

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

27 SEPTEMBER 2012

## NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2011/12

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

- 1.1 To receive the North Yorkshire Pension Fund Annual Report for the financial year 2011/12.

**2.0 ANNUAL REPORT**

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2011/12 incorporates the Accounts of the North Yorkshire Pension Fund (NYPF) and is dealt with under **Item 7, Statement of Final Accounts including Letter of Representation.**
- 2.2 To comply with Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008 an Annual Report must also be produced for the Pension Fund, which includes the NYPF Accounts as well as certain governance documents and other information. The Annual Report for 2011/12 was approved by the Pension Fund Committee on 20 September 2012 and is attached for information to Members of the Audit Committee as **Appendix 1.**
- 2.3 Deloitte LLP has indicated that an unmodified opinion of the NYPF Annual Report 2011/12 will be given.

**3.0 RECOMMENDATIONS**

- 3.1 Members are asked to note the North Yorkshire Pension Fund Annual Report for 2011/12.

JOHN MOORE

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

Finance and Central Services  
County Hall  
Northallerton  
19 September 2012

**Background documents:** None



North

Yorkshire County Council

Appendix 1

# North Yorkshire Pension Fund

Annual Report and Accounts  
2011/12



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## PART 1 – MANAGEMENT OF THE FUND

### 1.1. Scheme Management and Advisers as at 31 March 2012

<b>Administering Authority:-</b>	North Yorkshire County Council
<b>Pension Fund Committee Members as at 31 March 2012</b>	J Weighell (Chairman) R Harrison-Topham (Vice-Chairman) M-A de Courcey-Bayley B Bateman MBE J Blackie H Swiers P Mulligan J Clark (District Councils' representative of Local Government North Yorkshire and York) J Gunnell, City of York Council
<b>Treasurer</b>	John Moore, Corporate Director – Finance and Central Services, North Yorkshire County Council
<b>Investment Adviser</b>	Ms C Dobson of Investment Adviser and Trustee Services
<b>Investment Consultant</b>	Aon Hewitt
<b>Independent Professional Observer</b>	Peter Scales (AllenbridgeEpic)
<b>Fund Managers</b>	Baillie Gifford Life Ltd Standard Life Pension Funds Ltd FIL Pensions Management (Fidelity) R C Brown Investment Management Plc ECM Asset Management Ltd Amundi Asset Management M&G Investment Management Ltd Hermes Investment Management Ltd Threadneedle Pensions Ltd Legal & General Investment Management Ltd YFM Venture Finance Ltd (Yorkshire Fund Managers)
<b>Actuary</b>	Mercer Ltd
<b>Legal Services</b>	Head of Legal Services, North Yorkshire County Council Ward Hadaway
<b>Auditor</b>	Deloitte LLP
<b>Banker</b>	Barclays Bank Plc
<b>Custodian for Fund Assets: (+ fund accounting and performance measurement)</b>	The Bank of New York Mellon (BNY Mellon Asset Servicing)
<b>Custodian Monitoring</b>	Thomas Murray Ltd
<b>Shareholder Voting Advisor</b>	Pensions Investment Research Consultants Ltd (PIRC)
<b>AVC Provider</b>	Prudential Plc (Prudential Assurance Company)

## 1.2. Management Report

### (a) Introduction

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

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

During the year the Committee formally met on five occasions, plus an additional six meetings to consider the reports of the investment managers. During the financial year ended 31 March 2012, the Committee received professional advice from its Independent Investment Adviser, Ms C Dobson of Investment Adviser and Trustee Services, its firm of Investment Consultants, Aon Hewitt, its Independent Professional Observer (Mr P Scales of AllenbridgeEpic) as well as the Treasurer. The Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

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

The Corporate Director - Finance and Central Services, acting as Treasurer to the Pension Fund is responsible for preparing this Annual Report in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes (Revised May 2007)*, *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12*, a *Statement of Recommended Practice and Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008*.

### (b) Membership

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

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

Employees therefore have various options:-

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

The following table summarises the membership of the NYPF (as extracted on 31 May 2012) over the past 5 years:

<b>Membership Type</b>	<b>As at 31 March 2008</b>	<b>As at 31 March 2009</b>	<b>As at 31 March 2010</b>	<b>As at 31 March 2011</b>	<b>As at 31 March 2012</b>
Current Contributors	27,535	28,372	28,623	29,295	27,770
Deferred Pensions	17,246	19,953	22,079	23,800	25,534
Pensioners receiving Benefits	12,491	13,333	14,119	14,888	15,839

(c) **Income**

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

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2011 as follows:-

<b>Band</b>	<b>Range</b>	<b>Contribution rate</b>
<b>1</b>	<b>£0 to £12,900</b>	<b>5.5%</b>
<b>2</b>	<b>£12,901 to £15,100</b>	<b>5.8%</b>
<b>3</b>	<b>£15,101 to £19,400</b>	<b>5.9%</b>
<b>4</b>	<b>£19,401 to £32,400</b>	<b>6.5%</b>
<b>5</b>	<b>£32,401 to £43,300</b>	<b>6.8%</b>
<b>6</b>	<b>£43,301 to £81,100</b>	<b>7.2%</b>
<b>7</b>	<b>More than £81,100</b>	<b>7.5%</b>

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

The basis of the employer contribution rates is explained further in **section (e) Employer Contributions** below and in the **ACTUARIAL REPORT** which is included in the notes to the **STATEMENT OF FINANCIAL ACCOUNTS Appendix A**.



(d) Benefits

The Benefits payable under the Regulations are largely mandatory allowing little discretion to the employing bodies. A summary of benefits payable under the Local Government Pension Scheme (LGPS) is provided in Part 6 **SCHEME BENEFITS**.

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

(e) Employer Contributions

Employers' contributions are determined by the Actuary's Triennial Valuation Report. A list of each employer's minimum contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14 is shown

<https://www.nypf.org.uk/Documents/2010ActuarialValuationReport.pdf>

Any new entrants to the scheme will be included on the next Triennial Valuation in 2013.



## PART 2– INVESTMENT POLICY AND PERFORMANCE REPORT

### 2.1. INVESTMENT POLICY

#### (a) Regulations

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

#### (b) Investment Management arrangements

As at 31 March 2012 the following investment management arrangements were in place.

- **Baillie Gifford** managed two active **global** (ie including UK) **equity** portfolios, namely **Global Alpha** and **Long Term Global Growth (LTGG)**. Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings. Both are managed without reference to a benchmark, however the FTSE All World index is for used performance measurement purposes
- **Fidelity** managed an active **overseas equities (ex UK)** portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- **Standard Life** managed an active **UK equity** portfolio comprising segregated holdings in UK companies against the FTSE 350 (excluding investment trusts) equally weighted index
- **Amundi** managed an active **European fixed income** portfolio through a pooled fund, against the “least risk” benchmark of index linked and fixed interest gilts
- **ECM** managed an active **corporate bond** portfolio through a pooled fund on an absolute return basis, using 1-month LIBOR for performance measurement purposes
- **M&G** commenced managing an active **Gilts** portfolio in December 2011, comprising segregated fixed income and index linked holdings, against the “least risk” benchmark
- **Hermes** commenced managing an active **UK Property** portfolio in January 2012 through a pooled property fund with the objective of outperforming the retail price index
- **Threadneedle** and **Legal & General** were both appointed during the year to manage **UK Property**, however as at 31 March 2012 no funds had been transferred to these managers



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

The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The current residual cost of this investment is £1.2m.

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

### (c) Custody of Investments

BNY Mellon Asset Servicing were appointed from 1 July 2006 as global custodian for the Fund's assets. The assets of the Fund for which BNY Mellon Asset Servicing is not the custodian are:-

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

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

## 2.2 PERFORMANCE REPORT

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

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

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

Performance for the year was +2.9% compared to the local authority average (as measured by WM Services) of +2.6%. NYPF was ranked 40<sup>th</sup> out of 82 Local Authorities within the WM Local Authority Universe.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2012 compared with their defined benchmarks is shown in the following table:

<i>Fund Manager</i>	<i>Share of Fund @ March 2012</i>	<i>Fund Performance</i>	<i>Customised Benchmark</i>	<i>+/-</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Baillie Gifford Life Ltd - Global Alpha	16.3	1.9	-0.2	2.1
Baillie Gifford Life Ltd - LTGG	10.4	-0.9	-0.2	-0.7
FIL Pensions Management (Fidelity)	22.4	-4.1	-3.4	-0.7
Standard Life Pension Funds Ltd	23.6	1.7	3.6	-1.9
ECM Asset Management Ltd	7.3	-1.5	0.2	-1.7
Amundi Asset Management	13.1	22.3	23.8	-1.5
R C Brown Investment Management Plc	0.2	-2.2	1.4	-3.6
Hermes Investment Management Ltd#	1.5			
Currency Hedging	0.2	-	-	-
Yorkshire & Humber Equity Fund	0.1	-20.0	1.4	-21.4
M&G Investment Management Ltd*	4.2	-3.6	-3.2	-0.4
Internally Managed Cash	0.7	1.0	0.5	0.5
<b>Total Fund</b>	<b>100.0</b>	<b>2.9</b>	<b>5.5</b>	<b>-2.6</b>

# The first investment with Hermes was in Q1 of 2012, therefore no performance data is available

\* M&G is based on three months data for the quarter ending 31 March 2012

Whilst the performance for 2011/12 has been a little disappointing, these figures reflect a sustained period of challenging and volatile market conditions for the Fund. Global equity markets fell by 0.1% in the year and UK bonds (+11.1%) and index linked bonds (+19.8%) performed at unprecedented levels as investors looked to safer havens. Although the investment through Amundi captured this improvement, the Fund's strategy is to focus on addressing the deficit position over the long term, which requires that the largest proportion of investments are in return seeking assets, ie equities. Performance was therefore satisfactory, given the circumstances.

Over the 3 year period to 31 March 2012 the Fund achieved an annualised return of +20.8% against the customised benchmark of +18.5% resulting in a performance of 2.3% above the benchmark.

## 2.3. FINANCIAL PERFORMANCE

The Statement of Financial Accounts for the year 2011/12 is shown at **Appendix A**.

The value of the Fund's assets at 31 March 2011 was £1,498m, and this increased by £68m during the year to give a value of £1,566m at 31 March 2012.

Prior to the start of the 2011/12 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2011/12 forecast a net cash surplus of **£22m**, which compared with the actual surplus for the year of **£27.5m**, resulting in an overall increase of above expectations £5.5m.

	<b>Budget 2011/12 £m</b>	<b>Actual Income / Expenditure £m</b>	<b>Variance £m</b>
<b>Expenditure</b>			
Benefits	77.8	82.2	4.4
Administration	1.5	1.5	0.0
Investment Expenses	5.3	4.5	-0.8
<b>Total Expenditure</b>	<b>84.6</b>	<b>88.2</b>	<b>3.6</b>
<b>Income</b>			
Employer and Employee contributions	104.1	105.2	1.1
Transfers	2.4	10.5	8.1
Other income	0.1	0.0	-0.1
<b>Total Income</b>	<b>106.6</b>	<b>115.7</b>	<b>9.1</b>
<b>Net Surplus</b>	<b>22.0</b>	<b>27.5</b>	<b>5.5</b>

The budget was set with the expectation that the larger employers in the Fund would seek to reduce staffing levels in response to the Government cutting funding to public sector organisations, and that the shrinking economy would also affect the private sector. This has occurred, however the extent and timing of staff reductions was very difficult to predict, hence the significant variance on benefits payable reflecting higher than expected lump sum payments. In addition, the value of "transfers in" equates to the net of transfer values in and out of the Fund in the year and cannot be reliably predicted.

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

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

## PART 3 – SCHEME ADMINISTRATION

### (a) Pension Fund Accounts

The Fund's accounts are the responsibility of:

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

assisted by:

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

and:

**Nigel Dowey**  
**Operations Manager – Pensions**

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

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

### EXTERNAL AUDIT

The annual accounts of the Fund are audited by:

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

### (b) Pension Fund Committee responsibilities

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

(c) Training for Pension Fund Committee Members

(i) Internal

Four Investment Strategy Workshops were held throughout the year, and these were well attended by PFC Members.

The agreed asset class structure for the investment portfolio remains unchanged and is as follows:-

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

During the year it was also agreed that Members and officers make use of the Trustee Needs Analysis (TNA) and access the resource library where appropriate, as a complement to alternative training resources. This decision was in response to a call by CIPFA that Administering Authorities should ensure their elected representatives and officers have the right mix of knowledge and skills to effectively manage their pension schemes.

(ii) Externally Provided

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

Events attended by PFC Members during 2011/12 were:

Event	Place	Date
NAPF Local Authority Conference	Warwickshire	16-18 May 2011
LGE Trustees Conference	Bournemouth	8-9 June 2011
LGC Investment Summit	Newport	8-9 September 2011
LGPIF Pension Investment Forum	London	13 October 2011
ECM Annual Credit Seminar	London	13 October 2011
NAPF Annual Conference	Manchester	19-20 October 2011
LGPS Trustee Training Fundamentals	Leeds	16 November 2011
Baillie Gifford Investment Strategy Review	Northallerton	24 November 2011
Baillie Gifford/Standard Life Diversified Growth Funds	Northallerton	25 November 2011
Fidelity Institutional Client Conference	London	29 November 2011
LGC Investment Seminar	Chester	1-2 March 2012
NAPF Investment Conference	Edinburgh	7-9 March 2012

## PART 4 – GOVERNANCE DOCUMENTATION

The main governance documentation is as follows:

- Statement of Investment Principles
- Governance Compliance Statement
- Funding Strategy Statement
- Communications Policy Statement

A short summary of each Statement is given below, and each full Statement is shown in the Appendices to this report.

### (a) Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare a statement recording the investment policy of the pension fund. The full statement is available as **Appendix C**. The main areas covered by the statement are:

- Investment Policy
- Monitoring of Investment Performance
- Policy with regard to risk
- Buying and Selling Investments
- Social Environmental and Ethical considerations
- Corporate Governance
- Compliance and Monitoring
- Compliance with the Updated Myners Principles
- Compliance with the Financial Reporting Council Stewardship Code

### (b) Governance Compliance Statement

Under the Statement under the LGPS (Administration) Regulations 2008 and its predecessor Regulation 73A(c) of the LGPS Regulations 1997 (as amended), NYPF as an administering authority are required to publish a document describing how the Fund must assess its governance arrangements and compliance with any principles listed in the guidance. This statement is available at **Appendix D**. The main areas covered by this are:

- the delegation of both investment policy issues and administration policy matters to the Pension Fund Committee
- frequency of meetings
- terms of reference, structure and operational procedures of the delegation
- Committee membership and voting rights
- assessment of compliance with CLG Best Practice Principles



### (c) Funding Strategy Statement

The Funding Strategy Statement (FSS) has been prepared by 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). The full statement is available at **Appendix E**, and the main purpose is to:

- establish a clear and transparent Fund-specific Strategy which will identify how employers' pension liabilities are best met going forward
- support the regulatory requirement to maintain as nearly constant employers contribution rates as possible, and
- take a prudent longer-term view of funding those liabilities

In addition to this, the Funding Strategy Statement covers:

- responsibilities of the key parties
- solvency issues and target funding levels
- link to Investment Strategy set out in the Statement of Investment Principles
- identification of risks and counter measures
- method and assumptions and results of the 2010 Actuarial Valuation

### (d) Communications Policy Statement

This statement sets out the communication strategy for communication with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities. The latest Communications Policy Statement is shown at **Appendix F**.



## PART 5 – BENCHMARKING REPORT

### (a) Pension administration performance

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. North Yorkshire Pension Fund's performance in these areas for the year to 31 March 2012, is shown below.

Indicator	Target	Performance against Target 1/4/2011 – 31/3/2012
Letter detailing transfer in	10 days	98%
Letter detailing quote of transfer value	10 days	100%
Letter notifying estimated retirement benefit amount	10 days	98%
Letter notifying actual retirement benefit amount	5 days	100%

Actual Calculations processed:

Task	Number of calculations
Retirements	1,338
Transfers In	101
Refunds	143
Frozen Refunds	228
Preserved Benefits	3,688
AVCs/ARCs	167
Divorce cases	169
Deaths in Service	15
Deaths of Pensioners	335

## Administration Costs per scheme member

The administration cost per member of NYPF was **£15.28** in 2011/12.

This compares with the average cost per member in the comparative group of local authority pension funds of **£21.49**.

The number of staff (FTE's) at North Yorkshire County Council involved in Pensions administration was **23.5**.

The total numbers of joiners and leavers during 2011/12 were:

<b>Joining</b>	<b>3,970</b>
<b>Retiring</b>	<b>1,307</b>
<b>Deaths</b>	<b>470</b>
<b>Other Leavers</b>	<b>4,118</b>

The figures reflect the efforts the team goes to provide a first class service to the Fund membership. We are one of the leaders across the LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over the last few months include:

- arranging for government experts to address employing authorities directly on the key issues facing them such as Auto-Enrolment and LGPS 2014. NYPF employers have been more promptly and more thoroughly informed and prepared for change than their counterparts across the country
- notifying our membership immediately of the Prudential's plans to implement exit charges. This enabled hundreds of members to make arrangements before the rush clogged up the system and frustrated the plans of many members of other LGPS Funds
- continuing to develop self-service options for Fund members with particular emphasis this year on distributing individual PIN numbers and on convenient on-line Annual Benefit Statements
- implementing a customer helpline that provides a one-stop service for members without compromising the ability of Pensions Officers to take into account the specific circumstances of each individual joiner or leaver.

## PART 6 – SCHEME BENEFITS

### Introduction

The Local Government Pension Scheme (LGPS) is a very comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the LGPS*, can be obtained by contacting the Pensions Section at County Hall, Northallerton, (telephone 01609 536335). Further information is available from the website: [www.nypf.org.uk](http://www.nypf.org.uk)

### Normal Retirement Age

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

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

### Pension (Normal)

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

### Pension (Ill Health)

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

- First Tier: If there is no reasonable prospect of being capable of undertaking any gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.
- Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before age 65 the employee's LGPS service is enhanced by 25% of potential service to age 65.
- Third Tier: If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years.

## Lump Sum Retirement Grant

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

## Death Grant

### (i) Death in Service

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

### (ii) Death after Retirement

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

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

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

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

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

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

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

## Children's Pension

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

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

## Pension Increases

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

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

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

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



**NORTH YORKSHIRE PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012**

2010/11 £000		2011/12 £000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions</b>		
77,388	Employers - Normal	77,046	
548	- Special	0	
3,284	- Early Retirement Costs Recharged	3,371	
25,802	Employees - Normal	24,255	
550	- Additional Voluntary	554	
<u>107,572</u>	<b>Total Contributions Receivable (Note 7)</b>		105,226
10,957	<b>Transfers In (Note 8)</b>		10,493
	<b><u>Less</u></b>		
	<b>Benefits</b>		
(51,972)	Pensions	(56,803)	
(19,783)	Commutation and Lump Sum Retirement Benefits	(23,334)	
<u>(2,072)</u>	Lump Sums Death Benefits	<u>(2,106)</u>	
<u>(73,827)</u>	<b>Total Benefits Payable (Note 9)</b>		(82,243)
	<b>Leavers</b>		
(40)	Refunds to Members Leaving Service	(40)	
(1)	Payments for Members Joining State Scheme	1	
<u>(10,213)</u>	Transfers Out	<u>(4,427)</u>	
<u>(10,254)</u>	<b>Total Payments on Account of Leavers (Note 10)</b>		(4,466)
(1,425)	<b>Administrative Expenses (Note 11)</b>		(1,492)
<u>33,023</u>	<b>Net Additions From Dealings With Members</b>		<u>27,518</u>
	<b>RETURNS ON INVESTMENTS</b>		
14,311	<b>Investment Income (Note 12)</b>		18,911
(375)	<b>Taxation (Note 13)</b>		(324)
(5,285)	<b>Investment Expenses (Note 14)</b>		(4,654)
<u>111,685</u>	<b>Change in market value of investments (Note 15)</b>		<u>26,133</u>
<u>120,336</u>	<b>Net Returns On Investments</b>		<u>40,066</u>
153,359	<b>Net Increase in the Fund During the Year</b>		67,584
1,344,622	<b>Opening Net Assets of the Fund</b>		1,497,981
<u>1,497,981</u>	<b>Closing Net Assets of the Fund</b>		<u>1,565,565</u>

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2012

31 March 2011  
(as restated)\*  
£000

£000

<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>		
0	Fixed Interest Securities	65,122
672,043	Equities	661,648
802,851	Pooled Investments	790,232
0	Pooled Property Investments	23,768
<u>1,340</u>	Private Equity	<u>1,072</u>
1,476,234		1,541,842
0	Derivative Contracts - Forward Currency Contracts	2,073
10,811	Cash Deposits	7,841
<u>4,428</u>	Investment Debtors	<u>15,059</u>
<u>1,491,473</u>	<b>TOTAL INVESTMENT ASSETS</b>	<u>1,566,815</u>
<b>INVESTMENT LIABILITIES (Notes 15 &amp; 16)</b>		
(3,185)	Derivative Contracts - Forward Currency Contracts	0
<u>(2,477)</u>	Investment Creditors	<u>(12,764)</u>
<u>(5,662)</u>	<b>TOTAL INVESTMENT LIABILITIES</b>	<u>(12,764)</u>
<u>1,485,811</u>	<b>NET INVESTMENT ASSETS</b>	<u>1,554,051</u>
<b>CURRENT ASSETS</b>		
8,780	Contributions due from employers	7,131
467	Other Non-Investment Debtors	743
<u>7,005</u>	Cash	<u>4,952</u>
<u>16,252</u>	<b>TOTAL CURRENT ASSETS</b>	<u>12,826</u>
<b>CURRENT LIABILITIES</b>		
<u>(4,082)</u>	Non-investment creditors	<u>(1,312)</u>
<u>(4,082)</u>	<b>TOTAL CURRENT LIABILITIES</b>	<u>(1,312)</u>
<u>1,497,981</u>	<b>TOTAL NET ASSETS (Notes 15 and 16)</b>	<u>1,565,565</u>

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

\* Restatement is explained in Note 15 (a)

**NOTES TO THE NORTH YORKSHIRE PENSION FUND ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**1. Description of the Fund**

The North Yorkshire Pension Fund (NYPF) is part of the Local Government Pension Scheme (LGPS) and is administered by North Yorkshire County Council (NYCC). The County Council is the reporting entity for the Fund.

The following description of the Fund is a summary only. For more detail, refer to the NYPF Annual Report 2011/12 and the statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It is a defined benefit pension scheme administered by NYCC to provide pensions and other benefits for pensionable employees of NYCC, other local authorities in North Yorkshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire fighters are included within other national pension schemes.

The Fund is overseen by the Pension Fund Committee (PFC), which is a committee of NYCC.

**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in NYPF include:

- scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- admitted bodies, which are other organisations that participate in the fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector

At 31 March 2012 there were 78 contributing employer organisations within NYPF (69 as at 31 March 2012) including the County Council itself, as detailed below:

54 Scheduled Bodies:

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

24 Admitted Bodies:

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

Active, pensioner and deferred pensioner numbers, split between NYCC as the Administering Authority and all other employers was as follows:

	31 March 2012 No	31 March 2011 No
Employees in the Fund		
NYCC	16,435	16,681
Other employers	11,335	12,614
Total	<u>27,770</u>	<u>29,295</u>
Pensioners		
NYCC	8,500	8,219
Other employers	7,339	6,669
Total	<u>15,839</u>	<u>14,888</u>
Deferred pensioners		
NYCC	15,454	14,437
Other employers	10,080	9,363
Total	<u>25,534</u>	<u>23,800</u>

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2012. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010 and details of the rates for individual employers are available on the Fund's website.

#### d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. For service up to 31 March 2008 each year worked is worth 1/80<sup>th</sup> of final pensionable salary, an automatic lump sum of three times salary is payable, and part of the annual pension can be exchanged for a one-off tax free cash payment at the rate of £12 lump sum for each £1 pension given up. For service from 1 April 2008 each year worked is worth 1/60<sup>th</sup> of final pensionable salary, there is no automatic lump sum, and part of the annual pension can be exchanged at the same rate as for service up to 31 March 2008.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the Publications section of the Fund's website.

Benefits are index linked in order to keep pace with inflation. In June 2010 the Government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its year end position as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at **Note 19** of these accounts.

## 3. Summary of Significant Accounting Policies

### Fund Account – Revenue Recognition

#### a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the rate recommended by the Fund's Actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current asset. Amounts due in future years are classed as long term assets.

#### b) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS Regulations.

Individual Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions or other defined contribution arrangements to purchase scheme benefits are accounted for on a receipts basis.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### c) Investment Income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial cost of the instrument and its value at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement as a current asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.



## Fund Account – Expense Items

### d) Benefits Payable

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

### e) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises. VAT input tax is recoverable on all Fund activities, including expenditure on investment expenses.

### f) Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pensions Administration Team are charged to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with NYCC policy.

### g) Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with the following managers that an element of their fee will be performance related:

- Baillie Gifford & Co - Global Equities
- FIL Pensions Management (Fidelity) - Global (ex-UK) Equities
- Standard Life Investments – UK Equities

Performance related fees were £1,167k in 2011/12 (£1,656k in 2010/11).

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2011/12 £399k of fees is based on such estimates (£Nil in 2010/11).

## Net Assets Statement

### h) Assets

Assets are included in the Net Asset Statement on a fair value basis as at the reporting date. An asset is recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- the value of investments for which there are readily available market prices are determined by the bid market prices
- fixed interest securities are recorded at net market value based on prevailing yields
- interests in limited partnerships are based on the net asset value ascertained from periodic valuations provided by those controlling the partnership
- pooled investment vehicles are valued at closing bid price if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax

#### i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investment and purchases and sales outstanding at the end of the reporting period.

#### j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

The value of forward currency contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

#### k) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to minimal risk of change in value.

#### l) Liabilities

The Fund recognises liabilities at fair value as at the reporting date. A liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

#### m) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's Actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an **Appendix** to these statements.

#### n) Additional Voluntary Contributions

NYPF provides an Additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the Accounts in accordance with Section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (**Note 22**).

## o) Future Developments

For 2011/12, the only accounting standard that has been published but which has not been adopted by the Code relates to amendments to IFRS 7 “Financial Instruments: Disclosures”. The amendments to this standard require specific disclosures related to transferred financial assets that are not derecognised in their entirety; and transferred financial assets that are derecognised in their entirety, but in which the transferor has some continuing involvement. The change in accounting policy will be required for accounting periods ending after 1 April 2012. Officers are still to determine the impact that these changes may have on the financial statements of local authorities.

## 4. Critical Judgement in Applying Accounting Policies

### Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2012 was £1,072k (31 March 2011, £1,340k).

### Pension Fund Liability

The Fund’s liability is calculated every three years by the Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in **Note 18**. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

These Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as these figures cannot be determined with certainty, actual results could be materially different using different assumptions.

The item in the Net Assets Statement as at 31 March 2012 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by £52m, a 0.1% increase in inflation would increase liabilities by £53m, and an increase in life expectancy of one year would increase liabilities by £53m.

## 6. Events After the End of the Reporting Period

Since 31 March 2012 there has been a marked decline in global stock markets which would impact upon the market value of the Fund’s investments were they to be valued as at the date these Accounts were authorised. This change is deemed to be a non-adjusting event after the end of the reporting period.

There have been no events since 31 March 2012, and up to the date when these accounts were authorised that require any adjustments to these Accounts.

## 7. Contributions Receivable

	2011/12 £000	2010/11 £000
Contributions Receivable		
North Yorkshire County Council	44,899	46,525
Other Scheduled Bodies	54,536	54,862
Admitted Bodies	5,791	6,185
	<u>105,226</u>	<u>107,572</u>

## 8. Transfers In from Other Pension Funds

All Transfers In were individual transfers. There were no group transfers during the current or prior years.

## 9. Benefits Payable

	2011/12 £000	2010/11 £000
Benefits Payable		
North Yorkshire County Council	33,485	31,504
Other scheduled bodies	44,033	38,965
Admitted bodies	4,725	3,358
	<u>82,243</u>	<u>73,827</u>

## 10. Payments To and On Account of Leavers

All Transfers Out were individual transfers. There were no group transfers during the year.

## 11. Administrative Expenses

	2011/12 £000	2010/11 £000
Administration and Processing	1,341	1,243
Actuarial Fees	87	120
Legal and Audit Fees	64	62
	<u>1,492</u>	<u>1,425</u>

## 12. Investment Income

	2011/12 £000	2010/11 £000
Fixed Interest and Index Linked Securities	321	5
Dividends from Equities	18,457	14,105
Interest on Cash Deposits	133	101
Underwriting Commission Received	0	100
	<u>18,911</u>	<u>14,311</u>

### 13. Taxes on Income

	2011/12 £000	2010/11 £000
Withholding Tax on Dividends	<u>324</u>	<u>375</u>

### 14. Investment Expenses

	2011/12 £000	2010/11 £000
Administration, Management and Custody	4,453	4,996
Performance Measurement Services	28	28
Other Advisory Fees	173	261
	<u>4,654</u>	<u>5,285</u>

### 15. Investments

#### a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2012 £000	Change in market value at 31 March 2012 £000	Sales proceeds and derivative receipts £000	Purchases at cost and derivative payments £000	Value at 1 April 2011 (as restated)# £000
Fixed Interest	65,122	(905)	(93,477)	159,504	0
Equities	661,648	(2,856)	(385,579)	378,040	672,043
Pooled Funds	790,232	26,165	(54,582)	15,798	802,851
Pooled Property	23,768	(1,282)	0	25,050	0
Private Equity	1,072	32	(300)	0	1,340
Derivative Contracts	2,073	7,605	(876,748)	874,401	(3,185)
Total Invested	<u>1,543,915</u>	<u>28,759</u>	<u>(1,410,686)</u>	<u>1,452,793</u>	<u>1,473,049</u>
Cash Deposits	7,841	(2,970)			10,811
Net Investment Debtors	2,295	344			1,951
Net Investment Assets	<u>1,554,051</u>	<u>26,133</u>			<u>1,485,811</u>

	Value at 31 March 2011 (as restated)# £000	Change in market value at 31 March 2011 £000	Sales proceeds and derivative receipts £000	Purchases at cost and derivative payments £000	Value at 1 April 2010 (as restated)# £000
Equities	672,043	4,477	(318,431)	369,646	616,351
Pooled Funds	802,851	72,905	(1,688)	29,976	701,658
Private Equity	1,340	(168)	0	0	1,508
Derivative Contracts	(3,185)	735	(626,149)	626,139	(3,910)
Total Invested	<u>1,473,049</u>	<u>77,949</u>	<u>(946,268)</u>	<u>1,025,761</u>	<u>1,315,607</u>
Cash Deposits	10,811				5,665
Net Investment Debtors	1,951				3,267
Net Investment Assets	<u>1,485,811</u>				<u>1,324,539</u>

# A fixed interest pooled investment of £115,959k (2010 £109,805k) has been reclassified as a Pooled Investment rather than Fixed Interest, and £1,340k (2010 £1,508k) has been reclassified as Private Equity rather than Pooled Funds in the figures for 2010/11.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £885k (2010/11 £1.2m). In addition indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund.

#### b) Analysis of Investments (excluding derivative contracts)

	2011/12 £000	2010/11 £000
Fixed Interest Securities		
UK Public Sector Quoted	<u>65,122</u>	<u>-</u>
Equities		
UK Quoted	367,865	363,938
Overseas Quoted	<u>293,783</u>	<u>308,105</u>
	<u>661,648</u>	<u>672,043</u>
Pooled Investments		
UK Equity	40,609	33,390
UK Property	23,768	-
UK Fixed Income	103,939	28,610
Overseas Equity	429,810	434,158
Overseas Fixed Income	<u>215,874</u>	<u>306,693</u>
	<u>814,000</u>	<u>802,851</u>
Private Equity - UK	<u>1,072</u>	<u>1,340</u>
Total Investments (excl Derivatives)	<u>1,541,842</u>	<u>1,476,234</u>

## Analysis of Derivatives

### Objectives and Policies for Holding Forward Foreign Currency Derivatives

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by NYCC. The Fund hedges a proportion (25%) of the US Dollar, Euro, Japanese Yen, Swiss Franc and Swedish Krona exposure.

### Open Forward Currency Contracts

Settlement	Currency Bought	Local Value £000	Currency Sold	Local Value £000	Asset / (Liability) Value £000
Up to one month	USD	(31,387)	GBP	32,196	809
Up to one month	EUR	(10,813)	GBP	10,844	31
Up to one month	JPY	(3,890)	GBP	4,268	378
Up to one month	SEK	(7,581)	GBP	7,613	32
Up to one month	CHF	(14,712)	GBP	14,737	25
One to three months	USD	(68,271)	GBP	68,870	599
One to three months	EUR	(23,219)	GBP	23,294	75
One to three months	JPY	(9,003)	GBP	9,127	124
Net Forward Currency Contracts at 31 March 2012					2,073
Prior Year Comparative Net Forward Currency Contracts at 31 March 2011					(3,185)

### Investments Analysed by Fund Manager

Investment Manager	31 March 2012		31 March 2011	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	255,984	16.3	251,129	16.8
Baillie Gifford & Co. - LTGG	162,081	10.4	163,511	10.9
Fidelity International	351,036	22.4	365,879	24.4
Standard Life Investments	368,911	23.6	367,407	24.5
European Credit Management	114,234	7.3	115,959	7.7
Amundi Asset Management	205,583	13.1	219,348	14.6
RC Brown Investment Management	2,370	0.2	2,312	0.2
Hermes Property Unit Trust	23,768	1.5	0	0.0
Currency Hedging	2,928	0.2	(1,073)	(0.1)
Yorks & Humber Equity Fund	1,072	0.1	1,339	0.1
M&G Investments	66,084	4.2	0	0.0
Internally Managed (cash and net debtors)	11,514	0.7	12,170	0.9
	1,565,565	100.00	1,497,981	100.0

The investments with Baillie Gifford, Fidelity International, European Credit Management and Amundi each represent more than 5% of net assets. These investments are in pooled funds. All other

investments are either below 5% or constitute a portfolio of segregated assets. There are no individual investments in equities or fixed interest securities that represent more than 5% of net assets.

### c) Stock Lending

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

## 16. Financial Instruments

### a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table summarises the carrying amounts of financial assets and liabilities by category. During the accounting period the investment managed by ECM Asset Management Ltd was reclassified from Fixed Interest to Pooled Investments.

31 March 2011			31 March 2012		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost	Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000	£000	£000	£000
<b>Assets</b>					
-	-	-	65,122	-	-
672,041	-	-	661,648	-	-
802,853	-	-	790,232	-	-
-	-	-	23,768	-	-
1,340	-	-	1,072	-	-
-	-	-	2,073	-	-
-	17,816	-	-	12,793	-
4,428	-	-	15,059	-	-
-	9,247	-	-	7,874	-
<u>1,480,662</u>	<u>27,063</u>	<u>-</u>	<u>1,558,974</u>	<u>20,667</u>	<u>-</u>
<b>Liabilities</b>					
3,185	-	-	-	-	-
2,477	-	-	12,764	-	-
-	-	4,082	-	-	1,312
<u>5,662</u>	<u>-</u>	<u>4,082</u>	<u>12,764</u>	<u>-</u>	<u>1,312</u>
<u>1,475,000</u>	<u>27,063</u>	<u>(4,082)</u>	<u>1,546,210</u>	<u>20,667</u>	<u>(1,312)</u>

### b) Net Gains and Losses on Financial Instruments

	2011/12 £000	2010/11 £000
Fair Value Through Profit & Loss	25,917	111,402
Loans and Receivables	216	283
	<u>26,133</u>	<u>111,685</u>



### c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying value of the assets and liabilities by class of instrument compared with their fair values in the Accounts.

31 March 2011			31 March 2012	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
<b>Assets</b>				
1,480,662	1,480,662	Fair Value through Profit & Loss	1,558,974	1,558,974
26,780	27,063	Loans and Receivables	20,451	20,667
<u>1,507,442</u>	<u>1,507,725</u>		<u>1,579,425</u>	<u>1,579,641</u>
<b>Liabilities</b>				
5,662	5,662	Fair Value through Profit & Loss	12,764	12,764
4,082	4,082	Liabilities at Amortised Cost	1,312	1,312
<u>9,744</u>	<u>9,744</u>		<u>14,076</u>	<u>14,076</u>

NYCC has not entered into any financial guarantees that are required to be accounted for as financial instruments.

### d) Valuation of Financial Instruments Carried at Fair Value

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

#### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect in the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on a valuation provided by the manager of the fund in which NYPF has invested. This valuation has been prepared in accordance with the British Venture Capital Association guidelines. Formal valuations are undertaken annually as at the end of December.

The following table provides an analysis of the assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	1,557,902	-	1,072	1,558,974
Loans and Receivables	20,667	-	-	20,667
	<u>1,578,569</u>	<u>-</u>	<u>1,072</u>	<u>1,579,641</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	12,764	-	-	12,764
Liabilities at Amortised Cost	1,312	-	-	1,312
	<u>14,076</u>	<u>-</u>	<u>-</u>	<u>14,076</u>
<b>Net Assets</b>	<u>1,564,493</u>	<u>-</u>	<u>1,072</u>	<u>1,565,565</u>
Values at 31 March 2011	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	1,479,322	-	1,340	1,480,662
Loans and Receivables	27,063	-	-	27,063
	<u>1,506,385</u>	<u>-</u>	<u>1,340</u>	<u>1,507,725</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	5,662	-	-	5,662
Liabilities at Amortised Cost	4,082	-	-	4,082
	<u>9,744</u>	<u>-</u>	<u>-</u>	<u>9,744</u>
<b>Net Assets</b>	<u>1,496,641</u>	<u>-</u>	<u>1,340</u>	<u>1,497,981</u>

## 17. Nature and Extent of Risks Arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. NYCC manages these investment risks as part of its overall approach to Pension Fund risk.

Responsibility for the Fund's risk management strategy rests with the PFC. A Risk Register has been established to identify and analyse the risks faced by NYCC's pensions operations. This document is periodically reviewed regularly to reflect changes in activity and in market conditions.

## a) Market Risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Register includes identifying, managing and controlling market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the PFC and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through advice from the investment advisers to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk weighted maximum exposures to individual investments through Investment Management Agreements

## Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the Fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, the following table shows movements in market price risk that are reasonably possible for the 2012/13 reporting period, assuming other variables such as foreign currency rates and interest rates remain unchanged. The changes disclosed are broadly consistent with a one standard deviation movement in the value of assets. A prior year comparator is also shown below.

Asset Type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	7,841	0.0	7,841	7,841
UK Bonds	65,122	5.5	68,704	61,540
UK Equities	367,865	15.3	424,148	311,582
Overseas Equities	293,783	14.7	336,969	250,597
UK Pooled Equity	40,609	15.3	46,822	34,396
Overseas Pooled Equity	429,810	14.7	492,992	366,628
UK Pooled Bonds	103,939	5.5	109,656	98,222
Overseas Pooled Bonds	215,874	7.7	232,496	199,252
Pooled Property Investments	23,768	5.8	25,147	22,389
Private Equity	1,072	15.3	1,236	908
Derivatives	2,073	0.0	2,073	2,073
Non Investment Debtors/Creditors	2,295	0.0	2,295	2,295
<b>Total Assets</b>	<b>1,554,051</b>		<b>1,750,379</b>	<b>1,357,723</b>

Asset Type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	10,811	0.0	10,811	10,811
UK Bonds	0	5.5	0	0
UK Equities	363,936	15.3	419,618	308,254
Overseas Equities	308,105	14.7	353,396	262,814
UK Pooled Equity	33,392	15.3	38,501	28,283
Overseas Pooled Equity	434,158	14.7	497,979	370,337
UK Pooled Bonds	28,610	5.5	30,184	27,036
Overseas Pooled Bonds	306,693	7.7	330,308	283,078
Pooled Property Investments	0	5.8	0	0
Private Equity	1,340	15.3	1,545	1,135
Derivatives	(3,185)	0.0	(3,185)	(3,185)
Non Investment Debtors/Creditors	1,951	0.0	1,951	1,951
<b>Total Assets</b>	<b>1,485,811</b>		<b>1,681,108</b>	<b>1,290,514</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Fund and its investment advisers through the risk management strategy including monitoring the exposure to interest rates and assessment of actual interest rates against the strategic benchmark.

The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2011/12 £000	2010/11 £000
Cash and Cash Equivalents	7,841	10,811
Fixed Interest Securities	65,122	0
	<u>72,963</u>	<u>10,811</u>

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. No figures are available for a predicted movement in the long term average rate. However for illustrative purposes if it were to change by +/- 25 bps the values in the table above would change by £182k and for 2010/11 asset values, £27k.

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is monitored in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

After consultation with the Fund's investment advisers it is considered that the likely volatility associated with foreign exchange movements to be +/-9.5%. A fluctuation of this size is considered reasonable based on the analysis of long term historical movements in the month end exchange rates.

Assuming all other variables, in particular, interest rates remain constant, a 9.5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value as at 31 March 2012 £000	Value on 9.5% Increase £000	Value on 9.5% Decrease £000
Overseas Equities	723,593	792,334	654,852
Overseas Bonds	215,874	236,382	195,366
Total Assets	<u>939,467</u>	<u>1,028,716</u>	<u>850,218</u>

Asset Type	Value as at 31 March 2011 £000	Value on 9.5% Increase £000	Value on 9.5% Decrease £000
Overseas Equities	742,263	812,778	671,748
Overseas Bonds	306,693	335,829	277,557
Total Assets	<u>1,048,956</u>	<u>1,148,607</u>	<u>949,305</u>

## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by recognised rating agencies.

Deposits are not made with banks and financial institutions unless they are rated independently and meet NYCC's credit criteria. NYCC has also set limits as to the maximum amount of deposits placed with any one financial institution. Money market funds chosen all have at least the minimum credit rating as described in NYCC's Treasury Management Strategy.

NYCC believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements with NYCC at 31 March 2012 was £5.1m (31 March 2011, £7m) and was held with the following institutions:

	31 March 2012 £000	31 March 2011 £000
<b>Cash and Cash Equivalents</b>		
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	467	-
Institutions with Fitch Rating Long Term AA- and Short Term F1+	-	2,271
Institutions with Fitch Rating Long Term A and Short Term F1	511	-
<b>Deposits with banks and financial institutions for less than 1 year</b>		
Part Nationalised Banks with Fitch Rating Long Term A A- and Short Term F1+	-	4,151
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	2,923	-
Institutions with Fitch Rating Long Term AA- and Short Term F1+	-	623
Institutions with Fitch Rating Long Term A+ and Short Term F1	452	-
Institutions with Fitch Rating Long Term A and Short Term F1	753	-
	<u>5,106</u>	<u>7,045</u>

## c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings, subject to the fixed periods determined when deposits are placed. These deposits are scheduled to ensure cash is available when required.

The Fund also has access to an overdraft facility for short term (up to three months) cash needs. This facility is only used to address changes in the strategic benchmark and is met by either surplus cash from contributions received exceeding pensions paid or if necessary, disinvesting.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31 March 2012 the value of illiquid assets was £1,072k, which represented less than 0.1% of total Fund assets (31 March 2011, £1,340k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2012 are due within one year.

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 18. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008 the Fund's Actuary, Mercer, undertakes a funding Valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such Valuation took place as at 31 March 2010 and set employer contribution rates for the three years from 2011/12. The next Valuation will take place as at 31 March 2013 and will set employer contribution rates for the three years from 2014/15.

The key elements of NYPF's funding policy are:

- to ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as the fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The Common Rate of employers' contributions is the average rate required from all employers calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date. For the three years 2011/12 to 2013/14 the Common Rate is 12.2% of pensionable pay.

The Common Rate was adjusted to establish a Future Service Rate (FSR) for each employer, having regard to their individual circumstances, particularly to reflect the numbers of starters/leavers/early retirements since the last Valuation date.

At the 2010 Triennial Valuation the Fund was assessed as 67% funded (67% at the 2007 Valuation). This reflected a deficit of £659m (£619m at the 2007 Valuation). In order to address this deficit whilst managing the costs of the Scheme to the taxpayer, the Fund continued to follow Communities and Local Government guidance and stabilise contribution rates by adopting a deficit recovery period of 30 years from 1 April 2011. Therefore, an average additional contribution rate of 6.4% (over 30 years) was required to fund the deficit, implying an average employer contribution rate of 18.6% (12.2% + 6.4%) of pensionable pay, compared to 18.8% at the 2007 Valuation.

An additional Deficit Contribution Rate (DCR) was established for each employer depending upon their individual circumstances, particularly to reflect the solvency position at the last Valuation.

Any increases in either the FSR or DCR arising from the 2010 Triennial Valuation are phased over a period of up to three years. Full details of the contribution rates payable by each employer can be found in the 2010 Valuation Report on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

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

Future life expectancy based on the Actuary's Fund specific mortality review was:

	Male	Female
Current pensioners	22.0 years	24.6 years
Future pensioners (assumed current age 45)	23.6 years	26.4 years

Life expectancy for the year to 31 March 2012 is based on SPA02 and CMI2009 actuarial tables and includes an allowance for a minimum improvement each year of 1%.

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 and for post-April 2008 service.

## 19. Actuarial Present Value of Promised Retirement Benefits

In addition to the Triennial Funding Valuation, the Actuary also undertakes a valuation of pension fund liabilities on an IAS19 basis every year using the same base data as the Valuation, rolled forward to the current financial year, taking account of changes in membership numbers and using updated assumptions. A statement prepared by the Actuary is attached (see pages 44 – 46).

## 20. Current Assets

	2011/12 £000	2010/11 £000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment Transactions	12,110	2,439
Accrued Dividends	2,301	1,632
Withholding Taxes Recoverable	648	357
	<u>15,059</u>	<u>4,428</u>
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	7,449	8,438
Contributions due from Admitted Bodies	233	342
Pensions Rechargeable	23	36
Interest on Deposits	4	6
Other	165	425
	<u>7,874</u>	<u>9,247</u>

Other than contributions due from scheduled bodies, all debtors are non government entities.



## 21. Current Liabilities

	2011/12 £000	2010/11 £000
<b>Creditors</b>		
Investment Creditors	12,764	5,662
Sundry Other Creditors	<u>1,312</u>	<u>4,082</u>
	<u>14,076</u>	<u>9,744</u>

All creditors are non government entities.

## 22. Additional Voluntary Contributions (AVCs)

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

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

AVC contributions of £2,352k were paid directly to Prudential during the year (£2,284k in 2010/11). The total value of the AVC Fund serviced by these contributions as at 31 March was:

	31 March 2012 £000	31 March 2011 £000
Prudential	<u>17,629</u>	<u>17,540</u>

## 23. Related Party Transactions

### North Yorkshire County Council

The North Yorkshire Pension Fund is administered by North Yorkshire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1,103k (£1,079k in 2010/11) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £44.9m to the Fund in 2011/12 (£46.5m in 2010/11). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2012 the Fund had an average investment balance of £5.197m (£5.026m during 2010/11) earning interest of £65k (£56k in 2010/11) in these funds.

### Governance

As at 31 March 2012 there were five PFC Members who were also active members of the Fund, each of whom was required to declare their interests at each meeting. The Corporate Director – Finance & Central Services, who was also the Treasurer of the Fund was also an active member. Benefits for PFC Members and the Treasurer were accrued on exactly the same basis as for all other members of the Fund.

## **24. Contingent Liabilities and Contractual Commitments**

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2010/11).

## **25. Contingent Assets**

Five admitted body employers hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of an employer default.

## **26. Impairment Losses**

The Fund had no material impairment losses at the year end (£nil in 2010/11).

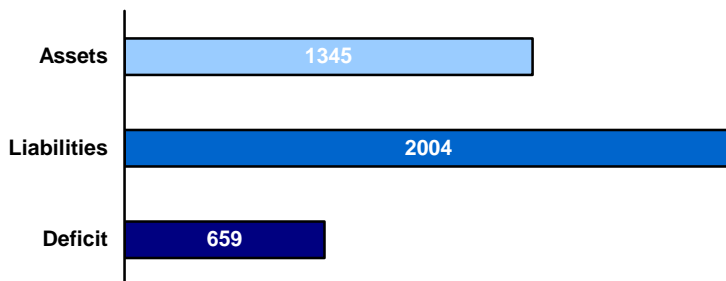
# NORTH YORKSHIRE PENSION FUND

## Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the North Yorkshire Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £1,345 million represented 67% of the Fund's past service liabilities of £2,004 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 12.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.65% per annum	4.25% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,352 million and £2,595 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £90 million.

**Ian Kirk**

**Fellow of the Institute and Faculty of Actuaries**

**Mercer Limited**

**May 2012**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL

### Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of North Yorkshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Corporate Director – Finance and Central Service and auditor

As explained more fully in the Statement of the Corporate Director – Finance and Central Services Responsibilities, the Corporate Director – Finance and Central Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

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

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

Christopher Powell FCA (Engagement Lead)  
For and on behalf of Deloitte LLP  
Appointed Auditor  
Leeds, UK  
Date

UPDATED 21/06/2012

## 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

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

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

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

**Table C**

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

<i>Asset sub Class</i>	<i>Benchmark Proportion</i>	<i>Permitted Range</i>	<i>Benchmark Index</i>	<i>Out-performance Target</i>
Index linked gilts (longer than 15 years)	85%	+/- 1%	FTSE UK Index-Linked Gilts	+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 trust scheme).	10%	10%

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

### **Stock Lending Arrangements**

- 5.6 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 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 1<sup>st</sup> December 2009 and came into force on 1<sup>st</sup> January 2010.

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

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

10.7 The guidance referred to in this regulation was subsequently issued by Communities and Local Government on 14<sup>th</sup> 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

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

<ul style="list-style-type: none"> <li>➤ Officer roles clearly stated</li> </ul>	<p>Officer delegation is described in the Constitution of the Administering Authority – also see GCS paragraphs 3.5 to 3.7</p>
<ul style="list-style-type: none"> <li>➤ Governance compliance statement</li> </ul>	<p>The GCS is produced as a separate document and is reviewed and updated annually in accordance with Regulations</p>
<ul style="list-style-type: none"> <li>➤ Basis of committee appointments</li> </ul>	<p>PFC appointments are described in the GCS paragraphs 4.1 to 4.3</p>
<ul style="list-style-type: none"> <li>➤ Committee terms of reference</li> </ul>	<p>See GCS paragraph 3.4</p>
<ul style="list-style-type: none"> <li>➤ Delegation arrangements and roles</li> </ul>	<p>Tasks and responsibilities are set out in the GCS paragraph 3.13, Key Functions</p>
<ul style="list-style-type: none"> <li>➤ Skills and knowledge audit statement</li> </ul>	<p>See GCS paragraphs 5.1 and 5.2, competencies, knowledge &amp; understanding</p>
<ul style="list-style-type: none"> <li>➤ Structure review and handbook</li> </ul>	<p>See GCS paragraphs 4.5 and 4.6 for a commentary on the structure of the Committee. Paragraph 3.4 contains the Terms of Reference</p>
<ul style="list-style-type: none"> <li>➤ Sub-committees and panels</li> </ul>	<p>Advisory Panel set up in 2008 to represent all Stakeholders - see GCS paragraphs 3.8 to 3.10</p>
<ul style="list-style-type: none"> <li>➤ Obtaining proper advice and resources</li> </ul>	<p>The Fund has appointed an independent Investment Adviser (from Investment Trustee and Adviser Services) and an independent Investment Consultant (Aon Hewitt), - see paragraphs 9.6 and 9.7 of this document</p>
<ul style="list-style-type: none"> <li>➤ Provision of training plan</li> </ul>	<p>The training needs of Members of the PFC are assessed through a Training Needs Analysis. See paragraphs 5.1 – 5.4 of GCS for details</p>
<ul style="list-style-type: none"> <li>➤ Allowances paid and time off allowed</li> </ul>	<p>The cost of PFC Member training is met by the Fund - see GCS paragraph 5.3</p>
<ul style="list-style-type: none"> <li>➤ Clarity, completeness and timing of papers</li> </ul>	<p>Papers are made available to all stakeholders - see GCS paragraphs 4.15 and 4.16</p>
<ul style="list-style-type: none"> <li>➤ Creation of a business plan</li> </ul>	<p>This is a fundamental function of the Funding Strategy Statement (FSS) which is revised every three years (linked to the Triennial Valuation). The Fund also has an approved Budget monitored at each meeting of the Committee</p>
<ul style="list-style-type: none"> <li>➤ Strategy on employer relationships</li> </ul>	<p>See GCS paragraphs 4.7 in relation to the Advisory Panel which represents all employers and paragraph 4.13 for NYPFOG which includes all employers</p>

<b>Principle 2: Clear objectives</b>		<b>Fully compliant</b>
<ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Scope of investment objective	A key function of the FSS is to reassess the assets, liabilities, membership profile and cash flow every three years through the Triennial Valuation process	
➤ Advice on returns against benchmark	See paragraphs 9.5 to 9.7 of this document re advice received from the Investment Consultant, independent Investment Adviser and the Actuary	
➤ Consideration of risk	See paragraph 5 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	

<b>Principle 3: Risk and liabilities</b>		<b>Fully compliant</b>
<ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ 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	

<b>Principle 4: Performance assessment</b>		<b>Fully compliant</b>
<ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Suitability of index benchmarks	See paragraph 3.28 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	

<p>➤ Performance assessment of managers, advisers, actuaries and consultants</p>	<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>
<p>➤ Committee performance self-assessment and reporting</p>	<p>See GCS paragraphs 5.1 to 5.3. PFC Members undertake such training as is necessary to maintain a satisfactory level of competence, knowledge and understanding</p>



<b>Principle 5: Responsible ownership</b>		<b>Fully Compliant</b>
Administering authorities should: <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</li> <li>• include a statement of their policy on responsible ownership in the Statement of Investment Principles; and</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Disclosure of policies	See paragraphs 7 and 8 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	

<b>Principle 6: Transparency and reporting</b>		<b>Fully Compliant</b>
Administering authorities should <ul style="list-style-type: none"> <li>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and</li> <li>provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>		
<b>CIPFA guidance</b>	<b>Current practice</b>	
➤ Maintaining the Governance Compliance Statement	The GCS is maintained as a separate document, is available on the website and is reproduced in the Annual Report	
➤ Content of Communication Statement	The Communications Policy Statement which sets out the details of information provided to members, publicity, promotion of the scheme to prospective members etc, is available on the website and is reproduced in the Annual Report	
➤ Interests and involvement of stakeholders	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](mailto:finance@northyorks.gov.uk)
- correspondence: c/o Room 66, North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AL
- a copy of this statement is also available on the website: [www.nypf.org.uk](http://www.nypf.org.uk)

**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**

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## 1.0 BACKGROUND

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

### Requirement for the Governance Compliance Statement

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

## 2.0 OVERALL GOVERNANCE FRAMEWORK

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

2.2 These key principles are –

- **Appropriate Accountability**  
which requires clarity about roles, areas of responsibility between Committee members and officers, 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](mailto:pensions@northyorks.gov.uk)

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

**[www.nypf.org.uk](http://www.nypf.org.uk)**

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

[NOTE – paragraph references relate to Governance Compliance Statement]

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

	Principle	Narrative from Guidance Note	Full Compliance?
		<i>(iii) where appropriate, independent professional observers (See Note 2 and Principle H below)</i>	<b>Yes – see paragraph 3.11</b>
		<i>(iv) expert advisers</i>	<b>Yes</b> - the Fund has appointed an independent Investment Adviser (from Investment Trustee and Adviser Services) and an independent Investment Consultant (Aon Hewitt). Both attend all meetings of the main Committee as well as Workshops and Training Sessions, etc. See <b>paragraphs 3.13(b) and 5.6</b>
		<i>(b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.</i>	<b>Yes –</b> papers for all PFC meetings are provided to Advisory Panel members. Panel members are entitled to the same level of training and advice as are members of the PFC. Advisory Panel views are represented through the Chair who may attend PFC meetings. See <b>paragraphs 3.9, 4.11 and 4.15</b>
<p><b>Notes</b></p> <p>(1) NYCC, CoYC and District Councils (via ANYC) are represented covering 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>			

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
<b>C</b>	<b>Selection and Role of Lay Members</b>	<p>(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></p> <p>(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.)</p>	<p><b>Yes</b> – the Members of the PFC are made fully aware by means of training sessions, Workshops, etc. A Training needs Analysis is used to identify any shortfall, and appropriate training is then provided. See <b>paragraphs 5.1 to 5.4</b></p>
			<p><b>Yes</b> - the members of the Advisory Panel are afforded the same training facilities as the PFC. The Terms of Reference of the Advisory Panel enable all interested parties to participate if they so wish. See <b>paragraphs 3.8 / 3.9 / 3.10.</b></p>
		<p>(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></p>	<p><b>Yes</b> – Committee members are invited to declare interests at the start of each meeting. This principle is enshrined in the constitution of the Administering Authority.</p>
<b>D</b>	<b>Voting</b>	<p>(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></p>	<p><b>Yes</b> - see <b>paragraph 4.1</b> re voting rights and <b>paragraphs 4.5/4.6</b> for the justification of limiting voting rights to elected Members on the PFC</p>
<b>E</b>	<b>Training/ Facility Time/ Expenses</b>	<p>(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></p>	<p><b>Yes-</b> see <b>paragraphs 5.1 / 5.2 / 5.3 / 5.4</b></p>
		<p>(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></p>	<p><b>Yes</b> - see <b>paragraphs 3.9 and 4.15</b></p>
		<p>(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></p>	<p><b>Yes</b> – Suitable training is made available to members and a record of attendance maintained. Consideration is being given to more formal annual training plans for PFC Members.</p>

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

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

## NORTH YORKSHIRE PENSION FUND

### FUNDING STRATEGY STATEMENT 2011

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

#### 1.0 INTRODUCTION

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

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

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

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



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

## 2.0 STRUCTURE OF THIS STRATEGY STATEMENT

2.1 This FSS is structured as follows:

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

## 3.0 PURPOSE OF THE FSS

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

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

- to establish a clear and transparent Fund-specific Strategy which will identify how employers' pension liabilities are best met going forward
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible, and
- to take a prudent longer-term view of funding those liabilities

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

## 4.0 AIMS AND PURPOSE OF NYPF

### 4.1 The aims of NYPF are to:

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

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

### 4.3 The purpose of NYPF is to:

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

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

## 5.0 RESPONSIBILITIES OF THE KEY PARTIES

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

5.2 The **Administering Authority** will:

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

5.3 Each **Individual Employer** will:

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

5.4 The **Fund Actuary** will:

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

## 6.0 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

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

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

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

### **Deficit Recovery Plan**

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

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

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

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

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

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

## Approach to the Actuarial Valuation

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

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

the details of which are explained below.

### Controlled Flexibility

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

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

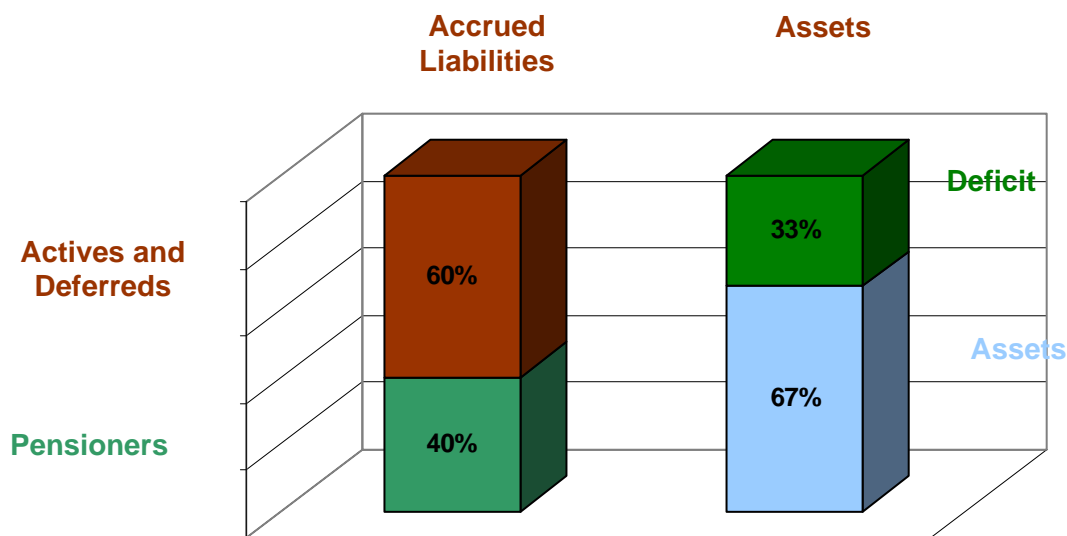
**NYPF will not therefore accept any proposal from an employer to reduce its target contribution rate below that payable in 2010/11, unless the employer's recovery period is at most 15 years.** However, the Administering Authority has ultimate discretion where the particular circumstances of any given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

### **Bespoke Investment Strategy**

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

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

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



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

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

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

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

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



## **Investment Strategy**

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

### **General Principles and diversification**

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

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

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

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

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

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

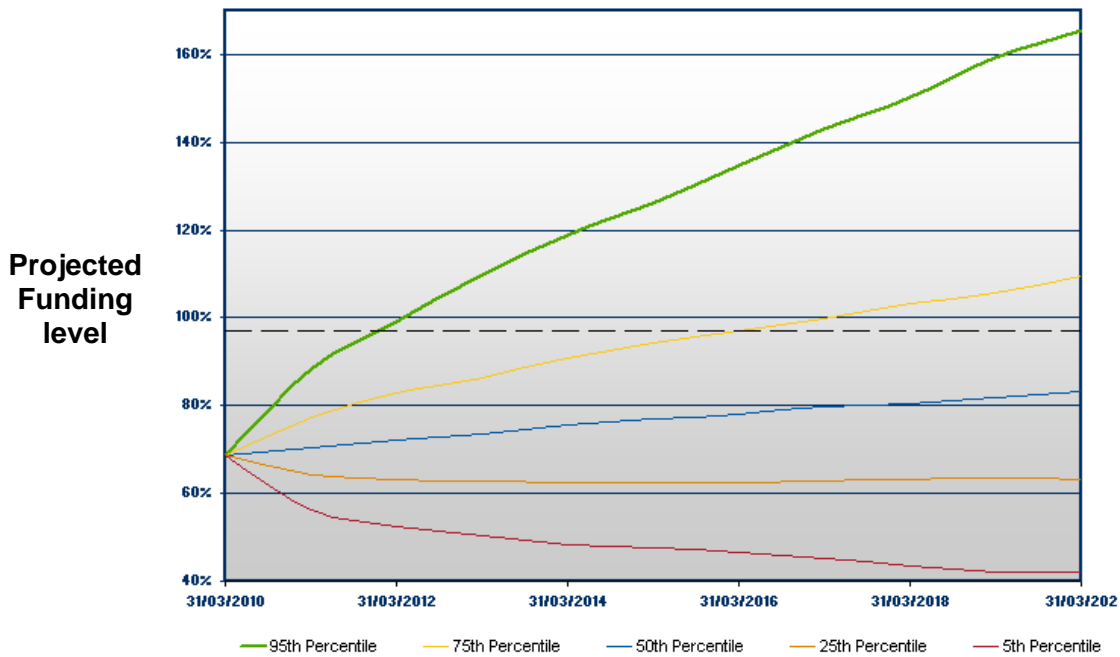
### **Specific Benchmarks**

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

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

## 8.0 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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



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

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

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

Risk	
Financial	
F7 Budget and annual cash surplus not materialising due to shortfall of income or overspending on costs	<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>
F8 Monitoring of Solvency level between Triennial Valuations	<p>Because any of the factors identified in the Financial Section of this Risk Table can impinge on the ongoing solvency level, the PFC receives:</p> <ul style="list-style-type: none"> <li>• quarterly updates from the Actuary (using current market factors in a pre-set Fund specific model)</li> <li>• a quarterly comparison of investment performance to date with a notional least risk portfolio</li> <li>• Annual Interim Valuations.</li> </ul> <p>Whilst these various reports cannot be as comprehensive as the Triennial Valuation they will, taken together, reveal any underlying trends in the solvency level and identify where variances are emerging relative to the assumptions used by the Actuary.</p>

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

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

**Risk**

**Administration**

<p>A1 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. <b>F7, D2</b>) do not proactively identify this issue the reactive position for NYPF is the risk assessment methodology applied to different “types” of employer (see paragraphs <b>8.5 / 8.6</b>).</p>
<p>A2 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>
<p>A3 An employer ceasing to exist with insufficient funding or adequacy of a bond</p>	
<p>A4 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 <b>F1, F3, F5, F7, D2</b>). Each meeting has a pre-planned schedule of items although Agendas are flexible to deal with additional matters as they might arise.</p> <p>In addition to these formal meetings there are a further 6 meetings a year where the Members meet the investment managers to consider performance, strategy, etc.</p>
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"><li>7 North Yorkshire County Council Members</li><li>1 City of York Council Member</li><li>1 District Council representative of Local Government North Yorkshire and York</li><li>3 Unison Representatives as observers</li></ul> <p style="text-align: right;">/cont...</p>



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

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

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

### **LOW RISK**

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

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

### **MEDIUM RISK**

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

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

### **HIGH RISK**

An admitted body:

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

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

## 9.0 MONITORING AND REVIEW OF THIS STATEMENT

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

## 10.0 CONTACT DETAILS

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

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

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

## METHOD AND ASSUMPTIONS USED IN 2010 ACTUARIAL VALUATION

### 1.0 METHOD

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

### 2.0 PRINCIPAL ASSUMPTIONS

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

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

#### *Individual Employers*

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

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

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

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

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

### ***Salary increases***

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

### ***Pension increases***

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

### ***Mortality***

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

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

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

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

## Summary of assumptions used for the Funding Target

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

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

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

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



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

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

### Investment return on existing assets and future contributions

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

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

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

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

**(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.

## APPENDIX 2

### 3.0 RESULTS OF THE 2010 ACTUARIAL VALUATION

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

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

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

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



## North Yorkshire Pension Fund

# Communications Policy Statement



If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Communications, Training and Support Team on:  
**Tel: 01609 532932**

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# COMMUNICATIONS POLICY STATEMENT

## 1.0 BACKGROUND

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

## 2.0 OBJECTIVES

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

### 3.0 **STAKEHOLDERS**

3.1 The key stakeholders for the NYPF are:

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

3.2 Other stakeholders who contribute to the NYPF include –

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

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

### 4.0 **METHODS OF COMMUNICATION**

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

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

## **Pension Fund Committee**

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

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

## **Advisory Panel**

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

## **Scheme Employers**

4.5 The following will be provided to all Scheme Employers:

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



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

### **Scheme Members**

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

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

## Prospective Scheme Members

4.7 The following will be available to prospective members:

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

## 5.0 ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)

5.1 In consultation with Scheme employers and other stakeholders, via the Advisory Panel and NYFPOG, 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**

Nigel Dowey – Operations Manager  
01609 532340

### **by email**

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

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

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

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

**Name of Fund**

**North Yorkshire Pension Fund**

### Primary Contribution Requirements

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

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

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

### Further Adjustments

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

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

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

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

**Regulation 36(8)**

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

**Signature**

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**Name**

Ian Kirk

**Qualification**

Fellow of the Institute of Actuaries

**Date of signing**

31 March 2011