NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 JUNE 2013

GOVERNANCE ARRANGEMENTS OF THE NORTH YORKSHIRE PENSION FUND

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To provide the Committee with details of the governance arrangements of the North Yorkshire Pension Fund.

2.0 BACKGROUND

2.1 As Members will be aware from reports to previous meetings, the Audit Commission requires that the Statement of Final Accounts of the North Yorkshire Pension Fund (NYPF) be audited as if the Pension Fund was an entity separate from the County Council.

2.2 Given the regulatory requirements relating to local authority Final Accounts, it is necessary:

(a) for the Audit Committee (not the Executive) to approve Final Accounts

(b) for the Final Accounts to be accompanied by an Annual Governance Statement, and therefore

(c) the arrangements in (a) and (b) have to be applied to the NYPF.

3.0 GOVERNANCE ARRANGEMENTS

3.1 The Governance arrangements for NYPF fall into two categories:-

(a) those that govern the processes and procedures of NYPF because it is “hosted” by the County Council. Thus the procedural arrangements for the Pension Fund Committee, the procurement rules for appointing fund managers, etc, are all based on those operated within the County Council.

To that extent they will be covered, for year end purposes, by the Annual Governance Statement that is prepared for the County Council as a whole **(see Item 8 on the Agenda)**.

(b) those that relate specifically to the NYPF. It is these that form the substance of the attached report (see **Appendix 1**) that will be submitted for approval by the Pension Fund Committee at its meeting on 28 June 2013.

Members will note in **Part A of Appendix 1** reference is made to various documents being attached to that report (**paragraphs 3.2 to 3.10**) and other documents that were not attached (**paragraph 3.11**).

For the convenience of Members of the Audit Committee all of these documents are now provided in a separate draft 'NYPF governance set' circulated as a supporting document to the principal Agenda. It is acknowledged that this significantly increases the length of this overall report but it is felt necessary in order to give the Audit Committee assurance that the relevant arrangements are in place. To assist in understanding the changes that have taken place in the last year Member's attention is brought to paragraphs 3.2 to 3.11 of Part A of Appendix 1 which describes the rationale for and the nature of any changes.

3.2 Members of the Audit Committee will note that in **Part B of Appendix 1** there is a submission to the Pension Fund Committee from the Independent Professional Observer (IPO) appointed by the Fund in 2008 to provide an independent review of the Fund's governance arrangements. Members may find the opinion of the IPO informative when considering the standard of governance of the North Yorkshire Pension Fund.

3.3 **Part C of Appendix 1** introduces a presentation by the Fund's Investment Consultant on the likely impact of the Public Service Pensions Act 2013, and a review of governance arrangements, one aim of which is to respond to the Act.

4.0 **RECOMMENDATION**

4.1 That Members

(i) note the governance arrangements for the North Yorkshire Pension Fund

(ii) identify any items relating to governance that they feel the Pension Fund Committee should address in the future

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton
14 June 2013

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

28 JUNE 2013

GOVERNANCE ARRANGEMENTS

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To consider the Governance arrangements of the Fund which are a necessary part of the evidence set relating to Governance required to accompany the Statement of Final Accounts.

2.0 BACKGROUND

2.1 For the convenience of Members, this report is split into three parts: -

PART A - details of the various Governance documents of the Fund and how they are to be reported as part of the year end process for the Statement of Final Accounts

PART B - a review of the Fund's governance compliance undertaken by the Independent Professional Observer

PART C - consideration of the impact on NYPF of the Public Service Pensions Act 2013, and a review of governance arrangements, both by the Investment Consultant

3.0 RECOMMENDATIONS

3.1 The Recommendations arising are detailed at the end of the separate PART reports.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources

County Hall
Northallerton

14 June 2013

Background documents: None

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

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GOVERNANCE ARRANGEMENTS

PART A – GOVERNANCE DOCUMENTS

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To seek Committee approval of certain documents as a necessary part of the evidence set relating to Governance required to accompany the Statement of Final Accounts of the Pension Fund.

2.0 BACKGROUND

2.1 As Members will be aware from reports to previous meetings, the Final Accounts of the Pension Fund have to be audited as if the Pension Fund was an entity separate from the County Council.

2.2 Given the regulatory requirements relating to local authority Final Accounts, it is necessary:

(a) for the Audit Committee (not the Executive) of the County Council to approve the Final Accounts for submission to the External Auditor, and

(b) for the Final Accounts to be accompanied by an Annual Governance Statement

(c) and therefore, the arrangements in (a) and (b) have to be applied to the NYPF.

2.3 In relation to 2012/13, the Audit Committee (meeting on 18 July 2013) will therefore receive:

(a) a draft Annual Governance Statement (AGS) for the County Council

(b) a set of Governance papers relating to NYPF (see **paragraph 3** below)

Due to changes to the schedule of the County Council's Audit Committee and Pension Fund Committee meetings, the Audit Committee will also receive a draft set of NYPF's governance papers at its meeting on 27 June 2013.

2.4 Also in relation to 2012/13, the Audit Committee (meeting on 18 July 2013) will therefore receive:

(a) a draft Statement of Final Accounts for the County Council

(b) a draft Statement of Final Accounts for the NYPF (see separate item on this agenda)

3.0 GOVERNANCE ARRANGEMENTS for NYPF

3.1 As previously described to Members the Governance arrangements for NYPF fall into two categories:-

(i) those that govern the processes and procedures of NYPF because it is "hosted" by the County Council. Thus the operating arrangements for this Committee, the procedure rules for appointing fund managers etc are all based on those operated within the County Council.

To that extent they will be covered, for year end purposes, by the Annual Governance Statement (AGS) that is prepared for the County Council as a whole.

(ii) those that relate specifically to NYPF. It is these that form the substance of this report.

NYPF - Specific Governance Arrangements

3.2 At its meeting on 21 June 2012, the Committee approved a full set of governance documents for the purposes of submission to the Audit Committee in relation to the 2011/12 Final Accounts. There were subsequently a small number of amendments to some of these documents to address "best practice" principles or simply to update where necessary, details of which are described below.

3.3 A list of the relevant governance documents, with further updates where indicated is described in **paragraphs 3.5** et seq.

3.4 This year the **Part B report** by the Independent Professional Observer makes three recommendations for the governance of the Fund, which will be followed up by officers.

Statement of Investment Principles (Appendix A)

3.5 The Statement of Investment Principles (SIP) has been updated primarily to reflect the appointment of two new Diversified Growth Fund (DGF) managers (see **paragraph 4.1 of the SIP**) and has been slimmed down by excluding some content not required by the regulations. This updated version of the SIP is recommended for approval by the Committee at this meeting.

Governance Compliance Statement (Appendix B)

3.6 The Fund's Governance Compliance Statement (GCS) has had a small number of amendments and has also been slimmed down by excluding some content not required by the regulations. The Committee is asked to formally approve the updated GCS at this meeting.

Risk Register (Appendix C)

3.7 The assessment of the impact of risks relative to each other is contained in the updated Risk Register. This document was updated in June 2013 and is due to be updated once again before the end of 2013.

Communications Strategy 2013/14 (Appendix D)

3.8 This document describes the approach the Fund will take in communicating with employers and members, including the specific activity planned for the year. A draft of the Communications Strategy 2013/14 was approved at the Committee meeting on 21 February 2013. The Committee is asked to formally approve the updated document at this meeting.

Communications Policy Statement (Appendix E)

3.9 This Statement was last approved by the Committee on 23 June 2010 and has been updated to reflect the gradual move away from paper based communications. The Committee is asked to formally approve the updated document at this meeting.

Pensions Administration Strategy (Appendix F)

3.10 This Strategy document was last approved by the Committee on 23 June 2010 and has been updated to reflect changes in the administration protocols between the Fund and its employers. The Committee is asked to formally approve the updated document at this meeting.

Other Governance Documents

3.11 There are two additional documents which have either recently been approved by the Committee or have not required any amendment in the year since June 2012. Consequently they have not been appended to this report but have been submitted to the County Council's Audit Committee as part of the Fund's governance set. They are:

(i) the **Funding Strategy Statement**, approved on 17 February 2011

(ii) the **Treasury Management SLA** approved on 23 June 2010

4.0 **RECOMMENDATIONS**

4.1 Members to approve the following updated governance documents

(a) Statement of Investment Principles (**Appendix A**)

(b) Governance Compliance Statement (**Appendix B**)

(c) Risk Register (**Appendix C**)

(d) Communications Strategy 2013/14 (**Appendix D**)

(e) Communications Policy Statement (**Appendix E**)

(f) Pensions Administration Strategy (**Appendix F**)

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources

County Hall, Northallerton

14 June 2013

NORTH YORKSHIRE PENSION FUND

PENSION FUND COMMITTEE

28 JUNE 2013

GOVERNANCE ARRANGEMENTS

PART B – PEER REVIEW OF GOVERNANCE COMPLIANCE

1.0 PURPOSE OF THE REPORT

1.1 To present to the Committee the findings of the Independent Professional Observer.

2.0 BACKGROUND

2.1 At the Committee meeting held on 14 February 2008 Members approved the appointment of Peter Scales of Allenbridge EPIC as the Independent Professional Observer (IPO) to the Fund.

2.2 His remit is to provide advisory services on governance and compliance to the NYPF. To this purpose, he conducted a review of these arrangements as they operated during the subsequent financial years and made a number of recommendations, all of which were incorporated into the governance documents of the Fund as reported to the Committee, most recently in June 2012.

2.3 This latest report (attached as **Appendix A**) provides an update of his review of the current governance compliance arrangements for the Fund, and comments on the evolving regulatory environment.

2.4 Governance is described as of a “high standard” and that NYPF continues to “make changes and improvements both to strengthen governance and to adopt industry-wide developments”.

2.5 Also mentioned in the IPO’s report is the latest position on the Knowledge and Skills framework. The CIPFA guidance published in 2010 has been incorporated into a formal Code of Practice, one consequence of which is that specific statements will need to be included in the governance documentation forming part of the Annual Report, from 2012/13.

3.0 RECOMMENDATIONS

3.1 That Members note the content of the report.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall, Northallerton

14 June 2013

AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

North Yorkshire Pension Fund

Meeting of the Pension Fund Committee on 28th June 2013

Governance Compliance Update

31st May 2013

Peter Scales
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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Introduction

This is my fifth annual report on the governance arrangements for the North Yorkshire Pension Fund, providing an update on the current position, based on issues considered by the Committee since my report in June 2012 and those currently under review.

While progress is being made nationally on the new LGPS 2014 legislation, the development of revised governance requirement is painfully slow, less than clear and subject to arbitrary change as I explain later in my report.

Notwithstanding the upheaval in operational and transitional arrangements, the Committee continues to maintain a high standard of governance in the administration of its responsibilities, and to make changes and improvements both to strengthen governance and to adopt industry-wide developments.

Executive overview

- ✓ An updated governance compliance statement was agreed in June 2012 and a further updated version has been drafted recently. The Committee is fully compliant in all respects.
- ✓ There have been no regulatory changes affecting the governance arrangements.
- ✓ I have reviewed the business and minutes of Committee meetings since June 2012 and I am satisfied that governance standards are being maintained and improved.
- ✓ The implications of the Public Sector Pensions Act 2013 are considered.
- ✓ The governance landscape seems set to change but is uncertain.

Recommendations

[1] That the missing key policy and strategy documents are posted on the website.

[2] That the Committee ensure that the 2012-13 Annual Report contains references to compliance with the CIPFA Knowledge and Skills Framework.

[3] That developments on proposed new regulations on governance and on the Government's proposed review of efficiency and cost effectiveness, including investment regulations, are closely monitored.

Governance compliance statement

I note the revised statement agreed by the Committee in June 2012 and I have reviewed a draft updated version provided by the officers. This latter version has usefully simplified the document which provides a clear and comprehensive description of the governance arrangements in place. In my view, this represents a high standard in terms of governance compliance statements. I have the following minor comments to make:

Advisory Panel

I note the issues raised in the Treasurer's report on the governance of the fund considered by the Committee on 21st February 2013 and the changes agreed have been made in the draft updated version. The fact that a review has been undertaken should be noted in the Statement.

Key policy/strategy documents

Paragraph 5.1 provides a list of policy documents available on the website, including the Pensions Administration Strategy, risk register, and Treasury Management SLA. These documents are not currently available on the website, but I understand this is to be rectified after the meeting, picking up my point above about the more detailed responsibilities.

I comment later in this report on current developments regarding governance which may affect the structure of the Committee and the Panel.

Training - Knowledge and skills framework

I note that the Committee has adopted the CIPFA Knowledge and Skills Framework, and receives regular reports on the training log and on training opportunities - this demonstrates good practice.

However, as I reported to the Committee last year, The CIPFA Code is quite specific about the form of a statement to be adopted in governance documentation, e.g. as part of standing orders, financial regulations, and specific wording is recommended for adoption in the knowledge and skills policy statement. This includes a requirement to report annually on how these policies have been put into practice throughout the financial year. I am not aware of how this issue has been developed by officers, but 2012-13 is the first year for reporting implementation in the annual report and accounts.

In considering how the Committee might respond to continuing pressure to raise standards in this aspect of governance, I take the view that the Committee should collectively possess the requisite knowledge and skills. In practicable terms, it is not necessary for every member to know every single aspect of the framework but it is important for every member to contribute to collective decision making.

I refer later to further developments in governance but make the point here as I have previously, that I have a concern that some level of qualification will be introduced either by regulation or by guidance. I believe such a move to be inappropriate but it has been mooted on a number of occasions going back over the years. I concur with the Committee's view that knowledge and skills are gained through experience.

Even without compulsion in this respect, it is quite likely that the Committee will be required to demonstrate in some form the collective knowledge and skills of those appointed to the Committee, and it will be important to include the skills of the officers and the advisers in that pool of knowledge as a fundamental component of effective decision making.

Annual Report

I have reviewed the Annual Report for 2011-12 and associated documents, including Myners Principles and a draft revised Statement of Investment Principles dated April 2013, which are fully compliant with the regulatory requirements.

The 2012-13 Annual Report will need to maintain these standards of compliance and disclosure, and include a reference to the CIPFA Code as mentioned above.

Committee business during the year

As in past years, I have reviewed the agendas and minutes of the Committee meetings since my last report and I am satisfied that the Committee continues to conduct its business in a proper manner which complies with good governance.

Investment regulations

Following the report to the Committee on 22nd November on the Government's consultation process, the Investment Regulations were revised with effect from 1st April 2013 to increase the limit for "all contributions to partnerships" from 15% to 30%. This is termed as the increased regulation limit and relates back to when the previous revision was made in 2009.

By way of explanation, the limit on this type of investment was 5% prior to 2009. The revision at that time allowed for an extra limit but was subject to greater restrictions on the governance, e.g. must take proper advice, the investment must be appropriate and suitable (as defined), the decision must describe the exact investment, the limit to apply, the reason, the period of investment, and the SIP must be formally updated and published before the investment can be made.

The added rigour of the governance process imposed with the relaxation of these limits, indicated just how reluctant DCLG were to agree the change at that time, despite strong representations from CIPFA and industry-wide bodies to make the regulations more flexible and consistent with private sector funds. As reported to the Committee previously, there has been continuing pressure on DCLG to relax the regulations and working parties have been set up, disbanded and re-established.

I emphasise this to make the point that it was quite extraordinary that DCLG decided to consult in 2012 on amending the regulations, in response to funds that were resisting Government pressure to invest in infrastructure because of the restriction on investment in partnerships, the common vehicle for infrastructure investment. Past reluctance appeared to be swept aside in this instance and DCLG has now re-established a working party to review the regulations.

What civil servants and ministers say in public at conferences for example, is often used as an indication of intent or draft policy, albeit non-committal and subject to change. Bob Holloway, DCLG, spoke at the LGC Investment Summit in September, which some Committee members attended, in response to a request to explain the current position on the investment regulations.

NORTH YORKSHIRE PENSION FUND

PENSION FUND COMMITTEE

28 JUNE 2013

GOVERNANCE ARRANGEMENTS

PART C – PUBLIC SERVICE PENSIONS ACT 2013

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the changes resulting from the Public Service Pensions Act 2013 and their implications for NYPF

1.2 To introduce a governance review of the Fund in response to the new legislation

2.0 PUBLIC SERVICE PENSIONS ACT 2013

2.1 Karen McWilliam, Head of Public Sector Benefits Consulting at Aon Hewitt, will be attending the meeting to provide an update on the recent changes to public service pension schemes that have been introduced as part of the Public Service Pensions Act 2013.

2.2 During the week commencing 17 June 2013, the Department of Communities and Local Government are expected to issue a discussion document on how these changes could affect the running of the LGPS. Karen will also provide an overview of the discussion document and the likely impact of these changes on the LGPS and the North Yorkshire Pension Fund.

2,3 A "Call for Evidence" in relation to the merging of LGPS Funds or greater collaborative working between LGPS Funds is also expected to be issued by the Department of Communities and Local Government shortly. If this is received prior to the meeting, Karen will include an overview of the contents of the Call for Evidence within her presentation.

3.0 GOVERNANCE REVIEW OF NYPF

3.1 Aon Hewitt has also been asked to carry out a governance review of the Fund, in advance of any potential changes that may be required by the Public Service Pensions Act 2013. The purpose of the review is to identify which elements of the existing governance structure work well and whether there are any areas that could be improved. The review will be based on a range of information including:

- previous Advisory Panel and PFC meeting papers and minutes;
- key Fund documents (e.g. annual report and accounts, risk register, scheme of delegation);

- observations from attending the Fund's Advisory Panel on 24 June and Pension Fund Committee on 28 June;
- responses to a questionnaire that all Advisory Panel, Pension Fund Committee Members, officers and advisers will be asked to complete (this will be distributed at the meetings in June).

3.2 This review will be reasonably high level but will be wide ranging, considering areas such as:-

- knowledge and skills
- business planning
- involvement in setting objectives/strategy
- understanding key risks
- understanding good performance/poor performance/issues
- structure and representation
- breadth of subject matter (e.g. considering areas beyond investments)
- participation/quality of decision making
- administration of the Pension Fund Committee.

4.0 **RECOMMENDATIONS**

4.1 That Members note the content of the report and consider the information provided by Aon Hewitt at the meeting.

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

14 June 2013

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 JUNE 2013

NYPF GOVERNANCE SET

SUPPLEMENTARY PAPERS

Item 9 of the Audit Committee papers refers to a number of governance documents of the North Yorkshire Pension Fund. The complete set is shown below and is appended to this note.

Appendix	**Document Title**
A	Statement of Investment Principles
B	Governance Compliance Statement
C	Risk Register
D	Communications Strategy 2013/14
E	Funding Strategy Statement
F	Communications Policy Statement
G	Pensions Administration Strategy
H	Treasury Management SLA

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

14 June 2013

NORTH YORKSHIRE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, publish and maintain a Statement of Investment Principles (SIP). This document is the SIP of the North Yorkshire Pension Fund (NYPF) for which North Yorkshire County Council (NYCC) is the administering authority. In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers of the Fund.

2.0 INVESTMENT DECISION MAKING PROCESS

2.1 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC). The Corporate Director Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.

2.2 The PFC determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The committee undertakes its responsibilities through taking appropriate advice from external advisers. Scheduled meetings take place each quarter with additional meetings convened as required.

3.0 TYPES OF INVESTMENTS TO BE HELD

3.1 The following categories of investment have been approved as suitable for the NYPF.

UK Equities	provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends.
Overseas Equities	are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities.
UK Bonds	are debt instruments issues by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation.
Overseas Bonds	are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.
Index Linked Bonds	are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail

Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.

Diversified Growth Funds are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.

UK Property is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.

Derivative Instruments such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.

Cash is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

4.1 The LGPS regulations require that administering authorities should "have regard to the need for diversification of investments" in order to reduce the risk of over concentration in one or more asset classes where performance may be highly correlated. The aim of diversification is to reduce short term volatility, particularly to mitigate the negative effects of one asset class or market performing badly. Property (2012) and Diversified Growth Funds (2013) are recent additions to further address this issue.

4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2011. This provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.

4.3 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.

4.4 The range of permitted investment in each asset class, expressed as a percentage of the Fund is as follows:

	Minimum %	Maximum %
Equities	50	75
Diversified Growth Funds	5	10
Property	5	10
Fixed Income	15	30

4.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

5.0 RISK

5.1 The Fund's custodian, BNY Mellon, holds the assets of the Fund that are invested on a segregated basis. Assets invested through pooled funds are held by the Funds investment managers. Agreements are in place protecting the Fund against fraudulent loss and in addition regular checks are undertaken by independent auditors of the custodian's and investment managers' systems. These organisations have internal compliance teams which also monitor and report on risk. Cash balances belonging to the Fund are held and invested in accordance with a Service Level Agreement with NYCC. Risk is further controlled through continuous monitoring and periodic reviews of the custodial and investment management arrangements.

5.2 The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, which are intended to limit the risk exposure of an LGPS Fund. The Fund's asset risk is reduced through diversifying investments within these limits, across asset classes, geographical areas, market sectors and at the stock specific level. Investment Management Agreements include further restrictions on the investment processes managers are required to follow.

5.3 The Investment Strategy aims to ensure that the Fund has enough Assets to pay the benefits earned by scheme members. An Asset Liability Modelling study undertaken by the Fund's Investment Consultant looked 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.

5.4 Ongoing monitoring of the Fund's risk profile takes place including reassessing its appropriateness when the Investment Strategy is reviewed at the quarterly PFC meetings or as appropriate. 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.

6.0 EXPECTED RETURN ON ASSETS

6.1 The long-term objective of the Investment Strategy is to have sufficient money available to meet the cost of future pension payments. The Asset Liability Modelling study described in **paragraph 5.3** establishes an expected level of return and is incorporated into each Triennial Valuation and the associated Funding Strategy Statement (FSS).

6.2 The expected return on assets at the Fund level is a blend of the benchmarks for the individual investment managers and their mandates. All of the Fund's assets are actively managed by external investment managers, each with their own performance target. This equates to an out-performance target over liabilities of +2.75% for strong covenant employers and +1.9% for other employers; this return expectation is one of the key assumptions used in determining employer contributions at the Triennial Valuation.

7.0 REALISATION OF INVESTMENTS

7.1 The majority of the Fund’s investments are in fixed interest securities, equities and other investments that are quoted on recognised stock markets and may quickly be realised if required. Less than 1% of investments are in illiquid asset classes.

8.0 SOCIALLY RESPONSIBLE INVESTMENTS

8.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.

8.2 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 therefore monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders.

8.3 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 supports standards of best practice on disclosure and management of corporate social responsibility issues by companies and pursues constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.

8.4 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).

8.5 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 9** below).

9.0 SHAREHOLDER GOVERNANCE

9.1 The policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all segregated 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, available on www.nypf.org.uk.

9.2 The scope of the policy described in **paragraph 9.1** above is periodically reviewed with the intention of extending the geographical range where NYPF's interest can be voted.

10.0 STOCK LENDING

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2012/13 or in any previous years.

11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

11.1 The original Myners Review in 2001 established 10 principles of investment for defined benefit schemes. 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, provided guidance to pension funds on recommended best practice for applying the principles, and identified tools to provide practical help and support to trustees and their advisers.

11.2 NYPF carried out a self-assessment of its position, supported by a review by an independent professional observer, and implemented arrangements in order to address the principles. The extent to which NYPF has adopted the investment principles is described in the following paragraphs.

Effective decision making – full compliance

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

Clear objectives – full compliance

11.4 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 advisors and investment managers.

Risks and liabilities – full compliance

11.5 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Performance assessment – full compliance

11.6 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Responsible ownership – full compliance

11.7 Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the Statement of Investment Principles, and report periodically to scheme members on the discharge of such responsibilities.

Transparency and reporting – full compliance

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

April 2013

NORTH YORKSHIRE PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 This Statement has been prepared by North Yorkshire County Council (NYCC, or “the Council”) as administering authority of the North Yorkshire Pension Fund (NYPF, or “the Fund”) in accordance with the requirements of the provisions of the Local Government Pension Scheme (Amendment) (No.3) Regulations 2007.

1.2 These Regulations describe the governance arrangements of the Fund and assess them against a set of best practice principles, either confirming compliance or providing an explanation of the reasons for non-compliance as appropriate.

2.0 GOVERNANCE ARRANGEMENTS

Pension Fund Committee

2.1 Overall responsibility for the governance of the LGPS, as it is organised and operated in North Yorkshire resides with the Pension Fund Committee (PFC), a committee of the Council, which has been delegated the following powers:

2.1.1 To exercise the powers of the Council 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 Council’s behalf
- to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
- to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
- from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon
- to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
- from time to time reporting to the Executive

2.1.2 To exercise all the Council’s powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.

2.1.3 To carry out the Council’s functions relating to local government pensions scheme (LGPS) under the regulations.

Advisory Panel

2.2 NYPF has established an Advisory Panel with its own terms of reference which widens representation amongst the Fund's stakeholders. The Panel's 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 liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)

Independent Professional Observer

2.3 In order to provide an independent assessment of the Fund's governance arrangements the PFC has appointed an Independent Professional Observer (IPO). The IPO reports annually to the PFC on the level of compliance of the Fund against the CLG's best practice principles, and also offer advice on governance related matters.

Functions Delegated to Officers

2.4 The Council's constitution sets out the duties of the Corporate Director – Strategic Resources in relation to the Fund. Essentially, the Corporate Director acts as the Treasurer of the Fund (and is referred to as such in the remainder of this Statement) providing information and advice to the Committee whilst also managing the day to day affairs of the Fund.

2.5 In particular the Treasurer is required to manage from day to day the Fund, including:

- the exercise of the 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 LGPS regulations
- 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

2.8 In undertaking these duties detailed above, the Treasurer is not empowered to change the fund manager structure of the Fund without the approval of the PFC.

NYPFOG

2.7 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.

3.0 REPRESENTATION AND MEETINGS

Representation

3.1 The current membership of the PFC is as follows (as at April 2013)

(a) seven elected Members representing the administering authority who each hold one vote on the Committee.

(b) two further elected Members representing the Fund's other largest employing bodies each holding one vote. One Member represents the City of York Council, the other is the 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

(d) an invitation is also extended to allow three union representatives to attend every Committee Meeting. No voting rights are allocated to these positions

(e) the Chairman of the Advisory Panel attends all PFC meetings, in a non-voting capacity

(f) the quorum required for Committee Meetings is three.

3.2 Advisory Panel membership consists of representatives of each employer group, pensioner members, and union representatives on behalf of active members.

Meetings

3.3 The PFC is governed by the decision making procedures defined in the Constitution of the Council, being a full Committee of the Council. These are fully compliant with the terms of the Local Government Act 2000. In addition, the PFC complies with the procedural requirements defined in LGPS regulations.

3.4 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 3.1** above, including substitute members, union representatives and Advisory Panel Members. In addition, the Investment Adviser and Investment Consultant (who also attend every meeting), Fund Managers and the Fund Actuary are given the opportunity to view all items on the public agenda of each meeting.

3.5 PFC papers are also publicly available on the Council's website. The Communication Policy Statement explains in more detail the arrangements for engagement with all stakeholders.

3.6 The PFC convenes once each quarter, at County Hall in Northallerton. The Fund's investment managers are scheduled to attend additional meetings where the PFC specifically considers fund manager performance and related matters. Six supplementary meetings a year are normally held for this purpose. 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 Operations Manager, Fund Accountant), an observer from City of York Council and a Committee Clerk (NYCC).

3.7 The PFC has also included a specific meeting in June in its programme. This is in order 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.

3.8 Advisory Panel meetings are synchronised with PFC meetings and consider the same quarterly agenda plus any other relevant information. There is no formal voting procedure, rather each member of the Panel is entitled to express their view. The Chairman of the Panel attends PFC meetings to pass on these views and then reports back to the Panel resulting comments and actions, as appropriate.

4.0 OPERATIONAL PROCEDURES

Training

4.1 Myners first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". There are also legal requirements set out in the LGPS regulations and other relevant legislation, as well as best practice guidance published by CIPFA and other professional and regulatory bodies.

4.2 The Fund arranges a programme of internal and external training events and access to other resources such as the on-line CIPFA Knowledge and Skills Toolkit designed to meet these requirements, recommendations and best practice guidance principles for Members of the PFC. A register of all training events is maintained and reported at each PFC meeting.

4.3 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.

4.4 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".

Reporting and Monitoring

4.5 The PFC has a clearly defined Work Plan that is agreed at the start of each financial year which is reviewed regularly and is included in the Agenda papers for each meeting.

4.6 In relation to investment matters, the Investment Adviser, Investment Consultant and each Investment Manager for the Fund is require 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.

4.7 In addition, the Treasurer will present reports to every PFC meeting detailing performance in relation to the administration activities of the Fund and other significant matters for Members' attention as determined by the Work Plan; topics will include reports on the budget position, updates on the Regulations, communication with stakeholders, training events and Admission Agreements, etc.

4.8 Outside of this periodic reporting to the PFC

(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 Central Services directorate of the 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.

5.0 KEY POLICY / STRATEGY DOCUMENTS

5.1 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 on www.nypf.org.uk a number of other key documents relating to the administration and governance of the Fund. In addition to this Governance 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

6.0 COMPLIANCE WITH BEST PRACTICE PINCIPLES

6.1 Structure

a	The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Fully compliant
b	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	Fully compliant

c	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Fully compliant
d	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	Fully compliant

6.2 **Representation**

a	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, eg admitted bodies ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers iv) expert advisers	Fully compliant
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	Fully compliant

6.3 **Selection and Role of Lay Members**

a	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	Fully compliant

6.4 **Voting**

a	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	Fully compliant

Voting rights on the PFC are limited to representatives of the administering authority which is answerable for the effective and prudent management of the Scheme, and to representatives of the Fund's major employers. This arrangement provides an optimal number in terms of decision making effectiveness, therefore voting rights have not been extended to other stakeholders.

6.5 **Training / Facility Time / Expenses**

a	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	Fully compliant
b	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	Fully compliant

6.6 **Meetings (Frequency/Quorum)**

a	That an administering authority's main committee or committees meet at least quarterly	Fully compliant
b	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	Fully compliant
c	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	Fully compliant

6.7 **Access**

a	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	Fully compliant

6.8 **Scope**

a	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant

6.9 **Publicity**

a	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements	Fully compliant

CSD SR Pension Fund

Risk Register: **June 2013 Review – summary**
Report Date: 4th June 2013 *(pw)*

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	44/4 - Pension Fund Solvency	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, over optimistic actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period	CD SR	CSD SR CASU PA	M	M	H	L	M	2	4	28/02/2014	M	M	H	L	M	2	Y	CSD SR CASU PA CSD SR CFSU PM
◀▶	44/8 - Investment Strategy	Failure of the investment strategy to maximise returns from investments	CD SR	CSD SR CASU PA	M	M	H	L	M	2	4	30/06/2014	M	M	H	L	M	2	Y	CSD SR CASU PA
▲	44/1 - Employer Contributions	Sustainability and affordability of LGPS puts pressure on the employer contributions from 2014/2015.	CD SR	CSD SR CFSU PM	M	M	H	Nil	M	2	4	31/01/2014	L	M	H	Nil	M	3	Y	CSD SR CFSU PM CSD SR CASU PA
◀▶	44/20 - Fraud	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation	CD SR	CSD SR CASU PA	L	L	H	L	M	3	4	30/06/2014	L	L	H	L	M	3	Y	CSD SR CFSU PM CSD SR CASU PA
▼	44/7 - Investment Manager	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise	CD SR	CSD SR CASU PA	L	M	H	L	M	3	3	30/06/2014	L	M	H	L	M	3	Y	CSD SR CASU PA
▲	44/10 - LGPS Regulations and Employer Related Legislation	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge	CD SR	CSD SR CFSU PM	M	L	L	L	M	4	3	2/12/2014	L	L	L	L	M	5	Y	CSD SR CASU PA CSD SR CFSU PM
▲	44/11 - Benefit Payments	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments	CD SR	CSD SR CFSU PM	M	L	L	L	M	4	2	30/06/2014	L	L	L	L	M	5	Y	CSD SR CFSU PM
▼	44/17 - Contributions	Contributions not received in full, calculated incorrectly or are paid late resulting in loss of income to the Fund	CD SR	CSD SR CASU PA	L	L	L	Nil	L	5	1	30/06/2014	L	L	L	Nil	L	5	Y	CSD SR CASU PA
◀▶	44/5 - Cash Flow	Cash flow shortages result in deferred payments.	CD SR	CSD SR CASU PA	L	L	L	L	M	5	1	30/06/2014	L	L	L	L	M	5	Y	CSD SR CASU PA

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North Yorkshire County Council

CSD SR Pension Fund

Risk Register: **June 2013 Review – summary**
Report Date: 4th June 2013 *(pw)*

Identity			Person		Classification															Fallback Plan	
					Pre						RR		Post								
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	44/14 - IT Systems	Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism	CD SR	CSD SR CFSU PM	L	M	L	M	M	5	1	30/06/2014	L	M	L	M	M	5	Y	CSD SR CFSU PM
◀▶	44/23 - Employer Covenant	Changes in Employer covenant e.g. membership changes, closing to new entrants, ceasing to participate in Fund, plus new employees in Fund results in impact on Employer contributions and inability to adequately assess Employers risk profile.	CD SR	CSD SR CFSU PM CSD SR CASU PA	L	L	M	Nil	L	5	1	31/03/2014	L	L	M	Nil	L	5	Y	CSD SR CASU PA CSD SR CFSU PM
◀▶	44/24 - Governance Arrangements	Failure to put in place governance arrangements in line with best practice principles including structure, representation and administration of Committee, training and advice for Members resulting in inability to make informed decisions.	CD SR	CSD SR CASU PA CSD SR CFSU PM	L	L	L	L	M	5	4	30/06/2014	L	L	L	L	M	5	Y	CSD SR CFSU PM CSD SR CASU PA
◀▶	44/16 - Key Personnel	Loss and unavailability of key personnel e.g. Treasurer, Pensions Manager, leading to incorrect interpretation of regulations, incorrect calculations/data, incorrect payments, resulting in complaints, compensation claims	CD SR	CSD SR CFSU PM	L	M	L	M	L	5	2	30/06/2014	L	M	L	M	L	5	Y	CSD SR CASU PA CSD SR CFSU PM

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

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North Yorkshire County Council

North Yorkshire Pension Fund

Communications Strategy

2013 / 2014

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Introduction

The Local Government Pension Scheme (LGPS) continues until 31 March 2014 as a final salary pension scheme. However the LGPS will move to a Career Average Revalued Earnings (CARE) basis from 1 April 2014. For 2013/2014 the strategy has changed in order to achieve the key goals in the months before LGPS 2014 is implemented. The following areas have been incorporated into the strategy:

- The focus is on encouraging all stakeholders to engage in the process of understanding the changes and, in the case of current Scheme members, appreciating what the changes mean to them personally and how they can influence their retirement experience

- The mechanism for achieving this is a new communications framework which provides timely, pertinent messages which are meaningful for the different groups of stakeholders

- There will be a continued drive to encourage ‘self-service’, to use electronic communications and to use the NYPF website as the ‘hub’ for providing communications material and forms

- The cost-effectiveness of all communication methods is closely monitored and this has, in part, influenced the development of the strategy

- There is also an emphasis on using national initiatives, where possible, to take advantage of partnership working and innovative communication methods

The theme for this year’s Strategy will be **‘Building a new communication framework’**. Goals have been set in relation to the categories of LGPS stakeholders.

Theme A – ‘**Building a new communication framework for active members’:**
The goal is a structure which allows Scheme members to understand the main changes to the LGPS but to then appreciate the choices they have in terms of their retirement planning e.g. whether to accept a ‘cliff-edge’ retirement at their State Pension age or a phased retirement whereby the employee can step down in the run up to their State Pension age. The NYPF ‘self -service’ facility on the NYPF website will be key to this aim.

Theme B – ‘**Building a new communication framework for employers’:**
The goal is to establish a reliable mechanism for communicating electronically with both employers and their employees.

Theme C – ‘**Building a new communication framework for pensioners’**
The goal will be to provide essential messages to pensioners via an annual newsletter but also encourage electronic communication and use of the NYPF website.

Theme D – ‘**Building a new communication framework for deferred members’**
The goal will be to put in place methods of communicating both the changes for these members and providing any guidance on accessing pension benefits early. ‘Deferred

members' are LGPS members who have left employment but have 'deferred benefits' in the LGPS.

The action points relating to these goals are set out at the end of this document under 'Items for Action 2013/2014'.

Review of this Strategy

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

Stakeholders

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

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

Summary of Progress on items included in 2012/13 Strategy

Items	Progress	Year End Status
Theme A – 'Preparing for the challenge ahead' for active members:	• Review employee communications methods to ensure that they are efficient as well as effective • Promote use of the NYPF website and member online access • Roll out electronic benefit statements • Upskill CTS team staff to broaden knowledge base • Launch Pensions helpline	All targets achieved and information gathered to support 2013/14 strategic planning
Theme B – 'Preparing for the challenge ahead' for employers:	• Review employer communications to focus on encouraging them to work with us to communicate effectively and efficiently with their employees • Distribute material for employers to issue to employees • Enhance material and service available to employers via the NYPF website • Continue to collate Employer Discretion Documents	All targets achieved and information gathered to support 2013/14 strategic planning
Theme C – 'Preparing for the challenge ahead' for pensioners:	• Continue to promote 'Everybody Benefits' for pensioners • Pensioner representative to have a column in the Pensioners Newsletter • Promote the e-version of the annual newsletter to pensioners • Continue to issue customer feedback forms with each retirement	All targets achieved and information gathered to support 2013/14 strategic planning

Items for Action 2013/2014

The focus for this year's Strategy will be **'Building a new communication framework'**. Key actions will be –

Theme A – '**Building a new communication framework for active members':**

- Identify a process for providing, in conjunction with employers and other partners such as The Prudential, targeted, regular communications which utilise electronic means wherever possible to deliver timely, succinct and pertinent messages.

- A communication campaign focussing on 'Your Pensions and Your Retirement – Understanding Your Choices' to provide positive messages about the LGPS and the benefits of planning for retirement at a time when the State Pension age is increasing

- A continual drive to encourage the use of the NYPF website to carry out 'self-service' calculations and make use of the information on the website. Encourage feedback on NYPF website to identify improvements. A performance indicator has been set up to measure the increase in the proportion of contact that is handled by self-service rather than by the Pensions Helpline. It is intended that this proportion increases by 12% over the course of 2013/14.

- Tailor communication methods in relation to needs of active members based on ability to use the website, how complex their circumstances are and how close a member is to retirement

- Use of national innovations such as podcasts and DVDs

- Ties-ins with national websites e.g. national LGPS 2014 website, State Pension age calculator, Money Advice Service Financial Health Check facility

Theme B – '**Building a new communication framework for employers':**

- Researching the employers' internal emailing facilities which can be used to provide employees with electronic communication via a reliable (work) email address

- Engage employers in the communications exercise and agree joint, appropriate, communications regarding the LGPS to go out to Scheme members including the messages around 'Your Pensions and Your Retirement – Understanding Your Choices'

- Research the opportunity for including LGPS information in each employers' induction process, the development of a 'mandatory learning module' on the LGPS for employers' to use and the potential for using chief officer messages to highlight pension issues

- Issue regular electronic 'News Alert' communications to employers to deliver timely, succinct and pertinent messages rather than a regular 'round-up' employer newsletter. The News Alerts will be stored on the NYPF website for future reference by employers

- Obtain employers' views on developments to the NYPF website which employers will find useful for their own administration purposes

- Monitor effectiveness of communications methods via regular contact with employers such as 'keep in touch' 'phone calls

Theme C – '**Building a new communication framework for pensioners'**

- Send out a simplified version of the annual pensioner newsletter which still contains all essential messages and is accessible to all (posted to those without access to online methods of communication)

- Advertise alternatives to 'Everybody Benefits' for pensioners via pensioners' newsletter and NYPF website

- Encourage e-communications where possible e.g. emailing retirement feedback form and identify categories of pensioner more likely to use this method

- Include specific information on the NYPF website for pensioners e.g. details on how pensions are increased each year, reassurance that the LGPS 2014 will not affect current pensioners and Pensioner Representative area

Theme D – '**Building a new communication framework for deferred members'**

- Communicate the changes in the LGPS 2014 which are relevant to deferred members via a newsletter

- Develop a process for deferred members to access personal calculations of the pension benefits available from age 55 onwards and put in place a process for applying for the payment of pension benefits before age 60, using electronic means as far as possible

ANNEX A

NORTH YORKSHIRE PENSION FUND

FUNDING STRATEGY STATEMENT 2011

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

1.0 INTRODUCTION

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

- after consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their FSS

- in preparing the FSS, the Administering Authority must have regard to:-
  - ➔ the guidance issued by CIPFA for this purpose, and
  - ➔ the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

- the FSS must be revised and published whenever there is a material change in either the policy or the matters set out in the FSS or the SIP

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

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

1.4 Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an Actuarial Valuation is undertaken every three years by the Fund Actuary, including a rates and adjustments certificate. The most recent Valuation was undertaken at 31st March 2010 with the resultant employer contribution rates coming into effect for the 2011/12 financial year.

1.5 Whilst the employer contribution rate to the NYPF should be set so as to “secure its solvency” the Actuary, in undertaking the Valuation, must also have regard to:

- the desirability of maintaining as nearly constant a rate of contribution as possible
- the terms of this FSS

2.0 STRUCTURE OF THIS STRATEGY STATEMENT

2.1 This FSS is structured as follows:

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

3.0 PURPOSE OF THE FSS

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

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

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

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

4.0 AIMS AND PURPOSE OF NYPF

4.1 **The aims of NYPF are to:**

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

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

4.3 **The purpose of NYPF is to:**

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

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

5.0 RESPONSIBILITIES OF THE KEY PARTIES

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

5.2 The **Administering Authority** will:

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

5.3 Each **Individual Employer** will:

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

5.4 The **Fund Actuary** will:

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

6.0 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

6.1 To satisfy the requirements of the Regulations the long-term funding objective of NYPF is to achieve and then maintain assets equal to 100% of projected accrued liabilities (the Funding Target), assessed on an ongoing basis including the appropriate allowance for projected final pay.

6.2 The principal method and assumptions used in the calculation of the Funding Target are set out in **Appendix 1**. Underlying these assumptions are the following two tenets:

- that the LGPS and therefore NYPF will continue for the foreseeable future, and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term

6.3 The current actuarial Valuation of NYPF is effective as at 31 March 2010. The results of this Valuation indicate that overall the assets of NYPF represented 67.1% of projected accrued liabilities at the Valuation date. This Valuation result is summarised in **Appendix 2**.

6.4 As part of each Valuation, separate contribution rates are assessed by the Actuary for each participating employer or group of employers. These rates are assessed taking into account the circumstances of each employer or group of employers, and following a principle of no cross subsidy between the various employers in NYPF. A pro-rata principle is adopted in attributing the overall investment performance obtained on the assets of NYPF to each employer or group of employers. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for NYPF as a whole (except where an employer adopts a bespoke investment strategy - see **paragraph 6.15**).

6.5 Following consultation with participating employers on the results of the 2010 Actuarial Valuation, the Administering Authority has adopted the following overall objectives to achieve the Funding Target. Certain objectives may be varied under the Controlled Flexibility Policy (see **paragraph 6.11**):

- a default deficit recovery period of 24 years will apply
- within the parameters of the Strategy to achieve the Funding Target, seek to avoid increases in the overall average level of the required employer contributions.
- on the cessation of an employer's participation in NYPF, the Actuary will be asked to make a termination assessment. Any deficit in NYPF in respect of the employer will be due to NYPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within NYPF to another participating employer

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

Low Risk	⟷	Strong Covenant
Medium Risk	⟷	Medium Covenant
High Risk	⟷	Weak Covenant

Deficit Recovery Plan

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

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

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

- the size of the funding shortfall
- the business plans of the employer
- the assessment of the financial covenant of the employer (see **paragraph 6.5**)
- any contingent security available to NYPF or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

6.7 For certain employers (ie low risk / strong covenant), an allowance may be made (at the discretion of the Administering Authority) as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the Funding Target. This higher level of assumed return will reflect the actual Investment Strategy of the Fund (as defined in the SIP), on the basis that this is to be maintained over the entire recovery period.

6.8 The assumptions to be used in these Recovery Plan calculations are set out in **Appendix 1**.

The Normal Cost (future service contribution rate)

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

Approach to the Actuarial Valuation

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

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

the details of which are explained below.

Controlled Flexibility

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

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

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

Bespoke Investment Strategy

6.12 The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

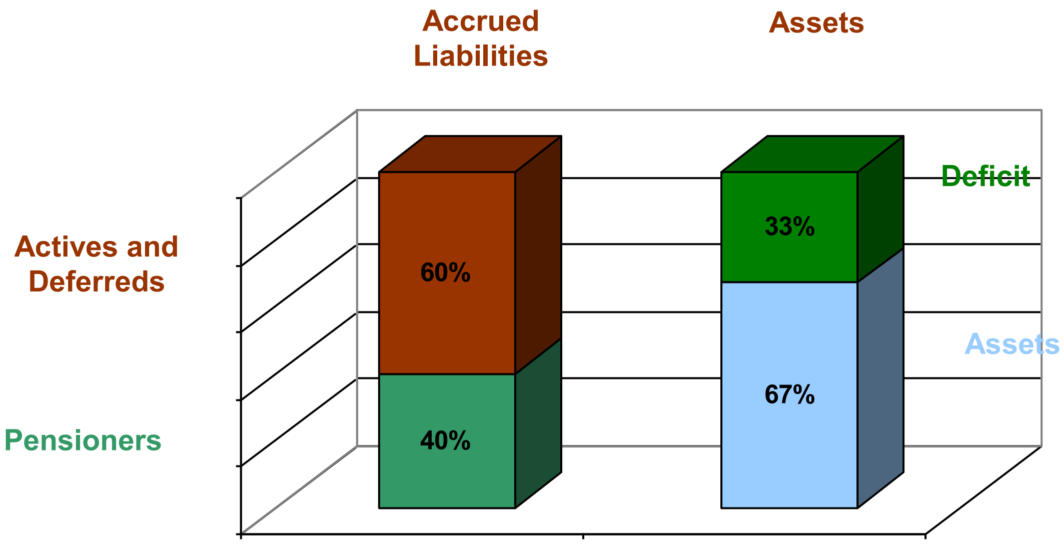
6.13 NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% equities or 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

6.14 In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

6.15 One employer has previously requested a Bespoke Investment Strategy based upon an ethical investment policy. NYPF agreed that the relevant portion of NYPF's assets be placed with a fund manager of that employer's choice. The fund manager was appointed in July 2005 and is subject to the same performance monitoring arrangements as all the other fund managers. In addition, one employer requested a Bespoke Investment Strategy based on investment solely in Government bonds.

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

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



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

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

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

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

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

Investment Strategy

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

General Principles and diversification

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

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

Risk Budgeting and review of Strategy

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

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

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

Specific Benchmarks

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

7.15 Clearly, these specific benchmarks need to be linked to the assumptions used in the Risk Budgeting exercise and be consistent with those used by the Actuary in the Triennial Valuation. The Funding Strategy adopted by the Actuary for the 2010 Valuation is based on an assumed asset out-performance of 2.5% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities (see **Appendix 1**). **Based on the current liability profile of the Scheme this equates to an overall weighted asset out-performance allowance of 1.9% p.a.** The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance that is compatible with the assumptions used in the Risk Budgeting exercise on which the changes to the Investment Strategy, now reflected in the SIP, were based.

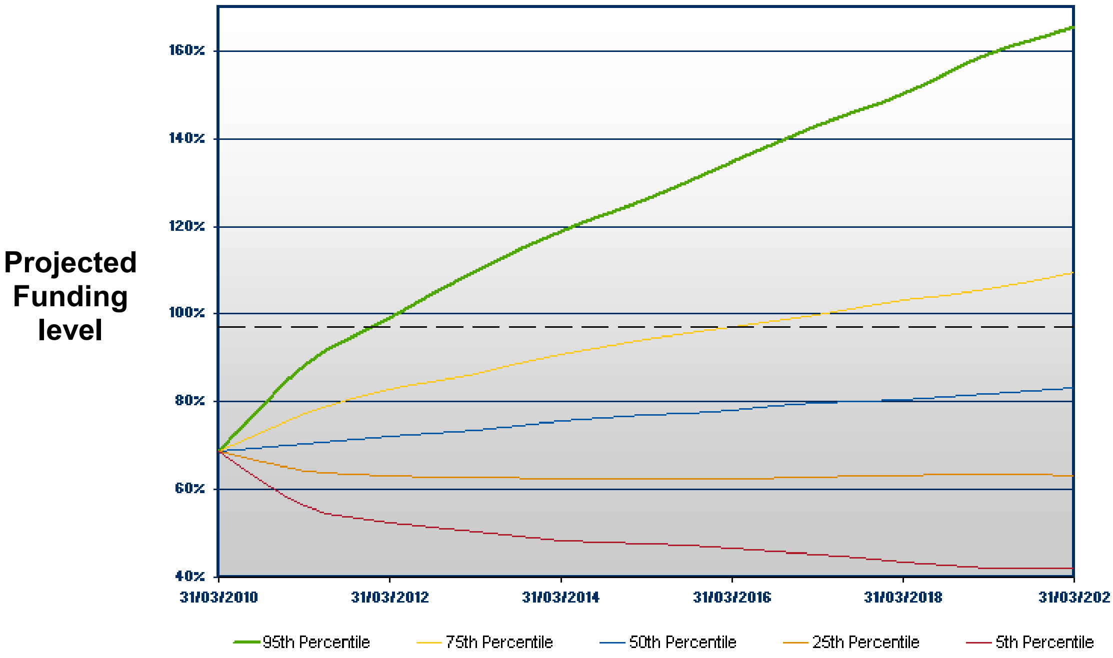
7.16 In addition, the Administering Authority has agreed to adopt a more aggressive asset out-performance target of 2.75% when determining the contribution rates of strong covenant employers (see **paragraph 6.7**). This exceeds the standard out-performance assumption of 6.4% by 0.85%. Therefore a greater level of out-performance by NYPF's assets is required in order to deliver this additional return assumed by the Actuary (see **Appendix 1 paragraph 2.13 et seq**).

8.0 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

8.1 The funding of defined benefits is by its nature uncertain. The funding of NYPF has to reflect both financial and demographic assumptions. These assumptions are specified in the Triennial Valuation report of the Actuary. When actual experience is not in line with the assumptions made a surplus or shortfall will emerge at the next Actuarial Valuation and will require a subsequent adjustment to employer contributions to bring the funding back into line with the Funding Target.

8.2 The Administering Authority has been advised by the Actuary **that the greatest risk to NYPF's long term funding objective (i.e. 100% solvency) is the investment risk inherent in the predominantly equity based strategy. Therefore, if the actual asset out-performance between successive valuations diverges adversely from the out-performance currently required on the basis of the 2010 Valuation assumptions, as set out in Appendix 1, this may have a negative effect on the Recovery Plan.**

8.3 The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the Funding Target adopted in the Valuation. Using a simplified statistical model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the Valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



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

Risk	
Financial	
F1 Investment markets fail to perform in line with expectations F2 Market yields move at variance with Valuation/ SIP assumptions	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. The Risk Budgeting exercise (referred to in **paragraph 7.10**) also provided a range of investment market scenarios that the Committee can refer to, and refresh, if it is considering changes to the Investment Strategy.

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

Risk	
Financial	
F7 Budget and annual cash surplus not materialising due to shortfall of income or overspending on costs	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. In addition to this budgetary control procedure the Committee also benchmarks its costs against other LGPS Funds.
F8 Monitoring of Solvency level between Triennial Valuations	Because any of the factors identified in the Financial Section of this Risk Table can impinge on the ongoing solvency level, the PFC receives: • quarterly updates from the Actuary (using current market factors in a pre-set Fund specific model) • a quarterly comparison of investment performance to date with a notional least risk portfolio • Annual Interim Valuations. 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.

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

Risk	
Regulatory	
R1 Changes to Regulations, (e.g. more favourable benefits package, potential new entrants to scheme) R2 Changes to national pension requirements and/or HM Revenue & Customs rules	NYPF encourages each employer to “sell” the benefits of the LGPS to all its employees. 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. In practice however, it will ultimately be for the employer to fund the cost of any such changes, increased membership levels etc. 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.

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

Risk	
Governance	
G1 Frequency of meetings	The Pension Fund Committee (PFC) deals with all aspects of NYPF. The Committee is scheduled to meet a minimum 4 times in each financial year; these meetings are scheduled within 8 weeks of the end of an investment quarter in order to consider the latest performance / monitoring information (see **F1, F3, F5, F7, D2**). Each meeting has a pre-planned schedule of items although Agendas are flexible to deal with additional matters as they might arise. 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.
G2 Member training	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.
G3 Decision procedures	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.
G4 Committee membership	The PFC currently comprises: 7 North Yorkshire County Council Members 1 City of York Council Member 1 District Council representative of Local Government North Yorkshire and York 3 Unison Representatives as observers /cont…

Risk	
Governance	
	Supported by: Independent Investment Adviser Investment Consultant Corporate Director – Strategic Resources (acting as Treasurer to the Fund) Committee Services County Council Because of the specialised and technical nature of much of the agenda material considered by the Committee, any new Member of the Committee will be expected to undergo training and familiarisation referred to in **G2**. 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. Under the same Regulations, the Fund has also published a Communications Policy Statement to reflect its annual Communications Strategy. This is reviewed on an annual basis (see **G5 below)**.
G5 Annual Report	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. 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.

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 then 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 532192
- email – gary.fielding@northyorks.gov.uk
- correspondence -

  c/o Room 4
  North Yorkshire County Council
  County Hall
  Northallerton
  North Yorkshire DL7 8AL

APPENDIX 1

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 heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

Method and assumptions used in calculating the cost of future accrual

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

2.9 The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the Valuation, and which are not directly linked to market conditions at the Valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities

2.10 The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the Valuation date itself, but are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% pa.

2.11 Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2010 Valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the Funding Target.

2.12 At each Valuation the cost of the benefits accrued since the previous Valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the Funding Target is fully taken into account in assessing the funding position.

Summary of assumptions used for the Funding Target

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

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

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

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

Assumptions used in calculating contributions payable under the Recovery Plan

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

Investment return on existing assets and future contributions

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

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

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

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

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

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

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

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

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

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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
- 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* – updates 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 discrete 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
- Membership Certificate (Statutory Notice) – confirmation of participation in the LGPS following the commencement of employment
- estimate of benefits* – provided on request or calculated by members online
- annual benefit statement* – provided on-line for active and deferred members or can be provided in hard copy on request
- 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/attendance at relevant events – ad hoc in co-operation with Scheme employers
- satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling 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 and other self-service facilities

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 / events - in co-operation with Scheme employers
- direct promotion – will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc
- helpline – contact available via telephone during office hours or voicemail out of office hours
- website – including Scheme guides to the LGPS

5.0 **ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)**

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

5.2 The Strategy includes the following -

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

6.0 **KEY POLICY / STRATEGY DOCUMENTS**

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

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)

- Annual Report
- Annual Communications Strategy + related Action Plan
- Pensions Administration Strategy
- Governance Compliance Statement

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

7.0 **REVIEW OF THIS POLICY STATEMENT**

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

8.0 **FURTHER INFORMATION**

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

in writing
North Yorkshire Pension Fund
County Hall
Northallerton
North Yorkshire
DL7 8AL
by telephone
Pensions Help and Information Line
01609 536335
by email
pensions@northyorks.gov.uk

8.2 Further information can also be found on the NYPF website at **http.www.nypf.org.uk**

Pensions
NORTH YORKSHIRE

North Yorkshire Pension Fund

Pensions Administration Strategy

February 2013

lgps look forward with confidence

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PENSIONS ADMINISTRATION STRATEGY

1.0 PURPOSE OF STRATEGY

1.1 This Strategy sets out the administration protocols that have been agreed between employers and the North Yorkshire Pension Fund (NYPF). The protocols aim to ensure the smooth running of the Local Government Pension Scheme (LGPS) in North Yorkshire and must be followed at all times.

1.2 For the purpose of this Strategy no practical distinction is drawn between the statutory role of North Yorkshire County Council as the Administering Authority for the NYPF, its Pension Fund Committee, the Pension Administration Section or other sections of the Central Services Directorate all of whom play a role in the administration of NYPF – the term NYPF is used collectively to reflect all of the above roles within NYCC.

2.0 REGULATORY BACKGROUND

2.1 The protocols are concerned with routine yet important responsibilities and duties and they cannot override any provision or requirement in the Regulations outlined below or in any other relevant legislation.

2.2 The principal Regulations underpinning this document are:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Administration) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
- The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
- The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto).

3.0 REVIEW OF THE STRATEGY

3.1 This Strategy will be kept under ongoing review by NYPF.

3.2 Employers may submit suggestions to improve any aspect of this Strategy at any time.

3.3 NYPFOG will be asked by NYPF to formally review the Strategy from time to time.

4.0 PERFORMANCE LEVELS

4.1 Performance level agreements are set out in this document for both employers and NYPF; these will be reviewed from time to time and only changed with agreement of employers via NYPFOG meetings and the agreement of NYPF.

4.2 This Strategy is the agreement between NYCC and employers about the levels of performance and associated matters

5.0 RESPONSIBILITIES AND DUTIES OF THE EMPLOYER

Contact Person

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

Member details – Employer performance levels

5.2 The employer must forward notifications (or approved alternatives) to NYPF as follows:

(i) New starters (Form PEN11) – within one month of the employee joining

(ii) Change in member details – within 6 weeks of the event

(iii) Early leavers (Form SU5) – within 6 weeks of the employee leaving

(iv) For retirements, NYPF aims to pay lump sums to the member on the first Friday after retirement. Due to changes in the Regulations that govern the operation of the LGPS, certain decisions on the nature of benefits to be taken have to be made prior to retirement. To enable this to happen, retirement notifications (Form ADNOT) should be received by NYPF at least 30 days before the last day of employment. When the Form SU5 is not provided prior to retirement, it should be forwarded no later than 2 weeks following retirement.

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 require that Form SU5 for a retirement before age 65 must be received no later than one month after retirement and for retirements at age 65 no later than 10 working days after the date of retirement. Great care must be taken to avoid contravening these regulations (see **paragraph 5.20** below).

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

Employee's Guide

5.3 Under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme within 1 month1 of becoming employed.

Year-end information

5.4 The employer (or their payroll contractor/agency for which the employer is responsible) shall provide NYPF with year-end information as at 31 March each year in a notified format no later than 31 May or the next working day. When it is a Triennial Valuation year, the deadline will be 30 April or the next working day.

5.4.1 NYPF's Accountancy Department also require separate information . After completion of the March contribution sheets, Employers are required to review their full year contribution summary (contained within the same Excel document). All contributions for the year should be reconciled back to the organisational payroll and the relevant declaration is to be signed and dated before being returned to pension.contributions@northyorks.gov.uk

5.4.2 Employers still operating older contribution sheets will be required to compile the full year contribution summary themselves and return it with a relevant declaration to the same email address. The year-end information should be accompanied by a statement, duly signed by an authorised officer, balancing the amounts paid over during the year with the totals on the year-end return certifying that the amounts paid reflect the contributions deducted from employees during the year. The information should identify separately those amounts representing deductions for voluntary contributions and the standard deductions for basic scheme contributions.

Contribution deductions

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

Payment of contributions to NYPF

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

Payment dates

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

Late Payment

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

Payment method

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

Remittance Advices

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

AVC Contributions

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

Discretionary Powers

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

Employer Decisions

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

Independent Medical Practitioner

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

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

5.15 NYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests solely with the employer.

5.16 Any over payment made by NYPF resulting from inaccurate information supplied by the employer shall be recovered by NYPF from the employer.

5.17 The employer is responsible for any work carried out on its behalf by another section of their organisation or by a contractor appointed by that organisation (eg Pay or Human Resource sections).

Data Protection

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

Internal Dispute Procedure

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

Fines imposed on NYPF

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

Charges to the employer

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

6.0 RESPONSIBILITIES AND DUTIES OF NYPF

Regulatory Issues

6.1 NYPF will administer the Pension Fund in accordance with the LGPS Regulations and any overriding legislation including employer discretions.

6.2 NYPF will issue a membership certificate to members; this provides notification to members that they have joined NYPF.

6.3 NYPF is responsible for exercising the discretionary powers given to it by the regulations. NYPF is also responsible for publishing its policy in respect of the key discretions as required by the regulations.

NYPF Performance Levels

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

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

Support to Employers

6.5 NYPF will support employers in running the Local Government Pension Scheme by:

- providing information, advice and assistance on the scheme and its administration
- distributing regular technical information

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

6.6 NYPF will supply any information to employers necessary to ensure the smooth running of the pension fund.

6.7 NYPF will work with employers to ensure that retirement is as smooth a process for the member and employer as possible.

Independent Medical Practitioner

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

Services to Members

6.9 NYPF will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.

6.10 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

6.11 In addition, NYPF will communicate with members through appropriate media and encourage at all times the development and use of self-service facilities. Full details are provided in the **Communications Policy Statement** and **Annual Communications Strategy**.

Multiple Language Literature

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

Data Protection

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

Internal Dispute Resolution

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

7.0 CONTRIBUTION RATES AND ADMINISTRATION COSTS

7.1 The Members' contribution rates are fixed within bands by the Regulations.

7.2 Employers contribution rates are determined by a triennial valuation process. Employers are required to pay whatever is necessary to ensure that the portion of the Fund relating to that employer is sufficient to meet its liabilities over the agreed term.

7.3 NYPF is valued every 3 years by the Fund Actuary. The Actuary balances the assets and liabilities in respect of each employer and assesses the necessary contribution rate for each employer. Employer contribution rates apply for 3 years except that an Admission Agreement may determine that reassessment should take place on a more frequent basis.

7.4 The administrative costs of running NYPF are charged by NYCC directly to the Fund and the Actuary takes these costs into account in assessing the employer contribution rate.

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

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

8.0 COMMUNICATIONS

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

North Yorkshire County Council

Service Level Agreement

North Yorkshire County Council

And

North Yorkshire Pension Fund

Provision of Treasury Management Services

May 2010

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

1.1 **Between**

Central Services Directorate, **North Yorkshire County Council**, County Hall, Racecourse Lane, Northallerton, North Yorkshire, DL7 8AL ("NYCC")

and

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

1.2 **It Is Agreed** as follows:

Services Provided

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

Term of the Agreement

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

Fees and Charges

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

2.0 Authorised Officers

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

3.0 Agreement Manager

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

4.0 Designated Officers and Staffing

4.1 NYCC shall provide sufficient staff, the designated officers, to provide the Services specified in **Appendix A**. All Services specified in **Appendix A** will be provided Monday to Friday during normal office hours. Normal office hours are Monday - Thursday 09.00 – 1700, Friday 0900 – 1630. The Service will be provided from County Hall, Northallerton.

4.2 NYCC will ensure that all staff employed for the purpose of providing the Services as specified in **Appendix A** are appropriately qualified and have the necessary knowledge, skills and competencies to provide the Services. NYCC will also ensure that such staff are provided with appropriate ongoing learning and development to ensure up to date advice and quality of service is maintained (see **paragraph 5.1** below).

4.3 If the NYPF has grounds for concern about the actions, behaviour or record of any person involved in the provision of the Services by the County Council, those concerns should be notified to the Service Agreement Manager who will take any necessary action, to the satisfaction of both parties to the Agreement.

5.0 Service Performance Standards and Monitoring

5.1 NYCC will deliver the services specified in **Appendix A** in accordance with the Treasury Management Policy and its associated documents as approved by the County Council at the time. In entering into this agreement NYPF therefore accept the Treasury Management Policy and Strategies of NYCC. These documents are reviewed and approved by the County Council on an annual basis, with any required in year changes being submitted to the County Council's Executive and full Council as appropriate.

5.2 A regular dialogue will be maintained between authorised and designated officers to discuss service requirements as any issues arise. Should matters not be resolved the matter is to be escalated to the Service Agreement Manager.

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

6.0 Risk Management and Contingency Planning

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

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

7.0 Modifications / Variations

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

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

8.0 Assignment and Sub-Contracting

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

9.0 Indemnity

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

10.0 Breach of Agreement and Termination

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

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

11.0 **Data Protection and Freedom of Information**

11.1 NYCC will comply with all obligations equivalent to those imposed on a Data Controller in accordance with the seventh principle under The Data Protection Act 1998.

11.2 All information provided by NYCC to NYPF will be provided in accordance with the requirements of the Freedom of Information Act 2000.

12.0 **Equal Opportunities**

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

Treasury Management Services to be provided

Principles

1.0 Subject to appropriate risk controls the policy of NYPF is to maximise the interest receivable on surplus cash balances through NYCC's Treasury Management service.

1.1 The ability of NYCC to achieve this will depend on the size and duration of the 'surplus' cash in the NYPF bank account.

1.2 NYPF's practice is to automatically sweep all surplus cash into NYCC's bank account on a daily basis. NYPF therefore has

- ➔ near instant access to required funds for cash flow purposes; and
- ➔ any surplus cash is automatically invested at a higher rate of interest than would normally be available to the Fund due to the limited size of balances; and
- ➔ has much greater flexibility with regard to minimum length of deposit rules, whilst
- ➔ any short term 'overdraft' requirement is automatically provided by NYCC at its market rates rather than at the rates otherwise available to NYPF

1.3 NYCC will calculate an average rate of interest earned for all the cash it manages. This rate will be applied to NYPF's balances ensuring that it will enjoy the same rates as achieved by NYCC (and its other treasury management clients). This rate will be applied to NYPF's balance on a daily basis.

1.4 The current daily sweep arrangement will be maintained as long as the NYPF bank account is with the same bank as NYCC. NYPF is therefore included within the 'umbrella' of the current NYCC bank contract with Barclays Bank.

1.5 The umbrella of the NYCC's banking contract provides the following value added benefits to NYPF:

(i) the fee tariff per item is the same as for NYCC. Transaction charges are generally geared to scale (i.e. the more transactions the lower the unit costs); and

(ii) it enables effective daily 'sweeping' into the NYCC bank account for treasury management purposes, and

(iii) it avoids the need for the NYPF to undertake a separate tendering exercise and contract negotiation/renegotiation re banking arrangements.

2.0 Security of Investments and Approved Lending List

2.1 The County Council has adopted the CIPFA Code of Practice on Treasury Management (as updated in 2009). This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

2.2 The CIPFA Code of Practice on Treasury Management requires:

- a Treasury Management Policy Statement (TMPS) stating the County Council's policies and objectives for its treasury management activities

- a framework of Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve the policies and objectives set out above and prescribing how it will manage and control those activities.

2.3 NYCC invests funds as cash deposits with institutions either on the money market or direct with banks and financial institutions. NYCC recognises that credit risk arises from deposits with banks and financial institutions and, as a result, deposits are not made with institutions unless they meet the minimum requirements of the investment criteria outlined in the County Council's Treasury Management Strategy.

2.4 The County Council relies on credit ratings and "ratings watch" and "outlook" notices published by the three credit rating agencies (Fitch, Moodys and Standards & Poor) to establish the credit quality of counterparties and investment schemes. All three credit rating agencies also produce a Sovereign Rating which assesses a country's ability to support a financial institution should they get into difficulty.

2.5 No combination of ratings can be viewed as entirely fail-safe and all credit ratings, watches and outlooks are monitored on a daily basis and changes made as appropriate. In addition, the County Council takes into account trends within the Credit Default Swap (CDS) Market together with other criteria such as market intelligence, press speculation and rumoured mergers etc.

2.6 This data is collated and interpreted using the Credit Worthiness Service provided by the County Council's Treasury Management advisor, Sector Treasury Services Limited. This service uses a sophisticated modelling system to allocate a credit "score" for each organisation. Each score is then related to a series of colour codes which indicate the relative credit worthiness of counterparties and consequential maximum duration investment.

2.7 In addition, the County Council has set maximum investment limits for each organisation which also reflect that institutions credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity).

2.8 The Annual Treasury Management Strategy includes these procedures in order to manage the risks of the County Council's financial instrument exposure. It is approved at the County Council's annual council tax setting budget meeting before the beginning of the financial year, but kept under review throughout the year with any required changes being approved as part of the County Council's quarterly reporting arrangements for Treasury Management Activities.

2.9 The Approved Lending List is monitored on an on going daily basis and changes made as appropriate by the Corporate Director – Strategic Resources to reflect credit rating downgrades etc. Institutions are removed or temporarily removed or suspended from the list if there are any significant concerns about their financial standing or stability.

2.10 The County Council's investment policy has two fundamental objectives

- the security of capital (protecting the capital sum from loss); and then
- liquidity (keeping the money readily available for expenditure when needed).

2.11 The County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments.

3.0 Policy in relation to risk sharing in relation to investments and borrowings

3.1 NYCC's policy is that responsibility under 3rd party arrangements, for both investments and borrowing, are shared pro rata to the relative levels of investments and borrowing by the various parties.

3.2 The arrangements (as agreed with other clients including NYPF under this Agreement) in respect of a Default Loan are detailed below:

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

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

£1m defaulted loan

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

3.3 In addition, NYCC

(i) will provide details of those organisations to which loans are made

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