

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

25 SEPTEMBER 2014

## NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2013/14

## Report of the Corporate Director – Strategic Resources and Treasurer to the Pension Fund

**1.0 PURPOSE OF REPORT**

- 1.1 To receive the North Yorkshire Pension Fund Annual Report for the financial year 2013/14.

**2.0 ANNUAL REPORT**

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2012/13 incorporates the Accounts of the North Yorkshire Pension Fund (NYPF) and is dealt with under **Item 7, Statement of Final Accounts including Letter of Representation.**
- 2.2 To comply with Section 34 of the Local Government Pension Scheme (Administration) Regulations 2008 an Annual Report must be prepared for the Pension Fund, which includes the NYPF Accounts as well as certain governance documents and other information. This documentation was approved by the Pension Fund Committee (PFC) on 10 July 2014. The PFC was later advised of a small number of minor (non-material) changes to the Accounts resulting from the audit process at its meeting on 18 September 2014. The Annual Report for 2013/14 including these amendments is attached as **Appendix 1.**

**3.0 RECOMMENDATIONS**

- 3.1 Members are asked to note the North Yorkshire Pension Fund Annual Report for 2013/14.

GARY FIELDING

Corporate Director – Strategic Resources and Treasurer to the Pension Fund

Central Services

County Hall

Northallerton

11 September 2014



North

Yorkshire County Council

Appendix 1

# North Yorkshire Pension Fund

Annual Report and Accounts  
2013/14



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# PART 1 – MANAGEMENT OF THE FUND

## 1.1 Introduction

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

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area. The regulations also specify the member contribution rates as a percentage of pensionable pay, with employer contribution rates being set every three years by the Fund's Actuary. These contributions are supplemented by earnings on the Fund's investments in order to pay retirement benefits.

The day to day running of the Fund is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the Council and is responsible for implementing the decisions made by the PFC. Supporting him is a team of staff split into two sections. The Pensions Administration team administers all aspects of member records, pension benefits etc and the Integrated Finance team looks after the accounting and management information requirements of the Fund. All aspects of the day to day management of investment funds are undertaken by external fund managers.

## 1.2 Pension Fund Committee

PFC membership as at 31 March 2014 was as follows.

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham (Vice-Chairman)	Councillor, NYCC	Yes
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCoursey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils' representative of Local Government North Yorkshire and York	Yes
Dafydd Williams	Councillor, City of York Council	Yes
Sam Cross	Councillor, NYCC	Yes
Chairman of the NYPF Advisory Panel	Councillor, NYPF Advisory Panel representative	No
3 Unison representatives	Union Officials	No

The powers delegated to the PFC are detailed in paragraph 2.1 of the Governance Compliance Statement (Appendix D).

During the year the PFC formally met on five occasions supported by its Independent Investment Adviser, Investment Consultant and the Independent Professional Observer, as well as the Treasurer. The Committee meetings provide a forum for discussion about economic and market trends, monitoring the performance of the investment managers and considering their individual investment strategies.

### 1.3 Fund Administrators, Advisers and Investment Managers

Treasurer	Gary Fielding
Investment Consultant	Aon Hewitt
Independent Investment Adviser	Carolan Dobson (Investment Adviser & Trustee Services)
Independent Professional Observer	Peter Scales (AllenbridgeEpic)
Actuary	Mercer
Legal Services	Ward Hadaway Head of Legal Services, NYCC
Auditor	Deloitte
Banker	Barclays Bank
Custodian	Bank of New York Mellon
Custodian Monitoring	Thomas Murray
Shareholder Voting	PIRC
Performance Measurement	BNY Mellon Asset Servicing
Fund Managers	Amundi Asset Management Baillie Gifford Life ECM Asset Management FIL Pensions Management Hermes Investment Management Legal & General Investment Management M&G Investment Management Newton Investment Management Standard Life Pension Funds Threadneedle Pensions YFM Venture Finance
AVC Provider	Prudential

## PART 2 – SCHEME ADMINISTRATION

### 2.1 Administering Authority Arrangements

The Fund's administration is the responsibility of Gary Fielding, the Treasurer, who is supported by Tom Morrison, Principal Accountant Pensions & Projects and Nigel Dowey, Pensions Manager (Administration).

Staff within the Pension Administration section are responsible for administering the Scheme, including the calculation and administration of benefit payments and transfer values, recording employee and employer contributions, the maintenance of employees' pension records and communications with employers and employees.

Staff within the Integrated Finance section are responsible for maintaining the Fund's accounts and investment records, prepare quarterly reports to the PFC, produce the Annual Report and Accounts and act as a point of contact with the Fund's managers, advisers and auditors.

### 2.2 Public Sector Pensions – Finance Knowledge and Skills

The PFC recognises the importance of ensuring that all Members and officers charged with the financial management, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge their duties responsibilities. The PFC also seeks to ensure that those Members and officers are both capable and experienced by making available the training necessary for them to acquire and maintain the appropriate level of expertise, knowledge and skills.

Following the issue of CIPFA guidance "Pensions Finance Knowledge and Skills Frameworks" the PFC provides routes through which the recommended knowledge and skills set out in the guidance may be acquired, as described below.

### 2.3 Training for Pension Fund Committee Members and Officers

#### (i) Internal

Two Investment Strategy Workshops and four investment manager meetings were held throughout the year, all of which were well attended by PFC Members and officers of the Fund.

Members and officers also made use of the CIPFA Knowledge & Skills resource library and accessed the Trustee Needs Analysis (TNA) where appropriate, which is aimed at identifying gaps in knowledge and skills, as a complement to alternative training resources.

(ii) Externally Provided

In addition to the training provided through Workshops as described above, Members and officers are encouraged to attend courses, conferences and other events supplied by organisations other than the Council. These events provide a useful source of knowledge and guidance from speakers who are experts in their field. Attendance at these events is recorded and reported to the PFC each quarter.

Events attended by PFC Members during 2013/14 were:

<b>Event</b>	<b>Place</b>	<b>Date</b>
NAPF Local Authority Conference	Gloucestershire	20 – 22 May 2013
LGC Investment Summit	Newport	05 – 06 September 2013
SPS Pension Trustees Circle	Harrogate	29 – 30 September 2013
Baillie Gifford Local Authority Seminar	Edinburgh	02 - 03 October 2013
NAPF Annual Conference	Manchester	16 – 18 October 2013
LAPFF Annual Conference	Bournemouth	04 – 06 December 2013
NAPF Investment Conference	Edinburgh	05 - 07 March 2014

## PART 3– INVESTMENT POLICY AND PERFORMANCE

### 3.1. Investment Policy

#### (a) Regulations

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

#### (b) Investment Management arrangements

As at 31 March 2014 the following investment management arrangements were in place.

- ➔ Baillie Gifford managed two active global (ie including UK) equity portfolios, namely Global Alpha and Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings. Both are managed without reference to a benchmark, however the FTSE All World index is for used performance measurement purposes
- ➔ Fidelity managed an active overseas equities (ex UK) portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- ➔ Standard Life managed an active UK equity portfolio comprising segregated holdings in UK companies against the FTSE 350 (excluding investment trusts) equally weighted index
- ➔ Amundi managed an active global fixed income portfolio through a pooled fund, against the “least risk” benchmark of index linked and fixed interest gilts
- ➔ ECM managed an active European corporate bond portfolio through a pooled fund on an absolute return basis, using 1-month LIBOR for performance measurement purposes
- ➔ M&G managed an active Gilts portfolio comprising segregated fixed income and index linked holdings, against the “least risk” benchmark
- ➔ Hermes managed an active UK Property portfolio through a pooled fund with the objective of outperforming the retail price index (RPI)
- ➔ Threadneedle and Legal & General both commenced managing active UK Property portfolios during the year through pooled funds with the objective of outperforming RPI
- ➔ Standard Life and Newton both commenced managing Diversified Growth Fund portfolios during the year through the Global Absolute Return Strategy (GARS) and Real Return (RR) pooled funds respectively, with the objectives of significantly outperforming the cash benchmark



The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The current residual cost of this investment is £0.3m.

During the year, the Fund disinvested from the UK equity portfolio managed by R C Brown Investment Management Plc.

Finally, a currency hedging programme was operated through the Fund's global custodian, BNY Mellon Asset Servicing, in respect of 25% of the Fund's investments in overseas equities. At the PFC meeting on 21 November 2013 Members decided to end this arrangement and the last positions were settled on 19 February 2014.

The agreed asset class structure for the investment portfolio remained unchanged over the course of the year and as at 31 March 2014 was as follows:-

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

### (c) Custody of Investments

BNY Mellon Asset Servicing is the custodian for the Fund's assets. There are two exceptions, being:-

- (i) Yorkshire and Humber Equity Fund, which uses the Royal Bank of Scotland plc
- (ii) Internally Managed Cash, which is held in the Fund's bank account held at Barclays Bank, Northallerton. Money in this account forms part of the balance of funds invested by the Council for treasury management purposes. A formal service agreement exists between the Council and the Fund so that the Fund receives an interest rate return equivalent to that achieved by the Council.

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

## 3.2 Performance

### (a) Fund and Manager Performance

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

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

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

Performance for the year was +12.0% compared to the benchmark return of +5.9% and the local authority average (as measured by WM Services) of +6.4%. NYPF was ranked 2<sup>nd</sup> of out 82 Local Authorities within the WM Local Authority Universe. For the 5 year period to 31 March 2014 NYPF was ranked 1<sup>st</sup>.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2014 compared with their defined benchmarks is shown in the following table:

<b>Fund Manager</b>	<b>Share of Fund @ March 2014</b>	<b>Fund Performance</b>	<b>Customised Benchmark</b>	<b>+/-</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Baillie Gifford Life Ltd - Global Alpha	16.6	12.8	6.8	6.0
Baillie Gifford Life Ltd - LTGG	10.3	20.6	6.8	13.8
Fidelity International	19.3	8.2	6.8	1.4
Standard Life Investments - Equities	20.0	26.7	18.5	8.2
ECM Asset Management	6.0	4.6	0.5	4.1
Amundi Asset Management	11.0	-3.1	-3.4	0.3
M&G Investment Management Ltd	3.5	-1.6	-3.4	1.8
Hermes Investment Management Ltd	1.2	13.8	2.5	11.3
Legal & General	1.3	12.4	2.5	9.9
Threadneedle	2.2	17.2	2.5	14.7
Standard Life (GARS)	4.0	3.3	0.5	2.8
Newton Investments (RR)	3.9	1.6	0.5	1.1
Yorkshire & Humber Equity Fund		3.8	8.8	-5.0
Internally Managed Cash	0.7	-	-	-
<b>Total Fund</b>	<b>100.0</b>	<b>12.0</b>	<b>5.9</b>	<b>6.1</b>

## (b) Accounting and Cash Flow

The Statement of Financial Accounts for the year 2013/14 is shown at Appendix A.

The value of the Fund's assets at 31 March 2013 was £1,841m, and this increased by £242m during the year to give a value of £2,083m at 31 March 2014.

Prior to the start of the 2013/14 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2013/14 forecast a net cash surplus of £10.3m. The actual surplus for the year was £15.5m, resulting in an overall cash flow of £5.2m above expectations.

	Budget 2013/14 £m	Actual Income / Expenditure £m	Variance £m
<b>Expenditure</b>			
Benefits	92.0	87.8	-4.2
Administration	1.5	1.6	0.1
Investment Expenses	4.2	6.0	1.8
<b>Total Expenditure</b>	<b>97.7</b>	<b>95.4</b>	<b>2.3</b>
<b>Income</b>			
Employer and Employee contributions	106.0	109.4	3.4
Transfers	2.0	7.2	5.2
<b>Total Income</b>	<b>108.0</b>	<b>116.6</b>	<b>8.6</b>
<b>Net Surplus</b>	<b>10.3</b>	<b>21.2</b>	<b>10.9</b>

The budget assumed that the larger employers in the Fund would seek to reduce staffing levels in response to the Government cutting funding to public sector organisations. This has occurred, however the extent and timing of staff reductions is difficult to predict.

The value of transfers equates to the net of transfer values for staff moving in and out of the Fund in the year and cannot be reliably predicted.

Investment expenses includes performance related fees paid to the Fund's investment managers. At the total Fund level, performance exceeded the benchmark by 6.1% in the year and this has added to approximately £115m.

## PART 4 – PENSION ADMINISTRATION ACTIVITY

The number of staff (in FTE terms) at the Council involved in Pension Administration was 24.

### (a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. NYPF's performance in these areas for the year to 31 March 2014 is shown below.

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer <i>in</i> quote	10 days	100
Letter detailing transfer <i>out</i> quote	10 days	100
Process and pay refund	5 days	100
Letter notifying estimate of retirement benefits	10 days	100
Letter notifying actual retirement benefits	5 days	100
Process and pay lump sum retirement grant	5 days	98
Initial letter acknowledging death of active/deferred/pensioner member	5 days	100
Letter notifying amount of dependant's benefits	5 days	100
Calculate and notify deferred benefits	10 days	100

These figures compare extremely favourably with other LGPS Funds, where the average achievement ratings for these performance indicators fall between 75% and 92%.

### (b) Benefit Calculation Activity

The number of cases processed during the year requiring benefit calculations was as follows.

Task	Number
Retirements	904
Transfers In	18
Refunds	19
Frozen Refunds	18
Preserved Benefits	2,942
AVCs/ARCs	231
Divorce cases	4
Deaths in Service	15
<b>Deaths of Pensioners</b>	<b>321</b>

(c) Administration Costs per scheme member

NYPF's average cost of administration per member in 2013/14 was £15. This compares with the average cost per member in the comparative group of local authority pension funds of £21.

The total numbers of joiners and leavers during 2013/14 were:

Joining	7044
Retiring	904
Deaths	336
Other Leavers	2,975

The performance, activity and cost effectiveness reflect the efforts the Pension Administration team goes to provide a first class service to the Fund membership. NYPF is one of the leaders across LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over 2013/14 include:

- arranging for government experts to address employing authorities directly on the key issues facing them such as compliance and LGPS 2014. NYPF employers have been more promptly and more thoroughly informed and prepared for change than counterparts across the country
- notifying NYPF membership immediately of the legislation designed to end the '100% tax free cash' option offered by AVCs. This enabled hundreds of members to make arrangements before the rush clogged up the system
- upgrading and re-launching the self-service facilities for Fund members
- implementing a new Pensions Administration System in preparation for the increasing complexity of administering the LGPS 2014 regulations
- continuing to develop and improve the customer helpline that provides a one-stop service for members without compromising the ability of Pensions Officers to take into account the specific circumstances of each individual joiner or leaver
- working collaboratively with employing authorities to get all the key LGPS2014 messages out to their employees / Fund members

Administration activity statistics are compiled for national benchmarking purposes and are based on tasks undertaken by the Pension Administration Team; therefore they will not reflect membership numbers reported elsewhere.

## PART 5 – MEMBERSHIP CONTRIBUTIONS AND SCHEME BENEFITS

### 5.1 Membership

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

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

Employees therefore have various options:-

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

The following table summarises the membership of NYPF over the past 5 years.

<b>Membership Type</b>	<b>31 March 2010</b>	<b>31 March 2011</b>	<b>31 March 2012</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
Current Contributors	28,623	29,295	27,770	29,036	31,501
Deferred Pensions	22,079	23,800	25,534	27,503	29,490
Pensioners receiving Benefits	14,119	14,888	15,839	16,755	17,668

### 5.2 Contributions

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

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2013 as follows:-

Band	Range	Contribution rate
1	£0 to £13,700	5.5%
2	£13,701 to £16,100	5.8%
3	£16,101 to £20,800	5.9%
4	£20,801 to £34,700	6.5%
5	£34,701 to £46,500	6.8%
6	£46,501 to £87,100	7.2%
7	More than £87,101	7.5%

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

Employers' contributions are determined in a cycle every three years by a Triennial Valuation. The Valuation assesses the contributions required to meet the cost of pension benefits payable as they are earned, as well as additional contributions employers may be required to pay to address any deficit relating to previous years. Further details, including a list of each employer's minimum contributions following the 2010 Valuation for the financial years 2011/12, 2012/13 and 2013/14 are shown at <https://www.nypf.org.uk/Documents/2010ActuarialValuationReport.pdf>

Any new entrants to the scheme will be included on the 2013 Triennial Valuation report and is shown at: [https://www.nypf.org.uk/Documents/Triennial\\_Valuation\\_Report\\_March\\_2013.pdf](https://www.nypf.org.uk/Documents/Triennial_Valuation_Report_March_2013.pdf)

### 5.3 Scheme Benefits

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

#### Normal Pension Age

The Normal Pension Age is a member's State Pension Age for both men and women (earlier voluntary retirement allowed from age 55 but benefits are reduced if minimum service conditions are not met). However, some members have a protected Normal Pension Age of age 65.

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

## **Pension (Normal)**

The calculation of pension benefits depends on the dates of membership involved. From 1 April 2014 the LGPS changed to a Career Average Revalued Earnings (CARE) scheme. The pension for membership from 1 April 2014 is worked out as  $\frac{1}{49}^{\text{th}}$  of pensionable pay.

For membership up to 31 March 2014 benefits are worked out on a 'final salary' basis. A normal pension is based on the average pensionable pay for the last year of service, or the better of the two previous years, if this gives a higher figure. Also, applicable from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated on a fraction of  $\frac{1}{80}^{\text{th}}$  for each year of membership of the scheme for service up to 31 March 2008 and on  $\frac{1}{60}^{\text{th}}$  for service after 1 April 2008.

## **Pension (Ill Health)**

An ill health pension is based on average pensionable pay for the last year of service and a split of the  $80^{\text{ths}}$  and  $60^{\text{ths}}$  accrual for membership up to 31 March 2014 as above. A pension of  $\frac{1}{49}^{\text{th}}$  of pensionable pay applies for membership from 1 April 2014 onwards. There are three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

- First Tier: If there is no reasonable prospect of being capable of gainful employment before Normal Pension Age the employee's LGPS pension is enhanced by 100% of the remaining potential pension to Normal Pension Age based on  $\frac{1}{49}^{\text{th}}$  of an 'Assumed Pensionable Pay' figure which is a calculation of the pensionable pay on a prescribed basis for the period between the date of retirement and Normal Pension Age.
- Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before Normal Pension Age the employee's LGPS service is enhanced by 25% of the remaining potential pension to Normal Pension Age.
- Third Tier: If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years (though reviewed at 18 months to assess any improvement in the member's health).

## **Lump Sum Retirement Grant**

For service prior to 31 March 2008, the lump sum retirement grant is calculated as  $\frac{3}{80}^{\text{ths}}$  for each year of service, with an appropriate enhancement in respect of ill health. For service after this date there is no automatic lump sum however pension entitlement can be converted to a lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.



## **Death Grant**

### **(i) Death in Service**

A lump sum death grant usually equal to three times pensionable pay, worked out on a prescribed basis known as 'Assumed Pensionable Pay', would be payable to the member's spouse, or nominee.

### **(ii) Death after Retirement**

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

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

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

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

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on  $\frac{1}{160}$  of the member's final pay, for each year of service up to 31 March 2014. For membership from 1 April 2014 the surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on  $\frac{1}{160}$ <sup>th</sup> of career average pensionable pay.

Only members of the scheme, who were active after 31 March 2008, are able to name a cohabiting partner to receive their pension benefits.

The pension available to a cohabiting partner is based on post April 1988 membership only.

## **Children's Pension**

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

### **Partner with one child:**

Child's pension is  $\frac{1}{320}$ <sup>th</sup> of member's service, multiplied by the pensionable pay plus a pension equal to  $\frac{1}{160}$ <sup>th</sup> of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age.

- Partner with more than one child:** Child's pension is  $\frac{1}{160}$ <sup>th</sup> of the member's service, multiplied by the pensionable pay plus a pension equal to  $\frac{1}{160}$ <sup>th</sup> of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are entitled to equal shares.
- No partner and one child:** Child's pension is  $\frac{1}{240}$ <sup>th</sup> of the member's service, multiplied by the pensionable pay plus a pension equal to  $\frac{1}{160}$ <sup>th</sup> of the member's Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age.
- No partner & more than one child:** Child's pension is  $\frac{1}{120}$ <sup>th</sup> of the member's service, multiplied by the pensionable pay plus a pension equal to  $\frac{1}{160}$ <sup>th</sup> of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are entitled to equal shares.

### **Pension Increases**

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

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

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

## **AVCs**

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee (PFC) has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential on 0800 012 1378.

## PART 6 – GOVERNANCE DOCUMENTATION

The main governance documentation is as follows:

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

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

### (a) Statement of Investment Principles

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

- Investment decision making process
- Types of investments to be held
- Balance between different types of investments
- Risk
- Expected return on assets
- Realisation of investments
- Socially responsible investments
- Shareholder governance
- Stock lending
- Compliance with guidance from the Secretary of State

### (b) Governance Compliance Statement

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

- Governance arrangements
- Representation and meetings
- Operational procedures
- Key policy / strategy documents
- Assessment of compliance with best practice principles

### (c) Funding Strategy Statement

The Funding Strategy Statement (FSS) has been prepared by in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA). The full statement is available at Appendix E, and the main purpose is to:

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

In addition to this, the Funding Strategy Statement covers:

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

### (d) Communications Policy Statement

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

**NORTH YORKSHIRE PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014**

2012/13		2013/14	
£000		£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions</b>		
78,123	Employers - Normal	80,924	
0	- Special	0	
3,404	- Early Retirement Costs Recharged	4,052	
23,756	Employees - Normal	24,125	
353	- Additional Voluntary	303	
105,636	<b>Total Contributions Receivable (Note 7)</b>		109,404
6,772	<b>Transfers In (Note 8)</b>		11,339
	<b><u>Less</u></b>		
	<b>Benefits</b>		
(62,211)	Pensions	(66,505)	
(20,181)	Commutation and Lump Sum Retirement Benefits	(19,945)	
(2,201)	Lump Sums Death Benefits	(1,329)	
(84,593)	<b>Total Benefits Payable (Note 9)</b>		(87,779)
	<b>Leavers</b>		
(17)	Refunds to Members Leaving Service	(8)	
0	Payments for Members Joining State Scheme	0	
(6,241)	Transfers Out	(4,106)	
(6,258)	<b>Total Payments on Account of Leavers (Note 10)</b>		(4,114)
(1,664)	<b>Administrative Expenses (Note 11)</b>		(1,625)
19,893	<b>Net Additions From Dealings With Members</b>		27,225
	<b>RETURNS ON INVESTMENTS</b>		
21,774	<b>Investment Income (Note 12)</b>		22,895
(379)	<b>Taxation (Note 13)</b>		(397)
(3,324)	<b>Investment Expenses (Note 14)</b>		(5,999)
237,204	<b>Change in market value of investments (Note 15)</b>		198,759
255,275	<b>Net Returns On Investments</b>		215,258
275,168	<b>Net Increase in the Fund During the Year</b>		242,483
1,565,565	<b>Opening Net Assets of the Fund</b>		1,840,733
1,840,733	<b>Closing Net Assets of the Fund</b>		2,083,216

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2013 £000		31 March 2014 £000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	
72,005	Fixed Interest Securities	71,424
622,265	Equities	742,593
1,059,513	Pooled Investments	1,141,317
66,982	Pooled Property Investments	98,592
478	Private Equity	258
<u>1,821,243</u>		<u>2,054,184</u>
8,427	Cash Deposits	12,185
6,178	Investment Debtors	14,966
<u>1,835,848</u>	<b>TOTAL INVESTMENT ASSETS</b>	<u>2,081,335</u>
	<b>INVESTMENT LIABILITIES (Notes 15 &amp; 16)</b>	
(2,863)	Derivative Contracts - Forward Currency Contracts	(23)
(3,857)	Investment Creditors	(11,785)
<u>(6,720)</u>	<b>TOTAL INVESTMENT LIABILITIES</b>	<u>(11,808)</u>
<u>1,829,128</u>	<b>NET INVESTMENT ASSETS</b>	<u>2,069,527</u>
	<b>CURRENT ASSETS</b>	
7,625	Contributions due from employers	9,233
67	Other Non-Investment Debtors	802
6,187	Cash	4,888
<u>13,879</u>	<b>TOTAL CURRENT ASSETS</b>	<u>14,923</u>
	<b>CURRENT LIABILITIES</b>	
(2,274)	Non-investment creditors	(1,234)
<u>(2,274)</u>	<b>TOTAL CURRENT LIABILITIES</b>	<u>(1,234)</u>
<u>1,840,733</u>	<b>TOTAL NET ASSETS (Note 16)</b>	<u>2,083,216</u>

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

**NOTES TO THE NORTH YORKSHIRE PENSION FUND ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**1. Description of the Fund**

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

The following description of the Fund is a summary only. For more detail, refer to the NYPF Annual Report 2013/14 and the statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

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

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

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

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

**b) Membership**

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

Organisations participating in NYPF include:

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



At 31 March 2014 there were 93 contributing employer organisations within NYPF including the County Council itself, as detailed below:

### **59 Scheduled Bodies**

City of York Council	Skipton Girls High School
Craven District Council	South Craven School
Hambleton District Council	St Aidan's Church of England High School
Harrogate Borough Council	The Woodlands Academy
North Yorkshire County Council	Thomas Hinderwell Primary Academy
Richmondshire District Council	Easingwold Town Council
Ryedale District Council	Filey Town Council
Scarborough Borough Council	Foss Internal Drainage Board
Selby District Council	Fulford Parish Council
North Yorkshire Police & Crime Commissioner	Glusburn Parish Council
North Yorkshire Police Force	Great Ayton Parish Council
North Yorkshire Fire & Rescue Authority	Haxby Town Council
North York Moors National Park	Hunmanby Parish Council
York & North Yorkshire Probation Trust	Knaresborough Town Council
Yorkshire Dales National Park	Malton Town Council
Askham Bryan College	Marston Moor Drainage Board
Craven College	Northallerton Town Council
Scarborough Sixth Form College	Norton on Derwent Town Council
Selby College	Northallerton / Romanby Burial Board
York College	Pickering Town Council
Archbishop Holgate's School	Riccall Parish Council
Great Smeaton Academy Primary School	Richmond Town Council
The Grove Academy	Ripon City Council
Harrogate Grammar School	Selby Town Council
Harrogate High School	Skipton Town Council
Manor Church of England Academy	Sutton in Craven Parish Council
Norton College	Tadcaster Town Council
Outwood Academy	Thornton Internal Drainage Board
Robert Wilkinson Academy	Whitby Town Council
Rossett School	

### **34 Admission Bodies**

Catering Academy Ltd	Premier Support Services
Chartwells Compass	Ringway
Churchill Security	Richmondshire Leisure
Community Leisure	Scarborough Museums Trust
Craven Housing	Sheffield International Venues
Elite	Springfield Home Care
Enterprise	Superclean
Future Cleaning	University of Hull
Grosvenor Facilities Management	Veritau Ltd
Human Support Group	Veritau North Yorkshire Ltd
ISS Mediclean Ltd	Welcome to Yorkshire
Interserve	Wigan Leisure & Culture Trust
Jacobs UK Ltd	York Archaeological Trust
Joseph Rowntree Trust	York Museums & Gallery Trust
Mellors	Yorkshire Coast Homes
Northern Care	Yorkshire Housing Ltd
NYBEP	York St John University

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

	31 March 2014 No	31 March 2013 No
Employees in the Fund		
NYCC	18,960	17,336
Other employers	12,541	11,700
Total	<u>31,501</u>	<u>29,036</u>
Pensioners		
NYCC	9,463	8,979
Other employers	8,205	7,776
Total	<u>17,668</u>	<u>16,755</u>
Deferred pensioners		
NYCC	18,204	16,830
Other employers	11,286	10,673
Total	<u>29,490</u>	<u>27,503</u>

#### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and details of the rates for individual employers are available on the Fund's website.

#### d) Benefits

Pension benefits under the LGPS up to 31 March 2014 are based on final pensionable pay and length of pensionable service. For service up to 31 March 2008 each year worked is worth 1/80<sup>th</sup> of final pensionable salary, an automatic lump sum of three times salary is payable, and part of the annual pension can be exchanged for a one-off tax free cash payment at the rate of £12 lump sum for each £1 pension given up. For service from 1 April 2008 each year worked is worth 1/60<sup>th</sup> of final pensionable salary, there is no automatic lump sum, and part of the annual pension can be exchanged at the same rate as for service up to 31 March 2008.

Under the CARE (Career Average Revalued Earnings) scheme which came into effect from April 2014 benefits will accrue at a rate of 1/49<sup>th</sup> of pensionable pay earned each year, indexed in line with CPI.

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

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its year end position as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **3. Summary of Significant Accounting Policies**

#### **Fund Account – Revenue Recognition**

##### **a) Contribution Income**

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

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

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

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

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

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

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

##### **c) Investment Income**

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

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

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

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

#### **Fund Account – Expense Items**

##### **d) Benefits Payable**

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

## **e) Taxation**

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

## **f) Administrative Expenses**

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

## **g) Investment Management Expenses**

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

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

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

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

Performance related fees were £2,275k in 2013/14 (£217k in 2012/13) and were based on cumulative out-performance since inception.

## **Net Assets Statement**

### **h) Assets**

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

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

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

#### i) Foreign Currency Transactions

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

#### j) Derivatives

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

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

#### k) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

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

#### l) Liabilities

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

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's Actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an **Appendix** to these statements.

#### n) Additional Voluntary Contributions

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

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

### 4. Critical Judgement in Applying Accounting Policies

#### Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2014 was £258k (31 March 2013, £478k).

## Pension Fund Liability

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

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

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

The item in the Net Assets Statement as at 31 March 2014 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by £46m, a 0.1% increase in inflation would increase liabilities by £44m, and an increase in life expectancy of one year would increase liabilities by £52m.

### 6. Events After the Balance Sheet Date

Since 31 March 2014 there have been significant movements in global financial markets which would impact upon the market value of the Fund's investments were they to be valued as at the date these Accounts were authorised. This change is deemed to be a non-adjusting post balance sheet event.

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these Accounts.

### 7. Contributions Receivable

	2013/14 £000	2012/13 £000
Contributions Receivable		
North Yorkshire County Council	47,466	45,284
Other Scheduled Bodies	55,557	53,647
Admitted Bodies	6,381	6,705
	<u>109,404</u>	<u>105,636</u>

### 8. Transfers In from Other Pension Funds

During the year there was one group transfer from the Cumbria Pension Fund to Askham Bryan College of £2.4m. All other Transfers In were individual transfers.

## 9. Benefits Payable

	2013/14 £000	2012/13 £000
Benefits Payable		
North Yorkshire County Council	37,126	36,751
Other scheduled bodies	46,008	42,928
Admitted bodies	4,645	4,914
	<u>87,779</u>	<u>84,593</u>

## 10. Payments To and On Account of Leavers

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

## 11. Administrative Expenses

	2013/14 £000	2012/13 £000
Administration and Processing	1,444	1,554
Actuarial Fees	137	58
Legal and Audit Fees	44	52
	<u>1,625</u>	<u>1,664</u>

## 12. Investment Income

	2013/14 £000	2012/13 £000
Fixed Interest and Index Linked Securities	1,928	1,790
Dividends from Equities	19,485	19,304
Pooled Property Investments	1,067	472
Interest on Cash Deposits	22	13
Other	393	195
	<u>22,895</u>	<u>21,774</u>

## 13. Taxes on Income

	2013/14 £000	2012/13 £000
Withholding Tax on Dividends	<u>397</u>	<u>379</u>

## 14. Investment Expenses

	2013/14 £000	2012/13 £000
Administration, Management and Custody	5,806	3,010
Performance Monitoring Services	30	22
Other Advisory Fees	163	292
	<u>5,999</u>	<u>3,324</u>

## 15. Investments

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

	<b>Value at 31 March 2014</b>	<b>Change in market value at 31 March 2014</b>	<b>Sales proceeds and derivative receipts</b>	<b>Purchases at cost and derivative payments</b>	<b>Value at 1 April 2013</b>
	£000	£000	£000	£000	£000
Fixed Interest	71,424	(3,128)	(264,627)	267,174	72,005
Equities	742,593	98,555	(442,929)	464,702	622,265
Pooled Funds	1,141,317	72,708	0	9,096	1,059,513
Pooled Property	98,592	10,010	0	21,600	66,982
Private Equity	258	(59)	(180)	19	478
Derivative Contracts	(23)	16,055	(788,658)	775,443	(2,863)
Total Invested	<u>2,054,161</u>	<u>194,141</u>	<u>(1,496,394)</u>	<u>1,538,034</u>	<u>1,818,380</u>
Cash Deposits	12,185	3,758			8,427
Net Investment Debtors	3,181	860			2,321
Net Investment Assets	<u>2,069,527</u>	<u>198,759</u>			<u>1,829,128</u>

	<b>Value at 31 March 2013</b>	<b>Change in market value at 31 March 2013</b>	<b>Sales proceeds and derivative receipts</b>	<b>Purchases at cost and derivative payments</b>	<b>Value at 1 April 2012</b>
	£000	£000	£000	£000	£000
Fixed Interest	72,005	5,695	(316,823)	318,011	65,122
Equities	622,265	127,613	(593,881)	426,885	661,648
Pooled Funds	1,059,513	109,111	(2,651)	162,821	790,232
Pooled Property	66,982	1,405	(783)	42,592	23,768
Private Equity	478	(294)	(300)	0	1,072
Derivative Contracts	(2,863)	(6,938)	(911,217)	913,219	2,073
Total Invested	<u>1,818,380</u>	<u>236,592</u>	<u>(1,825,655)</u>	<u>1,863,528</u>	<u>1,543,915</u>
Cash Deposits	8,427	586			7,841
Net Investment Debtors	2,321	26			2,295
Net Investment Assets	<u>1,829,128</u>	<u>237,204</u>			<u>1,554,051</u>

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £871k (2012/13 £959k). In addition indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund. A £3,319k investment with Standard Life has been reclassified as Pooled Funds in 2013/14 after previously being identified as an Equity investment during 2012/13.



b) Analysis of Investments (excluding derivative contracts)

	2013/14 £000	2012/13 £000
Fixed Interest Securities		
UK Public Sector Quoted	<u>71,424</u>	<u>72,005</u>
Equities		
UK Quoted	408,273	314,260
Overseas Quoted	<u>334,320</u>	<u>308,005</u>
	<u>742,593</u>	<u>622,265</u>
Pooled Investments		
UK Equity	51,942	41,262
UK Property	98,592	66,982
UK Fixed Income	186,419	142,721
Overseas Equity	570,674	501,679
Overseas Fixed Income	<u>168,030</u>	<u>213,543</u>
	<u>1,075,657</u>	<u>966,187</u>
Diversified Growth Funds - UK	<u>164,252</u>	<u>160,308</u>
Private Equity - UK	<u>258</u>	<u>478</u>
Total Investments (excl Derivatives)	<u>2,054,184</u>	<u>1,821,243</u>

Objectives and Policies for Holding Forward Foreign Currency Derivatives

Up until February 2014 the Fund hedged a proportion (25%) of the US Dollar, Euro, Japanese Yen, Swiss Franc and Swedish Krona exposure in relation to overseas equity investments. Contracts outstanding at the year-end relate to positions taken by the Fund's investment managers for efficient trading purposes, were valued at £23k and settled within one month. Forward currency contracts as at 31 March 2013 were valued at £(2,863k).

	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	345,185	16.6	306,092	16.7
Baillie Gifford & Co. - LTGG	214,838	10.3	178,193	9.7
Fidelity International	402,771	19.3	372,221	20.3
Standard Life Investments - Equities	416,766	20.0	315,193	17.1
Standard Life Investments - DGF	82,993	4.0	80,308	4.4
ECM Asset Management	125,783	6.0	120,243	6.5
Amundi Asset Management	228,667	11.0	236,024	12.8
RC Brown Investment Management	0	0.0	2,709	0.1
Hermes Property Unit Trust	25,799	1.2	23,640	1.3
Legal & General	27,984	1.3	24,891	1.4
Threadneedle	45,279	2.2	18,654	1.0
M&G Investments	71,922	3.5	73,344	4.0
Newton Investments	81,259	3.9	80,000	4.3
Currency Hedging	23	0.0	(2,863)	-0.2
Yorks & Humber Equity Fund	258	0.0	478	0.0
Internally Managed (cash and net debtors)	13,689	0.7	11,606	0.6
	<u>2,083,216</u>	<u>100.00</u>	<u>1,840,733</u>	<u>100.0</u>

The investments with Baillie Gifford, European Credit Management and Amundi each represent more than 5% of net assets. These investments are in pooled funds. All other investments are either below 5% or constitute a portfolio of segregated assets.

### c) Stock Lending

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

## 16. Financial Instruments

### a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table summarises the carrying amounts of financial assets and liabilities by category.

31 March 2013			31 March 2014		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost	Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000	£000	£000	£000
<b>Assets</b>					
72,005			71,424		
622,265			742,593		
899,205			977,065		
66,982			98,592		
160,308			164,252		
478			258		
	14,615			17,073	
6,178	7,692		14,966	9,975	
<u>1,827,421</u>	<u>22,307</u>	<u>-</u>	<u>2,069,150</u>	<u>27,048</u>	<u>-</u>
<b>Liabilities</b>					
2,864			23		
3,857			11,785		
		2,274			1,234
<u>6,721</u>	<u>-</u>	<u>2,274</u>	<u>11,808</u>	<u>-</u>	<u>1,234</u>
<u>1,820,700</u>	<u>22,307</u>	<u>(2,274)</u>	<u>2,057,342</u>	<u>27,048</u>	<u>(1,234)</u>

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

	2013/14	2012/13
	£000	£000
Fair Value Through Profit & Loss	194,141	236,592
Loans and Receivables	4,618	612
	<u>198,759</u>	<u>237,204</u>

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

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

<b>31 March 2013</b>			<b>31 March 2014</b>		
Cost	Fair Value		Cost	Fair Value	
£000	£000		£000	£000	
<b>Assets</b>					
1,525,128	1,827,421	Fair Value through Profit & Loss	1,518,466	2,069,150	
22,307	22,307	Loans and Receivables	27,048	27,048	
<u>1,547,435</u>	<u>1,849,728</u>		<u>1,545,514</u>	<u>2,096,198</u>	
<b>Liabilities</b>					
6,721	6,721	Fair Value through Profit & Loss	11,808	11,808	
2,274	2,274	Liabilities at Amortised Cost	1,234	1,234	
<u>8,995</u>	<u>8,995</u>		<u>13,042</u>	<u>13,042</u>	

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

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

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

#### Level 1

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

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

#### Level 2

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

#### Level 3

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

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

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

Values at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	2,068,892		258	2,069,150
Loans and Receivables	27,108			27,108
	<u>2,096,000</u>	<u>-</u>	<u>258</u>	<u>2,096,258</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	11,785	23		11,808
Liabilities at Amortised Cost	1,234			1,234
	<u>13,019</u>	<u>23</u>	<u>-</u>	<u>13,042</u>
Net Assets	<u>2,082,981</u>	<u>- 23</u>	<u>258</u>	<u>2,083,216</u>

Values at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	1,826,943		478	1,827,421
Loans and Receivables	22,307			22,307
	<u>1,849,250</u>	<u>-</u>	<u>478</u>	<u>1,849,728</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	3,858	2,863		6,721
Liabilities at Amortised Cost	2,274			2,274
	<u>6,132</u>	<u>2,863</u>	<u>-</u>	<u>8,995</u>
Net Assets	<u>1,843,118</u>	<u>- 2,863</u>	<u>478</u>	<u>1,840,733</u>

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

### Risk and Risk Management

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

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

## a) Market Risk

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

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

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

The Fund manages these risks in two ways:

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

## Other Price Risk

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

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

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

Following analysis of historical data and expected investment return movement during the financial year, the following table shows movements in market price risk that are reasonably possible for the 2014/15 reporting period, assuming other variables such as foreign currency rates and interest rates remain unchanged. The changes disclosed are broadly consistent with a one standard deviation movement in the value of assets. A prior year comparator is also shown below.

<b>Asset Type</b>	<b>Value as at 31 March 2014</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£000	%	£000	£000
Cash and Cash Equivalents	12,185	0.0	12,185	12,185
UK Bonds	71,424	5.5	75,352	67,496
UK Equities	408,273	12.3	458,491	358,055
Overseas Equities	334,320	11.2	371,764	296,876
UK Pooled Equity	51,942	12.3	58,331	45,553
Overseas Pooled Equity	570,674	11.2	634,589	506,759
UK Pooled Bonds	186,419	5.5	196,672	176,166
Overseas Pooled Bonds	168,031	5.5	177,273	158,789
Pooled Property Investments	98,592	2.7	101,254	95,930
Diversified Growth Funds	164,251	4.9	172,299	156,203
Private Equity	258	12.3	290	226
Derivatives	(23)	0.0	(23)	(23)
Non Investment Debtors/Creditors	3,181	0.0	3,181	3,181
<b>Total Assets</b>	<b>2,069,527</b>		<b>2,261,658</b>	<b>1,877,396</b>

<b>Asset Type</b>	<b>Value as at 31 March 2013</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£000	%	£000	£000
Cash and Cash Equivalents	8,427	0.0	8,427	8,427
UK Bonds	72,005	5.5	75,965	68,045
UK Equities	314,260	13.0	355,114	273,406
Overseas Equities	308,005	12.1	345,274	270,736
UK Pooled Equity	41,262	13.0	46,626	35,898
Overseas Pooled Equity	501,679	12.1	562,382	440,976
UK Pooled Bonds	142,721	5.5	150,571	134,871
Overseas Pooled Bonds	213,543	5.5	225,288	201,798
Pooled Property Investments	66,982	1.8	68,188	65,776
Diversified Growth Funds	160,308	9.3	175,217	145,399
Private Equity	478	13.0	540	416
Derivatives	(2,863)	0.0	(2,863)	(2,863)
Non Investment Debtors/Creditors	2,321	0.0	2,321	2,321
<b>Total Assets</b>	<b>1,829,128</b>		<b>2,013,049</b>	<b>1,645,207</b>

### Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	<b>2013/14</b>	<b>2012/13</b>
	£000	£000
Cash and Cash Equivalents	12,185	8,427
Fixed Interest Securities	<u>71,424</u>	<u>72,005</u>
	<u>83,609</u>	<u>80,432</u>

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Advice suggests that it is reasonable to expect a change in the long term average rate of approximately 1%. For illustrative purposes if it were to change by +/- 100 bps the values in the table above would change by £836k and for 2012/13 asset values, £804k.

### Currency Risk

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

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

After receiving advice it is considered that the likely volatility associated with foreign exchange movements to be +/-5.2%. A fluctuation of this size is considered reasonable based on the analysis of long term historical movements in the month end exchange rates.

Assuming all other variables, in particular, interest rates remain constant, a 5.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

<b>Asset Type</b>	<b>Value as at 31 March 2014</b>	<b>Value on 5.2% Increase</b>	<b>Value on 5.2% Decrease</b>
	£000	£000	£000
Overseas Equities	904,994	952,054	857,934
Overseas Bonds	168,031	176,769	159,293
Total Assets	<u>1,073,025</u>	<u>1,128,822</u>	<u>1,017,228</u>

<b>Asset Type</b>	<b>Value as at 31 March 2013</b>	<b>Value on 5.5% Increase</b>	<b>Value on 5.5% Decrease</b>
	£000	£000	£000
Overseas Equities	809,684	854,217	765,151
Overseas Bonds	213,543	225,288	201,798
Total Assets	<u>1,023,227</u>	<u>1,079,504</u>	<u>966,950</u>

### b) Credit Risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive

derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

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

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

NYCC believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements with NYCC at 31 March 2014 was £4.9m (31 March 2013, £6.2m) and was held with the following institutions:

	31 March 2014	31 March 2013
	£000	£000
<b>Cash and Cash Equivalents</b>		
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	117	477
Institutions with Fitch Rating Long Term A and Short Term F1	1,640	1,434
Institutions with Fitch Rating Long Term AA- and Short Term F1+	938	-
<b>Deposits with banks and financial institutions for less than 1 Yr</b>		
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	-	3,338
Institutions with Fitch Rating Long Term AA- and Short Term F1+	-	318
Institutions with Fitch Rating Long Term A+ and Short Term F1	-	636
Institutions with Fitch Rating Long Term A and Short Term F1	2,193	-
	<u>4,888</u>	<u>6,203</u>

### c) Liquidity Risk

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31 March 2014 the value of illiquid assets was £258k, which represented less than 0.1% of total Fund assets (31 March 2013, £478k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2014 are due within one year.

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



## 18. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008 the Fund's Actuary, Mercer, undertakes a funding Valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such Valuation took place as at 31 March 2013. The next Valuation will take place as at 31 March 2016.

The key elements of NYPF's funding policy are:

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

The aim is to achieve 100% solvency over a period of 27 years from April 2014 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 Triennial Valuation the Fund was assessed as 73% funded (67% at the 2010 Valuation). This reflected a deficit of £668m (£659m at the 2010 Valuation).

The common rate of employers' contributions is the average rate required from all employers calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date. For 2013/14 the common rate (determined at the 2010 Valuation) is 12.2% of pensionable pay and for the three years from 2014/15 it is 13.8%.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

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

	<b>For future service liabilities</b>
Investment Return	5.60% per annum
Inflation	2.60% per annum
Salary Increases	4.10% per annum
Pension Increases	2.60% per annum

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

	<b>Male</b>	<b>Female</b>
Current pensioners	22.9 years	25.4 years
Future pensioners (assumed current age 45)	25.1 years	27.7 years

Life expectancy for the year to 31 March 2014 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.

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

## 19. Actuarial Present Value of Promised Retirement Benefits

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

## 20. Current Assets

	2013/14	2012/13
	£000	£000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment Transactions	11,405	3,533
Accrued Dividends	2,359	1,785
Withholding Taxes Recoverable	1,202	860
	<u>14,966</u>	<u>6,178</u>
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	8,769	7,106
Contributions due from Admitted Bodies	449	494
Pensions Rechargeable	13	25
Interest on Deposits	2	0
Other	802	67
	<u>10,035</u>	<u>7,692</u>
<b>Total Debtors</b>	<u><b>25,001</b></u>	<u><b>13,870</b></u>

## 21. Current Liabilities

	2013/14	2012/13
	£000	£000
<b>Creditors</b>		
Investment Creditors	11,808	6,720
Sundry Other Creditors	1,234	2,274
	<u>13,042</u>	<u>8,994</u>

All creditors are non government entities and individuals.

## 22. Additional Voluntary Contributions (AVCs)

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

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

AVC contributions of £2,390k were paid directly to Prudential during the year (£2,226k in 2012/13). The total value of the AVC Fund serviced by these contributions as at 31 March was:

	31 March 2014	31 March 2013
	£000	£000
Prudential	<u>21,320</u>	<u>17,309</u>

## **23. Related Party Transactions**

### **North Yorkshire County Council**

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

The Council incurred costs of £1,078k (£1,064k in 2012/13) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £47.5m to the Fund in 2013/14 (£45.3m in 2012/13). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013 the Fund had an average investment balance of £1.8m (£2.2m) during 2012/13) receiving interest of £15.6k (£26k paid in 2012/13) on these funds.

### **Governance**

As at 31 March 2014 there were five Pension Fund Committee Members who were also active members of the Fund, each of whom was required to declare their interests at each meeting. The Corporate Director – Strategic Resources, who was also the Treasurer of the Fund was also an active member. Benefits for PFC Members and the Treasurer were accrued on exactly the same basis as for all other members of the Fund.

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

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2012/13).

## **25. Contingent Assets**

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

## **26. Impairment Losses**

The Fund had no material impairment losses at the year end (£nil in 2012/13).

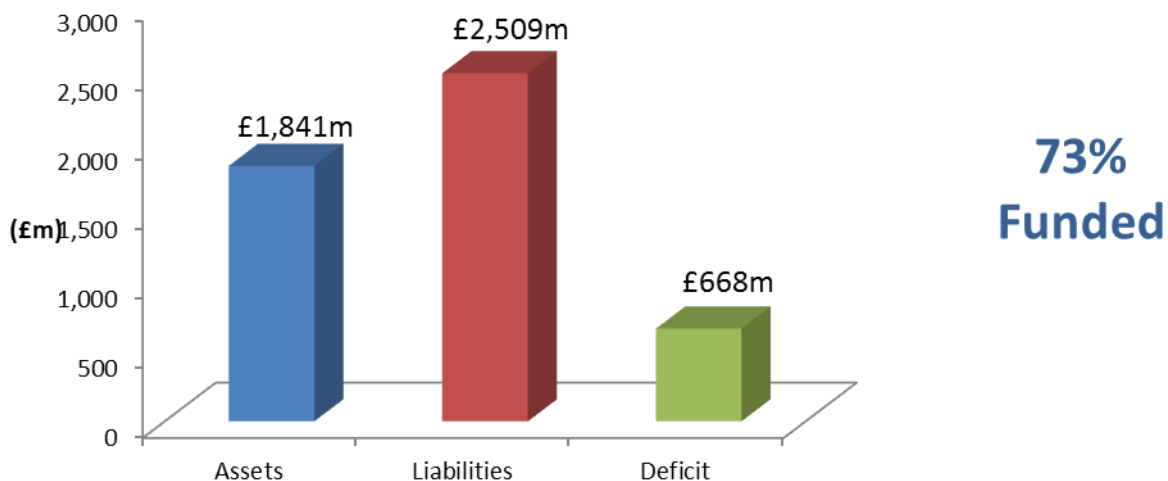
## NORTH YORKSHIRE PENSION FUND

### *Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary*

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the North Yorkshire Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,841 million represented 73% of the Fund's past service liabilities of £2,509 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £668 million.



The valuation also showed that a common rate of contribution of 13.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 80% with a resulting deficit of £480 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £21m per annum increasing at 4.1% per annum (equivalent to approximately 5.5% of projected Pensionable Pay at the valuation date) for 27 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term public sector pay restraint over a 5 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,078 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£237 million. Adding interest over the year increases the liabilities by c£130 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further c£31 million. Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of £263 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,739 million.

**Ian Kirk**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**July 2014**

**AUDITOR'S STATEMENT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT WHEN AN OPINION HAS ALREADY BEEN ISSUED ON THE PENSION FUND FINANCIAL STATEMENTS IN THE STATEMENT OF ACCOUNTS OF THE ADMINISTERING AUTHORITY**

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF NORTH YORKSHIRE COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS**

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

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

**Respective responsibilities of the Corporate Director – Strategic Resources and the auditor**

As explained more fully in the Statement of the Corporate Director – Strategic Resources Responsibilities, the Corporate Director – Strategic Resources is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of North Yorkshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

## **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of North Yorkshire County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

25 September 2014



# NORTH YORKSHIRE PENSION FUND

# NORTH YORKSHIRE PENSION FUND

## STATEMENT OF INVESTMENT PRINCIPLES

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## **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.

<b>Index Linked Bonds</b>	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.
<b>Diversified Growth Funds</b>	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.
<b>UK Property</b>	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.
<b>Derivative Instruments</b>	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.
<b>Cash</b>	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 the most 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 2013. 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 2013 Triennial Valuation. The associated workshops explored the risk/reward relationship and the most appropriate asset allocation strategy. The results of this exercise form the basis of 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 (calculated on a gilts basis) of 2.4%, equivalent to CPI plus 3%; 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](http://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 2013/14 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.

June 2014

**NORTH YORKSHIRE PENSION FUND****GOVERNANCE COMPLIANCE STATEMENT****TABLE OF CONTENTS**

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## **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 June 2014)
- (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 is invited to attend 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 July in its programme. This is in order to consider the draft Statement of Final Accounts and the set of updated governance documents, in addition to any other business requiring attention at that time.
- 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 required to submit a quarterly report to the PFC summarising the investment activities within the Fund’s portfolios during the preceding quarter and reporting the value and performance of the investments at the end of each such quarter. In addition, the Fund Custodian presents an independent report on the overall investment performance of the Fund, together with details relating to individual managers and different classes of asset.
- 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](http://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
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### 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	Fully compliant
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	main LGPS committees	
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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
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6.8 **Scope**

a	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant
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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
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## **NORTH YORKSHIRE PENSION FUND (NYPF) 2013 Funding Strategy Statement (FSS)**

*This Statement has been prepared by North Yorkshire County Council (the Administering Authority) to set out the funding strategy for the North Yorkshire Pension Fund (the NYPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.*

### **1. INTRODUCTION**

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Administration Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a 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 funding strategy.
- 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 NYPF 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 on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the NYPF are guaranteed by statute (s.29 LGPS (Administration) Regulations, as amended) and thereby the pensions promise 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 through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (“the BMC Regulations”) and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) governs the NYPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary,



including a rates and adjustments certificate. Contributions to the NYPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

## **2. PURPOSE OF THE FSS IN POLICY TERMS**

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 actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the NYPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## **3. AIMS AND PURPOSE OF THE NYPF**

**The aims of the Fund are to:**

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

**The purpose of the Fund 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), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

#### 4. RESPONSIBILITIES OF THE KEY PARTIES

**The Administering Authority** should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NYPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the NYPF's performance and funding and amend FSS/SIP.

**The Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- 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.

**The Fund actuary** should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

#### 5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

##### **Funding Objective**

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

## Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 21 years will apply.
- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 27 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain. Contribution reductions may only apply if an employer's deficit recovery period is at most 15 years.
- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 15 year period (if surpluses are sufficiently large, contribution requirements will

be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme 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 the Scheme to another participating employer.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

### **Deficit Recovery Plan**

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial 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, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, 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; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant

contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the North Yorkshire Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

**The Normal Cost of the Scheme (Future Service Contribution Rate)**

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”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

**6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 73% covered by the current assets, with the funding deficit of 27% being covered by future deficit contributions.

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

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. Investment of the NYPF’s assets in line with the least risk portfolio would minimise fluctuations in the NYPF’s ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

<b>Asset Class (Summary)</b>	<b>%</b>
Equities	50-75
Liability matching	15-30
Alternatives(excluding property)	5-10
Property	5-10
<b>TOTAL</b>	<b>100</b>

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.6% per annum.

## **Bespoke Investment Strategy**

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.

NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 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.

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. IDENTIFICATION OF RISKS AND COUNTER MEASURES**

The funding of defined benefits is by its nature uncertain. Funding of the NYPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NYPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

### **What are the Risks?**

#### **Financial**

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

#### **Demographic**

- Longevity horizon continues to expand

- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

### **Insurance of certain benefits**

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

### **Regulatory**

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

### **Governance**

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

## **8. MONITORING AND REVIEW**

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the NYPF membership, or LGPS benefits
- 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 e.g. closure to new entrants
- if there have been any significant special contributions paid into the NYPF

**North Yorkshire County Council  
as administering authority for the North Yorkshire Pension Fund**

## **ACTUARIAL VALUATION AS AT 31 MARCH 2013**

### **Method and assumptions used in calculating the funding target**

#### **Method**

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 scheme 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.

#### **Financial assumptions**

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

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 the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.6% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

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

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
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

##### ***Salary increases***

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the fund. This results in a total salary increase of 1% per annum for 2 years and in line with assumed CPI Inflation of 2.6% per annum for 3 years.

##### ***Pension increases/Indexation of CARE benefits***

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 the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).



## **Demographic assumptions**

### ***Mortality***

The mortality in retirement assumptions will be based on 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 mortality tables used are set out below, with a loading reflecting NYPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is 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 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### **Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

### ***Other Demographics***

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

### ***Expenses***

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

### ***Discretionary Benefits***

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

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

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.

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.

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, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

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 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

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 key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation**

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.8% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

**Demographic assumptions**

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	156% / 109%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	109% / 99%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / 96%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	109% / 99%	CMI_2012	1.5%

## **Assumptions used in calculating contributions payable under the recovery plan**

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

### **Increases in yields on fixed and index linked gilts**

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

# **North Yorkshire Pension Fund**

## **Admissions and Terminations Funding Policy**

### **1. Introduction**

- 1.1 This document details the North Yorkshire Pension Fund's (NYPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an admission body's participation in the NYPF, and considerations for current admission bodies. It supplements the general funding policy of the Fund as set out in the Funding Strategy Statement (FSS).
- 1.2 Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- 1.3 A standard data base of all current admission bodies participating in the NYPF, recording relevant details of the admission agreement and funding arrangements for each body, is maintained by the Fund. This data base is a live document and will be updated as new bodies are admitted to the NYPF.
- 1.4 This document is reviewed periodically and updated where changes are required, either in line with statutory requirements or where pragmatic solutions have been identified to deal with new scenarios or approaches.

### **2. Principles**

#### **Termination of an admission agreement**

- 2.1 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.
- 2.2 In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members
- 2.3 In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.
- 2.4 The NYPF's policy is that a termination assessment will be made based on a least risk (i.e. "matched") funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

- 2.5 If, instead, the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities, the NYPF's policy is that the Triennial Valuation funding basis will be used for the termination assessment. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the "novation" of the admission agreement). This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.
- 2.6 The LGPS (Miscellaneous) Regulations 2012 allow for Scheme Employers to be subject to a deficit payment on termination. The Administering Authority will decide the actuarial funding basis to apply for such a termination assessment after taking advice from the actuary to the NYPF and considering the particular circumstances of the Scheme Employer.

### **Funding basis / Controlled Flexibility**

- 2.7 An admission body may choose to pre-fund for termination i.e. to amend their funding approach to a matched methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the matched basis.
- 2.8 For any admission bodies funding on such a matched strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the admission body's notional asset share of the Fund will be credited with an investment return in line with the matched funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

### **Administering Authority options**

- 2.9 The preference of the NYPF is for the Administering Authority to commission a risk assessment from the actuary to the NYPF on behalf of the potential admitted body, in line with the LGPS (Miscellaneous) Regulations 2012, effective from 1 October 2012, which requires a risk assessment to be carried out to the satisfaction of the Administering Authority. Where the potential admission body instead insists on carrying out the risk assessment (either themselves or by commissioning a third party), this must be done to the satisfaction of the Administering Authority (and the transferring employer where appropriate).
- 2.10 In order to protect other Fund employers, when considering applications for admission body status the Administering Authority's clear preference is that there should be a guarantor within the Fund. However, where there is no guarantor within the Fund, the Administering Authority will consider other applications on a case-by-case basis and can determine that:

- The admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions; and/or
- The admission body must have a bond or indemnity from an appropriate third party in place. The actuary to the NYPF will be asked to carry out a risk assessment as per paragraph 2.9, with the level of any bond requirement being determined by the Administering Authority; and/or
- The admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide; or
- The admission body's application may be refused.

2.11 Some aspects that the Administering Authority may consider when deciding whether to apply any of the options under 2.10 above, in the absence of a guarantor, are:

- Uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admission body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

### **3 Implementation**

#### **New admissions (admitted on or after 26/5/2011)**

3.1 With effect from 26 May 2011 the NYPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an admission body's participation in the NYPF.

#### **Transferee admission bodies (TABs)**

3.2 Transferee admission bodies generally will have a guarantor in the Fund since the Regulations require that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant Scheme Employer should be revised. Accordingly, in general, the matched approach to funding and termination will not apply for TABs.

3.3 On termination of a TAB admission, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

3.4 An assessment of the level of risk on premature termination of the contract will be carried out, as detailed in paragraph 2.9. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NYPF the decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer, and should be agreed by the contractor

and Scheme Employer as part of the commercial negotiation, to the satisfaction of the Administering Authority.

- 3.5 Deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.
- 3.6 An exception to the above policy applies if the guarantor is not a participating employer within the NYPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NYPF the Administering Authority may in this case treat the admission body as if it has no guarantor.

### **Community admission bodies (CABs)**

- 3.7 From 1 October 2012, as per the requirements of the LGPS (Miscellaneous) Regulations 2012, paragraph 2.9 will apply for the admission of a CAB.
- 3.8 The NYPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, a guarantor will be required to the Admission Agreement. If a guarantor (of sufficient standing acceptable to the Fund) is not forthcoming the admission will either not be approved or the Administering Authority may, if it deems appropriate, accept the admission subject to the requirements as described in paragraph 2.10 above. If required, any bond amount will be subject to review on a regular basis.

In the case of some bodies such as housing management or leisure facilities which are set up under a trust arrangement and effectively have a council as a guarantor under the Admission Agreement, then the admission will be approved and no risk assessment will be required.

- 3.9 In a similar way, with effect from 1 April 2008, new town and parish councils entering the Fund will be treated as follows:
- If a guarantor (of sufficient standing acceptable to the Fund) is forthcoming then the admission will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.
  - If there is no guarantor then the admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions.
- 3.10 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

### **Existing admissions (admitted prior to 26/5/2011)**

- 3.11 A review of all current admission bodies participating in the NYPF has been conducted with the relevant details documented in the data base maintained by the Fund.



- 3.12 The NYPF policy is that these existing admissions will be notionally “ring-fenced” with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements. In the event that unfunded liabilities arise that cannot be recovered from the admission body at termination and in the absence of a guarantor or successor body, these will fall to be met by the Fund as a whole.

### **Notification of Termination**

- 3.13 In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation’s operations may be planned to be discontinued. In this case admission bodies are required to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of the admission. Effectively, this will be achieved by “locking in” to financial conditions for the termination prior to that date, and the hypothecation of a notionally matched investment strategy. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

### **Grouped bodies**

- 3.14 The NYPF currently groups the following types of employers for contribution rate setting purposes:

- Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 31 March 2008).
- NYCC - Local Management of Schools (NYCC LMS) Pool
- City of York – Local Management of Schools (COY LMS) Pool

Further details of these groupings are set out below.

### **Grouped Scheduled Bodies**

- 3.15 The NYPF policy is that, on termination of participation within the grouped scheduled bodies, the termination assessment is based on a simplified share of deficit approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last actuarial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.
- 3.16 In line with the NYPF’s policy for existing admission bodies, the share of deficit will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. 6

- 3.17 Any unfunded liability that cannot be reclaimed from the outgoing body will be underwritten by the group and not all employers in the Fund.
- 3.18 Following the termination of a grouped body, any residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

### **Local Management of Schools (LMS) Pool**

- 3.19 The LMS pool refers to the grouping of some transferee admission bodies relating to catering and cleaning contracts within schools. On the admission of each such body to the Fund, the Assistant Director, Finance & Central Services for CYPS appropriate assistant director at North Yorkshire County Council will determine whether they should be included in the LMS pool.
- 3.20 Employers in the LMS pool will pay the same contribution rate as that payable by North Yorkshire County Council or City of York depending on which pool they are in.
- 3.21 At each triennial actuarial valuation, for the purpose of determining the contributions, the Actuary will pool together the assets and liabilities in respect of the Council and all other employers included in that Council's LMS pool. The contribution rate so determined will be payable by all the employer members of that Council's LMS pool.
- 3.22 On termination of an admission body within the LMS pool, no termination valuation will be calculated. The assets and liabilities relating to the employees will be subsumed by North Yorkshire County Council or City of York depending on which pool they are in.

# North Yorkshire Pension Fund

## Communications Policy Statement June 2014

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

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- 2 Objectives
- 3 Stakeholders
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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) – regular 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 Employing Authorities
- Communications Strategy 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\* – calculated by members online or provided on request in appropriate cases
- annual benefit statement\* – provided on-line for active and deferred members or can be provided in hard copy on request
- newsletter\* – as appropriate for active members (but not less frequently than annual) and once per year for retired members
- pre-retirement courses – support for employer led courses as required up to 6 times per year
- membership data on-line\* – personal data securely available to active and deferred members
- 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 or e-mail
- 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
- 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
- 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>**

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

**Name of Fund**

**North Yorkshire Pension Fund**

### **Primary Contribution Requirements**

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

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

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

### **Further Adjustments**

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

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

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

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

### **Regulation 36(8)**

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

**Signature**

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**Name**

Ian Kirk

**Qualification**

Fellow of the Institute of Actuaries

**Date of signing**

31 March 2011