

# Agenda

**Meeting: Audit Committee**

**Venue: Grand Meeting Room, County Hall,  
Northallerton**

**Date: Thursday 24 September 2015 at  
1.30pm**

**Note: There is no informal Seminar for  
Audit Committee Members on 24  
September 2015.**

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## Business

1. **Minutes of the meeting held on 16 July 2015.**

(Pages 1 to 5)

2. **Public Questions or Statements.**

Members of the public may ask questions or make statements at this meeting if they have given notice to Ruth Gladstone of Democratic Services (*contact details below*) by midday on Monday 21 September 2015. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

3. **Progress on Issues Raised by the Committee** – Joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).  
(Pages 6 to 8)
4. **Report to Members on the 2014/15 Audit by the External Auditor:-**
  - (a) **North Yorkshire Pension Fund** - The report of the External Auditor.  
(Report not yet available)
  - (b) **North Yorkshire County Council** - The report of the External Auditor.  
(Pages 9 to 38)
5. **North Yorkshire Pension Fund Annual Report 2014/15** – Report of the Corporate Director – Strategic Resources and Treasurer to the Pension Fund.  
(Pages 39 to 143)
6. **Review of Statement of Final Accounts (incorporating Annual Governance Statement)** - Report of Audit Committee Members' Working Group.  
(Pages 144 to 147)
7. **Statement of Final Accounts for 2014/15 including Letter of Representation** - Report of the Corporate Director – Strategic Resources.  
(Pages 148 to 159)  
(Statement of Final Accounts booklet collated separately)
8. **Annual Report of the Audit Committee** - Report of the Chairman of the Audit Committee.  
(Pages 160 to 167)
9. **Internal Audit Work and Related Internal Control Matters for the Health and Adult Services Directorate**
  - (a) Report of the Head of Internal Audit.  
(Pages 168 to 175)
  - (b) Report of the Corporate Director – Health and Adult Services.  
(Pages 176 to 206)
10. **Internal Audit Report on Information Technology, Corporate Themes and Contracts** - Report of the Head of Internal Audit.  
(Pages 207 to 221)

11. **Review of Assurance over Value for Money** – Report of the Corporate Director – Strategic Resources.  
(Pages 222 to 227)
12. **Review of Finance, Property and Contract Procedure Rules** - Report of the Corporate Director – Strategic Resources.  
(Pages 228 to 230)
13. **Programme of Work** – Report of the Corporate Director – Strategic Resources.  
(Page 231)
14. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances.**

Barry Khan  
Assistant Chief Executive (Legal and Democratic Services)

County Hall  
Northallerton

16 September 2015

**Notes:**

- (a) Members are reminded of the need to consider whether they have any interests to declare on any of the items on this agenda and, if so, of the need to explain the reason(s) why they have any interest when making a declaration.

The relevant Democratic Support Officer or Monitoring Officer will be pleased to advise on interest issues. Ideally their views should be sought as soon as possible and preferably prior to the day of the meeting, so that time is available to explore adequately any issues that might arise.

- (b) **Emergency Procedures for Meetings**

**Fire**

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Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

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**Accident or Illness**

First Aid treatment can be obtained by telephoning Extension 7575.

# AUDIT COMMITTEE

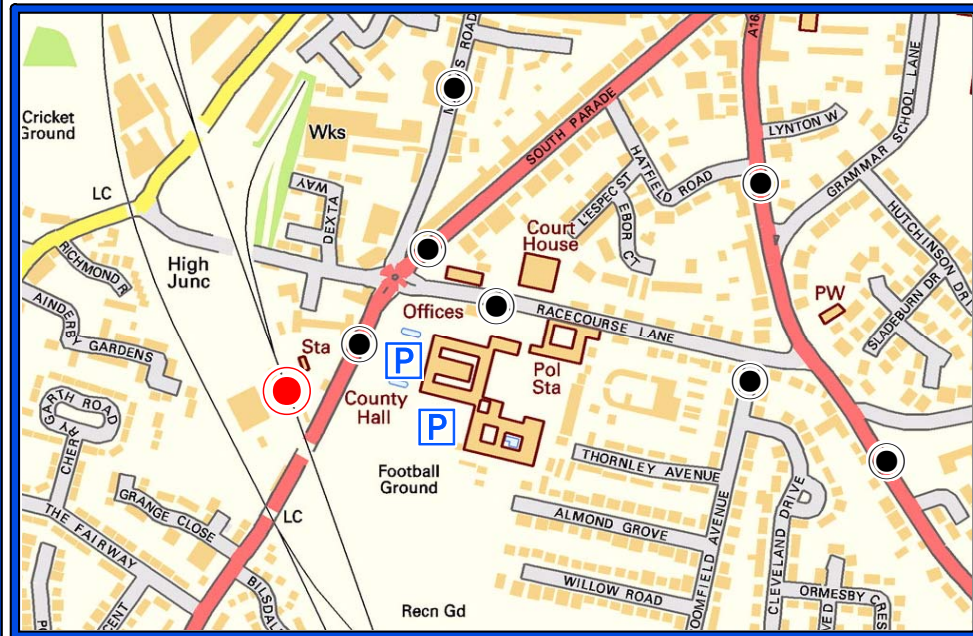
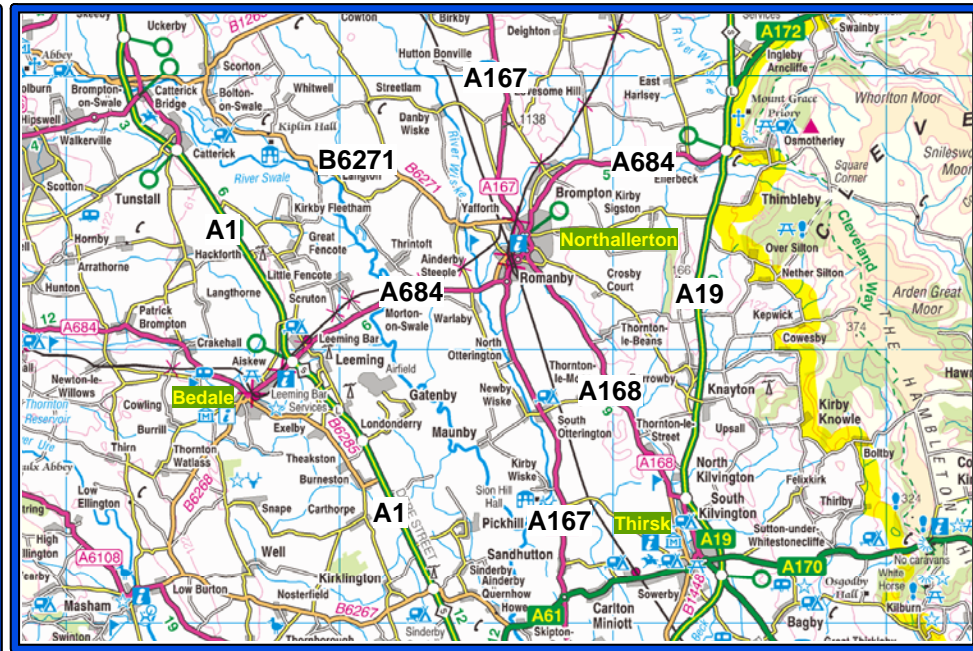
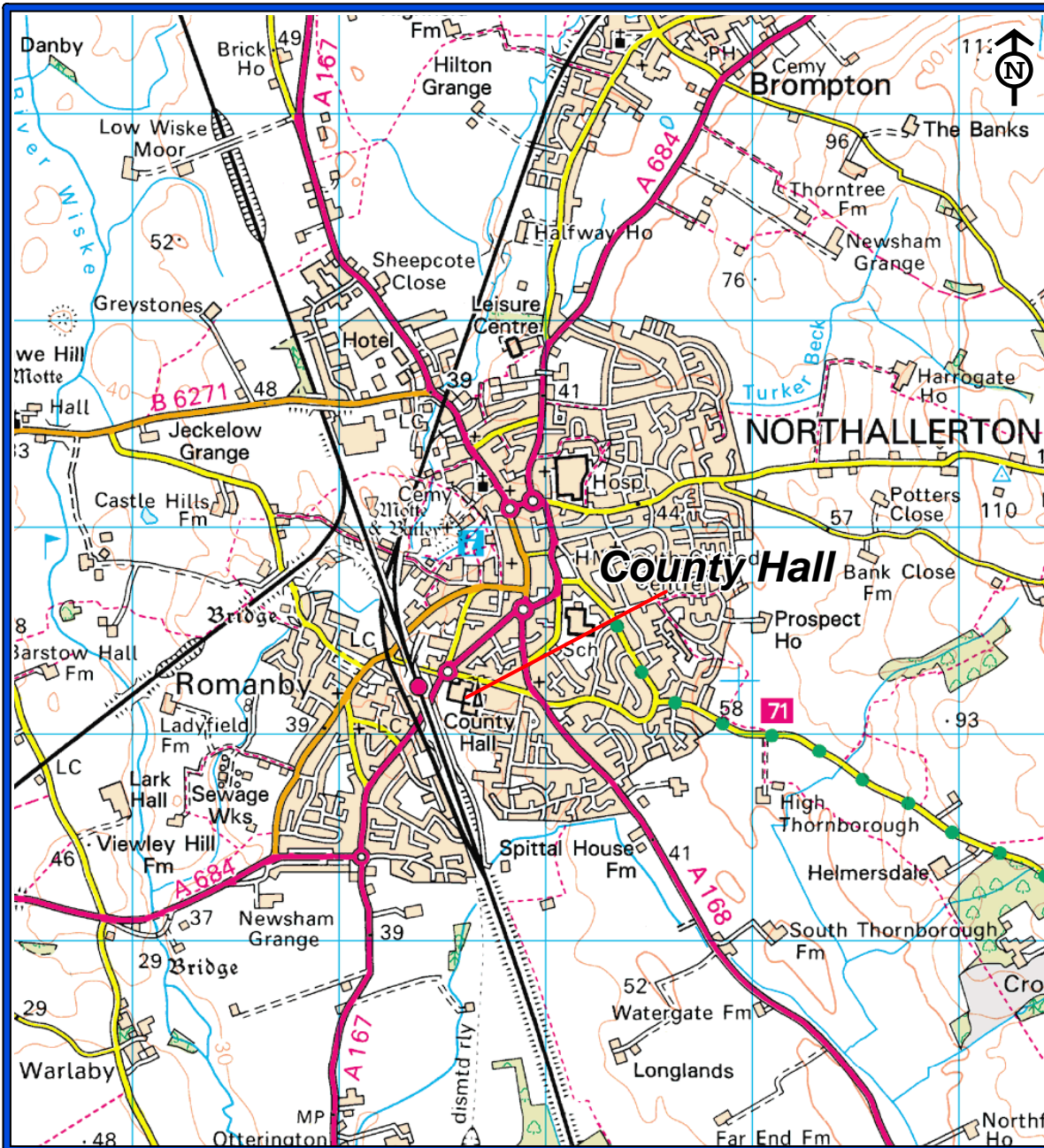
## 1. Membership

<b>County Councillors (8)</b>							
	<i>Councillors Names</i>				<i>Political Party</i>		
1	ATKINSON, Margaret (Vice Chairman)				Conservative		
2	BAKER, Robert				Conservative		
3	BROADBENT, Eric				Labour		
4	CLARK, Jim				Conservative		
5	FORT, John BEM				Conservative		
6	GRANT, Helen				NY Independent		
7	HOULT, Bill				Liberal Democrat		
8	JORDAN, Mike (Chairman)				Conservative		
<b>Members other than County Councillors (3)</b>							
1	PORTLOCK, David						
2	MARSH, David						
3	Vacancy						
<b>Total Membership – (11)</b>				<b>Quorum – (3 ) County Councillors</b>			
Con	Lib Dem	NY Ind	Labour	Liberal	UKIP	Ind	Total
5	1	1	1	0	0	0	

## 2. Substitute Members

<b>Conservative</b>		<b>Liberal Democrat</b>	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	HARRISON-TOPHAM, Roger	1	De COURCEY-BAYLEY, Margaret-Ann
2	SANDERSON, Janet	2	
3	METCALFE, Chris	3	
4		4	
5		5	
<b>NY Independent</b>		<b>Labour</b>	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	BLACKIE, John	1	SHAW-WRIGHT, Steve
2	JEFFERSON, Janet	2	
3		3	
4		4	
5		5	





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Northallerton  
North Yorkshire  
DL7 8AD

Tel : 0845 8 72 73 74



North  
Yorkshire County Council

# North Yorkshire County Council

## Audit Committee

Minutes of the meeting held on Thursday 16 July 2015 at 1.30 pm at County Hall, Northallerton.

### Present:-

#### County Councillor Members of the Committee:-

County Councillor Mike Jordan (in the Chair); County Councillors Margaret Atkinson, John Blackburn (as Substitute for Jim Clark), Eric Broadbent, Helen Grant, Bill Houlton and Cliff Trotter (as Substitute for John Fort BEM).

#### External Member of the Committee:-

Mr David Portlock.

#### In Attendance:-

County Councillor Carl Les (Leader of the Council) and County Councillor Gareth Dadd (Executive Member for Central Services, specifically Finance and HR issues).

Deloitte LLP Officer: Celia Craig.

County Council Officers: Gary Fielding (Corporate Director – Strategic Resources), Neil Irving (Assistant Director (Policy and Partnerships)), Ruth Gladstone (Principal Democratic Services Officer) and Peter Yates (Assistant Director - Corporate Accountancy).

#### Apologies for Absence:

Apologies for absence were received from County Councillor Robert Baker and Mr David Marsh (External Member).

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### Copies of all documents considered are in the Minute Book

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The Chairman advised that this meeting was the Committee's last to be attended by Peter Yates (Assistant Director - Corporate Accountancy) prior to his retirement. The Chairman, on behalf of Members, and the Corporate Director – Strategic Resources each paid tribute to the excellent service Peter Yates had given North Yorkshire County Council and the former North Riding County Council during the previous 46 years and wished him a long and happy retirement.

#### 129. Minutes

##### Resolved –

That the Minutes of the meeting held on 25 June 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record, subject to the inclusion of County Councillor Helen Grant's name in the list of Members who had tendered apologies for absence for that meeting.

### **130. Declarations of Interest**

County Councillor Mike Jordan advised that he was a Member of North Yorkshire Pension Board. Mr David Portlock advised that he was the Independent Chairman of North Yorkshire Pension Board. These declarations were made in a spirit of openness and transparency. They were not declarable interests under the County Council's Members' Code of Conduct.

### **131. Public Questions or Statements**

There were no questions or statements from members of the public.

### **132. Annual Report on Partnership Governance 2014/15**

Considered -

The report of the Corporate Director - Strategic Resources providing an annual report concerning the governance of partnerships involving the County Council for the financial year 2014/15.

No concerns regarding governance arrangements had been identified following a review, by officers from Legal and Democratic Services, of all partnerships with a medium to high risk rating. That review ensured that robust arrangements were in place to protect the interests of the partnership and, in particular, of the County Council.

During discussion, the Corporate Director – Strategic Resources clarified that the risks, within the Statement of Assurance, in relation to Health and Wellbeing related to the risks of failure to maximise opportunities. There were no concerns about the Health and Wellbeing Board's governance arrangements.

The Committee was advised that the Executive, on 7 July 2015, had considered the annual report and had decided that, in future, the Executive should receive an 'issues report', in place of the annual report, on an as and when required basis, highlighting any concerns raised by the Audit Committee about partnership governance.

**Resolved -**

- (a) That the Annual Report on Partnership Governance be received.
- (b) That the arrangements in place to ensure good governance and reporting of the partnership activity be noted.
- (c) That the contents of the schedule of partnerships that were within the scope of the report as at 31 March 2015 be noted.

### **133. External Auditor - Audit Planning Reports**

Considered –

The following documents from Deloitte LLP:-

- (a) North Yorkshire County Council - Planning Report for 2014/15 Audit.
- (b) North Yorkshire Pension Fund - Planning Report for the 2014/15 Audit.

Celia Craig (Deloitte) introduced the above documents and highlighted Deloitte's audit approach and the more significant areas where Deloitte would focus their attention during their 2014/15 audits.



During discussion:-

- Celia Craig advised that Deloittes were happy with the overall results of the external monitoring of Deloittes' policies and procedures by the Audit Quality Review Team and the ICAEW's Quality Assurance Department.
- Both Celia Craig and the Corporate Director – Strategic Resources advised that they anticipated that the valuation of Pension Fund investments would again be an issue during the audit due, firstly, to the complexity of such valuations and, secondly, because of changes in the global stock markets when a difference of only a few hours could result in a big difference in valuations.

**Resolved -**

That the Planning Reports for the 2014/15 audits be noted.

**134. Statement of Final Accounts 2014/15 - North Yorkshire Pension Fund**

Considered –

The report of the Corporate Director – Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of the North Yorkshire Pension Fund for the financial year 2014/15 in advance of the accounts being audited by Deloittes during July and August and being re submitted to the Committee for formal approval on 24 September 2015.

It was reported that the Pension Fund Committee, on 9 July 2015, had decided, subject to various minor amendments, to approve for referral to the Audit Committee the draft Statement of Final Accounts 2014/15 of North Yorkshire Pension Fund. The Pension Fund Committee had raised no significant issues in relation to the draft Statement of Final Accounts.

**Resolved –**

That the draft Statement of Final Accounts of the North Yorkshire Pension Fund for 2014/15 be noted.

**135. Statement of Final Accounts 2014/15 - North Yorkshire County Council**

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to consider the draft Statement of Final Accounts of North Yorkshire County Council for the financial year 2014/15 in advance of the accounts being audited by Deloittes during July and August and being re-submitted to the Committee for formal approval on 24 September 2015.

The Committee, on 25 June 2015, had appointed a Sub-Group, comprising the Chairman, Vice-Chairman and Mr David Portlock (External Member), to look in detail at the draft Statement of Final Accounts and the draft Annual Governance Statement and provide feedback to the Committee's meeting on 24 September 2015.

Members highlighted that savings could affect service delivery and internal controls. They asked the Corporate Director – Strategic Resources whether he was comfortable with the County Council's overall spend. The Corporate Director – Strategic Resources responded that financial resilience was a risk to all Councils at



present. He highlighted that a bottom line net saving of £40.0m had been achieved, which included an unspent Corporate Pending Issues Provision (PIP) of £20.6m to enable the County Council to meet the costs of its Waste Project. Savings made on operational budget represented early achievement of the budget/Medium Term Financial Strategy and 2020 North Yorkshire savings which was welcomed because the financial situation in 2015/16 and 2016/17 would be particularly difficult. He advised that the savings delivered in advance in 2014/15 had not had a detrimental effect on service delivery.

In response to questions:-

- (a) The Corporate Director – Strategic Resources explained that the North Yorkshire Business and Education Partnership was not included within the Group Accounts (page 107 of the draft Statement of Accounts booklet) because it was too small. The Corporate Director – Strategic Resources undertook to provide Members with information, including turnover, relating to North Yorkshire Business and Education Partnership to demonstrate why it did not meet the criteria for being categorised, within the County Council's accounts, as being in a group relationship with the County Council.
- (b) That the Corporate Director – Strategic Resources undertook to review the value of assets of trust funds in the table on page 97 and align it with the text at the bottom of the page.

The Corporate Director - Strategic Resources highlighted that the Committee needed to be well placed to sign off the accounts on 24 September 2015. He asked Members to contact him with further questions before 24 September so that any additional information which Members might require could be researched and provided to enable the Committee to make a decision on 24 September 2015.

It was noted that, in future years, new shorter deadlines for auditing and approving the accounts needed to be implemented, in accordance with the 2015 Accounts and Audit Regulations. Officers were currently considering those changes with the aim of undertaking a trial run in advance of the shortened deadlines becoming mandatory.

#### **Resolved -**

- (a) That the draft Statement of Final Accounts for 2014/15 be noted in advance of the accounts being audited and re-submitted to the Audit Committee on 24 September 2015 for formal approval.
- (b) That information, including turnover, relating to North Yorkshire Business and Education Partnership be provided to Members to demonstrate why it does not meet the criteria for being categorised, within the County Council's accounts, as being in a group relationship with the County Council.
- (c) That the Corporate Director – Strategic Resources review the value of assets of trust funds in the table on page 97 and align it with the text at the bottom of the page.

### **136. Programme of Work**

Considered -

The Committee's programme of work for 2015/16.

**Resolved -**

- (a) That the programme of work be approved, subject to representatives of KPMG (future External Auditors) being invited to attend an informal Seminar for Audit Committee Members on 3 December 2015 at 1pm.
- (b) That an informal Seminar for Audit Committee Members be not arranged for immediately before the Audit Committee meeting on 24 September 2015.
- (c) That Members contact the Corporate Director – Strategic Resources with any suggestions for topics which might be covered during future informal Seminars for Audit Committee Members.

The meeting concluded at 2.35pm.

RAG/JR

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

24 September 2015

## PROGRESS ON ISSUES RAISED BY THE COMMITTEE

**Joint Report of the Corporate Director – Strategic Resources  
and the Assistant Chief Executive (Legal and Democratic Services)**

**1.0 PURPOSE OF THE REPORT**

1.1 To advise Members of

- (i) progress on issues which the Committee has raised at previous meetings
- (ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

**2.0 BACKGROUND**

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions and / or when it requested further information be submitted to future meetings. The table below represents the list of issues which were identified at previous Audit Committee meetings and which have not yet been resolved. The table also indicates where the issues are regarded as completed and will therefore not be carried forward to this agenda item at the next Audit Committee meeting.

<b>Date</b>	<b>Minute number and subject</b>	<b>Audit Committee Resolution</b>	<b>Comment</b>	<b>Complete?</b>
05/12/13	45 – Information Governance	That an update version of the Information Governance Policy Map be circulated to Committee Members.	The suite of information governance policies which have been streamlined were reviewed and agreed by the Corporate Information Governance Group on 16 September 2015. As there were no fundamental changes the Group will be recommending the policies for approval by Management Board.	x
25/06/15	128 – Programme of Work	That the Programme of Work be approved, subject to the Review of Finance, Contract and Property Procedure Rules being re-scheduled for the September 2015 meeting	The Review of Finance, Contract and Property Procedure Rules has been re-scheduled for the September 2015 meeting. This is, however, an "in principle" document at this	x

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
			stage so will require a further detailed report in due course.	
16/07/15	135 – Statement of Final Accounts 2014/15 – NYCC	That information, including turnover, relating to North Yorkshire Business and Education Partnership be provided to Members to demonstrate why it does not meet the criteria for being categorised, within the County Council's accounts, as being in a group relationship with the County Council	NYBP has an annual turnover of circa £800k. it is a separate company limited by guarantee with no share capital. NYCC does not provide a Board Member.	✓
16/07/15	135 – Statement of Final Accounts 2014/15 – NYCC	That the Corporate Director, S R reviews the value of assets of trust funds in the table on page 97 and aligns it with the text at the bottom of the page.	Roundings issue now addressed and text agrees with the table values	✓
16/07/15	136 – Programme of Work	That the programme of work be approved, subject to representatives of KPMG (future External Auditors) being invited to attend an informal Seminar for Audit Committee Members on 3 December 2015 at 1pm	Representatives from KPMG have been invited to attend an informal seminar on 3 December 2015.	✓

### 3.0 TREASURY MANAGEMENT

#### 3.1 Current Treasury Management developments include

- (i) The procurement exercise to appoint a joint provider of Treasury Management Consultancy Services for both the County Council and Selby District Council was concluded in August. The current provider for both the County Council and Selby District Council, Capita Asset Services – Treasury Management, has been awarded the contract to provide a joint service for both authorities under the new 'Better Together' working arrangements. The contract will commence on 1 October 2015.
- (ii) Capita Asset Services – Treasury Management provided an updated interest rate forecast on 11 August 2015. Capita have maintained their first forecast increase in bank rate from 0.5% to 0.75% in mid-2016 with further increases of 0.25% to reach 1.75% by June 2018.

#### **4.0 RECOMMENDATION**

- 4.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

GARY FIELDING  
Corporate Director – Strategic Resources

BARRY KHAN  
Assistant Chief Executive  
(Legal and Democratic Services)

County Hall  
NORTHALLERTON

24 September 2015

**Background Documents:**

Report to, and Minutes of, Audit Committee meeting held on 25 June 2015 and 16 July 2015



## North Yorkshire Pension Fund

Final Report to the North Yorkshire County Council Audit  
Committee on the Local Government Pension Fund Audit

31 March 2015



Audit Committee  
North Yorkshire County Council  
County Hall  
Northallerton  
Leeds  
DL7 8AD

15 September 2015

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance and Audit Committee of North Yorkshire County Council with regard to the North Yorkshire Pension Fund for the year ended 31 March 2015. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2015.

In summary:

- Our work is substantially complete. We will be in attendance at the Audit Committee meeting on 24 September 2015 and will present an update to our report on our audit at that time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

This is our final year as the external auditor of the Authority following the transition of the Audit Commission contract in 2015/16. We would like to take this opportunity to thank you for your assistance and co-operation during our time as your external auditors. We would particularly like to take this opportunity to thank Gary Fielding, Corporate Director- Strategic Resources, and his team.

**Chris Powell**  
Senior Statutory Auditor

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## A reminder of our audit plan:

- We determined materiality as £24.0m (2013/14 £20.8m) and a reporting threshold of £480,000 (2013/14 £417,000).
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- A controls based audit approach has not been considered appropriate for the current year; instead we have taken a substantive approach to testing the financial statements.



The big picture

# The Big Picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

## Audit work

- We have received the first draft financial statements of the pension fund annual report on 12 August 2015.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the North Yorkshire Pension Fund. A small number of comments on the annual report and accounts have been identified which we understand will be corrected by management.
- A draft representation letter has been included at Appendix 5.
- From our work undertaken so far we expect to issue an unmodified opinion in line with your specified deadlines. A draft opinion is included at Appendix 6.

## Transition to the new auditors

2014/15 is the final year of our appointment as external auditors to the Council. The Audit Commission has an established protocol in place for the handover of audits between auditors, which includes the provision of information to the new auditors and access to our files. KPMG, the Fund's new auditors from 2015/16, have not yet been in contact to advise us as to how they would like to apply the protocol in practice and their preferred timetable. We will work with KPMG within the guidance set out in the protocol to ensure as smooth a handover as possible.

We have the following principal matters to complete:

- receipt of a breakdown of investments in the ECM investment;
- sundry minor testing;
- completion of internal quality control procedures;
- subsequent events review; and
- receipt of signed letter of representation.

# Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/ or disclosure matters within the financial statements.

# 1. Contributions

There are complexities around the calculation of contributions.

## Nature of risk

We have identified the calculation of contributions as a significant risk on the grounds that:

- There is complexity arising from the participation of different employers within the fund, and employees paying tiered contribution rates depending upon their pensionable pay;
- A new schedule of rates relating to 1 April 2014 and beyond has been brought into force, varying the rates at which employers are expected to pay. This is as a result of the actuary's triennial valuation dated 31 March 2013; and
- Complexity also arises because pensionable pay now includes non-contractual overtime for part-time staff.

## The key judgement areas and their potential impact on the financial statements and our audit challenge

Contributions are a material income stream for the Fund. We note that the authority is not responsible for the calculation of contributions and that any tests to ensure the accuracy of contributions have been undertaken with the assistance of the other scheduled and admitted bodies. Due to the complexity arising from tiered contribution, the new schedule of rates and multiple employing bodies we consider that there is a risk of material misstatement for contributions in relation to both completeness and accuracy. Our audit challenge has therefore focussed on gaining assurance over the design and implementation of controls operated by management as well as undertaking substantive audit procedures.

## Audit work completed to address the significant risk

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present at the Fund for ensuring contributions from the Administering Authority and all Scheduled and Admitted bodies are identified and calculated correctly;
- we selected a sample of members from the Administering, Scheduled and Admitted bodies and reviewed breakdowns by individual of pensionable pay, employee and employer contributions. On a sample basis we agreed this information to individual payslips and reviewed whether the contributions tested were calculated correctly in all material respects and agreed the payment to the independent employer member return;
- we selected a sample of members and confirmed if their member status was appropriate; and
- we performed an analytical review to gain assurance over the completeness of contributions.

## Conclusion on contributions risk

All testing on contributions completed with satisfactory results.

## Deloitte view

Testing on contributions completed with satisfactory results.



## 2. Benefits

There are complexities surrounding the calculation of both benefits in retirement, ill health and death benefits as well as adoption of LGPS 14 regulations in the period.

### Nature of risk

We have identified the calculation of benefits as a significant risk on the grounds that:

- There is complexity arising from the calculation of benefits in retirement, specifically with the adoption of LGPS 2014 and transition to Career Average Revalued Earnings (CARE) as basis of pension calculation from 1 April 14 onwards.
- There have been changes to the accrual and revaluation rate in year, which increases the complexity involved in the calculation of benefits; and
- The calculation of ill health retirements and death benefits is inherently complex.

### The key judgement areas and their potential impact on the financial statements and our audit challenge

Benefits paid are a material class of transaction. The significant number of Benefits paid each year means that incorrect calculations could yield a material error. Due to the complexity arising from the calculation of benefits we consider that there is a risk of material misstatement for benefits paid in relation to the accuracy of the calculation. Our audit challenge has therefore focussed on gaining assurance over the design and implementation of controls operated by management as well as performing recalculation of benefits paid from first principles to confirm the accuracy of management calculation produced by the Altair system.

### Audit work completed to address the significant risk

The following tests were performed to address the significant risk around benefits:

- we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were implemented during the year under review;
- we performed tests of detail, on a sample of benefits paid, by agreement to supporting calculations and other documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service and fund rules;
- we have developed an expectation based on changes in membership numbers to analytically review the benefits paid in the year;
- we reviewed the NFI matches report with management and noted a small value and volume of payments to deceased members. This is consistent with our past experience and we note that management are seeking to recover amounts owed to the Fund;
- we considered on a sample basis whether any changes in benefit rates were applied on a timely basis and correctly calculated; and
- we selected a sample of members and confirmed if their member status was appropriate.

### Conclusion on benefits risk

One immaterial cut-off differences was identified which arises from an approximation made by management to account for 52 weeks of benefits paid. (see Appendix 1)

### Deloitte view

From our testing of benefits as set out below there is one immaterial differences in relation to the cut-off of benefits paid to bring to the attention of those charged with governance.

## 3. Investments

There are areas of judgement involved in the valuation of investments.

### Nature of risk

We have identified the valuation of investments as a significant risk on the grounds that:

- The pension fund's investments include absolute return vehicles and quoted property funds.
- The valuation of absolute return vehicles and quoted property funds is normally undertaken by the fund managers and are more complex to value.

### The key judgement areas and their potential impact on the financial statements and our audit challenge

Investments held by the fund in absolute return vehicles and quoted property funds are a material class of transactions. Judgements are taken by the Investment Managers to value those investments and prices for these investments are not publically available and therefore any error in judgement by the investment manager could result in a material valuation error. Our audit challenge has therefore focussed on gaining assurance over the appropriateness of the valuation proposed by the investment manager.

### Audit work completed to address the significant risk

The following tests were performed to address the significant risk around investments:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we have assessed the independence of the investment managers and custodian used by the Fund. We have obtained internal control reports, where available, for investment managers and reviewed the controls in place around valuation to identify any weaknesses;
- we have reconciled the total value of the investments held by the Fund as reported in the custodian report from Bank of New York Mellon to the value of investments reported in the Net Assets Statement;
- we liaised with our internal financial instrument specialists on this approach; and
- we have performed a test of detail on the quoted property fund (Hermes) and the absolute return vehicle (Newton) to independent prices obtain from Bloomberg and other independent sources.

At the date of preparation of this report we are still to receive a breakdown on the investment held within the ECM absolute return vehicle to allow us to pick a sample of underlying investments to perform independent price testing.

### Conclusion on investment risk

At the date of preparation of this report our work is still on-going. We will provide an oral update to the Audit Committee. Through our testing of equities we noted an undervaluation of £6,483,000 in relation to the Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources. We have also identified an overstatement of £543,000 in relation to the Standard Life Diversified Growth Fund compared to the broker price.

### Deloitte view

Our testing is still ongoing and we will provide an oral update to the Audit Committee.

## 4. Management override of controls

In accordance with International Standards on Auditing (ISA240), we presume that there is a risk of fraud as a result of management override of control.

### Nature of risk

ISA 240 requires auditors to identify a presumed risk of management override of controls. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place.

### The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Any significant judgements made by management could materially impact the financial statements. Items that are particularly of audit interest are estimates and provisions that have been put in the year end accounts.

### Audit work completed to address the significant risk

We have performed the following audit procedures:

- reviewed the processes and performed design and implementation work on the controls management have in place;
- used our Audit Analytics software to test a risk focused sample of journals to ensure their appropriateness;
- reviewed estimates for evidence of bias;
- reviewed the year end accounts for provisions; and
- reviewed the business rationale of any significant transactions that are outside the normal course of business for the Fund.

### Conclusion on management override of controls risk

During the course of the year the Fund performed a bulk transfer to the Greater Manchester Pension Fund in respect of members from the probationary service as part of the national process to consolidate all probationary service members in to one local government pension. From our review of the transfer documentation there are no matters to bring to the attention to those charged with governance.

### Deloitte view

From our testing of a risk based sample of journals and review of Committee minutes, we do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

This section focuses on the annual report, as well as the sufficiency of other required disclosures. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the disclosures.

## Your annual report— our review and insights

# Our review of your annual report

We highlight a number of observations from our audit procedures



Financial reporting	Comment	Matters to bring to your attention
<b>The Annual Report is required to be prepared in accordance with Code of Practice on Local Authority Accounting t/15 and the additional requirements of regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 ("Regulation 34)</b>	Management provided a copy of the un-audited draft accounts by 30 June 2015 which is in accordance with the Local Government Accounts and Audit (England) Regulations 2011. A first draft of the Annual Report which includes the additional information required by Regulation 34 was provided to audit on 12 August 2015.	We have reviewed the disclosures in the accounts against the current version of the Local Government Pension Accounts and Disclosure checklist. We have identified a number of minor points that have been corrected by management. We have also considered the completeness of the additional information and noted that this is in accordance with the requirements of Regulation 34.
Accounting policy	Comment	Matters to bring to your attention
<b>The accounting policies have been prepared in accordance with the Code of Practice on Local Authority Accounting 2014/15</b>	Management update the accounting policies on an annual basis and present these to the Audit Committee for their consideration.	There are no matters to bring to your attention from our review of the Fund's accounting policies.
Other disclosure matter	Comment	Matters to bring to your attention
<b>A statement on the IAS 19 position has been prepared by the Actuary</b>	In accordance with the Code of Practice on Local Authority Accounting 2014/15 the Fund is required to include details of the actuarial present value of promised retirement benefits. In 2014/15 the Fund has continued to adopt a format C presentation, meaning that the report is appended to the accounts.	In accordance with the guidance issued by the Audit Commission when a local government pension fund adopt a format C presentation for the actuarial present value of promised retirement benefits then this information is not subject to audit. Our procedures have therefore been limited to considering the consistency of this information with knowledge gained during our audit.

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Audit Committee.

## Insight - Internal control and risk management



# Internal control and risk management

We highlight a number of observations from our audit procedures



We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Significant Risk	Internal Controls	Current position
Contributions	<ul style="list-style-type: none"> <li>Quarterly reconciliations are performed of cash received against contributions recorded in oracle.</li> <li>Contributions are accounted for on a monthly basis when received from employers. Annual returns are received from employers which are checked against the monthly records.</li> <li>The pensions team verify a members eligibility to join the scheme via confirmation from the employer.</li> <li>Changes to membership records such as hours need to be confirmed by the employer. An additional check is done at the end of the year to reconcile what was paid over by the employer to the Fund to the employers annual return to identify any errors caused by incorrect information in Axise.</li> </ul>	G
Benefits	<ul style="list-style-type: none"> <li>On retirement members are given a choice on the level of pension vs. lump sum. Members are required to sign the retirement option form stating what option they are choosing and this is then uploaded to Axise.</li> <li>The pensions team send a file of all pensioners data to ATMOS, who match against their database and ensure the Fund is aware of the occurrence of all deaths of its members.</li> <li>On a monthly basis a three way reconciliation is performed of benefits paid between the bank account and Oracle, Oracle to the cash code allocations and cash code allocations to Axise.</li> </ul>	G
Investments	<ul style="list-style-type: none"> <li>Investment reports are received from the Custodian on a monthly basis and reconciled to the information received from the investment manager.</li> <li>On a monthly basis the valuation of the investments in the ledger is reconciled to the custodian report and the investment manager reports.</li> <li>Compliance with the Statement of Investment Principles and performance of investment are reported to the Pension Fund committee on a quarterly basis.</li> </ul>	G
Management override of controls	<ul style="list-style-type: none"> <li>Regular financial reporting to the Pension Fund committee including progress against budget.</li> <li>Segregation of duties are in place for the electronic approval of journals posting however there is no limit on the value of journals each team member can post. For large and/or complex transactions the journal is reviewed by Tom Morrison however large and/or complex journals are not defined.</li> </ul>	A

**G** No issues noted

**A** Acceptable but could be improved

**R** Requires significant improvement

# Internal control and risk management (continued)



## Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and considered any impact upon our risk assessment. We did not place direct reliance on the work of internal audit.

# Responsibility Statement

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- results of our work on key audit judgements;
- our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and
- Other insights we have identified from our audit.

### What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

### The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated June 2015 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Deloitte LLP**  
Chartered Accountants

Leeds  
15 September 2015

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# Appendices

# Appendix 1: Audit adjustments

## Unadjusted misstatements detail

### Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK and Ireland), we request that you ask management to correct. Uncorrected misstatements decrease net increase in net assets by £5.3 million and decrease net assets by £5.3 million.

		Debit/(credit) income statement £000	Debit/(credit) in net assets £000	Debit/(credit) prior year retained earnings £000	Debit/(credit) in revenue £000
<b>Misstatements identified in current year</b>					
Factual differences identified during investment testing	[1]	(6,483)	6,483	-	-
Factual difference identified during investment testing	[2]	543	(543)	-	-
Factual difference identified during unrecorded liability testing	[3]	608	(608)	-	-
<b>Total</b>		<b>(5,332)</b>	<b>5,332</b>	<b>-</b>	<b>-</b>

[1]: Pricing differences identified in relation to the Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources. This issue is consistent with the prior year when a difference of £3,286,000.

[2]: Pricing difference identified in relation to Standard Life Diversified Growth Fund arising from quoted broker price published on 31 March 2015.

[3]: Cut-off difference arising on benefits paid arising from using actual benefits owed as opposed to 52 week approximation.

### Disclosure deficiencies

From our work to date we have identified a small number of comments on the financial statements which have been corrected by management. There are no remaining disclosure deficiencies.



## Appendix 2: Fraud: responsibilities and representations

### Required representations



We have asked the Members to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

### Concerns



No concerns have been identified from whistle blowing procedures from the work noted above and our audit procedures.

### Audit work performed



In our planning we identified the risk of management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance. We have made direct enquiries in relation to any fraud risk factors and instances of fraud during the year. Our testing of NFI matches process and of journals provides comfort over the risk of management override of controls which was raised as a fraud risk.

In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

We have reviewed the paper prepared by management for Pension Fund Committee and the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

## Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

### Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

As part of our planning report we noted and discussed with members that the engagement partner and senior manager have a “long association” with North Yorkshire Pension Fund having already worked on the fund audit for seven financial year ends. We confirm that we have implemented the additional safeguards that were set out in our planning report being the inclusion of a Strategically Focussed Second Partner and an additional junior manager as part of our engagement team. These additional reviews have provided robust and independent challenge to the work conducted on our audit of the Fund for the year ended 31 March 2015 and there are no concerns arising from the “long association” that we want to bring to the attention of those charged with governance.

### Fees

We have not provided any non-audit services in the period from 1 April 2014 to 31 March 2015

### Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority’s policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

### Relationships

There are no other relationships with North Yorkshire Pension Fund which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

	Current year £000	Prior year £000
Audit of North Yorkshire Pension Fund	24	24
<b>Total</b>	<b>24</b>	<b>24</b>

# Appendix 4: Our approach to audit quality

## Recognition of and further impetus for our quality agenda

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2015 the Financial Reporting Council (“FRC”) issued its Annual Report on Audit Quality Inspections which provides an overview of its activities of its Audit Quality Review (“AQR”) team for the year ended 31 March 2015. It also issued individual reports on each of the four largest firms, including Deloitte. We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm. We consider that the AQR’s report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.

We value the regulator’s inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to fully identify the underlying cause. This then drives our careful consideration of each of the FRC’s comments and recommendations, as well as findings arising from our own review to provide further impetus to our quality agenda.

### The AQR’s conclusion on Deloitte

“The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report. Our findings relating to reviews of individual audits largely relate to the application of the firm’s procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. Certain aspects of the guidance could, however, have been issued on a more timely basis.”

**2014/15 Audit Quality Inspection Report on Deloitte LLP**

Fifteen of the audits reviewed by the AQR were performed to a good standard with limited improvements required and five audits required improvements. No audits were assessed as requiring significant improvements. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 68% of audits reviewed by the AQR assessed as good with limited improvements required and, at 5%, the lowest level of audits being assessed as significant improvement required, with none in this category in 2014/15.

We have already taken action to respond to the key themes of the report and will continue to undertake further activities to embed the changes into our practice.

## Appendix 4: Our approach to audit quality (continued)

### Recognition of and further impetus for our quality agenda

Areas identified for particular attention	How addressed in our audit
Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions.	This is a significant audit risk in relation to investments and is addressed on page five of this paper.
Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes.	We have performed testing of management report on membership data within our testing of both contributions and benefits and is addressed on pages three and four of this paper.
Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed.	We did not take a controls reliant approach to the audit of the Fund. For each significant risk identified we have identified the key management controls and performed design and implementation testing over these key controls which is addressed on pages three to six of this paper.
Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan.	Our audit planning discussion was held with the Audit Committee in July 2015 at the meeting where the first draft of the accounts were presented.
Ensure more timely development of enhanced guidance when addressing internal and external quality review findings.	While this does not directly affect our audit plan, we will ensure that our engagement team always utilise the most recent expert advice and guidance.

# Appendix 5: Letter of Representation

**Deloitte LLP**

One City Square

Leeds

LS1 2AL

**Our Ref: CDP/AJL/NYPF2015**

**24 September 2015**

Dear Sirs

**North Yorkshire Pension Fund (the “Fund”)**

**2014/15 Audit – Representation Letter**

This representation letter is provided in connection with your audit of the Fund’s financial statements for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the period from 1 April 2014 to 31 March 2015 and of amount and disposition at the end of the Fund period of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the period, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We acknowledge as members of North Yorkshire County Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

*Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which show a true and fair view.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

## Appendix 5: Letter of Representation (continued)

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures”.
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

### *Information provided*

7. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter and required by the Fund Administration Regulations.
8. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
9. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We are not aware of any significant facts relating to any fraud or suspected fraud affecting the Fund involving:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
12. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund’s financial statements communicated by employees, former employees, analysts, regulators or others.
13. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, including breaches of the Money Laundering Regulations, and contractual agreements whose effects should be considered when preparing financial statements

## Appendix 5: Letter of Representation (continued)

14. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.
15. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
16. No claims in connection with litigation have been or are expected to be received.
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
18. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Fund should change.
19. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequent.
20. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements
21. You have been informed of all changes to the Fund rules during the year and up to the current date.
22. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
23. The Fund has satisfactory title to all assets.
24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
25. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Fund (Administration) Regulations 2008 and related guidance.
26. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2015 is complete, accurate and consistent with the information that is contained within the Accounts.

## Appendix 5: Letter of Representation (continued)

27. We confirm that:

- all retirement benefits and funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council



## Appendix 6: Draft opinion

### **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 2015, 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 2014/15.

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.

## Appendix 6: Draft opinion (continued)

### 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 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

*[Signature]*

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

24 September 2015

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North Yorkshire County Council  
Final Report to the Audit Committee  
For the year ended 31 March 2015

the  
Distinctive  
audit

Audit Committee  
North Yorkshire County Council  
County Hall  
Northallerton  
DL7 8AD

14 September 2015

Dear Sirs

We have pleasure in setting out in this document our report to the Audit Committee of North Yorkshire County Council ("the Authority"). The report covers the principal matters that have arisen from our audit for the year ended 31 March 2015.

In summary:

- The matters arising during our audit, which are summarised in this report, have been addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, both we and management expect to meet the agreed audit and financial reporting timetable and we will then issue an unmodified audit report.

This is our final year as the external auditor of the Authority following the transition of the Audit Commission contract in 2015/16. We would like to take this opportunity to thank you for your assistance and co-operation during our time as your external auditors. We would particularly like to take this opportunity to thank Gary Fielding, Corporate Director- Strategic Resources, and his team.

Yours faithfully

**Chris Powell**  
Engagement Lead

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## A reminder of our audit plan:

- Materiality £15.5m
- Significant risk areas:
  - Revenue recognition;
  - Management override of controls;
  - Accounting for interests in group companies and the recoverability of inter-organisational balances; and
  - Valuation of Non-Current Assets.
- VFM audit risks:
  - Financial planning, efficiency plans and 2020 North Yorkshire; and
  - Reduction in resources.
- There have been no changes to the audit plan or scope since our planning report dated July 2015.



# The Big Picture

We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements, and an unqualified value for money (vfm) conclusion.

## Overall view

- The audit will be completed in line with the agreed timetable;
- We anticipate signing the auditors' report on the accounts following the Audit Committee meeting on 24 September 2015 and before the national deadline of 30 September 2015;
- We expect to issue an unmodified audit opinion on the truth and fairness of the financial statements;
- Our work supports the issue of an unqualified vfm conclusion.

## Financial position of the Authority

- An overall saving of £40m was achieved in 2014/15, representing a significant over-achievement against plan, and an increase in the General Fund was reported, giving a balance at 31 March 2015 of £68.3m (£40.8m above the minimum risk-assessed level of £27.5m).
- At Quarter 1, the Authority is projecting a saving against 2015/16 operational budgets of £4.8m (after taking into account performance against savings plans. This includes early achievement of budget and 2020 savings of £0.9m, additional income of £0.7m from business rates income/relief grants and £2.6m of other windfalls and savings across the organisation. £24.4m of non-recurring funding is available in 2015/16 within the Pending Issues Provision (PIP) to fund investments, £4.4m of which has been earmarked to date.
- The financial position going forward continues to be a challenge but the response of the Authority continues to be robust and appropriate.

## Audit work

- Audit adjustments identified to date are immaterial – see Appendix 1.
- Disclosure deficiencies have been corrected by management – see Appendix 1.
- We have identified no significant deficiencies in internal control.

## Outstanding matters

- Review of final accounts, annual report and annual governance statement;
- Completion of WGA audit;
- Receipt of legal letters from internal and external solicitors;
- Completion of pension audit work and assurance from the pension fund auditors over the valuation of pension fund assets;
- Completion of our internal review processes and closedown procedures; and
- Update of our subsequent events review to the date of signing the accounts.

# Our Audit Quality Promise



## Year round communication

- We have held regular meetings with Richard Flinton and Gary Fielding to discuss strategic developments of the Authority and in-year performance.
- We have held regular meetings with Peter Yates and officers to discuss accounts and audit related issues.
- Senior members of the audit team have attended the Audit Committee where updates on the audit process have been provided.
- We have made ourselves available through the year for ongoing discussions as necessary.
- We have worked with Trevor Clilverd, and subsequently Michael Leah, as our key point of contact for the VFM conclusion.

## During the main audit period

- We have held regular progress updates with Katy Riley to discuss findings and any emerging issues on the financial statement audit.
- We held a close meeting with Gary Fielding and Karen Iveson to discuss findings ahead of issuing our report to the Audit Committee.

## Open feedback process

- We will hold a debrief meeting with Katy Riley and Anne Simpson and the Finance team to discuss how the audit process went.
- We have sought direct feedback throughout regular meetings during the year.

## Responding to queries and requests

- We have responded to queries and requests on a timely basis;
- We have held meetings to discuss technical accounting and regulatory developments which have an impact on the Authority;
- We have made ourselves available to discuss issues as they arise.

## Transition to the New Auditors

2014/15 is the final year of our appointment as external auditors to the Council. The Audit Commission has an established protocol in place for the handover of audits between auditors, which includes the provision of information to the new auditors and access to our files. KPMG, the Council's new auditors from 2015/16, have not yet been in contact to advise us as to how they would like to apply the protocol in practice and their preferred timetable. We will work with KPMG within the guidance set out in the protocol to ensure as smooth a handover as possible.



# Significant Audit Risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/or disclosure matters within the financial statements.

## 1. Revenue Recognition

From work performed, no instances of improper grant income recognition were noted in the current year.

### Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

### The key judgement area(s) and its impact on the financial statements

For the Council, based on our knowledge gained from previous audits, we consider that the specific revenue recognition risk relates to accounting for grant income.

The key judgement relating to grant income is the timing at which revenue is recognised with reference to the relevant standards, including IAS 20: *Accounting for Government Grants and Disclosure of Government Assistance*. It can be complicated to determine the timing of the recognition of the grant income revenue, and require management's judgement to determine that there is reasonable assurance that the Authority will comply with the conditions attached to the grants and that the grants will be received.

### Audit work completed to address the significant risk

- We have reviewed management's process for identifying and assessing the conditions attached to each grant;
- We have performed substantive testing over a sample of grants recognised as income, in order to assess the reasonableness of management's determination that any attached conditions for the receipt of the grant money have been satisfied; and we have also agreed the grants to third party source documentation; and
- We have also focused our testing on grant income deferred to future periods to ensure that the deferral is appropriate, based on whether the Authority has met the conditions of the grant, the grant is subject to claw back if the conditions are not met or the Authority is yet to incur the associated expenditure.

### Deloitte view

No evidence has been identified that would indicate management bias in the revenue recognition policies adopted or the decisions made in relation to the recognition of grant income.

The revenue recognition policies are in line with other Local Government entities and the CIPFA Code.

## 2. Management override of controls

No indications of management override of controls have been noted during the course of our audit.

### Nature of risk

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

### The significant risk in relation to management override and its impact on the financial statements

Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management may override controls through:

- recording fictitious journal entries;
- applying inappropriate judgement;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent the financial position or financial performance;
- omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

### Audit work completed to address the significant risk

We have performed the following:

- Gained an understanding and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments recorded through use of our Audit Analytics software to analyse the journal data as a basis for focusing our testing on higher risk journals;
- Reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- Carried out a review of management's judgements and assumptions relating to significant estimates in the financial statements, including involving our in-house actuaries to review management's assumptions for the pension liability;
- Obtained an understanding of the business rationale of significant transactions that we are aware of that are outside the normal course of business or that otherwise appeared to be unusual given our understanding of the organisation and its environment; and
- Reviewed related parties disclosures and considered completeness in light of prior year disclosures and our knowledge of the organisation. We also tested a sample of Member declarations against disclosures.

## 2. Management override of controls (continued)

### Deloitte view

No indication of management override of control has been noted during the course of our audit. We do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

The judgement which would have the most significant effect on the accounts would be management's assumptions for the pension liability. DTRB have reviewed the assumptions and concluded that they are reasonable and within the reasonable range. We can therefore conclude that the assumptions are reasonable and would have no material impact on the financial statements.

### 3. Group Companies

From work performed no issues were noted regarding the recoverability of inter-organisational balances.

#### Nature of risk

Accounting for interests in group companies and the recoverability of inter-organisational balances can require significant judgement from management to determine the appropriate accounting treatment for each group company.

#### The significant risk in relation to related party transactions and its impact on the financial statements

There is a risk concerning the recoverability of inter-organisation balances, and the accounting for these balances, between the Authority and its group companies. The Authority holds 100% shareholding in NYnet Limited and an indirect 100% shareholding in its subsidiary NYnet 100 Limited, a 78% shareholding in Yorwaste Limited, a 50% shareholding in Veritau Limited and an indirect 25% in Veritau's subsidiary Veritau North Yorkshire Limited.

#### Audit work completed to address the significant risk

We have performed the following:

- Considered the recoverability of the current trading balances with all group companies by reviewing management's processes for agreeing the inter-organisational balances as well as reviewing post year-end cash receipts and payments. The recoverability of long term loans with all group companies was assessed through review of current year trading profits and cash generation as a basis for assessing the future trading forecasts. In addition, the going concern work as part of the NYnet audit will include review of the budgets and forecasts to 2019/20; and
- Obtained management's consolidation workings and reviewed the accounting treatments adopted and assessed whether they reflect management's ability to control the group entities.

#### Deloitte view

We are satisfied that management has appropriately accounted for its interests in other group companies, and that the investments held are fully recoverable.

No issues have been noted regarding the recoverability of inter-organisational balances or management's decisions over accounting treatment.

## 4. Valuation of Non-Current Assets

Overall the quality of valuation information has improved.

### Nature of risk

CIPFA guidance provided clarification over the frequency of valuations required in relation to property, plant and equipment, confirming that all assets within a category must be revalued at the same time and that five years is an acceptable timeframe for a rolling programme but within this, it is necessary to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The Council's approach has been to value land and buildings on a 5 year rolling basis with a selection of categories being revalued each year, so that all categories are valued each cycle. To comply with the requirement to consider material differences between carrying value and fair value at the balance sheet date, the Council obtains a valuation of a sample of assets from each category that is used to index the carrying value.

### The significant risk in relation to valuation of Non-Current Assets and its impact on the financial statements

The Council's approach is compliant with the guidance but the number and value of the non-current assets held by the Council is significant and due to the current economic climate the calculation of the valuation requires management to exercise a significant amount of judgement.

### Audit work completed to address the significant risk

- We have reviewed the design and implementation of controls over the valuation process through review of a sample of valuations from the Bruton Knowles report through to the Fixed Asset register.
- We have reviewed the data extract supplied by the Authority to Bruton Knowles, as at 31 March 2014, to determine if the valuation has been prepared based on information from the Council that is both accurate and complete, and that this agreed to the fixed asset register audited as part of our prior year audit.
- Our internal property team have reviewed the assumptions and a sample of valuation work papers produced by Bruton Knowles as part of their revaluation of assets. Our review of the Bruton Knowles work papers indicated that the valuations produced are compliant with the requirements of the Code.
- We have reviewed the fixed assets register as at 31 March 2015 to ensure the results of the valuation have been appropriately reflected in the underlying accounting records.
- We have reviewed management's consideration of the Bruton Knowles report for impairments and assessed whether these will have an impact on other assets that have not been revalued in the current year but are controlled by the Authority.
- We have also considered the accuracy of the report produced by the Authority's property consultants, Jacobs which is used to assess the valuation of some of the additions.

### Deloitte view

We are satisfied that management have complied with the Code regarding property valuations. No issues have been noted in regard to the treatment of property valuations.

# Value for Money (VFM) Conclusion

This section sets out our comments regarding our approach to local value for money (VFM) audit work at councils as specified by the Audit Commission. We explain the nature of the risk itself, how these risks have been addressed by our audit work.

**Work completed supports an unqualified VFM conclusion.**

## Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Authority has put in place proper arrangements to secure financial resilience and economy, efficiency and effectiveness in its use of resources - this conclusion is known as "the VFM conclusion".

Following the dissolution of the Audit Commission on 31 March 2015, the National Audit Office confirmed that the scope of work specified and guidance issued by the Commission continued to apply to the 2014/15 audits.

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014/15
<b>The organisation has proper arrangements in place for securing financial resilience.</b>	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the Authority's system of internal control as reported in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014/15; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

## Risk assessment

We carried out a risk assessment, involving consideration of common risk factors for local authorities identified by the Audit Commission, our prior year audit findings, and our understanding of corporate management arrangements in place for risk, performance and project management, and concluding on whether they represent risks for the purpose of our VFM conclusion.

We undertook this preliminary work through review of relevant documentation, including Executive and Committee papers, the Authority's strategic risk register and financial and non-financial performance management information, and discussion with officers as necessary. We updated our detailed risk assessment from April to take account of the outturn financial and performance information for 2014/15, and through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities. No matters impacting our initial risk assessment were identified.



# Value for Money (vfm) Conclusion (continued)

## **Financial planning, efficiency plans and 2020 North Yorkshire**

The Council continues to face severe financial pressures over the next few years. A medium term financial strategy (MTFS) with financial projections to 2019/20 is in place.

Savings in place for 2015/16 exceeded the requirement by £7.2m which, together with £1m from General Balances will be invested in specified priority areas. High level proposals totalling £36.4m and improvements in the financial position of £3.3m have been identified for the subsequent years, leaving a current gap of £14.2m to identify.

The 2020 North Yorkshire programme is critical to the achievement of the financial strategy and addressing the savings. Project management arrangements are well established and monitoring of savings has been further strengthened over recent months.

Progress in rationalising the estate has been slower than preferred but increased priority is now being attached to this work stream, with proposals due to be prepared by September 2015. While savings on running costs of £1.5m are included in the MTFS to be achieved by 2020, we understand that the project is focusing on wider considerations and is now being linked to the Service reviews within the 2020 Programme. It is essential that decisions made are driven by Service needs and work is currently ongoing to identify and collate those needs in order to identify how those needs can be met. Implementation of proposals will inevitably take some time so it is essential that momentum in this area is maintained.

### **Our approach:**

We selected a sample of budget reduction measures to assess the reasonableness of the quantification of the savings to be achieved, the risk assessment and the processes for identifying and addressing any costs of implementation.

We maintained a watching brief over the delivery of the savings plans and progress in the development of the savings plans to address the remaining balance to be addressed.

Given the Council's strong track record in delivering the One Council, we did not at the planning stage of our audit anticipate undertaking any detailed audit work in relation to 2020 North Yorkshire programme. We have, however, carried out a high level review of project management arrangements to develop our understanding and consider the implications for our VFM risk assessment.

### **Deloitte response:**

An overall saving of £40m was achieved in 2014/15, representing a significant over-achievement against plan, and an increase in the General Fund was reported (£40.8m above the minimum risk-assessed level of £27.5m).

The savings programme over the five years to 2020 reflects cumulative shortfalls in 2016/17 (£1.6m), 2017/18 (£1.8m) and 2018/19 (£0.4m). This position is, however, recovered by the end of the five years with a small over-achievement of £0.3m projected and the Authority has adequate reserves to manage the position in the intervening years. No major concerns have been identified in our testing of a sample of savings. Focus continues to be maintained on the risks and potential impact of savings initiatives.

Our high level review of the 2020 project management arrangements did not identify any areas of concern that would impact our risk assessment or VFM conclusion.

Progress has continued to be made with the rationalisation of the estate and we have not identified any concerns over the Authority's approach in this area.

At Quarter 1, the Authority is projecting a saving against operational budgets of £4.8m (after taking into account performance against savings plans whereby £0.9m of budget and 2020 savings have been achieved early) and £24.4m of non-recurring funding being available within the Pending Issues Provision (PIP) to fund investments, £4.4m of which has been earmarked to date.

Overall, the response of the Authority to the financial pressures is considered appropriate and no issues impacting our VFM conclusion have been identified.

# Value for Money (vfm) Conclusion Continued

## **Reduction in capacity**

As part of the savings proposals within the MTFS, the Authority has undertaken restructuring within key corporate areas such as Finance and is continuing to reduce capacity across the organisation, including key functions such as Internal Audit. Although we did not identify any issues arising during our 2013/14 audit and have not identified any specific risks in 2014/15, the adequacy of capacity and capability in these functions continue to be critical during the current period of change and financial pressures.

Reduction in capacity also increases the risk of slippage in or non-compliance with the current control environment which has previously been assessed as strong.

### **Our approach:**

We maintained a "watching brief" over the adequacy of the capacity within the Finance and Internal Audit functions during the course of our audit. We have also considered the results and implications of Internal Audit work.

### **Deloitte response:**

No matters of concern arising from reducing capacity as a result of reducing resources have been identified during the course of our audit work. Similarly, we noted no issues reported by Internal Audit which indicate deteriorating controls as a result of reducing capacity.





## Insight - Internal Control and Risk Management

We highlight a number of observations from our audit procedures although none are considered significant issues.

Area	Observation/Finding	Recommendation	Management Comment
Payments / Income in Advance	<p>For HAS Payments and Income in Advance, 4-weekly payment cycles were run pre-year end and related to pre and post year end. However they have been fully included as income/expenditure for the following year, when part should have been accounted for in the current year.</p> <p>This is the same treatment year on year therefore each financial year has little impact as a full 4 week payment run is included in each year.</p> <p>To correct the issue the full impact would have to be taken in one financial year, therefore an adjustment has been proposed for the current year.</p>	Payments and Income should be included within the financial year that they relate to through use of prepayments and accruals to recognise the income and expense in the correct year.	A full amount is included within each financial year, the prior year comment was in relation to a central services issue and was rectified in the current year.

### Update on prior year observations

Area	Observation/Finding	Recommendation	Update
Cost of services	Invoices have historically been included within the wrong financial period. The expenditure figure for library software charges was recorded within the wrong financial period although as this has been done historically the in year cost is correct.	Invoices should be included within the financial year that they relate to through use of prepayments and accruals to recognise the expense in the correct year.	Actioned for central services, however this has been raised again in the current year in relation to HAS.

# Other areas of responsibility

## The Annual Governance Statement

### Requirement

We are required to review the Annual Governance Statement (AGS) for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Authority.

### Background

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an Authority's activities, including in particular those designed to ensure that:

- the Authority's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Authority's values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

### Audit work completed

We have performed the following work in relation to the AGS:

- ensured that it complies with the requirements as set out in *Delivering Good Governance in Local Government: a Framework* published by CIPFA/SOLACE in June 2007; and
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Executive minutes, the Internal Audit Annual Report and Opinion, and our audit work and knowledge of the organisation.

### Deloitte view

We are satisfied that the Annual Governance statement is consistent with the requirements and our understanding of the Council.

# Other areas of responsibility (continued)

## Challenge work

### Requirement

In accordance with the Audit Commission Act 1998 (the Act), we are required to give electors the opportunity to raise questions on the accounts and to consider and decide upon objections received in relation to the accounts.

### Background

Questions and objections can only be raised in relation to the year under audit and up until the time the audit is certified as completed, at which point the accounts are closed for audit purposes.

Questions must relate to fact and not opinion or policy.

Objections must comply with the requirements of Section 16 of the Act and regulation 17 of the Accounts and Audit Regulations 2003, and must request the auditor to:

- issue a report in the public interest; and / or
- apply to the courts for a declaration that an item of account is contrary to law.

### Audit work completed

We have responded to five matters raised by electors in relation to 2014/15:

- **Library services in Scarborough:** concerns were raised by an elector that the proposed cuts in library services, in addition to previous cuts that have been implemented, resulted in the service being so depleted that it no longer complies with law.

We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, there was no evidence before us that would indicate that the Council was in breach of its statutory powers or procedures.

- **A new pedestrian crossing in Scarborough:** concerns were raised by an elector over the consultation process undertaken, the lack of information available on the scheme, leading to questions over how the scheme was being managed and whether value for money was being achieved.

We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, although there had been weaknesses in the consultation process (for which the Authority issued an apology), the scheme had been approved as part of the capital programme and, in the absence of any evidence indicating weaknesses in the processes for developing and approving the capital programme, any further external audit work would not be appropriate.

- **Street lighting in Hungate:** concerns were raised by an elector that the maintenance of a street light outside his property was a misuse of public funds.

We obtained a response from the Authority and considered the concerns raised in light of the rights and duties set out in the Highways Act 1980. Based on information before us, we concluded that no further action was required.

- **The construction of the new primary school in Bentham:** concerns were raised by an elector over the increase in costs for the new school, the project management arrangements and whether the project represented a good and prudent use of taxpayers' money.

We investigated the matter and concluded that, based on information provided by and our additional enquiries of the Authority, whilst problems were encountered during the course of the project, there was no evidence before us that the Council breached procedures or failed to achieve value for money.

The decision to go ahead with the project was a political one which cannot be challenged by the auditor so our work focused on the arrangements in place to tender for and manage the project, the changes in the costs over the course of the project, and the adequacy of the information provided to the Executive on which to base their decisions. Problems encountered during the project resulted in

## Other areas of responsibility (continued)

increased costs, including delays in acquisition of the land, additional planning and highways requirements as a result of the location of the preferred site and changes to the design required by Sport England. Costs were, however, closely monitored and reported to the Executive, options were revisited at various stages in the project, and a review to identify any lessons to be learnt was carried out.

- The Section 106 agreement in relation to the Allerton Waste Recovery Park: concerns were raised by an elector over the terms of the S106 agreement and whether this was fair to the wider public within the area impacted by the AWRP.

We considered the matters raised to fall outside our responsibilities as auditors so we undertook no further work.

### Deloitte view

No matters have been brought to our attention that impact our opinion on the accounts, VFM conclusion or that require the exercise of our other statutory powers.

# Purpose of our report and Responsibility Statement

## Our report is designed to help you meet your governance duties

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

### What we report

Our report is designed to help the Audit Committee discharge its governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Financial Statements;
- Other insights we have identified from our audit; and
- Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

### What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice
- Finally, our views on internal controls and risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our Audit Quality Promise.

# Purpose of our report and Responsibility Statement (continued)

## The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated July 2015.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Deloitte LLP**  
Chartered Accountants

Leeds  
14 September 2015

We view this report as part of our service to you for use as Members of North Yorkshire County Council or for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for controls over, and security of the website. You are also responsible for establishing and controlling the process for electronic distributing accounts and other information.

# Appendix 1: Identified Misstatements

## Disclosure misstatements

### Disclosure misstatements

Auditing Standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights the disclosure deficiencies we have identified during the course of this year's audit which have been corrected by management in the final version of the accounts. A number of other more minor presentational items were also brought to the attention of management.

All disclosure deficiencies have been updated in the final version of the accounts.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Cash Flow Statement	Disclosure of cash receipts and repayments of short and long term borrowings not separated in the cash flow statement.	Quantitative
DSG Note 42	Narrative had not been updated for the current year to reflect updated CIPFA wording.	Qualitative
Grant Income Note 10	To include Capital Grants Credited to Services within the Grant note.	Quantitative



# Appendix 1: Identified Misstatements (continued)

## Corrected misstatements

No reportable corrected misstatements were identified. Minor audit adjustments were identified as part of our audit procedures and also through management processes, none of which were above the determined clearly trivial threshold of £310k.

## Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which, as required by International Standards on Auditing (UK & Ireland), we request that you ask management to correct.

We will obtain written representations from the Authority setting out management's reasons for not correcting misstatements brought to their attention and confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no further adjustments are required.

	(Credit)/ Charge to Income & Expenditure £000	(Increase)/ Decrease in General Fund £000	Increase/ (Decrease) in net assets £000	(Increase)/ Decrease in unusable reserves £000
<b>Payments in Advance (Note 1)</b>				
Dr Prepaid Expenditure			319	
Cr Cost of sales	(319)			
<b>Payments in Advance (Note 2)</b>				
Dr Prepaid Expenditure			1,249	
Cr Cost of sales	(1,249)			
<b>Total</b>	<b>(1,568)</b>		<b>1,568</b>	

Note 1: Error relating to the incorrect recognition of payments and income in advance outside of 4 weekly payment runs.

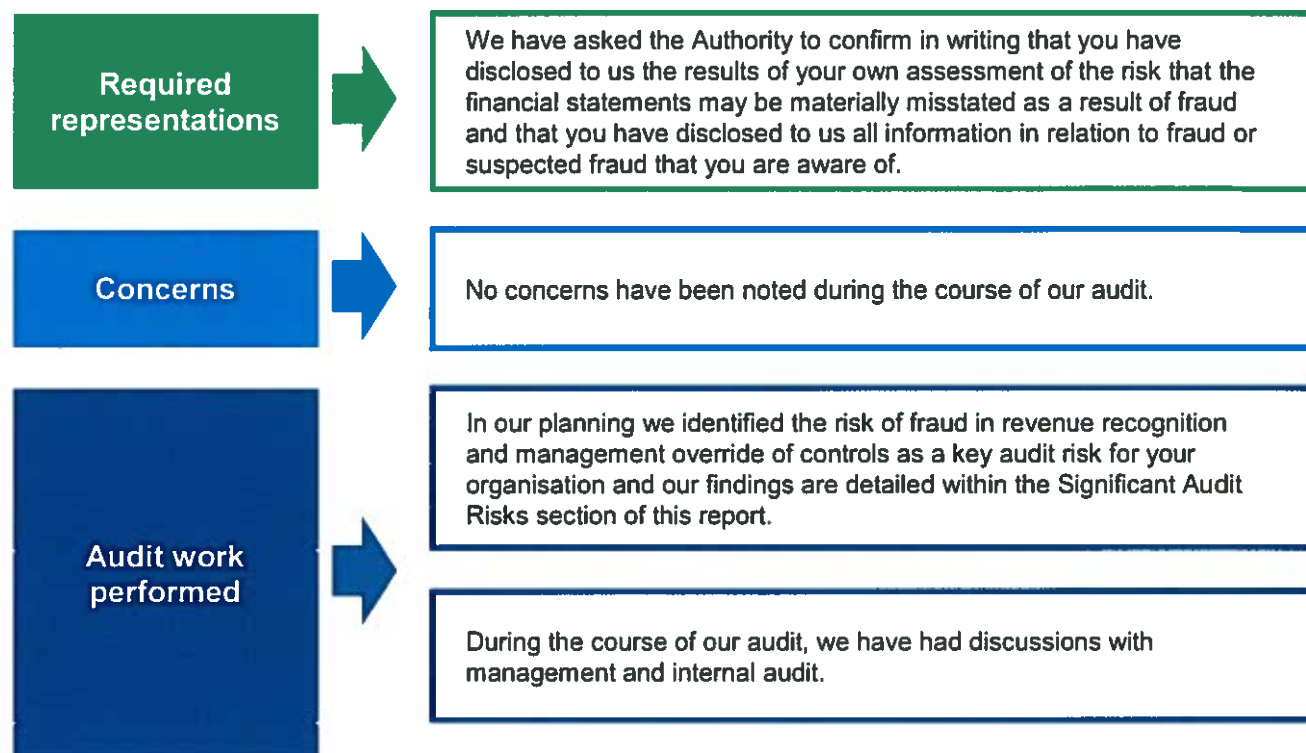
Note 2: Error relating to the incorrect recognition of payments and income in advance for 4 weekly payment runs.

We are also aware of an adjustment that will be raised in relation to the pension asset which is consistent with prior year, however the pension team are still performing work to quantify the adjustment. The pension asset adjustments arise during the audit of the Pension Fund accounts and relate to:

- Pricing differences identified in relation to the Baillie Gifford Life Investments arising from the time of day that independent pricing information was obtained by Bloomberg and other independent sources. This issue is consistent with the prior year;
- Pricing difference identified in relation to Standard Life Diversified Growth Fund arising from quoted broker price published on 31 March 2015; and
- Cut-off difference arising on benefits paid arising from using actual benefits owed as opposed to 52 week approximation.



## Appendix 2: Fraud: responsibilities and representations



The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

## Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below.

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We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

### Independence confirmation

As part of our planning report we noted and discussed with members that the engagement partner has a "long association" with North Yorkshire County Council, having already worked on the Council audit for seven financial years. We confirm that we have implemented the additional safeguards that were set out in our planning report being the inclusion of a Strategically Focussed Second Partner. The additional review has provided a robust and independent challenge to the work conducted on our audit of the Council for the year ended 31 March 2015, and there are no concerns arising from the "long association" that we want to bring to the attention of those charged with governance.

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The fees charged by Deloitte for the period from 1 April 2014 to 31 March 2015 were: £125,987 (2013/14 £125,987) in relation to external audit services.

### Fees

We have certified the teachers pension claim with a fee of £2.5k in 2014/15 (£2.5k 2013/14). This falls outside the Audit Commission regime.

Additional audit fees were also incurred in 2013/14 in relation to challenge work of £3k.

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### Non-audit services

No non audit services have been provided.

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# Appendix 4: Our approach to audit quality

## AQR team report and findings

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2015 the Financial Reporting Council ("FRC") issued its Annual Report on Audit Quality Inspections which provides an overview of its activities of its Audit Quality Review ("AQR") team for the year ended 31 March 2015. It also issued individual reports on each of the four largest firms, including Deloitte. We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm. We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.

We value the regulator's inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to fully identify the underlying cause. This then drives our careful consideration of each of the FRC's comments and recommendations, as well as findings arising from our own review to provide further impetus to our quality agenda.

Fifteen of the audits reviewed by the AQR were performed to a good standard with limited improvements required and five audits required improvements. No audits were assessed as requiring significant improvements. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 68% of audits reviewed by the AQR assessed as good with limited improvements required and, at 5%, the lowest level of audits being assessed as significant improvement required, with none in this category in 2014/15.

We have already taken action to respond to the key themes of the report and will continue to undertake further activities to embed the changes into our practice.

### The AQR's conclusion on Deloitte

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report. Our findings relating to reviews of individual audits largely relate to the application of the firm's procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. Certain aspects of the guidance could, however, have been issued on a more timely basis."

2014/15 Audit Quality Inspection Report on Deloitte LLP

## Appendix 4: Our approach to audit quality (continued)

### AQR team report and findings

Areas identified for particular attention	How addressed in our audit
<p>Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions.</p>	<p>This area is covered by our significant audit risk around management override of control and is addressed in the Significant audit risks section of this report.</p>
<p>Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes.</p>	<p>Where we have relied upon management reports or other system generated reports as part of our audit testing, we have tested a sample to the underlying documentation to confirm that it is sufficient and reliable for audit purposes.</p>
<p>Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed.</p>	<p>In relation to our audit of the County Council we have taken a substantive approach to testing the financial statements, as the controls based audit approach has not been considered appropriate for the current year. However, we have undertaken design and implementation work on the controls the Council has in place in relation to the significant risks identified above.</p>
<p>Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan.</p>	<p>Our audit plan was presented to the Governance Committee in July which allowed sufficient time for any amendments to be incorporated into our audit approach.</p>
<p>Ensure more timely development of enhanced guidance when addressing internal and external quality review findings.</p>	<p>While this does not directly affect our audit plan, we will ensure that our engagement team always utilise the most recent expert advice and guidance.</p>

# Appendix 5: Additional resources available to you

## How we keep you up to date

### UK Accounting Plus

Deloitte has launched [ukaccountingplus.co.uk](http://ukaccountingplus.co.uk), a UK-specific version of its acclaimed news and comment service, [iasplus.com](http://iasplus.com). For everyone from CEOs and CFOs to auditors and students it provides a free source of news, information and insight as well as a vast archive of background to provide context

### Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

### Stay tuned online:

#### Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit).

#### Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

# Appendix 6 : Draft Management Representation Letter

Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2015.

We confirm, to the best of our knowledge and belief, the following representations.

## *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to the report to the Audit Committee.
6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for any future actions.
7. We confirm that in our view the provision in relation to debt is adequate.

# Appendix 6 : Draft Management Representation Letter (continued)

## *Information provided*

8. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
  - (i) management;
  - (ii) Members of the Council;
  - (iii) employees who have significant roles in internal control; or
  - (iv) others where the fraud could have a material effect on the financial statements
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We are not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
16. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.



## Appendix 6 : Draft Management Representation Letter (continued)

18. Pension Scheme:

- all retirement benefits and schemes have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the value of scheme liabilities accord with the members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with the members' knowledge of the business;
- the actuary's calculations have been based on complete and up-to-date member data (as far as is appropriate regarding the adopted methodology); and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

19. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.

20. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.

21. We are not aware of any potential claw back by grant payers of grants that have been released to income.

22. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto that have not been fully disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council



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Member of Deloitte Touche Tohmatsu Limited

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

24 SEPTEMBER 2015

## NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2014/15

## 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 2014/15.

**2.0 ANNUAL REPORT**

- 2.1 The County Council's Statement of Final Accounts (SOFA) for 2014/15 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 LGPS regulations 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 9 July 2015. 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 17 September 2015. The Annual Report for 2014/15 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 2014/15.

GARY FIELDING

Corporate Director – Strategic Resources and Treasurer to the Pension Fund

Central Services

County Hall

Northallerton

11 September 2015



North

Yorkshire County Council

Appendix 1

# North Yorkshire Pension Fund

Annual Report and Accounts  
2014/15



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## PART 1 – MANAGEMENT AND FINANCIAL PERFORMANCE

### 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 2015 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 (replaced by Chris Steward 7/5/2015)	Councillor, City of York Council	Yes
Sam Cross (resigned 13/5/2015 – (position vacant))	Councillor, NYCC	Yes
Chairman of the NYPF Advisory Panel (replaced by Chairman of the Pension Board 30/7/2015)	Councillor, Hambleton District Council and 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 (replaced by Aon from 1 June 2015)
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 Dodge & Cox (appointed 17 April 2015) 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 Veritas (appointed 17 April 2015) YFM Venture Finance
AVC Provider	Prudential

## 1.4 Risk Management

Risk management is the process by which the Fund identifies and addresses the risks associated with its activities. Risk management is a key part of the North Yorkshire Pension Fund's governance arrangements, and the Pension Fund has its own dedicated risk register. Risks are identified and assessed, and controls are in place to mitigate risks. The Fund's risk register is reviewed every year, and the latest review highlighted:

- (a) Pension Fund solvency remains a high risk due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period. Despite a fall in solvency over the last year due to falling Gilt yields, the Fund investment strategy has continued to provide strong returns. No remedial action is presently required in order to deliver the deficit recovery plan.
- (b) The investment strategy has moved from a red to an amber risk, reflecting the low probability (under 30%) that it will fail to deliver adequate returns. The Fund's strong performance in every year since the financial crisis and the diversification through the addition of new asset classes and managers are key reasons for this.

In addition, the approach to managing third party risk such as late payment on contributions is contained in the Pension Administration Strategy (Appendix H). Contributions received from employers are monitored, and the date of receipts is recorded and action is taken for late payments. A penalty system is applicable for employers failing to meet the required deadlines. For persistent material breaches of this protocol, the employer would be reported to the Pensions Regulator.

Further detail about how the Fund manages other risks can be found in **Note 17 Nature and Extent of Risks Arising from Financial Instruments** in the Statement of Accounts in Appendix A.

## 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, Head of Commercial & Investments.

Staff within the Pension Administration team 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 team 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 the main point of contact with the Fund's managers, advisers and auditors.

### 2.2 Disputes Process

The North Yorkshire Pension Fund deals with disputes under the statutory Internal Dispute Resolution Procedure (IDRP). This is a two stage process and further information is available on the nypf website with details of the procedure and the form to be completed. <https://www.nypf.org.uk/formsandguides/publications.shtml>

However as part of the Pension Section's customer care policy all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2014/15 only one case was received against the Pension Fund via the IDRP process and the outcome was in favour of the Pension Fund, confirming that regulatory requirements have been followed and the appropriate action had been taken.

### 2.3 Pensions Administration

The introduction of the LGPS 2014 has made it more important than ever that the relationships between the Pension Fund and Scheme employers are strengthened, and that clear guidelines are provided on the respective roles under the Scheme. The data requirements have become far more complex under the LGPS since April 2014 and it has been necessary to provide additional information alongside the Pensions Administration Strategy document to ensure that Scheme employers understand the revised responsibilities. The Pension Fund strives to support employers in carrying out their function under the Scheme with a number of methods being offered for employers to obtain guidance and information, including 'hands on' training sessions on dedicated areas such as year-end. The focus on training in the year has been on both Pensions Section staff and Scheme employers as it has been recognised that the employer role in providing effective



administration is now an essential element as there is far less opportunity for the Pension Fund to recognise and resolve discrepancies under the Career Average Scheme. Much work has been done to encourage employers to capture data accurately via electronic methods including a move to quarterly data collection for some employers and it is encouraging that despite setbacks relating to payroll system specifications employers have worked hard to meet their responsibilities.

The Pension Fund continues to utilise a range of modules offered by the software provider Heywood in order to provide effective administration, communicate with employers and members electronically, and provide a self-service function for members.

## 2.4 Member Self-Service (MSS)

This is a web-based self-service facility which allows members to update their details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates process. As at 31 March 2015 there were 8,683 registered users.

A small number of staff from employers within the fund have direct upload access to the pensions database (with access to their employees only). This allows them to carry out basic pensions administration processes (creating new starter records, updating hours and personal information) and upload associated documents. Work is monitored via a 'task' which is created on the member record by the employer detailing what they have done. All changes can be tracked through an Audit report which is run by the NYPF Systems team.

## 2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members may view their Annual Benefit Statement online. The majority representing 98% of all statements are delivered in this way with only 935 being posted to members in 2014/15.

## 2.6 NYPF Website

All essential information and guides are held on the website along with links to further national guidance. Employees and employers are able to use the website to refer questions to a generic Pensions Inbox which is specifically resourced each day to provide a speedy response to member and employer queries. An 'Employers Only' area provides a central location to access forms and guides with the facility to securely submit forms electronically.

## 2.7 Data Quality

The Pensions Regulator guidelines on data collection and security have been applied by the Pension Fund and validation checks are carried out across all areas of activity. Periodic checks have been carried out across the database for the last five years to ensure that data gaps or queries are caught in 'real-time'. Other validation checks are carried out at each year end and queries are sent to the employer to resolve. This has become more complex with the introduction of the CARE Scheme as NYPF cannot validate CARE pay provided by employers. Support is sought where appropriate from the Internal Audit Service in order to encourage Scheme employers to maintain a consistent level of data accuracy including validating any data before it is supplied. Data is only accepted from named authorised signatories after the appropriate validation checks have been made.

## 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 2015 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 used for 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 managed active UK Property portfolios during the year through pooled funds with the objective of outperforming RPI
- ➔ Standard Life and Newton both managed 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 residual cost of this investment at the year-end was £0.08m.

The agreed asset class structure for the investment portfolio as at 31 March 2015 was as follows:-

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

### (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 Level 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 State Street Global Services for the purpose of assessing comparisons with the 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 +15.9% compared to the benchmark return of +14.3% and the local authority average (as measured by State Street) of +13.2%.

Performance for the North Yorkshire Pension Fund compared with the benchmark for 5 Years is shown below.

<b>Periodic Performance</b>	<b>1 Year</b>	<b>5 Years (p.a.)</b>
North Yorkshire Pension Fund	15.9%	11.2%
Benchmark	14.3%	10.1%
Performance against benchmark	+1.6%	+1.1%

For the year ending 31 March 2015, NYPF was ranked 10<sup>th</sup> of out 100 Local Authorities within the State Street Universe. For the 5 year period to 31 March 2015 NYPF was ranked 14<sup>th</sup>.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2015 compared with their defined benchmarks is shown in the following table:

<b>Fund Manager</b>	<b>Share of Fund @ March 2015</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	17.2	19.4	19.2	0.2
Baillie Gifford Life Ltd - LTGG	11.4	27.5	19.2	8.3
Fidelity International	17.9	17.9	16.0	1.9
Standard Life Investments - Equities	14.9	1.7	6.3	-4.6
ECM Asset Management	5.4	3.4	0.5	2.9
Amundi Asset Management	10.6	25.7	27.9	-2.2
M&G Investment Management Ltd	7.2	29.0	27.9	1.1
Hermes Investment Management Ltd	1.2	18.8	8.8	10.0
Legal & General	2.3	12.3	8.7	3.6
Threadneedle	2.8	18.1	8.7	9.4
Standard Life (GARS)	3.8	10.1	0.5	9.6
Newton Investments (RR)	4.5	6.3	0.5	5.8
Internally Managed Cash	0.8	0.8	0.4	0.4
<b>Total Fund</b>	<b>100.0</b>	<b>15.9</b>	<b>14.3</b>	<b>1.6</b>

## (b) Analysis of Accounts

The Statement of Accounts for the year 2014/15 is shown at Appendix A.

The value of the Fund's assets at 31 March 2014 was £2,083m, and this increased by £317m during the year to give a value of £2,400m at 31 March 2015.

### *Analysis of Fund Account over three years to 2014/15*

	<b>2014/15 £000</b>	<b>2013/14 £000</b>	<b>2012/13 £000</b>
Net additions/(withdrawals) from dealings with members	(8,299)	26,665	19,893
Net investment return	16,610	17,059	18,071
Change in market value of investments	308,342	198,759	237,204
Net increase/(decrease) in the Fund	316,653	242,483	275,168

### *Analysis of Net Asset Statement over three years to 2014/15*

	<b>2014/15 £000</b>	<b>2013/14 £000</b>	<b>2012/13 £000</b>
Fixed Interest Securities	161,287	71,424	72,005
Equities	701,918	742,593	622,265
Pooled Funds	1,335,586	1,141,317	1,059,513
Pooled Property	150,011	98,592	66,982
Private Equity	82	258	478
Cash Deposits	27,437	12,185	8,427
Other	4,204	3,158	(542)
<b>Total Investment Assets</b>	<b>2,380,525</b>	<b>2,069,527</b>	<b>1,829,128</b>

<b>Current Assets and Current Liabilities</b>	<b>19,344</b>	<b>13,689</b>	<b>11,605</b>
<b>Net Assets of the Fund</b>	<b>2,399,869</b>	<b>2,083,216</b>	<b>1,840,733</b>

#### (c) Accounting and Cash Flow

Prior to the start of the 2014/15 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 2014/15 forecast a net cash surplus of £8.9m. The actual surplus for the year was £20.7m, resulting in an overall cash flow of £11.8m above expectations.

	Budget 2014/15 £m	Actual Income / Expenditure £m	Variance £m
<b>Expenditure</b>			
Benefits	96.0	92.5	-3.5
Administration	1.5	1.5	0
Investment Expenses	4.6	5.5	0.9
<b>Total Expenditure</b>	<b>102.1</b>	<b>99.5</b>	<b>2.6</b>
<b>Income</b>			
Employer and Employee contributions	108.0	120.5	12.5
Transfers	3.0	-0.3	-3.3
<b>Total Income</b>	<b>111.0</b>	<b>120.2</b>	<b>9.2</b>
<b>Net Surplus</b>	<b>8.9</b>	<b>20.7</b>	<b>11.8</b>

The main reasons for the variances were:

- the impact of local government austerity was less than expected in terms of the timing of early retirements and lump sum payments as well as on contribution payments
- outstanding investment performance resulted in higher than anticipated management and performance fees
- one of the Fund's employers paid an additional £8.3m deficit contribution on the last day of the financial year

This analysis of expenditure was reported to the PFC as part of the quarterly Fund management arrangements and has been analysed differently in the Statement of Accounts to comply with accounting requirements and guidance. It also excludes the bulk transfer of Probation members to Greater Manchester Pension Fund during the year (£33.8m).

## 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 2015 is shown below.

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer <i>in</i> quote	10 days	95
Letter detailing transfer <i>out</i> quote	10 days	100
Process and pay refund	5 days	95
Letter notifying estimate of retirement benefits	10 days	95
Letter notifying actual retirement benefits	5 days	100
Process and pay lump sum retirement grant	5 days	100
Initial letter acknowledging death of active/deferred/pensioner member	5 days	87
Letter notifying amount of dependant's benefits	5 days	87
Calculate and notify deferred benefits	10 days	75

### (b) Benefit Calculation Activity

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

Task	Number
Retirements	1918
Transfers In	145
Refunds	274
Frozen Refunds	230
Preserved Benefits	2867
AVCs/ARCs	11
Divorce cases	202
Deaths in Service	29
Deaths of Pensioners	503



(c) Administration

The total numbers of joiners and leavers during 2014/15 were:

Joining	7,299
Retiring	1,447
Deaths	571
Other Leavers	3,292

The performance and activity reflect the efforts the Pension Administration team goes to in providing 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 2014/15 include:

- Maintaining the drive to encourage the use of the improved NYPF website to carry out 'self-service' calculations, building in the LGPS 2014 changes, and making use of the information on the website
- Developing an on-line version of the feedback form completed by leavers going through the retirement process
- Running extra 'NYPFOG' employer workshop events, at which employers were more involved in actively sharing and discussing their experience with LGPS 2014 and learning from each other
- Working with employers to communicate key messages to Fund members in their employment via their internal emailing facilities, chief officer messages and their e-magazines
- Tailoring communication methods in relation to needs of active members based on ability to use the website, how complex their circumstances are and how close a member is to retirement

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 2011</b>	<b>31 March 2012</b>	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
Current Contributors	29,295	27,770	29,036	31,501	35,056
Deferred Pensions	23,800	25,534	27,503	29,490	30,591
Pensioners receiving Benefits	14,888	15,839	16,755	17,668	18,444

### **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).

The total contributions received for 2014/15 were £120m, and North Yorkshire County Council being the main employer in the Fund contributed £48m.

### **5.3 Employer Analysis**

At 31 March 2015 there were 107 contributing employer organisations within NYPF including the County Council itself. Full details of all employers can be found in the Statement of Accounts (Appendix A). The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which

are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled	62	15	77
Admitted Body	45	0	45
<b>Total</b>	<b>107</b>	<b>15</b>	<b>122</b>

## 5.4 Employee Rates

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 2014 as follows:

Band	Range	Contribution rate
1	£0 to £13,500	5.5%
2	£13,501 to £21,000	5.8%
3	£21,001 to £34,000	6.5%
4	£34,001 to £43,000	6.8%
5	£43,001 to £60,000	8.5%
6	£60,001 to £85,000	9.9%
7	£85,001 to £100,000	10.5%
8	£100,001 - £150,000	11.4%
9	Over £150,000	12.5%

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 2013 Valuation for the financial years 2014/15, 2015/16 and 2016/17 are 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)

## 5.5 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 65 years.

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  $1/49^{\text{th}}$  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  $1/80^{\text{th}}$  for each year of membership of the scheme for service up to 31 March 2008 and on  $1/60^{\text{th}}$  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  $1/49^{\text{th}}$  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  $1/49^{\text{th}}$  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  $\frac{3}{80}$ <sup>ths</sup> 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 032 6674.

## PART 6 – GOVERNANCE DOCUMENTATION

The main governance documentation is as follows:

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

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 2013, 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
- 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 2013 Actuarial Valuation

A revised Funding Strategy Statement will be issued following the 2016 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.

### (e) Pension Administration Strategy

This document sets out the administration protocols that have been agreed between the Fund and its employers. It includes the responsibilities and duties of the Employer and NYPF, performance levels, and communications. The latest Pension Administration Strategy is shown at Appendix H.

## PART 7 – TRAINING

### 7.1 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.

### 7.2. 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.

During the year 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 2014/15 were:

Event	Place	Date
LGC Investment Summit	Newport	09 – 10 September 2014
NAPF Annual Conference	Liverpool	15 – 17 October 2014
LGPF Investment Forum	London	22 October 2014
NAPF Annual Conference	Edinburgh	11 – 13 March 2015

## PART 8 – GLOSSARY AND CONTACT DETAILS

### ACTIVE MEMBER:

Current employee who is contributing to a pension scheme.

### ACTUARY:

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

### ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC):

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

### ADMINISTERING AUTHORITY:

North Yorkshire County Council as Administering Authority is responsible for the administration of the North Yorkshire Pension Fund (NYPF).

### ADMITTED BODY:

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

### ASSET ALLOCATION:

The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

### BENCHMARK:

A measure against which the investment policy or performance of an investment manager can be compared.

### CARE (Career Average Revalued Earnings)

From 1 April 2014, the LGPS changed from a final salary scheme to a CARE scheme. It is still a defined benefit scheme but benefits built up from April 2014 are worked out using a member's pay each scheme year rather than the final salary. The pension earned each scheme year is added to the member's pension account and inflation is then added to the pension built up in the account so it keeps its value.

### DEFERRED MEMBERS:

Scheme members, who have left employment or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

### DEFINED BENEFIT SCHEME:

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

#### **DIVERSIFIED GROWTH FUNDS (DGF):**

An alternative way of investing in shares, bonds, property and other asset classes.

#### **EMPLOYER CONTRIBUTION RATES:**

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

#### **EQUITIES:**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

#### **FIXED INTEREST SECURITIES:**

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

#### **INDEX:**

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

#### **POOLED FUNDS:**

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

#### **RETURN:**

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

#### **SCHEDULED BODY:**

An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

#### **THE PENSIONS ADVISORY SERVICE (TPAS)**

TPAS is an independent non-profit organisation that provides information and guidance on all areas of the pensions industry. They also help any member of the public who has a problem, complaint or dispute with their occupational or private pension arrangement

#### **UNREALISED GAINS/LOSSES:**

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

## Contact Information

### **North Yorkshire Pension Fund**

County Hall  
Northallerton  
North Yorkshire  
DL7 8AL

**Telephone:** Pensions Help & Information Line on 01609 536335

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

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

### **The Pensions Advisory Service (TPAS)**

TPAS  
11 Belgrave Road  
London  
SW1V 1RB

**Telephone:** The Pensions Helpline: 0845 601 2923

**Email:** [enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk).

website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**NORTH YORKSHIRE PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2015**

2013/14		2014/15	
£000		£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions</b>		
54,426	Employers - Normal	56,902	
26,498	- Deficit	35,822	
4,052	- Early Retirement Costs Recharged	2,444	
24,125	Employees - Normal	25,075	
303	- Additional Voluntary	248	
<u>109,404</u>	<b>Total Contributions Receivable (Note 7)</b>		120,491
11,339	<b>Transfers In (Note 8)</b>		6,663
	<b>Less</b>		
	<b>Benefits</b>		
(66,505)	Pensions	(69,996)	
(19,945)	Commutation and Lump Sum Retirement Benefits	(20,491)	
(1,329)	Lump Sums Death Benefits	(1,874)	
<u>(87,779)</u>	<b>Total Benefits Payable (Note 9)</b>		(92,361)
	<b>Leavers</b>		
(8)	Refunds to Members Leaving Service	(138)	
0	Payments for Members Joining State Scheme	0	
(4,106)	Transfers Out	(40,840)	
<u>(4,114)</u>	<b>Total Payments on Account of Leavers (Note 10)</b>		(40,978)
(2,185)	<b>Management Expenses (Note 11)</b>		(2,114)
<u>26,665</u>	<b>Net Additions From Dealings With Members</b>		<u>(8,299)</u>
	<b>RETURNS ON INVESTMENTS</b>		
22,895	Investment Income (Note 12)	21,943	
(397)	Taxation (Note 13)	(390)	
(5,439)	Investment Expenses (Notes 11 and 14)	(4,943)	
<u>198,759</u>	<b>Change in market value of investments (Note 15)</b>	<u>308,342</u>	
<u>215,818</u>	<b>Net Returns On Investments</b>	<u>324,952</u>	
242,483	<b>Net Increase in the Fund During the Year</b>	316,653	
1,840,733	<b>Opening Net Assets of the Fund</b>	2,083,216	
<u>2,083,216</u>	<b>Closing Net Assets of the Fund</b>	<u>2,399,869</u>	

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2014 £000		31 March 2015 £000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	
71,424	Fixed Interest Securities	161,287
742,593	Equities	701,918
1,141,317	Pooled Investments	1,335,586
98,592	Pooled Property Investments	150,011
258	Private Equity	82
<u>2,054,184</u>		<u>2,348,884</u>
12,185	Cash Deposits	27,437
14,966	Investment Debtors	5,327
<u>2,081,335</u>	<b>TOTAL INVESTMENT ASSETS</b>	<u>2,381,648</u>
	<b>INVESTMENT LIABILITIES (Notes 15 &amp; 16)</b>	
(23)	Derivative Contracts - Forward Currency Contracts	0
(11,785)	Investment Creditors	(1,123)
<u>(11,808)</u>	<b>TOTAL INVESTMENT LIABILITIES</b>	<u>(1,123)</u>
<u>2,069,527</u>	<b>NET INVESTMENT ASSETS</b>	<u>2,380,525</u>
	<b>CURRENT ASSETS</b>	
9,233	Contributions due from employers	9,841
802	Other Non-Investment Debtors	242
4,888	Cash	12,049
<u>14,923</u>	<b>TOTAL CURRENT ASSETS</b>	<u>22,132</u>
	<b>CURRENT LIABILITIES</b>	
(1,234)	Non-investment creditors	(2,788)
<u>(1,234)</u>	<b>TOTAL CURRENT LIABILITIES</b>	<u>(2,788)</u>
<u>2,083,216</u>	<b>TOTAL NET ASSETS (Note 16)</b>	<u>2,399,869</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 2015**

**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 2014/15 and the statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It is a contributory 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 area. Teachers, police officers and fire fighters are not included as they come 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 2015 there were 107 contributing employer organisations within NYPF including the County Council itself, as detailed below:

**62 Scheduled Bodies**

City of York Council  
Craven District Council  
Hambleton District Council  
Harrogate Borough Council  
North Yorkshire County Council  
Richmondshire District Council  
Ryedale District Council  
Scarborough Borough Council  
Selby District Council  
North Yorkshire Police & Crime Commissioner  
Chief Constable - North Yorkshire Police Force  
North Yorkshire Fire & Rescue Authority  
North York Moors National Park  
Yorkshire Dales National Park  
Askham Bryan College  
Craven College  
Scarborough Sixth Form College  
Selby College  
York College  
Archbishop Holgate's School  
Great Smeaton Academy Primary School  
The Grove Academy  
Harrogate Grammar School  
Harrogate High School  
Haxby Road Primary Academy  
Manor Church of England Academy  
Norton College  
Outwood Academy  
Robert Wilkinson Academy  
Roseberry Academy  
Rossett School

Skipton Academy  
Skipton Girls High School  
South Craven School  
St Aidan's Church of England High School  
Stokesley School Academy  
The Woodlands Academy  
Thomas Hinderwell Primary Academy  
Ainsty 2008 Internal Drainage Board  
Easingwold Town Council  
Filey Town Council  
Foss Internal Drainage Board  
Fulford Parish Council  
Glusburn Parish Council  
Great Ayton Parish Council  
Haxby Town Council  
Hunmanby Parish Council  
Knaresborough Town Council  
Malton Town Council  
Northallerton Town Council  
Norton on Derwent Town Council  
Northallerton / Romanby Burial Board  
Pickering Town Council  
Riccall Parish Council  
Richmond Town Council  
Ripon City Council  
Selby Town Council  
Skipton Town Council  
Sutton in Craven Parish Council  
Tadcaster Town Council  
Vale of Pickering Internal Drainage Board  
Whitby Town Council

**45 Admission Bodies**

Be Independent  
Betterclean Services  
Bulloughs Cleaning Ltd  
Catering Academy Ltd  
Chartwells Compass  
Churchill Security  
Community Leisure  
Consultant Services Group  
Craven Housing  
Dewent Facilities Management  
Dolce Ltd  
Elite  
Enterprise  
Explore York Libraries and Archives  
Grosvenor Facilities Management  
Human Support Group  
Housing and Care 21  
ISS Mediclean Ltd  
Interserve  
Jacobs UK Ltd  
Joseph Rowntree Trust  
Lifeways Community Care Ltd  
Mellors

Northern Care  
NYBEP  
OCS Group UL Ltd  
Premier Support Services  
Ringway  
Richmondshire Leisure  
Sewell Facilities Management  
Sheffield International Venues  
Sanctuary Housing Association  
Springfield Home Care  
Streamline Taxis  
Superclean  
University of Hull  
Veritau Ltd  
Veritau North Yorkshire Ltd  
Welcome to Yorkshire  
Wigan Leisure & Culture Trust  
York Archaeological Trust  
York Museums & Gallery Trust  
Yorkshire Coast Homes  
Yorkshire Housing Ltd  
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 2015 No	31 March 2014 No
Employees in the Fund		
NYCC	21,931	18,960
Other employers	13,125	12,541
Total	<u>35,056</u>	<u>31,501</u>
Pensioners		
NYCC	9,961	9,463
Other employers	8,483	8,205
Total	<u>18,444</u>	<u>17,668</u>
Deferred pensioners		
NYCC	18,829	18,204
Other employers	11,762	11,286
Total	<u>30,591</u>	<u>29,490</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 Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2015. 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

Prior to 1 April 2014 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.

From 1 April 2014 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated annually 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 on the Fund's website.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its year end position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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.

### **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.

Employer deficit funding contributions are accounted for in the period in which they are payable under the schedule of contributions set by the Actuary or on receipt if earlier than the due date.

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 and Oversight and Governance Costs**

All administrative expenses, oversight and governance costs are accounted for on an accruals basis. All associated staff costs are charged to the Fund. Management, accommodation and other overheads borne by NYCC 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

## **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
- the value of assets held within limited partnerships are based on periodic valuations provided by those controlling the partnership

### 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.

Derivative contract assets are valued at bid prices and liabilities at offer prices. Changes in the value of derivative contracts are included as a change in market value.

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 and includes amounts held by the Fund's external managers.

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 changes 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 the Code, 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 2015 was £82k (31 March 2014, £258k).

##### 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 require management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the for revenue and expenses during the year. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from those based on these assumptions and estimates.

The item in the Net Assets Statement as at 31 March 2015 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 1.8%, a 0.1% increase in inflation would increase liabilities by 1.8%, and an increase in life expectancy of one year would increase liabilities by 2.8%.

#### 6. Events After the Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved. They can be either those that provide evidence of conditions that existed at the end of the reporting period or those that are indicative of conditions arising after the end of the reporting period.

#### 7. Contributions Receivable

	2014/15 £000	2013/14 £000
Contributions Receivable		
North Yorkshire County Council	48,239	47,466
Other Scheduled Bodies	65,235	55,557
Admitted Bodies	7,017	6,381
	<u>120,491</u>	<u>109,404</u>

#### 8. Transfers In from Other Pension Funds

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

## 9. Benefits Payable

	2014/15	2013/14
	£000	£000
Benefits Payable		
North Yorkshire County Council	39,268	37,126
Other scheduled bodies	47,440	46,008
Admitted bodies	5,653	4,645
	<u>92,361</u>	<u>87,779</u>

## 10. Payments To and On Account of Leavers

A group transfer totalling £33,829k was paid to Greater Manchester Pension Fund in October 2014. The transfer related to North Yorkshire Probation Service staff following the consolidation of national probation service pension provision.

## 11. Management Expenses

	2014/15	2013/14
	£000	(Restated) £000
Administrative Costs	1,519	1,458
Investment Management Costs	4,943	5,439
Oversight and Governance Costs	595	727
	<u>7,057</u>	<u>7,624</u>

Investment Management Costs includes £1,177k (2013/14: £2,275k) in respect of performance related fees payable to the Fund's investment managers and £725k in respect of transaction costs (2013/14: £871k). The analysis of costs has been revised from 2013/14 to reflect the latest guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of acquisitions and in the proceeds from the sales of investments (see **Note 15a**).

## 12. Investment Income

	2014/15	2013/14
	£000	£000
Fixed Interest and Index Linked Securities	2,094	1,928
Dividends from Equities	18,186	19,485
Pooled Property Investments	1,066	1,067
Pooled Investments - Other Managed Funds	0	0
Interest on Cash Deposits	50	22
Other	547	393
	<u>21,943</u>	<u>22,895</u>

## 13. Taxes on Income

	2014/15	2013/14
	£000	£000
Withholding Tax on Dividends	<u>390</u>	<u>397</u>

#### 14. Investment Expenses [splits IMC's in section 11]

	2014/15	2013/14
	£000	£000
Management Fees	4,838	5,304
Custody Fees	105	135
	<u>4,943</u>	<u>5,439</u>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

#### 15. Investments

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

	Value at 31 March 2015	Change in market value at 31 March 2015	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2014
	£000	£000	£000	£000	£000
Fixed Interest	161,287	36,090	(482,958)	536,731	71,424
Equities	701,918	48,328	(434,593)	345,590	742,593
Pooled Funds	1,335,586	204,266	(30,997)	21,000	1,141,317
Pooled Property	150,011	19,724	0	31,695	98,592
Private Equity	82	(66)	(110)	0	258
Derivative Contracts	0	0	23	0	(23)
Total Invested	<u>2,348,884</u>	<u>308,342</u>	<u>(948,635)</u>	<u>935,016</u>	<u>2,054,161</u>
Cash Deposits	27,437				12,185
Net Investment Debtors	4,204				3,181
Net Investment Assets	<u>2,380,525</u>	<u>308,342</u>			<u>2,069,527</u>



	Value at 31 March 2014	Change in market value at 31 March 2014	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2013
	£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				8,427
Net Investment Debtors	3,181				2,321
Net Investment Assets	<u>2,069,527</u>	<u>194,141</u>			<u>1,829,128</u>

Transaction costs incurred during the year amounted to £752k (2013/14 £871k). In addition to these costs, indirect costs are incurred through the bid-offer spread on investment purchases and sales.

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

	2014/15 £000	2013/14 £000
Fixed Interest Securities		
UK Public Sector Quoted	<u>161,287</u>	<u>71,424</u>
Equities		
UK Quoted	347,559	408,273
Overseas Quoted	<u>354,359</u>	<u>334,320</u>
	<u>701,918</u>	<u>742,593</u>
Pooled Investments		
UK Equity	51,806	51,942
UK Property	150,011	98,592
UK Fixed Income	210,996	186,419
Overseas Equity	700,624	570,674
Overseas Fixed Income	172,333	168,030
	<u>1,285,770</u>	<u>1,075,657</u>
Diversified Growth Funds - UK	<u>199,827</u>	<u>164,252</u>
Private Equity - UK	<u>82</u>	<u>258</u>
Total Investments (excl Derivatives)	<u>2,348,884</u>	<u>2,054,184</u>

Investment Manager	31 March 2015		31 March 2014	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	412,227	17.2	345,185	16.6
Baillie Gifford & Co. - LTGG	273,839	11.4	214,838	10.3
Fidelity International	430,200	17.9	402,771	19.3
Standard Life Investments - Equities	357,560	14.9	416,766	20.0
Standard Life Investments - DGF	91,376	3.8	82,993	4.0
ECM Asset Management	130,081	5.4	125,783	6.0
Amundi Asset Management	253,248	10.6	228,667	11.0
RC Brown Investment Management	0	0.0	0	0.0
Hermes Property Unit Trust	29,574	1.2	25,799	1.2
Legal & General	54,398	2.3	27,984	1.3
Threadneedle	66,628	2.8	45,279	2.2
M&G Investments	172,862	7.2	71,922	3.5
Newton Investments	108,451	4.5	81,259	3.9
Currency Hedging	(1)	0.0	23	0.0
Yorks & Humber Equity Fund	82	0.0	258	0.0
Internally Managed (cash and net debtors)	19,344	0.8	13,689	0.7
	<u>2,399,869</u>	<u>100.00</u>	<u>2,083,216</u>	<u>100.0</u>

The investments with Baillie Gifford, ECM Asset 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 2014			31 March 2015		
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>					
71,424			161,287		
742,593			701,918		
977,065			1,135,759		
98,592			150,011		
164,252			199,827		
258			82		
	17,073			39,486	
14,966			5,327		
	10,035			10,083	
<u>2,069,150</u>	<u>27,108</u>	<u>-</u>	<u>2,354,211</u>	<u>49,569</u>	<u>-</u>
<b>Liabilities</b>					
23			-		
11,785			1,123		
		1,234			2,788
<u>11,808</u>	<u>-</u>	<u>1,234</u>	<u>1,123</u>	<u>-</u>	<u>2,788</u>
<u>2,057,342</u>	<u>27,108</u>	<u>(1,234)</u>	<u>2,353,088</u>	<u>49,569</u>	<u>(2,788)</u>

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

	2014/15	2013/14
	£000	£000
Fair Value Through Profit & Loss	308,342	194,141
Loans and Receivables	<u>16,275</u>	<u>4,618</u>
	<u>324,617</u>	<u>198,759</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.

31 March 2014			31 March 2015		
Cost	Fair Value		Cost	Fair Value	
£000	£000		£000	£000	
<b>Assets</b>					
1,518,466	2,069,150	Fair Value through Profit & Loss	1,580,052	2,354,211	
27,108	27,108	Loans and Receivables	49,569	49,569	
<u>1,545,574</u>	<u>2,096,258</u>		<u>1,629,621</u>	<u>2,403,780</u>	
<b>Liabilities</b>					
11,808	11,808	Fair Value through Profit & Loss	1,123	1,123	
1,234	1,234	Liabilities at Amortised Cost	2,788	2,788	
<u>13,042</u>	<u>13,042</u>		<u>3,911</u>	<u>3,911</u>	

The Total Loans and Receivables figure as at 31 March 2014 has been amended in Notes 16(a) and 16(c) to reflect the Non-Investment Debtors figure.

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 2015	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	2,354,129		82	2,354,211
Loans and Receivables	49,569			49,569
	<u>2,403,698</u>	<u>-</u>	<u>82</u>	<u>2,403,780</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	1,123			1,123
Liabilities at Amortised Cost	2,788			2,788
	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>3,911</u>
Net Assets	<u>2,399,787</u>	<u>-</u>	<u>82</u>	<u>2,399,869</u>
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>

## 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 2015/16 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 2015</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	£000	%	£000	£000
Cash and Cash Equivalents	27,437	0.0	27,437	27,437
UK Bonds	161,287	6.4	171,609	150,965
UK Equities	347,559	10.3	383,358	311,760
Overseas Equities	354,359	9.0	386,251	322,467
UK Pooled Equity	51,806	10.3	57,142	46,470
Overseas Pooled Equity	700,624	9.0	763,680	637,568
UK Pooled Bonds	210,996	6.4	224,500	197,492
Overseas Pooled Bonds	172,333	6.4	183,362	161,304
Pooled Property Investments	150,011	2.1	153,161	146,861
Diversified Growth Funds	199,827	4.2	208,220	191,434
Private Equity	82	4.0	85	79
Derivatives	0	0.0	0	0
Non Investment Debtors/Creditors	7,295	0.0	7,295	7,295
<b>Total Assets</b>	<b>2,383,616</b>		<b>2,566,101</b>	<b>2,201,131</b>

<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>

### 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 2015 and 31 March 2014 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	<b>2014/15</b>	<b>2013/14</b>
	£000	£000
Cash and Cash Equivalents	27,437	12,185
Fixed Interest Securities	<u>161,287</u>	<u>71,424</u>
	<u>188,724</u>	<u>83,609</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 £1,887k and for 2013/14 asset values, £836k.

### 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 +/-6.1%. 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 6.1% 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 2015</b>	<b>Value on 6.1% Increase</b>	<b>Value on 6.1% Decrease</b>
	£000	£000	£000
Overseas Equities	1,054,983	1,119,337	990,629
Overseas Bonds	172,333	182,845	161,821
Total Assets	<u>1,227,316</u>	<u>1,302,182</u>	<u>1,152,450</u>

<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>1,128,823</u>	<u>1,017,227</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 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. The banks and institutions 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 2015 was £12m (31 March 2014, £4.9m) and was held with the following institutions:

	Credit Rating	31 March 2015 £000	31 March 2014 £000
<b>Call Accounts</b>			
Barclays	A/F1	3,119	1,336
Bank of Scotland	A/F1		117
Santander UK	A/F1	249	305
Svenska Handelsbanken	AA-/F1+		938
<b>Fixed Term Deposit Notice Accounts</b>			
Bank of Scotland	A/F1	4,759	1,641
Barclays	A/F1	280	
Leeds BS	A-/F1	560	
Nationwide	A/F1	1,820	293
Natwest	A/F1		258
Svenska Handelsbanken	AA-/F1+	280	
Lancashire County Council	-	280	
Leicester FRA	-	84	
London Borough of Enfield	-	280	
Salford City Council	-	336	
		12,047	4,888

### 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 2015 the value of illiquid assets was £82k, which represented less than 0.1% of total Fund assets (31 March 2014, £258k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2015 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 2014/15 the common rate (determined at the 2013 Valuation) is 13.8% of pensionable pay.

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:

**For future service liabilities**

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 2015 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**

	<b>2014/15</b>	<b>2013/14</b>
	£000	£000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment Transactions	1,499	11,405
Accrued Dividends	2,542	2,359
Withholding Taxes Recoverable	1,286	1,202
	<u>5,327</u>	<u>14,966</u>
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	9,361	8,769
Contributions due from Admitted Bodies	480	449
Pensions Rechargeable	11	13
Interest on Deposits	0	2
Other	231	802
	<u>10,083</u>	<u>10,035</u>
<b>Total Debtors</b>	<u><b>15,410</b></u>	<u><b>25,001</b></u>

## 21. Current Liabilities

	2014/15 £000	2013/14 £000
<b>Creditors</b>		
Investment Creditors	1,123	11,808
Sundry Other Creditors	<u>2,788</u>	<u>1,234</u>
	<u>3,911</u>	<u>13,042</u>

Within Sundry Other Creditors, £1,008k relates to government entities and £1,780k to non-government entities and individuals.

## 22. Additional Voluntary Contributions

	Market Value 31 March 2015 £000	Market Value 31 March 2014 £000
Prudential	<u>21,180</u>	<u>21,320</u>

AVC contributions of £2,261k were paid directly to Prudential during the year (£2,390k in 2013/14).

## 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 £1,136k (£1,078k in 2013/14) 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 £49.2m to the Fund in 2014/15 (£47.5m in 2013/14). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested with banks and other institutions by the treasury management operations of NYCC, through a service level agreement. During the year to 31 March 2015 the Fund had an average investment balance of £6m (£1.8m during 2013/14) receiving interest of £39k (£16k paid in 2013/14) on these funds.

### Governance

As at 31 March 2015 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.

### Key Management Personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS 24. This exemption applies in equal measure to the accounts of the Fund. The disclosures required by The Accounts and Audit (England) Regulations can be found in the main accounts of NYCC.

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

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2013/14).

#### **25. Contingent Assets**

Four 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 2013/14).

## North Yorkshire Pension Fund

### Statement of the Actuary for the year ended 31 March 2015

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the North Yorkshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Mercer Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,841M) covering 73% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 was:
  - 13.8% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure effective from 1 April 2014.

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 27 years, amounting to £28M in 2014/15, and increasing by 4.1% p.a. thereafter.

Allowance was made for post valuation market changes to 31 August 2013. On average across the Fund, the updated deficit would be eliminated by a monetary amount of £21M in 2014/15, and increasing by 4.1% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Mercer Limited's report dated March 2014 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for past service liabilities (funding target)	4.8% p.a.
Discount rate for future service liabilities	5.6% p.a.
Rate of inflationary pay increases (long term)*	4.1% p.a.
Rate of increase to pension accounts	2.6% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% p.a.

\* allowance was also made for short-term public sector pay restraint over a 5 year period in calculating the past service liabilities.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date (other than the allowance for post valuation market changes as mentioned above).

7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out by Mercer Limited as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, North Yorkshire County Council, the Administering Authority of the Fund, in respect of this Statement.

9. The actuarial valuation report is available on the Fund's website at the following address:  
<https://www.nypf.org.uk/nypf/valuationreports.shtml>

Aon Hewitt Limited

7 August 2015

**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 2015, 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 2014/15.

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 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.



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

25 September 2015

## 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.

<b>Overseas Bonds</b>	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 and 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 2014/15 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 2015

**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 Regulations 2013.
- 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 pension scheme (LGPS) under the regulations.

## **Pension Board**

- 2.2 To comply with regulation 106 of the LGPS (Amendment) (Governance) Regulations 2015, terms of reference to establish the Council's Pension Board were approved at its meeting on 18 February 2015.
- 2.3 The Pension Board is responsible for assisting the Council in securing compliance with the regulations, and to ensure the efficient and effective governance and administration of the LGPS. The Pension Board will have an oversight role in the governance of the Fund.
- 2.4 The key points from the terms of reference are:
- there are 9 members of the Pension Board, being 4 scheme member representatives (voting), 4 employer representatives (voting) and 1 independent chair (non-voting)
  - there will be 4 meetings each year
  - the Pension Board has its own policies on conflicts of interest and training
  - costs of the Pension Board will be met by the Fund

## **Independent Professional Observer**

- 2.5 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**

- 2.6 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.
- 2.7 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, subject to any specific instructions that might be given from time to time by the PFC
  - 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

## **NYPFOG**

- 2.8 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 2015)
- (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 Pension Board is invited to attend all PFC meetings, in a non-voting capacity
  - (f) the quorum required for Committee Meetings is three

### **Meetings**

- 3.2 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.
- 3.3 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 3.1** above, including substitute members and union representatives. 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.
- 3.4 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.
- 3.5 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. At least four 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).

- 3.6 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.

## **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 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.

### **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. It is assumed that the Pension Board fulfils the role of a secondary panel and these stakeholder groups are all eligible to be represented
c	That where a secondary committee or panel has been established, the structure ensures effective	Fully compliant. It is assumed that the

	communication across both levels	Pension Board fulfils the role of a secondary panel
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 main LGPS committees	Fully compliant
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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 on page 80.

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 pages 77-80, 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.

## **7. 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.

## **Communications Policy Statement June 2015**

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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## **COMMUNICATIONS POLICY STATEMENT**

### **1.0 BACKGROUND**

1.1 Each of the Local Government Pension Scheme (LGPS) Funds in England and Wales is required to publish a Statement of policy under Regulation 61 of the Local Government Pension Scheme Regulations 2013 relating to the Communications Strategy for the Fund.

1.2 The key requirements for preparing the Statement are summarised as follows:

*(a) An Administering Authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members and Scheme employers*

*(b) In particular the statement must set out its policy on the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers, the format, frequency and method of distributing such information or publicity, and the promotion of the scheme to prospective members and their employers*

*(c) the statement must be revised and published following 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
- **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

##### **Scheme Employers**

4.4 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**

4.5 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)\* - available on the Fund website or 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 and deferred members 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
- electronic satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling etc. A hard copy is available on request.
- pay advice (sent to pensioners when they first retire and thereafter when gross pension changes by £1 or more per month)
- 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. A generic email address is available with resulting queries being delivered to an Inbox which is dealt with on a daily basis during office hours by assigned staff members

## **Prospective Scheme Members**

4.6 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 NYPCOG, the County Council prepares an **Annual Communications Strategy** for the NYPCOG 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

## **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

5.2 All of these documents are available on the NYPCOG 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](mailto:pensions@northyorks.gov.uk)

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

## APPENDIX G

### 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 2014 should be at the rate of 13.8 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

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 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H or in a separate agreement with an individual employer, and the contributions in the attached schedule take account of any such agreements.

#### 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.

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The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer 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 with a third party or parties including where the third party or parties participate in the Fund.

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 H, 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 so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contribution or increased security.

#### 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:



Date of signing:

28 March 2014

Name:

Ian Kirk

Qualification:

Fellow of the Institute and Faculty of Actuaries

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# **Pensions Administration Strategy**

**June 2015**



**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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# Pensions Administration Strategy

## 1.0 Purpose of Strategy

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

## 2.0 Regulatory Background

- 2.1 The protocols are concerned with routine yet important responsibilities and duties and they cannot override any provision or requirement in the Regulations outlined below or in any other relevant legislation.
- 2.2 The principal Regulations underpinning this document are:
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
  - The Local Government Pension Scheme Regulations 2013
  - The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
  - The Local Government Pension Scheme (Administration) Regulations 2007
  - The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
  - The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
  - The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
  - The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
  - The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto).

## 3.0 Review of the Strategy

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

## 4.0 Performance Levels

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

## 5.0 **Responsibilities and Duties of the Employer**

### **Contact Person**

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

### **Member details – Employer performance levels**

- 5.2 The employer must forward notifications (or approved alternatives) to NYPF as follows:
- (i) New starters (Form PEN11) – within one month of the employee joining
  - (ii) Change in member details – within 6 weeks of the event
  - (iii) Early leavers (Form SU5) – within 6 weeks of the employee leaving
  - (iv) For retirements, NYPF aims to pay lump sums to the member on the first Friday after retirement. Due to changes in the Regulations that govern the operation of the LGPS, certain decisions on the nature of benefits to be taken have to be made prior to retirement. To enable this to happen, retirement notifications (form ADNOT) should be received by NYPF at least 30 days before the last day of employment. When the form SU5 is not provided prior to retirement, it should be forwarded no later than 2 weeks following retirement.  
The Occupational Pension Schemes (Disclosure of Information) Regulations 2013 require that form SU5 for a retirement before age 65 must be received no later than one month after retirement and for retirements at age 65 no later than 10 working days after the date of retirement. Great care must be taken to avoid contravening these regulations (see **paragraph 5.20** below).
  - (v) Death in membership must be notified by the employer to the NYPF within 3 working days of the death of the member.

### **Employee's Guide**

- 5.3 Under the Occupational Pension Schemes (Disclosure of Information) Regulations 2013 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme as follows:
- Where you have received jobholder information, the Guide must be given within one month of the date that information was received.
  - Where you have not received jobholder information, the Guide must be given within two months of the date the person became an active member of the scheme.

### **Year-end information**

- 5.4 The employer (or their payroll contractor/agency for which the employer is responsible) shall provide NYPF with final salary (where applicable) and Career Average Revalued Earnings (CARE) year-end information as at 31 March each year in a notified format no later than 30 April or the next working day.
- 5.4.1 The Council's Integrated Finance Team also requires separate information. After completion of the March contribution sheets, employers are required to review their full year contribution summary (contained within the same Excel document). All contributions for the year should be reconciled back to the organisational payroll and the relevant declaration is to be signed and dated before being returned to [pension.contributions@northyorks.gov.uk](mailto:pension.contributions@northyorks.gov.uk).

### **Contribution deductions**

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

### **Payment of contributions to NYPF**

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

### **Payment dates**

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

### **Late Payment**

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

### **Payment method**

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

### **Remittance Advices**

- 5.10 The employer must email a monthly return to [pension.contributions@northyorks.gov.uk](mailto:pension.contributions@northyorks.gov.uk), in advance of their payment. The monthly return is in a prescribed format and is provided by the Integrated Finance team. The form must state the employers name and reference number, the period and the amount of the payment split between employees and employers contributions. In addition, it should include the total pensionable pay, details of added-years contributions, Additional Regular contributions, Additional Pension Contributions and any other payroll related adjustments.

### **AVC Contributions**

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

### **Discretionary Powers**

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

### **Employer Decisions**

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

### **Independent Medical Practitioner**

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

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

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

### **Data Protection**

- 5.18 Under the Data Protection Act 2003, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from NYPF. It will also only use information supplied or made available by NYPF for the operation of the Local Government Pension Scheme.

### **Internal Dispute Procedure**

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

### **Fines imposed on NYPF**

- 5.20 In the event of NYPF being fined by the Pensions Regulator, this fine will be passed on to the relevant employer where that employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), caused the fine. 623

### **Charges to the employer**

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

## **6.0 Responsibilities and Duties of NYPF**

### **Regulatory Issues**

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



### **NYPF Performance Levels**

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

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

### **Support to Employers**

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

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

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

- 6.6 NYPF will supply any information to employers necessary to ensure the smooth running of the pension fund.
- 6.7 NYPF will work with employers to ensure that retirement is as smooth a process for the member and employer as possible.

### **Independent Medical Practitioner**

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

### **Services to Members**

- 6.9 NYPF will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.
- 6.10 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.
- 6.11 In addition, NYPF will communicate with members through appropriate media and encourage at all times the development and use of self-service facilities. Full details are provided in the **Communications Policy Statement** and **Annual Communications Strategy**.

### **Multiple Language Literature**

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

### **Data Protection**

- 6.13 Under the Data Protection Act 2003, NYPF will protect from improper disclosure any information held about a member. Information held will only be used by NYPF for the operation of the Local Government Pension Scheme.

### **Internal Dispute Resolution**

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

## 7.0 **Contribution Rates and Administration Costs**

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

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

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

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

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

- Non receipt of new entrant documentation requiring NYPF to set up temporary data and/or complete documentation on behalf of the employer
- Non receipt of leaver details requiring NYPF to interrogate payroll or other systems on the employers behalf
- Chasing outstanding information following one reminder
- FRS17/IAS19 valuations
- ad hoc actuarial & legal advice (e.g. TUPE transfer)
- ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

## 8.0 **Communications**

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

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****24 September 2015****Review of Statement of Final Accounts (incorporating Annual Governance Statement)****Report from Audit Committee Members Working Group****1.0 Purpose of the Report**

1.1 To advise members of the Audit Committee on:

- i. Issues identified by the Members Working Group in reviewing the draft Statements of Final Accounts (SoFA) and the draft Annual Governance Statement (AGS);
- ii. Actions taken as a result of issues being identified;
- iii. Offering an opinion on the draft SoFA and draft AGS for 2014/15 in advance of the Audit Committee being asked to approve them.

**2.0 Background**

- 2.1 On 25 June 2015 the Audit Committee considered a report which provided an overview on Corporate Governance. This included a draft Annual Governance Statement (AGS) and a full suite of draft Statements of Assurance from each of the Corporate Directors and one for the whole County Council. A number of issues were identified at that meeting and it was agreed that a Members Working Group be convened to give detailed consideration to the draft AGS and that a report would be presented to the full Audit Committee on 24 September 2015.
- 2.2 The Members Working Group was agreed as consisting of the Chairman and Vice-Chairman of the Audit Committee and Mr David Portlock.
- 2.3 On 16 July 2015 the Audit Committee considered the draft Statements of Final Accounts (SoFA) for 2014/15. Again, a number of issues were identified at the meeting and it was agreed that they would be pursued outside of the meeting and fed into the review by the Members Working Group.
- 2.4 This report provides a summary of the Members Working Group review of the SoFA for 2014/15 which incorporate the AGS. Wider information has been used in order to form the views contained in this report, notably the

Directorate Statements of Assurance which have fed into the AGS together with associated working papers relating to the production of the draft SoFA.

### **3.0 Key Areas Identified**

- 3.1 To assist the Audit Committee's understanding, the Members Working Group comments separately on the AGS and the SoFA for 2014/15, whilst recognising that both ultimately feature in the same document. This section also identifies the action that has taken place and / or will take place.

#### Annual Governance Statement 2014/15

1. Issue – a number of areas identified in the draft Directorate Statements of Assurance required update to reflect developments that have occurred between their drafting and the Audit Committee meeting on 24 September 2015. For example, the submission for devolution has been made in line with the deadline of 4 September 2015 and elements of the Care Act have been delayed (resulting in this issue being removed from the HAS Statement of Assurance).

Action taken – updates have been made where there has been further development.

2. Issue – some of the content in the Directorate Statements of Assurance was written in a way that was unhelpful to a reader who was not well versed in day to day business of the Council.

Action taken – a full review of the Directorate Statements of Assurance has taken place and the Statements have been amended in some areas to make them read more clearly. It is noted, however, that in some cases the level of explanation would possibly be too long for inclusion in the Statements of Assurance so further explanation may be required in some areas. A revised set of Directorate Statements of Assurance have been shared with the Members Working Group and Section 7 of the AGS has also been updated to include those areas taken from the Statements of Assurance which it is felt warrant attention within the AGS.

Action taken - In addition, further improvements are to be sought for 2015/16 in a spirit of continuous improvement.

## Statements of Final Accounts 2014/15

1. Issue – a number of detailed questions were submitted and explanations were provided.

Action taken – explanations provided and no further action required.

2. Issue – the extent to which the Health & Wellbeing Board exercises control over / impacts upon Council resource and decision making (including the impact of the Better Care Fund) was raised and whether there was sufficient focus on the risks and implications on the Council, its governance and its finances.

Action taken – The Statement of Assurance for Management Board has been amended and it features as part of Section 7 of the AGS :-

“Seeking opportunities to maximise efficiency and improve effectiveness with local partners whilst dealing with the added complexity of decision making and accountability (e.g. Health and Wellbeing Boards, LEPs, any outcome from devolution).”

In addition, conversations have taken place with the external auditor to explore the issue further. It is considered that the issue is sufficiently addressed but it remains a key governance risk (albeit with some potential operational opportunities). It will continue to be monitored closely and will be subject to external auditor attention again relating to the 2015/16 financial year.

3. Issue – a number of typos / simple errors were identified.

Action taken – these have now been corrected and are incorporated within the SoFA presented to the Audit Committee on this agenda.

### **4.0 Conclusions of the Member Working Group regarding the Statements of Account and the Annual Governance Statement for 2014/15**

- 3.1 The Members Working Group is satisfied that all appropriate actions have been taken and satisfactory explanations have been provided where required.
- 3.2 No further issues have been identified up to the date of this report. However, it should be noted that the Members Working Group has not been made aware of the findings of the County Council's External Auditors.

4.3 Subject to the above, the Members Working Group recommends to the Audit Committee that the Statements of Final Accounts and the Annual Governance Statement for 2014/15 are approved.

Members Working Group  
11 September 2015

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

24 SEPTEMBER 2015

## STATEMENT OF FINAL ACCOUNTS for 2014/15 including LETTER of REPRESENTATION

## Report of the Corporate Director – Strategic Resources

**1.0 PURPOSE OF REPORT**

- 1.1 To approve a Letter of Representation that is required to be submitted to the External Auditor.
- 1.2 To approve a Statement of Final Accounts for 2014/15 following completion of the external audit of those Accounts.
- 1.3 To approve the Annual Governance Statement (AGS) for 2014/15.

**2.0 BACKGROUND**

- 2.1 A draft Statement of Final Accounts (SOFA) for 2014/15 was considered by this Committee on 16 July 2015 in advance of these accounts being audited by the External Auditor during July and August 2015. This SOFA incorporates the accounts of the North Yorkshire Pension Fund.
- 2.2 Following the meeting on 16 July 2015 some of the issues identified at the meeting, and in subsequent correspondence, have been picked up by the Members Working Group on Governance whose report is a separate item on the agenda for this meeting.
- 2.3 The external audit of the 2014/15 Accounts is now complete with the report of the External Auditor being included as a prior item on this Agenda. Separate reports are issued by the External Auditor for the County Council and North Yorkshire Pension Fund accounts.
- 2.4 The External Auditor has indicated that he anticipates being able to issue an unmodified opinion by the time the Audit Committee meets.
- 2.5 The revised SOFA is provided as a separate booklet in the Agenda papers for this meeting.
- 2.6 To conclude the Final Accounts process (in advance of the External Auditor signing off the 2014/15 Accounts by the required statutory date of 30 September 2015), it is necessary for this Committee to
  - (i) agree and countersign a Management Letter of Representation to the External Auditor (see **paragraph 3**)

- (ii) note the changes reflected in the Final SOFA compared to the version considered on 16 July 2015 (see **paragraph 4**), and
- (iii) approve the Final SOFA and authorise the Chairman to sign the Accounts on that basis (see **paragraph 5**)

2.6 The report also asks Members to approve a final Annual Governance Statement for 2014/15 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6**).

### 3.0 **LETTER OF REPRESENTATION**

3.1 The External Auditor requires a written representation from the County Council's management as an acknowledgement of its responsibility for the fair presentation of the SOFA and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.

3.2 The External Auditor has therefore requested that this Letter should be discussed and agreed by the Audit Committee (as the body charged with responsibility for governance) and then signed on their behalf by the Chairman, before approval of the SOFA. This is to ensure that Members of this Committee are aware of the representations on which the Auditor intends to rely when issuing his opinion.

3.3 This Letter for 2014/15 is attached as **Appendix A** and has already been signed by management (ie the Chief Executive and the Corporate Director – Strategic Resources). For security reasons the copy attached does not include the signatures of the two officers – the version to be signed at the meeting by the Chairman has already been signed by the two officers.

3.4 The Letter applies to the financial statements of both the County Council and North Yorkshire Pension Fund.

3.5 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to approve it on their behalf. The Letter will then be submitted to the External Auditor.

### 4.0 **CHANGES REFLECTED IN THE FINAL SOFA**

4.1 A number of changes have been made to the SOFA since it was considered by Members of this Committee on 16 July 2015.

4.2 These changes are explained in detail in **Appendix B** attached and arise from:-

- (i) refinements agreed with the External Auditor during their audit of the accounts
- (ii) internally initiated refinements together with those resulting from comments and questions by Members of this Committee when considering the draft SOFA on 16 July 2015 and the input of the



Members Working Group on Governance when subsequently raising a number of issues in relation to the SOFA

- (iii) inclusion of the External Auditor's certificate which was not included in the draft document on 16 July 2015.

## 5.0 APPROVAL OF THE FINAL SOFA

5.1 The audited final SOFA is attached as a separate booklet. This incorporates all the changes to the draft version considered by Members on 16 July 2015, as set out in **paragraph 4** and **Appendix B**. These accounts will be re-signed by the Corporate Director – Strategic Resources and the Chief Executive on 24 September 2015.

5.2 Members are therefore asked to approve the Final SOFA for 2014/15 following completion of the audit and authorise the Chairman to sign the accounts on behalf of the Audit Committee. A copy of the Balance Sheet (pages 41 and 42 of the SOFA) which the Chairman is asked to sign is attached as **Appendix C** with the wording

'I confirm that these accounts were approved by the Audit Committee on 24 September 2015.'

5.3 As mentioned in **paragraph 2.4** the External Auditor has indicated that he anticipates being able to issue an unmodified opinion on the accounts.

## 6.0 ANNUAL GOVERNANCE STATEMENT

6.1 The Annual Governance Statement (AGS) is an annual report which assesses the effectiveness of the governance processes which have been put in place within the Council. It accompanies the Statement of Final Accounts.

6.2 The AGS has been drafted to comply with the Delivering Good Governance Framework in Local Government 2007 and the Application Note to Delivering Good Governance in Local Government: a Framework (March 2010).

6.3 In order to fulfill its responsibilities, the Audit Committee needs to be able to satisfy itself that the governance and internal control processes described in the AGS are in fact both operational and effective. One aspect of this assurance process is to review progress by management on dealing with the issues identified in the AGS. The Audit Committee considered a draft AGS at its meeting on 25 June 2015.

6.4 A Members Working Group was established following the Audit Committee meeting on 25 June 2015 and this Group have considered the draft AGS and the more detailed Statement of Assurances from Directorates. Their report is included elsewhere on this Committee's agenda.

6.5 The requirement to produce an AGS is set out in the Accounts and Audit (England) regulations for the Council to approve an AGS as part of the SOFA and the Audit Committee is therefore requested to formally approve

the AGS 2014/15 and to authorise the Chairman to sign the AGS on its behalf.

**7.0 RECOMMENDATIONS**

7.1 That in relation to the Letter of Representation

- (i) Members approve the Letter of Representation set out in **Appendix A**, and
- (ii) authorise the Chairman to sign the Letter on behalf of the Audit Committee

7.2 That in relation to the Statement of Final Accounts 2014/15

- (i) Members note the changes to the Final SOFA as set out in **paragraph 4 and Appendix B**, and
- (ii) Members approve the Final SOFA for 2014/15 (**paragraph 5.2**), and
- (iii) authorise the Chairman to sign the Balance Sheet as attached at **Appendix C**

7.3 That Members approve the Annual Governance Statement 2014/15 and authorise the Chairman to sign the AGS on its behalf (**paragraph 6.5**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall,  
Northallerton  
08 September 2015

**There are no background documents**



**Your ref:** CDP/AJL/NYCC2012 3

**Our ref:** GF/GJ

**Contact:** Mr G Fielding  
Direct line: 01609 533304

**Gary Fielding**  
**Corporate Director Strategic Resources**  
County Hall, Northallerton,  
North Yorkshire, DL7 8AD  
Fax: (01609) 777567  
Email: gary.fielding@northyorks.gov.uk  
Web: www.northyorks.gov.uk

24 September 2015

Dear Sirs

**NORTH YORKSHIRE COUNTY COUNCIL –  
AUDIT OF THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015**

This representation letter is provided in connection with your audit of the financial statements of North Yorkshire County Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of North Yorkshire County Council as of 31 March 2015.

We confirm, to the best of our knowledge and belief, the following representations.

*Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures"
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to the report to the Audit Committee.

6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for any future actions.
7. We confirm that in our view the provision in relation to debt is adequate.

*Information provided*

8. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of that affects the entity and involves:
  - (i) management;
  - (ii) Members of the Council;
  - (iii) employees who have significant roles in internal control; or
  - (iv) others where the fraud could have a material effect on the financial statements
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We are not aware of any instances of non-compliance, or suspected non-compliance with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

16. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
18. Pension Scheme:
  - all retirement benefits and schemes have been identified and properly accounted for;
  - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
  - the actuarial assumptions underlying the value of scheme liabilities accord with the members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with the members' knowledge of the business;
  - the actuary's calculations have been based on complete and up-to-date member data (as far as is appropriate regarding the adopted methodology); and
  - the amounts included in the financial statements derived from the work of the actuary are appropriate.
19. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council. Any significant changes in those values since the balance sheet date have been disclosed to you.
20. The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets.
21. We are not aware of any potential clawback by grant payers of grants that have been released to income.
22. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto that have not been fully disclosed. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of North Yorkshire County Council

Name: R Flinton

Name: G Fielding

Position: Chief Executive

Position: Corporate Director – Strategic Resources  
(S151 Officer)

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

Date: 24 September 2015

Date: 24 September 2015

Signed by the Chairman of the Audit Committee on behalf of that Committee as evidence that Members are aware of the representations on which the auditor intends to rely.

Signed: \_\_\_\_\_

Chairman of the Audit Committee

Date: 24 September 2015

Deloitte LLP  
1 City Square  
Leeds  
LS1 2AL

**CHANGES TO THE 2014/15 STATEMENT OF FINAL ACCOUNTS  
SINCE AUDIT COMMITTEE ON 16 JULY 2015.**

**1.0 Introduction**

1.1 There have been a number of changes made to the Statement of Final Accounts (SOFA) since it was considered by the Audit Committee on 16 July 2015.

1.2 These changes are as a result of:

- (a) Refinements agreed with the External Auditor during the Audit of Accounts process
- (b) Internally initiated refinements together with those resulting from comments and questions by Members of this Committee when considering the draft SOFA on 16 July 2015 and the input of the Members Working Group on Governance when subsequently raising a number of issues in relation to the SOFA.
- (c) Inclusion of the External Auditor's Certificate that was not included in the draft document on 16 July 2015.

**2.0 Changes made as a result of the final accounts audit**

2.1 Deloitte commenced their auditing of the SOFA in early July 2015 and concluded their auditing process in early September 2015. During the audit process, the following amendments have been agreed with the auditor.

- amendment to Cash Flow Statement and Group Cash Flow Statement to reflect changes in allocation of Purchase / Proceeds of Short Term and Long Term Investments;
- small minor changes to disclosures and notes to the accounts; and
- various amendments to Pension Fund Main Statements and supporting notes, including; a small number of amendments to Pension Fund Main Statements and supporting notes, including;
  - a decrease of £1,008k to NYCC Contributions so as to reflect a Past Service Adjustment refund that also acted to increase non-investment creditors;
  - removal of change in market value on cash within Note 15(a) in order to reflect a lack of any price risk;
  - other minor changes to disclosures and notes to the accounts;

The net effect of all amendments was to decrease the Closing Net Assets of the Fund by £ 1,008k.

**3.0 Internally initiated refinements, together with queries raised by Members of the Audit Committee on 16 July 2015 and subsequently the Members Working Group on Governance**

- amendments to Disclosures on the title of some revenue grants credited to Service Directorate Accounts;
- various presentational adjustments to the supporting notes to assist the reader of the accounts;
- adjustments to the Annual Governance Statement; and
- various minor presentational issues and rounding adjustments.

**4.0 Inclusion of the External Auditor's Certificate in the final SOFA as a result of the Audit process having now been finalised.**



**BALANCE SHEET AS AT 31ST MARCH 2015**

31st March 2014 £000		31st March 2015 £000
1,469,280	Property, Plant and Equipment (note 20)	1,552,763
37,160	Investment Property (note 27)	36,699
9,551	Intangible Assets (note 26)	10,055
3,518	Long Term Investments (note 31)	3,518
16,835	Long Term Debtors (note 32)	14,150
<b>1,536,344</b>	<b>Long Term Assets</b>	<b>1,617,185</b>
93,833	Short Term Investments (note 44a)	155,491
1,630	Inventories (note 33)	1,400
41,503	Short Term Debtors (note 34)	73,872
144,836	Cash and Cash Equivalents (note 30)	80,186
2,582	Assets held for sale (note 29)	2,125
<b>284,384</b>	<b>Current Assets</b>	<b>313,074</b>
(58,439)	Short Term Borrowing (note 44a)	(53,026)
(69,215)	Short Term Creditors (note 35)	(71,224)
11	PFI Liability repayable within 12 months (note 14)	(250)
(7)	Finance Lease repayable within 12 months (note 15)	(7)
(11,440)	Provisions to be used within 12 months (note 36)	(10,986)
(6,925)	Capital Grant Receipts in Advance (note 10)	(3,568)
<b>(146,015)</b>	<b>Current Liabilities</b>	<b>(139,061)</b>
(3)	Long Term Creditors	(40)
(4,703)	PFI Liability repayable in excess of 12 months (note 14)	(4,453)
(1,092)	Finance Lease repayable in excess of 12 months (note 15)	(1,085)
(5,752)	Provisions to be used in excess of 12 months (note 36)	(6,842)
(317,521)	Pensions Liability (note 11)	(484,059)
(304,757)	Long Term Borrowing (note 44a and 44d)	(311,585)
(5,713)	Capital Grant Receipts in Advance (note 10)	(941)
<b>(639,541)</b>	<b>Long Term Liabilities</b>	<b>(809,005)</b>
<b>1,035,172</b>	<b>Net Assets</b>	<b>982,193</b>

31st March 2014 £000		31st March 2015 £000
	<b>Usable Reserves</b>	
78,491	General Working Balance (note 37a)	91,711
113,147	Earmarked Reserves (note 37b)	115,878
0	Capital Receipts Reserve (note 37c)	0
6,645	Capital Grant Unapplied Reserve (note 37d)	10,632
<u>198,283</u>	<b>Total Usable Reserves</b>	<u>218,221</u>
	<b>Unusable Reserves</b>	
198,531	Revaluation Reserve (note 38a)	270,666
2,087	Collection Fund Adjustment Account (note 38b)	4,574
0	Financial Instruments Adjustment Account (note 38c)	0
(9,598)	Accumulated Absences Account (note 38d)	(8,739)
(317,521)	Pension Reserve (note 38e)	(484,059)
963,390	Capital Adjustment Account (note 38f)	981,530
<u>836,889</u>	<b>Total Unusable Reserves</b>	<u>763,972</u>
<u>1,035,172</u>	<b>Total Reserves</b>	<u>982,193</u>

The Balance Sheet is a statement of the financial position of the County Council as at the Balance Sheet date. It shows the assets and liabilities of the County Council; the net assets on the Balance Sheet are matched by reserves held by the County Council. The first category of reserves are usable reserves.

These are reserves that the County Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of Unusable Reserves are those that arise from statutory accounting requirements and are not available to be used for service provision.

I confirm that these Accounts were approved by the Audit Committee on 24th September.

.....  
Chair of the Audit Committee

Date .....

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

24 SEPTEMBER 2015

## ANNUAL REPORT OF THE AUDIT COMMITTEE

## Report of the Chair of the Audit Committee

**1.0 PURPOSE OF THE REPORT**

- 1.1 To enable Members to consider the draft annual report of the Audit Committee for the year ended 30 September 2015, prior to its submission to County Council.

**2.0 ANNUAL REPORT**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this Audit Committee is attached at **Appendix 1**. A copy of the Audit Committee's Terms of Reference is attached to the report as **Appendix A**, for information.

**3.0 RECOMMENDATIONS**

- 3.1 It is recommended that Members:

- (i) note this report; and
- (ii) consider and approve the draft annual report of the Audit Committee prior to its submission to the County Council.

CHAIRMAN OF THE AUDIT COMMITTEE

**BACKGROUND DOCUMENTS**

Relevant public reports presented to the Audit Committee and minutes of the meetings of the Audit Committee

Report prepared by Max Thomas, Head of Internal Audit and presented by Cllr Mike Jordan, Chair of the Audit Committee

County Hall  
Northallerton

4 September 2015

### PURPOSE OF THE REPORT

To provide Members of the County Council with details of the work carried out by the Audit Committee during the year ended 30 September 2015. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

### BACKGROUND

The Audit Committee is responsible for overseeing the County Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Schedule 1 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the Terms of Reference is attached at **Appendix A** for information.

Audit Committees are a key component of corporate governance and provide an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively<sup>1</sup>. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

### WORK UNDERTAKEN AND OPINION

The Audit Committee has met on five occasions in the year to 30 September 2015, in accordance with its Programme of Work.

During this period, the Committee has assessed the adequacy and effectiveness of the County Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors, Veritau and the external auditors, Deloitte. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

The Audit Committee is satisfied that the County Council has maintained an adequate and effective control framework through the period covered by this report.

The specific work undertaken by the Committee is set out below. The Committee has:

#### External Audit

- 1 Received and considered the annual audit letter for 2013/14 produced by the external auditor, Deloitte which detailed the outcome of the audit of the County Council and North Yorkshire Pension Fund accounts. The Committee was pleased

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<sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013

to note that the external auditors had issued unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. Deloitte had also issued an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return. The Committee was also pleased to note that Deloitte's had found the financial controls and procedures were working well and had commented on the high level of support they had received from finance staff during their audit;

- 2 Received and considered Deloitte's planning reports for the audit of the County Council and the North Yorkshire Pension Fund's 2014/15 financial statements. The report highlighted the audit risks that Deloitte's would address and provided details of the timetable and fees for undertaking the work. The Committee noted that KPMG had been appointed as the County Council's external auditors for 2015/16 onwards and therefore this would be Deloitte's last year in the role;
- 3 Received and considered the external auditor's report on the 2014/15 Audit. The report highlighted the key findings of the audit, made recommendations for improvements in control and identified other matters requiring communication to those charged with governance;

#### Internal Audit

- 4 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approval of changes to the Internal Audit Charter and consideration of the audit implications for the new Pension Board.
- 5 Received and considered the results of internal audit work performed in respect of each Directorate and across different thematic areas. Monitored the progress made by management during the period to address identified control weaknesses;
- 6 Received and considered the Internal Audit Plan for 2015/16. The plan reflected recent changes in legislation and other external factors;
- 7 Monitored the delivery of the annual Internal Audit plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit plans which were considered necessary to reflect new or changed County Council priorities;
- 8 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local). Approved a new Prosecution and Loss Recovery Policy and changes to the County Council's Counter Fraud Strategy to reflect the new CIPFA Code of Practice on managing the risks of fraud and corruption;
- 9 Received and considered the outcome of the annual 2014/15 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Internal Audit in respect of suspected fraud including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management;
- 10 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee noted that the work of internal audit is primarily focused on those areas which represent the highest risk for the County Council. The Committee also

considered the breaches of the Council's Finance, Contract and Property Procedure Rules which had been identified during audit work. The Head of Internal Audit confirmed that the Council's framework of governance, risk management and control provided substantial assurance. In forming this opinion, the Head of Internal Audit had considered the progress made by management during the year to address identified control weaknesses. The Head of Internal Audit also drew the Committee's attention to a number of significant control weaknesses identified through audit work including issues related to information security, the implementation of the new adult social care case management system and the highways maintenance contract;

- 11 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2014/15, and considered the performance targets for 2015/16. The Committee also considered the outcome of the internal audit quality assurance and improvement programme (QAIP). The QAIP is an ongoing process which helps to ensure internal audit work is conducted in accordance with established professional standards. The Committee was pleased that internal audit practices met the required standards and therefore continued reliance could be placed on the arrangements operating within the County Council;

#### Risk Management

- 12 Continued to oversee the County Council's risk management arrangements and strategy. Considered changes to the Corporate Risk Management Policy;
- 13 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register;
- 14 Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance. The Committee also considered the risks identified in the Directorate Risk Registers and how these linked to the Corporate Risk Register;
- 15 Noted the adoption of specific risk registers for a number of major projects, including the Bedale, Aiskew and Leeming Bar bypass (BALB), Developing Stronger Families initiative, extra care housing programme and the Tour de Yorkshire cycling event;
- 16 Considered the outcome of the recent tender exercises for casualty (public, employers' and professional indemnity) insurance cover and the claims handling service;

#### Corporate Governance

- 17 Considered and approved the Annual Governance Statement for 2014/15 of the County Council. The Committee also noted the issues identified in the annual Statements of Assurance prepared by Management Board, the Chief Executive and each Corporate Director, which inform the preparation of the Annual Governance Statement. The Committee also reviewed the progress made by management to address significant issues identified in the 2013/14 Annual Governance Statement;
- 18 Considered some limited changes to the Local Code of Corporate Governance prior to referral to the Executive for approval by the County Council;

- 19 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans;
- 20 Considered the annual report on partnership governance. The report included details of the County Council's current partnerships, changes which had occurred in the year and the arrangements in place to monitor the management and performance of key partnerships. The Committee consider that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 Received reports on the progress made to update strategic plans and develop policies and procedures to reflect latest guidance and best practice on corporate governance, particularly in respect of procurement and contract management;
- 22 Received a report outlining the progress made to implement improved business continuity arrangements across the County Council. The Committee was pleased to note that good progress has been made to address the issues previously identified by internal audit;

#### Value for Money

- 23 Considered the arrangements adopted by the County Council to achieve value for money;

#### Financial Statements

- 24 Considered and approved the Statement of Accounts for 2014/15 of the County Council (which incorporate the Statement of Accounts for the North Yorkshire Pension Fund);
- 25 Received and considered proposed changes to the County Council's Accounting Policies. The only change which had occurred resulted from the updated Code of Practice on Local Authority Accounting issued by CIPFA in April 2014. The change related to the preparation of the group accounts and involved new rules on the identification and classification of potential group entities. The Committee also noted that future changes relating to the treatment of transport infrastructure assets and the fair value measurement of assets are expected;

#### Other

- 26 Received and considered proposed changes to the Contract, Property and Financial Procedure Rules prior to referral to the Executive and approval by the County Council. The need for changes had arisen due to a number of factors including changes in legislation or regulation, issues identified during the course of internal audit work and/or developments in business practice;
- 27 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the Annual Treasury Management and Investment Strategy for 2015/16 which incorporated a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget.

- 28 Received briefings from officers on issues and new developments facing the County Council including the 2020 North Yorkshire programme and changes in health and social care arising from the Care Act and other government initiatives;
- 29 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 30 Met with both the outgoing external auditors, Deloitte and the newly appointed auditors, KPMG. The Committee offered a vote of thanks to Deloitte for the professional and constructive approach to their audit work;
- 31 Following a recruitment exercise, appointed two non-voting external members to the Committee, to serve for the remaining life of the County Council plus a further 12 months. The external members help bring a different perspective to the working of the Committee through their considerable business and financial experience.

Councillor Mike Jordan  
Chairman of the Audit Committee



## AUDIT COMMITTEE

### TERMS OF REFERENCE

1. In respect of **Internal Audit**

- to approve the Internal Audit Strategy, Annual Audit Plan and performance criteria for the Internal Audit Service.
- to review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary.
- to review the effectiveness of the anti-fraud and corruption arrangements throughout the County Council.
- consider the annual report from the Head of Internal Audit.
- to review the effectiveness of the system of Internal Audit and the Committee itself on an annual basis.

2. To review the workplan and performance of External Audit.

3. To review, and recommend to the Executive, changes to Contract, Finance and Property Procedure Rules.

4. In respect of **financial statements**

For both the County Council and the North Yorkshire Pension Fund

- to approve the respective annual Statements of Final Accounts
- to receive and review the Annual Audit Letters and associated documents issued by the External Auditor
- to review changes in accounting policy

5. In respect of **Corporate Governance**

- to assess the effectiveness of the County Council's Corporate Governance arrangements
- to review progress on the implementation of Corporate Governance arrangements throughout the County Council.
- to approve Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund.
- to review the annual Statements of Assurance provided by the Chief Executive, Management Board and Corporate Directors.
- to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers.

6. In respect of **Risk Management**

- to assess the effectiveness of the County Council's Risk Management arrangements.
- to review progress on the implementation of Risk Management throughout the County Council.

7. In respect of **Information Governance**

- to review all corporate policies and procedures in relation to Information Governance.
- to oversee the implementation of Information Governance policies and procedures throughout the County Council.

8. In respect of **Treasury Management**

- to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice.
- To review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive.

9. In respect of **Value for Money**

- to have oversight of the arrangements across the County Council in securing Value for Money.

10. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.

11. To consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.

12. To exercise all functions in relation to the making and changing of policy relating to such audit and counter-fraud matters which fall within the remit of the Committee (save as may be delegated otherwise).

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

24 SEPTEMBER 2015

INTERNAL AUDIT WORK FOR THE HEALTH AND ADULT SERVICES  
DIRECTORATE

## Report of the Head of Internal Audit

**1.0 PURPOSE OF THE REPORT**

- 1.1 To inform Members of the **internal audit work** performed during the year ended 31 August 2015 for the Health and Adult Services (HAS) directorate and to give an opinion on the systems of internal control in respect of this area.

**2.0 BACKGROUND**

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to HAS, the Committee receives assurance through the work of internal audit (as provided by Veritau Ltd), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance.
- 2.2 This agenda item is considered in two parts. This first report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director – Health and Adult Services and considers the risks relevant to the directorate and the actions being taken to manage those risks.

**3.0 WORK DONE DURING THE YEAR ENDED 31 AUGUST 2015**

- 3.1 Details of the internal audit work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1**.
- 3.2 Veritau has also been involved in carrying out a number of assignments which have not resulted in the completion of an audit report. This work has included special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns referred to Veritau by HAS management. In addition, Veritau has provided support to directorate management in respect of a number of safeguarding alerts.
- 3.3 One of the investigations completed during the year involved the Granby Lodge care home in Harrogate. Auditors initially visited the provider as part of a routine audit in October 2014. During this visit a number of financial irregularities were noted and an investigation was therefore commenced. Veritau subsequently worked closely with the police, Council and other agencies to quickly progress the

matters identified. The two owners of Granby Lodge were found to have stolen over £45k from vulnerable residents of the home. They pleaded guilty to nine counts of fraud and, in August 2015, were sentenced to two years in prison.

3.4 As with previous audit reports, an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **Appendix 2**. Some of the audits undertaken in the period focused on value for money or the review of specific risks so did not have an audit opinion assigned to them.

3.4 It is important agreed actions are formally followed up to ensure that they have been implemented. Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**

3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

#### 4.0 **AUDIT OPINION**

4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the Chief Audit Executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

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<sup>1</sup> The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

<sup>2</sup> The PSIAS refers to the board. This is taken to be the Audit Committee.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Health and Adult Services directorate is that it provides **Substantial Assurance**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion.

5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Health and Adult Services Directorate is both adequate and effective.

Max Thomas  
Head of Internal Audit

Veritau Ltd  
County Hall  
Northallerton

11 September 2015

**BACKGROUND DOCUMENTS**

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Stuart Cutts, Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

## FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 AUGUST 2015

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Fairer Contribution	Substantial Assurance	<p>The audit examined the systems and processes for charging for home care and other non-residential care services.</p> <p>The audit examined whether:</p> <ul style="list-style-type: none"> <li>• financial assessment are carried out for all service users in line with the Fairer Charging Policies and the County Council's own guidance; and</li> <li>• appropriate performance management arrangements are in place.</li> </ul> <p>This area was previously reviewed in 2013/14 so the arrangements and findings could be compared between years.</p>	December 2014	<p>The overall control framework was found to be effective.</p> <p>Financial assessments had been carried out correctly and the number of instances where paperwork was not available had reduced compared to the previous audit.</p> <p>A small number of improvements were identified, including the need to:</p> <ul style="list-style-type: none"> <li>• obtain receipts for all disability related expenses;</li> <li>• ensure the online records contain a copy of the signed declaration.</li> </ul> <p>It was recognised that non residential charging is due to be transferred to the new Controc system. Controc should provide an opportunity to further streamline processes and improve the availability of supporting documentation.</p>	<p><b>Two P3 actions were agreed</b></p> <p><b>Responsible officer: Benefits, Assessments and Charging Manager</b></p> <p>As part of the financial assessment, receipts are requested wherever practicable. A reminder will be sent to staff asking them to obtain receipts whenever they can.</p> <p>Portable printing devices and electronic signature capture technologies will be reconsidered in the future. Staff will be reminded to obtain a signed declaration where possible.</p> <p>The project to implement the provider portal is underway with resource from Technology and Change secured to ensure the implementation delivers maximum benefits and efficiencies. It is envisaged the implementation could take 12 months.</p>
B	Public Health	Substantial Assurance	Public health responsibilities transferred from the NHS to local government in April 2013.	December 2014	The transfer of public health responsibilities to local government has been a significant challenge for all councils, including North Yorkshire.	<p><b>Two P2 and two P3 actions were agreed</b></p> <p><b>Responsible officer:</b></p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>The audit reviewed the procedures and controls in place to:</p> <ul style="list-style-type: none"> <li>• measure the effectiveness of public health policies and strategies;</li> <li>• ensure budgets are managed effectively and supported by sound and documented assumptions;</li> <li>• commission new services and arrange new public health contracts;</li> <li>• monitor and report performance.</li> </ul>		<p>This area has therefore been reviewed both years since the date of transfer.</p> <p>The audit found good progress has continued to be made in developing the required systems and procedures. A number of new public health contracts have been arranged in the year. The new contracts include key performance indicators designed to provide the information necessary to measure the achievement of expected outputs.</p> <p>A key challenge for the Council however remains budgetary control. Closer working with other directorates is also an area for the Council to further improve.</p>	<p><b>The Director of Public Health</b></p> <p>Public health budget holders have received targeted training. Measures were taken to ensure the 2015/16 budget setting processes addressed all of the weaknesses identified.</p> <p>Arrangements for much closer inter-departmental working are to be further developed. Work was underway as part of planning the 2015/16 budget.</p>
C	Extra Care Housing 2014-15	Substantial Assurance	<p>Extra Care Housing remains an important element of the Council's provision of care for the elderly. In previous years the Council has been involved in a number of schemes and in 2014 the Council approved the business case for the next generation of Extra Care Housing.</p> <p>The audit was intended to inform future Extra Care</p>	May 2015	<p>The audit found that good processes and procedures had been developed by the Extra Care Housing Team. There is a clear benefit in having a dedicated specialist team, especially when negotiating with partners in the early stages. The team ensures compliance with national and local guidelines. There was also an awareness of the lessons learnt from previous schemes.</p> <p>The audit highlighted the following areas for future consideration:</p>	<p><b>Six P3 actions were agreed</b></p> <p><b>Responsible officer:</b> <b>Head of Accommodation</b></p> <p>NYCC entered into a formal procurement process to deliver extra care housing from February 2015.</p> <p>Work is being undertaken to develop a Dementia Care strategy within HAS and relevant factors from the strategy will be considered.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>Housing schemes by reviewing project management arrangements for a number of completed schemes and examining the extent to which the council's aims and objectives had been achieved.</p>		<ul style="list-style-type: none"> <li>• the need to resolve ambiguities around capital contributions before entering into formal partnerships</li> <li>• staff training and design implications for dementia and dementia care</li> <li>• the possible impact on residents in extra care housing schemes where day care and/or respite services are planned to be located in the same premises</li> <li>• the need for improved engagement with and feedback from local GP's</li> <li>• the timely disposal of unused land and buildings</li> <li>• a review of the lessons learnt log to make it simpler and easier to use.</li> </ul>	<p>The accommodation team will engage with all stakeholders as part of the planning process where service provision is planned to be accommodated in extra care housing locations.</p> <p>Locality based working will allow for greater opportunities for partnership working including with GP's</p> <p>Permission will be sought to dispose of the land at Thorpe Willoughby</p> <p>A review of the structure of the lessons learnt log will be undertaken with a view to including the suggested improvements by July 2015.</p>
D	<p>Care providers - compliance audits:</p> <ul style="list-style-type: none"> <li>• Nydsley Care Home, Pately Bridge</li> <li>• Granby Lodge, Harrogate</li> <li>• The Holt, Hutton Brucel</li> </ul>	Various	<p>A programme of audit visits to care providers to ensure that:</p> <ul style="list-style-type: none"> <li>• the financial transactions of service users are recorded correctly and in accordance with the care provider's policies and procedures;</li> </ul>	Various	<p>The overall arrangements were found to be good with effective controls operating in the homes visited. Three of the reports were given a high assurance opinion and a further four were given substantial assurance. The visit to Granby Lodge did not result in an opinion being given.</p> <p>One common problem was that reconciliations of service users'</p>	<p><b>A number of P2 and P3 actions were agreed</b></p> <p><b>Responsible Officer</b>  <b>Assistant Director – Contracting, Procurement and Quality Assurance</b></p> <p>The Contract, Procurement and Quality Assessment Team discuss the issues identified with the homes</p>



System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
<ul style="list-style-type: none"> <li>• Milestone House, Seamer</li> <li>• Rosefern House, Scarborough</li> <li>• Anley Hall Nursing Home, Settle</li> <li>• Eden House Filey</li> <li>• Pennyghael, Selby</li> </ul>		<ul style="list-style-type: none"> <li>• all expenditure relating to service users is appropriate and properly evidenced;</li> <li>• financial arrangements ensure the property of the service users is protected.</li> </ul>		<p>personal allowances were not evidenced as being verified by an independent person.</p> <p>As noted in paragraph 3.3 of the covering report, the visit to Granby Lodge highlighted irregularities which subsequently led to a criminal investigation and prosecution.</p>	<p>in question.</p>

### Audit Opinions and Priorities for Actions

<b>Audit Opinions</b>	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
<b>Opinion</b>	<b>Assessment of internal control</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

<b>Priorities for Actions</b>	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

**NORTH YORKSHIRE COUNTY COUNCIL  
AUDIT COMMITTEE**

**24 SEPTEMBER 2015**

**INTERNAL CONTROL MATTERS FOR THE HEALTH & ADULT SERVICES  
DIRECTORATE**

**Report of the  
Corporate Director – Health & Adult Services**

**1.0 PURPOSE OF THE REPORT**

1.1 To provide details of the **Risk Register** for the HAS Directorate.

**2.0 BACKGROUND**

2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the HAS Directorate the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee), details of the Statement of Assurance provided by the Corporate Director, together with the Directorate Risk Register.

**3.0 DIRECTORATE RISK REGISTER**

3.1 The **Directorate Risk Register** (DRR) is the end product of a systematic process that initially identifies risks at Service Unit level and then aggregates these via a sieving process to Directorate level. A similar process sieves Directorate level risks into the Corporate Risk Register.

3.2 The Risk Prioritisation System used to derive all Risk Registers across the County Council categorises risks as follows:

Category 1 and 2 are high risk (RED)

Category 3 and 4 are medium risk (AMBER)

Category 5 is low risk (GREEN)

These categories are of course relative not absolute assessments - equally the Risk Register at Directorate level is designed to identify the dozen or so principal risks that may impact on the achievement of performance targets etc. for the Directorate as a whole in the year – it is not a full Register of all the risks that are managed in the Directorate.

- 3.3 The detailed DRR is shown at **Appendix A**. This shows a range of key risks and the risk reduction actions designed to minimise them together with a ranking of the risks both at the present time and after mitigating action.
- 3.4 A summary of the DRR is also attached at **Appendix B**. As well as providing a quick overview of the risks and their ranking, it also provides details of the change or movement in the ranking of the risk since the last review in the left hand column.
- 3.5 A six month update review of the register will take place in December 2014/January 2015.
- 3.6 The new risks that have been added to the risk register since September 2014 (date of last progress report to the Committee) are as follows:
- 3/229 - Complex Needs Pressures
  - 3/226 - Transformation
  - 3/220 - Cultural Change
  - 3/228 - Extra Care Housing
- 3.7 The risks that have been deleted from the Directorate risk register since September 2013 are as follows:
- 3/187 - Preparedness for Implementation of the Care Act
  - 3/188 - Maintaining Service Delivery
- 3.8 The following risk descriptions have been reworded to reflect changes in the, but around the original subject area and are therefore not classed as new risks:
- 3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market
  - 3/218 - Managing Effective Outcomes for Individuals
  - 3/164 - Information Governance and Health and Safety
  - 3/180 - Partnership and Integration with the NHS
  - 3/27 - Safeguarding Arrangements
- 3.9 The significant actions that were achieved include the following:
- HAS 2020 Transformation and Efficiency Programme (incl. the MTFs) – there has been good progress made including the Leadership team monitoring progress and delivery of the change and savings programme to ensure delivery against key objectives and within available resources.
  - The Care Act – The first phase of the Care Act Implementation around the changes brought in for April 2015 were successfully introduced, with work on-going monitoring the changes and seeking to refine and improve efficiency. The April 2016 Care Act requirements have been delayed for 4 years to April 2020.
  - Information Governance – lessons are being learnt as a result of breaches that occur and corrective action has been taken, regular building

information governance sweeps are undertaken with improved results; regular training is delivered and not less than quarterly governance papers are considered by the Leadership team.

- Major Failure due to Quality and/or Economic Issues in the Care Market – the Leadership team and HAS Executive receive monthly reports on these issues and monitor and challenge progress against key objectives.
- Partnership and Integration with the NHS – work continues on a number of fronts with different partners. Of particular note are the Care Hubs in Selby and Malton as well as joint work with Harrogate and Rural District CCG on new models of care through their successful initial Vanguard bid.
- Deprivation of Liberty Supreme Court Ruling – the service has responded to the 13 fold increase in demand for assessment and careful management of the workload is undertaken with additional budget requirements identified and resourced.

3.10 Any ranking changes of the risks are shown on the left hand side of the Summary report **Appendix B**. As mentioned above, the HAS 2020 Transformation and Efficiency Programme (incl. the MTF5) risk, the Partnership and Integration with the NHS risk and the Workforce Planning and Development including Cultural Change risk have substantially changed and are therefore shown as 'new'. Please see the table at the bottom of the appendix for an explanation of the left hand column.

#### 4.0 **STATEMENT OF ASSURANCE**

4.1 The Audit Committee received a draft Statement of Assurance from the Corporate Director of Health and Adult Services in June 2014. This statement has subsequently been reviewed to include relevant updates in developments and improvements and is attached at **Appendix C**.

4.2 It is usual practice to report on progress against the Statement of Assurance. However, given that the Statement has only just been produced, there is no update possible at this stage.

#### 5.0 **RECOMMENDATION**

5.1 That the Committee note the Risk Register for the Health and Adult Services Directorate and provide feedback or comments thereon.

RICHARD WEBB  
Corporate Director – Health & Adult Services  
September 2014

Report prepared by Paul Cresswell – Assistant Director- Resources  
Tel no. 01609 532141

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

Phase 1 - Identification											
<b>Risk Number</b>	3/217	<b>Risk Title</b>	3/217 - Deprivation of Liberty (DoLs) Supreme Court Ruling				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	HAS AD C&S HAS AD Q&E
<b>Description</b>	Failure to manage increase in workload as a result of the DoLs Supreme Court judgment resulting in financial and reputational issues including potential legal action					<b>Risk Group</b>	Legislative		<b>Risk Type</b>	C&S 1/219	
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Resources and capacity have been increased; action plan in place in line with ADAS recommendations; regular quarterly report on activity, performance and finance provided to Leadership Team; statutory process implemented; action plan reviewed following external review						<b>Effectiveness</b>		
<b>Probability</b>	H	<b>Objectives</b>	H	<b>Financial</b>	H	<b>Services</b>	H	<b>Reputation</b>	H	<b>Category</b>	1
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/191 - Continue to monitor resources and capacity issues					HAS AD C&S		Thu-30-Jun-16			
<b>Reduction</b>	3/193 - Continue to provide regular briefings to HASLT, staff and providers					HAS AD C&S		Thu-30-Jun-16			
<b>Reduction</b>	3/255 - Maintain horizon scanning for future developments					HAS AD C&S		Thu-30-Jun-16			
<b>Reduction</b>	3/320 - Maintain communication with key partners					HAS AD C&S		Thu-30-Jun-16			
<b>Reduction</b>	3/1951 - Update action plan					HAS AD C&S		Tue-30-Jun-15	Sat-31-Jan-15		
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	H	<b>Objectives</b>	H	<b>Financial</b>	H	<b>Services</b>	H	<b>Reputation</b>	H	<b>Category</b>	1
Phase 5 - Fallback Plan											
										<b>Action Manager</b>	
<b>Fallback Plan</b>	3/556 - A further review of the action plan, with external support may be sought. Escalation to senior management with potential options for mitigation.								HAS AD C&S		



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

Phase 1 - Identification											
<b>Risk Number</b>	3/162	<b>Risk Title</b>	3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market.				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	HAS AD Q&E
<b>Description</b>	Major failure of provider/key providers results in the Directorate being unable to meet service user needs. This could be caused by economic performance or resource capabilities. The impact could include loss of trust in the Care Market, increased budgetary implications and issues of service user safety.				<b>Risk Group</b>	Legislative		<b>Risk Type</b>	Q&E 2/159		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Regular review and monitoring contracts; standard contract terms; approvals process; regular meetings to share best practice; experienced staff; regular communication with providers; bulletins; customer feedback; Engagement Group; legal services; CQC; Financial Services & insurance consultation; market analysis; capacity planning; alerts system including brokerage; Service Unit & provider BCPs; QA Framework developed; guidance and ongoing training for purchasing staff; engage with AD ASS; reg meetings with Q&M, Health Commissioner and police; robust comms with CCGs; quality monitoring embedded in Dir perf monitoring; market position statement					<b>Effectiveness</b>			
<b>Probability</b>	H	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	I
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/153 - Carry out Phase II of the domiciliary care repurchase and ensure the national living wage issues are addressed					HAS AD Q&E	Fri-30-Jun-17				
<b>Reduction</b>	3/247 - Continue to produce a market position statement					HAS AD Com	Wed-31-Aug-16				
<b>Reduction</b>	3/254 - Jointly with Health continue to monitor baseline assessments QA framework and risk profiles of providers; targets are reviewed at quarterly officer meetings					HAS AD Q&E	Wed-31-Aug-16				
<b>Reduction</b>	3/369 - Review and refresh the market development board and ensure ongoing quarterly meetings, market analysis and mapping and information sharing take place					HAS AD Q&E	Thu-31-Dec-15				
<b>Reduction</b>	3/371 - Continue with regular engagement meetings with CQC locally and engage with CQCs national programme of identifying providers where there is significant risk of failure					HAS AD Q&E	Wed-31-Aug-16				
<b>Reduction</b>	3/1962 - Undertake review of the actual cost of care exercise to incorporate the impact of the national living wage					HAS AD Q&E	Thu-31-Dec-15				
<b>Reduction</b>	3/1963 - Continue to engage in ADASS work to manage major problems occurring, such as financial issues in the care provider market and ensure robust contingency planning and to learn lessons from serious case reviews at a national level					HAS AD Q&E	Wed-31-Aug-16				



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

<b>Reduction</b>	47/221 - Work with Veritau on audits of individual suppliers		HAS AD Q&E	Thu-30-Jun-16	
<b>Phase 4 - Post Risk Reduction Assessment</b>					
<b>Probability</b>	H	<b>Objectives</b>	M	<b>Financial</b>	M
		<b>Services</b>	M	<b>Reputation</b>	M
				<b>Category</b>	2
<b>Phase 5 - Fallback Plan</b>					
					<b>Action Manager</b>
<b>Fallback Plan</b>	3/523 - Make client safe, crisis meeting, implement relevant steps, consultation with senior staff and relevant organisations (e.g. Police CQC). Effective communication to relevant parties, utilise contingency plan(s).				HAS AD Q&E





## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

Phase 1 - Identification											
<b>Risk Number</b>	3/218	<b>Risk Title</b>	3/218 - Managing effective outcomes for individuals				<b>Risk Owner</b>	CD HAS	<b>Manager</b>	HAS AD C&S	
<b>Description</b>	Failure to meet targets in line with the Care Act resulting in poor outcomes for individuals and internal and external criticism, reputational issues.					<b>Risk Group</b>	Performance	<b>Risk Type</b>	C&S 1/17		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			HASLT; C&SLT; embedded performance management; budgetary management; needs assessment questionnaire; individual targets for workers					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	H	<b>Financial</b>	M	<b>Services</b>	H	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	1/76 - Develop the reablement pathway						HAS AD C&S	Thu-30-Jun-16			
<b>Reduction</b>	1/77 - Ensure actions for personalisation are embedded in 2020 Programme and Vision						HAS AD C&S	Thu-30-Apr-15	Thu-30-Apr-15		
<b>Reduction</b>	1/78 - Set targets through robust service planning aligned to 2020 Vision and Health & Wellbeing Strategy						HAS AD C&S	Mon-30-May-16			
<b>Reduction</b>	1/79 - Hold bi-monthly CSM forums						HAS AD C&S	Thu-30-Jun-16			
<b>Reduction</b>	1/107 - Continue to embed the Dignity and Respect agenda						HAS AD C&S	Thu-30-Jun-16			
<b>Reduction</b>	1/317 - Ensure effective assessment and review processes are maintained throughout the transformation programme						HAS AD C&S	Thu-30-Jun-16			
<b>Reduction</b>	3/206 - Undertake review of management and operational delivery of social care mental health services						HAS AD C&S	Wed-31-Aug-16			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	H	<b>Financial</b>	M	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	2
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	1/15 - Take action to balance budget, reset performance and efficiency targets, look at capacity plan							HAS AD C&S			



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

Phase 1 - Identification											
<b>Risk Number</b>	3/164	<b>Risk Title</b>	3/164 - Information Governance and Health and Safety			<b>Risk Owner</b>	CD HAS		<b>Manager</b>	AD SR (HAS) & Proc	
<b>Description</b>	Failure to ensure that good and safe governance arrangements in respect of data security and health and safety are in place throughout the Directorate				<b>Risk Group</b>	Legislative		<b>Risk Type</b>	SR&Proc 6/193		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Info Gov - Monitoring of mandatory eLearning for all staff; information management through key messages and intranet; application of Caldicott principles; information governance procedures; Corporate laptop and security encryption; continued use of information asset register; implementation of process if/when data breaches occur including cascading lessons learnt; implementation of secure data transfer methods; developing robust information sharing protocols; Corporate Information Governance Group and Directorate Group (DIGG); Periodic update at HASLT performance board; regular security sweeps, asset owner training completed H & S - Coporate H & S policy, and action plan					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	L	<b>Financial</b>	M	<b>Services</b>	L	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/147 - Coninue to implement Caldicott 2 where possible					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	3/148 - Continue to implement awareness raising campaign					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	3/159 - Monitor completion of mandatory e-learning courses					AD SR (HAS) & Proc	Sun-31-May-15	Sun-31-May-15			
<b>Reduction</b>	3/227 - Continue to ensure use of secure methods of data transfer					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	3/364 - Review disposal arrangements of documents following issue of refreshed corporate policy and guidance					AD SR (HAS) & Proc	Tue-31-May-16				
<b>Reduction</b>	3/365 - Review of 'lessons learned' reports following any breach					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	3/366 - Arrange quarterly risk management and health and safety group meetings and include monitoring of action plan					AD SR (HAS) & Proc	Mon-30-Nov-15				
<b>Reduction</b>	3/367 - Ensure wider HAS leadership team H&S training is carried out					AD SR (HAS) & Proc	Sat-31-Oct-15				
<b>Reduction</b>	6/124 - Progress data sharing issues with Health colleagues to ensure the benefits of this are realised					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	6/130 - Ensure 'lessons learned' reports are completed following any breach					AD SR (HAS) & Proc	Sun-31-May-15	Sun-31-May-15			



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Phase 4 - Post Risk Reduction Assessment											
Probability	M	Objectives	L	Financial	M	Services	L	Reputation	H	Category	2
Phase 5 - Fallback Plan											
										<b>Action Manager</b>	
<b>Fallback Plan</b>	3/36 - Media management, staff disciplinary, work with Information Commissioner's Office and HSE when necessary									AD SR (HAS) & Proc	



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Phase 1 - Identification											
<b>Risk Number</b>	3/180	<b>Risk Title</b>	3/180 - Partnership and Integration with the NHS				<b>Risk Owner</b>	CD HAS	<b>Manager</b>	HAS AD Integration HAS AD C&S Dir Public Health HAS AD Q&E	
<b>Description</b>	Failure to develop and implement new models of care that will provide better outcomes for patients and local communities. This failure will have a negative impact on the development of integrated services, delay the transformation of HAS services, give rise to increased costs to HAS and cause the loss of opportunities that joint provision may have.					<b>Risk Group</b>	Partnerships	<b>Risk Type</b>	Corp 20/47		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Effective HWB partnership with clear governance providing strategic leadership. HASLT locality delivery model in place and active membership of local transformation boards strengthening local partnerships and shaping integration. Joint programmes with CCGs inc Vanguard and Pioneer designing new service models. ;Better Care Fund Schemes implemented and other new models of care programmes inc Vanguard in development; CHC review set up internally					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/151 - Ensure S75 agreement signed by CCGs 2015/16 (ongoing)					AD SR (HAS) & Proc	Wed-31-Aug-16				
<b>Reduction</b>	3/155 - Ensure Better Care Fund plan signed and agreed with Government					HAS AD Integration	Thu-30-Apr-15	Sat-31-Jan-15			
<b>Reduction</b>	3/160 - Complete and implement the Governance Review of HWB and ICB					HAS AD Integration	Thu-30-Apr-15	Sun-30-Nov-14			
<b>Reduction</b>	3/192 - Complete the scope of the CHC review					HAS AD C&S	Mon-30-Nov-15				
<b>Reduction</b>	3/207 - Develop and implement the new Locality Delivery Team model for working with CCGs to co-lead transformation joint priorities and transformation					HAS AD Integration	Tue-30-Jun-15	Mon-31-Aug-15			
<b>Reduction</b>	3/208 - Ensure NHS partners are fully aware of the democratic and political environment they are operating within (ongoing)					CD HAS	Wed-31-Aug-16				
<b>Reduction</b>	3/209 - Actively monitor relationships, priorities and communications and ensure that HAS managers are fully engaged at appropriate level and review at HAS WLT on a regular basis (ongoing)					CD HAS	Wed-31-Aug-16				
<b>Reduction</b>	3/230 - Develop a risk sharing agreement (Risk Share) for the Better Care Fund					AD SR (HAS) & Proc	Tue-31-Mar-15	Thu-30-Apr-15			
<b>Reduction</b>	3/329 - Develop a new Health and Well-being Strategy					CD HAS	Tue-30-Jun-15	Mon-31-Aug-15			



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<b>Reduction</b>	3/381 - Implement board development programme for HWB (ongoing)	HAS AD Integration	Wed-31-Aug-16								
<b>Reduction</b>	3/382 - Establish effective reporting arrangements to HWB for JHWS and BCF	HAS AD Integration	Sun-31-Jan-16								
<b>Reduction</b>	3/383 - Lead negotiations to achieve full protection of adult social care BCF spend 2016/17	AD SR (HAS) & Proc HAS AD Integration	Thu-31-Mar-16								
<b>Reduction</b>	3/384 - Establish joint NHS and NHS leadership to design new models of care in all CCG localities incl. Vanguard (HaRD) Ambitious for Health	CD HAS	Thu-31-Mar-16								
<b>Reduction</b>	3/385 - Review the impact on HAS of new models of care locality operating models	HAS AD Integration	Thu-31-Mar-16								
<b>Reduction</b>	3/386 - Continue to improve the Locality Delivery Team model for working with CCGs on transformation	HAS AD Integration	Wed-31-Aug-16								
<b>Phase 4 - Post Risk Reduction Assessment</b>											
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	2
<b>Phase 5 - Fallback Plan</b>											
<b>Fallback Plan</b>	3/532 - Escalation to CMB and Executive Members, further engagement with senior tiers in NHS locally, regionally and nationally.									<b>Action Manager</b>	
										CD HAS	



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Phase 1 - Identification											
<b>Risk Number</b>	3/229	<b>Risk Title</b>	3/229 - Complex Needs Pressures				<b>Risk Owner</b>	CD HAS	<b>Manager</b>	AD SR (HAS) & Proc	
<b>Description</b>	Failure to develop better analysis of data relating to increased complex needs of those eligible for service results in budget and service pressures beyond that anticipated through targeted prevention initiatives					<b>Risk Group</b>	Financial	<b>Risk Type</b>	Dir Only		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Detailed monthly budget monitoring of all HAS spending; statistical analysis of data around service users; comparison and checking of data across teams to assist improvements and consistency;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/379 - Carry out fundamental budget review which models cost drivers, demand and complexity of cases					AD SR (HAS) & Proc	Mon-30-Nov-15				
<b>Reduction</b>	3/380 - Monitor performance against the model at team level and investigate anomalies					AD SR (HAS) & Proc	Wed-31-Aug-16				
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	2
Phase 5 - Fallback Plan											
								<b>Action Manager</b>			
<b>Fallback Plan</b>	558 - Monitor and review complex needs and put in place appropriate action plan							CD HAS			



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Phase 1 - Identification											
<b>Risk Number</b>	3/226	<b>Risk Title</b>	3/226 - Transformation				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	HAS AD C&S
<b>Description</b>	Failure to carry out transformation of the care and support offer in a timely way such that savings are made, significant change and improvement is implemented and personal independence is maximised					<b>Risk Group</b>	Change Mgt		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Corporate and HAS 2020 Governance arrangements including reporting to & monitoring by Directorate & Corp Programme Board; dedicated staff; Transformation Board; HAS Programme Briefs Produced; EIAs being developed; Exec members involved in programme development; HAS LT members assigned to specific programme activity; HAS Vision						<b>Effectiveness</b>		
<b>Probability</b>	M	<b>Objectives</b>	H	<b>Financial</b>	H	<b>Services</b>	H	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	1/155 - Design and implement a Prevention Framework and action plan which models the investment needed and savings to be achieved by shifting to community sustainability, prevention and reablement models						HAS AD C&S Public Health Consultant	Thu-30-Jun-16			
<b>Reduction</b>	1/359 - Engage with NHS commissioners and providers to agree process for the assessment pathway						HAS AD C&S	Fri-31-Jul-15	Mon-31-Aug-15		
<b>Reduction</b>	1/360 - Develop and deliver the customer service centre work around transformation						HAS AD C&S	Thu-30-Jun-16			
<b>Reduction</b>	3/157 - Develop a new enablement and reablement pathway, agreed in principle with NHS partners						HAS AD C&S	Wed-31-Aug-16			
<b>Reduction</b>	3/363 - Support the assessment pathway programme and specifically the reablement restructure through workforce planning and development						HAS LT	Wed-31-Aug-16			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
<b>Fallback Plan</b>										<b>Action Manager</b>	

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Phase 1 - Identification											
<b>Risk Number</b>	3/27	<b>Risk Title</b>	3/27 - Safeguarding Arrangements				<b>Risk Owner</b>	CD HAS	<b>Manager</b>	HAS AD C&S HAS AD Q&E	
<b>Description</b>	Failure to have an effectively monitored, robust, Safeguarding regime and partnership arrangements in place and ensure that we fulfil our wider lead authority role (under the Care Act) results in risk to service users, inability to reach required standard on CQC and adverse effect on Directorate reputation.					<b>Risk Group</b>	Partnerships	<b>Risk Type</b>	C&S 1/14		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Detailed action plan; Safeguarding review for the County; revised Safeguarding Boards and sub groups linked to new Care Act provisions; Safeguarding general manager and team; strengthening of Safeguarding policy team; case file audit and review; training plan; best interest assessors in post; better understanding & embedding of Mental Capacity Act; independent chair to Safeguarding Board in place; risk enablement panel developed; countywide safeguarding general manager in place; testing of initial performance metrics for Safeguarding Board has taken place					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	H	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	2/83 - Review of Board structure to ensure compliance with the Care Act						HAS AD Q&E	Fri-31-Jul-15	Fri-31-Jul-15		
<b>Reduction</b>	2/85 - Implementation of new policies and procedures reflecting new Care Act duties						HAS AD Q&E	Thu-31-Dec-15			
<b>Reduction</b>	2/161 - Continued vigilance to ensure our supervisory body role adheres to good practice and national guidance, evidenced by regular reports to HASLT and members						HAS AD Q&E	Thu-30-Jun-16			
<b>Reduction</b>	3/145 - Continue to ensure partners are fully engaged with Safeguarding boards centrally and locally, particularly new health partners (CCGs) - ongoing, two board development days held						HAS AD C&S	Tue-31-May-16			
<b>Reduction</b>	3/187 - Continue to work with Quality and Engagement team to improve quality assurance; risk assessment tool to be launched						HAS AD C&S HAS AD Q&E	Wed-30-Sep-15			
<b>Reduction</b>	3/217 - Develop and implement new safeguarding board performance framework						HAS AD C&S	Thu-30-Apr-15	Thu-30-Apr-15		
<b>Reduction</b>	3/321 - Ongoing joint work with CYPs to carry out review of approach to domestic abuse and Prevent						HAS AD C&S	Thu-31-Mar-16			
<b>Reduction</b>	3/387 - Agree and implement a protocol for the relationship between Adults Social Care (and Children's Trust) and the Health and Wellbeing Board						HAS AD Integration	Wed-31-Aug-16			





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<b>Reduction</b>	3/1959 - Develop an information framework for serious incident data, eg drug death etc				AD SR (HAS) & Proc	Sat-31-Oct-15					
<b>Reduction</b>	3/1961 - Ongoing work to implement the concordat following Winterbourne View				HAS AD C&S	Tue-31-May-16					
<b>Phase 4 - Post Risk Reduction Assessment</b>											
<b>Probability</b>	L	<b>Objectives</b>	H	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	3
<b>Phase 5 - Fallback Plan</b>											
										<b>Action Manager</b>	
<b>Fallback Plan</b>	3/33 - Escalate to Safeguarding Board / Mgt Board and carry out necessary review and action improvement plans, lessons learned from any serious case reviews										HAS AD C&S



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Phase 1 - Identification											
<b>Risk Number</b>	3/220	<b>Risk Title</b>	3/220 - Cultural Change				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	HAS HoHR
<b>Description</b>	Failure to change the Directorate culture at the same time as implementing the HAS Vision and the 2020 Transformation Programme for HAS by 2020 resulting in financial challenges and unmet savings, staff unclear about their roles and an inability to implement new ways of working					<b>Risk Group</b>	Personnel		<b>Risk Type</b>	Dir Only	
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Leadership Forum, Wider Leadership team, Workforce strategy and OD Plan; Care Act training delivered; Directorate restructure complete; Directorate Vision developed; business cases developed and programmes being implemented for assessment pathway and targeted prevention; Make Every Contact Count training developed; comprehensive staff engagement and communication plan developed;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	3/201 - Leadership to communicate and consult the transformation programme						HAS AD C&S	Wed-31-Aug-16			
<b>Reduction</b>	3/232 - Embed the locality leadership model including delivery of training programme						HAS LT	Wed-31-Aug-16			
<b>Reduction</b>	3/233 - Ensure effective liaison with the Stronger Communities team to maximise access to community assets and delay use of mainstream services						HAS LT	Wed-31-Aug-16			
<b>Reduction</b>	3/234 - Ensure effective targeted prevention activity to maximise access to community assets and delay use of mainstream services						HAS AD C&S	Wed-31-Aug-16			
<b>Reduction</b>	3/322 - Review current integrated arrangements for Mental Health services and explore future options						HAS AD C&S HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/323 - Roll out Make Every Contact Count training to the Directorate workforce						Dir Public Health HAS HoHR	Fri-31-Mar-17			
<b>Reduction</b>	3/326 - Implement the Directorate Vision						HAS LT	Wed-31-Aug-16			
<b>Reduction</b>	3/341 - Implement a comprehensive staff engagement and communication plan						HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/343 - Ensure development and delivery of staff training programmes to support culture change including identification of appropriate resource						HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/372 - Ensure leadership and management continue to evolve methods of effective communication to enable involvement and feedback from staff and co-production with service users and partners						HAS LT	Wed-31-Aug-16			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	3



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Phase 5 - Fallback Plan		Action Manager
<b>Fallback Plan</b>	3/531 - Continue to prioritise resources to ensure continuity of service for front line service users	CD HAS



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Phase 1 - Identification											
<b>Risk Number</b>	3/228	<b>Risk Title</b>	3/228 - Extra Care Housing				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	HAS AD Com
<b>Description</b>	Failure to effectively deliver the Extra Care Programme and EPH reprovion resulting in suboptimal financial savings, potential challenge to EPH reprovion proposals, poor project management of Extra Care Scheme Development					<b>Risk Group</b>	Strategic		<b>Risk Type</b>	47/151	
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Robust needs assessment (independently tested), Programme management structure, use of experienced external advisors in respect of legal, finance and procurement services, governance arrangements, member support, programme manager recruited,					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	3/373 - Complete and launch the successful procurement of Framework partners outcome					HAS AD Com		Wed-30-Sep-15			
<b>Reduction</b>	3/374 - Develop call off contract timetable and align with necessary consultations					HAS AD Com		Sat-31-Oct-15			
<b>Reduction</b>	3/375 - Review process for EPH reprovion to ensure fit for purpose					HAS AD Com		Sat-31-Oct-15			
<b>Reduction</b>	3/376 - Ensure agreement of process for mini procurements					HAS AD Com		Sat-31-Oct-15			
<b>Reduction</b>	3/377 - Identify specific issues and requirements for each Scheme					HAS AD Com		Tue-31-Mar-20			
<b>Reduction</b>	3/378 - Develop bespoke programme for each Scheme					HAS AD Com		Tue-31-Mar-20			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	L	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	557 - Continually review progress and changes in market conditions and Partner circumstances and make appropriate adjustments to the Programme								HAS AD Com		

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Phase 1 - Identification											
<b>Risk Number</b>	3/184	<b>Risk Title</b>	3/184 - Workforce Planning and Development					<b>Risk Owner</b>	CD HAS	<b>Manager</b>	HAS HoHR
<b>Description</b>	Failure to appropriately plan and fulfil workforce requirements and / or develop staff in line with transformation agenda resulting in reduction in quality of service and transformation objectives not achieved					<b>Risk Group</b>	Personnel	<b>Risk Type</b>	Dir Only		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>		Workforce Strategy and OD Plan refreshed and agreed by HAS LT, HR representation on each 2020 programme board, draft staff engagement and communication plan, Care Act training delivered, Directorate restructure complete, Directorate Vision launched via Powerpoint communication, HAS Transformation Board, regular DJCC meetings with Unison, training plan in place, ASYE implemented,						<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	3/164 - Support the independent and voluntary sector to develop its workforce's skills sets						HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/218 - Continue to implement the Directorate Training Plan which encompasses all the key changes facing Operational Staff and equips Heads of Service and CSMs to ensure delivery						HAS AD C&S HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/231 - Ensure Directorate Managers are provided with training in people management processes, reorganisation and redundancy processes and change management.						HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/263 - Ensure use of Insight is embedded with Directorate managers and exceptions and performance issues are identified through quarterly reports to HAS LT and SHRA input to management teams						HAS LT	Wed-31-Aug-16			
<b>Reduction</b>	3/324 - Implement the resourcing strategy to support continuity of staffing in EPHs until they are replaced by Extra Care and then reablement and personal care at home						HAS AD C&S HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/325 - Continue to develop and implement a skill mix in assessment teams to meet the additional resource requirements as a result of the Care Act implementation						AD SR (HAS) & Proc HAS AD C&S HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/340 - Provide HR and WD advice and support to Managers leading Transformation Projects (ongoing)						HAS HoHR	Wed-31-Aug-16			
<b>Reduction</b>	3/363 - Support the assessment pathway programme and specifically the reablement restructure through workforce planning and development						HAS LT	Wed-31-Aug-16			
<b>Reduction</b>	3/1964 - Continue to engage with and contribute to all 2020 North Yorkshire workstreams (ongoing)						HAS LT	Wed-31-Aug-16			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	L	<b>Reputation</b>	L	<b>Category</b>	4



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Phase 5 - Fallback Plan		Action Manager
<b>Fallback Plan</b>	3/531 - Continue to prioritise resources to ensure continuity of service for front line service users	CD HAS



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Phase 1 - Identification											
<b>Risk Number</b>	3/227	<b>Risk Title</b>	3/227 - Targeted Prevention				<b>Risk Owner</b>	CD HAS	<b>Manager</b>	HAS AD C&S	
<b>Description</b>	Failure to develop, recruit to and implement a targeted prevention service resulting in unmet savings, increase in long term care need, greater demand on care budget and reputational damage					<b>Risk Group</b>	Performance	<b>Risk Type</b>	C&S 1/221		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Successful initial recruitment campaign; working group (incl vol & comm sector and health); high profile; included in care and support vision; funding from Scarborough CCG; phased savings plan					<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	H	<b>Reputation</b>	M	<b>Category</b>	3
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>		
<b>Reduction</b>	1/335 - Finalise recruitment to posts						HAS C&S Ho TP	Wed-30-Sep-15	Tue-15-Sep-15		
<b>Reduction</b>	1/351 - Have procedures and processes agreed by C&SLT						HAS C&S Ho TP	Wed-30-Sep-15	Tue-15-Sep-15		
<b>Reduction</b>	1/352 - Start induction and training programmes for managers and staff						HAS C&S Ho TP	Wed-30-Sep-15	Tue-15-Sep-15		
<b>Reduction</b>	1/353 - Ensure close working with a range of partners						HAS C&S Ho TP	Thu-30-Jun-16			
<b>Reduction</b>	1/354 - Commence service implementation						HAS C&S Ho TP	Sat-31-Oct-15			
<b>Reduction</b>	1/355 - Work with communications on service branding						HAS C&S Ho TP	Wed-30-Sep-15			
<b>Reduction</b>	1/356 - Commence academic evaluation of service (by Univ of York)						HAS C&S Ho TP	Fri-30-Sep-16			
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	H	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
<b>Fallback Plan</b>									<b>Action Manager</b>		



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

Phase 1 - Identification											
<b>Risk Number</b>	3/167	<b>Risk Title</b>	3/167 - Public Health				<b>Risk Owner</b>	CD HAS		<b>Manager</b>	Dir Public Health
<b>Description</b>	Failure to deliver a distinctive public health agenda for North Yorkshire and carry out the statutory public health functions resulting in failure to maximise health gain in the County, inability to effectively commission public health services, develop and implement strategies and manage the Public Health grant					<b>Risk Group</b>	Partnerships		<b>Risk Type</b>	PH 5/196	
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Recruitment to public health team; Secured project management support for major service commissioning; Regular Public Health business and team meetings; Consultant link roles with NYCC Directorates; CCGs and Districts; Public Health service plan developed; Consultation on public health commissioning intentions; MOU for Advice Service with CCGs in place; Joint Contracts group with CYC; Health and Wellbeing Board; H & W Strategy; Link to relevant Em Planning/Health Protection structures in place; Leading work on the Prevention Framework; PH team performance monitoring mechanism in place; updated JSNA in place; development of financial framework; recommissioned most of the Public Health services					<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	3
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>			
<b>Reduction</b>	5/246 - Continue to ensure Public Health statutory functions are met					Dir Public Health	Thu-30-Jun-16				
<b>Reduction</b>	5/247 - Develop the Public Health Advisory Service for CCGs					Dir Public Health	Sat-31-Oct-15				
<b>Reduction</b>	5/248 - Ensure 2020 Finance considers Public Health needs and that Public Health team are aware of impact on resource and finance risk (development of 5 year indicative framework)					Int Fin Acc	Thu-30-Jun-16				
<b>Reduction</b>	5/249 - Explicitly embed Public Health in the Councils mainstream strategies and policies eg. trading standards, education, children social care, LEP (ongoing) and embed within the HAS locality model					Dir Public Health	Thu-30-Jun-16				
<b>Reduction</b>	5/251 - Continue to ensure sufficient capacity and skills in the Public Health team and in the interim, explore alternative solutions to release more time for consultant level work					Dir Public Health	Thu-30-Jun-16				
<b>Reduction</b>	5/252 - Continue to work closely with CoY Council especially around contracting and professional networks					Dir Public Health	Thu-30-Jun-16				
<b>Reduction</b>	5/254 - Develop more detailed business plan and financial arrangements (5 year indicative framework being developed) for the Public Health budget with sign off by CMB and HAS Exec					AD SR (HAS) & Proc Dir Public Health	Sat-31-Oct-15				
<b>Reduction</b>	5/313 - Ensure good systems are in place for monitoring our performance against the PHOF (first phase completed December 2014); reported as part of the Council's performance framework					Dir Public Health	Thu-30-Jun-16				



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) detailed**  
 Report Date: **7 September 2015 cat**

<b>Reduction</b>	5/314 - Report on quarterly basis to HAS LT and PH Business team	Dir Public Health	Thu-30-Jun-16									
<b>Reduction</b>	5/318 - Progress the issues of unsigned PH contracts and raise concerns at Directorate level	Dir Public Health	Wed-30-Sep-15									
<b>Reduction</b>	5/345 - Ensure partners are aware of implications of in-year grant fund cut	Dir Public Health	Thu-30-Jun-16									
<b>Phase 4 - Post Risk Reduction Assessment</b>												
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	5	
<b>Phase 5 - Fallback Plan</b>												
										<b>Action Manager</b>		
<b>Fallback Plan</b>	3/526 - Implement alternative arrangements to ensure public health functions are delivered.										Dir Public Health	



# Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) summary**  
 Report Date: **7 September 2015 - cat**

Identity			Person		Classification											Fallback Plan				
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post					FBPlan	Action Manager	
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	3/217 - Deprivation of Liberty (DoLs) Supreme Court Ruling	Failure to manage increase in workload as a result of the DoLs Supreme Court judgment resulting in financial and reputational issues including potential legal action	CD HAS	HAS AD C&S HAS AD Q&E	H	H	H	H	H	1	5	30/06/2015	H	H	H	H	H	1	Y	HAS AD C&S
▼	3/162 - Major Failure due to Quality and/or Economic Issues in the Care Market.	Major failure of provider/key providers results in the Directorate being unable to meet service user needs. This could be caused by economic performance or resource capabilities. The impact could include loss of trust in the Care Market, increased budgetary implications and issues of service user safety.	CD HAS	HAS AD Q&E	H	M	M	M	H	1	8	31/12/2015	H	M	M	M	M	2	Y	HAS AD Q&E
◀▶	3/218 - Managing effective outcomes for individuals	Failure to meet targets in line with the Care Act resulting in poor outcomes for individuals and internal and external criticism, reputational issues.	CD HAS	HAS AD C&S	M	H	M	H	H	2	7	30/04/2015	M	H	M	M	H	2	Y	HAS AD C&S
◀▶	3/164 - Information Governance and Health and Safety	Failure to ensure that good and safe governance arrangements in respect of data security and health and safety are in place throughout the Directorate	CD HAS	AD SR (HAS) & Proc	M	L	M	L	H	2	10	31/05/2015	M	L	M	L	H	2	Y	AD SR (HAS) & Proc
◀▶	3/180 - Partnership and Integration with the NHS	Failure to develop and implement new models of care that will provide better outcomes for patients and local communities. This failure will have a negative impact on the development of integrated services, delay the transformation of HAS services, give rise to increased costs to HAS and cause the loss of opportunities that joint provision may have.	CD HAS	HAS AD Integration HAS AD C&S Dir Public Health HAS AD Q&E	M	M	H	M	H	2	15	31/03/2015	M	M	H	M	H	2	Y	CD HAS
◀▶	3/229 - Complex Needs Pressures	Failure to develop better analysis of data relating to increased complex needs of those eligible for service results in budget and service pressures beyond	CD HAS	AD SR (HAS) & Proc	M	M	H	M	M	2	2	30/04/2015	M	M	H	M	M	2	Y	CD HAS



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) summary**

Report Date: **7 September 2015 - cat**

Identity			Person		Classification											Fallback Plan					
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post					FBPlan	Action Manager		
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat			
		that anticipated through targeted prevention initiatives																			
▼	3/226 - Transformation	Failure to carry out transformation of the care and support offer in a timely way such that savings are made, significant change and improvement is implemented and personal independence is maximised	CD HAS	HAS AD C&S	M	H	H	H	H	2	5	31/07/2015	L	M	H	M	M	3	Y		
▼	3/27 - Safeguarding Arrangements	Failure to have an effectively monitored, robust, Safeguarding regime and partnership arrangements in place and ensure that we fulfil our wider lead authority role (under the Care Act) results in risk to service users, inability to reach required standard on CQC and adverse effect on Directorate reputation.	CD HAS	HAS AD C&S HAS AD Q&E	M	H	H	M	H	2	10	30/04/2015	L	H	H	M	H	3	Y	HAS AD C&S	
▼	3/220 - Cultural Change	Failure to change the Directorate culture at the same time as implementing the HAS Vision and the 2020 Transformation Programme for HAS by 2020 resulting in financial challenges and unmet savings, staff unclear about their roles and an inability to implement new ways of working	CD HAS	HAS HoHR	M	M	H	M	M	2	10	31/08/2016	L	M	H	M	M	3	Y	CD HAS	
▼	3/228 - Extra Care Housing	Failure to effectively deliver the Extra Care Programme and EPH reprovion resulting in suboptimal financial savings, potential challenge to EPH reprovion proposals, poor project management of Extra Care Scheme Development	CD HAS	HAS AD Com	M	M	H	M	H	2	6	30/09/2015	L	L	H	L	M	3	Y	HAS AD Com	
▼	3/184 - Workforce Planning and Development	Failure to appropriately plan and fulfil workforce requirements and / or develop staff in line with transformation agenda resulting in reduction in quality of service and transformation objectives	CD HAS	HAS HoHR	M	M	H	M	M	2	9	31/08/2016	M	M	M	L	L	4	Y	CD HAS	



## Health and Adult Services Directorate

Risk Register: **Month 0 (August 2015) summary**

Report Date: **7 September 2015 - cat**

Identity			Person		Classification											Fallback Plan					
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post					FBPlan	Action Manager		
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat			
		not achieved																			
◀▶	3/227 - Targeted Prevention	Failure to develop, recruit to and implement a targeted prevention service resulting in unmet savings, increase in long term care need, greater demand on care budget and reputational damage	CD HAS	HAS AD C&S	L	M	M	H	M	3	7	30/09/2015	L	M	M	H	M	3	Y		
▼	3/167 - Public Health	Failure to deliver a distinctive public health agenda for North Yorkshire and carry out the statutory public health functions resulting in failure to maximise health gain in the County, inability to effectively commission public health services, develop and implement strategies and manage the Public Health grant	CD HAS	Dir Public Health	L	M	H	M	M	3	11	30/09/2015	L	M	M	M	M	5	Y	Dir Public Health	

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



# NORTH YORKSHIRE COUNTY COUNCIL

## STATEMENT OF ASSURANCE 2014/15 BY CORPORATE DIRECTOR – HEALTH AND ADULT SERVICES

The County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, all Members and senior officers of the County Council are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Corporate Director and member of the Management Team, I have corporate responsibility for maintaining a system of sound internal controls and risk management processes within the County Council and service management responsibility for maintaining a system of sound internal controls and risk management processes within the Health and Adult Services Directorate that support the achievement of both Corporate and the Directorate's objectives.

The system of internal controls is based on an ongoing process designed to identify the principal risks to the achievement of these objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

As a Corporate Director, I have responsibility for reviewing the effectiveness of the system of internal control and risk management processes in the Health and Adult Services Directorate. My review of the effectiveness of the system of internal controls has taken into account the following:-

- adequacy and effectiveness of management review processes
- outcomes from the formal risk assessment and evaluation process (Directorate Risk Register)
- relevant self-assessments of key service areas within the Directorate
- relevant internal audit reports and results of follow ups regarding implementation of recommendations
- outcomes from reviews of services by other bodies including Inspectorates, external auditors etc.
- the framework of controls that operate in relation to individual partnerships where some aspects of the necessary controls are the responsibility of the partner to operate / apply

I confirm that Health and Adult Services Directorate has a full set of business continuity plans and that they will continue to be refreshed as and when necessary and at least on an annual basis.

I also confirm that Health and Adult Services Directorate understands the importance of keeping sensitive information secure and has the appropriate policies and procedures in place

**I am satisfied that a sound system of internal control has been in place for the financial year ended 2014/15 in the Health and Adult Services Directorate. Nevertheless, during the year my review work has identified some areas for further development and these are set out in the *attached schedule*. I propose to take steps to address the matters so identified which should enhance the system of internal controls. I will be monitoring to ensure their effective implementation and operation.**

I also understand that this Statement of Assurance will be relied upon by those Members and Officers signing the Annual Governance Statement 2014/15 (the "Document") and by the Audit Committee reporting on the Document.

I therefore confirm that I am not aware of any material statement in, or omission from, the Document which would make the Document misleading. In respect of the Directorate for which I am responsible I can confirm that I have made due and careful inquiry and that the statements relating to my Directorate, in particular those contained in Section 3 of the Document, fairly represent the key elements of the internal control environment within my Directorate. I also confirm that there are no matters relating to my Directorate omitted from Section 7 of the Document which, in my view, merited inclusion.

The assurances given above are all based upon the information that has been made available to me.

Signed:

**Corporate Director – Health and Adult Services**

**Date:**

**AREAS FOR FURTHER DEVELOPMENT IDENTIFIED  
HEALTH AND ADULT SERVICES DIRECTORATE**

	<b>Areas for Development as Identified in 2015/16</b>	<b>Action Proposed</b>	<b>AGS Inclusion?</b>
A	<p><b>Demand outstrips budget provision for adult social care</b> HAS have developed a resource predictive model based on nationally approved population and demographic trend analysis.</p>	<p>These tools and techniques will be used to enhance management information and particularly:</p> <ul style="list-style-type: none"> <li>a) Monitor the forecasting model to predict the pattern and anticipated cost which could occur within the County.</li> <li>b) Continue to draw down from the incremental budget provision of £3m per annum from within the MTFS as required and validated.</li> <li>c) Monitor the trend information on a quarterly basis to ensure awareness of cost and volume changes relating to service delivery.</li> <li>d) Inform a Fundamental Budget Review that will take place in 2015 with the Integrated Finance Team to fully consider cost drivers alongside activity data and related issues.</li> </ul>	
B	<p><b>Implementation of Change and the Improvement Agenda and the linked budget savings</b> As an integral part of the Council's overall 2020 North Yorkshire Programme HAS has an ambitious efficiency and transformational programme which seeks to:</p> <ul style="list-style-type: none"> <li>• make cost savings by improving service outcomes and redesigning service delivery</li> <li>• reduce demand for high cost services as well as disinvesting in traditional forms of service delivery.</li> <li>• invest in prevention services and supporting people at home.</li> <li>• increase the range of supported</li> </ul>	<ul style="list-style-type: none"> <li>a) An on-going programme approach to managing and monitoring the savings projects and significant service change within HAS is in place and will feed into the 2020 North Yorkshire Programme Board. This enables monitoring of the achievement of individual projects and oversight of the overall programme.</li> <li>b) The Programme will assess the adequate Corporate project management and business change support that is required – in</li> </ul>	

	<p>accommodation through Extra Care.</p>	<p>conjunction with Resources colleagues</p> <p>c) The HAS Leadership Team will receive monthly reports to allow the monitoring of progress and identification of interdependencies and risks. It will also monitor and review progress and delivery of the change and savings programme to ensure delivery against key objectives and within available resources.</p> <p>d) HAS will continue to play a key role in shaping the Councils' approach to cross cutting issues. These include the 'Stronger Communities' approach and the 'Customer' cross cutting workstream within the 2020 North Yorkshire Programme.</p>	
<p>C</p>	<p><b>Market Forces</b>  Market forces lead to increases in the cost of care that may not be able to be contained within budgets, or threaten market disruption, and service continuity.</p>	<p>a) Continue to undertake dialogue with the independent sector through the Market Development Board and other relevant/ successor bodies. This is a forum comprising representatives from the independent sector, voluntary sector, health and NYCC.</p> <p>b) Continue to monitor agreed medium term rates for residential and nursing care, the impact of market forces. Undertake Cost of Care Exercise in 2015/16 with independent expert support.</p> <p>c) Continue the procurement process on domiciliary care, learning from phase 1 and evaluating different options.</p> <p>d) Continue to work with the market to provide more creative solutions and services rather than relying</p>	



		on the traditional approaches to meeting people's support requirements.	
D	<p><b>Deprivation of Liberty (DoLs)– Supreme Court ruling</b></p> <p>Following a High Court Judgement referred to as the 'Cheshire West judgement', the interpretation of the meaning of Deprivation of Liberty was significantly expanded. As a result there has been a significant increase in the number of DoLS assessments and authorisations undertaken by HAS staff for people in residential care homes, hospice as well as care homes.</p>	<p>a) A series of measures have been introduced to deal with the 13 fold increase in workload. These include additional internal resources, further training of assessors and negotiation with outside assessors.</p> <p>b) Assumptions have been made based upon first year experience and have been used to inform a budget for 2015/16. These assumptions will be subject to regular review by the HAS Leadership Team and changes made where required and appropriate.</p>	
E	<p><b>Working with the NHS</b></p> <p>The Council is working with the NHS to establish new financial and operational working arrangements arising from the changes through the Better Care Fund (BCF).</p>	<p>a) The 15/16 BCF is operational with appropriate legal agreements in place.</p> <p>b) Regular financial and scheme delivery monitoring takes place on a countywide and locality basis</p> <p>c) Governance is established to allow escalation of issues and consideration of in year revisions to the plan.</p> <p>d) Modelling of the implications of the Government commitment to 7 day NHS services is undertaken</p>	

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****24 SEPTEMBER 2015****INTERNAL AUDIT REPORT ON INFORMATION TECHNOLOGY, CORPORATE THEMES AND CONTRACTS****Report of the Head of Internal Audit****1.0 PURPOSE OF THE REPORT**

- 1.1 To inform Members of the **internal audit work** completed during the year to 31 August 2015 in respect of information technology (IT), corporate themes and contracts and to give an opinion on the systems of internal control in respect of these areas.

**2.0 BACKGROUND**

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to IT, corporate themes and contracts, the Committee receives assurance through the work of internal audit (provided by Veritau) as well as receiving copies of relevant corporate and directorate risk registers. Veritau engages a specialist contractor to support the provision of IT audit services. Since 1 April 2013, that service has been provided by Audit North. Details of the IT audit plan (to March 2016) prepared by Audit North, were presented to the Committee in June 2015.
- 2.2 This report considers the work carried out by Veritau and Audit North during the period to 31 August 2015. It should be noted that the internal audit work referred to in this report tends to be cross cutting in nature and therefore there are no corresponding Statements of Assurance (SoA) or directorate risk registers.
- 2.3 The Corporate Risk Register (CRR) is fully reviewed every year and updated by the Chief Executive and Management Board in September / October. A six monthly review is then carried out in April / May. Details of the Corporate Risk Register were presented to the Committee in June 2015. There have been no significant changes in the County Council's risk profile since that date. A copy of the updated Corporate Risk Register will be presented to the committee once the current review is completed.

**3.0 WORK CARRIED OUT DURING THE YEAR TO 31 AUGUST 2015**

- 3.1 Summaries of the internal audit work undertaken and the reports issued in the period are attached as follows:

IT audit assurance and related work	<b>Appendix 1</b>
Corporate assurance	<b>Appendix 2</b>
Contracts and procurement	<b>Appendix 3</b>

3.2 Internal Audit has also been involved in a number of related areas, including:

- providing advice on corporate governance arrangements and IT related controls;
- providing advice and support to assist the mobile device encryption project and ICT project and programme management;
- providing advice and guidance to directorates and schools on ad hoc contract queries and on matters of compliance with the County Council's Contract and LMS Procedure Rules;
- attending meetings of the Corporate Information Governance Group (CIGG), the Corporate Procurement Group (CPG) and various project groups relating to 2020 North Yorkshire;
- contributing to the development of the NYCC procurement strategic action plan, including participation in a number of delivery areas;
- contributing to the annual review and update of the County Council's Financial, Contract and Property Procedure Rules;
- reviewing the final accounts for capital projects. Using a risk based process, Veritau auditors identify those projects which need to be reviewed in more detail and request the relevant documentation;
- carrying out a number of special investigations into corporate or contract related matters that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by management.

3.3 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **appendix 4**.

3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau formally follow up all agreed actions on a quarterly basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**

3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk tend to be reviewed less often with audit work instead focused on the areas of highest

risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

#### 4.0 **AUDIT OPINION**

4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. The report should include:

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating across the three functional areas is that it provides **Substantial Assurance**. There are no qualifications to this opinion. With the exception of IT audit, no reliance has been placed on the work of other assurance bodies in reaching this opinion. As noted above, the Head of Internal Audit commissioned specialist IT audit services during the period from Audit North to support the delivery of this aspect of the Audit Plan. The Head of Internal Audit is satisfied with the quality of this work and has therefore placed reliance upon it in reaching his opinion.

#### 5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the overall control environment operating in respect of information technology, corporate and contract arrangements is both adequate and effective.

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<sup>1</sup> For the County Council this is the Head of Internal Audit.

<sup>2</sup> For the County Council this is the Audit Committee.

Max Thomas  
Head of Internal Audit

Veritau Ltd  
County Hall  
Northallerton

11 September 2015

## **BACKGROUND DOCUMENTS**

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared and presented by Max Thomas, Head of Internal Audit (Veritau).

## Appendix 1

### INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2015

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
A	North Yorkshire 2020 – Lagan Project Management Controls	Reasonable Assurance	The audit reviewed whether an appropriate project management framework had been established, taking account of the size, complexity and regulatory requirements of the project, and the framework was sufficient to ensure delivery of the project objectives.	June 2015	<p>The Lagan Upgrade project was managed by an experienced project manager and was found to be well controlled. The audit found a small number of areas where controls could have been improved and these issues should therefore be considered in the establishment and management of future projects. The two main areas were:</p> <ul style="list-style-type: none"> <li>• the need to design a structured approach for system testing</li> <li>• ensuring project management documentation is complete and contains sufficient information required for managing and controlling the project.</li> </ul> <p>Since the closure of the project, Technology and Change has revised its project management methodology and sought to introduce a standardised approach, underpinned by a suite of template documents.</p>	<p><b>One P2 and One P3 action were agreed</b></p> <p><b>Responsible officer</b> Head of Projects and Programmes</p> <p>A health check has been developed to be used on a sample of projects to check completion of core document.</p> <p>Work to commence on development of an IT project lifecycle which will map to the generic project lifecycle and will cover standards, templates, checklists for specifications, test documentation etc. linked to ITIL standards</p>
B	Programme Management	Reasonable Assurance	The audit reviewed the programme management framework in place for IT	February 2015	<p>Technology and Change (T&amp;C) has made good progress in introducing a framework and documentation for</p>	<p><b>Three P2 actions were agreed</b></p> <p><b>Responsible officer</b></p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			projects to ensure that there is formal identification, approval, prioritisation and co-ordination at relevant stages.		<p>processing and managing project requests. A number of areas of good practices were being introduced including: wider roll-out of Project Vision (project management software), revised governance arrangements for assessing the viability of a project against set criteria, and the utilisation of Business Partner roles to assist with engaging the business in new ways of working.</p> <p>Further improvements could be made in the design of the framework to help capture and monitor benefits and also in risk management.</p>	<p>Head of Projects and Programmes</p> <p>A clear benefits management framework to be introduced for all projects realising benefits, including how benefits will be captured, monitored and reported post-project closure. A standard approach to risk management is to be developed for all projects. Workshops on the framework and risk management approach to be included as part of a training strategy</p>
C	MyView - general IT controls	Substantial Assurance	The audit reviewed the controls in place to maintain the confidentiality, integrity and availability of information stored and processed using the ResourceLink and MyView systems.	December 2014	<p>Good controls were found to be in place, including user access controls and system documentation. However, some areas required improvement, including:</p> <ul style="list-style-type: none"> <li>records were not provided by the supplier detailing when, by whom and which updates had been applied to the operating systems or the Oracle database software</li> <li>the latest available AIX UNIX operating system had not been installed on the ResourceLink / MyView system servers</li> </ul>	<p><b>Five P3 and One P2 actions were agreed</b></p> <p><b>Responsible officer</b> Head of Employment Support Services</p> <p>All recommendations have been agreed and processes will be changed to ensure processes are in line with general IT systems requirements in relation to passwords and change control System provider to be contacted in relation to back-up, testing and system changes</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<ul style="list-style-type: none"> <li>• there were limited password settings available for configuration within ResouceLink and MyView Passwords in both systems were not subject to complexity requirements and there was no password history retained</li> <li>• operator accounts assigned the 'Supervisor' profile were not subject to lock out after three failed logon attempts</li> <li>• confirmation was not provided by the supplier regarding the processes in place for checking the success / failure of backups</li> <li>• disaster recovery testing was not undertaken on a regular basis</li> <li>• the change control process followed by the ESS Support Team did not follow the corporate change control policy.</li> </ul>	
D	EDRMS General Controls 2014 - 15	Reasonable Assurance	The audit reviewed the controls in place to maintain the confidentiality, integrity and availability of information stored and processed using Wisdom EDRMS.	January 2015	A number of controls were found to be working well including user management processes, the assignment of access controls and the maintenance of system documentation. However, weaknesses were found in relation to disaster recovery and business	<p><b>Three P2 and Two P3 actions were agreed</b></p> <p><b>Responsible officer</b> Assistant Director Technology and Change</p> <p>System infrastructure to be</p>



	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					<p>continuity planning.</p> <p>The versions of SQL server and windows used by the system were out of date and there were some issues around system configuration</p> <p>Documentation had not been developed to detail the types of changes that need to follow the corporate change management process (major) compared to business as usual changes (to be carried out by the EDRMS Support Team).</p>	<p>upgraded to move onto latest versions and to assist in disaster recovery processes</p> <p>Guidance document to be produced explaining the different types of change requests for Wisdom (major changes or business as usual).</p> <p>Corporate Systems Team Business Continuity Plan is currently under development.</p>
E	IT Procurement	Reasonable Assurance	The audit examined the procedures and standards followed for IT related procurement to ensure they were consistent with the corporate procurement process and the Council's contract procedure rules.	April 2015	<p>The control environment was generally effective. However, the audit identified a number of weaknesses in control, including:</p> <ul style="list-style-type: none"> <li>• there was no formal process in place for requesting new ICT equipment for end users</li> <li>• there was no IT procurement policy or strategy in place to define the approach to take or expected standards</li> <li>• the ICT Sourcing Strategy was only in draft</li> </ul>	<p><b>Two P2 actions were agreed</b></p> <p><b>Responsible officer</b> Procurement and Quality Assurance Manager</p> <p>All ICT equipment purchases will be done using the new Oracle P2P iProc system when rolled out to the service during 2015.</p> <p>The ICT Sourcing Strategy has been finalised, approved within Technology and Change and presented to the Corporate Procurement Group.</p>

## Appendix 2

### CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2015

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Information Security compliance audits	Various	Unannounced audit visits are made to offices and establishments across the County Council. The visits are intended to assess the extent to which personal and sensitive data is being held and processed securely. The visits also consider the security of assets, particularly mobile electronic devices and other portable equipment. Fifteen reports were finalised during the period covering separate areas of County Hall and other buildings.	Various	<p>Following each visit, a detailed report was sent to the Senior Information Risk Owner (SIRO), as well as to relevant directorate managers. The findings have also been discussed by the Corporate Information Governance Group (CIGG).</p> <p>Working practices were found to be weak in a number of instances. The audit opinions for the fifteen visits was as follows:</p> <ul style="list-style-type: none"> <li>• seven visits were classified as Limited Assurance</li> <li>• three as Reasonable Assurance</li> <li>• two as Substantial Assurance</li> <li>• three as High Assurance.</li> </ul>	<p><b>Various P1, P2 and P3 actions were agreed</b></p> <p><b>Responsible Officer:</b> Corporate Director - Strategic Resources (and others)</p> <p>Responses have been obtained to each report. Management have viewed the findings extremely seriously and have taken immediate action where issues have been discovered.</p> <p>Follow up visits have been arranged where significant information risks have been identified.</p> <p>A programme of further visits is currently being prepared.</p>
B	Superfast Broadband	No opinion given	NYCC was selected as one of four national pilots for the rollout of Superfast Broadband. The Council is therefore one of the first to be rolling out Superfast Broadband to a largely rural area.	March 2015	No significant control weaknesses were found. At the time of the audit, NYnet were on target to meet all of the performance objectives necessary to draw down 100% of the ERDF funding.	There were no actions required.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>The procurement and management of the delivery of the Superfast Broadband network for NYCC is managed by NYnet.</p> <p>The objectives of the audit were to:</p> <ul style="list-style-type: none"> <li>• review the procurement process including consideration of how the inherent risks of ERDF funding were being managed</li> <li>• assess the internal control environment NYnet has in place and appraise how the delivery of schemes is being monitored</li> </ul>		<p>The risks associated with ERDF funding were being effectively managed. NYnet has an effective process in place for checking performance information prior to releasing each payment. ERDF auditors have also recently reviewed these processes and did not identify any issues.</p>	
C	Payroll (follow up)	No opinion given	<p>An audit of Payroll took place in 2013/14 and the final report was issued in February 2014. The overall opinion was limited assurance and nine findings were raised including a priority one finding. This audit concentrated on testing to ensure that effective action had been taken to address the weaknesses identified in the original audit.</p>	July 2015	<p>A significant number of improvements have been made within the service, particularly in relation to measures implemented to check and log errors, customer feedback and performance reporting, and the provision of guidance and training for ESS staff.</p> <p>Whilst most of the actions arising from the 2013/14 audit were found to have been implemented, three actions had not been fully completed</p>	Revised implementation dates were agreed with the Head of Employment Support Services

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					and required revised implementation dates.	
D	'One Council' initiative	No opinion given	<p>The 'One Council' programme was a five year initiative and was, in part, a response to the financial constraints placed on local authorities by central government.</p> <p>The vision of One Council was to simplify, standardise and share resources across the Council, with the aim to reduce costs, whilst continuing to deliver customer focussed services.</p> <p>Senior management were keen to evaluate the success of the One Council programme and to identify any lessons learnt for future change management projects. In particular, it was recognised that there were opportunities to use the learning gained to help support the roll out for the 2020 NY programme. It is also good project management practice to evaluate whether major projects have achieved the agreed objectives and expected outcomes.</p>	August 2015	<p>The audit took the form of a high level review. Meetings were held with a number of Assistant Directors and other key staff involved in the One Council project to evaluate how the project had been managed and to consider whether the original objectives and expected outcomes had been achieved.</p> <p>A number of areas of potential learning were highlighted.</p> <p>There was good self awareness from senior management of those areas of the One Council programme which had worked well but also where the project had weaknesses. The council is using that awareness to help shape the 2020 programme.</p>	There were no specific actions required.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
E	Business Risk Management	Substantial Assurance	The audit examined the Council's arrangements for managing risk. The systems for identifying, evaluating and recording risks were examined. The processes for determining risk appetite, obtaining assurances to support mitigating actions, training and management reporting were also examined.	June 2015	The audit found that the systems and processes for risk management were operating well. A few areas for possible improvement were highlighted, including the need to provide further training for Members.	<p><b>One P3 action was agreed.</b></p> <p><b>Responsible Officer</b> Corporate Risk and Insurance Manager.</p> <p>Training requirements for Members will be considered by the Corporate Governance Officer Group.</p>

## Appendix 3

### CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2015

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
A	NYCC framework agreements	Substantial Assurance	Framework agreements are typically used where there is a need to purchase particular products or services, but the actual volumes required and timings are not known in advance. Examples include office supplies, IT equipment or consultancy services. The audit reviewed: <ul style="list-style-type: none"> <li>• compliance with OJEU procurement regulations and the Council's contract procedure rules</li> <li>• the arrangements in place to evaluate the performance, quality, price and value received from the framework contracts.</li> </ul>	October 2014	A sample of framework contracts was reviewed. No significant control weaknesses were found but a number of observations were made relating to specific contracts. For example, there were instances where framework contracts had been arranged but were not being used. There was also one instance where the YORtender procurement portal had not been used correctly.	<b>Three P3 and One P2 Actions were agreed</b>  <b>Responsible Officer</b> Assistant Director Strategic Services - Procurement
B	Capital Contract Catterick Bridge	High Assurance	Each year the County Council undertakes a number of capital works to help improve and maintain the condition of its buildings and other assets.  The audit reviewed the contract for the Catterick	November 2014	The audit found that the systems and processes for contract management were operating well.  Comprehensive site and project management records ensured the project was completed in line with Council procedures. The contract	There were no agreed actions required

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			Bridge masonry repair works scheme.		variations, of which there were very few, were correctly identified and appropriately authorised.	
C	Revenue Contract - Schools ICT	Substantial Assurance	<p>Schools' ICT is a traded service of the County Council.</p> <p>The audit reviewed the Schools' ICT procurement procedures to ensure they complied with both OJEU procurement regulations and the Council's contract procedure rules.</p>	March 2015	<p>Schools' ICT procurement is managed to meet customer demand. The audit found that the systems in place were orientated towards achieving value for money (the service faces strong competition within the market place). However, the following control weaknesses were noted:</p> <ul style="list-style-type: none"> <li>• the YORTender procurement portal was not being used</li> <li>• evidence of quotations was not always being retained</li> <li>• the correct number of suppliers were not always being invited to tender where government framework contracts were being used.</li> </ul>	<p><b>One P2 and Two P3 Actions were agreed</b></p> <p><b>Responsible Officer</b> Head of Architecture Technology and Change</p> <p>All of the agreed actions related to the department needing to utilise the YORTender system for future procurement exercises</p>

## AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

<b>Audit Opinions</b>	
<p>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
<b>Opinion</b>	<b>Assessment of internal control</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

<b>Priorities for Actions</b>	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.



**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****24 SEPTEMBER 2015****REVIEW OF ASSURANCE OVER VALUE FOR MONEY****Report of the Corporate Director – Strategic Resources****1.0 PURPOSE OF REPORT**

- 1.1 To consider the arrangements made within the County Council in respect of achieving Value for Money (VfM)
- 1.2 To consider how assurance is obtained about these arrangements

**2.0 BACKGROUND**

- 2.1 The Audit Committee terms of reference in respect of Value for Money are “to have oversight of the arrangements across the County Council in securing Value for Money”. This is achieved through on-going evaluation of a range of activity within the Council but an annual report is considered by the Committee in order to give due focus to value for money.
- 2.2 A concise definition of VfM is the assessment of the cost of a product or service against the quality of output received. It is therefore not simply about cheapest price.
- 2.3 VfM plays an integral part of many aspects within the Council, ranging from how the Council Plan is drawn up right down to individual decisions that take place on a daily basis; in other words VfM is built into the fabric of the Council as it is a fundamental consideration within every action.
- 2.4 By way of example, within any decision process, in order to help ensure VfM has been considered and realised some simple questions can be asked:
  - What level of quality are we looking for?
  - Is expenditure required? And if so, can we be sure it will help achieve the objectives of the Council?
  - What is a fair price to pay for the good or service?

By answering these questions confidence can be gained that the decision will have a positive VfM outcome.

**3.0 NAO CONSULTATION**

- 3.1 The National Audit Office (NAO) are currently in consultation on how best auditors undertake the VfM conclusion in the future and any changes will apply from 2015/16 accounting year.

- 3.2 The direction of travel the NAO are looking to take for the VfM Code is for it to be principles based and so the requirements for auditors to be satisfied are at a relatively high level. Although the challenge remains for the local body to secure the “3 E’s”: economy, efficiency and effectiveness.
- 3.3 This is then distilled into the “proper arrangements” which give auditors guidance on how to substantiate VfM. This is split into three categories:
- 3.3.1 *Informed decision making* – e.g. appropriate cost & performance information to support decision making.
- 3.3.2 *Sustainable resource deployment* – e.g. managing assets effectively (including finances) to support delivery of strategic priorities.
- 3.3.3 *Working with partners and other third parties* – e.g. commissioning effectively to support delivery of strategic priorities.
- 3.4 The auditor will then reach a statutory VfM conclusion based on the following criteria:
- “In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*
- 3.5 Further detail will be provided when available and discussions are likely to take place with KPMG as the external auditors for 2015/16 and beyond.

#### 4.0 EXISTING ASSURANCES

- 4.1 Within North Yorkshire County Council, there are a multitude of activities that individually may not be able to guarantee VfM but by considering each of these through the lens of VfM we gain increased confidence. The following is not an exhaustive list of the actions that occur but do stand to highlight the broad approach that takes place:
- The **Council Plan** continues to be a framework that is used to help focus efforts, ensuring they are aligned with our strategic objectives. This is one of the key principles behind delivering VfM: alignment of goals to promote effective utilisation of resources.
  - One of the goals of the **2020 North Yorkshire Programme** is to improve the productivity within the Council by conducting a transformational change in the way we work. This includes not only modernising the IT kit, e.g. laptop, smart phones, video conferencing, etc... but also changing the way in which that technology is used. As the workforce decreases it is essential that the workload can be absorbed at this requires investment (in order to save).
  - A **plan on a page** approach has been adopted over the last twelve months where the reception has been generally positive and strong uptake throughout the authority. The principle of plan on a page is to identify the high level objectives of each service and the enablers required to achieve them. **Appendix A** shows a high level version for the 2020 Council Plan and outlines the vision, values and objectives. Acceptance of this approach has strengthened congruence and clarity of goals across the Council at all levels.

- Over the last few months, NYCC has developed a **Corporate Procurement Strategy** for the Council, see **Appendix B**. One of the key drivers behind this new strategic approach is to move procurement away from a purely transactional service and towards one which adds far greater value across the authority. By focusing on areas, such as Contract Management, the procurement function can deliver greater VfM through more intelligent and efficient purchasing.
  - Through the 2020 Finance programme, there is a greater focus on **base budget reviews** (more akin to a zero-based budget setting approach). At a high level, this has two main impacts:
    - i. Creates the ability for the service and finance to challenge each spend line within a budget to ensure value.
    - ii. Allows clarity within the budget that the service is delivering against the strategic objectives of the service and Council.
  - In addition to the above annual budget setting process, the Council also completes a Medium Term Financial Strategy (**MTFS**). The value of this is to look further ahead when planning resources with the aim of optimising them over multiple years. An issue created with focusing solely on the short term is that decisions can destroy long term value.
  - Within the 2020 NY Programme structure, a **business case** appraisal process is conducted. The aim of this, through presenting a robust set of options, is to ensure the right level of scrutiny is applied in the decision making process.
  - The quarterly performance reports (**Q reports**) continue to evolve with a stronger emphasis on reporting the right level of detail. The Q1 report for 2014/15 was reviewed at Executive on 18<sup>th</sup> August which promoted healthy discussion around performance of various services across the authority but with an in-depth focus on service in BES. A report of this nature allows County Councillors the opportunity to further challenge VfM within the Council as VfM is a product of both budget and quality of outputs.
  - Overview and Scrutiny also continue to provide an additional level of challenge through in-depth review of service performance.
- 4.2 The above, of course, builds upon an overall Council Programme that seeks to deliver £73m of savings over the next 5 years whilst protecting frontline services as much as possible.

## 5.0 DEVELOPMENT AREAS

- 5.1 The following items have been identified as areas that will further improve our ability to drive VfM:
- Continue to develop and synchronise the plans on a page with regular reporting & monitoring cycles. The aim of this is to improve consistency of planning approach across the authority. It also aims to develop richer and more insightful

performance metrics for each service, such that we have increased certainty in the value of what we are measuring.

- Explore shifting focus and resource towards production of more insightful & intelligent data across the Council to not only assist decision making but provide recommendations to address current challenges. Additionally, look at the use of predictive analytics to help with scenario planning as part of budgeting setting & decision making processes.
- In conjunction with stronger use of information, the business intelligence function aims to provide greater insight into wider benchmarking to gain a clear picture on the relative cost drivers of a service.
- Earlier delivery of performance data so management can make decisions which have the opportunity to impact more immediately.

## **6.0 SUMMARY**

- 6.1 VfM is the optimal use of resources to achieve intended outcomes.
- 6.2 A wide ranging package of activities is required to ensure delivery of VfM and as such the assurance framework is also wide ranging.
- 6.3 Previously reported arrangements provided sound assurance and further enhancements have been made. This will continue as part of how the Council develops itself to meet future challenges and expectations.
- 6.4 The overall ambition for development areas is to push for having the right quality of information at the right time.

## **7.0 RECOMMENDATIONS**

- 7.1 That the Audit Committee -
- a) Consider the arrangements currently in place for assuring value for money;
  - b) Identify any areas for further development in the assurance arrangements;
  - c) Confirm if they are satisfied that this report adequately contributes to the requirements of fulfilling the terms of reference noted in section 2.1.

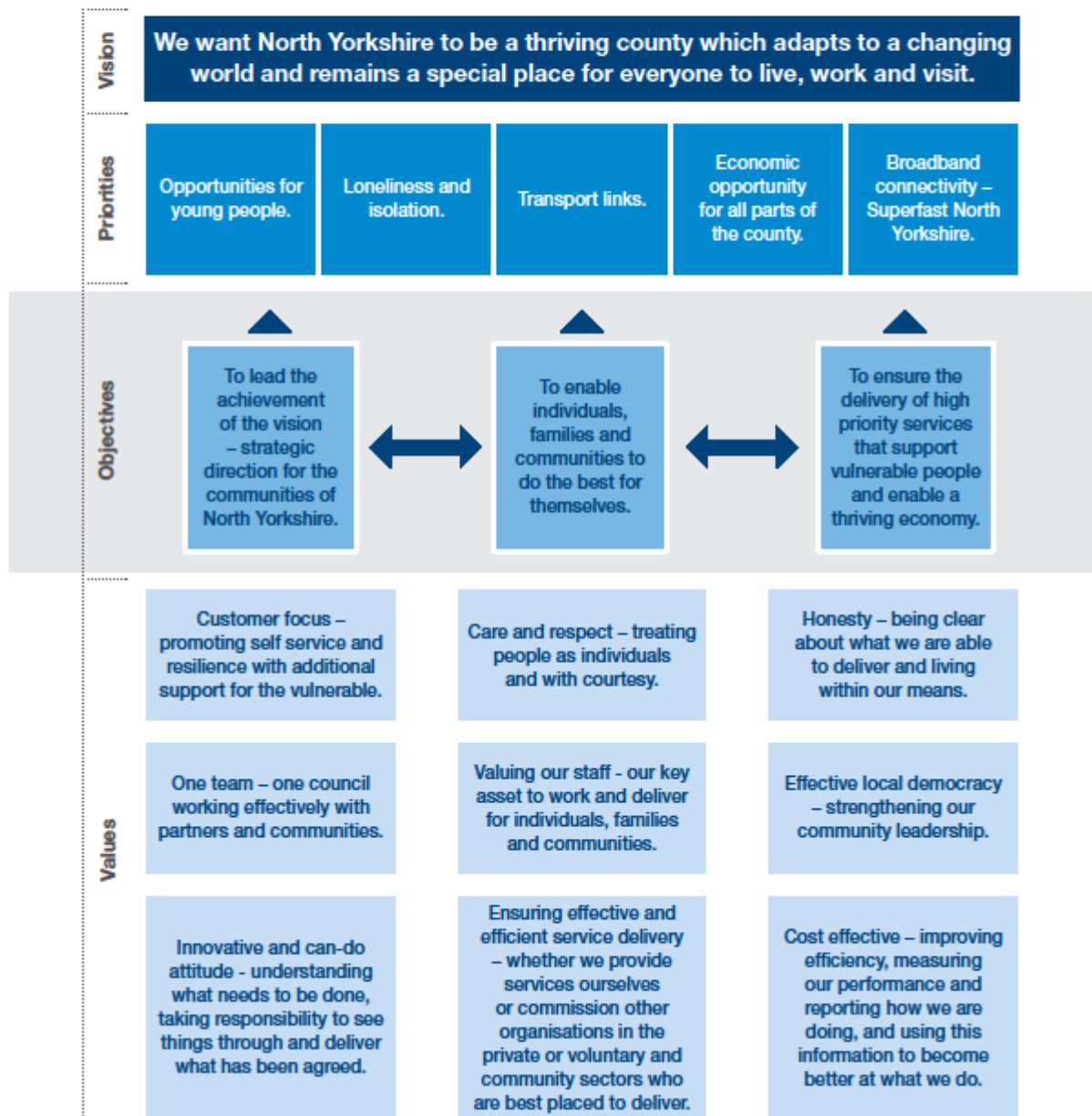
GARY FIELDING  
Corporate Director – Strategic Resources  
24 September 2015

Report prepared by Michael Leah, Assistant Director - Strategic Resources  
Tel no. 01609 532355

## Appendix A – NYCC Council plan on a page



### 2020 Council plan on a page



## Appendix B – NYCC Corporate Procurement Strategy

# Corporate Procurement Strategy 2014 - 2020

Council Vision

## 2020 North Yorkshire Vision

Vision for Procurement

*“To be outcome focussed ensuring that all Commissioning, Procurement and Contract Management activity delivers Value for Money and efficiencies for the Council”.*

What we will achieve

Through the wider procurement function we will:

1. Improve commercial capability of our staff
2. Develop expertise to provide advice and support
3. Utilise technology and systems to facilitate procurement efficiencies

By working within and supporting the wider council, we will:

1. Contribute to the 2020 North Yorkshire savings programme
2. Better understand and manage outcomes and risks
3. Improve supplier performance

By engaging with the wider community, we will:

1. Be better informed of their needs
2. Ensure the best provider(s) are identified for each contract, including SMEs, local and third sector providers
3. Embed, when appropriate, social value into our ways of working

What we need to do to achieve the vision

- Carry out a skills audit to identify gaps.
- Invest in high quality, targeted commercial and procurement training for relevant staff.
- Implement Category Management methodologies across the Council.
- Implement Council wide category management sourcing strategies to take advantage of better intelligence of our buying needs ensuring the best outcomes are achieved.
- Improve awareness and use of the most effective contracting option.
- Work with and learn from high performing organisations.
- Harness value from local, regional and national procurement networks.
- Build commercial and procurement knowledge across the Council to provide support and challenge.
- Support the use of technology to deliver enhanced and efficient ways of working, transparency, compliance and improved Council data.

• Maintain accurate Forward Procurement Plans that will:

- Predict and realise targeted savings
- Inform resource planning
- Utilise spend data and market intelligence to drive contract performance and outcomes.
- Work with services across the Council at the earliest stages to deliver innovative outcomes.
- Ensure that risk is appropriately considered in the commissioning, procurement and contract management processes.
- Ensure robust contract management.
- Develop our reputation as a ‘Savvy’ authority through effective contract and performance management.
- Identify opportunities for savings and improvement strategies during the contract term.
- Identify approaches for securing additional income for the Council.

• Develop the link between commissioning and procurement teams to ensure that there are a range of services to meet future customer needs.

- Undertake a review of the opportunities for building provider capacity, innovative solutions to market shaping and market incentivisation.
- Undertake targeted consultation events followed by analysis and planning.
- Move to outcome based specifications where appropriate.
- Develop NYCC’s communication and market engagement strategy .
- Ensure providers have a professional experience when engaging with the Council.
- Identify and promote social, economic and environmental benefits in our categories and procurements where appropriate.

How will we know

### Targets:

- 1) Procurement savings of £24 m by 2017
- 2) Category Sourcing strategies signed off for top 5 spend areas by 2015
- 3) Win national procurement award by 2017
- 4) On-contract spend of 90% by 2017
- 5) Establish a supplier recognition award by 2017
- 6) Consistently high procurement performance across a variety of measures

**NORTH YORKSHIRE COUNTY COUNCIL****AUDIT COMMITTEE****24 SEPTEMBER 2015****REVIEW OF FINANCE, PROPERTY AND CONTRACT PROCEDURE RULES****Report of the Corporate Director – Strategic Resources****1.0 PURPOSE OF REPORT**

- 1.1 To inform Members on the latest thinking relating to potential changes to the Finance, Property and Contract Rules (the Rules).

**2.0 BACKGROUND**

- 2.1 According to the Audit Committee Terms of Reference the Audit Committee is to “review, and recommend to the Executive, changes to Contract, Finance and Property Procedure Rules”.
- 2.2 It has previously been indicated that the intention is to try and ensure a comprehensive review of the Rules following shortly after County Council elections every four years. It is recognised, however, that in the interim there will be a need to ensure that the Rules are kept up to date for organisational and legal reasons etc.
- 2.3 This report was intended to identify specific changes to the Rules and for subsequent referral to the Executive. However, a number of areas remain “in flux” and it has therefore not been possible to produce revised wording for the Audit Committee to consider at this stage. It may also be more practical to bring forward Contract, Finance or Property Procedure Rules separately as and when they are available as the drivers for the changes are often completely separate.
- 2.4 As a result of the above, this report seeks to give members of the Audit Committee an overview of the thinking behind changes which are likely to be made on the Rules in the near future.

**3.0 PROPOSED FUTURE CHANGES****3.1 Property Procedure Rules**

- 3.1.1 The Property Procedure Rules were originally created when the structure relating to property was significantly different. A restructure is currently being concluded on the Corporate Property function, at which point it will be possible to ascribe responsibility to particularly posts.

3.1.2 It is intended to review the Property Procedure Rules to ensure that decisions are taken with the appropriate level of authorisation particularly around the respective responsibilities of Executive and Executive Members, Corporate Director – Strategic Resources and then deminimus levels for approval by those staff within the Corporate Property team. This will also encompass communication of such decisions and will ensure that the decisions and the reasons behind them are transparent. It also needs to look at how we deal with the transfer of schools to academy trusts which was an issue not originally envisaged.

3.1.3 The review will also take into account revised estate management arrangements which are due to come into effect on the 1 April 2016 following the procurement of services to follow on from the current Jacobs / Bruton Knowles contract.

### 3.2 Contract Procedure Rules

3.2.1 The Contract Procedure Rules govern how we procure goods, services and works, and have been reviewed from time to time without significant change. Most changes arise in relation to OJEU procurement processes in response to changes in The Public Contracts Regulations. The latest significant amendments were the implementation of The Public Contracts Regulations 2015 earlier this year.

3.2.2 The Corporate Procurement Strategy sets the vision “to be outcome focussed, ensuring that all commissioning, procurement and contract management activity delivers value for money and efficiencies for the Council”.

3.2.3 It is intended to carry out a comprehensive review of the Contract Procedure Rules to ensure that they are practical and appropriate at all levels of expenditure, enabling the Council to deliver that vision. It will aim to allow Officers the appropriate amount of flexibility to be commercial and deliver best value for money for the Council. Any changes proposed will continue to make sure that procurement decisions are taken with the appropriate level of authorisation, ensuring that the decisions and the reasons behind them are correct and transparent. There are, however, no imminent changes being proposed.

### 3.3 Finance Procedure Rules

3.3.1 A new finance structure has been implemented from July 2015. As part of the wider 2020 Finance programme, business intelligence dashboards, forecasting and financial planning technology will be deployed to improve the way in which officers operationally manage and monitor budgets.

3.3.2 In this context, it is intended to review the Financial Procedure Rules to update the budgetary control principles to reflect more modern ways of working, and to ensure that decisions are taken with the appropriate level of authorisation, particularly around Executive Member responsibility around debt write-off levels. The review will also incorporate refreshing the approach



used for the development and determination of the allocation of resources to services through the Medium Term Financial Strategy.

**4.0 RECOMMENDATIONS**

4.1 Members of the Audit Committee are requested to note the contents of the report and to offer any observations in advance of a formal request for changes to the Rules.

AUDIT COMMITTEE - PROGRAMME OF WORK 2015 / 16

	ANNUAL WORKPLAN	JUNE 15	JULY 15	SEPT 15	DEC 15	MAR 16	JUNE 16	JULY 16	SEPT 16	DEC 16	
<b>A</b>	Audit Committee Agenda Items										
	Training for Members (as necessary)	1	2		3	TBA	TBA	TBA	TBA	TBA	
	Annual Internal Audit Plan 2014/15	x				x	x				
	Annual report of Head of Internal Audit 2013/14										
	Progress Report on Annual Internal Audit Plan 2013/14	x			x	x	x			x	
	Internal Audit report on Children and YP's Service	x		x							
	Internal Audit report on Computer Audit/Corporate Themes/Contracts			x					x		
	Internal Audit report on Health and Adult Services			x					x		
	Internal Audit report on BES				x					x	
	Internal Audit report on Central Services					x					
<b>B</b>	Annual Audit Letter	x					x				
	Annual Audit Plan 2013/14 (NYCC & NYPF)		x					x			
	Annual Report / Letter of the External Auditor			x					x		
	Annual Grant Letter										
	Discussion with External Auditor on 1-to-1 basis										
	Statement of Final Accounts including AGS (NYCC + NYPF)			x				x			
	Letter of Representation			x					x		
	Chairman's Annual Report			x					x		
	Effectiveness of Audit Committee	x						x			
	Changes in Accounting Policies										
<b>C</b>	Corporate Governance – review of Local Code + AGS	x					x				
	– progress report inc re AGS	x					x				
	Risk Management (inc Corporate R/R) – progress report	x					x				
	Partnership Governance – progress report							x			
	Information Governance – progress report										
	Review of Finance/Contract/Property Procedure Rules										
	Service Continuity Planning	x							x		
	Audit Committee Terms of Reference										
	Counter Fraud										
	Contract Management										
<b>D</b>	Treasury Management – Executive February					x					
	Corporate Procurement Strategy					x					
	VFIM Review										
	Work Programme	x									
	Progress on issues raised by the Committee (inc Treasury Management)	x									
	Agenda planning / briefing meeting	10/06	02/07	09/09	18/11	16/02	10/06	02/07	09/09	18/11	
	Audit Committee Agenda/Reports deadline	15/06	08/07	14/09	23/11	22/02	13/06	01/07	12/09	21/11	
	Audit Committee Meeting Dates	25/06	16/07	24/09	03/12	03/03	23/06	14/07	22/09	01/12	
	<b>E</b>										

A = Internal Audit  
 B = External Audit  
 C = Statement of Final Accounts / Governance  
 D = Other  
 E = Dates

☉ before formal meeting  
 1 Internal Training - Veritau  
 2 KPMG Introduction (future external auditors)  
 3 KPMG - start up meeting