

NORTH YORKSHIRE COUNTY COUNCIL

PENSION BOARD

1 OCTOBER 2015

NORTH YORKSHIRE PENSION FUND ANNUAL REPORT 2014/15 AND THE
AUDITORS REPORT ON THE PENSION FUND AUDIT

Report of Legal & Democratic Services

1.0 PURPOSE OF REPORT

- 1.1 To present for review the Annual Report 2014/15 of the North Yorkshire Pension Fund (NYPF) and the Auditors Final Report to the North Yorkshire County Council Audit Committee on the Local Government Pension Fund Audit.

2.0 BACKGROUND

- 2.1 The NYPF draft Statement of Final Accounts (SOFA) and suite of governance documents were approved by the Pension Fund Committee 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, and noted the Annual Report 2014/15 excluding the previously approved SOFA and governance documents.
- 2.2 At its meeting on 24 September 2015 the Council's Audit Committee will have been asked to:
- approve the Council's SOFA 2014/15 which includes the NYPF SOFA
 - note the NYPF Annual Report 2014/15 which includes the NYPF SOFA and suite of governance documents
 - receive the Auditors Final Report to the North Yorkshire County Council Audit Committee on the Local Government Pension Fund Audit
- 2.3 At the inaugural meeting of the Pension Board on 30 July 2015 a decision was made to review the Annual Report 2014/15 (including the SOFA) at this meeting.

3.0 ANNUAL REPORT 2014/15

- 3.1 The NYPF Annual Report 2014/15 is attached as **Appendix 1**. This document comprises of an overview of NYPF, the 2014/15 SOFA, certain governance documents, the auditor's report and the actuarial rates and adjustment certificate, all as required by the regulations.

4.0 AUDITORS REPORT

- 4.1 The Auditors Final Report to the North Yorkshire County Council Audit Committee on the Local Government Pension Fund Audit is attached as **Appendix 2**. This document provides an overview of the audit process and the auditors approach on consideration of significant risks, comments on internal controls and risk management, and a responsibility statement. In addition, a number of appendices add further details.

5.0 REVIEW OF THE ANNUAL REPORT 2014/15 AND AUDITORS REPORT

- 5.1 The members of the Board are asked to review the Annual Report 2014/15 in conjunction with the Auditors Report. Any issues raised, comments, suggestions etc should be passed to the Chair who will forward them to NYPF management who will be asked to formally respond.

8.0 RECOMMENDATIONS

- 8.1 Members of the Pension Board review the Annual Report 2014/15 and inform the Chair of any issues to be raised, comments or suggestions.

Legal and Democratic Services
County Hall
Northallerton

21 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.

Periodic Performance	1 Year	5 Years (p.a.)
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 10th of out 100 Local Authorities within the State Street Universe. For the 5 year period to 31 March 2015 NYPF was ranked 14th.

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:

Fund Manager	Share of Fund @ March 2015	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
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
Total Fund	100.0	15.9	14.3	1.6

(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

	2014/15 £000	2013/14 £000	2012/13 £000
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

	2014/15 £000	2013/14 £000	2012/13 £000
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)
Total Investment Assets	2,380,525	2,069,527	1,829,128

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

(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
Expenditure			
Benefits	96.0	92.5	-3.5
Administration	1.5	1.5	0
Investment Expenses	4.6	5.5	0.9
Total Expenditure	102.1	99.5	2.6
Income			
Employer and Employee contributions	108.0	120.5	12.5
Transfers	3.0	-0.3	-3.3
Total Income	111.0	120.2	9.2
Net Surplus	8.9	20.7	11.8

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.

Membership Type	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
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
Total	107	15	122

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

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

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^{ths} and 60^{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 $\frac{3}{80}$ ^{ths} for each year of service, with an appropriate enhancement in respect of ill health. For service after this date there is no automatic lump sum, however, pension entitlement can be converted to a lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service

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

(ii) Death after Retirement

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

(iii) Death of a member with Preserved Benefits

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

Spouses, civil partners and nominated cohabiting partner's pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on $\frac{1}{160}$ of the member's final pay, for each year of service up to 31 March 2014. For membership from 1 April 2014 the surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on $\frac{1}{160}$ th 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 $\frac{1}{320}$ th of member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th 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 $\frac{1}{160}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th 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 $\frac{1}{240}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th 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 $\frac{1}{120}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th 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

website: 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.

website: www.pensionsadvisoryservice.org.uk

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

2013/14		2014/15	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
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>	Total Contributions Receivable (Note 7)		120,491
11,339	Transfers In (Note 8)		6,663
	Less		
	Benefits		
(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>	Total Benefits Payable (Note 9)		(92,361)
	Leavers		
(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>	Total Payments on Account of Leavers (Note 10)		(40,978)
(2,185)	Management Expenses (Note 11)		(2,114)
<u>26,665</u>	Net Additions From Dealings With Members		<u>(8,299)</u>
	RETURNS ON INVESTMENTS		
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>	Change in market value of investments (Note 15)	<u>308,342</u>	
<u>215,818</u>	Net Returns On Investments	<u>324,952</u>	
242,483	Net Increase in the Fund During the Year		316,653
1,840,733	Opening Net Assets of the Fund		2,083,216
<u>2,083,216</u>	Closing Net Assets of the Fund		<u>2,399,869</u>

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2014 £000		31 March 2015 £000
	INVESTMENT ASSETS (Notes 15 & 16)	
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>	TOTAL INVESTMENT ASSETS	<u>2,381,648</u>
	INVESTMENT LIABILITIES (Notes 15 & 16)	
(23)	Derivative Contracts - Forward Currency Contracts	0
(11,785)	Investment Creditors	(1,123)
<u>(11,808)</u>	TOTAL INVESTMENT LIABILITIES	<u>(1,123)</u>
<u>2,069,527</u>	NET INVESTMENT ASSETS	<u>2,380,525</u>
	CURRENT ASSETS	
9,233	Contributions due from employers	9,841
802	Other Non-Investment Debtors	242
4,888	Cash	12,049
<u>14,923</u>	TOTAL CURRENT ASSETS	<u>22,132</u>
	CURRENT LIABILITIES	
(1,234)	Non-investment creditors	(2,788)
<u>(1,234)</u>	TOTAL CURRENT LIABILITIES	<u>(2,788)</u>
<u>2,083,216</u>	TOTAL NET ASSETS (Note 16)	<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	Skipton Academy
Craven District Council	Skipton Girls High School
Hambleton District Council	South Craven School
Harrogate Borough Council	St Aidan's Church of England High School
North Yorkshire County Council	Stokesley School Academy
Richmondshire District Council	The Woodlands Academy
Ryedale District Council	Thomas Hinderwell Primary Academy
Scarborough Borough Council	Ainsty 2008 Internal Drainage Board
Selby District Council	Easingwold Town Council
North Yorkshire Police & Crime Commissioner	Filey Town Council
Chief Constable - North Yorkshire Police Force	Foss Internal Drainage Board
North Yorkshire Fire & Rescue Authority	Fulford Parish Council
North York Moors National Park	Glusburn Parish Council
Yorkshire Dales National Park	Great Ayton Parish Council
Askham Bryan College	Haxby Town Council
Craven College	Hunmanby Parish Council
Scarborough Sixth Form College	Knaresborough Town Council
Selby College	Malton Town Council
York College	Northallerton Town Council
Archbishop Holgate's School	Norton on Derwent Town Council
Great Smeaton Academy Primary School	Northallerton / Romanby Burial Board
The Grove Academy	Pickering Town Council
Harrogate Grammar School	Riccall Parish Council
Harrogate High School	Richmond Town Council
Haxby Road Primary Academy	Ripon City Council
Manor Church of England Academy	Selby Town Council
Norton College	Skipton Town Council
Outwood Academy	Sutton in Craven Parish Council
Robert Wilkinson Academy	Tadcaster Town Council
Roseberry Academy	Vale of Pickering Internal Drainage Board
Rossett School	Whitby Town Council

45 Admission Bodies

Be Independent	Northern Care
Betterclean Services	NYBEP
Bulloughs Cleaning Ltd	OCS Group UL Ltd
Catering Academy Ltd	Premier Support Services
Chartwells Compass	Ringway
Churchill Security	Richmondshire Leisure
Community Leisure	Sewell Facilities Management
Consultant Services Group	Sheffield International Venues
Craven Housing	Sanctuary Housing Association
Dewent Facilities Management	Springfield Home Care
Dolce Ltd	Streamline Taxis
Elite	Superclean
Enterprise	University of Hull
Explore York Libraries and Archives	Veritau Ltd
Grosvenor Facilities Management	Veritau North Yorkshire Ltd
Human Support Group	Welcome to Yorkshire
Housing and Care 21	Wigan Leisure & Culture Trust
ISS Mediclean Ltd	York Archaeological Trust
Interserve	York Museums & Gallery Trust
Jacobs UK Ltd	Yorkshire Coast Homes
Joseph Rowntree Trust	Yorkshire Housing Ltd
Lifeways Community Care Ltd	York St John University
Mellors	

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 1/80th 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 1/60th 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 1/49th. 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 £000	2013/14 £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 £000	Change in market value at 31 March 2015 £000	Sales proceeds and derivative receipts £000	Purchases at cost and derivative payments £000	Value at 1 April 2014 £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
Assets					
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>
Liabilities					
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	
Assets					
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>	
Liabilities					
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	
Assets				
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>
Liabilities				
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	
Assets				
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>
Liabilities				
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.

Asset Type	Value as at 31 March 2015	Percentage Change	Value on Increase	Value on Decrease
	£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
Total Assets	2,383,616		2,566,101	2,201,131

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£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
Total Assets	2,069,527		2,261,658	1,877,396

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.

	2014/15	2013/14
	£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:

Asset Type	Value as at 31 March 2015	Value on 6.1% Increase	Value on 6.1% Decrease
	£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>

Asset Type	Value as at 31 March 2014	Value on 5.2% Increase	Value on 5.2% Decrease
	£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
Call Accounts			
Barclays	A/F1	3,119	1,336
Bank of Scotland	A/F1		117
Santander UK	A/F1	249	305
Svenska Handelsbanken	AA-/F1+		938
Fixed Term Deposit Notice Accounts			
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	
		<u>12,047</u>	<u>4,888</u>

c) Liquidity Risk

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash.

As at 31 March 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:

	Male	Female
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

	2014/15	2013/14
	£000	£000
Debtors		
Investment Debtors		
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>
Other Debtors		
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>
Total Debtors	<u>15,410</u>	<u>25,001</u>

21. Current Liabilities

	2014/15 £000	2013/14 £000
Creditors		
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.

Overseas Bonds	are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.
Index Linked Bonds	are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.
Diversified Growth Funds	are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.
UK Property	is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.
Derivative Instruments	such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.
Cash	is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

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

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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2 Objectives

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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 NYFFOG, the County Council prepares an **Annual Communications Strategy** for the NYPF detailing the current arrangements for communication with its stakeholders together with future communication developments. The Communications Strategy is subject to annual review and is presented to the Pension Fund Committee for approval at the start of each financial year.

5.2 The Strategy includes the following -

- commentary on current operating context for the Fund
- progress on actions included in previous Annual Strategy
- details of proposed actions for next year

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 NYPF website.

7.0 REVIEW OF THIS POLICY STATEMENT

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

8.0 FURTHER INFORMATION

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

in writing

North Yorkshire Pension Fund
County Hall
Northallerton
North Yorkshire
DL7 8AL

by telephone

Pensions Help and Information Line
01609 536335

by email

pensions@northyorks.gov.uk

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

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 13.6 per cent of Pensionable Pay (including those in respect of members of the LGFS 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

Pensions Administration Strategy

June 2015



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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.

Contribution deductions

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

Payment of contributions to NYPF

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

Payment dates

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

Late Payment

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

Payment method

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

Remittance Advices

- 5.10 The employer must email a monthly return to 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 Pension Fund

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

31 March 2015

the
Distinctive
audit

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

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom

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Member of Deloitte Touche Tohmatsu Limited

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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
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)	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
The accounting policies have been prepared in accordance with the Code of Practice on Local Authority Accounting 2014/15	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
A statement on the IAS 19 position has been prepared by the Actuary	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"> Quarterly reconciliations are performed of cash received against contributions recorded in oracle. 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. The pensions team verify a members eligibility to join the scheme via confirmation from the employer. 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. 	G
Benefits	<ul style="list-style-type: none"> 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. 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. 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. 	G
Investments	<ul style="list-style-type: none"> Investment reports are received from the Custodian on a monthly basis and reconciled to the information received from the investment manager. On a monthly basis the valuation of the investments in the ledger is reconciled to the custodian report and the investment manager reports. Compliance with the Statement of Investment Principles and performance of investment are reported to the Pension Fund committee on a quarterly basis. 	G
Management override of controls	<ul style="list-style-type: none"> Regular financial reporting to the Pension Fund committee including progress against budget. 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. 	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
Misstatements identified in current year					
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)	-	-
Total		(5,332)	5,332	-	-

[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
Total	24	24

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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