

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

28 JUNE 2012

GOVERNANCE ARRANGEMENTS OF THE NORTH YORKSHIRE PENSION FUND

SUPPLEMENTARY PAPERS

Item 8 of the Audit Committee papers refers to a number of governance documents of the North Yorkshire Pension Fund. The complete set is shown below and is appended to this note.

Appendix	Document Title
A	Statement of Investment Principles
B	Governance Compliance Statement
C	Risk Register
D	Communications Strategy 2011/12
E	Funding Strategy Statement
F	Communications Policy Statement
G	Pensions Administration Strategy
H	Treasury Management SLA

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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 21 June 2012 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 21 June 2012. 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
- **Fixed Interest 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 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 carried out during 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 ranges for benchmark allocations (see **paragraph 3.15** below) are a departure from having fixed percentage allocations for each asset class, and have been determined by the PFC in consultation with the Investment Consultant and the Fund's 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 in 2011 reaffirmed the decision made in 2005 to have managers with separate active UK and Global Equity mandates. A single UK Equity mandate is now complemented by three Global Equity mandates ranging across Global (ex UK), High Alpha and 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 that portfolio has been reclassified from Liability Matching to Alternatives (see **paragraph 3.28** below).
- 3.8 In 2011 three property managers were appointed to manage indirect property in the UK, aimed at further diversifying the range of investments in the portfolio. Property has traditionally been one of the best performing asset classes over an extended period. Investments are being made through these managers to meet the minimum benchmark allocation, gradually throughout 2012.

Fund Specific Benchmark

- 3.9 The Fund specific benchmark established from 1 April 2001 was most recently 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 had 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 consequential 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 agreed 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 the Investment Strategy Review in 2011, the Fund reaffirmed the approach to having managers with specialised mandates and the 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 particular circumstances of the investment managers and their portfolios. The strategic asset allocation is shown below.

Table A

Asset Class	Benchmark Allocation
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 keep within the minimum and maximum benchmark proportions stated above using, wherever possible, the positive cash flows generated each month within the Fund. Further rebalancing within the benchmark allocation ranges will be made at the discretion of the PFC. 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

Asset Sub Class	Benchmark Proportion	Out-Performance Target	Benchmark Index
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	+0.5% or +2.5%
Fixed Interest gilts (longer than 15 years)	15%	+/- 1%	FTSE UK Gilts	+0.5% or 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 as the benchmark for the liability matching fixed income mandate for Amundi with an out-performance target of 2.5%, and for M&G Investments with an out-performance target of 0.5% 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 to a benchmark of 1 month LIBOR from January 2010, from the least risk benchmark. 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 from 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 managers were 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 3.28** 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 2012
- 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.
- 3.24 From time to time circumstances may arise where a manager either inadvertently breaches the restrictions imposed through the IMA or wishes to breach them to for a particular reason. Such circumstances could include the downgrading of a credit rating of an investment changing the classification from investment to sub-investment grade, or an allowable investment being unavailable but a suitable alternative exists although its acquisition would result in a breach of investment limits. If the Treasurer considers the reasons for the breach acceptable, and if deemed necessary after consultation with the Independent Investment Adviser and Investment Consultant, the manager will temporarily be permitted to operate within relaxed restrictions and the PFC will be duly informed. Any such arrangements will be regularly reviewed and extended or withdrawn as appropriate.

Use of Derivatives

3.25 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

3.26 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.

3.27 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

3.28 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 is to significantly exceed the UK retail prices index. The criteria for each manager are as follows:
 - **Hermes** – to out-perform the IPD UK Balanced PUT Index by 0.5% over rolling three year periods
 - **Threadneedle** – to out-perform the CAPS UK Pooled Property Index by 1% per annum

- **Legal & General** – to outperform the CAPS UK Pooled Property Index

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
- **M&G Investment Management** - the asset allocation is that set out in **Table C** and the performance target is to exceed the Least Risk Portfolio by 0.5% pa

Fixed Income - Alternatives

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

3.29 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 will meet with representatives of each investment manager, the frequency depending upon such issues as performance and the size and volatility of the mandate.

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 the independent 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 performance benchmarks (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. A review of the performance benchmarks was completed at the same time.

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 3.14 to 3.23** 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 develop the risk budget model and 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	10%	10%

<i>Investment Limits under LGPS Regulation paragraphs 14 and 15</i>		
<i>Category</i>	<i>Adopted by NYPF</i>	<i>Maximum</i>
trust scheme).		
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts.	15%	15%
9. 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%
9A. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body.	30%	35%
9B. 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%
10. Any single insurance contract.	25%	35%
11. 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 2011/12 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, European Credit Management, M&G Investment Management, Hermes Investment Management, Legal & General and Threadneedle 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, and non UK where practicable. 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 regularly reviewed with the intention of extending the geographical range of overseas companies where NYPF's interest can be voted.
- 8.3 In 2010 the Financial Reporting Council (FRC) produced guidance on how institutional investors should demonstrate adherence to the Stewardship Code. A statement of the Fund's position is provided in **Appendix A**.

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, M&G Investments, Hermes Investment Management, Legal & General, Threadneedle 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 independent **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 2010/11 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 1st December 2009 and came into force on 1st 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 14th 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 – the latter are cross referenced to the Fund’s source documents

Principle 1: Effective decision-making		Fully compliant
Administering authorities should ensure that		
<ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 		
CIPFA guidance	Current practice	
➤ 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"> ➤ Officer roles clearly stated ➤ Governance compliance statement ➤ Basis of committee appointments ➤ Committee terms of reference ➤ Delegation arrangements and roles ➤ Skills and knowledge audit statement ➤ Structure review and handbook ➤ Sub-committees and panels ➤ Obtaining proper advice and resources ➤ Provision of training plan ➤ Allowances paid and time off allowed ➤ Clarity, completeness and timing of papers ➤ Creation of a business plan ➤ Strategy on employer relationships 	<p>Officer delegation is described in the Constitution of the Administering Authority – also see GCS paragraphs 3.5 to 3.7</p> <p>The GCS is produced as a separate document and is reviewed and updated annually in accordance with Regulations</p> <p>PFC appointments are described in the GCS paragraphs 4.1 to 4.3</p> <p>See GCS paragraph 3.4</p> <p>Tasks and responsibilities are set out in the GCS paragraph 3.13, Key Functions</p> <p>See GCS paragraphs 5.1 and 5.2, competencies, knowledge & understanding</p> <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> <p>Advisory Panel set up in 2008 to represent all Stakeholders - see GCS paragraphs 3.8 to 3.10</p> <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> <p>The training needs of Members of the PFC are assessed through a Training Needs Analysis. See paragraphs 5.1 – 5.4 of GCS for details</p> <p>The cost of PFC Member training is met by the Fund - see GCS paragraph 5.3</p> <p>Papers are made available to all stakeholders - see GCS paragraphs 4.15 and 4.16</p> <p>This is a fundamental function of the Funding Strategy Statement (FSS) which is revised every three years (linked to the Triennial Valuation). The Fund also has an approved Budget monitored at each meeting of the Committee</p> <p>See GCS paragraphs 4.7 in relation to the Advisory Panel which represents all employers and paragraph 4.13 for NYPFOG which includes all employers</p>
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Principle 2: Clear objectives		Fully compliant
<ul style="list-style-type: none"> 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. 		
CIPFA guidance	Current practice	
➤ 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 of this document, Policy with Regard to Risk	
➤ Consideration of all asset classes	See paragraphs 3.4 to 3.8 of this document. The most recent strategy review which included consideration of new asset classes, took place at a number of Workshops in 2011	
➤ Use of peer group benchmarks	See paragraph 4.2 of this document, 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 3.13 of this document. 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 of this document. Each strategy review considers potential complementary and/or alternative asset classes	
➤ Appointment of advisers	See paragraphs 9.6 and 9.7 of this document	
➤ Understanding transaction related costs	Proposals to investigate trading costs of managers are considered too expensive in relation to potential benefits	

Principle 3: Risk and liabilities		Fully compliant
<ul style="list-style-type: none"> • 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	In this document 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 – paragraphs 4.1 – 4.4 of this document refer	
➤ Use of absolute return benchmarks	NYPF altered the benchmark of ECM, a fixed income manager to absolute return to protect the Fund against rising interest rates	
➤ Risk assessment framework	See paragraph 5 of this document, Policy With Regard To Risk	
➤ Scheme specific benchmark	See paragraphs 3.14 to 3.18 of this document. 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 2011/12	
➤ Suitability of investment strategy	See paragraph 3.11 of this document, Aims of the Fund in relation to Investment	
➤ Cash flows and volatility	See FSS paragraphs 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	

Principle 4: Performance assessment		Fully compliant
<ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • 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. 		
CIPFA guidance	Current practice	
➤ Suitability of index benchmarks	See paragraph 3.28 of this document. 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 3.28 of this document. 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 3.28 of this document. 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 of this document, 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 of this document, 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 of this document. The Fund is rebalanced quarterly to the strategic benchmark	
➤ Measuring investment returns by asset class and over time	See paragraph 4.2 of this document, 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 of this document, 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 of this document, quarterly manager reports and custodian reports provide performance attribution analysis	

<ul style="list-style-type: none"> ➤ Performance assessment of managers, advisers, actuaries and consultants 	<p>See paragraphs 4.1 to 4.4 of this document, 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>
<ul style="list-style-type: none"> ➤ Committee performance self-assessment and reporting 	<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>

Principle 5: Responsible ownership		Fully Compliant
Administering authorities should: <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, • include a statement of their policy on responsible ownership in the Statement of Investment Principles; and • report periodically to scheme members on the discharge of such responsibilities. 		
CIPFA guidance	Current practice	
➤ Disclosure of policies	See paragraphs 7 and 8 of this document for the approach to responsible investment.	
➤ Incorporating long term responsible investing and ESG	See paragraph 7 of this document 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 of this document. 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 ISC 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 to 8.3 of this document. 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. These are available to the PFC and employers. See paragraph 8.3 of this document	
➤ Collaboration with other investors	See paragraphs 7.4 and 8.3 of this document. Membership of LAPFF serves to maximize influence and promote ESG issues	

Principle 6: Transparency and reporting		Fully Compliant
Administering authorities should <ul style="list-style-type: none"> 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 provide regular communication to scheme members in the form they consider most appropriate. 		
CIPFA guidance	Current practice	
➤ 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	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	Paragraphs 4.15 to 4.16 of the GCS describe how 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 3.28 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 highlighting compliance with CLG guidance. The Fund has also appointed an Independent Professional Observer (paragraph 10.9 of this document) who reviews all aspects of the governance arrangements of the Fund on an annual basis – the report is reviewed by the PFC alongside the GCS and Statement of Final Accounts at its June meeting	

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 Allenbridge EPIC), 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: (0845) 034 9494 ext 2114
- e-mail: 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

FRC Stewardship Code

Statement of Compliance (see paragraph 8.3 of main document)

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 Fund's Investment Strategy.

In practice the approach of NYPF is to apply the Code through 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 internal 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 statements 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.



North Yorkshire Pension Fund

Governance Compliance Statement

June 2012

INDEX

Section	Content
1.0	Background
2.0	Overall Governance Framework
3.0	Definition of responsibilities and key functions
3.1	Pension Fund Committee
3.4	Terms of Reference
3.5	Officer delegation
3.8	Advisory Panel
3.11	Independent Professional Observer
3.13	Key functions
	(a) Scheme administration
	(b) Investment of the Fund's assets
	(c) Funding
	(d) Communications
	(e) Risk Management
4.0	Representation
4.1	Committee membership and voting rights
4.7	Advisory Panel
4.13	NYPFOG
4.15	Agenda papers
4.17	Frequency of meetings
5.0	Operational procedures
5.1	Competencies, knowledge and understanding
5.5	Reporting and monitoring
6.0	Key Policy / Strategy documents
7.0	Review of this Compliance Statement
8.0	Further information
Appendix	Assessment of Compliance Statement with CLG best practice principles

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, all types of 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 specific legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms the PFC has 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 respective appointments
 - 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 County Council's 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 County Council
- (c) to carry out the County Council's functions relating to local government pensions under
- The Local Government Pension Scheme Regulations 1995 (As Amended), 1997 (As Amended) and 2007/2008 (As Amended);
 - The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended);
 - The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (As Amended) and 2008 (As Amended);
 - The Local Government Pension Scheme (Administration) Regulations 2008 (As Amended);
 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
 - The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (As Amended) and 2006 (As Amended);
 - The Local Government (Discretionary Payments) Regulations 1996 and the Local Government (Discretionary Payments) (Injury Allowances) Regulations 2011

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 of the County Council 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 affairs of 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 thereafter.
- 3.7 In undertaking these duties detailed above, the Treasurer is not empowered to change the fund manager structure of the Pension Fund without the approval of the PFC.

Advisory Panel

- 3.8 NYPF has established an Advisory Panel to 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 are synchronised with the PFC meetings so as to consider the same quarterly agenda plus any other relevant consultation exercises. The views of the Panel on any matters are always reported to the PFC. 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 a combination of attendance at both PFC and Advisory Panel meetings, discussions with the Treasurer, the independent Investment Consultant and the independent Investment Adviser, as well as a critical review of this Statement and all the related governance documents of the Fund referred to in 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. A separate **Risk Register** is also maintained and reviewed 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 2012)

- (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 –

Cllr Julie Gunnell (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 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 accountable for the effective and prudent management of the Scheme. Therefore, whilst the County Council has 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 In order to improve representation amongst all stakeholders the Fund has established an Advisory Panel (see **paragraph 3.8**). Whilst being an informal group, the Panel is 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 can 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 NYPFOG.

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 Committee 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 draft 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 is, however, required to report all decisions back to the PFC.

5.0 OPERATIONAL PROCEDURES

Competencies, knowledge and understanding

- 5.1 CIPFA has 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. Members of the PFC and NYCC officers access this resource, as appropriate.
- 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, and use of the TKU referred to above, 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 Scheme Regulations, communication with stakeholders, training events and Admission Agreements, etc.

5.8 In addition to 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 the governance arrangements, or have a query about any aspect, of the North Yorkshire Pension Fund, you can contact the Fund 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
0845 034 9494 extension 2114

Tom Morrison – Principal Accountant
0845 034 9494 extension 2123

By e-mail

pensions@northyorks.gov.uk

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

www.nypf.org.uk

ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES

[NOTE – paragraph references relate to Governance Compliance Statement]

	Principle	Narrative from Guidance Note	Full Compliance?
A	Structure	(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>	Yes – see paragraph 3.3(a)
		(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>	Yes – a combination of the main Pension Fund Committee (PFC) and the Advisory Panel enables all Stakeholders to participate in the governance of NYPF Paragraphs 4.5/4.6 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>	Yes – 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 paragraphs 3.8 / 3.9 / 3.10.
		(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>	Yes – the Chairman of the Advisory Panel has a formal seat on the PFC but does not have voting rights – see paragraph 4.1(e)
B	Representation	<p>(a) <i>that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include</i></p> <p>(i) <i>employing authorities (including non-scheme employers, eg admitted bodies) (see Note 1 below)</i></p> <p>(ii) <i>scheme members (including deferred and pensioner scheme members)</i></p>	<p>Yes</p> <p>Yes</p> <p>see paragraphs 4.1 – 4.6</p>

	Principle	Narrative from Guidance Note	Full Compliance?
		<i>(iii) where appropriate, independent professional observers (See Note 2 and Principle H below)</i>	Yes – see paragraph 3.11
		<i>(iv) expert advisers</i>	Yes - 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 paragraphs 3.13(b) and 5.6
		<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>	Yes – 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 paragraphs 3.9, 4.11 and 4.15
<p>Notes</p> <p>(1) NYCC, CoYC and District Councils (via ANYC) are represented covering 79% of employer contributions received. Admitted bodies represent 5% of contributions in the Fund, Academies and Colleges 4%. 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>			

	Principle	Narrative from Guidance Note	Full Compliance?
C	Selection and Role of Lay Members	(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.)	Yes – 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. See paragraphs 5.1 to 5.4
			Yes - 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 paragraphs 3.8 / 3.9 / 3.10.
		(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>	Yes – Committee members are invited to declare interests at the start of each meeting. This principle is enshrined in the constitution of the Administering Authority.
D	Voting	(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>	Yes - see paragraph 4.1 re voting rights and paragraphs 4.5/4.6 for the justification of limiting voting rights to elected Members on the PFC
E	Training/ Facility Time/ Expenses	(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>	Yes - see paragraphs 5.1 / 5.2 / 5.3 / 5.4
		(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>	Yes - see paragraphs 3.9 and 4.15
		(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>	Yes – 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.

	Principle	Narrative from Guidance Note	Full Compliance?
F	Meetings – Frequency	(a) <i>that an administering authority's main committee or committees meet at least quarterly.</i>	Yes – see paragraphs 4.18 / 4.19
		(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>	Yes – the Advisory Panel meets the day before each meeting of the PFC
		(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>	Yes – the membership of the Advisory Panel is open to all Stakeholders as are the meetings of NYPFOG
G	Access	(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>	Yes – all agenda papers, etc, provided to the PFC are available to the Advisory Panel – see paragraph 4.15
H	Scope	(a) <i>that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Yes – (i) the Terms of Reference of the PFC require it to deal with all aspects of NYPF (see paragraphs 3.3(a) (b) (c)) (ii) NYPF has also appointed an Independent Professional Observer (from AllenbridgeEPIC) – see paragraph 3.11
<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. This would involve reviewing the committee's governance arrangements and the effective use</p>			

	Principle	Narrative from Guidance Note	Full Compliance?
		of its advisers to ensure sound decision making. Here the CLG advises the use of an independent professional observer , 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.	
I	Publicity	<i>(a) 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>	Yes - All NYPF Governance Statements and Policy documents are on the NYPF website and published via Newsletters etc. The Communications Policy Statement provides further details

FCS Pension Fund

Risk Register: June 2012 Review – summary
Report Date: 8th June 2012 (cpc)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre					RR		Post					FBPlan	Action Manager		
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv			Rep	Cat
◀▶	44/4 - Pension Fund Solvency	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, over optimistic actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period	CD FCS	FCS CASU PA	M	M	H	L	M	2	4	31/03/2013	M	M	H	L	M	2	Y	FCS CASU PA FCS CFSU PM
▼	44/7 - Investment Manager	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise	CD FCS	FCS CASU PA	M	M	H	L	M	2	3	30/06/2013	M	M	H	L	M	2	Y	FCS CASU PA
◀▶	44/8 - Investment Strategy	Failure of the investment strategy to maximise returns from investments	CD FCS	FCS CASU PA	M	M	H	L	H	2	4	30/06/2013	M	M	H	L	H	2	Y	FCS CASU PA
◀▶	44/20 - Fraud	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation	CD FCS	FCS CASU PA	L	L	H	L	H	3	4	30/06/2013	L	L	H	L	M	3	Y	FCS CFSU PM FCS CASU PA
◀▶	44/1 - Employer Contribution Rate	Sustainability and affordability of LGPS puts pressure on the employer contribution rates. (at this point in time, Apr 2011, fixed for 3 years).	CD FCS	FCS CFSU PM	L	M	H	Nil	M	3	4	31/03/2013	L	M	H	Nil	M	3	Y	FCS CFSU PM FCS CASU PA
▼	44/17 - Contributions	Contributions not received in full, calculated incorrectly or are paid late resulting in loss of income to the Fund	CD FCS	FCS CASU PA	M	L	M	Nil	L	4	1	30/06/2013	M	L	L	Nil	L	5	Y	FCS CASU PA
▼	44/14 - IT Systems	Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism	CD FCS	FCS CFSU PM	L	M	L	M	M	5	2	30/06/2013	L	M	L	M	M	5	Y	FCS CFSU PM
◀▶	44/5 - Cash Flow	Cash flow shortages result in deferred payments.	CD FCS	FCS CASU PA	L	L	L	L	M	5	1	30/06/2013	L	L	L	L	M	5	Y	FCS CASU PA
◀▶	44/11 - Benefit Payments	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments	CD FCS	FCS CFSU PM	L	L	L	L	M	5	4	30/06/2013	L	L	L	L	M	5	Y	FCS CFSU PM
◀▶	44/10 - Regulations	Regulations not interpreted and implemented correctly resulting in legal challenge	CD FCS	FCS CFSU PM	L	L	L	L	M	5	3	30/06/2013	L	L	L	L	M	5	Y	FCS CASU PA FCS CFSU PM



FCS Pension Fund

Risk Register: June 2012 Review – summary
 Report Date: 8th June 2012 (cpc)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	44/23 - Employer Covenant	Changes in Employer covenant e.g. membership changes, closing to new entrants, ceasing to participate in Fund results in impact on Employer contribution rates and inability to adequately assess Employers risk profile.	CD FCS	FCS CFSU PM FCS CASU PA	L	M	M	Nil	L	5	1	30/06/2013	L	M	M	Nil	L	5	Y	FCS CASU PA FCS CFSU PM
◀▶	44/24 - Governance Arrangements	Failure to put in place governance arrangements in line with best practice principles including structure, representation and administration of Committee, training and advice for Members resulting in inability to make informed decisions.	CD FCS	FCS CASU PA FCS CFSU PM	L	L	L	L	M	5	4	30/06/2013	L	L	L	L	M	5	Y	FCS CFSU PM FCS CASU PA
◀▶	44/16 - Key Personnel	Loss and unavailability of key personnel e.g. Treasurer, Pensions Manager, leading to incorrect interpretation of regulations, incorrect calculations/data, incorrect payments, resulting in complaints, compensation claims	CD FCS	FCS CFSU PM	L	M	L	M	L	5	2	30/06/2013	L	M	L	M	L	5	Y	FCS CASU PA FCS CFSU PM

Key	
▲	Risk Ranking has worsened since last review.
▼	Risk Ranking has improved since last review
◀▶	Risk Ranking is same as last review
- new -	New or significantly altered risk





North Yorkshire Pension Fund

North Yorkshire Pension Fund Communications Strategy

2012 / 2013

Index

Section	Page
Introduction and Stakeholders	3
Summary of progress on items included in 2011/12 Strategy	5
Items for Action in 2012/13	6

Introduction

The Local Government Pension Scheme (LGPS) continues for now as a final salary pension scheme. The Government and the major unions are agreed in principle that the LGPS will move to a Career Average Revalued Earnings (CARE) basis from April 2014 and North Yorkshire Pension Fund (NYPF) needs to prepare for the communications challenges that a change of this magnitude will bring.

The focus of our Communications Strategy is to ensure that our membership know and understand their benefits (past and future) and that our communications remain effective and accessible to all. To achieve this in the face of the challenge to come will require reviewing and increasing the efficiency with which we communicate with the Fund membership.

The focus for this year's Strategy will be **'Preparing for the challenge ahead'**.

Whilst continuing to meet all commitments made for the year ahead, we aim to review the existing methods of communication and consider potential development with a view to ensuring that we are communicating the key messages as efficiently as possible. The provision of timely and relevant information to stakeholders will be key to managing the expected increase in demand for information and it is important that we start to manage the expectations of customers as things change as well. The most efficient form of communication is on-line self-service and the least efficient is face-to-face. The 'communications continuum' is as follows with the most efficient at the top;

- On-line self-service
- Anticipating and targeting appropriate information to members via e-communication routes
- Anticipating and targeting appropriate information to members via hardcopy distribution
- Responding within set targets to incoming email (generic inbox)
- Responding within set targets to incoming phone calls (generic phone number)
- Roadshows for small groups of fund members
- Meeting Fund members individually face-to-face

We will analyse the costs and benefits of all our communications activities throughout 2012/13 with a view to trying to achieve the same benefits via the more efficient methods that are higher up the communication continuum. In this way, we plan to be prepared to meet the communications challenge in 2013/14 when more detail of the new scheme is released by the Government and the demand for information will be at a peak.

Review of this Strategy

This Strategy is prepared and considered by the Pension Fund Committee on an annual basis. However, within the spirit of the Pensions Administration Strategy employers are at liberty, at any time, to suggest improvements to the Communications Strategy of the Fund.

Stakeholders

This Communications Strategy applies to all the NYPF stakeholders who are defined as follows:

- Employers
 - Scheduled Bodies
 - Admitted Bodies
- Scheme Members (including councillor scheme members)
 - Active members (contributors)
 - Retired members and Dependents
 - Deferred members
- Eligible employees working for Fund employers but not currently contributing
- AVC provider (Prudential)
- Actuary
- Legal Adviser
- Pensions Administration Software Provider
- Members of the Pension Fund Committee
- Members of the Advisory Panel
- Officers in the Pension Section
- Other NYCC officers undertaking work on behalf of the Fund

Summary of Progress on items included in 2011/12 Strategy

Items	Progress	Year End Status
Promote use of the NYPF website and member online access	All members will be issued with PINS by the end of 2011/12 and 3884 have already used the service. All employers have been issued with passwords for the employer area of the website.	Significant progress made
Enhance material and service available to employers via the NYPF website	New employers Guide added Added new ill health certs Added new ADNOT and ESTFORM1 forms (now available as 'e' forms and interactive) Added new Change of Personal Details form (now available as 'e' form and interactive) Improvements to enhance user-friendliness are currently in development	Significant progress made
Run at least 16 road shows/information sessions	16 events were held	Completed
Develop electronic benefit statements	Final design decisions have been agreed with the Design Team for rollout in 2012.	Completed
Issue customer feedback forms with each retirement	This exercise has been carried out in full. Satisfaction ratings for the first three quarters of the year are 96.76%	Completed
Promote 'Everybody Benefits' for pensioners	The scheme has been advertised in the Pensioners Newsletter	Completed
Continue Employer Communication Meetings	The 12 month rolling plan of employer meetings was completed	Completed
Continue to collate Employer Discretion documents	The Fund continues to collate documents where supplied by employers and continue to chase employers where the document is outstanding.	Almost fully completed
Develop material for employers to issue to employees about 'why should I stay in the scheme?'	Should be completed ahead of the year end	Almost fully completed

Items for Action 2012/2013

The focus for this year's Strategy will be '**Preparing for the challenge ahead**'. Key actions will be –

Theme A – 'Preparing for the challenge ahead' for active members:

- Review employee communications methods to ensure that they are efficient as well as effective
- Promote use of the NYPF website and member online access
- Roll out electronic benefit statements
- Upskill CTS team staff to broaden knowledge base
- Launch Pensions helpline

Theme B – 'Preparing for the challenge ahead' for employers:

- Review employer communications to focus on encouraging them to work with us to communicate effectively and efficiently with their employees
- Distribute material for employers to issue to employees
- Enhance material and service available to employers via the NYPF website
- Continue to collate Employer Discretion Documents

Theme C – 'Preparing for the challenge ahead' for pensioners:

- Continue to promote 'Everybody Benefits' for pensioners
- Pensioner representative to have a column in the Pensioners Newsletter
- Promote the e-version of the annual newsletter to pensioners
- Continue to issue customer feedback forms with each retirement

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 31st 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 | Section 3 |
| • Aims and purpose of NYPF | Section 4 |
| • Responsibilities of the key parties | Section 5 |
| • Solvency issues and target funding levels | Section 6 |
| • Link to Investment Strategy set out in the Statement of Investment Principles | Section 7 |
| • Identification of risks and counter measures | Section 8 |
| • Monitoring and review of this Statement | Section 9 |
| • Contact details | Section 10 |
| • Method and assumptions used in 2010 Actuarial Valuation | Appendix 1 |
| • Results of the 2010 Triennial Valuation | Appendix 2 |

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**)

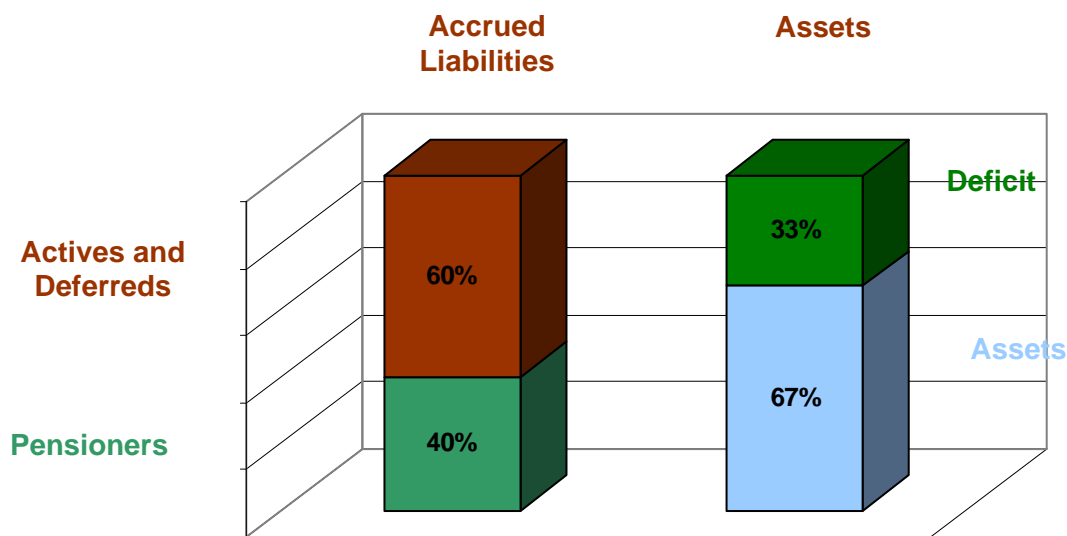
NYPF will not therefore accept any proposal from an employer to reduce its target contribution rate below that payable in 2010/11, unless the employer's recovery period is at most 15 years. However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer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

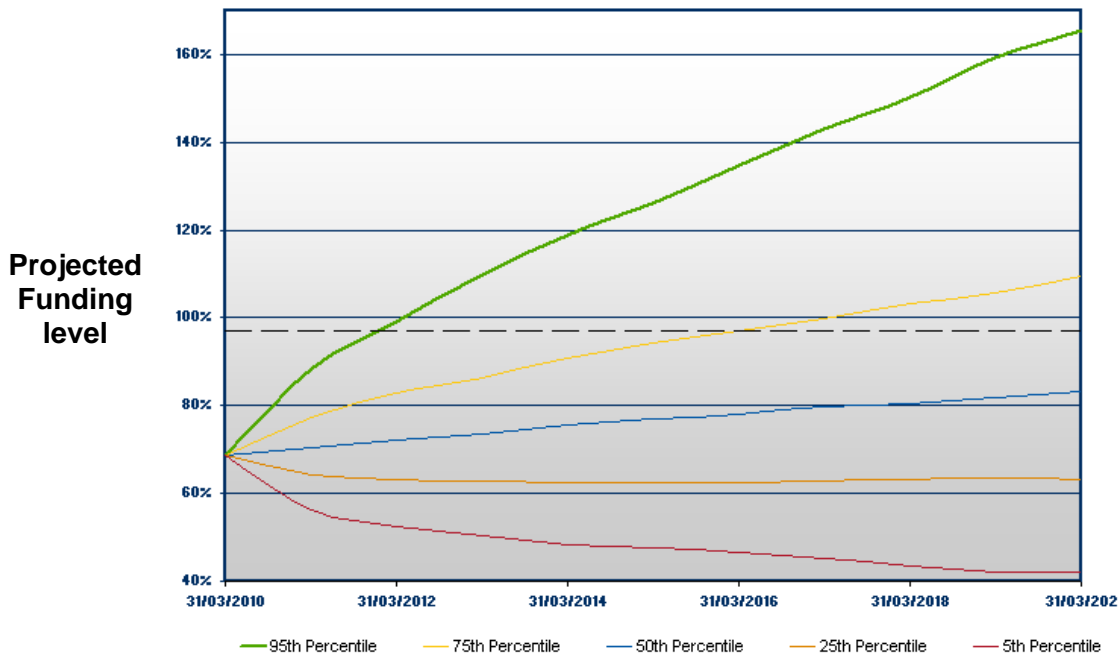
Specific Benchmarks

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 paragraph 7.10) 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 F1/F2 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 (see Appendix 1) 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 paragraphs 8.5/8.6 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 paragraph 8.5 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"> • quarterly updates from the Actuary (using current market factors in a pre-set Fund specific model) • a quarterly comparison of investment performance to date with a notional least risk portfolio • Annual Interim Valuations. <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>

Risk	
Demographic	
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.

Risk	
Regulatory	
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	<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)</p>	<p>If the various monitoring arrangements referred to above (e.g. F7, D2) do not proactively identify this issue the reactive position for NYPF is the risk assessment methodology applied to different "types" of employer (see paragraphs 8.5 / 8.6).</p>
A2	<p>Administering authority not advised of an employer closing to new entrants</p>	<p>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.</p>
A3	<p>An employer ceasing to exist with insufficient funding or adequacy of a bond</p>	
A4	<p>Pension Administration Strategy</p>	<p>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.</p>

Risk	
Governance	
G1 Frequency of meetings	<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 F1, F3, F5, F7, D2). 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>
G2 Member training	<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>
G3 Decision procedures	<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>
G4 Committee membership	<p>The PFC currently comprises:</p> <ul style="list-style-type: none"> 7 North Yorkshire County Council Members 1 City of York Council Member 1 District Council representative of Local Government North Yorkshire and York 3 Unison Representatives as observers <p style="text-align: right;">/cont...</p>

Risk	
Governance	
	<p>Supported by:</p> <p>Independent Investment Adviser Investment Consultant</p> <p>Corporate Director – Finance & 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 G2.</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 G5 below).</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
- 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	Net AOA	1.9%	1.4%	N/A	N/A
i	Real Return Forecast	N/A	N/A	3.75%	3.75%
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	
	Investment Offset Assumptions				
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	AOA (h + p)	2.75%	2.75%	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	Required Investment Return	7.25%	6.4%
		(a+b)	(a+c)

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.

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

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
= Required Employer Contribution rate for the Whole Fund	18.8	18.6



North Yorkshire Pension Fund

Communications Policy Statement

February 2010

INDEX

Section	Content
1	Background
2	Objectives
3	Stakeholders
4	Methods of Communication
5	Annual Communications Strategy
6	Key Policy / Strategy documents
7	Review of this Policy Statement
8	Further information



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 NYFFOG, 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

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

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



North Yorkshire Pension Fund

Pension Administration Strategy

February 2010

INDEX

Section	Content
1	Purpose of Strategy
2	Regulatory Background
3	Review of the Strategy
4	Performance Levels
5	Responsibilities and duties of the Employer
6	Responsibilities and duties of NYPF
7	Contribution Rates and Administration Costs
8	Communications
9	Agreement



PENSIONS ADMINISTRATION STRATEGY

1.0 PURPOSE OF STRATEGY

- 1.1 This Strategy sets out the administration protocols that have been agreed between employers and the North Yorkshire Pension Fund (NYPF). The protocols aim to ensure the smooth running of the Local Government Pension Scheme (LGPS) in North Yorkshire and must be followed at all times.
- 1.2 For the purpose of this Strategy no practical distinction is drawn as between the statutory role of North Yorkshire County Council as the Administering Authority for the NYPF, its Pension Fund Committee, the Pension Administration Section or other sections of the Finance and Central Services Directorate all of whom play a role in the administration of NYPF – the term NYPF is used collectively to reflect all of the above roles within NYCC.

2.0 REGULATORY BACKGROUND

- 2.1 The protocols are concerned with routine yet important responsibilities and duties and they cannot override any provision or requirement in the regulations outlined below or in any other relevant legislation.
- 2.2 The principal regulations underpinning this document are:
 - The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
 - The Local Government Pension Scheme (Administration) Regulations 2007
 - The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
 - The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
 - The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
 - The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
 - The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto).

3.0 REVIEW OF THE STRATEGY

- 3.1 This Strategy will be kept under ongoing review by NYPF.
- 3.2 Employers may submit suggestions to improve any aspect of this Strategy at any time.
- 3.3 NYPFOG will be asked by NYPF to formally review the Strategy from time to time.

4.0 PERFORMANCE LEVELS

- 4.1 Performance level agreements are set out in this document for both employers and NYPF; these will be reviewed from time to time and only changed with agreement of employers via NYPFOG meetings and the agreement of NYPF.
- 4.2 This Strategy is the agreement between NYCC and employers about the levels of performance and associated matters

5.0 RESPONSIBILITIES AND DUTIES OF THE EMPLOYER

Contact Person

- 5.1 The employer will nominate a person to act as the primary contact with NYPF. The employer will notify the Operations Manager of NYPF who that person is and ensure that changes of nominated person are notified to NYPF immediately.

Member details – Employer performance levels

- 5.2 The employer must forward notifications (or approved alternatives) to NYPF as follows:
 - (i) New starters (Form PEN11) – within 6 weeks of the employee joining
 - (ii) Change in member details – within 6 weeks of the event
 - (iii) Early leavers (Form SU5) – within 6 weeks of the employee leaving
 - (iv) For retirements, NYPF aims to pay lump sums to the member on the first Friday after retirement. Due to changes in the Regulations that govern the operation of the LGPS, certain decisions on the nature of benefits to be taken have to be made prior to retirement. To enable this to happen, retirement notifications (Form ADNOT) should be received by NYPF at least 30 days before the last day of employment. When the Form SU5 is not provided prior to retirement, it should be forwarded no later than 2 weeks following retirement.

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 require that Form SU5 for a retirement before age 65

must be received no later than one month after retirement and for retirements at age 65 no later than 10 working days after the date of retirement. Great care must be taken to avoid breaking these regulations (see **paragraph 5.20** below).

- (v) Death in membership must be notified by the employer to the NYPF within 3 working days of the death of the member.

Employee's Guide

- 5.3 Under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme within 2 months of becoming employed.

Year-end information

- 5.4 The employer (or their payroll contractor/agency for whom the employer is responsible) shall provide NYPF with year-end information as at 31 March each year in a notified format no later than 31 May or the next working day. The year-end information should be accompanied by a statement, duly signed by an authorised officer, balancing the amounts paid over during the year with the totals on the year-end return certifying that the amounts paid reflect the contributions deducted from employees during the year. The information should distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.

Contribution deductions

- 5.5 The employer will ensure that member and employer contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity, paternity and adoption leave and any additional contributions NYPF request the employer to collect.

Payment of contributions to NYPF

- 5.6 Contributions (but not Prudential Additional Voluntary Contributions) should be paid each month to NYPF.

Payment dates

- 5.7 All funds due to the NYPF in respect of employees and employers contributions must be cleared in the NYPF Bank Account by 19th of the month (or the last working day before where the 19th is not a working day) following the month the contributions relate to. Any employer wishing to pay by cheque must therefore ensure the cheque is received by NYPF by the 14th of the month (or the last working day before where the 14th is not a working day).

Late Payment

- 5.8 A penalty system will apply for employers failing to meet the deadlines, as stated in **paragraph 5.7** with a one month grace period for a 'first offence'. The penalty will be based on the number of days after the 19th of the month that the payment due is received in the NYPF bank account. This will take the form of a fixed penalty (£50) plus a daily interest surcharge for the period the amount is outstanding. The interest rate to be used will be 1% above the bank base rate as prescribed in the Regulations. For persistent breaches of this protocol, the employer would be reported to the Pensions Regulator.

Payment method

- 5.9 The employer can choose to pay either by cheque, payable to "North Yorkshire Pension Fund" or preferably by BACS direct to NYPF's bank account subject to the payment date guidance outlined above.

Remittance Advices

- 5.10 The employer must submit an advice form (formerly Ac/SF1), preferably in an electronic format, in advance of their payment. The form must state the employers name and reference number, the period and the amount of the payment split between employees and employers contributions. In addition, it should include the total pensionable pay, details of added-years contributions and any other payroll related adjustments.

AVC Contributions

- 5.11 The employer will pay additional voluntary contributions to the AVC Provider within one week of them being deducted. Under the Pensions Act 1995 the Pensions Regulator may be notified if contributions are not received before the 19th of the month following that in which they were deducted. The employer will submit the schedule of AVCs in an agreed format directly to Prudential ahead of the actual remittance.

Discretionary Powers

- 5.12 It is a mandatory requirement that each employer is responsible for exercising the discretionary powers given to them by the Regulations. These Regulations extend to requiring the employer to publish its policy in respect of the key discretions as described by the Regulations to its employees. Copies of the relevant employer policies should also be lodged with the NYPF.

Employer Decisions

- 5.13 Certain aspects of the Regulations require an employer decision. The employer is responsible for implementing such areas correctly, (eg deduction of contributions at the correct rate).

Independent Medical Practitioner

- 5.14 The employer is responsible for determining and employing their own appropriately qualified independent medical practitioner and providing details of those practitioners to the NYPF (see also **paragraph 6.9**).

Employer responsibility for information provided to NYPF and/or work undertaken internally

- 5.15 NYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests solely with the employer.
- 5.16 Any over payment made by NYPF resulting from inaccurate information supplied by the employer shall be recovered by NYPF from the employer.
- 5.17 The employer is responsible for any work carried out on its behalf by another section of their organisation or by a contractor appointed by that organisation (eg Pay or Human Resource sections).

Data Protection

- 5.18 Under the Data Protection Act 1998, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from NYPF. It will also only use information supplied or made available by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Procedure

- 5.19 The employer must identify a 'nominated person' for any instances where an Internal Dispute Resolution Procedure (IDRP) application is submitted against the employer and meet the associated costs.

Fines imposed on NYPF

- 5.20 In the event of NYPF being fined by the Pensions Regulator, this fine will be passed on to the relevant employer where that employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), caused the fine.

Charges to the employer

- 5.21 NYPF will under certain circumstances consider giving written notice to employing authorities under regulation 43(2) on account of the authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under **paragraph 5.2** above. The written notice may include charges imposed by NYPF for chasing employing authorities for outstanding information as detailed in **paragraph 7.5**.

6.0 RESPONSIBILITIES AND DUTIES OF NYPF

Regulatory Issues

- 6.1 NYPF will administer the Pension Fund in accordance with the LGPS Regulations and any overriding legislation including employer discretions.
- 6.2 NYPF will issue a statutory notification to members; this provides notification to members that they have joined NYPF .
- 6.3 NYPF is responsible for exercising the discretionary powers given to it by the regulations. NYPF is also responsible for publishing its policy in respect of the key discretions as required by the regulations to its employees.

NYPF Performance Levels

- 6.4 NYPF agrees to meet the following performance targets in relation to the day to day administration of the fund:

Letter detailing transfer in	10 days
Letter detailing quote of transfer out value	10 days
Letter notifying estimated retirement benefit amount	10 days
Letter notifying actual retirement benefit amount	10 days

Support to Employers

- 6.5 NYPF will support employers in running the Local Government Pension Scheme by:
- providing information, advice and assistance on the scheme and its administration
 - distributing regular technical information

See the **Communications Policy Statement** and **Annual Communications Strategy** for full details.

- 6.6 NYPF will issue forms, newsletters, booklets and such other materials as are necessary for the administration of the Scheme.
- 6.7 NYPF will supply any information to employers necessary to ensure the smooth running of the pension fund.
- 6.8 NYPF will work with employers to ensure that retirement is as smooth a process for the member and employer as possible.

Independent Medical Practitioner

- 6.9 NYPF will verify the individuals nominated by the employer (in accordance with **paragraph 5.14**) as independent medical practitioners are appropriately qualified to deal with ill health retirement cases.

Services to Members

- 6.10 NYPF will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.
- 6.11 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.
- 6.12 In addition, NYPF will communicate with members through Road Shows, information briefings and One to One sessions. Full details are provided in the **Communications Policy Statement** and **Annual Communications Strategy**.

Multiple Language Literature

- 6.13 The process for providing multiple language literature has been established and certain NYPF documents have been amended to include reference to how to obtain an alternative version. In response to the need to work towards achievement of the Local Government Equalities Standard additional documents used by the NYPF will be amended to refer to the availability of alternative versions.

Data Protection

- 6.14 Under the Data Protection Act 1998, NYPF will protect from improper disclosure any information held about a member. Information held will only be used by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Resolution

- 6.15 NYPF must identify a 'nominated person' for any instances where an Internal Dispute Resolution Application (IDRP) application is submitted against the Administering Authority and meeting the associated costs.

7.0 CONTRIBUTION RATES AND ADMINISTRATION COSTS

- 7.1 The Members contribution rate is fixed by the Regulations.
- 7.2 Employers contribution rates are determined by the Triennial Valuation process. Employers are required to pay whatever is necessary to ensure that the portion of the Fund relating to that employer is sufficient to meet its liabilities over the agreed term.
- 7.3 NYPF is valued every 3 years by the Fund Actuary. The Actuary balances the assets and liabilities in respect of each employer and assesses the necessary contribution rate for each employer. Employer contribution rates apply for 3 years except that an Admission Agreement may determine that reassessment should take place on a more frequent basis.
- 7.4 The administrative costs of running NYPF are charged by NYCC directly to the Fund and the Actuary takes these costs into account in assessing the employer contribution rate.

7.5 If NYPF undertakes work specifically on behalf of the employer, the employer will be charged directly for the cost of that work e.g.

- Non receipt of new entrant documentation requiring NYPF to set up temporary data and/or complete documentation on behalf of the employer
- Non receipt of leaver details requiring NYPF to interrogate payroll or other systems on the employers behalf
- Chasing outstanding information following one reminder
- FRS17 valuations
- ad hoc actuarial & legal advice (eg TUPE transfer)
- ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

8.0 **COMMUNICATIONS**

8.1 In accordance with the Fund's Communications Policy Statement and its Annual Communications Strategy, NYPF will communicate relevant information to employers by:

- agreeing a procedure for providing, and improving, liaison and communication
- in respect of the above, NYPF will therefore
 - provide 4 employer newsletters per annum
 - organise 2 employer forums per annum
 - effect a 12 month rolling programme of employer communication meetings on a one to one basis
 - establish feedback mechanisms for each of the above to assess their effectiveness

9.0 **AGREEMENT**

9.1 This Strategy has been agreed as between NYPF and employers in the Fund

On behalf of NYPF

On behalf of NYPF employers

Signed _____

Signed _____

Date _____

Date _____

Karen Scott
Operations Manager

Louise Dixon
Chair of the North Yorkshire Pension Fund
Officer Group



Service Level Agreement

North Yorkshire County Council

And

North Yorkshire Pension Fund

Provision of Treasury Management Services

May 2010

1.0 **This Agreement is made on 1 April 2010**

1.1 **Between**

Finance and Central Services Directorate, **North Yorkshire County Council**,
County Hall, Racecourse Lane, Northallerton, North Yorkshire, DL7 8AL (“NYCC”)

and

North Yorkshire Pension Fund, North Yorkshire County Council, County Hall,
Racecourse Lane, Northallerton, North Yorkshire, DL7 8AL (“NYPF”)

1.2 **It Is Agreed** as follows:

Services Provided

The treasury management team of Corporate Accountancy Service Unit (CASU) will provide treasury management services (see **Appendix A**) for the NYPF; CASU is part of the Finance and Central Services Directorate of NYCC. NYCC is the Administering Authority for the NYPF.

Term of the Agreement

The agreement will commence on 1 April 2010 and will be reviewed annually as part of the governance arrangements of the NYPF.

Fees and Charges

The charge for treasury management services, subject to annual review, will be £2,500 p.a. with effect from 1st April 2010.

2.0 **Authorised Officers**

- 2.1 The Authorised Officers are the people nominated by the NYPF to act on its behalf and may issue instruction to NYCC on any matter related to this Service Level Agreement.

3.0 **Agreement Manager**

- 3.1 NYCC shall appoint a Service Agreement Manager for the purposes of issuing any notice or instruction or other information regarding the overall Service Level Agreement. It is envisaged that day to day conduct of the services will be made through designated service delivery officers.

4.0 **Designated Officers and Staffing**

- 4.1 NYCC shall provide sufficient staff, the designated officers, to provide the Services specified in **Appendix A**. All Services specified in **Appendix A** will be provided Monday to Friday during normal office hours. Normal office hours are Monday - Thursday 09.00 – 1700, Friday 0900 – 1630. The Service will be provided from County Hall, Northallerton.
- 4.2 NYCC will ensure that all staff employed for the purpose of providing the Services as specified in **Appendix A** are appropriately qualified and have the necessary knowledge, skills and competencies to provide the Services. NYCC will also ensure that such staff are provided with appropriate ongoing learning and development to ensure up to date advice and quality of service is maintained (see **paragraph 5.1** below).
- 4.3 If the NYPF has grounds for concern about the actions, behaviour or record of any person involved in the provision of the Services by the County Council, those concerns should be notified to the Service Agreement Manager who will take any necessary action, to the satisfaction of both parties to the Agreement.

5.0 **Service Performance Standards and Monitoring**

- 5.1 NYCC will deliver the services specified in **Appendix A** in accordance with the Treasury Management Policy and its associated documents as approved by the County Council at the time. In entering into this agreement NYPF therefore accept the Treasury Management Policy and Strategies of NYCC. These documents are reviewed and approved by the County Council on an annual basis, with any required in year changes being submitted to the County Council's Executive and full Council as appropriate.
- 5.2 A regular dialogue will be maintained between authorised and designated officers to discuss service requirements as any issues arise. Should matters not be resolved the matter is to be escalated to the Service Agreement Manager.

5.3 NYCC will maintain appropriate records to enable NYPF to verify the work carried out in accordance with this Service Level Agreement.

6.0 Risk Management and Contingency Planning

6.1 It is the responsibility of NYCC to ensure that comprehensive disaster recovery arrangements to restore data in the event of a complete system failure are in place. These arrangements will be made known to the Authorised Officers who will also be informed of any changes to these arrangements.

6.2 NYCC will use all reasonable endeavours to ensure that the disaster recovery arrangements described at **paragraph 6.1** above are in place.

7.0 Modifications / Variations

7.1 NYCC may agree to vary the terms of this Agreement upon such terms as may be agreed with the NYPF and, where appropriate, the variation will include provision for the adjustment of any charges (as defined in **paragraph 1.2** above).

7.2 All variations shall be recorded in writing and attached to this Agreement.

8.0 Assignment and Sub-Contracting

8.1 NYCC will not assign or sub-contract this Agreement or any part of it without the prior written consent of the NYPF.

9.0 Indemnity

9.1 NYCC will indemnify the NYPF from and against all actions, proceedings, costs, claims and demands whatsoever arising from the negligence of NYCC, its servants or agents in connection this contract.

10.0 Breach of Agreement and Termination

10.1 Where the Service is not provided in accordance with this Agreement NYPF may, by written notice, request that NYCC should remedy the failure.

10.2 If either party is in material breach and/or persistent breach of the Agreement the other party may terminate the Agreement.

11.0 **Data Protection and Freedom of Information**

- 11.1 NYCC will comply with all obligations equivalent to those imposed on a Data Controller in accordance with the seventh principle under The Data Protection Act 1998.
- 11.2 All information provided by NYCC to NYPF will be provided in accordance with the requirements of the Freedom of Information Act 2000.

12.0 **Equal Opportunities**

- 12.1 NYCC will comply with employers' statutory obligations under the Race Relations Act 1976, the Sex Discrimination Act 1975, the Disability Discrimination Act 1995 and the Employment Act 2002 and will not discriminate directly or indirectly against any person because of their race, colour, nationality or national or ethnic origin, religious beliefs or sexual orientation in relation to decisions to recruit, train, promote, discipline or dismiss employees.

Treasury Management Services to be provided

Principles

- 1.0 Subject to appropriate risk controls the policy of NYPF is to maximise the interest receivable on surplus cash balances through NYCC's Treasury Management service.
- 1.1 The ability of NYCC to achieve this will depend on the size and duration of the 'surplus' cash in the NYPF bank account.
- 1.2 NYPF's practice is to automatically sweep all surplus cash into NYCC's bank account on a daily basis. NYPF therefore has
 - near instant access to required funds for cash flow purposes; and
 - any surplus cash is automatically invested at a higher rate of interest than would normally be available to the Fund due to the limited size of balances; and
 - has much greater flexibility with regard to minimum length of deposit rules, whilst
 - any short term 'overdraft' requirement is automatically provided by NYCC at its market rates rather than at the rates otherwise available to NYPF
- 1.3 NYCC will calculate an average rate of interest earned for all the cash it manages. This rate will be applied to NYPF's balances ensuring that it will enjoy the same rates as achieved by NYCC (and its other treasury management clients). This rate will be applied to NYPF's balance on a daily basis.
- 1.4 The current daily sweep arrangement will be maintained as long as the NYPF bank account is with the same bank as NYCC. NYPF is therefore included within the 'umbrella' of the current NYCC bank contract with Barclays Bank.
- 1.5 The umbrella of the NYCC's banking contract provides the following value added benefits to NYPF:
 - (i) the fee tariff per item is the same as for NYCC. Transaction charges are generally geared to scale (i.e. the more transactions the lower the unit costs); and
 - (ii) it enables effective daily 'sweeping' into the NYCC bank account for treasury management purposes, and
 - (iii) it avoids the need for the NYPF to undertake a separate tendering exercise and contract negotiation/renegotiation re banking arrangements.

2.0 **Security of Investments and Approved Lending List**

- 2.1 The County Council has adopted the CIPFA Code of Practice on Treasury Management (as updated in 2009). This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.
- 2.2 The CIPFA Code of Practice on Treasury Management requires:
- a Treasury Management Policy Statement (TMPS) stating the County Council's policies and objectives for its treasury management activities
 - a framework of Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve the policies and objectives set out above and prescribing how it will manage and control those activities.
- 2.3 NYCC invests funds as cash deposits with institutions either on the money market or direct with banks and financial institutions. NYCC recognises that credit risk arises from deposits with banks and financial institutions and, as a result, deposits are not made with institutions unless they meet the minimum requirements of the investment criteria outlined in the County Council's Treasury Management Strategy.
- 2.4 The County Council relies on credit ratings and "ratings watch" and "outlook" notices published by the three credit rating agencies (Fitch, Moodys and Standards & Poor) to establish the credit quality of counterparties and investment schemes. All three credit rating agencies also produce a Sovereign Rating which assesses a country's ability to support a financial institution should they get into difficulty.
- 2.5 No combination of ratings can be viewed as entirely fail-safe and all credit ratings, watches and outlooks are monitored on a daily basis and changes made as appropriate. In addition, the County Council takes into account trends within the Credit Default Swap (CDS) Market together with other criteria such as market intelligence, press speculation and rumoured mergers etc.
- 2.6 This data is collated and interpreted using the Credit Worthiness Service provided by the County Council's Treasury Management advisor, Sector Treasury Services Limited. This service uses a sophisticated modelling system to allocate a credit "score" for each organisation. Each score is then related to a series of colour codes which indicate the relative credit worthiness of counterparties and consequential maximum duration investment.
- 2.7 In addition, the County Council has set maximum investment limits for each organisation which also reflect that institutions credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity).

- 2.8 The Annual Treasury Management Strategy includes these procedures in order to manage the risks of the County Council's financial instrument exposure. It is approved at the County Council's annual council tax setting budget meeting before the beginning of the financial year, but kept under review throughout the year with any required changes being approved as part of the County Council's quarterly reporting arrangements for Treasury Management Activities.
- 2.9 The Approved Lending List is monitored on an on going daily basis and changes made as appropriate by the Corporate Director – Finance and Central Services to reflect credit rating downgrades etc. Institutions are removed or temporarily removed or suspended from the list if there are any significant concerns about their financial standing or stability.
- 2.10 The County Council's investment policy has two fundamental objectives
- the security of capital (protecting the capital sum from loss); and then
 - liquidity (keeping the money readily available for expenditure when needed).
- 2.11 The County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments.
- 3.0 **Policy in relation to risk sharing in relation to investments and borrowings**
- 3.1 NYCC's policy is that responsibility under 3rd party arrangements, for both investments and borrowing, are shared pro rata to the relative levels of investments and borrowing by the various parties.
- 3.2 The arrangements (as agreed with other clients including NYPF under this Agreement) in respect of a Default Loan are detailed below:

NYCC collects all available balances from those parties using the County Council's Treasury Management Service and merges them with its own balances (the so-called 'sweep' arrangement). These aggregated balances are then loaned out on the Money Markets. For practical purposes therefore every such loan contains an element of the balance of each party and no individual loans are earmarked as being solely the funds of one particular party.

In the event of counterparty default on an individual loan, each party shall bear a share of the consequential loss. The extent of that loss for each party will be calculated pro rata on the balance of that party on the day on which the default occurs. For example:

£1m defaulted loan

	<i>Balance on the day of default £</i>	<i>%</i>	<i>Share of Loss £</i>
NYCC	25,000,000	83.1	831,000
NYPF	1,800,000	6.0	60,000
Authority A	550,000	1.8	18,000
Authority B	750,000	2.5	25,000
Authority C	1,650,000	5.5	55,000
Authority D	<u>350,000</u>	<u>1.1</u>	<u>11,000</u>
Total	<u>30,100,000</u>	<u>100.0</u>	<u>1,000,000</u>

3.3 In addition, NYCC

- (i) will provide details of those organisations to which loans are made
- (ii) agrees that the Default Loan procedure will ***not*** apply if the actions of NYCC in the money market are clearly proven to have been contributory to any loss(es) of NYPF funds managed under the terms of this Agreement.