

Agenda

Meeting: Pension Board

**Venue: Brierley Room, County Hall,
Northallerton, DL7 8AD**

Date: Thursday 14 July 2016 at 10 am

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Business

1. **Exclusion of the Public and Press** – To consider the exclusion of the public and press from the meeting during consideration of item 13 on the agenda on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information)(Variation) Order 2006
2. **Apologies for absence**
- 3a **Minutes** – To agree as an accurate record the Minutes of the meeting held on 14 April 2016 **(Pages 6 to 14)**
- 3b **Action Record** – To note the progress made on actions agreed at previous meetings **(Pages 15 to 18)**
4. **Declarations of any Interests**
5. **Public Questions or Statements.**

Members of the public may ask questions or make statements at this meeting if they have given notice to Steve Loach of Democratic Services (contact details below) by midday Friday 8th July 2016, three working days before the day of the meeting. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

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

6. **Internal Audit Reports – Report of Legal and Democratic Services** (Page 19)
7. **Review of the Risk Register - Report of Legal and Democratic Services** (Pages 20 to 31)
8. **External Audit report to Audit Committee – “Maintaining an Effective Control Framework” – Report of Legal and Democratic Services** (Pages 32 to 47)
9. **Draft Minutes of the Pension Fund Committee meeting held on 19th May 2016 and report on Meeting held on 7th July 2016 – Chairman to report** (Pages 48 to 54)
10. **CIPFA Seminar – “Local Pension Boards – One Year On....” – Feedback from Chairman**
11. **Training and Meeting Dates - Report of Legal and Democratic Services** (Pages 55 to 59)
12. **Pension Board Work Plan – Report of Legal & Democratic Services** (Pages 60 to 62)
13. **LGPS Pooling - Update - Report of Legal & Democratic Services** (Pages 63 to 157)
14. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton

NOTES:

Emergency Procedures for Meetings

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

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Accident or Illness

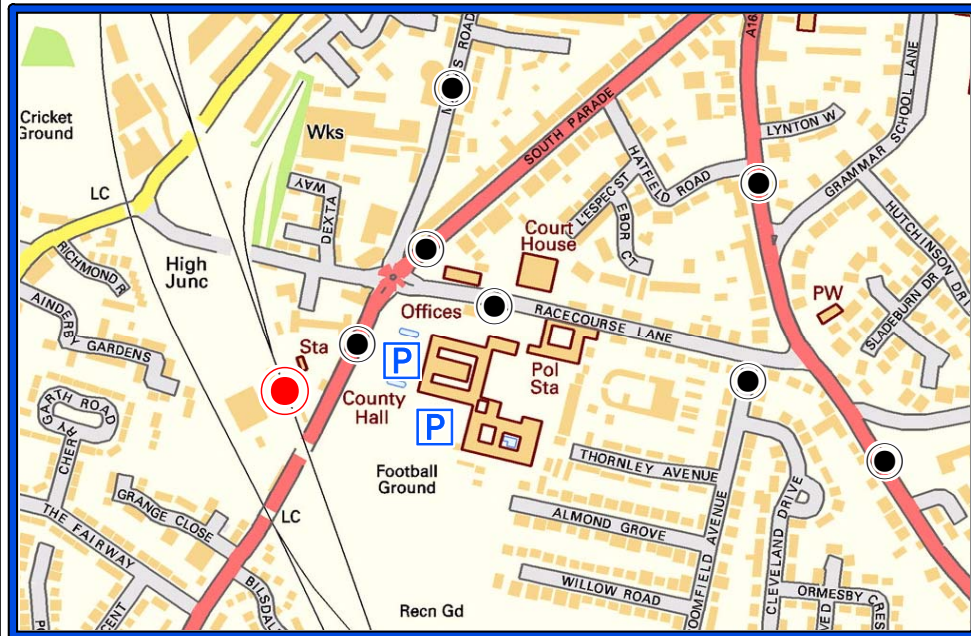
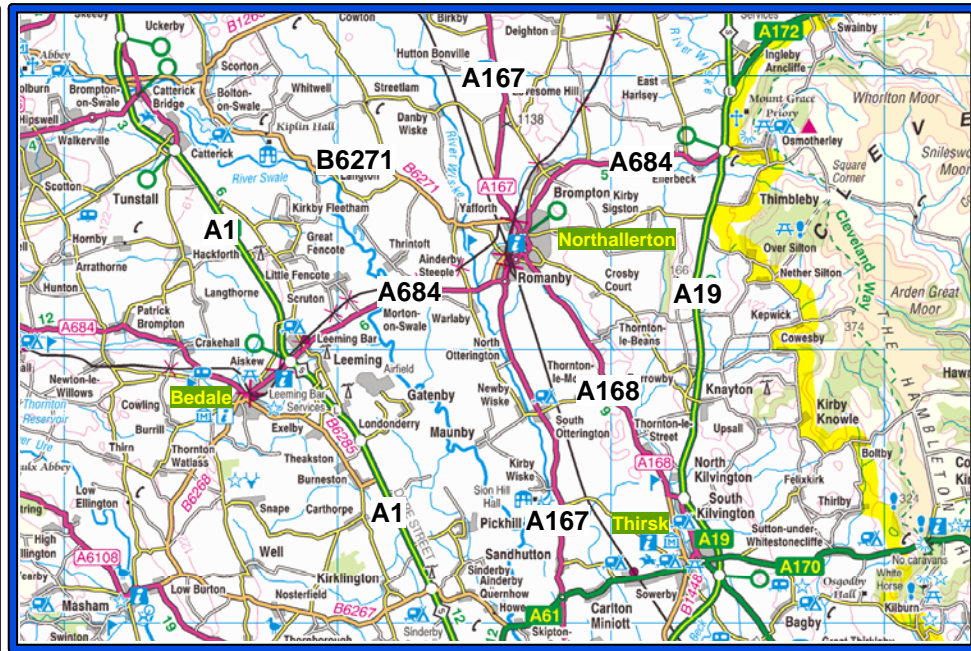
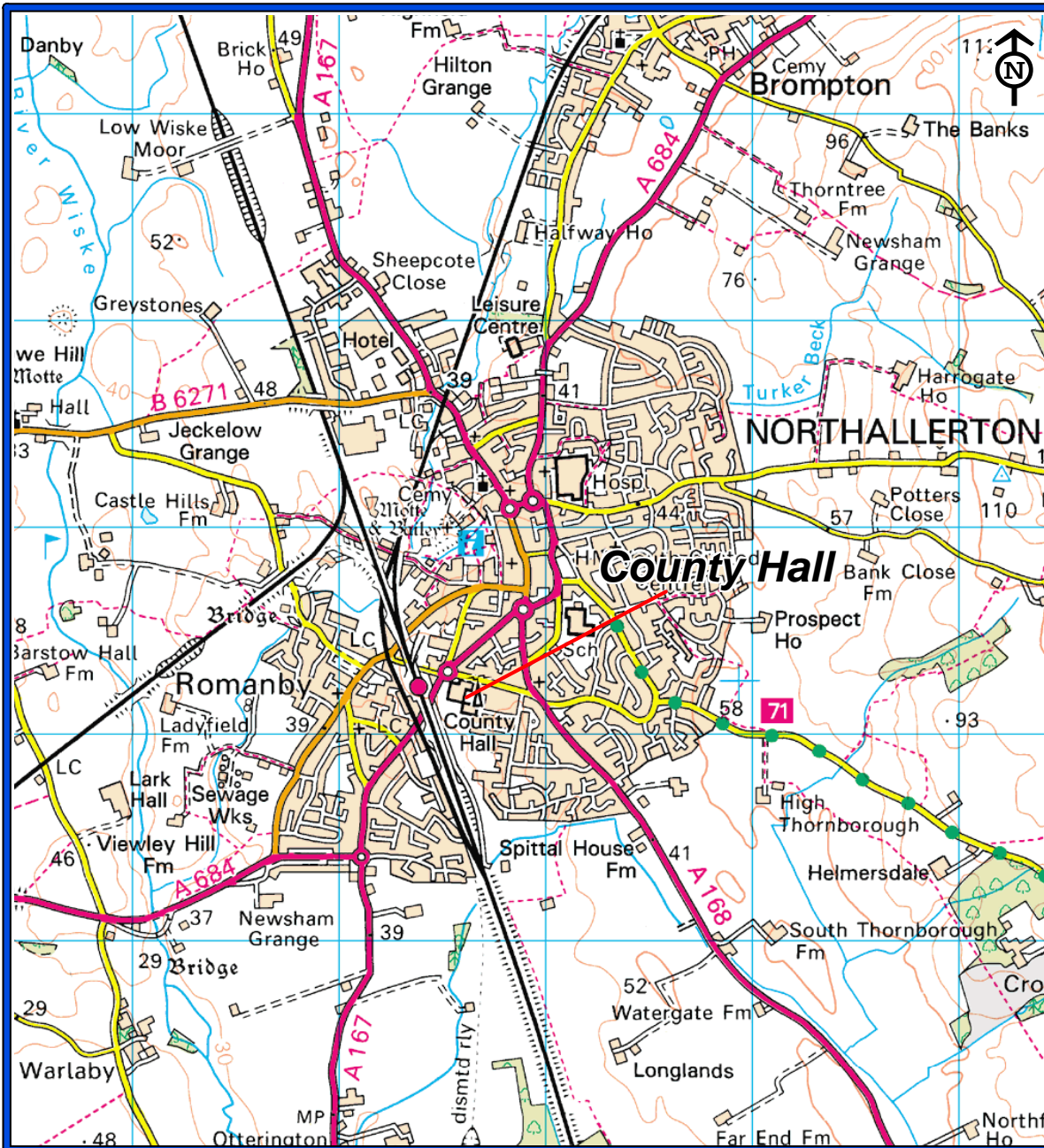
First Aid treatment can be obtained by telephoning Extension 7575.

PENSION BOARD

Membership

| (9) | | |
|-----|----------------------------------|--|
| | <i>Names</i> | |
| 1 | PORTLOCK, David | Chairman - Independent Member (Non-voting) |
| 2 | JORDAN, Mike (County Councillor) | Employer Representative |
| 3 | CUTHBERTSON, Ian (Councillor) | Employer Representative |
| 4 | MACDONALD, Phil | Employer Representative |
| 5 | BRANFORD-WHITE, Louise | Employer Representative |
| 6 | DRAKE, Ben | Scheme Member Representative |
| 7 | SMETHURST, Stella | Scheme Member Representative |
| 8 | SWINTHENBANK, Mandy | Scheme Member Representative |
| 9 | GRESTY, Gordon | Scheme Member Representative |

Quorum - The Board shall be quorate if the Chair, one scheme representative and one employer representative are present.



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DL7 8AD



North Yorkshire County Council

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North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 14 April 2016 at County Hall, Northallerton commencing at 10 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York), Phil MacDonald (University of Hull) and Louise Branford-White (Hambleton District Council).

Scheme Members:

Ben Drake, (Unison), Gordon Gresty, Stella Smethurst (Unison) and Mandy Swithenbank (GMB).

In attendance:-

County Council Officers: Amanda Alderson, Anna Binks, Steve Loach, Tom Morrison and Jo Wade.

Copies of all documents considered are in the Minute Book

31. Appointment of Employer Representative

Resolved -

That Phil MacDonald (University of Hull) be appointed to the vacant employer representative position.

32. Apologies for Absence

There were no apologies for absence.

33(a) Minutes

Resolved -

That the Minutes of the meeting held on 14 January 2016, having been printed and circulated are taken as read, confirmed and signed by the Chairman as a correct record.

Arising from those Minutes a Member referred to the comments at Minute No. 27, Internal Audit Reports and it was asked whether these actions had been carried out. In response it was stated that the PFC had been made aware of the issues raised via

the Chairman's update, and the Treasurer of the Fund confirmed that pension payments was subject to another internal audit review to assess progress.

The Chairman noted that the PFC had discussed delays in the process of providing pension scheme members with pension details, reported by scheme member representatives, and that the specific cases causing concern would be investigated.

33(b) Action Record

Considered -

The action record noting the progress made on actions agreed at previous meetings.

The record was updated as follows:-

01/10/15

Minute No. 19 - Work Plan

It was emphasised that the Work Plan was a working document and would continue to be updated as Pension Board activity progressed. It was noted that it had been agreed that the Work Plan would be circulated to the PFC.

14/01/16

Minute No. 26 - Risk Register

In relation to succession planning, discussions with the Treasurer were underway with a view to putting arrangements in place. The Risk Register would be updated accordingly.

Resolved -

That the updates be noted.

34. Declarations of Interests

There were no declarations of interests from Members at this stage of the meeting.

35. Public Questions or Statements

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

36. Internal Audit Report

Considered -

The report of Legal and Democratic Services which provided an update on Internal Audit activity.

It was noted that there had been no Internal Audit activity in relation to the Pension Fund since the last Pension Board meeting, however, there had been follow-up work carried out by the Internal Audit Team that had established a significant improvement in the area that had received limited assurance, as reported previously.

Details of the Internal Audit Plan for 2016/17 in relation to the Pension Fund were provided for information. From the data provided it was noted that, at the time of the

next meeting of the Pension Board, it was expected that there would be three reports available to review.

Clarification was provided as to the timescales for the reports, as a question was raised on the time taken for some of the audits to be completed. It was emphasised that the activity outlined was dependent upon the availability of Internal Auditors to undertake the work, alongside that of other internal audit work for the County Council and other clients.

The Chairman noted that payments/expenditure (an issue which had previously been given limited assurance and had been discussed both at Audit Committee and the Pension Fund Committee) was due to be reviewed again by Internal Audit shortly. Their report should be available at the next meeting of the Board.

Resolved -

That the report, together with comments made, be noted.

37. LGPS Pooling - Update

Considered -

The report of Legal and Democratic Services providing an update on LGPS pooling arrangements.

It was noted that at the special meeting of the Pension Fund Committee on 15 January 2016 Members decided in principle to join the Border to Coast Pensions Partnership (BCPP). The partnership consisted of 13 Funds most of which are based in the North of England.

In order to meet the Government's consultation deadline of 19 February 2016 it was agreed that a response would be drafted by BCPP officers, in consultation with the Chair, Vice-Chair and Treasurer of the PFC. The BCPP response and a separate NYPF response were attached to the report. In addition three scheme representatives of the Pension Board, all of whom were union representatives, had also submitted a response which was also attached to this report.

A letter of response had been received from Marcus Jones MP, Minister for Local Government, to the Chair of the Pension Fund Committee which was broadly supportive of the BCPP response.

Before and after the consultation deadline, representatives from all 13 Funds had been discussing options around the governance and investment arrangements necessary to both fulfil the Government's requirements and meet the fiduciary responsibilities of the Local Authorities managing funds. The aim was to have appropriate proposals in place by the second deadline imposed by the Government of 15 July 2016. The Pension Board would be kept informed of developments, however no concrete proposals had been made at this early stage.

Members of the Board undertook an in-depth discussion of the proposed pooling arrangements and the following issues and points were raised:-

- ◆ An explanation was provided in relation to the "scheme route" versus "joint committee route" and it was noted that a meeting of the 13 participating bodies, including representative officers and legal advisers, would be taking

place on 15 April and it was expected that further details would emanate from there.

- ◆ A Member considered that it would have been appropriate for the Government to give advice as to how authorities should manage the pool arrangements, in view of the fact that it is a Government-led initiative. It was noted that the arrangements were left to the Authorities to make themselves, therefore a considerable amount of negotiation was required to ensure that the most appropriate arrangements were in place for the various Funds involved.
- ◆ Members asked whether the Government would be advising the pooled Funds of their wish for them to undertake infrastructure investment.

In response it was noted that the DCLG had indicated that whilst there would be a preference for pools to invest into infrastructure projects there was no indication that this would be mandated. It was noted that a Member of the Pension Board had contacted his local MP with regards to the infrastructure investment issue, the response had reinforced the position that whilst investment in infrastructure would be desired there would be no requirement forced requirement. The Member agreed to share the letter of response with other Pension Board Members.

- ◆ Further updates on the position, going forward, would be brought to the next meeting of the Pension Board.
- ◆ Members raised concerns regarding how the Pension Board would fit into the new pooled investment arrangements. Details of the potential governance arrangements for the ACS or joint committee approach would be circulated in due course. It was also emphasised that members had a significant voice in relation to Pension Fund matters, with the establishment of the Pension Board and observer places for Unison on the PFC.

Scheme member representatives noted that there appeared to be no place for them within the pooled investment arrangements, nor was there a position for the representatives of the employers.

The Chairman acknowledged the issues being raised noting that Pension Boards had been established to consider the governance arrangements for Pension Funds, however, there was some concern regarding whether Pension Boards would be able to have any influence over the governance of pooling arrangements. He noted that until those governance arrangements were in place it was difficult to know how the Pension Board could be involved. Union representatives of the Pension Board considered that it would be appropriate that the Board's views were submitted before the governance arrangements were developed, to allow those opinions to be fed into that process.

The Chairman said that the pooling arrangements were a requirement for Pension Funds and that the Pension Board would have influence through their input into the PFC. He also noted that the role of the Pension Board was to monitor and assist the PFC with its governance arrangements and emphasised that there was still plenty of work for the Board in relation to that. Members still had concerns that the fundamental reason for establishing the Pension Board was for Members of the Board to be able to consider the

governance arrangements around investments, which appeared they would be considerably diminished through the pooling arrangements. A Member reiterated that it was difficult to understand the role of the Pension Board and the PFC in the pooled arrangements.

By way of explanation it was stated that the pool would be responsible for the appointment of investment managers and the investment of money, however, each PFC would retain responsibility for the investment strategy.

A Member asked, if the majority of members of the pool made a decision that was not in accordance with the North Yorkshire investment strategy would it not be the case that North Yorkshire would have to follow that majority decision.

In response to this issue it was again explained that the PFC would remain responsible for the investment strategy, and that the pool would be required to implement it, including appointing suitable investment managers.

- ◆ A Member asked whether differences in investment strategies between BCPP funds could mean that the pool could finish up with a series of small pots of funding.

The position regarding how investments would be undertaken through the pool was again clarified and it was noted that variations in investment strategies would be accommodated. Each Fund would make a decision based on factors such as the cost of investment alongside other Funds and the impact of economies of scale from larger blocks of investments.

- ◆ A Member questioned that 13 Pension Funds could have similar strategies, and whether performance for the group would converge. It was emphasised that each Fund's strategy would be implemented in a way that would provide returns specific to each, so that there would be no sharing of returns between the various pool members.
- ◆ Members still had concerns regarding how Managers would be chosen and how investments would be made in terms of the pooling arrangements and considered that greater clarification of the position was required. The Chairman emphasised that, at this time, the arrangements were in their infancy and many of the details had yet to be clarified.
- ◆ A Member noted that a petition was in place with regards to whether investing in infrastructure this contravened European Law. She noted that should the petition reach 100,000 signatures then the matter would be debated in Parliament.
- ◆ A Member was encouraged by the discussion regarding the pooling arrangements and could see some benefit from being able to compare and contrast with other Funds in terms of their investment strategies. He raised concerns regarding the statement within the BCPP response that assets would be managed in the most tax efficient way. In light of publicity about international tax evasion an ethical approach should not be forgotten.
- ◆ The Chairman addressed the issue regarding a request from three Members of the Pension Board to submit a response from the Pension Board to the consultation, as a body. He noted that those Members had submitted a

response, but this had not constituted an official response of the Pension Board. He stated that he had discussed the matter with the County Council's Monitoring Officer and had taken account of the remit and terms of reference for the Board and it had been concluded that an official response from the Pension Board would not be appropriate. It had been noted that other Pension Boards had not responded to the consultation.

In view of the issues raised in relation to this it was noted that the next stage of the consultation would conclude on 15 July 2016 and the Chairman asked whether Members considered it appropriate that an official response from the Pension Board should be submitted. Members discussed this matter and were advised that only the respective pools would respond to the next stage of the consultation. However some Pension Board members indicated they may wish to respond.

Members of the Board considered that further details of the governance arrangements were required before a view could be formed. It was noted that a meeting was taking place on 15 April 2016 involving the Chairs of the 13 Pension Fund Committees, and the Section 151 Officers of those Authorities. It was emphasised that the draft response would be ready by the beginning of July and that a great deal of work would be required to meet that deadline. Members emphasised the need for the issues to be considered by the Pension Board before they were agreed. Another Member considered it right that the Pension Board looked at the issues, in terms of the governance of the pooling arrangements.

- ◆ The Chairman asked whether the next round of consultation would address the issue of investment costs. In response it was stated that this would be included, however the effectiveness of investment managers net of fees would be the primary concern. Every effort would be made, therefore, to ensure the best outcomes for NYPF in the pooling arrangements.
- ◆ Members asked what opportunity would be provided to them to comment and impact on the final arrangements for pooling. A Member suggested that comments from the Pension Board should be submitted through the Pension Fund Committee, and as such, she did not consider that there was need for a separate response from the Pension Board.

A number of Members expressed disappointment that the response to the consultation had not been passed to the Pension Board for comment before submission. The Chairman noted that there had not been time for the PFC to comment on it fully due to the timescales for submission. Pension Board Members believed that there should have been an opportunity for their views to be included, although it was acknowledged that scheme member representatives had responded separately.

Members suggested that it was appropriate that the PFC heard what the Pension Board had to say on the pooling issue in relation to the next round of consultation.

- ◆ In response to the issues raised, it was noted that it had been impossible to consult before the response was submitted by the PFC because of the tight deadline. A draft response was first available for review on 15 February, and it was finalised on 18 February, the day before the deadline. The concerns expressed were acknowledged, but unfortunately, circumstances did not allow for a more collaborative approach. Members emphasised the need to

be heard in advance of the next deadline and stated that they would be unhappy if this did not happen.

- ◆ Members asked whether they could be invited to the meeting of the PFC when it met to discuss the next response to the consultation on pooling. It was noted that this could be accommodated.

Resolved -

- (i) That an additional meeting of the Pension Board be arranged, if necessary, to allow Members to discuss the next response by the BCPP.
- (ii) That the following points should be included in the NYPF response to the second consultation on Local Government Pension Scheme pooling:-
 - (a) that arrangements for governance must ensure that accountability to Scheme Members and contributory employers is at least as robust at pool level as they currently are at Fund level; and
 - (b) that there should be no undue compulsion in respect of investment in any particular asset class.

38. Draft Minutes of the Pension Fund Committee Meeting held on 25 February 2016

The Chairman stated that he had attended the above-mentioned meeting and had provided an update on the work of the Pension Board to that meeting.

Members outlined their appreciation of the attendance of the Chairman at Pension Fund Committee meetings and thanked him for his reports to the Committee from the Pension Board and of his reports back to the Board in relation to the issues discussed at the Committee.

The Chairman stated that, in future, the draft Minutes of the Pension Board would be submitted to Pension Fund Committee meetings to allow them to observe what had been discussed and to raise questions with the Chairman if necessary.

Resolved -

That the draft Minutes be noted and the submission of the draft Minutes of the Pension Board to future meetings of the Pension Fund Committee be agreed.

39. Training

Considered -

The report of Legal and Democratic Services providing an update on Pension Board Member training.

Details of training activity undertaken by Members of the Board were provided as an appendix to the report and Members present provided updates to those details.

The Chairman stated that any issues that Members considered to be relevant to their role on the Pension Board, whether directly related to pensions or not, could be submitted to the Clerk for inclusion in the training record, as this helped to identify areas where the Pension Board, as an entity, had experience and knowledge gaps.

He noted that a self-assessment tool had been circulated to all Members of the Board and it would be useful if everyone could return that to identify such gaps.

Members noted that details of some training sessions had been circulated but raised concerns regarding the high level of costs. In response it was stated that details would continue to be circulated and levels of costs of the training provision would be balanced against the need of Members of the Board. Members acknowledged this position but emphasised the need to guard against the perception that excessive costs were being incurred by the Board on training.

A Member considered it appropriate that contact be made with the Scheme's Fund Managers to determine whether they could provide local training sessions, possibly involving other Pension Boards situated locally, to provide a more cost-effective training programme. It was noted that the County Council's external Auditors may also be able to deliver relevant training to Pension Board Members.

The Chairman stated that he and Officers would investigate the possibility of developing a training programme through the methods outlined by Members.

Resolved -

That the report be noted, together with the updates and the action outlined in terms of developing a training programme be undertaken accordingly.

40. Pension Board Work Plan

Considered -

The report of Legal and Democratic Services which provided details of the areas of planned work for the Pension Board. The report outlined the process for undertaking the activities set out in the Work Plan. The Chairman noted that the list provided was not definitive and issues could be removed, or added to, depending upon the wishes of the Board.

A Member noted that, previously, an issue had been identified with regards to problems with the new software which had impacted on the pensions administration process. She wondered whether this matter was worth addressing through the Work Programme. In response it was stated that further improvements had been achieved which had eradicated the majority of the glitches in the system. This was not to say that there were not still some problems, but these were now manageable. It was emphasised that there was no reason for undue concern in relation to this matter, going forward.

A Member asked whether queries were being answered on a timely basis and again it was emphasised that, in the main this was the case. There would always be certain occasions where problems occurred which would take a little longer to resolve.

It was noted that, with the proposed academisation of all schools, the number of employers within the North Yorkshire Pension Fund would rise significantly.

A Member asked whether any issues were envisaged regarding the changes in National Insurance payments following the revisions to the State Pension Scheme and the contracted out basis in which National Insurance used to be paid. In response it was stated that there was an expectation that communications would increase in relation to this. It was noted that amendments to the tax threshold and

some internal arrangements by NYCC should see members of the Scheme not being adversely affected, as first thought. The impact of the new State Pension Scheme would take some time to emerge.

The Chairman noted that the Pension Board would be required to provide an annual report. This would be produced following the first year of work of the Board and would be submitted to the County Council.

Members considered that the main topic of work worthy of inclusion in the Work Programme was the situation regarding pooling arrangements. It was considered appropriate that this be entered either as a separate item or included with one of the existing items within the Work Plan.

A Member stated that she would like to undertake and lead a programme of work on investment costs, but would consider developing that later in the year, following the consideration of the pooling arrangements, as that was a priority at the moment.

Resolved -

That the Work Programme be noted and that alterations be made to the Plan to accommodate the issue of pooling arrangements within it.

The meeting concluded at 12.10 pm.

SL/JR

Pension Board

Action Record

01/10/15**Minute No. 15 –Governance Issues****Resolution**

That, subject to the issues outlined by the Unison representatives in relation to the membership and appointment process being taken into account, with further consideration of this matter, following an appropriate initial bedding in period for the Board, the report be noted, together with the issues raised.

Comment

Members will determine what constitutes a suitable settling in period before further consideration is given to the appointment/election process for the Board

Complete?**01/10/15****Minute No. 16 - North Yorkshire Pension Fund Annual Report 2014/15 and the Auditor's Report on the Pension Fund Audit**

Issues with the software used by the Pensions Administration Team in calculating career average re-valued earnings (CARE) benefits and potential breaches of the Regulations in relation to that.

Resolution

Members considered potential breaches of the Regulations to be within the remit of the Board and agreed to keep a watching brief on this matter.

Complete?

01/10/15

Minute No. 18 – Training Programme

Resolution

That a training session with Peter Scales be arranged for the date of the next meeting of the Pension Board on 14 January 2016.

Comment

This has been arranged and Board Members have been submitting their training wishes to enable the session to be developed accordingly.

Complete?

Training session held following meeting on 14th January 2016. Further updates on training undertaken were submitted by Board Members to the Meeting held on 14th April 2016.

01/10/15

Minute No. 19 – Work Plan

Resolution

That the Chairman and appropriate officers develop the work programme, circulate to Members of the Pension Board and re-submit to the next meeting for agreement

Comment

The work plan populated with dates has been circulated to Members of the Pension Board to comment on and will be taken to the next meeting of the Board for agreement.

Complete?

It was noted, at the meeting on 14th April 2016, that the work programme was an evolving document that would continue to be updated as the Board progressed.

01/10/15

Minute No. 16 - North Yorkshire Pension Fund Annual Report 2014/15 and the Auditor's Report on the Pension Fund Audit

Issue raised

That Mazars, an accounting body, was doing some work in relation to the LGPS CARE. and clarification of this matter be sought with the Treasurer for the Pension Fund and Members be contacted, via e-mail, as to the position in respect of this.

Comment

Mazars are not doing work in relation to the LGPS CARE – Members were contacted accordingly.

Complete?

Yes

14/01/16

Minute No. 26 – Risk Register

Issue raised

Key Pensions' personnel required a robust succession plan and these continuity plans should be formally recorded in service continuity arrangements. It was noted at the meeting held on 14th April 2016 that the Treasurer of the Pension Fund was currently addressing this issue.

Comment

Succession planning was in place and continuity plans required amendment to reflect this position. The Risk Register was to be updated in line with the details reported on 14th April 2016.

Complete?

14/04/16

Minute No. 37 – LGPS Pooling

Issue Raised

The development of governance arrangements for the Border to Coast Pensions Partnership and the format that they were likely to take.

Comment

The role of the Pension Fund Committee, and, in turn the role of the Pension Board, in the Governance arrangement for the pool, requires clarification.

Complete?

North Yorkshire County Council

Pension Board

14 July 2016

Internal Audit Report

1.0 Purpose of the Report

To provide the Pension Board with an update on internal audit activity.

2.0 Background and Recent Activity

At its last meeting the Pension Board were provided with an approximate timetable for the completion of internal audit reports from Veritau, NYPF's internal auditors. There were 3 reports due in Q1 and there is an update on the progress made on each of these below:

- Investment Audit Report- the draft report has been issued, however the final report is not yet available. This is due to be finalised in Q2 and will be discussed at the next Pension Board meeting.
- Expenditure Audit report- work is currently being undertaken. Veritau do not have an estimated issue date yet, but it is expected that the final report will be available for discussion at the next Pension Board meeting.
- Income Audit Report- Veritau have issued a draft memo on the work that has been undertaken, however the final report is not yet available. This is due to be finalised in Q2 and will be discussed at the next Pension Board meeting.

The estimated timetable for the completion of Pension Fund audits has now been updated to reflect the updates above:

| Work Plan | Report Title | Due |
|-----------|--------------|------------|
| 2015/16 | Investments | Q2 2016/17 |
| 2015/16 | Expenditure | Q2 2016/17 |
| 2015/16 | Income | Q2 2016/17 |
| 2016/17 | Systems | Q2 2016/17 |
| 2016/17 | Investments | Q1 2017/18 |
| 2016/17 | Expenditure | Q1 2017/18 |
| 2016/17 | Income | Q1 2017/18 |

Please note that the dates shown above have not yet been fixed and may be subject to change as Veritau schedule in this work around other audit work for the Council.

4.0 Recommendation

That the Pension Board note the contents of the Report.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton

SML
Background Documents: None

July 2016

North Yorkshire County Council

Pension Board

14 July 2016

North Yorkshire Pension Fund Risk Register

1.0 Purpose of the Report

To present the updated NYPF Risk Register to the Pension Board for comments.

2.0 Background

The Pension Fund Committee has long established a Risk Register for the NYPF, which forms part of the governance arrangements for managing the Fund. It is not a statutory requirement to have a Risk Register but clearly represents one aspect of governance good practice.

The risk register identifies the key risks facing the Fund, the control measures currently in place to mitigate the impact of each risk, risk reduction actions being pursued and a fall-back plan should these actions prove inadequate. Other risks do of course exist and these may be added to the Risk Register if it is considered appropriate. Conversely, risks may be removed if they no longer exist or are assessed as having a low enough impact.

Each risk is assessed against NYCC standard criteria, based on an assessment before and after the risk reduction actions take place. This uses categories to describe risks in terms of the probability of each risk occurring, the impact on the Fund's strategic objectives, financial position, service objectives reflected in the current service plan, and on the Council's reputation. In addition, an overall impact score is determined to assist with interpreting the significance of each risk, with category 1 and 2 being a 'red' risk, 3 and 4 being an 'amber' risk and 5 being a 'green' risk.

It is important to note that the risks detailed in the Risk Register cannot be entirely prevented by undertaking the risk reduction actions, but the probability of them occurring and their impact may be reduced to some extent. It is also worth noting that the degree to which a risk is mitigated may not result in a change in category. For example, a risk assessed as having a medium probability of occurring means that it is estimated between 30% and 60%, so a risk mitigating action may have an impact that is insufficient for the risk to fall below a 30% and be classified as 'low'.

3.0 Recent Activity

The risk register is reviewed every six months. The latest review has taken place in June 2016 and the updated version is attached as **Appendix 1**. There have been some minor amendments to the existing risks and one new risk added; none of the existing risks have increased in category since the last update. There are currently two risks ranked as red, five as amber and three as green. The new risk is one of the two red risks on the risk register and relates to pooling arrangements. This is a major change to the way in which the Pension Fund is managed so should be considered a significant risk.

This updated version of the Risk Register was taken to the PFC meeting on 7 July 2016 for approval. Pension Board members may also wish to comment or make observations on the NYPF Risk Register.

4.0 Recommendation

That the Chair of the Pension Board gathers comments and observations from Pension Board members.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton
SML

July 2016

Background Documents: None

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|---|-------------------|--|------------------|---|-------------------|--|-------------------|----------------------|--|---|
| Risk Number | 44/4 | Risk Title | 44/4 - Pension Fund Solvency | | | | Risk Owner | CD SR | | Manager | CSD SR Head of Commercial & Investments |
| Description | Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, inappropriate actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period | | | | | Risk Group | Financial | | Risk Type | CSD SR 32/24 | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Deficit recovery period; adopt prudent actuarial assumptions; all assumptions reviewed every 3 years; measure liabilities against investment returns on a quarterly basis; regular reports to PFC; regulatory cost control mechanism; fixed income review; | | | | | | Effectiveness | | |
| Probability | M | Objectives | M | Financial | H | Services | L | Reputation | M | Category | 2 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | | Action Manager | Action by | Completed | % | |
| Reduction | 44/6 - Consultation with Actuary re assumptions used and discuss and carry out action plan (ongoing) | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/7 - Regular review of investment strategy to maximise investments (ongoing) | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/8 - Discussion with employers re cost of the scheme and potential 'one off' contributions | | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | Fri-31-Mar-17 | | 0% | |
| Reduction | 44/417 - Appoint new fixed income manager to complement existing set of managers / mandates | | | | | | CSD SR Head of Commercial & Investments | Fri-30-Sep-16 | | 0% | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | M | Objectives | M | Financial | H | Services | L | Reputation | M | Category | 2 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | | Action Manager | |
| Fallback Plan | 44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome | | | | | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|---|-------------------|---|------------------|---|---|-------------------|----------------------|-----------------------|-----------------|---|
| Risk Number | 44/201 | Risk Title | 44/201 - LGPS Pooling Risk | | | | Risk Owner | CD SR | | Manager | CSD SR Head of Commercial & Investments |
| Description | The pooling arrangements fail to deliver cost savings and performance improvements resulting in deterioration of Fund solvency and increased employer contribution rates. | | | | | Risk Group | | Risk Type | | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Pension Fund Committee involvement in key pooling decisions; NYPF officer involvement in pooling working groups; Periodic reporting of updates to the Pension Fund Committee; | | | | | Effectiveness | | | |
| Probability | M | Objectives | M | Financial | H | Services | L | Reputation | H | Category | 2 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | Action Manager | Action by | Completed | % | | |
| Reduction | 44/161 - Consultation with advisors on the implication of pooling | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Reduction | 44/162 - Gain advice from advisors and other consultants on responding to the Government consultation | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Reduction | 44/163 - Keeping Members up to date | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | M | Objectives | M | Financial | H | Services | L | Reputation | M | Category | 2 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | Action Manager | | |
| Fallback Plan | | | | | | | | | | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|--|--|----------------------------|------------------|---|-------------------|---|----------------------|-----------------------|---|---|
| Risk Number | 44/8 | Risk Title | 44/8 - Investment Strategy | | | | Risk Owner | CD SR | | Manager | CSD SR Head of Commercial & Investments |
| Description | Failure of the investment strategy to achieve sufficient returns from investments | | | | | Risk Group | Strategic | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | Strategy reviewed through asset/liability modelling; risk budgeting; experience and knowledge of the market and suitable forms of investment; Member training; Independent Investment Adviser and Consultant reports; PFC workshops and sign off of strategy; regular monitoring of investment performance; fixed income review; | | | | | | Effectiveness | | | |
| Probability | L | Objectives | M | Financial | H | Services | L | Reputation | M | Category | 3 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | | Action Manager | Action by | Completed | % | |
| Reduction | 44/417 - Appoint new fixed income manager to complement existing set of managers / mandates | | | | | | CSD SR Head of Commercial & Investments | Fri-30-Sep-16 | | 0% | |
| Reduction | 44/1876 - Continual review of the investment strategy and implement the recommendations, including consideration of pooling arrangements | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1877 - Monitor the risk budget | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1878 - Monitor appropriateness of strategy against prevailing market conditions | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1879 - Monitor the Advisor and Consultants reports and act on professional advice | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | M | Financial | H | Services | L | Reputation | M | Category | 3 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | Action Manager | | |
| Fallback Plan | 44/430 - Review the strategy and implement changes as necessary based on the forward assessment of financial markets | | | | | | | | | CSD SR Head of Commercial & Investments | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|--|---|-------------------------------|------------------|---|-------------------|--|----------------------|--|-----------------------|-------------------------|
| Risk Number | 44/1 | Risk Title | 44/1 - Employer Contributions | | | | Risk Owner | CD SR | | Manager | CSD SR Pensions Manager |
| Description | Sustainability and affordability of LGPS puts pressure on the employer contributions from 2017/18. | | | | | Risk Group | Legislative | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | Ongoing consultation with Employers; manage the employer contributions through investment strategy; assumptions used in triennial valuation; results of interim valuations, cost sharing mechanism, funding strategy statement; | | | | | | Effectiveness | | | |
| Probability | L | Objectives | M | Financial | H | Services | Nil | Reputation | M | Category | 3 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | | Action Manager | Action by | Completed | % | |
| Reduction | 44/1821 - Continue to discuss contributions with the employers | | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1880 - Maximise investments/returns by implementation of the investment strategy | | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1881 - Consider impact of the 2014 regulations cost sharing mechanism | | | | | | CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1882 - Consult with actuary throughout the 2016 triennial valuation process | | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | M | Financial | H | Services | Nil | Reputation | M | Category | 3 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | | Action Manager | |
| Fallback Plan | 44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome | | | | | | | | CSD SR Pensions Manager CSD SR Head of Commercial & Investments | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|---|-------------------|---|------------------|---|--|--|----------------------|------------------|-----------------|---|
| Risk Number | 44/20 | Risk Title | 44/20 - Fraud | | | | Risk Owner | CD SR | | Manager | CSD SR Head of Commercial & Investments |
| Description | Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation | | | | | Risk Group | Pers/Capacity | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Internal Audit; internal checking and authorisation procedures and levels in both pension section and finance; split between administration and finance; all third parties have regular audits and regulated by FCA; legally binding contracts in place; governance arrangements for the delegation of duties; use of BACS payments; monthly mortality monitoring; participate in National Fraud Initiative | | | | | Effectiveness | | | |
| Probability | L | Objectives | L | Financial | H | Services | L | Reputation | M | Category | 3 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | | Action Manager | Action by | Completed | % | |
| Reduction | 44/1887 - Continually review processes and procedures including authorisation levels | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1888 - Ongoing internal audit assessment and annual review by external auditors | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1890 - Annual independent external audit of pension fund (separate from County Council) and carry out appropriate recommendations | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1894 - Review of external manager audit and risk reports | | | | | CSD SR Head of Commercial & Investments | | Sat-31-Dec-16 | | 0% | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | L | Financial | H | Services | L | Reputation | M | Category | 3 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | Action Manager | | | | |
| Fallback Plan | 44/434 - Review incident and update procedures/processes accordingly | | | | | | CSD SR Pensions Manager CSD SR Head of Commercial & Investments | | | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|--|---|---|------------------|---|-------------------------|-------------------|--|----------------|-------------------------|---|
| Risk Number | 44/10 | Risk Title | 44/10 - LGPS Regulations and Employer Related Legislation | | | | Risk Owner | CD SR | Manager | CSD SR Pensions Manager | |
| Description | LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge | | | | | Risk Group | Performance | Risk Type | Int Fin 30/189 | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | Specialist knowledge; designated members of staff; regular updates & comms with CLG; LGPC; Actuarial advice; Employers Forums; NEPOF; section training by specialist staff; specialist software; advice on calculations interpretations; investment mgmt agreement; awareness of overriding legislation; broadening of knowledge across MT; LGE advice; nat. technical pension group provide advice; Trustees knowledge and understanding toolkit; Pensions Administration team structure reviewed; | | | | | | Effectiveness | | | |
| Probability | M | Objectives | L | Financial | L | Services | L | Reputation | M | Category | 4 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | Action Manager | Action by | Completed | % | | |
| Reduction | 44/157 - Ongoing staff training programme | | | | | CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | | |
| Reduction | 44/158 - Implement the communication strategy to ensure continued customer awareness of LGPS 2014; continued drive to ensure Employer understanding of the scheme | | | | | CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | M | Objectives | L | Financial | L | Services | L | Reputation | L | Category | 5 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| Fallback Plan | 44/437 - Review existing interpretations, take legal advice and amend procedures as required | | | | | | | Action Manager | | | |
| | | | | | | | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|---|-------------------|--|------------------|---|-------------------------|-------------------|-------------------------|-----------------------|-----------------|-------------------------|
| Risk Number | 44/11 | Risk Title | 44/11 - Benefit Payments | | | | Risk Owner | CD SR | | Manager | CSD SR Pensions Manager |
| Description | Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments | | | | | Risk Group | Performance | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Up to date procedures and procedural checking; pension software up to date; workflow system; authorisation procedures; pro formas; staff training; audit trail; internal and external audits; Pensions Administration Strategy; Manuals available for calculation procedure; action plan for clean data requirements; use of task checklists; ESS; | | | | | Effectiveness | | | |
| Probability | M | Objectives | L | Financial | L | Services | L | Reputation | M | Category | 4 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | Action Manager | Action by | Completed | % | | |
| Reduction | 44/1893 - Effective communication with employers | | | | | CSD SR Pensions Manager | | Sat-31-Dec-16 | | 0% | |
| Reduction | 44/1896 - Regular liaison with ESS regarding operational arrangements | | | | | CSD SR Pensions Manager | | Sat-31-Dec-16 | | 0% | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | L | Financial | L | Services | L | Reputation | M | Category | 5 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | Action Manager | | |
| Fallback Plan | 44/435 - Correct errors and review and amend existing procedures | | | | | | | CSD SR Pensions Manager | | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|---|-------------------|---|------------------|---|---|-------------------|---|-----------------------|-----------------|---|
| Risk Number | 44/7 | Risk Title | 44/7 - Investment Manager | | | | Risk Owner | CD SR | | Manager | CSD SR Head of Commercial & Investments |
| Description | Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise | | | | | Risk Group | Performance | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Qrtly review of investment mgr targets; std terms and conds re termination of contract; ext advisers monitor mgrs perf; qrtly repts to Pension Fund Comm; benchmarking against other approp comparators; investment strategy review; risk budgeting exercise via Aon; reporting by Custodian; fund mgr attend at PFC; Member training; best practice procurement process; diversified portfolio of investments; | | | | | Effectiveness | | | |
| Probability | L | Objectives | M | Financial | M | Services | L | Reputation | L | Category | 5 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | Action Manager | Action by | Completed | % | | |
| Reduction | 44/1873 - Continue to monitor and report on investment returns on a regular basis | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Reduction | 44/1874 - Continue to meet/report to PFC by Fund Managers and assess critical analysis by advisers | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Reduction | 44/1875 - Carry out when appropriate, a tender exercise and use best practice procurement process to ensure positive outcome re new investment manager(s) | | | | | CSD SR Head of Commercial & Investments | Sat-31-Dec-16 | | 0% | | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | M | Financial | M | Services | L | Reputation | L | Category | 5 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | Action Manager | | |
| Fallback Plan | 44/429 - Change Fund Manager and redistribute funds, potentially transfer to temporary passive Fund Manager | | | | | | | CSD SR Head of Commercial & Investments | | | |

Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | |
|--|--|-------------------|--|------------------|---|-------------------------|-------------------|----------------------|-------------------------|-----------------|-------------------------|
| Risk Number | 44/14 | Risk Title | 44/14 - IT Systems | | | | Risk Owner | CD SR | | Manager | CSD SR Pensions Manager |
| Description | Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism | | | | | Risk Group | Technological | | Risk Type | | |
| Phase 2 - Current Assessment | | | | | | | | | | | |
| Current Control Measures | | | Manual payments, DR plan and tested, contracts for server maintenance, backups off site, major external providers have DR plans, manual calculation procedures, administration manuals, annual financial check, contingency plan in place, modern council, | | | | | Effectiveness | | | |
| Probability | L | Objectives | M | Financial | L | Services | M | Reputation | M | Category | 5 |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | |
| | | | | | | Action Manager | Action by | Completed | % | | |
| Reduction | 44/1884 - Regular review of contingency planning arrangements | | | | | CSD SR Pensions Manager | Sat-31-Dec-16 | | 0% | | |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | |
| Probability | L | Objectives | M | Financial | L | Services | M | Reputation | M | Category | 5 |
| Phase 5 - Fallback Plan | | | | | | | | | | | |
| | | | | | | | | | Action Manager | | |
| Fallback Plan | 44/433 - Recourse to manual calculations and payments, Liaise with software provider to restore system, find alternative supplier | | | | | | | | CSD SR Pensions Manager | | |



Pension Fund

Risk Register: **June 2016 Review – detailed**
 Next Review Due: **December 2016**
 Report Date: 23rd June 2016 (pw)

| Phase 1 - Identification | | | | | | | | | | | | | | |
|--|--|-------------------|---|------------------|---|-----------------------|--|-------------------|----------------------|-----------------------|-------------------------|--|----------|----|
| Risk Number | 44/16 | Risk Title | 44/16 - Key Personnel | | | | Risk Owner | CD SR | | Manager | CSD SR Pensions Manager | | | |
| Description | Loss and unavailability of key personnel e.g. Treasurer, Pensions Manager, leading to incorrect interpretation of regulations, incorrect calculations/data, incorrect payments, resulting in complaints, compensation claims | | | | | Risk Group | Capacity/performance | | Risk Type | | | | | |
| Phase 2 - Current Assessment | | | | | | | | | | | | | | |
| Current Control Measures | | | Procedure notes; knowledge sharing; file management; deputies; co-operation between departments; pensions management meetings; comprehensive training matrix; PFC action notes; professional advisors; increase resources agreed in finance team; | | | | | | Effectiveness | | | | | |
| Probability | L | Objectives | M | Financial | L | Services | M | Reputation | L | Category | 5 | | | |
| Phase 3 - Risk Reduction Actions | | | | | | | | | | | | | | |
| Reduction | 44/1905 - Continue to build resilience to meet current and anticipated future, demands and complexity | | | | | Action Manager | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Action by | Sat-31-Dec-16 | Completed | | % | 0% |
| Reduction | 44/1907 - To forward plan with managers/CD SR on a regular basis to share ideas and strategy from both sides (on going) | | | | | Action Manager | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Action by | Sat-31-Dec-16 | Completed | | % | 0% |
| Reduction | 44/1908 - Ensure inclusion of key managers with relevant external advisers or feedback from such meetings/telephone calls (on going) | | | | | Action Manager | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | Action by | Sat-31-Dec-16 | Completed | | % | 0% |
| Phase 4 - Post Risk Reduction Assessment | | | | | | | | | | | | | | |
| Probability | L | Objectives | M | Financial | L | Services | M | Reputation | L | Category | 5 | | | |
| Phase 5 - Fallback Plan | | | | | | | | | | | | | | |
| Fallback Plan | 44/441 - Identify temporary cover arrangements plus additional resources where required | | | | | | | | | Action Manager | | CSD SR Head of Commercial & Investments CSD SR Pensions Manager | | |

North Yorkshire County Council

Pension Board

14 July 2016

External Audit Report

1.0 Purpose of the Report

To consider the External Auditor's Interim Report on its work to date in relation to the audit of the Pension Fund's 2015/16 Financial Statements.

2.0 Background

The External Auditors undertake an audit of the Pension Fund's financial statements annually. The audit of the 2015/16 financial statements is currently being undertaken by KPMG; this will be their first audit of NYPF. The format of the external audit is to carry out an interim audit at year end and then return following the production of a draft Statement of Accounts to carry out a final audit.

3.0 Recent Activity

The interim audit work on the Pension Fund financial statements took place in March and April 2016. Following this, KPMG produced a report outlining their key findings and recommendations which is attached as **Appendix 1**.

This report was considered by the Audit Committee at its meeting on 23 June 2016 and a verbal report of the Committee's comments will be given at the Pension Board meeting.

The final audit of the NYPF Statement of Accounts will take place during July and August 2016.

4.0 Recommendation

That the Pension Board notes the contents of KPMG's Report.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton
SML

July 2016

Background Documents: None



Maintaining an effective control framework



North Yorkshire County Council 2015/16

North Yorkshire Pension Fund 2015/16

Contents

**The contacts at KPMG
in connection with this
report are:**

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



This document summarises the key findings arising from our work to date in relation to the audit of the Council's and the Pension Fund's 2015/16 financial statements and the 2015/16 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- Our interim audit work at North Yorkshire County Council ('the Council') in relation to the Council's 2015/16 financial statements;
- Our interim audit work at North Yorkshire Pension Fund ('the Pension Fund') in relation to the Pension Fund's 2015/16 financial statements; and
- Our work to support our 2015/16 value for money (VFM) conclusion to the Council, up to April 2016.

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

During March and April 2016 we completed our planning and control evaluation work. This covered:

- Review of the Council's overall organisational control environment, including the controls operating over the key Council's IT systems;
- Testing of certain controls over the Council's key financial systems; and
- Review of the Council's accounts production process, and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2015/16* explained our risk-based approach to VFM work, which is supported by the Code of Audit Practice, published by the NAO in April 2015. We have completed some early work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks, and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Council, other inspectorates and review agencies in relation to these risk areas; and
- Identifying the additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2015/16 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help and co-operation through our audit work.



This table summarises the headline messages. The remainder of this report provides further details on each area.

| | |
|--|--|
| <p>Organisational and IT control environment – Council and Pension Fund</p> | <p>Our work has confirmed that the Council and Pension Fund's organisational and IT control environments are designed effectively and provided assurance that the environments support the production of materially correct financial statements.</p> <p>In addition to our routine audit work, we undertook specific work to gain assurance over the implementation of the Council's new financial system, including the transfer of balances from the old system to the new one.</p> |
| <p>Controls over key financial systems - Council</p> | <p>Our testing of relevant controls we identified in relation to payroll, business rates income and council tax income provided assurance over the material correctness of the transactions. Our work over the Council's non-pay expenditure is designed to utilise data and analytics techniques, and does not involve testing key controls. We have not yet assessed the controls over the Council's pension liabilities and its property plant and equipment balance, as many of the key controls in respect of these areas are operated during the closedown process.</p> <p>Our testing of the bank reconciliation process identified that the controls could be strengthened by implementing a clearly documented management review of the completed monthly reconciliation.</p> |
| <p>Controls over key financial systems – Pension Fund</p> | <p>Our testing of relevant controls we identified in relation to investment assets, benefits payable and contributions receivable provided assurance over the material correctness of the transactions. Our testing of the reconciliation to the general ledger for investment assets and contributions receivable will be undertaken at the final audit visit as these reconciliations are only undertaken as part of the year end closedown process.</p> <p>We were unable to complete our testing of the Pension Fund bank reconciliation as the information we required had not been provided by officers at the time of our visit.</p> |
| <p>Other financial controls and processes</p> | <p>Our testing of the Council's budget setting and monitoring process provided assurance that material errors would be detected and corrected.</p> <p>Our testing of the controls operating over the Council and Pension Fund journal transfers identified that there is no independent authorisation of journals, and that all officers with relevant access can post and authorise journals of any value.</p> |
| <p>Accounts production</p> | <p>Our review and testing of the Council's overall process for preparing the financial statements provides assurance that the process is effectively designed, and likely to produce financial statements that are materially correct.</p> |



| | | |
|---|--|---|
| <p>This table summarises the headline messages. The remainder of this report provides further details on each area.</p> | <p>Specific risk areas for the Council and Pension Fund</p> | <p>Our audit plan identified the following specific risk areas for the Council and Pension Fund:</p> <ul style="list-style-type: none"> — New financial system (Council and Pension Fund); and — Possible impairment of PPE due to flooding (Council only). <p>Our work to date over these areas has provided assurance that:</p> <ul style="list-style-type: none"> — The balances in the previous financial system have been fully and accurately transferred across to the new financial system; and — No material issues have been identified that impacts on the Council's ability to produce materially correct financial statements. — The Council has considered the impact of the flooding on the value of its land, buildings and infrastructure assets, and understands the accounting requirements which would be necessary in the financial statements should there be any impairments required. We will complete our testing over this risk area during our final audit visit. |
| | <p>VFM conclusion audit work</p> | <p>We have completed our VFM conclusion risk assessment work and have not identified any specific significant VFM risks.</p> <p>In carrying out this assessment we have taken into account the Council's response to the financial challenges that it faces, including the North Yorkshire 2020 council plan, and the progress with the recent Local Government Association peer review.</p> <p>We will revisit that assessment work during our final audit visit to ensure that our conclusions remain valid.</p> |



Our work has confirmed that the Council and Pension Fund’s organisational and IT control environments are designed effectively and provided assurance that the environments support the production of materially correct financial statements.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level. Weaknesses in the overall organisational level are often pervasive through the financial statements, and this would have implications for our audit.

We obtained an understanding of the Council and Pension Fund’s organisational control environments and evaluated whether these controls have been designed effectively.

The Council and Pension Fund relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

The Council and Pension Fund introduced a new financial system from the beginning of the 2015/16 financial year. We identified this as a specific audit risk in our Audit Plan, and undertook specific work on the implementation of this new system, including the transfer of balances from the old to the new system.

Key findings

Based on our testing undertaken we have gained assurance that the Council and Pension Fund organisational and IT control environments are designed effectively to support the production of financial statements that are free from material mis-statement. The table on this page summarises our results over each element of the environment.

Our testing on the implementation of the new financial system has provided assurance that:

- Balances were transferred completely and accurately from the old financial system to the new system; and
- No other significant issues have been identified that impact on the material accuracy of the Council or Pension Fund financial statements.

| Aspect | Assessment |
|--|------------|
| Organisational controls: | |
| Management philosophy and operating style | 3 |
| Culture of honesty and ethical behaviour | 3 |
| Oversight by ‘those charged with governance’ | 3 |
| Risk assessment process | 3 |
| Communications | 3 |
| Monitoring of controls | 3 |
| IT controls: | |
| Password parameters | 3 |
| Control over ‘Super Users’ | 3 |
| Control over user access | 3 |
| Change control procedures | 3 |

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Controls over key financial systems - Council



Our testing of relevant controls we identified in relation to payroll, business rates income and council tax income provided assurance over the material correctness of the transactions.

Our testing of the bank reconciliation process identified that the controls could be strengthened by implementing a clearly documented management review of the completed monthly reconciliation.

Work completed

Where we have determined that this is the most efficient audit approach to take, we identify relevant financial systems, evaluate the design and implementation of key controls that address key risks within these systems and then test these controls. The results from this work informs our substantive testing which we complete during our final audit visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because our focus is solely on the controls to prevent and detect material errors in the financial statements.

Key findings

Based on the work undertaken to date, our testing has provided assurance that the majority of the key controls in the systems tested would support the production of material correct financial statements. The table on this page summarises our assessment.

Our testing of the controls over the Council's cash and bank balance focuses on the bank reconciliation process. Our testing covered the Council's reconciliations of its County Fund, Resourcelink and General accounts.

During our work, officers brought to our attention some issues they had identified with the County Fund reconciliation, following the implementation of new cash collection systems in October 2015. These changes led to issues with the automated matching of income received to the correct general ledger code, resulting in a large backlog of unmatched items. Following extensive work by officers over the last few months of the financial year, this issue has now been fully resolved. Our review of the March 2016 reconciliation while we were on site confirmed that the backlog of unmatched items had now been cleared.

Our review of the controls operating over the bank reconciliation process identified that the controls could be strengthened by

implementing a clearly documented management review of the reconciliation and evidencing both the preparation and review of the reconciliation.

No weaknesses were identified from our testing of the relevant controls we identified in relation to payroll, business rates income and council tax income.

We have not yet assessed the controls over the Council's pension liabilities and property plant and equipment balances. The key controls in respect of these areas are operated during the closedown process and our testing will be carried out during our final audit visit.

For the Council's non-pay expenditure, our approach is to gain assurance by undertaking detailed data and analytics work to substantively test the entire population, rather than undertake controls testing.

| Financial system | Assessment |
|--------------------------------|------------|
| Property, Plant and Equipment | TBC |
| Cash and Cash Equivalents | 2 |
| Pension Assets and Liabilities | TBC |
| Non pay expenditure | N/A |
| Payroll | 3 |
| Business rates income | 3 |
| Council tax income | 3 |

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls
 - 3 Generally sound control environment

Controls over key financial systems – Pension Fund



Our testing of relevant controls we identified in relation to investment assets, benefits payable and contributions receivable provided assurance over the material correctness of the transactions.

We were unable to complete our testing of the Pension Fund bank reconciliation as the information we required had not been provided by officers at the time of our visit.

Work completed

Where we have determined that this is the most efficient audit approach to take, we identify relevant financial systems, evaluate the design and implementation of key controls that address key risks within these systems and then test these controls. The results from this work informs our substantive testing which we complete during our final audit visit.

Key findings

Based on the work undertaken to date, our testing has provided assurance that the majority of the key controls in the systems tested would support the production of material correct financial statements. The table on this page summarises our assessment.

No weaknesses were identified from our testing of the relevant controls we identified in relation to:

- Investment assets;
- Benefits payable; and
- Contributions receivable.

For the investment assets and contributions receivable systems, a year end reconciliation to the general ledger is undertaken as part of the pension fund closedown procedures. We will therefore review and test these reconciliations in detail as part of our audit work on the financial statements.

We have not yet completed our controls testing over the Pension Fund cash and bank balances. We have discussed the processes in place with officers, but have not been provided with copies of completed reconciliations that we need to undertake our testing.

We will review and test the year end bank reconciliation along with the in-year reconciliations in detail during our final audit visit.

| Financial system | Assessment |
|---------------------------|------------|
| Cash and Cash Equivalents | TBC |
| Investment assets | 3 |
| Benefits payable | 3 |
| Contributions receivable | 3 |

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls
 - 3 Generally sound control environment

Other financial controls and processes – Council and Pension Fund



Our testing of the Council's budget setting and monitoring process provided assurance that material errors would be detected and corrected.

Our testing of the controls operating over the Council and Pension Fund journal transfers identified that there is no independent authorisation of journals, and that all officers with relevant access can post and authorise journals of any value.

Work completed

The Council and Pension Fund rely on other key financial controls to provide assurance over the integrity and completeness of the data in its financial systems. These controls include its monitoring of spending against the budget and restrictions around the use of adjustment journals within the general ledger.

As part of our procedures we review both of these areas.

- For journals this involves understanding and testing the controls over journal entry and review/authorisation.
- For budget monitoring, we test the key controls that operate over setting the budget and monitoring and reporting the corresponding spending.

Key findings

Journals – Council and Pension Fund

Due to officer availability during our interim visit, we were not able to obtain a listing of journal transfers in order to complete our testing.

From our evaluation of the controls in place, we have identified a weakness in the controls over journal authorisation which increases the risk that incorrect journal transfers are processed, leading to material errors in the financial statements.

There is no independent authorisation of journal transfers. The Council's process is that the creator of the journal inputs and approves the transfer themselves. In addition all officers with the relevant access to the general ledger system can create and post journals of any value, as there is no 'value hierarchy' built into the system.

Officers consider that the monitoring and reporting of spending against the budget provides a compensating control, and officers have reported that all journals with a value of over £3m will be reviewed at the year end to provide additional assurance.

Where controls are found to be operating effectively, our audit approach to journal transfers focuses on the year-end closedown journals. However, the impact of the weakness in the Council's journals control framework is that we will need to carry out more substantive testing of the journals processed during the year to provide assurance over the material accuracy of the journal transfers. This work will be completed during our final audit visit.

Budgetary Control - Council

Following the implementation of the new financial system, the Council has begun implementing developed financial management arrangements during 2015/16. Budget holders are able to, and are encouraged to, access real-time budget and spending data whenever they need to, enabling a self-service approach to budget monitoring. At the time of our review this process was still being embedded, and training on this system functionality was still being provided.

Established timetables are in place for reporting spending against budgets at service, directorate and council level which enable regular and routine challenge and accountability.,

From our testing we are content that the setting of the Council's budget, and the monitoring and reporting of spending against the budget through the year provides assurance to us that material errors in the financial statements would be identified and corrected.

| Financial control/ process | Assessment |
|----------------------------|------------|
| Journal processes | 2 |
| Budgetary Control | 3 |

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls
 - 3 Generally sound control environment

Audit requirements and accounts production process and risk assessment – Council and Pension Fund

Our review and testing of the Council's overall process for preparing the financial statements provides assurance that the process is effectively designed, and likely to produce financial statements that are materially correct.

Audit requirements and accounts production process

We issued our interim 'Prepared by Client' working paper requests for the Council and the Pension Fund in February and March respectively. These documents set out our audit approach and timetable. They also summarise the working papers and other evidence we require the Council and Pension Fund to provide to support our audit work.

We will issue separate requests for the working papers we require officers to provide for our year end final accounts visit.

During our interim visit we documented our understanding of the Council and Pension Fund accounts production process, including a review of the closedown procedures and timetable for the 2015/16 statement of accounts.

Key findings

The 'Prepared by Client' request is new to Council officers, but we are happy with how it has been received. Although at our interim visit some working papers were not available and the corresponding audit work was not completed, the majority of the papers were presented, and we have established a good positive working relationship with the Council finance staff.

We believe it will contribute to an efficient audit of the financial statements, minimising the disruption of Council finance staff from the final audit processes.

From our review of the Council closedown procedures and its plan to produce the financial statements we are satisfied that there are no issues to raise. Although the accounting requirements for 2015/16 do not contain significant changes from 2014/15, this will be the first year of closing down the new financial system and producing a trial balance, and this presents additional challenges for the Council.

During this first year of our audit appointment we expect there to be differences in our approach to your previous auditor, and we are working to also obtain a better understanding of your working practices, to ensure that future audits are effective and streamlined and minimise disruption to the Council finance staff.

We will continue to discuss the audit process with officers, including a post-final audit meeting with key finance staff, to determine what lessons can be learnt and improvements made where necessary for the following year's audit.

Specific audit risk areas – Council and Pension Fund



The Council and Pension Fund have a good understanding of the key audit risk areas we identified and are making progress in addressing them.

We will revisit these areas during our final audit visit.

Financial statements risks

In our External Audit Plan 2015/16, presented to you in February, we identified the key audit risks affecting the Council's 2015/16 financial statements. These are as follows:

- New financial systems (Council and Pension Fund); and
- Impairment of PPE due to flooding (Council only).

Work completed

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date, based on our discussions and audit work, there are no changes to the risks previously communicated to you.

We have been discussing these two risk areas with officers as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

New financial system

We have discussed in detail the processes that the Council and Pension Fund undertook to plan for, and then introduce, the new financial systems.

The practical implementation is still ongoing as the Council and Pension Fund continue to introduce devolved real-time budget monitoring, and plan to implement a new accounts payable process during 2016/17.

Our IT audit work reported on page 6, and our other enquiries, have not identified any issues to date, and we are satisfied that we have the assurance we had planned for, that the new system will

support financial statements that are free from material errors.

Impairment of PPE due to flooding

Our work to date has confirmed that the Council's infrastructure assets are correctly held at historical cost and depreciated.

An assessment of impairments is carried out at the year end, but the Council has reported to us during our interim visit that the damage to properties and infrastructure due to the flooding in December 2015 has been minimal, and mostly affects roads and bridges. A working paper summarising the costs associated with the flood damage to infrastructure will be prepared as part of the year end closedown procedures.

Our work on the Council's impairment considerations any consequential impact on the financial statements will be concluded at our final audit visit.

The Council is content that all affected assets are insured, and it expects any financial impact to the Council to not be significant. Officers have reported that they are aware that funding is available for costs associated with flooding from the central government Bellwin scheme, subject to relevant thresholds applied to each event.

VFM audit approach



Our VFM conclusion considers how the Council secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our External Audit Plan 2015/16 describes in more detail how the VFM audit approach operates.

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial

resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

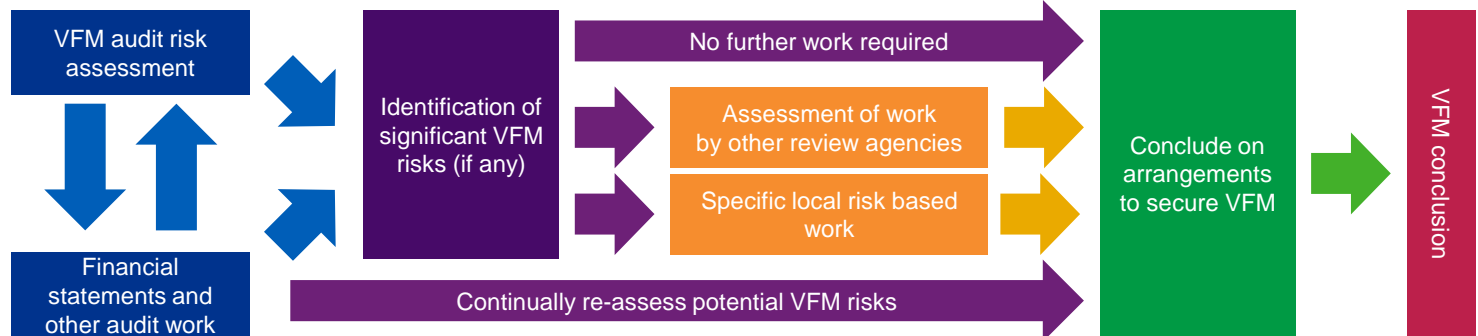
These sub-criteria provide a focus to our VFM work at the Council.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Specific VFM risks

We have completed our VFM conclusion risk assessment work and have not identified any specific significant VFM risks.

We will revisit that assessment work during our final audit visit to ensure that our conclusions remain valid.

Work completed

In line with the risk-based approach set out on the previous page, we have

- Assessed the Council's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Council, other inspectorates and review agencies in relation to these risk areas; and
- Concluded to what extent we need to carry out additional risk-based work.

Key findings

We have completed our initial VFM risk assessment and have not identified any key issues.

In concluding on the absence of any significant risks we have taken into account the Council's response to the financial challenges that it faces, including the North Yorkshire 2020 council plan, and the progress with the recent Local Government Association peer review.

We will update our assessment throughout the year.

We will report our final conclusions in our *ISA 260 Report 2015/16* at the conclusion of our audit.

Key issues and recommendations

We have raised two recommendations from our work.

The Council has accepted one recommendation and reports that it has addressed that weakness with immediate effect. The Council is satisfied that a compensating control mitigates the risks presented by the second recommendation and we have accepted this response.

We have given each recommendation a risk rating and agreed what action management will need to take.

The Council should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up implementation of our recommendations next year.

| Priority rating for recommendations | | |
|--|--|---|
| <p>1 <i>Priority one:</i> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> | <p>2 <i>Priority two:</i> Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> | <p>3 <i>Priority three:</i> Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> |

| No. | Risk | Issue and recommendation | Management response/responsible officer/due date |
|-----|------|---|--|
| 1 | 2 | <p>Although through discussion with officers we are satisfied that bank reconciliations for the main Council bank accounts are being regularly undertaken, there was a lack of documented sign-offs to demonstrate the preparation and review during 2015/16.</p> <p>Each bank reconciliation undertaken should include a prepared by and reviewed by sign off that is dated by the relevant officers.</p> | <p>Management Response Reviews will be evidenced with immediate effect.</p> <p>Responsible officer Senior Accountant – Statutory Accounts</p> <p>Due date Immediately</p> |
| 2 | 2 | <p>All officers with the relevant access to the general ledger system can create and post journals of any value as there is no value hierarchy built into the system. There is no segregation of duties in the creation and posting of journals</p> <p>A hierarchy should be included within the general ledger and officers limited to the value of journals they can enter and approve.</p> <p>All adjustment journals should be independently authorised by a finance officer.</p> | <p>Management Response We believe that the monitoring of spending against the budget is a suitable compensating control to ensure all material issues are identified and therefore no further action is proposed.</p> |



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North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 19 May 2016 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillors: John Weighell (Chairman), John Blackie, Bernard Bateman MBE, Margaret-Ann de Coursey-Bayley, Roger Harrison-Topham, Patrick Mulligan and Helen Swiers.

Councillor Jim Clark - Local Government North Yorkshire and York.

Councillor Chris Steward - City of York Council.

David Portlock - Chair of the Pension Board.

Copies of all documents considered are in the Minute Book

117. Exclusion of the Press and Public

Resolved –

That the press and public be excluded from the meeting during consideration of Minute No. 121, below (in respect of Appendix 3) and Minute No. 125, in respect of Appendices 2, 3 and 4)

118. Minutes

Resolved -

That the Minutes of the meeting held on 25 February 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Matter Arising: Minute No. 112 Member and Employer Issues

A Member referred to the comment that concerns had been experienced by members of the Fund regarding the speed of processing certain ill health cases and the determination of pension benefits, and enquired if the situation had improved. The Treasurer advised that the cases in question were being assessed by the employers and their medical advisers, so individuals should pursue matters with their respective employers. When assessments have been completed, the Fund will be informed and will process the cases.

119. Declarations of Interest

County Councillors Bernard Bateman MBE, Margaret-Ann de Coursey-Bayley, Patrick Mulligan and John Weighell; together with Councillor Jim Clark declared non-pecuniary interests in respect of them being Members of the Pension Scheme.

The Independent Advisor declared an interest as a Non-Executive Director of the London CIV and Chair of its Investment Sub Committee.

120. Public Questions or Statements

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

121. Member and Employer Issues

Considered -

The report of the Treasurer providing Members with information relating to membership movements, performance and costs of benefits administration as well as related events and activity over the year to date as follows:-

- (a) Admission Agreements.
- (b) Membership Analysis.
- (c) Administration performance.
- (d) Class Actions
- (e) Member training.
- (f) Meetings timetable.

With regard to Class Actions, the Treasurer reported that many are pursued, focussing on those where there is a reasonable prospect of recovery. He also commented that an increasing proportion of actions take place outside of the US, where the process is significantly more labour intensive.

In response to a query from a Member, the Treasurer confirmed that the dates referred to in Appendix 5 of the report for meetings of the Pension Fund Committee and Investment Manager Meeting should be 15 and 16 September 2016, respectively.

Resolved -

That the contents of the report be noted and any action identified be undertaken accordingly.

122. Budget/Statistics

Considered -

The report of the Treasurer reporting on the following:-

- (a) The expenditure/income position to date for 2015/16.
- (b) The cash deployment of the Fund.
- (c) The North Yorkshire Pension Fund staffing budget.

Looking at each of these in turn;

2015/16 Forecast

- The cash surplus for the year to 31 March 2016 of £6.5 million exceeded the budgeted figure by £1.1 million.
- Pensions payroll expenditure of £73.9 million was within £50k of the annual forecast, whilst Retirement Grant expenditure of £24.8 million was £1.2 million lower.
- Contributions income of £107.8 million represented a £0.1 million negative variance to the budget. Early retirement income exceeded the forecast by £40k.
- Transfer receipts of £7.1 million were £140k more than had been forecast, whilst outgoing payments of £4.4 million were lower than forecast by £580k.
- Transfer expenditure increased substantially in March 2016 as a result of the bulk payment of £502k to the London Pension Fund Authority.

Cash Deployment in 2015/16

- Details of the cash deployment and rebalancing carried out during 2015/16 were provided. A sum of £3.8 million was available for rebalancing as a result.

North Yorkshire Pension Fund staffing budget

- The cost of NYCC staff required to administer the fund, including overheads was met by the Fund.

The Treasurer advised Members that the work undertaken by the Pensions Administration Team was being managed within the current budget, which has periodically been adjusted to meet changing needs. Additional staff may be required assuming the Government's academisation programme goes ahead, however at this stage the pace of conversions is unclear. Members were, at this stage, asked to note the potential increase in the budget.

In addition, the Funds investment and accounting arrangements have become more complex and there is significant additional work for the Finance Team arising from the Local Government Pension Scheme pooling arrangements, requiring a revision to the budget for this team. The Treasurer stressed that the revision was to ensure the true cost of the work undertaken was met by the Fund.

In response to a question from a Member, the Treasurer confirmed that some investments would sit outside of the LGPS pools where it made economic sense.

A Member commented on the excellence of the Finance Team, which he felt was becoming stretched.

The Chairman stated that the amount of work on the financial side of the Fund was likely to be enormous over the next two years.

A Member queried why a request for additional budget would not take effect until 2017/2018 when some of the additional work was already happening now. The Treasurer suggested that the budget be allowed to overspend in 2016/17 rather than revise it.

Resolved -

That an increase of £123k in the staffing budget for Finance Team costs, effective from April 2017, be approved.

123. Pension Board

The draft Minutes of the meeting held on 14 April 2016 and the Board's Work Programme had been circulated with the Agenda papers for information.

The Chair of the Pension Board advised that the main topic of discussion had been pooling arrangements for the Local Government Pension Scheme.

Resolved -

That the Minutes of the meeting of the Pension Board on 14 April 2016 and the Board's Work Programme be noted.

124. Performance of the Fund's Portfolio

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund and of the individual Fund Managers for the quarter to 31 March 2016.

The report highlighted the following issues:-

- ◆ The performance of the Fund.
- ◆ Individual Fund Managers performance.
- ◆ Risk indicators.
- ◆ Solvency position.
- ◆ Rebalancing.
- ◆ Proxy voting.

The Investment Adviser and Investment Consultants had provided separate reports.

The Investment Advisor made the following comments:-

- Baillie Gifford now managed approximately 30% of the Fund's portfolio. This was quite a high proportion and something that the Committee needed to be aware of.
- Markets were largely being contracted as a result of intervention by central banks.

A Member referred to the impact of the Referendum on Britain's Membership of the European Union and asked if discussions were held with Fund Managers about their strategy in this regard. The Treasurer advised that this could be picked up at a meeting with Fund Managers scheduled for 20 May 2016.

The Investment Consultant highlighted the following:-

- Bonds were at a peak and, in the short term, could fall.

- Equities were showing no significant growth.
- Property was performing well.
- He was happy with the shape of the portfolio, which remained robust.
- In terms of the referendum referred to above, we were starting to see some currency depreciation, which was unsurprising. This was double-edged, in that it benefited the Fund's equity investments. Generally, any uncertainty affects the confidence of the markets.
- There may be less demand for gilts. If there was deflation, gilts would rise in value so, again, the effect was double-edged.

The Independent Advisor said she had concerns about the impact of the referendum in that, in the short term, the wheels tend to grind to a halt and this distorted markets for investment.

A Member pointed out that in paragraph 7.1 of the Treasurer's report, the reference to rebalancing should read December 2015 and asked if the Committee should be concerned about the 6% decrease in the solvency rate. The Independent Advisor responded that Members were right to be concerned, but this issue was not within the Fund's control as it was largely driven by liability valuations. The expectation was that interest rates would eventually increase, which would help the funding position.

Members noted that the performance of Dodge Cox and Standard Life was below expectations, currently. Separate discussions would be held with these companies.

Resolved -

That the investment performance of the Fund for the first quarter report ending 31 March 2016 be noted.

125. LGPS Pooling Arrangements

Considered -

The report of the Treasurer which:-

- updated Members on progress towards the Government's announced intention to pool the assets of Local Government Pension Scheme funds; and
- sought their agreement to adopt the proposed governance arrangements for the thirteen members of the Border to Coast Pensions Partnership.

The Chairman advised that he had attended an initial meeting about the proposals on 15 April 2016. A second meeting, scheduled for 13 May 2016, had been cancelled and Councillor Harrison-Topham would be attending the next meeting on 6 June 2016 on behalf of the Chairman.

Members expressed some disquiet at the fact that the pooling of assets was being imposed. On balance, however, it was felt that, given the reality of the situation, every effort be made to push on with the arrangements and make them successful.

General Comments/Questions

- Whoever the Manager is will need to be a regulated entity, as the Fund will be giving investment instructions to the entity.

- A significant amount of responsibility passes to the new officer group.
- There is a need to be mindful of potential conflicts of interest. It is only when things go wrong that governance arrangements are really tested.
- Set up costs appear high. The Treasurer clarified that it is not an aspiration to spend all of this amount.
- What is the timescale for transition of funds? The Treasurer advised that the timetable for the transition of funds was from April 2018 but otherwise yet to be determined.
- Rules of engagement are required to give clarity as to how decisions are to be made.

Appendix 2

- Paragraph 3.3, regarding selection and appointment of external managers: Will the Pension Fund have any part to play in this? The Treasurer clarified that involvement would not be direct but, as one of the constituent organisations, this Pension Fund would contribute to determining the process/apparatus for appointments.
- Paragraphs 3.4, 3.5 and 14.2 (and anywhere else it may appear): a definition of fiduciary duty should be given.
- Paragraph 3.6: Who will make a judgement on whether it is cost effective to implement asset allocation strategy decisions?
- Paragraph 9.2: The Fund fully support the aim that decision taking will be by consensus, wherever possible.
- Paragraph 11.1, Quorum: Why is it stated that 8 out of 13 voting Members must be in favour of a written resolution in order for it to be passed, when 7 would suffice as a majority? The Treasurer clarified it is not certain whether there will be 12 or 13 Members at this stage. There is some discussion as to whether or not to have a simple majority.
- Paragraph 14.2, Transition Costs: Concern expressed as to the level of these costs. Also, do the costs refer to purchase and sale, or just purchase? The Treasurer clarified that it is the former.
- Paragraph 15.3: Adherence to local government personnel practices could be limiting. With, for example, the appointment of a Fund Manager, there is a balance to be found between avoiding being charged a disproportionately high amount and the reality that there are not many individuals who have experience of managing pools of this size.

Appendix 3

- In the table under paragraph 4.1, Membership, "Vice Chair" should be included, particularly as this role is referred to at paragraphs 7.1 and 7.3.
- Is there a guarantee that the Chair and Vice Chair will be from different authorities? The Treasurer clarified that there will be such a guarantee.

Appendix 4

- Paragraph 1.4: On delegation arrangements, the wording is that officers will *work closely with* the Member Steering Group, rather than *take directions from* the

Member Steering Group. The latter would be the norm. The Treasurer clarified that this is the intention e.g. that Members will decide.

Resolved –

That approval be given to the Memorandum of Understanding.

NOTE: Councillor Blackie wished it to be recorded that he voted against the resolution.

126. Private Debt Manager Search

Considered –

The report of the Treasurer updating Members on the process of appointing a private debt manager.

In response to a question from a Member, the Treasurer confirmed that the role would be in relation to illiquid investments.

The Treasurer stated that all Members of the Committee were welcome to be on the Appointment Panel but, pragmatically, this would be unwieldy. Also, Members wishing to be on the Panel should be aware that they would need to be involved for the duration of the process.

Resolved –

That any Member wishing to be on the Appointment Panel advise the Treasurer of this by 27 May 2016.

The meeting concluded at 12.55 pm.

PD

North Yorkshire County Council

Pension Board

14 July 2016

Training and Meeting Dates

1.0 Purpose of the Report

To provide an update on Pension Board member training.

2.0 Background

The Training Policy was adopted by the Pension Board at its inaugural meeting on 30 July 2015. This set out the knowledge and understanding requirements of members of the Pension Board, routes to obtaining training, and training review arrangements.

It states that the suitability of training events and activities should be based on a self-assessment carried out by each Pension Board member. The regulations place the responsibility for making this assessment, and subsequent action to ensure Pension Board members have an appropriate level of knowledge and understanding, on the individual members. In addition, the Pensions Regulator requires that Pension Board members invest time in learning and development.

3.0 Training Activity

Detailed in Appendix 1 are training events attended and activities undertaken by Pension Board members. Board members are asked to review the training record and advise officers if updates are required.

Pension Board members may wish to discuss the merits of recently undertaken training activity and where appropriate the pros and cons, to inform other Board members of its usefulness.

4.0 Training Opportunities

The Pensions Regulator described the modules on its website as “essential to achieve the required level of trustee knowledge and understanding” and “essential learning for those working with or running public service schemes”. The Pension Board agreed at its meeting on 30 July 2015 that these modules would be completed by all members. It is therefore recommended that any remaining modules are completed in due course.

Pension Board members are asked to discuss and identify their specific learning and development requirements with officers who will make appropriate arrangements for attendance at training events.

5.0 Meeting Dates

Meeting dates for the remainder of the 2016/17 municipal year are as follows (all Thursdays at 10am):-

6th October 2016
26th January 2017
20th April 2017

Meeting dates for the 2017/18 municipal year are as follows (all Thursdays at 10am):-

20th July 2017
12th October 2017
18th January 2018
12th April 2018

6.0 Recommendation

- (i) That Members should continue to identify any appropriate training needs and aim to complete the modules on the Pension Regulators website; and
- (ii) That the meeting dates for 2016/17 and 2017/18, as detailed above, be noted.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton
SML

July 2016

Background Documents: None

| Date | Title or Nature of Course | Sponsor/ Organiser | Venue | David Portlock - Chair | Mandy Swithenbank | Stella Smethurst | Ben Drake | Gordon Gresty | Louise Branford-White | Cllr Mike Jordan | Cllr Ian Cuthberston | Phil MacDonald |
|------------|--|--------------------|-----------------------|------------------------|-------------------|------------------|-----------|---------------|-----------------------|------------------|----------------------|----------------|
| 04/06/2015 | Training event for Pension Board Members | LGA | Marriott Hotel, Leeds | | | x | | x | x | x | | |
| 03/07/2015 | Pension Board Member Training | AON | Leeds | | x | | | | | x | | |
| 17/07/2015 | Pension Board Member Training | AON | Leeds | | x | x | | | | x | | |
| 24/07/2015 | Pension Board Member Training | AON | Leeds | | | x | | | | x | | |
| 21/10/2015 | LGPS Trustee Training FundamentalsXIV | LGA | | | x | x | x | x | | | x | |
| 17/11/2015 | LGPS Trustee Training FundamentalsXIV | LGA | | x | x | x | x | x | | | x | |
| 08/12/2015 | LGPS Trustee Training FundamentalsXIV | LGA | | x | x | x | x | x | x | x | x | |

x = completed

PENSION BOARD MEMBERS – TRAINING, MEETINGS AND EVENTS

Training session with Peter Scales (AllenbridgeEpic) – Independent Observer of the North Yorkshire Pension Fund – Governance for the North Yorkshire Pension Board – 14 January 2016

Attendees: –

David Portlock (Independent Chairman), County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York), Louise Branford-White (Hambleton District Council), Ben Drake, (Unison), Gordon Gresty, Stella Smethurst (Unison) and Mandy Swithenbank (GMB).

Pension Regulator Modules

Could members please update the Clerk as to any of the Regulator Modules that they have completed that are not identified on the first sheet of Appendix 1.

CIPFA - Local Pension Board Conference – 29th June 2016

David Portlock (Independent Chairman)

North Yorkshire Pension Fund Committee Meetings :-

17 September 2015

Attendees: –

David Portlock (Independent Chairman)

26 November 2015

Attendees: –

David Portlock (Independent Chairman), Ben Drake, (Unison), Stella Smethurst (Unison) and Mandy Swithenbank (GMB).

15 January 2016

Attendees: –

David Portlock (Independent Chairman), Ben Drake, (Unison), Stella Smethurst (Unison) and Mandy Swithenbank (GMB).

25th February 2016

Attendees: –

David Portlock (Independent Chairman), Ben Drake, (Unison) and Stella Smethurst (Unison)

19th May 2016

Attendees: –

David Portlock (Independent Chairman)

7th July 2016

North Yorkshire Pension Fund Manager Meetings

Could Members please advise the Clerk as to their attendance at any of these meetings that they have attended.

Any other relevant training events or meetings

David Portlock (Independent Chairman) – Audit Committee training sessions including on 3 March 2016 - Counter Fraud

County Councillor Mike Jordan - Audit Committee training sessions including on 3 March 2016 - Counter Fraud

Could Members please advise the Clerk as to their attendance at any other relevant training events or meetings that they would like to include on their training record.

North Yorkshire County Council

Pension Board

14 July 2016

Work Programme

1.0 Purpose of the Report

To detail the areas of planned work by the Pension Board

2.0 Background

The Pension Board approved the Work Plan, attached as Appendix 1, at its meeting on 14 January 2016.

The Plan identifies the expected reporting dates for a limited number of activities, being those where regular reports such as internal audit reports are anticipated.

There are a number of activities with no expected reporting dates. These are all activities where, as agreed by the Pension Board at its meeting on 1 October 2015, they could be undertaken by following a defined process. This would be as follows.

1. A member of the Pension Board identifies an area of work they would like to be undertaken as a project;
2. A member of the Pension Board is nominated as the lead for that project;
3. The lead defines the scope, aims, objectives, outputs and timescale, following consultation with Board members and support from officers as required. This is to be encapsulated in a project summary plan-on-a-page document;
4. The lead drives the project forward, with support from other Pension Board members, officers of Legal & Democratic Services and officers of the Pension Fund as required;
5. A report is brought to a Pension Board meeting, co-authored by Legal and Democratic Services and the lead, and may include one or more observations, conclusions and/or recommendations.

Pension Board members may wish to confirm they are comfortable with this approach before initiating the first project. Each stage except the last need not take place at a Pension Board meeting.

A review of these arrangements will be undertaken once one or more projects have been completed.

3.0 Future Activity

To remind Pension Board members, they were asked to identify items on the Work Plan they considered appropriate to prioritise. Each of these items is listed below, together with comments from officers of the Pension Fund.

1. **Review the outcome of actuarial reporting and valuations.** Comment: The Triennial Valuation as at 31 March 2016 is underway with the final report expected by 31 March 2017. If the Pension Board wishes to review the arrangements it would make sense to do this after that date.
2. **Assist with the development of improved customer service.** Comment: Customer service is subject to ongoing monitoring and actions are taken

periodically to improve it. There is no particular timeframe which would suit a review more than any other.

3. **Monitor performance of administration, governance and investments.** Comment: Administration performance is reported to the Pension Fund Committee every quarter. A review of governance arrangements is undertaken each year by the Independent Professional Observer who typically reports to the PFC each June/July. Investment performance is reported to the PFC every quarter.
4. **Monitor investment costs.** Comment: Officers monitor costs on an on-going basis. It is worth noting that the Border to Coast Pensions Partnership, which is the group NYPF has joined in response to the Government's requirement that LGPS funds pool assets, is undertaking a detailed analysis of investment costs. This analysis will form part of the response to Government, required by 15 July 2016.
5. **Review the Risk Register.** Comment: A review of the Risk Register was carried out by the Pension Board at its meeting on 14 January 2016, and subsequent reviews are scheduled every six months.
6. **Assist with asset voting and engagement process.** Comment: NYPF has policies and arrangements on voting and engagement. It is possible that these will change. For example, depending upon the detailed pooling arrangements, the beneficial ownership of assets may move from NYPF to the pool entity.

At the Pension Board meeting held on 14 April 2016 it was agreed that "Pooling arrangements and Governance" should be added to the Work Programme, in view of this being the major focus for the Pension Fund Committee at this time. Subsequently this was added to the Work programme and will be the subject of further discussion at today's meeting.

The training and guidance provided by the Pension Fund's Independent Professional Observer, Peter Scales after the Board's last meeting on 14 January 2016 identified a number of issues that the Pension board may wish to consider. These included examining policy statements and documentation, referring to guidance from the Pensions Regulator, reviewing compliance with investment regulations and performance monitoring. It also identified some key areas to address.

In light of the above, the Pension Board may wish to discuss the scheduling for each of the items on the Work Plan, and for those to be addressed as a priority, how they will be taken forward. Pension Board members may also wish to consider adding to or removing items from the Plan.

4.0 Recommendation:

That members review and agree updates to the Work Plan and agree which Work Plan activities should be addressed as a priority and how they will be taken forward.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton
SML - April 2016

PENSION BOARD WORK PLAN

APPENDIX 1

| | 14-Apr-16 | 14-Jul-16 | 06-Oct-16 | Jan 2017 | Apr 2017 | 2017 | 2018 |
|--|---|-----------|-----------|----------|----------|------|------|
| <u>Business planning</u> | | | | | | | |
| 1 | Agree plan for the year | | | ✓ | | | ✓ |
| 2 | Review performance against the plan | | | ✓ | | | ✓ |
| 3 | Report to the PFC / NYCC | | | ✓ | | | ✓ |
| 4 | Report to Scheme Advisory Board / DCLG | | | | ✓ | | ✓ |
| <u>Compliance checks</u> | | | | | | | |
| 5 | Review regular compliance monitoring reports | | ✓ | | | ✓ | ✓ |
| 6 | Review the compliance of scheme employers | | | | | | |
| 7 | Review such documentation as is required by the Regulations | | | | | ✓ | ✓ |
| 8 | Review the outcome of internal audit reports | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9 | Review the outcome of external audit reports | | | ✓ | | ✓ | ✓ |
| 10 | Review annual report | | | ✓ | | ✓ | ✓ |
| 11 | Review the compliance of particular issues on request of the PFC | | | | | | |
| 12 | Review the outcome of actuarial reporting and valuations | | | | | ✓ | |
| 13 | Assist with compliance with the UK Stewardship Code | | | | | | |
| <u>Administration procedures and performance</u> | | | | | | | |
| 14 | Review management, administrative and governance processes and procedures | | | | | | |
| 15 | Monitor complaints and performance | | | | | | |
| 16 | Review the Internal Dispute Resolution Process | | | | | | |
| 17 | Review cases referred to the Pensions Ombudsman | | | | | | |
| 18 | Review the implementation of revised policies and procedures | | | | | | |
| 19 | Review the exercise of employer and administering authority discretions | | | | | | |
| 20 | Assist with the development of improved customer services | | | | | | |
| 21 | Monitor performance of administration, governance and investments | | | | | | |
| 22 | Review processes for the appointment of advisors and suppliers | | | | | | |
| 23 | Monitor investment costs | | | | | | |
| 24 | Review the risk register | | ✓ | ✓ | | ✓ | ✓ |
| 25 | Assist with the development of improved structures and policies | | | | | | |
| 26 | Assist in assessing process improvements on request of PFC | | | | | | |
| 27 | Assist with asset voting and engagement processes | | | | | | |
| 28 | Pooling arrangements and governance | ✓ | ✓ | | | | |
| <u>Communications</u> | | | | | | | |
| 28 | Review scheme member and employer communications | | | | | | |
| <u>Training</u> | | | | | | | |
| 29 | Review Pension Board knowledge and skills self assessment | ✓ | | | ✓ | | ✓ |
| 30 | Review training log | ✓ | | | ✓ | | ✓ |
| 31 | Review training arrangements for the Board and other groups | ✓ | | | ✓ | | ✓ |

Notes

- 3 arrangements to be determined by the Council.
- 4 arrangements to be determined by SAB/DCLG.

North Yorkshire County Council

Pension Board

14 July 2016

LGPS Pooling - Update

1.0 Purpose of the Report

To provide the Pension Board with an update on LGPS pooling arrangements.

2.0 Background

On 15 January 2016 PFC Members agreed in principle that NYPF would join BCPP, and that the Council would be a signatory to the "Initial Proposal to Pool LGPS Assets" sent to Government by the BCPP on 19 February 2016. In response, each BCPP Fund received a letter from Marcus Jones MP which described broad support for this initial proposal and the expectation that a more detailed proposal would follow. The deadline for this second proposal is 15 July 2016.

3.0 Development of the Pool

To remind the Pension Board, the 13 Funds in the BCPP are:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

Although there are 13 BCPP Funds, the Member Steering Group will comprise 12 Funds, the South Yorkshire Passenger Transport Fund having decided to be represented through the South Yorkshire Pension Fund. This arrangement will be replicated in the Supervisory Body, once the pooling entity has been established. Since 19 February 2016 officers have been working on a more detailed proposal. This has included the commissioning and consideration of legal advice from Squire Patton Boggs on the options for creating a pooling entity, and financial advice from Deloitte on the costs associated with these options.

Government has set out its expectations of the content of the detailed proposals, which are to include information on:

1. The size of the pool; assets to be held outside the pool; the legal structure of the pool; how the pool will operate; the timetable for establishing the pool.
2. Governance structure of the pool and arrangements between it and the administering authorities; how the administering authorities will hold the pool to account; the decision making process for investments; shared objectives and policies; resources required to operate the pool; benchmarking and performance reporting.

3. Historic and forecast investment cost comparisons, assessment of implementation and transition costs, an assessment of net of fees performance.
4. Current capacity to invest in infrastructure, plans to increase this capacity, ambition to increase this further.

4.0 Recent Activity

There have been three meetings of BCPP pensions committee Chairs where an update was provided by officers. In addition:

1. on 15 April 2016 representatives from HM Treasury, DCLG and the LGA were in attendance, to advise and answer questions
2. on 6 June 2016 the update included a review of the main points included in the draft proposal and the key messages officers intended to relay to Government in advance of the deadline
3. on 24 June 2016 the Chairs went through the draft detailed proposal and recommended it for approval by the individual pensions committees of the BCPP

Cllr John Weighell attended the meeting on 15 April 2016, Cllr Roger Harrison-Topham attended the meetings on 6 June and 24 June 2016.

On 7 June 2016 officers met with representatives of HM Treasury, DCLG, GAD and the Cabinet Office to discuss the main issues described in the detailed proposal. The meeting comprised a presentation by officers, the aim being to gauge the attendees' reaction to it, to assess whether a change in approach may be required. Although there were a few questions and comments, there were no aspects of the proposal that appeared to raise concerns.

Although DCLG initially stated that proposals were required from the Pool and also from each individual Fund within it, on 8 June 2016 they wrote to the Chair of each pensions committee stating that proposals were only required from each Pool. Government issued a template for each Pool to complete, rather than allow freeform responses as was permitted when responding to the 19 February 2016 deadline. This is to facilitate comparisons between the responses from each of the Pools.

The draft proposal was circulated to the Pension Fund Committee and the Pension Board on 22 June 2016 once it had been finalised; the latest version is attached as **Appendix 1**. The submission includes the Memorandum of Understanding (MoU), which was approved by the PFC at the meeting on 19 May 2016. The MoU described the roles the officers of each Fund will play in developing pooling arrangements, and the role Members will play in directing officers and making decisions at key points.

Members were asked to approve this proposal in the PFC meeting on 7 July 2016. Following approval of from the 13 Funds of the BCPP pool, the final document will be submitted to the Government on 15 July 2016.

5.0 Recommendation

That the content of the July submission be noted.

BARRY KHAN
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton
SML

July 2016

Background Documents: None