategy, in relation to its share of the assets of the Fund, that it deemed more appropriate to its own liability profile than the standard Investment Strategy of the Fund (**for full details of this policy see paragraph 6.12 of the FSS**).
- 3.13 To date one employing body has opted for this approach and specified an ethical equity requirement – this has been achieved by appointing an additional fund manager performing to a specific mandate applicable to this “sub-fund” only.

## Investment management arrangements

- 3.14 Following an Investment Strategy Review in 2011, the Fund confirmed its approach to having managers with specialised mandates and a bespoke benchmark for each. These specific asset based mandates provide diversification and spread of risk at Fund level. They also allow the Fund to combine exposure to the capital growth element of equities and property as well as more stable asset classes, such as bonds, which provide more predictable investment returns.
- 3.15 One major change which came out of the 2011 Review was the move away from fixed percentages for asset allocations to a range of percentages. This new approach is intended to provide the Fund with greater flexibility when considering prevailing market conditions and the circumstances of the investment managers and their portfolios. The revised tactical asset allocation is shown below.

**Table A**

Asset Class	Benchmark Proportion
Equities	50% to 75%
Liability Matching	15% to 30%
Alternatives (ex Property)	5% to 10%
Property	5% to 10%

The percentages shown in **Table A** exclude the sub-fund referred to in **paragraph 3.13** above. The position in relation to property is explained in **paragraph 3.18** below.

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

- 3.16 The PFC has defined Fund specific benchmark proportions and relevant indices for each asset class/mandate type
- for equity mandates see **Table B** below
  - for the liability matching mandate see **Table C** below
  - for the property mandate see **paragraph 3.18** below

**Table B**

### Equity Benchmark

<i>Asset Sub Class</i>	<i>Benchmark Proportion</i>	<i>Out-Performance Target</i>	<i>Benchmark Index</i>
UK Equities	34%	+ 3%	FTSE 350 (ex IT) (Equally Weighted)
Global Equities (ex UK)	33%	+ 2%	MSCI World (ex UK)
Global Equities	20%	+ 2%	FTSE All World
Long-term Global Growth Equities	13%	+ 3%	FTSE All World

The **benchmark proportion** has been established as the most effective mix of asset allocation and investment style from the risk budgeting process (see **paragraph 5.2**) with the **out-performance target** reflecting where more risk is expected to be taken.

A **benchmark index** is also nominated for each asset sub-class for use in calculating a Fund specific composite performance figure for the global equity mandates, against which the individual global equity managers will be monitored and assessed.

**Table C**

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

<i>Asset sub Class</i>	<i>Benchmark Proportion</i>	<i>Permitted Range</i>	<i>Benchmark Index</i>	<i>Out-performance Target</i>
Index linked gilts (longer than 15 years)	85%	+/- 1%	FTSE UK Index-Linked Gilts	+2.5%
Fixed Interest gilts (longer than 15 years)	15%	+/- 1%	FTSE UK Gilts	+2.5%

The split shown in the above table between the index linked and fixed interest gilts equates to the **least risk portfolio**; this is an actuarially designed portfolio that is the closest match possible to the Fund's liabilities, and represents the least risk investment position (see **paragraph 3.9** above). By using the least risk portfolio with an out-performance target of 2.5% for Amundi as the benchmark for the liability matching fixed income mandate, then, assuming the target is met, this portion of the Fund's assets should move in line (or better) relative to the Fund's liabilities.

- 3.17 The second fixed income manager, ECM changed from the least risk benchmark to a benchmark of 1 month LIBOR from January 2010. The 2011 Investment Strategy Review determined that this manager should be consequentially reclassified as an Alternatives manager (see **paragraph 3.27**). This decision was intended to protect the investment against rising interest rates and to reinforce the focus on absolute performance rather than with reference to the Fund's liabilities.
- 3.18 The benchmark proportion for the indirect UK property mandate will be between 5% and 10% and will be achieved by a corresponding reduction in the Equities proportion. The new manager(s) will be appointed upon conclusion of an OJEU procurement process in late 2011.
- 3.19 Details of the managers appointed to each of these mandate types are provided in **paragraph 3.27** below.
- 3.20 Within the overall strategic asset allocation shown in **Table A** above the Fund has also invested funds with the following 'niche' manager:
- £3m commitment of the **Yorkshire and Humber Equity Fund**, formerly Yorkshire and Humber Regional Venture Capital Fund, managed by Yorkshire Fund Managers and underwritten by the DTI, with a drawdown of 50% having taken place up to June 2011
- 3.21 Investments of the type referred to in **paragraph 3.20** above may comprise up to 10% of the value of the Fund subject to no single investment of this type exceeding 5%. The PFC continues to assess investment opportunities of this type consistent with its general investment principles (see **paragraph 3.4 et seq**).
- 3.22 There is also an investment in an ethical equity sub-fund – this is referred to in **paragraph 3.13** above.
- 3.23 It is the policy of the Fund that day to day responsibility for the investment of the assets of the Fund rests with the appointed investment managers. As required by the Financial Services and Markets Act 2000 there are signed Investment Management Agreements (IMAs) in place with each manager, which comply in all respects with this Statement.

**Use of Derivatives**

- 3.24 Derivative financial instruments may be used to manage and control the aggregate risk exposure of the Fund relative to the benchmark (but not to increase it). To this end permissible instruments are:
- futures and options where the underlying securities are quoted bonds, shares or stock market or money market indices
  - forward currency contracts
  - contracts for difference
  - repos and reverse repos

3.25 There should be no business contracted in derivatives based on commodities and none in swaps save other than where expressly permitted by the Fund in the Investment Management Agreement.

3.26 The following constraints are also to be observed by all investment managers:-

- a manager may buy or sell financial futures and write (sell) put options only to the extent that the projected liabilities arising (together with underwriting obligations) are limited to the sum of the cash holdings less known net commitments
- except in the case of stock index options a manager may write (sell) call options or buy put options only to the extent that these are covered by the underlying investment to which the option relates
- a manager shall not undertake transactions in Options and Futures on commodities

### **Fund Managers and their allocated Performance Criteria**

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

#### **Equity - UK**

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

#### **Equity – Global (ex UK)**

- **Fidelity International** - the principal objective is to out-perform the MSCI World (ex UK) index (per **Table B**) by 2% per annum over rolling three year periods.

#### **Equity - Global**

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

#### **Equity – Long Term Growth**

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

#### **Equity - Niche**

- **Yorkshire and Humber Equity Fund** - the objective is to out-perform the FTSE All Share Index on a consistent basis

#### **Equity - Ethical**

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

#### **Indirect UK Property**

- The objective will be to significantly exceed the UK retail prices index – a precise performance criteria will be agreed when the manager(s) are appointed in late 2011

#### **Fixed Income – Liability Matching**

- **Amundi Asset Management** - the asset allocation is that set out in **Table C** and the performance target is to exceed the Least Risk Portfolio by 2.5% pa

#### **Fixed Income - Alternatives**

- **European Credit Management** - the principal objective is to out-perform 1 month LIBOR by 3% per annum

3.28 The Fund specific benchmark is a composite performance figure based on the specified indices measured over the defined period but weighted according to the benchmark proportions (see **Tables B/C** above). For performance measurement purposes this composite benchmark figure will be re-balanced at the start of each quarter to the initial proportions as defined in **paragraphs 3.15 / 3.16**.

#### **4. MONITORING OF INVESTMENT PERFORMANCE**

4.1 With the assistance of the Fund's **independent Investment Adviser** and **Investment Consultant**, the PFC regularly reviews the investment policy pursued by each of the investment managers and at least twice a year will meet with representatives of each investment manager.

4.2 In addition the investment performance of all managers is monitored on an ongoing basis by the Treasurer, **Investment Adviser** and **Investment Consultant**. The PFC receives Performance Measurement Reports on a quarterly basis provided by **BNY Mellon Asset Servicing**. In addition the WM Company provides details of NYPF's performance in relation to all other LGPS Funds.

4.3 Two further 'safeguards' are also built into the monitoring process, viz

- whilst in principle a performance benchmark should not require revision within three years of its adoption, it has been agreed that the investment managers and Investment Adviser should formally confirm, in their respective quarterly reports to the PFC, that the benchmark structure for their respective mandate is not causing distortions to their investment process that are detrimental to the long term solvency of the Fund
- to underline this process the benchmark (and strategic asset allocation) will be subject to, as a minimum, a formal review at three yearly intervals, timed to coincide with the publication of the results of the Triennial Valuation conducted by the Fund Actuary. The latest Triennial Valuation took place as at 31 March 2010, the results of which were signed off by the PFC in February 2011. In parallel with this Valuation the PFC conducted an Investment Strategy Review which was also concluded in February 2011.

4.4 If matters arise from any of these monitoring procedures, the PFC and/or its Treasurer and Investment Adviser, will meet as necessary with an investment manager(s).

#### **5. POLICY WITH REGARD TO RISK**

##### **Investment Policy**

5.1 Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets. The PFC believes that the asset allocation policy currently in place provides an appropriately diversified distribution of assets for this purpose.

##### **Risk Budgeting**

5.2 During 2010 Aon Hewitt undertook an Asset Liability Modelling study looking at the risk and reward of the current (and possible alternative) asset allocations compared with the actual liabilities of the Fund arising from the 2010 Triennial Valuation. This process was incorporated into a series of Investment Strategy Review workshops to explore the risk/reward relationship and to develop the most appropriate asset allocation strategy. The results of this exercise were taken into account in establishing the investment benchmark detailed in **paragraphs 3.13 to 3.21** above. It is the intention of the PFC to keep this analysis under constant review in the context of the changing liability profile of the Fund.

## Investment Advice

- 5.3 In April 2010 Aon Hewitt was appointed as Investment Consultant to the Fund. In June 2010 Carolan Dobson (from Investment Trustee and Adviser Services) was appointed to the role of Investment Adviser and her duties are defined in **paragraph 9.6**. Aon Hewitt will develop the risk budget model and will produce a quarterly risk report to assess the Fund's current Investment Strategy in the context of its liabilities and development in the investment markets which may over time lead to changes in the Investment Strategy itself.

## Approved Investments

- 5.4 The **LGPS Management and Investment of Funds Regulations 2009** set out certain restrictions as to individual investments, which are intended to limit the exposure risk of an LGPS Fund. Subject to receiving appropriate advice the standard limits can be increased and these upper limits are shown in the table below. These new head rooms have been partially adopted by the Fund, and will be considered by the NYPF as part of any future proposed changes to the Investment Strategy or requests from the fund managers; any proposals to increase these investment limits will be considered at the appropriate time and recorded in this Statement in due course. The Investment Management Agreements with the investment managers reflect these legal restrictions as well as a number of additional limitations, which are designed to ensure that only suitable investments are held by managers on behalf of the Fund.
- 5.5 The limits currently adopted by the Fund are summarised as follows.

<i>Investment Limits under LGPS Regulation paragraphs 14 and 15</i>		
<i>Category</i>	<i>Adopted by NYPF</i>	<i>Maximum</i>
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	10%	15%
4. All deposits with – (a) Any local authority, or (b) Any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000(a)) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans (but excluding Government loans).	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding ( but not if the investment is made by an investment manager, or the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme).	10%	10%

<i>Investment Limits under LGPS Regulation paragraphs 14 and 15</i>		
<i>Category</i>	<i>Adopted by NYPF</i>	<i>Maximum</i>
<b>7.</b> All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
<b>8.</b> All sub-underwriting contracts.	15%	15%
<b>9.</b> All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	30%	35%
<b>9A.</b> All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	30%	35%
<b>9B.</b> All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	30%	35%
<b>10.</b> Any single insurance contract.	25%	35%
<b>11.</b> All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

### **Stock Lending Arrangements**

- 5.6 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2010/11 or in any previous years.

### **Custody of Assets**

- 5.7 **BNY Mellon Asset Servicing** provides a custody service for the Baillie Gifford, Fidelity International, Standard Life, Amundi Asset Management and European Credit Management portfolios as well as the ethical sub-fund investment of RC Brown. The agreement with BNY Mellon clearly defines matters relating to the safekeeping and security of the Fund's assets; essentially that they are held in specific custody accounts that are audited both by the external auditors of the Fund (Deloitte) and the Internal Audit Service of North Yorkshire County Council (Veritau). Also the custodian is subject to audit by its own external and internal auditors and is regulated by various appropriate regulatory bodies.

### **Cash Management**

- 5.8 The PFC attaches great importance to the effective management of the Fund's cash. In order to achieve the best returns possible on all the cash held by the investment managers on behalf of the Fund, and to ensure that the money is deposited in fully secure institutions, the PFC has approved a statement of the requirements placed on investment managers as far as **cash management practices** are concerned; these requirements are reflected, as appropriate, in the Investment Management Agreements.

## 6. BUYING AND SELLING INVESTMENTS

- 6.1 The responsibility for buying and selling investments is delegated to each individual investment manager, who is contracted not to exceed the investment powers of the Fund as set out in the LGPS Regulations. As already mentioned, the day to day investment activities which the managers carry out on behalf of the Fund are governed by their Investment Management Agreements which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions contained therein remain appropriate.

## 7. SOCIAL ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

- 7.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.
- 7.2 However, as a responsible investor, NYPF wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. The Fund will therefore monitor investee companies to ensure they meet standards of best practice in relation to their key stakeholders.
- 7.3 The Fund considers that the pursuit of such standards fully aligns the interests of Fund members and beneficiaries with those of stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.
- 7.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, those of its investment managers, and alliances with other investors, to pursue these goals. To this end the Fund is a member of the Local Authority Pension Fund Forum (LAPFF).
- 7.5 In addition, the Fund continues to pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies, as determined from time to time (see **paragraph 8** below).

## 8. CORPORATE GOVERNANCE

- 8.1 The present policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all UK Equities held by the Fund. Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC. PIRC currently instructs BNY Mellon (the Fund Custodian) by email of voting recommendations for each FTSE All Share holding.
- 8.2 The scope of the policy described in **paragraph 8.1** above is under review with the intention of extending the range of companies where NYPF's interest can be voted, for example to overseas holdings.
- 8.3 In 2010 the Financial Reporting Council (FRC) produced guidance on how institutional investors should demonstrate adherence to the Stewardship Code. A statement is provide in the **Appendix**.

## 9. COMPLIANCE WITH THIS STATEMENT

- 9.1 All of the organisations or individuals listed below have a duty to ensure compliance with this Statement.
- 9.2 The **Pension Fund Committee** will review this Statement (and the associated Funding Strategy Statement) each year, with the advice of the Investment Adviser, the Investment Consultant, the Actuary and the Treasurer.
- 9.3 As investment managers, **Baillie Gifford, Fidelity International, Standard Life, Amundi Asset Management, European Credit Management and RC Brown** submit quarterly reports to the Fund including:
- valuation of all investments made by them for the Fund
  - records of all transactions, together with a cash reconciliation



- a review of recent actions undertaken on behalf of the Fund together with a summary of their current stated investment policy
- written confirmation that the principles contained in this Statement , as provided to them, have been followed, and that they have had regard for the need for diversification and the suitability of investments to the Fund (see **paragraph 4.3 (i)** above)

The investment managers must also notify the Fund, in advance, of any new investment categories in which they are proposing to invest.

The Annual Report of the **Yorkshire and Humberside Equity Fund** is also submitted to the Fund.

- 9.4 **BNY Mellon Asset Servicing** provides both quarterly and annual reports of the investment performance of the individual investment managers and the Fund as a whole. They also act as custodian and certify on an annual basis that they have complied with this Statement.
- 9.5 **Mercer Ltd**, the Fund Actuary, undertakes the statutory Triennial Valuation as well as the interim valuations that are part of the monitoring framework. These regular valuations are essential to any monitoring and review of this SIP as they quantify, on an independent basis, the relationship between the assets and liabilities (ie solvency) of the Fund over time.
- 9.6 The **Investment Adviser**, Ms Carolan Dobson from Investment Trustee and Adviser Services, provides ongoing independent investment advice to the Fund as well as monitoring the activities and performance of each investment manager and compliance with their Investment Management Agreements.
- 9.7 The **Investment Consultant**, Aon Hewitt, provides Investment Strategy advice including asset allocation and risk budget monitoring and supports the Investment Adviser in giving general investment advice to the Fund.
- 9.8 The **Treasurer** to the Fund is the Corporate Director – Financial & Central Services, at the time, of North Yorkshire County Council. The County Council also provides associated administration services relating to all aspects of the Fund’s activities.

## 10. COMPLIANCE WITH THE UPDATED MYNERS PRINCIPLES

- 10.1 Following the original Myners Review in 2001 that established 10 principles of investment for defined benefit schemes, the North Yorkshire Pension Fund carried out a self-assessment of its position and implemented arrangements in order to comply with these principles. The Annual Report & Accounts for 2009/10 reported full compliance.
- 10.2 In October 2008, the Government published their response to consultation on updating the Myners Review and restructured the original principles into 6 new high level principles, providing guidance to pension funds on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.
- 10.3 The primary focus for the revised principles and guidance was private sector schemes and the Investment Governance Group (IGG) – however the LGPS Sub-Group considered how these might be suitably adapted for local government pension funds.
- 10.4 In July 2009, the IGG issued adapted principles and described the framework for investment decision-making as follows:

### Principle

The high level principles will be the accepted code of practice applying to investment decision-making and investment governance in local government pension funds throughout the United Kingdom, including the Environment Agency. Administering authorities will be required or expected by the Management of Investment of Funds Regulations to report against these on a ‘comply or explain’ basis.

**Guidance on good practice**

Guidance on good practice is intended to help funds to apply the principles effectively and they are not expected to implement every element. Rather administering authorities may use examples of good practice where appropriate to help demonstrate the extent to which the principles have been applied and whether compliance has been achieved.

**Good practice tools**

Tools provide practical help and support to administering authorities and their advisers to enable them to apply the principles and ensure that standards of investment decision-making and governance continue to rise.

10.5 For LGPS funds, the disclosure of compliance with these principles is required by the Investment Regulations as an integral part of the Statement of Investment Principles (SIP), which is required to be published in the Annual Report and Accounts each year. The regulation was amended to reflect the updated principles by The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 [SI 2009/3093] which were laid before Parliament on 1 December 2009 and came into force on 1 January 2010.

10.6 The relevant regulation 12 refers to the Statement of Investment Principles and states, inter alia, that:

*“(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.”*

10.7 The guidance referred to in this regulation was subsequently issued by Communities and Local Government on 14 December 2009 and states:

*“An administering authority should refer to the guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 2009, called Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles.”*

*“This sets out, in a way that is appropriate for the Local Government Pension Scheme Funds, the six revised principles on investment decision-making for occupational pension schemes that were agreed in 2009 by the Investment Governance Group’s Local Government Pension Scheme (LGPS) sub-committee. CIPFA’s guidance was developed in consultation with the sub-committee.”*

*“A fund administering authority should report in its SIP on the extent to which it complies with the six principles, as set out in the abovementioned CIPFA guidance. In the interests of transparency, if an authority does not comply with that guidance in any respect, it should describe the relevant aspects of its practice and give the reasons for them.”*

10.8 The following table sets out each principle, as adapted by the IGG, and provides a summary of the CIPFA guidance and the Fund’s current practice in that respect.

<b>Principle 1: Effective decision-making</b>		<b>Fully compliant</b>
Administering authorities should ensure that		
<ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Designated committee appointed	The County Council, as Administering Authority has delegated powers to the Pension Fund Committee - see GCS (Governance Compliance Statement) paragraph 3.2	

<ul style="list-style-type: none"> <li>➤ Officer roles clearly stated</li> </ul>	<p>Officer delegation is described in the Constitution of the Administering Authority – also see GCS paragraphs 3.5 to 3.7</p>
<ul style="list-style-type: none"> <li>➤ Governance compliance statement</li> </ul>	<p>The GCS is produced as a separate document and is reviewed and updated in accordance with Regulations</p>
<ul style="list-style-type: none"> <li>➤ Basis of committee appointments</li> </ul>	<p>PFC appointments are described in the GCS paragraphs 4.1 to 4.3</p>
<ul style="list-style-type: none"> <li>➤ Committee terms of reference</li> </ul>	<p>See GCS paragraph 3.4</p>
<ul style="list-style-type: none"> <li>➤ Delegation arrangements and roles</li> </ul>	<p>Tasks and responsibilities are set out in the GCS paragraph 3.13, Key Functions</p>
<ul style="list-style-type: none"> <li>➤ Skills and knowledge audit statement</li> </ul>	<p>See GCS paragraphs 5.1 and 5.2, competencies, knowledge &amp; understanding</p>
<ul style="list-style-type: none"> <li>➤ Structure review and handbook</li> </ul>	<p>See GCS paragraphs 4.5 and 4.6 for a commentary on the structure of the Committee. Paragraph 3.4 contains the Terms of Reference</p>
<ul style="list-style-type: none"> <li>➤ Sub-committees and panels</li> </ul>	<p>Advisory Panel set up in 2008 to represent all Stakeholders - see GCS paragraphs 3.8 to 3.10</p>
<ul style="list-style-type: none"> <li>➤ Obtaining proper advice and resources</li> </ul>	<p>The Fund has appointed an independent Investment Adviser (from Investment Trustee and Adviser Services) and an independent Investment Consultant (Aon Hewitt), see paragraphs 9.6 and 9.7 of this document</p>
<ul style="list-style-type: none"> <li>➤ Provision of training plan</li> </ul>	<p>The training needs of Members of the PFC have been assessed by a Training Needs Analysis</p>
<ul style="list-style-type: none"> <li>➤ Allowances paid and time off allowed</li> </ul>	<p>The cost of PFC Member training is met by the Fund - see GCS paragraph 5.3</p>
<ul style="list-style-type: none"> <li>➤ Clarity, completeness and timing of papers</li> </ul>	<p>Papers are made available to all stakeholders - see GCS paragraphs 4.15 and 4.16</p>
<ul style="list-style-type: none"> <li>➤ Creation of a business plan</li> </ul>	<p>This is a fundamental function of the Funding Strategy Statement (FSS) which is revised every three years. The Fund also has an approved Budget monitored at each meeting of the Committee.</p>
<ul style="list-style-type: none"> <li>➤ Strategy on employer relationships</li> </ul>	<p>See GCS paragraphs 4.7 in relation to the Advisory Panel which represents all employers and 4.13 for NYPFOG which includes all employers</p>

<b>Principle 2: Clear objectives</b>		<b>Fully compliant</b>
<ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Scope of investment objective	A key function of the FSS is to reassess the assets, liabilities, membership profile and cash flow every three years through the Triennial Valuation process	
➤ Advice on returns against benchmark	See paragraphs 9.5 to 9.7 of this document re advice received from the Investment Consultant, independent Investment Adviser and the Actuary	
➤ Consideration of risk	See paragraph 5, Policy with Regard to Risk	
➤ Consideration of all asset classes	See paragraphs 3.4 to 3.8. The most recent strategy review which included consideration of new asset classes, was concluded in February 2011	
➤ Use of peer group benchmarks	See paragraph 4.2, quarterly reports from WM Services provide a comparison with other Local Authorities	
➤ Achieving value for money/efficiency	The cost of administering the Fund is reported at the quarterly PFC meetings. Manager fees are negotiated through a competitive tender process and are periodically reviewed	
➤ Impact on council tax levels	Through the FSS and following each Triennial Valuation the Treasurer advises employers of changes in contribution rates; the consultation process adopted for the Triennial Valuation ensures that all employers are fully aware of the possible outcomes of the Triennial Valuation in relation to their Council Tax	
➤ Consideration of sub-funds	See paragraphs 3.12 to 3.23. One employer has opted for this approach	
➤ Use of asset/liability studies	This is a fundamental part of the FSS	
➤ Asset allocation and diversification	See paragraphs 3.14 to 3.28. Each Strategy Review considers potential complementary and/or alternative asset classes	
➤ Appointment of advisers	See paragraphs 9.6 and 9.7	
➤ Understanding transaction related costs	Proposals to investigate trading costs are considered too expensive in relation to potential benefits	

<b>Principle 3: Risk and liabilities</b>	<b>Fully compliant</b>
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- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

CIPFA guidance	Current practice
➤ Setting the investment objective with regard to liabilities and risk	See paragraph 3.11 Aims of Fund in relation to investment and paragraph 5.2 Risk Budgeting
➤ Policy on underperformance	Manager performance is regularly reviewed and remedial action taken where necessary. Informed judgement is used rather than rely on specific tolerance limits
➤ Use of absolute return benchmarks	NYPF has one investment mandate managed to an absolute return strategy; however it has the capability to change to a liability matching benchmark if required, at very short notice
➤ Risk assessment framework	See paragraph 5, Policy With Regard To Risk
➤ Scheme specific benchmark	See paragraphs 3.14 to 3.18. The scheme specific benchmark includes an assessment of active risk and market risk
➤ Valuation risk assessments	See FSS paragraph 8 for an assessment of the Fund's liabilities and the risks related thereto
➤ Standards of internal control	Internal controls are reviewed by the internal and external auditors. 'High Assurance' has been reported (the top level) in 2010/11
➤ Suitability of investment strategy	See paragraph 3.11, Aims of the Fund in relation to Investment
➤ Cash flows and volatility	See FSS paragraph 7.10 and 8.4 which includes an assessment of cash flows and the probability of returns over the recovery period
➤ Reporting risk assessments	See NYPF Risk Register reported as part of the Funding Strategy Statement in the Annual Report

<b>Principle 4: Performance assessment</b>		<b>Fully compliant</b>
<ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Suitability of index benchmarks	See paragraph 3.27. The benchmark for each asset class/ manager is set following advice from the independent Investment Adviser and the Investment Consultant and targets a specific return to achieve an appropriate contribution to the Investment Strategy	
➤ Benchmark parameters or constraints	See paragraph 3.27. The extent of divergence from an index is an integral part of the level of out-performance required in each portfolio	
➤ Use of active or passive management	NYPF requires managers to focus on out-performance in order to improve solvency at the optimal rate. Passive management is given consideration at each strategy review.	
➤ Belief in higher active returns	See paragraph 3.27. Each Investment Management Agreement (IMA) includes details of targets and specific risk controls. Certain benchmarks are set (and appropriate managers appointed) to achieve 'active' returns	
➤ Structure of manager mandates	Details of objectives, asset allocation, flexibility, risk, performance and timescales are included in each IMA	
➤ Use of peer group benchmarks	See paragraph 4.2, WM Local Authority Pension Fund Investment Statistics are used to compare Fund and asset class performance	
➤ Performance monitoring over time and risk limits	See paragraph 4, Monitoring of Investment Performance. Performance of each manager is assessed quarterly which includes consideration of tracking error and other risk control measures	
➤ Monitoring investment activity	See paragraph 3.15. The Fund is rebalanced quarterly to the strategic benchmark	
➤ Measuring investment returns by asset class and over time	See paragraph 4.2, WM Local Authority Pension Fund Investment Statistics are used to compare Fund and asset class performance, and managers are assessed in relation to their bespoke benchmark every quarter	
➤ Use of independent measurers	See paragraph 4.2, reports from the custodian BNY Mellon and from WM Services provide an independent assessment and analysis of manager performance	
➤ Performance attribution analysis	See paragraph 4.2, quarterly manager reports and custodian reports provide performance attribution analysis	

<ul style="list-style-type: none"> <li>➤ Performance assessment of managers, advisers, actuaries and consultants</li>   <li>➤ Committee performance self-assessment and reporting</li> </ul>	<p>See paragraphs 4.1 to 4.4, Monitoring of Investment Performance. Performance of the adviser, consultant and actuary is informally assessed based on advice received throughout each year. All of the above are also on fixed term contracts and the contracts are subject to a open competition tender process</p> <p>See GCS paragraphs 5.1 to 5.3. PFC Members undertake such training as is necessary to maintain a satisfactory level of competence, knowledge and understanding.</p>
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<b>Principle 5: Responsible ownership</b>		<b>Fully Compliant</b>
Administering authorities should: <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the FRC Stewardship Code,</li> <li>• include a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Disclosure of policies	See paragraphs 7 and 8 for the approach to responsible investment.	
➤ Incorporating long term responsible investing and ESG	See paragraph 7 which describes long term responsible investing and the Fund's approach to ESG issues	
➤ Selection and performance of managers	Each manager selection process requires details of the approach to ESG issues, the extent of compliance with the SIP and a statement on the extent of compliance with the UN Principles of Responsible Investment UN PRI). Quarterly reports from all managers include a section on ESG issues.	
➤ Investment managers' strategy	See paragraphs 8.1 and 8.2. Where holdings are indirect the Fund relies on its managers, each of which has signed up to the UN PRI.	
➤ Adoption of ISC statement by consultants	The Investment Consultants are signatories to the UN PRI and the UK Social Investment Forum (UK SIF)	
➤ Awareness of ISC Code on the Responsibilities of Institutional Investors	All Managers have signed up to the UN PRI, and we are seeking to ensure adoption of the FRC Stewardship Code by the Fund's Managers	
➤ Ensuring policies not overridden by managers	All Managers have signed up to the UN PRI	
➤ Separation of voting action	See paragraphs 8.1 and 8.2. An external voting agency acts on behalf of the Fund where practical	
➤ Monitoring action taken	Both the external voting agency and Managers provide details of voting patterns	
➤ Collaboration with other investors	See paragraph 7.4. Membership of LAPFF serves to maximize influence and promote ESG issues	



<b>Principle 6: Transparency and reporting</b>		<b>Fully Compliant</b>
Administering authorities should <ul style="list-style-type: none"> <li>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and</li> <li>provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Maintaining the Governance Compliance Statement	The GCS is maintained as a separate document, is available on the website and is reproduced in the Annual Report	
➤ Content of Communication Statement	The Communications Policy Statement which sets out the details of information provided to members, publicity, promotion of the scheme to prospective members etc, is available on the website and is reproduced in the Annual Report	
➤ Interests and involvement of stakeholders	In addition to the Communications Policy Statement paragraphs 4.7 to 4.14 of the GCS describe the Fund's stakeholders and the extent of involvement in each case	
➤ Communication with stakeholders, and peer group review	In addition to the Communications Policy Statement paragraphs 4.15 to 4.16 of the GCS describe how the information is provided to stakeholders	
➤ Content of annual reports	The Annual Report complies with the Regulations and is subject to annual audit	
➤ Disclosure of delegation arrangements, asset allocation assumptions, manager mandates, fee structures	Paragraphs 3.1 to 3.7 of the GCS provide details of delegation arrangements; paragraphs 5.1 to 5.2 of the SIP describes the basis of asset allocation, paragraphs 3.16 to 3.23 and 3.27 of the SIP describe the manager mandates	
➤ Availability of the SIP to members	The SIP is available on the NYPF website	
➤ Compliance with governance guidance requirements	The GCS details the delegation arrangements, and in paragraph 1.2 includes a statement demonstrating compliance with CLG guidance. The Fund has also appointed an Independent Professional Observer (paragraph 10.9) who reviews all aspects of the governance arrangements of the Fund on an annual basis	

### **Independent Professional Observer**

10.9 As part of its ongoing consideration of the Myners principles, and adoption of the associated CIPFA guidance, NYPF will continue to assess its current practices to establish its ongoing levels of compliance. This will involve the **Independent Professional Observer** (appointed from AllenbridgeEpic), who will review Myners compliance as part of a wider report on the Fund's overall approach to governance (see the **Governance Compliance Statement** for more details).

For further details regarding any aspect of this Statement, or the North Yorkshire Pension Fund in general, please contact the Treasurer by one of the following methods:

- telephone: (01609) 780780 ext 2114
- e-mail: [finance@northyorks.gov.uk](mailto:finance@northyorks.gov.uk)
- correspondence: c/o Room 66, North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AL
- a copy of this Statement is also available on the website: [www.nypf.org.uk](http://www.nypf.org.uk)

# Stewardship Code

## Statement of Compliance with FRC Stewardship Code

### **Principle 1 – institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities**

The North Yorkshire Pension Fund (NYPF) takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed investment managers to do so too. Stewardship is seen as an integral part of the responsibilities of share ownership, and therefore fundamental to the Investment Strategy.

In practice the approach of NYPF is to apply the Code through its arrangements both with its investment managers and through membership of the Local Authority Pension Fund Forum (LAPFF). All current investment managers have signed up to the UN Principles of Responsible Investment (UN PRI) and the Fund is seeking to ensure their adoption of the Institutional Shareholders' Committee (ISC) Code. The Investment Consultant (Aon Hewitt) is a signatory to the UN PRI and the UK Social Investment Forum (UK SIF).

The Fund also employs the services of Pensions and Investment Research Consultants (PIRC). Votes are executed by PIRC on behalf of the Fund according to predetermined Shareholders Voting Guidelines agreed by the Pension Fund Committee (PFC).

### **Principle 2 - institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed**

The Fund's investment managers have clear policies on addressing potential conflicts of interest.

In respect of conflicts of interest within NYPF, PFC members are required to make declarations of interest at the start of all committee meetings.

### **Principle 3 - institutional investors should monitor their investee companies**

Day-to-day responsibility for managing the Fund's equity holdings is delegated to the appointed investment managers. This includes company monitoring, liaising where necessary and reporting back to the PFC regularly on activity undertaken. Reports by the Fund's investment managers and from PIRC on voting and engagement activity are received by the PFC on a quarterly basis.

In addition the Fund receives timely 'alerts' from the LAPFF which highlights corporate governance issues of concern at investee companies

**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 in response to Principle 3, responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code.

However on occasion the Fund may itself choose to escalate engagement, principally through engagement activity managed by the LAPFF.

**Principle 5 - institutional investors should be willing to act collectively with other investors where appropriate**

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that 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.

**Principle 6 - institutional investors should have a clear policy on voting and disclosure of voting activity**

In respect of shareholder voting, the Fund exercises all votes in relation to its UK equity holdings and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the Fund's investment managers for pooled investments and to PIRC for segregated investments. The Fund's investment managers and PIRC publicly report voting recommendations via their websites.

**Principle 7 - institutional investors should report periodically on their stewardship and voting activities**

Quarterly reports are received from the Fund's investment managers and PIRC on votes cast.

As detailed under Principle 6, the Fund's investment managers and PIRC report voting recommendations via their websites.

## PART J – COMMUNICATIONS POLICY STATEMENT

North Yorkshire Pension Fund's Communications Policy Statement was approved by the PFC meeting on 26 May 2011. It can also be found on the website [www.nypf.org.uk](http://www.nypf.org.uk)





# North Yorkshire Pension Fund

## Communications Policy Statement



If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Communications, Training and Support Team on:

**Tel: 01609 532932**

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## COMMUNICATIONS POLICY STATEMENT

### 1.0 BACKGROUND

- 1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Amendment) (No 2) Regulations 2005 relating to the Communications Strategy for the Fund.
- 1.2 The key requirements for preparing the Statement are summarised as follows:
- (a) *the Administering Authority will prepare, publish and review a policy statement setting out its communication strategy for communicating with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.*
  - (b) *the statement must be revised and published whenever there is a material change in the policy.*
- 1.3 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in accordance with these Regulations. This Statement has been prepared in consultation with appropriate interested parties.

### 2.0 OBJECTIVES

- 2.1 The Fund's objectives in communicating with stakeholders (as defined in **Section 3** below) are:
- to keep all stakeholders informed about the management and administration of the NYPF
  - to inform stakeholders to enable them to make the decisions they need to make regarding pensions and the NYPF
  - to consult major stakeholders on changes to regulations, policies and procedures that affect the NYPF
  - to promote the Local Government Pension Scheme as an important tool in recruitment and as a benefit to scheme members
  - to use the most effective ways of communicating with stakeholders, and to seek continuous improvement in the way we communicate
- 2.2 The Fund also needs to ensure that Stakeholders find it easy and convenient to communicate with the Fund.

### 3.0 **STAKEHOLDERS**

3.1 The key stakeholders for the NYPF are:

- **the County Council's Pension Fund Committee** who make decisions about the way the Pension Fund and pension benefits are managed and administered
- the **Advisory Panel** of employer representatives and other stakeholders which has been established to advise the Pension Fund Committee on policy matters as well as provide a scrutiny function
- **scheme employers** who use the scheme to help recruit, retain and support employees, and who themselves contribute to the Fund
- **scheme members** (current contributors, deferred and retired members) and their representatives who are ultimately the recipients of the benefits of the pension scheme
- **prospective scheme members** who are eligible to benefit from the scheme but have not yet joined
- **staff employed by the County Council and other employers who are responsible for the management and operation** of the Pension Fund and pension benefits

3.2 Other stakeholders who contribute to the NYPF include –

- the Fund Actuary
- the Investment Adviser
- the Investment Consultant
- the Independent Professional Observer
- investment managers
- the asset custodian
- the AVC provider
- the Fund Solicitor

3.3 Because the stakeholders referred to in **paragraph 3.2** above are the providers of services to the Fund, it is important that communication with them exists both to and from the Fund. Thus they must be made aware of changes affecting the Fund as well as have the ability and the means to provide advice / feedback, etc, to the Fund.

### 4.0 **METHODS OF COMMUNICATION**

4.1 There are a variety of methods of communication adopted by the Fund. These are identified below with reference to each of the key stakeholders listed in **Section 3** above.

4.2 The items marked with an \* are available on the NYPF website.



## **Pension Fund Committee**

4.3 The following are used to provide information to Committee Members:

- ➔ agenda papers – these are prepared for each Committee meeting and cover all matters (ie benefit administration and investment of the Fund's assets) relating to policy and performance of the Fund
- ➔ newsletters\* - Committee Members receive copies of all newsletters issued by NYPF
- ➔ workshops – organised for specific purposes usually linked to the review of a major piece of NYPF policy (eg Investment Strategy)
- ➔ third party training sessions – details are circulated to all Members on a regular basis

## **Advisory Panel**

4.4 ➔ the Panel receives the same information as provided to Committee members (see **paragraph 4.3** above)

## **Scheme Employers**

4.5 The following will be provided to all Scheme Employers:

- ➔ newsletter\* – a quarterly update delivered electronically
- ➔ technical material – any information connected with the Scheme and its administration is issued to Employer nominated liaison officer(s)
- ➔ consultation – opportunities for NYPF/Employer consultation wherever a collaborative approach is appropriate or policy changes are proposed or required
- ➔ website – including private area for 'employer only' information
- ➔ Pension Fund Officer Group (NYPFOG) – twice yearly meetings held between NYPF and Employer representatives
- ➔ one to one employer meetings – dealing with any matters arising between NYPFOG meetings including training employers' staff engaged in pension administration activities
- ➔ Employers Guide\* – detailing pension administration processes
- ➔ Pensions Administration Strategy\* – agreed protocol setting out the respective responsibilities of NYCC (as the administering authority of the Fund) and the Fund's Employers
- ➔ Communications Strategy\* and Annual Communications Plan\* setting out the current communication arrangements and future developments

- ➔ Employer access to employee data – a means of providing data on line including starters, leavers, amendments and contributions
- ➔ Admission Agreements – provide advice, process management and data analysis for any prospective employer pursuing admitted body status

### **Scheme Members**

4.6 The following will be provided to active, deferred and retired members –

- ➔ Scheme Guide (short guide)\* – downloaded by new members of the Scheme or provided in hard copy on request by employers
- ➔ Scheme Guide (full)\* - provided on request
- ➔ Statutory Notice – confirmation of participation in the LGPS following the commencement of employment
- ➔ estimate of benefits\* – provided on request or calculated by members online
- ➔ benefit statement\* – provided annually to active and deferred members or can be viewed online at anytime by members
- ➔ newsletter\* – twice per year for active and once per year for retired members
- ➔ pre-retirement courses – participation in employer led courses as required up to 6 times per year
- ➔ membership data on-line\* – personal data available to active and deferred members subject to applying for a personal identification number
- ➔ road shows/information sessions/drop in sessions – in co-operation with Scheme employers to enable employees the opportunity to discuss any LGPS related topic
- ➔ satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, newsletter content etc
- ➔ pay advice (sent to pensioners)
- ➔ replies to any correspondence by letter, e-mail or fax
- ➔ helpline – contact available via telephone during office hours or voicemail out of office hours
- ➔ website – including online benefits calculator

## Prospective Scheme Members

4.7 The following will be available to prospective members:

- ➔ Scheme Guide (short guide)\* - distributed via the employers to all new employees or downloaded from the website
- ➔ road shows - in co-operation with Scheme employers to enable employees the opportunity to discuss any LGPS related topic
- ➔ direct promotion – will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc
- ➔ helpline – contact available via telephone during office hours or voicemail out of office hours
- ➔ website – including Scheme guides to the LGPS

## 5.0 ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)

5.1 In consultation with Scheme employers and other stakeholders, via the Advisory Panel and NYPFOG, the County Council prepares an **Annual Communications Strategy** for the NYPF detailing the current arrangements for communication with its stakeholders together with future communication developments. The Communications Strategy is subject to annual review and is presented to the Pension Fund Committee for approval at the start of each financial year.

5.2 The Strategy includes the following -

- ➔ commentary on current operating context for the Fund
- ➔ progress on actions included in previous Annual Strategy
- ➔ details of proposed actions for next year with costs
- ➔ details of any Satisfaction Surveys undertaken in previous year and proposed for next year

## 6.0 KEY POLICY / STRATEGY DOCUMENTS

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers (see **paragraphs 4.5 to 4.7 above**) the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Annual Report
- Annual Communications Strategy + related Action Plan
- Pensions Administration Strategy
- Governance Compliance Statement

6.2 All of these documents are available on the NYPF website.

## 7.0 REVIEW OF THIS POLICY STATEMENT

7.1 The Policy Statement will be reviewed annually to coincide with the approval of the **Annual Communications Strategy** as referred to in **Section 5**.

## 8.0 FURTHER INFORMATION

8.1 If you would like to know more about our communications, or have a query about any aspect of the North Yorkshire Pension Fund, you can contact us in the following ways:

### **in writing**

North Yorkshire Pension Fund  
County Hall  
Northallerton  
North Yorkshire  
DL7 8AL

### **by telephone**

Karen Scott – Operations Manager  
01609 532340

### **by email**

[pensions@northyorks.gov.uk](mailto:pensions@northyorks.gov.uk)

8.2 Further information can also be found on the NYPF website at

**<http://www.nypf.org.uk>**

## PART K – SCHEME BENEFITS

### Introduction

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

### Normal Retirement Age

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

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

### Pension (Normal)

Based on average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated on a fraction of  $\frac{1}{80}^{\text{th}}$  for each year of membership of the scheme for service before 31 March 2008 and on  $\frac{1}{60}^{\text{th}}$  for service after 1 April 2008.

### Pension (Ill Health)

Based on average pensionable pay for the last year of service and the split of 80<sup>ths</sup> and 60<sup>ths</sup> accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

- First Tier: If there is no reasonable prospect of being capable of undertaking any gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.
- Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before age 65 the employee's LGPS service is enhanced by 25% of potential service to age 65.
- Third Tier: If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives

the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years.

### **Lump Sum Retirement Grant**

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

### **Death Grant**

#### (i) Death in Service

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

#### (ii) Death after Retirement

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

#### (iii) Death of a member with Preserved Benefits

A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 1 April 2008) or 5 times for leavers on or after this date is payable to the member's spouse, or nominee.

### **Spouses, civil partners and nominated cohabiting partner's pension**

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

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

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

### **Children's Pension**

Each child under age 18, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

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

## **Pension Increases**

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

## **Contracting Out Status** (with effect from 1 April 2002)

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

**AVC's** A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0800 7310466.

## **PART L – AUDITORS’ REPORT**

### **Independent auditor’s report to the Members of North Yorkshire Pension Fund**

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets statement and the related notes 1 to 23. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of North Yorkshire Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Auditor Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Corporate Director - Finance and Central Services and auditor**

As explained more fully in the Statement of the Responsibilities, the Corporate Director - Finance and Central Services is responsible for the preparation of the pension fund’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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



### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of North Yorkshire Pension Fund's affairs as at 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the Fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In our opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which we report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Christopher Powell FCA (Engagement Lead)  
for and on behalf of Deloitte LLP  
Appointed Auditor  
Leeds, United Kingdom  
September 2011

## Membership Statistics

Employer (1)	SUMMARY OF ACTIVE MEMBERS		SUMMARY OF DEFERRED MEMBERS		SUMMARY OF PENSIONERS	
	Pensionable Employees as at 31/3/2010 (2)	Pensionable Employees as at 31/3/2011 (3)	Deferreds as at 31/3/2010 (4)	Deferreds as at 31/3/2011 (5)	Pensioners as at 31/3/2010 (6)	Pensioners as at 31/3/2011 (7)
North Yorkshire County Council	16,394	17,582	13,196	14,313	7,714	8,097
North Yorkshire Police Authority	1,242	1,156	566	623	419	461
North Yorkshire Fire & Rescue Authority	131	131	51	52	27	33
North Yorkshire Probation Committee	214	221	174	168	135	147
North Yorkshire Magistrates Courts Committee	0	0	61	60	90	87
North York Moors National Park	134	124	69	81	35	38
Yorkshire Dales National Park	139	133	65	74	35	40
Balfour Beatty	161	145	83	86	69	77
<b>DISTRICTS/BOROUGHES</b>						
Craven	217	198	198	204	235	245
Hambleton	432	405	290	312	226	238
Harrogate	1,175	1,112	887	933	717	732
Richmondshire	224	213	199	199	229	238
Ryedale	264	239	160	169	264	278
Scarborough	711	674	646	654	918	925
Selby	264	248	290	299	314	325
<b>UNITARY AUTHORITIES</b>						
City of York	4,899	4,797	3,607	3,900	1,887	2,044
<b>COLLEGES</b>						
	1,364	1,194	1,203	1,308	576	628
<b>OTHER EMPLOYERS</b>						
	658	723	334	365	229	255
<b>TOTAL</b>	<b>28,623</b>	<b>29,295</b>	<b>22,079</b>	<b>23,800</b>	<b>14,119</b>	<b>14,888</b>

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

**Name of Fund**

**North Yorkshire Pension Fund**

**Primary Contribution Requirements**

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.2 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.

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

**Further Adjustments**

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


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

The contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured against a third party.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix I, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority.

### Regulation 36(8)

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

**Signature**   
\_\_\_\_\_  
**Name** Ian Kirk  
**Qualification** Fellow of the Institute of Actuaries  
**Date of signing** 31 March 2011

**APPENDIX 2**

## Schedule to the Rates and Adjustment Certificate dated 31 March 2011

	2011/12		2012/13		2013/14	
	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)
<b>Employers</b>						
Askham Bryan College	0.1% plus £105,000	12.3% plus £105,000	0.1% plus £110,000	12.3% plus £110,000	0.1% plus £115,200	12.3% plus £115,200
Balfour Beatty Infrastructure Services	-1.2%	11.0%	-1.2%	11.0%	-1.2%	11.0%
City Of York Council	0% plus £4,961,800	12.2% plus £4,961,800	0% plus £5,197,500	12.2% plus £5,197,500	0% plus £5,444,400	12.2% plus £5,444,400
Craven College	0.3% plus £58,200	12.5% plus £58,200	0.3% plus £71,400	12.5% plus £71,400	0.3% plus £83,600	12.5% plus £83,600
Craven District Council	-0.1% plus £661,800	12.1% plus £661,800	-0.1% plus £693,200	12.1% plus £693,200	-0.1% plus £726,100	12.1% plus £726,100
Craven Housing	3.9% plus £3,500	16.1% plus £3,500	3.9% plus £3,700	16.1% plus £3,700	3.9% plus £3,900	16.1% plus £3,900
Enterprise	2.3%	14.5%	2.3%	14.5%	2.3%	14.5%
Grouped Scheduled Bodies	2.1% plus £96,000	14.3% plus £96,000	2.1% plus £100,600	14.3% plus £100,600	2.1% plus £105,400	14.3% plus £105,400
Hambleton District Council	-0.4% plus £484,500	11.8% plus £484,500	-0.4% plus £507,500	11.8% plus £507,500	-0.4% plus £531,600	11.8% plus £531,600
Harrogate Borough Council	0.1% plus £2,629,500	12.3% plus £2,629,500	0.1% plus £2,754,400	12.3% plus £2,754,400	0.1% plus £2,885,200	12.3% plus £2,885,200
Inspace	4.2%	16.4%	4.2%	16.4%	4.2%	16.4%
Jacobs (UK) Ltd	2.1%	14.3%	2.1%	14.3%	2.1%	14.3%
Joseph Rowntree Charitable Trust	2.7% plus £38,800	14.9% plus £38,800	2.7% plus £40,600	14.9% plus £40,600	2.7% plus £42,500	14.9% plus £42,500
North York Moors National Park	-1% plus £149,300	11.2% plus £149,300	-1% plus £156,400	11.2% plus £156,400	-1% plus £163,800	11.2% plus £163,800
North Yorkshire Business and Education Partnership	8.2% plus £23,600	20.4% plus £23,600	8.2% plus £24,700	20.4% plus £24,700	8.2% plus £25,900	20.4% plus £25,900
North Yorkshire County Council	0.2% plus £13,312,000	12.4% plus £13,312,000	0.2% plus £13,944,300	12.4% plus £13,944,300	0.2% plus £14,606,700	12.4% plus £14,606,700
North Yorkshire Fire and Rescue Service	0.6% plus £74,400	12.8% plus £74,400	0.6% plus £77,900	12.8% plus £77,900	0.6% plus £81,600	12.8% plus £81,600

Employers	2011/12		2012/13		2013/14	
	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)
North Yorkshire Police Authority	-1.7% plus £1,444,100	10.5% plus £1,444,100	-1.7% plus £1,512,700	10.5% plus £1,512,700	-1.7% plus £1,584,600	10.5% plus £1,584,600
Richmondshire District Council	0.2% plus £432,900	12.4% plus £432,900	0.2% plus £453,500	12.4% plus £453,500	0.2% plus £475,000	12.4% plus £475,000
Richmondshire Leisure Trust	-0.7% plus £11,000	11.5% plus £11,000	-0.7% plus £11,500	11.5% plus £11,500	-0.7% plus £12,000	11.5% plus £12,000
Ryedale District Council	0.9% plus £462,600	13.1% plus £462,600	0.9% plus £484,600	13.1% plus £484,600	0.9% plus £507,600	13.1% plus £507,600
Ryedale Sports and Recreation	2.1% plus £21,500	14.3% plus £21,500	2.1% plus £22,500	14.3% plus £22,500	2.1% plus £23,600	14.3% plus £23,600
Scarborough Borough Council	0.4% plus £1,451,100	12.6% plus £1,451,100	0.4% plus £1,796,400	12.6% plus £1,796,400	0.4% plus £2,171,300	12.6% plus £2,171,300
Scarborough Museums Trust	-1.2%	11.0%	-1.2%	11.0%	-1.2%	11.0%
Scarborough Sixth Form College	-0.4% plus £25,000	11.8% plus £25,000	-0.4% plus £26,200	11.8% plus £26,200	-0.4% plus £27,400	11.8% plus £27,400
Selby College	0.2% plus £30,600	12.4% plus £30,600	0.2% plus £41,500	12.4% plus £41,500	0.2% plus £53,400	12.4% plus £53,400
Selby District Council	-0.8% plus £659,300	11.4% plus £659,300	-0.8% plus £690,600	11.4% plus £690,600	-0.8% plus £723,400	11.4% plus £723,400
Skipton Town Council	-1.1% plus £5,800	11.1% plus £5,800	-1.1% plus £6,100	11.1% plus £6,100	-1.1% plus £6,400	11.1% plus £6,400
Superclean Services Wothorpe	5.4% plus £400	17.6% plus £400	5.4% plus £400	17.6% plus £400	5.4% plus £400	17.6% plus £400
University of Hull- Scarborough Campus	0.6% plus £122,300	12.8% plus £122,300	0.6% plus £128,100	12.8% plus £128,100	0.6% plus £134,200	12.8% plus £134,200
Veritau	-2.3%	9.9%	-2.3%	9.9%	-2.3%	9.9%
Welcome to Yorkshire	1.5% plus £83,500	13.7% plus £83,500	1.5% plus £87,500	13.7% plus £87,500	1.5% plus £91,700	13.7% plus £91,700
Wigan Leisure and Culture Trust	12.4%	24.6%	12.4%	24.6%	12.4%	24.6%
York & North Yorkshire Probation Trust	-0.7% plus £495,500	11.5% plus £495,500	-0.7% plus £519,000	11.5% plus £519,000	-0.7% plus £543,700	11.5% plus £543,700
York Archaeological Trust Ltd	7.9% plus	20.1% plus	7.9% plus	20.1% plus	7.9% plus	20.1% plus

Employers	2011/12		2012/13		2013/14	
	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)	Individual Adjustment	Future Service Rate (% of pay) plus Lump Sum (£s)
	£11,300	£11,300	£11,800	£11,800	£12,400	£12,400
York College	0.3% plus £185,400	12.5% plus £185,400	0.3% plus £194,200	12.5% plus £194,200	0.3% plus £203,400	12.5% plus £203,400
York Museums and Galleries Trust	-0.9% plus £51,600	11.3% plus £51,600	-0.9% plus £54,100	11.3% plus £54,100	-0.9% plus £56,700	11.3% plus £56,700
York St John University	-0.5% plus £296,200	11.7% plus £296,200	-0.5% plus £310,300	11.7% plus £310,300	-0.5% plus £325,000	11.7% plus £325,000
Yorkshire Coast Homes Ltd	0.7% plus £45,000	12.9% plus £45,000	0.7% plus £47,100	12.9% plus £47,100	0.7% plus £49,300	12.9% plus £49,300
Yorkshire Dales National Park	-0.5% plus £146,300	11.7% plus £146,300	-0.5% plus £153,200	11.7% plus £153,200	-0.5% plus £160,500	11.7% plus £160,500
Yorkshire Housing Association	1.9% plus £208,900	14.1% plus £208,900	1.9% plus £218,800	14.1% plus £218,800	1.9% plus £229,200	14.1% plus £229,200

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

Note:

The total contributions payable by each employer will be subject to a minimum of zero.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions shown on this certificate may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary.

Yorkshire Coast College is currently undergoing a bulk transfer from the Fund to the East Riding Pension Fund. The details of this transfer are yet to be finalised. Any payment due to or from the Fund in respect of the transfer will be notified separately.