

## Agenda

**Meeting: Pension Board**

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

**Date: Thursday 12 October 2017 at 10am**

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### Business

- 1a. **Apologies for absence**
- 1b. **Vacancy for Scheme Member representative**
- 2a. **Minutes** – To agree as an accurate record the Minutes of the meeting held on 20 July 2017  
(Pages 5 to 15)
- 2b. **Progress on Issues Raised by the Board** – To note the progress made on issues discussed at previous meetings  
(Pages 16 to 17)
3. **Declarations of any Interests**

**4. Public Questions or Statements.**

Members of the public may ask questions or make statements at this meeting if they have given notice and submitted the text to Josie O'Dowd of Democratic Services (contact details below) by midday Monday 9 October 2017. 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.

- 5. Draft Minutes of the Pension Fund Committee meeting held on 14 September 2017 -**  
Chairman to report  
**(Pages 18 to 29)**
- 6. Annual Report of North Yorkshire Pension Fund - Report of Legal and Democratic Services**  
**(Pages 30 to 64)**
- 7. Internal Audit Reports – Report of Internal Audit**  
**(Pages 65 to 86)**
- 8. External Audit Report - Report of Legal and Democratic Services**  
**(Pages 87 to 116)**
- 9. Pension Board Projects - Report of Legal & Democratic Services**  
**(Pages 117 to 130)**
- 10. Pooling - Report of Legal & Democratic Services**  
**(Pages 131 to 132)**
- 11. Training - Report of Legal and Democratic Services**  
**(Pages 133 to 137)**
- 12. Work Plan – Report of Legal & Democratic Services**  
**(Pages 138 to 140)**
- 13. 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

October 2017

**NOTES:**

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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	VACANCY	Scheme Member Representative
7	SMETHURST, Stella	Scheme Member Representative
8	SWITHENBANK, 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.

## North Yorkshire County Council

### Pension Board

Minutes of the meeting of the Pension Board held on Thursday 20 July 2017 at County Hall, Northallerton commencing at 10.00 am.

#### Present:-

#### Members of the Board

David Portlock (Independent Chairman).

#### Employer Representatives:

Louise Branford-White (Hambleton District Council) and Phil MacDonald (Hull University)

#### Scheme Members:

Mandy Swithenbank (GMB) and Gordon Gresty.

#### In attendance:-

County Council Officers: Amanda Alderson, Phillippa Cockerill, Steve Loach and Jo Wade.

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

#### 93. Apologies and Welcome

Apologies were received from County Councillor Mike Jordan (NYCC), Councillor Ian Cuthbertson (City of York Council), Ben Drake (Unison) and Stella Smethurst (Unison).

The Chairman welcomed Phillippa Cockerill as the recently appointed Head of Pensions Administration. She gave a brief outline of her background and experience.

#### 94(a) Minutes

##### Resolved -

That the Minutes of the meeting held on 20 April 2017, having been printed and circulated, were taken as read and confirmed and signed by the Chairman as a correct record, subject to the following alterations:-

Minute No. 85 - Draft Minutes of the Pension Fund Committee meetings held on 23 February 2017 and Special Meeting on 31 March 2017 - sentence two - remove "stating that", to avoid repetition of this.

Minute No. 89 - LGPS Pooling - Update - paragraph three, sentence one - remove the word "been".

#### **94(b) Progress on Issues raised by the Board**

It was noted, by the Chairman, that the majority of issues highlighted were agenda items for this meeting and would be discussed at the relevant point.

In relation to the review of employer discretions it was noted that further consideration of how this would progress would be undertaken during the work plan item on the agenda.

A Member noted that pooling was not included as an agenda item for this meeting and asked whether there would be an update. It was noted that the matter would be discussed during consideration of the Minutes of the Pension Fund Committee.

It was noted that, at this time, there had been no progress in relation to the appointment of Scheme Member representation, through a co-option process, to the Pool's Joint Committee.

#### **Resolved -**

That the report be noted.

#### **95. Declarations of Interest**

There were no declarations of interest submitted.

#### **96. Public Questions or Statements**

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

#### **97. Draft Annual Report**

Considered -

The draft Annual Report of the Pension Board to 31 March 2017. The Chairman stated that the report attempted to encapsulate the work of the Pension Board since its establishment in July 2015.

Members were requested to consider the details provided and submit comments and observations in relation to those.

The Chairman thanked Amanda Alderson (North Yorkshire Pension Fund) and Steve Loach (Legal and Democratic Services) for their assistance in producing the draft Annual Report.

Members raised the following issues and points in relation to the report:-

- ◆ It was considered appropriate that the budgetary figures for 2015/16 also be included by way of comparison to the 2016/17 figures. Officers stated that these would be provided.
- ◆ The format of the report was queried, however, it was clarified that the format was based upon other Pension Boards' Annual Reports, and advice from the Pension Fund's Independent Observer, and that the style could be determined by the Pension Board, as the owner of the report.

- ◆ A number of suggested amendments to the Appendices and the report were provided by Members including:-
  - the removal of reference to travel costs being borne by employers within the main report
  - reference to the conflicts of interest policy being reviewed annually being included
  - updated copies of the training programme and the work plan be included, following their consideration later in this meeting.

**Resolved -**

- (i) That the amendments to the report and Appendices, as detailed, be undertaken.
- (ii) That, following the implementation of the amendments, the report be circulated to Members of the Board for final approval.
- (iii) That the finalised report be circulated to the Treasurer of the Pension Fund, the Chairman of the Pension Fund Committee and the County Council's Monitoring Officer, with a view to this being submitted to the Pension Fund Committee and County Council before being published on the appropriate websites.

**98. Minutes of the Pension Fund Committee meeting held on 25 May 2017 and a verbal update on the meeting held on 6 July 2017**

The Chairman provided highlights from the meetings and the following issues and points were raised:-

- ◆ A discussion was undertaken in relation to the Pension Fund Committee's previous suggestion that some investments would be put into less volatile funding categories to minimise the risk on the solvency of the Fund and it was asked, now that the Fund was over 100% funded, whether this would gather pace. It was noted, in response, that the Pension Fund Committee was currently undertaking an investment strategy review and this factor would be considered alongside others. The Chairman noted that some discussions had already taken place in relation to the direction of the investment strategy at meetings held on 6 and 7 July 2017.
- ◆ An update was provided in respect of the appointment and recruitment of non-Executive Directors to BCPP. It was noted that the position of Chairman was about to be filled and it was expected that the position of Chief Executive would be in place by mid-August 2017. It was stated that the Government had been advised that the Pool would not be operational until July 2018, which had been accepted, despite being outside 1 April 2018 deadline. It was noted that the other Pools throughout the country were in different positions regarding the appointment of personnel and their commencement dates. It was stated that both the Pension Fund Committee and the Pension Board would continue to monitor the establishment of BCPP.
- ◆ The Chairman outlined that the meeting on 6 July allowed the Pension Fund Committee to consider the draft Statement of Final Accounts and approve changes to governance documents. He noted that, ultimately, the County Council's Audit Committee approved the Final Accounts with the Pension

Fund Committee having sight of these to forward any feedback they may have to Audit Committee.

- ◆ The Chairman noted that the Pension Fund Committee had agreed to develop a training policy, a breaches policy and a risk policy in relation to the operation of the Pension Fund. He suggested that a training policy may also be appropriate for the Pension Board. Members were asked to comment on the development of these policies. A Member considered that a risk policy would not enhance the process and did not consider that it was required, however, officers highlighted the need for the policy as the strategic document determining the risks and how they were managed.
- ◆ Issues around the production of Annual Benefits Statements were discussed and it was asked whether the statutory deadline would be met. In response it was noted that good progress is being made, however, some employer returns were still outstanding and the Benefits Statements would not be issued due to that. It was noted that, when the statutory deadline had passed, a discussion would be required as to whether the Pensions Regulator should be notified of a breach. This matter would be determined in due course.
- ◆ The Chairman acknowledged that the Communication Policy Statement made reference to the Pension Board's involvement. He noted that the policy stated the Pension Board Members had been provided with copies of the NYPF newsletter but he had not received a copy. In response it was stated that this was circulated annually and that Members of the Pension Board and Pension Fund Committee should receive copies of this.
- ◆ A Member suggested that he required information regarding pooling arrangements on a timelier basis to enable him to update the website and provide meaningful information to pensioners and deferred pensioners. He considered that, currently, this was not the case.
- ◆ The Chairman noted that the issue of applying sanctions to employer organisations when payments, or data, had not been provided appropriately had been discussed. Officers indicated that sanctions were only applied as a last resort, and every effort was made to work alongside the employers, to overcome the difficulties and ensure that requirements were met appropriately. It was noted that training and education processes were in place in terms of the supply of payments and data from employers and it was emphasised that every effort was made to maintain a working relationship between the Pension Fund Administration and employers. Members supported the approach undertaken, but emphasised the need to invoke sanctions on occasions, particularly where an employer had not been responsive on a number of occasions.
- ◆ It was noted that some of the data presented by employers was not of a suitable quality to enable Annual Benefit Statements to be produced, as details had not been corroborated effectively. The Pensions Administrations Team were addressing the situation and were working with employers to ensure that suitable processes were in place to verify the data provided. It was suggested that this could be a matter for the Pension Board to consider in terms of a work-stream project and further consideration would be given to this issue in respect of the work plan for the Pension Board.



- ◆ The Chairman highlighted the Investment Strategy Workshops being undertaken by the Pension Fund Committee and how the development of the strategy was seeking to reduce some of the risk around investments, with details to be submitted to the meeting of the Pension Fund Committee in September. Appropriate options for disinvestment and less volatile investments were currently being sought through the Investment Strategy Workshops and these would be reflected in the subsequent Investment Strategy.
- ◆ In terms of rebalancing the Fund, issues around the specifics of how that would be undertaken were discussed and it was noted that officers were in a position to carry out these rebalancing exercises, without having to refer each matter to the Pension Fund Committee as they are to bring the Fund back in line with the approved Investment Strategy. These matters were brought to the attention of the Chairman and Treasurer of the Pension Fund Committee and reported to subsequent meetings where actions had been undertaken.

**Resolved -**

That the issues and points raised be noted and actions indicated be undertaken accordingly.

**99. Internal Audit Reports**

Considered -

The report of Veritau Limited seeking approval for the planned programme of Internal Audit work to be undertaken in 2017/18, in so far as the Pension Board was concerned.

Ian Morton, Audit Manager, Veritau Limited, attended the meeting and outlined the audits planned for 2017/18 in terms of the North Yorkshire Pension Fund. He noted that the Investment audit was carried out retrospectively and involved reviewing information provided by Investment Managers, therefore, the audit covering the 2016/17 year was currently still in progress and would be reported to the Pension Board when completed. In view of that it had been decided that the 2017/18 Audit Plan would not include an investment audit, with this being undertaken at the beginning of the 2018/19 audit year. It had been decided to undertake a governance audit during 2017/18 which would review compliance against recent guidance and regulations and the Code of Practice issued by the Pensions Regulator.

Full details of the proposed audits were provided in an Appendix to the report, and these would focus on Pension Fund governance arrangements, Pension Fund income and Pension Fund expenditure.

Members discussed the report and the following issues and points were raised:-

- ◆ It was asked when the governance audit was likely to be completed. In response it was stated that the audit was expected to be undertaken reasonably quickly with a view to completing by September/October 2018, however, it was emphasised that the length of the audit depended on officers' availability and work pressures, as to when that would be completed.

- ◆ It was noted that the County Council's Audit Committee would agree the final Audit Plan, however, the details were provided to assist the Pension Board's consideration of how this was progressing.

#### **Resolved -**

That in so far as the Pension Board is concerned, the Pensions Fund Audit Plan for 2017/18 be agreed.

#### **100. Review of Risk Register**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing Members with an opportunity to comment on the Pension Fund Risk Register.

It was noted that the Register highlighted two risks ranked as red, five as amber and three as green, with the assessment of the highest ranked risks primarily driven by the financial impact each could have if the risk occurred. One of the red risks related to LGPS pooling arrangements which was currently considered the key risk of the Pension Fund. It was noted that the Pension Fund solvency also remained a red risk, despite the funding level of 104%, due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions, used to value liabilities, were based.

The latest version of the Risk Register, which was attached as an Appendix to the report, was taken to the Pension Fund Committee on 6 July 2017 where it was approved.

Members undertook a detailed discussion on the report and the following issues and points were raised:-

- ◆ With reference to the risk related to the pooling arrangements a Member asked how a comparison of the development of the arrangements could be undertaken unless the Pension Board was provided with reports relating to that development, including the costs. It was suggested that the reports were essential to ensure that a comparison of how progression was being made could be undertaken and to identify how initial details differed to the final implementation. Members agreed that a "base-line" was required so that the transition process could be monitored effectively. In respect of this it was noted that reports were submitted to the BCPP's Joint Committee and it was suggested that these could also be submitted to the Pension Board to provide the information requested, enabling Members to monitor progress as required. Whilst agreeing that the information requested would be useful in setting a base-line for the development of the Pool and considering its progress thereon, Members were reminded to take care in ensuring that they were operating within the remit of the Pension Board.
- ◆ Members suggested that, periodically, the Treasurer for the Pension Fund (Corporate Director - Strategic Resources) should be invited to Pension Board meetings to assist with the consideration of the risks set out, to determine how these were being managed and to provide assistance with the management of these to the Board. It was noted that the majority of meetings

of the Pension Board were attended by the relevant delegated officers, however, Members considered that it would be useful for the Treasurer of the Pension Fund to attend, maybe on an annual basis, to discuss issues that had arisen.

In respect of this it was suggested that reports from the BCPP Joint Committee would be required by Pension Board Members to enable them to establish a base-line and determine the progress being made, before the Treasurer was invited to discuss issues, to ensure that the debate could be fully informed. Members considered that it was appropriate to be provided with an opportunity to speak with the Treasurer on a regular basis to provide the challenge and assistance to the Pension Fund required of the Pension Board.

- ◆ It was asked whether risk assessments had been carried out in relation to cyber-attacks and whether mitigation measures were in place to guard against these. In response it was stated that a report was being developed in relation to this matter and it was emphasised that North Yorkshire Pension Fund was reasonably well protected against such attacks. It was noted that the majority of cyber-attacks were created through human error and a great deal of effort was being put into educating people to be more resilient against such attacks. It was also stated that appropriate contingency planning was undertaken to ensure that any cyber-attack could be dealt with as quickly as possible, allowing a return to normal working practices, and details of these were outlined in business continuity documents.

**Resolved -**

- (i) That Pension Board Members be provided with the background documents/information as detailed above, in relation to the risk around pooling;
- (ii) That the Treasurer of the Pension Fund be invited, periodically, to attend Pension Board meetings to discuss relevant issues, previously identified, with Members of the Board; and
- (iii) That the Risk Register continue to be reviewed on an annual/bi-annual basis, dependent upon the category of those risks following review and that any major updates in relation to risks be fed into the Pension Board via the Pension Fund Committee.

**101. Investment Strategy Statement**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) updating Pension Board Members on the progress made on the latest draft of the Investment Strategy Statement (ISS).

It was noted that the Investment Strategy Statement (ISS) was published in response to the LGPS (Investment and Management of Funds) Regulations 2016 and replaced the previous requirement to maintain a Statement of Investment Principles (SIP).

The ISS was a fluid document, with updates continuing to be taken through the Pension Fund Committee, the latest version having been submitted to 6 July 2017 meeting. This version included comments provided by the Pension Board at its meeting held on 20 April 2017.

The Pension Fund Committee approved the ISS subject to some minor wording amendments and the inclusion of an additional paragraph relating to the shareholders of BCPP.

**Resolved -**

That the report be noted.

**102. Training**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing an update on Pension Board Member training.

Appendix 1 to the report provided details of training events and activities attended and undertaken by Pension Board Members and the following updates were provided in relation to that:-

- ◆ Details should be included in relation to the attendance of Pension Board Members at the employers' seminar on pooling, a seminar in relation to private debt and a seminar relating to the triennial valuation.
- ◆ Details of the Pension Regulators toolkit training modules, completed online by a number of Members, also required inclusion.
- ◆ It was noted that Pension Fund Committee meetings were included as training events as Pension Board Members were welcome to attend those and the main issues in relation to the work of the Pension Board were discussed at those meetings.

**Resolved -**

That the training record be updated to reflect the training undertaken by Pension Board Members as indicated above.

**103. Training Events - Feedback**

Phil MacDonald and David Portlock provided feedback from conferences/training events that they had recently attended as follows:-

Brave New World - LGPS Conference

Phil MacDonald provided a written report which had been circulated along with the papers and highlighted the following:-

- ◆ He considered that the conference had provided value for money in terms of the costs incurred for attendance.
- ◆ He noted that there had been a lot more representation from other Pension Funds (including Pension Fund Committee Members, Pension Fund officers and Pension Board Members) from various parts of the country, but suggested that having the conference at a more central location would enhance that attendance. He considered that it was beneficial to hear how

other Pension Funds were moving forward with issues, such as pooling, and how they were responding to those.

- ◆ Funding level - the NYPF was now over 100% funded and, as discussed earlier in the meeting, consideration was being given to “locking in” some of the gains.
- ◆ Ethical/responsible investment - what do Scheme members want and would they be prepared to risk investment returns for this - it was noted that the matter was recently raised at a Pension Fund Committee meeting, through a public question, and the response emphasised that the Pension Fund Committee had a duty to maximise the return on investments for Scheme members.
- ◆ Asset pooling - details of how other Pools were evolving had been provided and it was noted that regular update reports were to be provided to the Pension Board, as discussed earlier in the meeting, in relation to BCPP.

It was considered whether pooling arrangements would eventually evolve into one single LGPS Fund similar to the USS.

- ◆ Benefits Statements - many members were not getting their statements by the statutory deadline and it was wondered how this could be addressed.
- ◆ Benchmarking - it was suggested that it would be a good idea to carry this out for the eight Asset Pools in terms of performance, set-up costs and investments. It was noted that the information in relation to this was available and it was expected that benchmarking would take place once the pools were up and running.
- ◆ Procurement - it was noted that Pension Fund officers were continually negotiating with Fund Managers in terms of performance related fees to ensure that the best value for money as possible is provided.
- ◆ Networking - the conference provided an important opportunity to network with other Pension Fund representatives from across the country.

#### Local Pension Boards Two Years On - CIPFA Conference

David Portlock circulated a report with the papers providing details of the issues raised at the conference. He highlighted the following:-

- ◆ Pensions Regulator - the Pensions Regulator had indicated that it would be using its enforcement powers much more robustly, with the key areas of focus for 2017/18 being governance, record keeping, internal controls and Member communications.
- ◆ DCLG - the current DCLG Team was relatively inexperienced in LGPS issues.
- ◆ Pension Ombudsman - there were relatively few complaints to the Ombudsman in relation to the Local Government Pension Scheme.
- ◆ Cyber security and the LGPS - issues around GDPR, which would be effective from May 2018 and would provide only 72 hours to report breaches,

and the implications for third party processors, were discussed. It was noted that the 72 hours reporting time would include weekends. The need to address compliance with these Regulations and how that would be addressed by NYPF were discussed.

- ◆ Scheme Advisory Board - costs transparency.
- ◆ Potential issues for Pension Board Work Plan 2017/18:
  - Data quality
  - Cyber-security
  - Governance for pooling
  - The Pension Regulator's priorities
  - Costs' transparency
  - Pension Board Member competency and skills
  - Pension Board succession planning.

**Resolved -**

That the reports and issues raised be noted.

**104. Work Plan**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing details of the areas of planned work by the Pension Board.

It was noted that the Work Plan, attached at Appendix 1, required updating for inclusion in the Annual Report and Members were asked to comment on that.

Members were also asked to consider areas of work contained within the Plan which they could develop, going forward.

The following issues and points were highlighted:-

- ◆ A number of alterations to the existing Pension Board Work Plan, as attached at Appendix 1, were provided and noted.
- ◆ In relation to the review of the exercise of employer and administering authority discretion it was noted that Pension Fund officers were currently reviewing documents in relation to that and it was suggested that this should be completed before a detailed project was undertaken. An update on the progress of that review would be provided to the next meeting of the Board.
- ◆ Pooling arrangements and governance were seen as major issues of focus for the Pension Board, as had been the case for a number of previous meetings. It was noted that, as discussed earlier in the meeting, the Pension Board would be provided with base-line information in relation to the creation of the Pool to enable analysis of how that was progressing to take place.
- ◆ It was noted that the Pension Fund's Independent Professional Observer, Peter Scales, had provided his comments to the Pension Fund Committee in respect of governance arrangements.

- ◆ In line with the Work Plan, it was suggested that at the October meeting of the Board Members have preliminary discussions on the review of management, administration and governance process and procedures and assisting with the development of improved customer services, with the aim of determining a way forward for undertaking detailed projects on those issues.

**Resolved -**

- (i) That the Work Plan be amended in line with the issues highlighted by Members.
- (ii) That Members come to the next meeting of the Board prepared to discuss how to take forward the various projects mentioned above.
- (iii) That at the next meeting of the Board a timetable be agreed for taking the various projects forward.

The meeting concluded at 12.40 pm.

SL/JR

DRAFT

**North Yorkshire County Council**

**Pension Board**

**12 October 2017**

**Progress on issues raised by the Committee**

**Report of the Assistant Chief Executive (Legal and Democratic Services)**

**1.0 Purpose of the report**

**1.1** To advise Members of:-

- Progress on issues raised at previous meetings;
- Issues that may have arisen, relating to the work of the Board, since the previous meeting

**2.0 Background**

**2.1** This report is submitted to each meeting listing the Board's previous Resolutions where further information is to be submitted to future meetings. The table below represents the list of issues which were identified at previous Pension Board meetings and which have not yet been resolved.

Date	Minute No and subject	Resolution	Comment/completed
20 April 2017	Minute no. 89 – LGPS Pooling update – Scheme Member representation on the Joint Committee	To consider the appointment of Scheme Member representation, through a co-option process, to the Joint Committee.	This matter was considered at the Meeting of the Pension Fund Committee held on 14 September 2017 and an update will be provided at this meeting.
20 April 2017	Minute No 91 – Work Plan	Development by Members of the Pension Board of areas of work set out in the work programme.	This matter is the subject of a report at today's meeting.
20 July 2017	Minute No 97 – Draft Annual Report	That the finalised report be circulated to the Treasurer of the Pension Fund, the Chairman of the Pension Fund Committee and the County Council's Monitoring Officer, with a view to this being submitted to the Pension Fund Committee and	The finalised report was considered, and noted, at the Meeting of the Pension Fund Committee held on 14 September 2017. The report has also been considered by the County Council's Executive on 26 September 2017, with a recommendation that the report be submitted to the Full County Council, as Administering



		County Council before being published on the appropriate websites.	Authority, on 8 November 2017, for noting. The report will then be published on the NYPF website.
20 July 2017	Minute No 100 – Risk Register	That Pension Board Members be provided with the background documents/ information as detailed above, in relation to the risk around pooling	A structure is required to determine how the reports are to be provided, and over what time period, so as to minimise the impact that this has on the officers involved.
20 July 2017	Minute No 100 – Risk Register	That the Treasurer of the Pension Fund be invited, periodically, to attend Pension Board meetings to discuss relevant issues, previously identified, with Members of the Board	An initial meeting with the Treasurer is being considered for the January Meeting of the Board, and, following that, a timetable for subsequent update meetings would need to be developed.
20 July 2017	Minute No 100 – Risk Register	That the Risk Register continue to be reviewed on an annual/bi-annual basis, dependent upon the category of those risks following review and that any major updates in relation to risks be fed into the Pension Board via the Pension Fund Committee.	A timetable for the review is set out in the work programme subject to the provisos detailed.
20 July 2017	Minute No 102 – Training	That the training record be updated to reflect the training undertaken by Pension Board Members as indicated	The training record was updated, and further updates are expected to be reported to today's meeting.

### 3.0 Recommendation

3.1 That the report be noted and consideration given to where further action is required.

Barry Khan  
Assistant Chief Executive (Legal and Democratic Services)  
County Hall  
Northallerton - October 2017

Background Documents – None

## North Yorkshire County Council

### Pension Fund Committee

Minutes of the meeting held on 14 September 2017 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

County Councillors John Weighell OBE (Chairman), John Blackie, Michael Chambers, MBE, Cliff Lunn, Patrick Mulligan, Andy Solloway, Helen Swiers and Angus Thompson.

David Portlock – Chair of the Pension Board.

Apologies - Councillor Jim Clark - North Yorkshire District Councils

There were no members of the public present.

The Chairman introduced the new representatives of AON Hewitt, the Fund's Investment Consultants.

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

**17. Minutes**

**Resolved -**

That the Minutes of the meeting held on 6 July 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

**18. Declarations of Interest**

There were no declarations of interest.

**19. Public Questions or Statements**

The Chairman noted that further questions had been received from a previous public questioner, in relation to fossil fuel investments, however, the request was for the Chairman and Treasurer to respond to the issues raised and, therefore, the questions would not be submitted to the Committee. The Chairman stated that he would provide a response to the questions accordingly.

**20. Pension Board Annual Report**

Considered -

The report of the Treasurer providing details of the Annual Report of the North Yorkshire Local Pension Board.

The Chairman of the Pension Board presented the document to the Committee, highlighting that this was the first Annual Report produced by the Board as the body

had only been in existence for part of the year for 2015/16, therefore, it was decided to amalgamate the initial work into one annual report up to March 2017.

In the terms of reference for the Board it was requested that an Annual Report was submitted to the Administering Authority, therefore, the report would be considered by the County Council's Executive, before being submitted to full County Council for consideration.

**Resolved -**

That the Pension Board annual report for 2016/17 be noted.

**21. North Yorkshire Pension Fund Final Accounts and Annual Report**

Considered -

The report of the Treasurer requesting Members to note the Statement of Final Accounts for the financial year 2016/17 and to approve the Pension Fund Annual Report for 2016/17.

The Treasurer highlighted the changes that had been made to the draft Statement of Accounts, with those having been delegated to him, and the Chairman, at the previous meeting of the Pension Fund Committee. He noted there had been no significant changes and the External Auditors had now signed off the accounts. Details of the changes were set out in the report and it was noted that the Constitution required the County Council's Audit Committee to approve the Final Accounts therefore, the details were submitted to the Pension Fund Committee for information only.

The Pension Fund's Annual Report 2016/17 was attached as an Appendix to the report and was submitted for approval by Members of the Committee. The Treasurer noted that the format of the report had been updated, however, the content remained the same as in previous years and was compliant with LGPS Regulations 2013.

The governance documents, referred to in the report, had been approved at the July meeting of the Pension Fund Committee. The Treasurer advised Members that the County Council's Audit Committee had given its approval to the Pension Fund Annual Report 2016/17.

A Member referred to the section relating to members leaving the Scheme and asked whether their pension payments were repaid or held for payment at a later date. In response it was stated that should Scheme members have been paying into the Fund for two years or less their payments would be refunded, otherwise these would be deferred for payments at pension age or transferred to another Pension Fund, on request. The Chairman noted that there were a large number of deferred pensions within the Scheme and highlighted that transfers in/out were a major issue for the Administration Team.

**Resolved -**

- (i) That the Statement of Final Accounts for 2016/17 be noted; and
- (ii) That the Pension Fund Annual Report for 2016/17 be approved.

## 22. Implementation of the Markets in Financial Instruments Directive (MIFID II)

Considered -

The Report of the Treasurer outlining the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018.

The Treasurer explained the context to the requirement for North Yorkshire Pension Fund, and all other local authority Pension Funds, to be categorised as “retail clients” (unless opted up by firms to an elective professional client’ status), whereas previously they were classified as ‘per se professional’ clients.

The potential impact on the Fund was explained and would mean that all financial services firms would have to treat local authorities the same way as they did non-professional individuals and small businesses. There would be an impact on the Fund in terms of additional work, and money, required to implement the Directive. There would also be an impact in terms of the limiting of the range of assets available to implement an effective, diversified investment strategy as many institutions were not authorised to deal with retail clients. Certain asset classes would also become unavailable to LGPS fund portfolios. Details were set out in an appendix to the report.

The Treasurer outlined the process required to elect to be treated as professional clients (opt-up): the quantitative and qualitative test, and noted that the SAB, LGA, DCLG and IA had successfully lobbied the FCA to ensure the test better met the unique situation of local authorities. Details of the new tests were set out in an appendix to the report. The election to professional status had to be completed with all financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. A standard opt-up process had been developed to enable a consistent approach to assessment. Appendices to the report detailed the process and provided appropriate templates.

The Treasurer detailed how applications could be made in respect of either all of the services offered by the institution or a particular service only. It was recommended that officers determine the most appropriate basis of the application, either via full or single service. Authorities were not required to renew elections on a regular basis but would be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status.

In terms of LGPS pools these were professional investors in their own right so would not need to opt up with the external institutions they use. Local authorities would however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer. In some circumstances the pool could use ‘safe harbour’ provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

Elections to professional status would be needed for every financial institution that the authority used outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases were made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets were liquidated and cash transferred.

The Treasurer stated that to continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election for the Fund to be treated as a professional client should be submitted to all financial institutions, with whom the authority had an existing or potential relationship, in relation to the investment of the pension fund and the process should commence as soon as possible. Authority should be delegated to the Treasurer to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis. Updates on progress would be submitted to future meetings.

Discussion of the report by Members resulted in the following issues and points being raised:-

- ◆ Concerns were raised that the Directive overcomplicated the current situation, and did not improve the current situation. The Treasurer sympathised with the view expressed but emphasised that the Fund had to comply with Directive to ensure the investment strategy could continue to be implemented.
- ◆ It was noted that the Directive had to be in place by 3rd January 2018, and that the process had commenced on 3<sup>rd</sup> July 2017. The timescales for implementation were difficult, but were expected to be met.
- ◆ It was noted that the Directive would have still been implemented whether pooling had taken place or not, and plans were in place for this prior to the pooling requirements being developed.
- ◆ It was recognised that the issue was complex and the Treasurer re-emphasised the implications of not 'opting-up' ie no access to alternative investments or discussion of fees on existing investments.

**RESOLVED:-**

- (i) that the potential impact on the investment strategy of becoming a retail client, with effect from 3<sup>rd</sup> January 2018, be noted;
- (ii) that the immediate commencement of applications for professional client status, with all relevant institutions, in order to ensure that the Pension Fund can continue to implement an effective investment strategy, be agreed;
- (iii) that the Committee acknowledges, and agrees to forgo, the protections available to retail clients as detailed in Appendix 1 to the report, in electing for professional client status; and
- (iv) that agreement be given to the delegation of the responsibility to the Treasurer of the Fund to complete the applications and determine the basis of the application as either full or single service.

**23. Member and Employer Issues - Administration Report**

Considered -

The report of the Treasurer providing Members with information related to the administration of the Fund over the year, to date, and providing an update on key issues and initiatives which impact on the Administration Team. The report provided details of the following:-

- ◆ Admission agreements and new academies.
- ◆ Membership statistics.
- ◆ Performance statistics.

- ◆ Annual Benefits Statements.
- ◆ Efficiency review.
- ◆ GMP reconciliation.
- ◆ General Data Protection Regulations (GDPR) 2018.
- ◆ Member training.
- ◆ Meetings timetable.

It was noted that the report had been slightly altered in relation to previous reports with more visibility given to the impact on the Administration Team.

Members discussed the report and the following issues and points were raised:-

- ◆ A Member welcomed the new style of report and suggested that it was very informative.
- ◆ Another Member also welcomed the report but considered that it would be appropriate to provide feedback on the new style of reporting once this had been submitted to a number of meetings, allowing an overall impression of how this differed from previously to be developed.
- ◆ Noting the trend downwards in active members, it was asked whether there would be sufficient cash, going forward, to meet outgoings. In response it was noted that auto-enrolment for LGPS funds provided some safeguarding in terms of the cash-flow situation and it was considered that, currently, there would be sufficient cash available to the Fund, in terms of payments out, for the foreseeable future. It was noted that of the 12 Funds entering the BCPP pooling arrangements, only two of those were cash-flow positive, including North Yorkshire Pension Fund. It was a situation that would continue to be closely monitored, therefore.
- ◆ A Member noted that not all the Annual Benefits' Statements had been issued by the statutory deadline and, noting that the Pensions Regulator had stated that they were to be more robust around such issues, wondered whether consideration had been given to self-reporting this to the Regulator. In response it was noted that there was still outstanding work in relation to this issue and until that had been completed it could not be determined whether the figures published were correct in terms of the issuing of Annual Benefits' Statements. It was suggested, therefore, that it would be premature to self-report to the Regulator until the position had been fully clarified. It was noted, also, that the Administration Team had appropriate plans in place to address the situation. The Member considered that the issue still had to be considered, in case the Regulator did intervene. In relation to this it was stated that a breaches log was being developed, for such matters to be recorded, so full explanations could be provided to the Regulator when necessary. The Member suggested that this was an appropriate course of action in relation to this matter.
- ◆ A Member highlighted the details of conferences and seminars provided in the report and suggested that new Members to the Committee would benefit from attending some of these, as he had done during his years of service to the Pension Fund Committee and noted how they provided an excellent networking opportunity with representatives from other Pension Funds. It was stated that Members should contact Amanda Alderson if they wished to attend any conference/seminar detailed.

- ◆ Reference was made to the non-attendance of Members at the recent training session and it was suggested that, in future, events should be better publicised and reminders provided to Members of when these were taking place.
- ◆ Reference was made to the General Data Protection Regulations (GDPR) 2018 and it was asked whether there were sufficient resources in the Administration Team for the volume of work required in complying with these Regulations. In response it was stated that the overarching structure would be provided through North Yorkshire County Council and would assist the Pensions Administration Team in complying with these Regulations.
- ◆ Members noted that there had been a substantial increase in the number of admitted bodies within the Fund and it was asked whether this was putting additional pressure on the Administration Team. It was acknowledged that a large amount of work had been created by the number of additional admitted bodies, particularly from the academisation of schools, but some of the burden of the work involved had been undertaken by the County Council's Legal Team, which was assisting the Pensions Administration Team in coping with the additional work. Members raised concerns regarding large numbers of additional admitted bodies coming into the Fund, the potential risk of those failing and the effect that could have on funding levels. It was acknowledged that this area was a potential risk to the Fund, however, it was expected that the Department for Education would be the guarantor for academies, should a failure occur, in terms of arrangements around pension funding. The Treasurer stated that he would clarify this situation with the Department for Education.

**Resolved -**

That the report, together with the issues raised by Members, be noted.

**24. GMP Reconciliation**

**Considered -**

The report of the Treasurer seeking approval to fund a comprehensive project to reconcile Guaranteed Minimum Pension (GMP) values held on the Pension Scheme administration system, Altair, with the values held for NYPF Scheme members on Her Majesty's Revenue and Customs (HMRC) records.

The Treasurer explained how the Local Government Pension Scheme was a defined benefits scheme which was contracted out of the State Earnings Related Pension Scheme (SEARCH). From 6 April 2016, the Government had decided that contracting out would be abolished coinciding with the introduction of the new single tier state pension and, as a result, HMRC had provided a one-off service to enable schemes to reconcile the GMP figures they held with those held by the HMRC. The service would cease in December 2018 after five years of operation.

It was essential to reconcile the GMP element recorded on Altair with those held on HMRC systems, to ensure that qualifying pensions coming into payment together with qualifying pensions already in payment were paid at the correct amount, in line with the statutory regulations governing the administration of the LGPS. This would ensure the liabilities of the scheme were represented accurately at each future valuation.

The Treasurer stated that, for a varied number of reasons, there were a large number of discrepancies present in the data held on Altair and HMRC, therefore, before the cessation of the service offered the discrepancies would need to be rectified. He noted that the proposed reconciliation project was likely to identify significantly larger number

of overpayments, compared to the number of underpayments, therefore it was important to undertake the project, so that these could be adjusted going forward.

An additional issue related to the Scheme and HMRC not agreeing on which members actually had a GMP and the reconciliation would ensure that the Scheme was paying the correct level of benefit at the correct time and that the liabilities of the Scheme were correctly reported at each valuation.

The Treasurer provided details of the extent of the work involved and noted that this was to be undertaken by an external organisation that specialised in the cleansing, extraction, comparison, and classification of data. He provided details of the financial justification for outsourcing the project and the costs involved. It was noted that the anticipated cost of the project was in the region of £230k with the work lasting for around 12 months. It was expected that the potential savings would be in the region of £1.9m on an ongoing basis, increasing each year in line with annual pension increases.

The following issues and points were raised during Members discussion of the report:-

- ◆ It was asked how underpayment/overpayment had occurred when LGPS had been working to a structured formula. An explanation was provided as to how this was occurring and why. An explanation was also provided as to how the discrepancies would continue to grow larger should the reconciliation not take place.
- ◆ A Member asked whether North Yorkshire Pension Fund would seek to recover overpayments, or pay out in relation to underpayments. It was explained that the rectification stage would take account of individual anomalies and the Pension Fund Committee would determine how to respond to those. It would not be necessary to impose a reclamation exercise where overpayments had occurred.
- ◆ It was clarified that the appropriate procurement procedure had been undertaken for the appointment of the external contractor who would be carrying out this process.
- ◆ Clarification was provided as to the extent of the project and the number of pensioners and independent members affected. It was noted that an initial analysis of data had been undertaken to determine the likely extent of the project. That analysis had determined the need to use an external contractor to deal with the project. It was expected that this would enable the reconciliation to be undertaken as efficiently and as effectively as possible.
- ◆ It was asked whether the timescales highlighted could be met and, once completed, that there would be no more issues in relation to this. In response it was stated that it was expected that the employment of the data team would enable the timescales to be fulfilled and would eradicate the discrepancies, going forward. It was noted that there would be no further opportunities to reconcile the discrepancies after December 2018. It was also clarified that the firm employed to undertake the project were liable for any issues that arose subsequent to that date.

#### **Resolved -**

That the expenditure required to complete the project outlined be approved.

## **25. Budget and Statistics**



Considered -

The report of the Treasurer outlining the following:-

- (a) The expenditure/income position to date for 2017/18.
- (b) The cash deployment of the Fund.

The Treasurer stated that the cash surplus for the quarter to 30 June 2017 of £37.8m was higher than the forecast by £1.9m. Pensions' payroll expenditure of £19.9m and retirement grant payments of £7.3m were higher than forecast by £0.1m. Contributions income of £64.0m represented a £1.1m positive variance to the budget. Transfer income for the period was £0.7m more than forecast at £2.5m. The GMP reconciliation (as detailed in the previous item) had now been included in the budget.

Details of the cash deployment in 2017/18 were outlined in the report.

**Resolved -**

That the report be noted.

## **26. Performance of the Fund's Portfolio for the Quarter ending 30 June 2017**

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 June 2017.

The report indicated that the absolute overall return for the quarter (+2.3%) was above the customised benchmark for the Fund (+0.7%) by +1.6%.

The 12 month absolute rolling return was +21.9%, 5.9% above the customised benchmark of +16.0%.

Absolute and relative returns over the rolling years to each of the last four quarter ends were provided by way of comparison.

The report provided details of individual Fund Managers' performance in respect of the following asset classes:-

- ◆ Overseas equities
- ◆ Global equities.
- ◆ UK equities.
- ◆ Fixed income.
- ◆ Property.
- ◆ Diversified growth funds.

Details relating to risk indicators, solvency, rebalancing and proxy voting were also provided.

The Treasurer invited representatives of AON Hewitt, the Fund's investment consultants, to provide an analysis of the performance of the Fund during the quarter to 30 June 2017 and they highlighted the following:-

- ◆ The Fund's investments had again performed very well during the quarter to the end of June 2017.

- ◆ There had been a strong performance in respect of equities, particularly from Baillie Gifford.
- ◆ The potential for interest rate rises, now being mooted worldwide, was having a positive effect on bond yields.
- ◆ The Fund was at 105% funding level at the end of June 2017, with a £160m surplus.
- ◆ Details of the performances of individual Fund Managers were highlighted and again the strong performance in the equity markets was noted.
- ◆ Investments into the private debt alternatives were continuing, with £20m invested by the end of August, moving toward a target of £150m.
- ◆ Changes to the portfolio management at Standard Life were outlined, together with some concerns regarding their performance.
- ◆ The forthcoming investment workshop would consider issues around the following:
  - currency hedging
  - how to reduce volatility in terms of equity investments
  - how to decrease volatility overall on the investment strategy whilst maintaining the good performance of the Fund's investments.

Members discussed the reports and the following issues and points were raised:-

- ◆ When considering disinvestment in equities the need to maintain the stronger performers, for example Bailey Gifford, with consideration given to reducing equities from other Fund Managers. The Investment Consultants acknowledged the issues raised but emphasised the need for the diversified portfolio, noting the strengths and weaknesses in each of the equity managers and their performance, both short term and long term, which were all of benefit to the Fund. It was emphasised that a measured approach to equity investments, to protect the Fund against volatility would be discussed in full at the investment strategy workshop.
- ◆ A Member welcomed the new representatives from the Investment Consultant, expressing his disappointment in losing the previous representatives, but stating that he looked forward to working with the new team.
- ◆ Issues around the performance of Fidelity and Standard Life were discussed with a brief outline of recent performance provided, however, it was noted that a much more in-depth discussion of Fund Managers' performance would take place at the following day's investment strategy workshop. The Treasurer noted that the discussions at the forthcoming workshop would be utilised to formulate recommendations, to be submitted to the Pension Fund Committee, in terms of moving forward with the investment strategy. A Member noted the current surplus and the recent excellent performance of the Fund's investments and emphasised the need to safeguard the current position wherever possible.
- ◆ It was noted that issues relating to the cash-flow position of the Fund and maintaining a positive cash-flow would also be considered at the investment strategy workshop, with a view to maintaining this going forward.

## **Resolved -**

That the investment performance of the Fund for the period ending 30 June 2017 be noted.

## **27. LGPS Pooling Arrangements**

### **Considered -**

The report of the Treasurer updating Members on progress towards the Government's announced proposal to pool the assets of LGPS Funds and to allow the Committee to provide a formal view on Scheme Member representation on the Joint Committee.

The Chairman, also Chairman of the Joint Committee, provided details of the appointment of the non-Executive Chairman of the Board for the Pool and of the forthcoming appointment of the Chief Executive of the Board. He also gave details of the salary package for the Chief Executive. He noted that the other appointments, both non-Executive and Executive, were yet to take place, but the recruitment process had commenced.

A Member raised concerns regarding the development of pooling, generally, despite accepting the fact that it had to be undertaken. He considered that an important issue ahead of the pool was asset allocations, with particular regard to the recent excellent performance of the North Yorkshire Pension Fund investments. He considered the lack of opportunity to have direct contact with Fund Managers, going forward, to discuss and debate how investments best suited the Fund would be detrimental. He also considered that the transition phase into the pool was potentially problematic and noted that there still appeared to be a focus on investment in infrastructure projects despite the North Yorkshire Pension Fund having expressed an opinion that it would not wish to invest in that area, currently.

He also raised concerns that the Board for the Pool would not have Local Government Pension Scheme experience unless the recruitment exercise actively sought to address that.

In response to the issues raised the Chairman acknowledged the concerns regarding the lack of Local Government Pension Scheme influence on the Board of the Pool and stated that he had made representations in relation to that. He was hopeful, therefore, that this matter would be addressed and that appropriate appointments would be made, going forward.

In respect of to the issues raised in relation to Fund Managers the Chairman noted that the Pension Fund Committee would continue to have an influence with regards to the investments made on behalf of North Yorkshire Pension Fund, however, the issue of direct contact with Fund Managers could not be controlled as North Yorkshire Pension Fund had to operate within the parameters of the pooling arrangements.

In terms of the transition process the Chairman outlined an initial timetable commencing in July 2018 for that to commence. He noted that full details would be presented to the Pension Fund Committee in relation to this and, at this stage, the timetable was not agreed and would be subject to alteration. He noted that further consideration was to be given to the transition process at the next meeting of the Joint Committee for the pool and those discussions would then be subject to consideration at a forthcoming meeting of the Pension Fund Committee. It was emphasised that transition into the pool from NYPF would be undertaken to best suit the needs of the North Yorkshire Pension Fund.

In respect of infrastructure the Treasurer emphasised that the Pension Fund Committee would determine asset allocation and investments on behalf of the North Yorkshire Pension Fund and, therefore, there would be no necessity to invest in infrastructure should that not be considered appropriate by the Committee. He also emphasised that there may be appropriate infrastructure projects that provided a suitable return and consideration would be given to these, if it was felt appropriate.

A Member asked whether some of the existing investments would be able to be transferred directly across to the pool, without having to disinvest and re-invest, thereby avoiding transition costs. In response it was noted that there would be more than 40 sub-funds available through the pool and it was hoped that some of these would allow the continuance of existing investments by the North Yorkshire Pension Fund, which could assist in reducing transition costs.

The Chairman outlined the difficulties being faced by the financial sector whereas previously they had 89 Funds to offer their services to and this was being reduced to eight pools of Funds, greatly reducing their opportunities to represent those Funds.

A Member emphasised the need to have appropriate systems and infrastructure in place, and fully tested, to ensure that BCPP was operating appropriately before the transition timetable commenced.

The Treasurer noted that the Section 151 Officers related to the pooling Funds had agreed to contact both the Chair and Vice-Chair of the Joint Committee and the non-Executive Chairman of the Board to outline their concerns regarding, potentially, the lack of local government experience and knowledge of the BCPP Board.

A Member emphasised the need for BCPP to perform strongly on investments to ensure that the recent performance of North Yorkshire Pension Fund was maintained.

The Chairman noted that the Pension Fund Committee had been requested to provide a formal view on Scheme member representation on the Pool's Joint Committee.

Discussion of this issue by Members raised the following issues and points:-

- ◆ It would be difficult to identify a single representative that could address Scheme member issues for all of the 12 Funds.
- ◆ It would be difficult to provide an appropriate report back mechanism due to the wide scale nature of the Pool, geographically, politically and demographically.
- ◆ Members considered that it was difficult to see how an appointment of a Scheme member representative on the Joint Committee would work effectively.
- ◆ It was suggested that, as the meetings would be public, Scheme member representatives would be able to attend, could ask questions at meetings and could report back accordingly, without being formally appointed to the Joint Committee.

**Resolved -**

- (i) That the update on progress towards the proposal to pool the assets of LGPS Funds, and the issues raised by Members in relation to that, be noted; and
- (ii) That no Scheme member representative should be appointed, formally, to the Joint Committee.

**28. Pension Board - Draft Minutes of the Meeting held on 20 July 2017**

Considered -

The draft Minutes of the Pension Board held on 20 July 2017.

**Resolved -**

That the draft Minutes be noted.

Members were invited to an investment strategy workshop taking place at 10 am on Friday 15 September 2017.

The meeting concluded at 12.30 pm

SL/JR

DRAFT

**North Yorkshire County Council****Pension Board****12 October 2017****North Yorkshire Pension Fund Annual Report and Accounts 2016/17****Report of Legal & Democratic Services****1.0 Purpose of Report**

- 1.1 To present for review the Annual Report and Accounts 2016/17 of the North Yorkshire Pension Fund (NYPF).

**2.0 Background**

- 2.1 The NYPF draft Statement of Final Accounts (SOFA) and suite of governance documents were approved by the Pension Fund Committee on 6 July 2017.

The PFC was later advised of a small number of minor (non-material) changes to the Accounts resulting from the audit process at its meeting on 14 September 2017, and noted the Annual Report 2016/17.

- 2.2 At its meeting on 7 September 2017 the Council's Audit Committee approved the Council's SOFA 2016/17 which includes the NYPF SOFA

**3.0 Annual Report and Accounts 2016/17**

- 3.1 The NYPF Annual Report and Accounts 2016/17 is attached as **Appendix 1**. The format of the report has been updated for 2016/17 but the content remains the same as in previous years and is compliant with the LGPS Regulations 2013. The governance documents are now included as links to the NYPF website rather than being attached as Appendices. The Annual Report is included in the audit of the Accounts. The Fund's auditor KPMG has advised informally that it will give an unqualified opinion of the Annual Report, subject to non-material issues being identified before the audit process is completed.
- 3.2 The Annual Report will be placed on the NYPF website by the deadline for publication of the 2016/17 Statement of Final Accounts of 30 September 2017.

**4.0 Review of the Annual Report and Accounts 2016/17**

- 4.1 The members of the Board are asked to review the Annual Report and Accounts 2016/17. Any issues raised, comments, suggestions, etc. should be passed to the Chair who will forward them to NYPF management who will be asked to formally respond.

## **5.0 Recommendation**

- 5.1 Members of the Pension Board review the Annual Report and Accounts 2016/17 and inform the Chair of any issues to be raised, comments or suggestions.

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

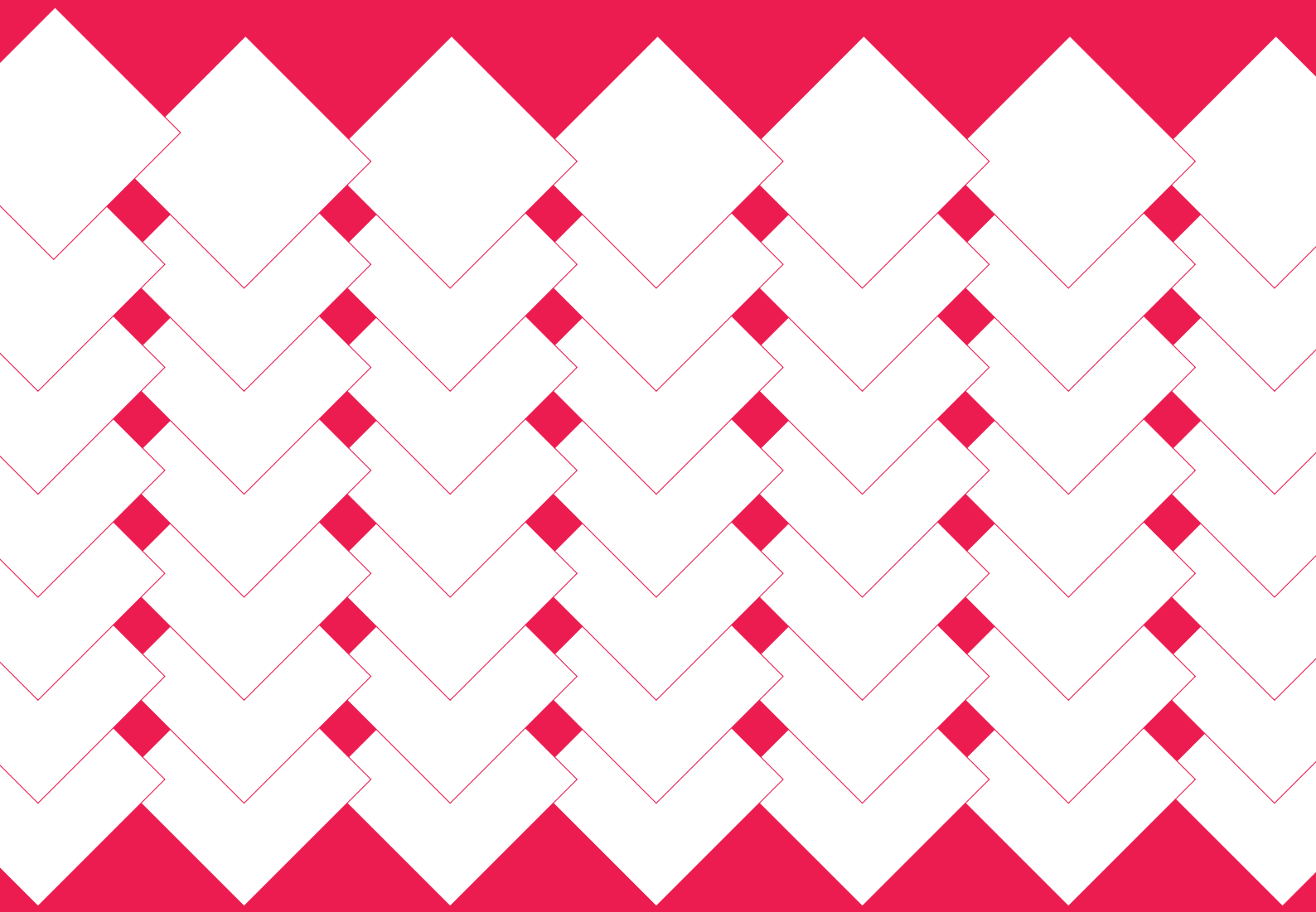
October 2017

Background Documents – attached.



# North Yorkshire Pension Fund

## Annual Report and Accounts 2016/17





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# Part 1 – Management and Financial Performance

## 1.1 Introduction

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

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area. The regulations also specify the member contribution rates as a percentage of pensionable pay, with employer

contribution rates being set every three years by the Fund’s Actuary. These contributions are supplemented by earnings on the Fund’s investments in order to pay retirement benefits.

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

## 1.2 Pension Fund Committee

PFC membership as at 31 March 2017 was as follows:

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham (Vice-Chairman)	Councillor, NYCC	Yes
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCoursey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils’ representative of Local Government North Yorkshire and York	Yes
David Carr	Councillor, City of York Council	Yes
David Portlock	Chairman of the Pension Board	No
3 Unison representatives	Union Officials	No

The powers delegated to the PFC are detailed in paragraph 2.1 of the Governance Compliance Statement (see Part 6).

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

## 1.3 Fund Administrators, Advisers and Investment Managers

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

### 1.4 Risk Management

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

(a) Pension Fund solvency remains a high risk due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period.

(b) Another key risk relates to the LGPS Pooling Arrangements (see paragraph 1.5). This is a major change to the way in which the Pension Fund will be managed so should be considered a significant risk.

In addition, the approach to managing third party risk such as late payment of contributions is contained in the Pension Administration Strategy (see Part 6). Contributions received from employers are monitored, the date of receipt is recorded and appropriate action is taken for late payments. For persistent material breaches of this protocol, the employer may be reported to the Pensions Regulator.

Further detail about how the Fund manages other risks can be found in Note 18 Nature and Extent of Risks Arising from Financial Instruments in the Statement of Accounts in Appendix A.

### 1.5 LGPS Pooling Arrangements

On 15 July 2016 the Fund and the twelve other LGPS funds in the Border to Coast Pensions Partnership (BCPP) sent a proposal to Government's Department for Communications and Local Government (DCLG) describing in detail how investment pooling arrangements could work. This proposal can be found here <https://www.nypf.org.uk/Documents/Pooling%20proposal.pdf>

This followed a summary proposal published by the BCPP on 19 February 2016. Both documents were responses to the Government's requirement for pooling described in guidance published on 25 November 2015, which followed a consultation in 2014.

All LGPS funds are required to enter pooling arrangements. The PFC decided that NYPF should join the BCPP as it represents a group of "like-minded" Funds where significant cost efficiencies are achievable.



# Part 2 – Scheme Administration

## 2.1 Administering Authority Arrangements

The Scheme's administration is the responsibility of Gary Fielding, the Treasurer.

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

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

## 2.2 Disputes Process

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

However as part of the Pension Team's customer care policy all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2016/17 only one case was received via the IDRP process and the outcome was in favour of the Fund, confirming that regulatory requirements have been followed and the appropriate action had been taken.

## 2.3 Pensions Administration

North Yorkshire Pension Fund covers the largest geographical area in England and Wales. The Fund's varied methods of communication tackle the challenges when communicating with both Fund members and employers. Continued support has been provided for employers to ensure they are confident in carrying out their function under the Scheme. Face to face bespoke training has been provided to encourage employers to use the dedicated employers' area on the NYPF website.

A streamlined year end guide and checklist have been provided with emphasis on data validation at source to minimise error rates.

Following the Education Act 2011 there has been a significant growth in scheme employers largely in respect of Secondary schools converting to Academies and the trend is still continuing with Primary school Academies. A dedicated NYPF contact has provided schools with appropriate actuarial information regarding employer contribution rates and deficits.

Scheme members have access to a dedicated telephone helpline and email address. The online self-service module of the Altair administration system continues to provide members with access to their Annual Benefit Statements. Members are also asked to use the online benefit projector to carry out their own estimated pension benefit calculations. Although members are encouraged to use electronic means of communication, NYPF still provides paper versions of documents on request. This is felt to be particularly important for members who may not have access to, or do not wish to use, electronic methods of communication.

## 2.4 Member Self-Service (MSS)

This is a web-based self-service facility which allows members to update their details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates process. As at 31 March 2017 there were 15,402 registered users. A small number of staff from employers within the Fund have direct upload access to the pensions database (with access to their employees only). This allows them to carry out basic pensions administration processes (creating new starter records, updating hours and personal information) and upload associated documents. Work is monitored via a 'task' which is created on the member record by the employer detailing what they have done. All changes can be tracked through an audit report which is run by the NYPF Systems team.

## 2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members may view their Annual Benefit Statement online. The majority, representing 97% of all statements, are delivered in this way with only 1,325 being posted to members in 2016/17.

## 2.6 NYPF Website

All essential information and guides are held on the website at [www.nypf.org.uk](http://www.nypf.org.uk) along with links to further national guidance. Employees and employers are able to use the website to refer questions to a generic pensions email address which is specifically resourced each day to provide a prompt response to queries. An 'Employers Only' area provides a central location to access forms and guides with the facility to securely submit forms electronically.

## 2.7 Data Quality

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

# Part 3 – Investment Policy and Performance

## 3.1. Investment Policy

### (a) Regulations

NYCC is required, as the administering authority, to invest any NYPF monies which are not immediately required to pay pensions and other benefits. The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, the purpose of which is to limit the exposure risk of an LGPS fund. Full details of the investment policy are shown in the Statement of Investment Principles (see part 6).

### (b) Investment Management arrangements

As at 31 March 2017 the following investment management arrangements were in place:

- ➔ Baillie Gifford manage two active global (i.e. including UK) equity portfolios, namely Global Alpha and Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings. Both are managed without reference to a benchmark, however the FTSE All World index is used for performance measurement purposes
- ➔ Fidelity manage an active overseas equities (ex UK) portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- ➔ Standard Life manage an active UK equity portfolio comprising segregated holdings in UK companies against the FTSE 350 equally weighted index (excluding investment trusts)
- ➔ ECM managed an active European corporate bond portfolio through a pooled fund on an absolute return basis, using 1-month LIBOR for performance measurement purposes

- ➔ M&G manage an active Gilts portfolio comprising segregated fixed income and index linked holdings, against the “least risk” benchmark
  - ➔ Hermes manage an active UK Property portfolio through a pooled fund with the objective of outperforming the IPD Other Balanced Property Funds index
  - ➔ Threadneedle and Legal & General both manage active UK Property portfolios through pooled funds with the objective of outperforming the All Balanced Property Funds index
  - ➔ Standard Life and Newton both managed Diversified Growth Fund portfolios during the year through the Global Absolute Return Strategy (GARS) and Real Return (RR) pooled funds respectively, with the objective of significantly outperforming the cash benchmark
  - ➔ Veritas and Dodge and Cox managed active global equity portfolios in the form of a pooled vehicle against the MSCI All Country World index
  - ➔ Bluebay and Permira manage private debt portfolios through pooled Funds, both are managed without reference to a benchmark but have an objective to significantly outperform cash
- The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The residual cost of this investment at the year-end was £0.055m.

The agreed asset class structure for the investment portfolio as at 31 March 2017 was as follows:

	Minimum %	Maximum %
Equities	50	75
Alternatives	10	20
Fixed Income	15	30

### (c) Custody of Investments

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

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

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

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

Performance for the year was +24.7% compared to the benchmark return of +21.8%. Performance for the Fund compared with the benchmark for 5 Years is shown below.

Periodic Performance	1 Year	5 Years (p.a.)
North Yorkshire Pension Fund	24.7%	13.6%
Benchmark	21.8%	11.4%
Performance against benchmark	+2.9%	+2.2%

## 3.2 Performance

### (a) Fund and Manager Performance

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

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2017.

March 2017 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund @ March 2017	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	19.9	35.5	33.1	2.4
Baillie Gifford Life Ltd - LTGG	13.8	38.1	33.1	5.0
Fidelity International	11.2	31.0	31.9	-0.9
Veritas	5.1	28.4	33.0	-4.6
Dodge and Cox	5.0	46.1	33.0	13.1
Standard Life Investments - Equities	10.3	23.1	16.8	6.3
ECM Asset Management	3.1	4.9	0.4	4.5
M&G Investment Management Ltd	14.1	24.9	24.0	0.9
Hermes Investment Management Ltd	1.1	6.4	4.6	1.8
Legal & General	2.1	4.0	3.7	0.3
Threadneedle	5.2	3.5	3.7	-0.2
Standard Life (GARS)	4.5	0.5	0.4	0.1
Newton Investments (RR)	3.7	2.2	0.4	1.8
Bluebay	0.2	0.3	3.1	-2.8
Permira	0.2	N/A	N/A	N/A
Internally Managed Cash	0.5	-	-	-
Total Fund	100.0	24.7	21.8	2.9

#### (b) Analysis of Accounts

The Statement of Accounts for the year 2016/17 is shown at Appendix A.

The value of the Fund's assets at 31 March 2016 was £2,418m, and this increased by £618m during the year to give a value of £3,036m at 31 March 2017.

#### Analysis of Fund Account over three years to 2016/7

	2016/17 £000	2015/16 £000	2014/15 £000
Net additions/(withdrawals) from dealings with members	23,205	15,840	(8,299)
Net investment return	3,843	8,705	16,610
Change in market value of investments	590,955	(6,581)	308,342
Net increase/(decrease) in the Fund	618,003	17,964	316,653

#### Analysis of Net Asset Statement over three years to 2016/17

	2016/17 £000	2015/16 £000	2014/15 £000
Fixed Interest Securities	422,864	341,598	161,287
Equities	587,799	488,055	701,918
Pooled Funds	1,742,033	1,391,947	1,335,586
Pooled Property	252,966	176,463	150,011
Private Equity	55	82	82
Cash Deposits	10,123	8,339	27,437
Other	4,382	2,813	4,204
<b>Total Investment Assets</b>	<b>3,020,222</b>	<b>2,409,297</b>	<b>2,380,525</b>
<b>Current Assets and Current Liabilities</b>	<b>15,614</b>	<b>8,536</b>	<b>19,344</b>
<b>Net Assets of the Fund</b>	<b>3,035,836</b>	<b>2,417,833</b>	<b>2,399,869</b>

**(c) Accounting and Cash Flow**

Prior to the start of the 2016/17 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (i.e. pensions, lump sums, administrative expenses) and income (i.e. employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

**The revised Budget for 2016/17 forecast a net cash surplus of £13.5m. The actual surplus for the year was £16.4m, resulting in an overall cash flow of £2.9m above expectations.**

	Budget 2016/17£m	Actual Income / Expenditure £m	Variance £m
Expenditure			
Benefits	102.0	104.4	2.4
Administration	1.6	1.7	0.1
Investment Expenses	8.3	7.2	-1.1
Total Expenditure	111.9	113.3	1.4
Income			
Employer and Employee contributions	110.5	126.0	15.5
Transfers	3.0	2.4	-0.6
Other Income	1.3	1.3	0.0
Total Income	114.8	129.7	14.9
Net Surplus	2.9	16.4	13.5

The main reason for the variance is due to an additional deficit payment being paid in full by an employer during the year.

This analysis of expenditure was reported to the PFC as part of the quarterly Fund management arrangements and has been analysed differently in the Statement of Accounts to comply with accounting requirements and guidance.

# Part 4 – Pension Administration Activity

The number of staff (in FTE terms) at the Council involved in Pension Administration was 23.70.

## (a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. NYPF's performance in these areas for the year to 31 March 2017 is shown here:

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer in quote	10 days	99.20
Letter detailing transfer out quote	10 days	94.75
Process and pay refund	5 days	98.70
Letter notifying estimate of retirement benefits	10 days	98.43
Letter notifying actual retirement benefits	5 days	100.00
Process and pay lump sum retirement grant	5 days	100.00
Initial letter acknowledging death of active/deferred/pensioner member	5 days	91.54
Letter notifying amount of dependant's benefits	5 days	91.54
Calculate and notify deferred benefits	10 days	95.07

## (b) Benefit Calculation Activity

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

Task	Number
Retirements	1,575
Transfers In	125
Refunds	564
Frozen Refunds	1,025
Preserved Benefits	2,638
AVCs/ARCs	10
Divorce cases	179
Deaths in Service	29
Deaths of Pensioners	509

## (c) Administration

The total numbers of joiners and leavers during 2016/17 were:

Joining	7,249
Retiring	1,328
Deaths	572
Other Leavers	3,460

The performance and activity reflect the efforts the Pension Administration team goes to in providing a first class service to the Fund membership. NYPF is one of the leaders across LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over 2016/17 include:

- Continued to promote online member self-service and encourage members to check their online Annual Benefit Statement, paying particular attention to their Career Average Benefits
- Encouraged members to plan for their retirement by providing pre-retirement presentations in conjunction with Affinity Connect. Information regarding financial planning and lifestyle adjustments were provided
- Managing the member's expectations by developing a simple flowchart explaining the timeline of the retirement process. This shows the flow of data between the employer and the pension fund from the time the member notifies their employer of their intention to retire, to the payment of their pension benefits
- Developed relationships with new employers to support them with the requirements of the LGPS. There has been a significant growth in scheme employers largely in respect of secondary schools converting to academies and the trend is still continuing with primary school academies.
- Offering face to face training and support for new employers or new staff within existing employers
- Dedicated newsletter for retired members
- Processes have been updated to encourage deferred members to 'opt into' electronic communications. This will allow a quicker and more efficient retirement process when the member wants to claim their pension benefits. It also allows regular updates to be provided more frequently. It will increase the number of newsletters which can be sent via email rather than by post, saving on printing and postage.

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



# Part 5 – Membership Contributions and Scheme Benefits

## 5.1 Membership

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

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

Employees therefore have various options to provide a pension in addition to the New State Pension:

- to be a member of the NYPF
- to purchase a personal pension plan or a stakeholder pension managed by a private sector company

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



Membership Type	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017
Current Contributors	29,036	31,501	35,056	31,748	33,559
Deferred Pensions	27,503	29,490	30,591	32,079	33,147
Pensioners Receiving Benefits	16,755	17,668	18,444	19,793	20,441

## 5.2 Contributions

The Fund is financed by contributions from both employees and employers, together with income earned from investments. The surplus of income received from these sources, net of benefits and other expenses payable, is invested as described in the Statement of Investment Principles (see Part 6).

The total contributions received for 2016/17 on an accruals basis were £127.3m, and North Yorkshire County Council being the main employer in the Fund contributed £52.2m.

## 5.3 Employer Analysis

At 31 March 2017 there were 140 contributing employer organisations within NYPF including the County Council itself. Full details of all employers can be found in the Statement of Accounts (Appendix A). The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled	95	9	104
Admitted Body	45	17	62
<b>Total</b>	<b>140</b>	<b>26</b>	<b>166</b>

## 5.4 Employee Contribution Rates

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2015 as follows:

Band	Range	Contribution rate
1	Up to £13,600	5.5%
2	£13,601 to £21,200	5.8%
3	£21,201 to £34,400	6.5%
4	£34,401 to £43,500	6.8%
5	£43,501 to £60,700	8.5%
6	£60,701 to £86,000	9.9%
7	£86,001 - £101,200	10.5%
8	£101,201 - £151,800	11.4%
9	£151,801 or more	12.5%

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

Employers' contributions are determined in a cycle every three years by a Triennial Valuation. The Valuation assesses the contributions required to meet the cost of pension benefits payable as they are earned, as well as additional contributions employers may be required to pay to address any deficit relating to previous years. Further details, including a list of each employer's minimum contributions following the 2016 Valuation are shown at <https://www.nypf.org.uk/Documents/NorthYorkshirePensionFund-ActuarialValuationasat31March2016.pdf>

## 5.5 Scheme Benefits

The LGPS is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet 'A Long Guide to the Local Government Pension Scheme for Employees in England and Wales', can be found on the North Yorkshire Pension Fund (NYPF) website at <https://www.nypf.org.uk/formsandguides/schemeguides.shtml>. A paper copy can be requested by ringing the NYPF at County Hall, Northallerton on 01609 536335.

### Normal Pension Age

The Normal Pension Age is a member's State Pension Age for both men and women (earlier voluntary retirement allowed from age 55 but benefits are reduced for early payment). However, some members have a protected Normal Pension Age of 65 years.

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

### Pension (Normal)

The calculation of pension benefits depends on the dates of membership involved. From 1 April 2014 the LGPS changed to a Career Average Revalued Earnings (CARE) scheme. The pension for membership from 1 April 2014 is worked out as 1/49th of pensionable pay for each year.

For membership up to 31 March 2014 benefits are worked out on a 'final salary' basis. A normal pension is based on the full time equivalent pensionable pay received in the last year of service, or the better of the two previous years, if this gives a higher figure. Also, applicable from 1 April 2008, members who have a reduction in their pensionable pay in the last 10 years (up to date of retirement) can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated as 1/80th for each year of membership of the scheme for service up to 31 March 2008 and as 1/60th for service after 1 April 2008.



An ill health pension is based on the full time equivalent pensionable pay received in the last year of service and a split of the 80ths and 60ths accrual for membership up to 31 March 2014. A pension of 1/49th of pensionable pay applies for membership from 1 April 2014 onwards. There are three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

#### First Tier:

If there is no reasonable prospect of being capable of gainful employment before Normal Pension Age the employee's LGPS pension is enhanced by 100% of the remaining potential pension to Normal Pension Age. This is based on 1/49th of an 'Assumed Pensionable Pay' figure which is a calculation of the pensionable pay on a prescribed basis for the period between the date of retirement and Normal Pension Age.

#### Second Tier:

If it is likely that the employee will be capable of undertaking some gainful employment before Normal Pension Age the employee's LGPS service is enhanced by 25% of the remaining potential pension to Normal Pension Age.

#### Third Tier:

If it is likely that the employee will be capable of undertaking some gainful employment within 3 years of leaving the employee receives payment of the benefits built up to the date of leaving with no enhancement. The benefits are only payable for a maximum period of 3 years (reviewed at 18 months to assess any improvement in the member's health).

#### Lump Sum Retirement Grant

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

### Death Grant

#### (i) Death in Service

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

If a member has a deferred benefit and / or a pension in payment from a previous period of membership of the scheme, the lump sum death grant will be any lump sum death grant payable in respect of those benefits or the death in service lump sum death grant of three times their assumed pensionable pay, whichever is the greater.

#### (ii) Death after Retirement

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

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

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

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

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

Benefits are payable to a cohabiting partner provided that the Scheme member paid into the LGPS on or after 1 April 2008.

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

**Children's Pension**

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

**Pension Increases**

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

**AVCs**

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee (PFC) has appointed Prudential as the nominated provider for this purpose. Further details are available from Prudential on 0800 032 6674.



# Part 6 – Governance Documentation

## The main governance documentation is as follows:

- **Statement of Investment Principles**  
<https://www.nypf.org.uk/Documents/Investment%20Strategy%20Statement%20-%20February%202017.pdf>
- **Governance Compliance Statement**  
<https://www.nypf.org.uk/Documents/Governance%20Compliance%20Statement%202015.pdf>
- **Funding Strategy Statement**  
<https://www.nypf.org.uk/Documents/Funding%20Strategy%20Statement-%20Feb%202017.pdf>
- **Communications Policy Statement**  
<https://www.nypf.org.uk/Documents/Comms%20Policy%20Statement%20-%20June%202017.pdf>
- **Pension Administration Strategy**  
<https://www.nypf.org.uk/nypf/policiesandstrategies.shtml>

A short summary of each Statement is included here. The full Statements are available at the links above.

### (a) Statement of Investment Principles

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

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

### (b) Governance Compliance Statement

Under the LGPS Regulations 2013 (as amended), an administering authority is required to publish a document describing how the Fund must assess its governance arrangements and compliance with any principles listed in the guidance. The main areas covered by this are:

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

### (c) Funding Strategy Statement

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

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

In addition to this, the Funding Strategy Statement covers:

- responsibilities of the key parties
- solvency issues and target funding levels
- link to Investment Strategy set out in the Statement of Investment Principles
- identification of risks and counter measures
- method, assumptions and results of the 2016 Actuarial Valuation

### (d) Communications Policy Statement

This statement sets out the communication strategy for communication with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.

### (e) Pension Administration Strategy

This document sets out the administration protocols that have been agreed between the Fund and its Employers. It includes the responsibilities and duties of the Employer and NYPF, performance levels, and communications.

# Part 7 – Training

## 7.1 Public Sector Pensions – Finance Knowledge and Skills

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

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

## 7.2. Training for Pension Fund Committee Members and Officers

### (i) Internally Provided

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

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

### (ii) Externally Provided

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

### Events attended by PFC Members during 2016/17 were:

Event	Date
Investment Conference	9-11 March 2016
NAPF Investment Conference	16-18 May 2016
NYCC Investment Manager Meeting	20 May 2016
LGC Investment Summit	7-9 September 2016
NYCC Investment Manager Meeting	16 September 2016
Baillie Gifford LGPS Pension Seminar	5-6 October 2016
PLSA Annual Conference	19-21 October 2016
PLSA Local Authority Conference	2 November 2016
Investment Strategy Review	25 November 2016
LAPFF Conference	7-9 December 2016
NYCC Investment Manager Meeting	24 February 2017
LGC Investment Seminar	2-3 March 2017
PLSA Investment Conference	8-10 March 2017

# Part 8 – Glossary and contact details

## Active member:

Current employee who is contributing to a pension fund.

## Actuary:

An independent professional who advises the Council on the financial position of the fund.

Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

## Additional Voluntary contributions (Avc):

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

## Administering Authority:

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

## Admitted Body:

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

## Alternatives:

An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts

## Asset Allocation:

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

## Benchmark:

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

## Care (Career Average Revalued Earnings)

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

## Deferred members:

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

## Defined Benefit Scheme:

A type of pension scheme, where the pension that will ultimately be paid to the member is calculated with reference to a formula and is not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

## Diversified Growth Funds (DGF):

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

## Employer Contribution Rates:

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

## Equities:

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

## Fixed Interest Securities:

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

## Index:

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

## Pooled Funds:

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

## Return:

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

## Scheduled Body:

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

## The Pensions Advisory Service (TPAS)

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

## Unrealised Gains/Losses:

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

## Contact Information

North Yorkshire Pension Fund  
County Hall  
Northallerton  
North Yorkshire  
DL7 8AL  
Telephone: Pensions Help & Information Line on 01609 536335  
Email: pensions@northyorks.gov.uk  
website: www.nypf.org.uk

The Pensions Advisory Service (TPAS)  
TPAS  
11 Belgrave Road  
London  
SW1V 1RB  
Telephone: The Pensions Helpline: 0845 601 2923  
Email: enquiries@pensionsadvisoryservice.org.uk.  
website: www.pensionsadvisoryservice.org.uk

# APPENDIX A

## Statement of responsibilities for the financial statements

Responsibility for the Financial Statements, which form part of this Annual Report, is set out below.

a) The Administering Authority

The Administering Authority is North Yorkshire County Council. The Administering Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that an officer has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

b) Treasurer

The Treasurer is responsible for the preparation of the Fund's Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom Based on International Reporting Standards (the Code). This document includes the financial statements for the Pension Fund only. The financial statements of North Yorkshire County Council are published separately.

In preparing these financial statements, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Treasurer has also:

- kept proper accounting records, which were up to date; and
- taken responsible steps for the prevention and detection of fraud and other irregularities.

Certificate

I hereby certify that the Annual Report and Accounts give a true and fair view of the financial position of the North Yorkshire Pension Fund as at 31 March 2016 and its income and expenditure for the financial year then ended.

### Gary Fielding

Treasurer  
North Yorkshire Pension Fund  
14 September 2017

## North Yorkshire Pension Fund Fund Account For The Year Ended 31 March 2017

2015/16		2016/17
£000		£000      £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions</b>	
57,626	Employers - Normal	58,793
25,765	- Deficit	38,953
2,572	- Early Retirement Costs Recharged	3,091
25,492	Employees - Normal	26,226
233	- Additional Voluntary	187
<u>111,688</u>	<b>Total Contributions Receivable (Note 7)</b>	<u>127,250</u>
8,680	<b>Transfers In (Note 8)</b>	11,959
	<b>Less</b>	
	<b>Benefits</b>	
(73,274)	Pensions	(76,846)
(23,176)	Commutation and Lump Sum Retirement Benefits	(23,693)
(2,282)	Lump Sums Death Benefits	(3,664)
<u>(98,732)</u>	<b>Total Benefits Payable (Note 9)</b>	<u>(104,203)</u>
(364)	Leavers	
	Refunds to Members Leaving Service	(267)
0	Payments for Members Joining State Scheme	0
(3,603)	Transfers Out	(9,280)
<u>(3,967)</u>	<b>Total Payments on Account of Leavers (Note 10)</b>	<u>(9,547)</u>
(1,829)	<b>Management Expenses (Note 11)</b>	(2,255)
<u>15,840</u>	<b>Net Additions From Dealings With Members</b>	<u>23,205</u>
	<b>RETURNS ON INVESTMENTS</b>	
16,963	Investment Income (Note 12)	18,330
(290)	Taxation (Note 13)	(256)
(7,968)	Investment Management Cost (Note 11)	(14,231)
(6,581)	Change in market value of investments (Note 14a)	590,955
<u>2,124</u>	Net Returns On Investments	<u>594,798</u>
17,964	Net Increase in the Fund During the Year	618,003
2,399,869	Opening Net Assets of the Fund	2,417,833
<u>2,417,833</u>	Closing Net Assets of the Fund	<u>3,035,836</u>

## North Yorkshire Pension Fund - Net Assets Statement

31 March 2016		31 March 2017
£000		£000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	
341,598	Fixed Interest Securities	422,864
488,055	Equities	587,799
1,391,947	Pooled Investments	1,742,033
176,463	Pooled Property Investments	252,966
82	Private Equity	55
<u>2,398,145</u>		<u>3,005,717</u>
8,339	Cash Deposits	10,123
13,584	Investment Debtors	6,234
<u>2,420,068</u>	<b>TOTAL INVESTMENT ASSETS</b>	<u>3,022,074</u>
	<b>INVESTMENT LIABILITIES (Notes 14 &amp; 15)</b>	
0	Derivative Contracts - Forward Currency Contracts	(182)
(10,771)	Investment Creditors	(1,670)
<u>(10,771)</u>	<b>TOTAL INVESTMENT LIABILITIES</b>	<u>(1,852)</u>
<u>2,409,297</u>	<b>NET INVESTMENT ASSETS</b>	<u>3,020,222</u>
	<b>CURRENT ASSETS</b>	
7,612	Contributions due from employers	7,878
903	Other Non-Investment Debtors	797
3,780	Cash	8,683
<u>12,295</u>	<b>TOTAL CURRENT ASSETS</b>	<u>17,358</u>
	<b>CURRENT LIABILITIES</b>	
(3,759)	Non-investment creditors	(1,744)
<u>(3,759)</u>	<b>TOTAL CURRENT LIABILITIES</b>	<u>(1,744)</u>
<u>2,417,833</u>	<b>TOTAL NET ASSETS (Note 17)</b>	<u>3,035,836</u>

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

## Notes To The North Yorkshire Pension Fund Accounts

## For The Year Ended 31 March 2017

## 1. Description of the Fund

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

The following description of the Fund is a summary only. For more detail, refer to the NYPF Annual Report 2016/17 and the statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

## a) General

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

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by NYCC to provide pensions and other benefits for pensionable employees of NYCC, other local authorities in North Yorkshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

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

## b) Membership

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

Organisations participating in NYPF include:

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

At 31 March 2017 there were 140 contributing employer organisations within NYPF including the County Council itself, and over 87,000 individual members, as detailed overleaf:



95 Scheduled Bodies incl 52 Academies	Academy Trusts
Ainsty 2008 Internal Drainage Board	Bishop Wheeler Academy Trust Bodies
Askham Bryan College	- Mary's RC School
Chief Constable NYP	- St Stephen's RC School
City of York Council	- St. Joseph's School
Craven College	Craven Education Trust
Craven District Council	- The Skipton Academy
Easingwold Town Council	Ebor Academy Trust
Filey Town Council	- Brotherton and Byram School
Foss 2008 Internal Drainage Board	- Haxby Road Academy
Fulford Parish Council	- Staynor Hall
Glusburn Parish Council	- Filey School Academy
Great Ayton Parish Council	- Camblesworth CP School
Hambleton District Council	- Robert Wilkinson Primary Academy
Harrogate Borough Council	Enquire Learning Trust
Haxby Town Council	- Roseberry Academy
Hunmanby Parish Council	- East Whitby C.P.
Knaresborough Town Council	- Stokesley C.P.
Malton Town Council	Hope Learning Trust
North York Moors National Park	- Manor Academy
North Yorkshire County Council	- Poppleton Ousebank School
North Yorkshire Fire and Rescue	- Burton Green Primary
North Yorkshire Police and Crime Commissioner	- Forest of Galtres
Northallerton & Romanby JBB	Northern Star Academy Trust
Northallerton Town Council	- Harrogate High
Norton on Derwent Town Council	- Hookstone Chase Primary School
Pickering Town Council	- New Park Academy
Richmond Town Council	- Skipton Girls High School
Richmondshire District Council	Pathfinder Academy Trust
Ripon City Council	- Archbishop Holgate

95 Scheduled Bodies incl 52 Academies	Academy Trusts
Ryedale District Council	- Badger Hill
Scarborough Borough Council	- Hempland Primary
Scarborough Sixth Form College	- Heworth Primary
Selby College	Red Kite Learning Trust
Selby District Council	- Harrogate Grammar
Selby Town Council	- Oatlands Junior School
Skipton Town Council	- Western CP School
Sutton in Craven Parish Council	Rodillian Multi Academy Trust
Tadcaster Town Council	- Brayton High School
Thornton (Vale of Pickering) IDB	Scalby Learning Trust
Whitby Town Council	- Scalby School
York College	South Bank Multi Academy Trust
	- Knavesmire
Yorkshire Dales National Park	- Millthorpe
University Technical College Scarborough	- Scarcroft
Great Smeaton Academy Primary School	South Craven Academy Trust
Huntington Primary Academy	- South Craven School
Norton College	Vale of York Academy Trust
Outwood Academy	- Canon Lee
Rossett School	YA Collaboration Trust
Stokesley School Academy	- Askwith School
The Grove Academy	- Bilton Grange School
The Woodlands Academy	- Lothersdale Schools
Thomas Hinderwell Primary Academy	Yorkshire Causeway Trust
	- Richard Taylor School
	- St Aidans CE School
	- Oatlands Infant School
	- Pannal Primary School
	- St Peter's CE Primary School

45 Admitted Bodies	
Be Independent	Mellors
Betterclean Services	Northern Care (Whistledawn)
Bulloughs Cleaning Ltd	North Yorkshire Property Services
Catering Academy Ltd	OCS Group UK Ltd
Caterservice Ltd	Richmondshire Leisure Trust
Chartwells Compass	Ringway Operatives
Churchill	Sanctuary Housing Association
Everyone Active (SLM Scarborough)	Schools Plus
Consultant Services Group	Sewell Facilities Management
Dolce Ltd	Sheffield International Venues
Enterprise	
Explore York Libraries and Archives	Springfield Home Care
Grosvenor Facilities Management	Streamline Taxis
Harrogate International Centre	Superclean Services Group
Housing 21	University of Hull
Human Support Group Ltd	Veritau Ltd
Hutchison Catering	Veritau North Yorks
Independent Cleaning Services	Welcome to Yorkshire
Interserve	Wigan Leisure and Culture Trust
ISS Mediclean Ltd	York Archaeological Trust Ltd
Joseph Rowntree Charitable Trust	York Museums and Galleries Trust
Lifeways Community Care Ltd	York St John University
Make It York	Yorkshire Coast Homes

45 Admitted Bodies	31 March 2017 No	31 March 2016 No
Number of Employers with Active Members	140	125
Employees in the Fund		
NYCC	19,528	20,497
Other employees	14,031	13,493
<b>Total</b>	<b>33,559</b>	<b>33,990</b>
Pensioners		
NYCC	11,017	10,623
Other employees	9,424	9,087
<b>Total</b>	<b>20,441</b>	<b>19,710</b>
Deferred pensioners		
NYCC	20,318	19,560
Other employees	12,829	12,409
<b>Total</b>	<b>33,147</b>	<b>31,969</b>

## c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 that set the contribution rates for 2017/18, 2018/19, 2019/20; details of the rates for individual employers are available on the Fund's website. The contribution rates in 2016/17 were set at the 2013 Valuation.

## d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS up to 31 March 2014 are based on final pensionable pay and length of pensionable service.

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

From 1 April 2014 the scheme became a career average scheme whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with CPI.

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

**2. Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its year end position as at 31 March 2017.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

**3. Summary of Significant Accounting Policies****Fund Account – Revenue Recognition****a) Contribution Income**

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

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

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

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

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS Regulations (see notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions or other defined contribution arrangements to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8).

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

**c) Investment Income**

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

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

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

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

**Fund Account – Expense Items****d) Benefits Payable**

Pensions and lump sum benefits payable include all amounts that have been paid during the financial year.

**e) Taxation**

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

**f) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

**Administrative Expenses and Oversight and Governance Costs**

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

**Investment Management Expenses**

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

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

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

- Baillie Gifford & Co - Global Equities
- FIL Pensions Management (Fidelity) - Global (ex-UK) Equities
- Standard Life Investments – UK Equities
- Hermes Investment Management- UK Property
- Bluebay- Private Debt
- Permira- Private Debt

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund accounts.

#### Net Assets Statement

##### g) Assets

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

##### h) Foreign Currency Transactions

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

##### i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

##### j) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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

##### k) Liabilities

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

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's Actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an Appendix to these statements.

##### m) Additional Voluntary Contributions

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

AVCs are not included in the Accounts in accordance with Section 4(1)(b) of the LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

#### 4. Critical Judgement in Applying Accounting Policies

##### Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2017 was £55k (31 March 2016, £82k).

##### Pension Fund Liability

The Fund's liability is calculated every three years by the Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The item in the Net Assets Statement as at 31 March 2017 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by 1.9%, a 0.1% increase in inflation would increase liabilities by 1.9%, and an increase in life expectancy of one year would increase liabilities by 2.9%.

#### 6. Events After the Reporting Date

There have been no Post Balance Sheet Events.

## 7. Contributions Receivable

By category	2016/17 £000	2015/16 £000
<b>Employees' contribution</b>	26,413	25,725
<b>Employers' contribution</b>		
Normal contributions	58,793	57,626
Deficit recovery contributions	38,953	25,765
Early Retirement Recharges	2,602	2,572
Compensatory Added Years Recharges	489	0
Total Employer's contributions	127,250	111,688
By authority	2016/17 £000	2015/16 £000
<b>Contributions Receivable</b>		
North Yorkshire County Council	52,208	49,156
Other Scheduled Bodies	68,944	55,521
Admitted Bodies	6,098	7,011
	127,250	111,688

## 8. Transfers in from other Pension Funds

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

## 9. Benefits payable

	2016/17 £000	2015/16 £000
Benefits Payable		
North Yorkshire County Council	44,144	42,069
Other Scheduled Bodies	53,056	49,115
Admitted bodies	7,003	7,548
	104,203	98,732

## 10. Payments to and on Account of Leavers

All payments were in relation to individual members. There were no group transfers during the year.

## 11. Management Expenses

	2016/17 £000	2015/16 Restated £000	2015/16 Original £000
Administrative Costs	1,852	1,412	1,412
Investment Management Costs	14,231	14,407	7,968
Oversight and Governance Costs	403	417	417
	16,486	16,235	9,797

Investment Management Costs includes £1,990k (2015/16: £3,947K) in respect of performance related fees payable to the Fund's investment managers and £2,638k in respect of transaction costs (2015/16 £2,900k).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of acquisitions and in the proceeds from the sales of investments (see Note 14a).

## 11A. Investment Management Expenses

	2016/17 £000	2015/16 £000
Management Fees	8,597	6,637
Performance Related Fees	1,990	3,947
Custody Fees	81	97
Transaction Costs	2,638	2,900
Other	925	825
	14,231	14,407

## 12. Investment Income

	2016/17 £000	2015/16 £000
Income from bonds	2,829	£2,301
Income from equities	13,507	12,683
Pooled Property Investments	1,313	1,265
Pooled Investments - Other Managed Funds	0	63
Interest on Cash Deposits	3	81
Other	678	570
	18,330	16,963

## 13. Taxes on Income

	2016/17	2015/16
	£000	£000
Withholding Tax on Dividends	256	290

## 14. Investments

## a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2017	Change in market value at 31 March 2017	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2016
	£000	£000	£000	£000	£000
Fixed Interest Securities	422,865	82,714	(1,232,108)	1,230,661	341,598
Equities	587,799	110,792	(287,072)	276,024	488,055
Pooled Investments	1,742,033	384,244	(51,545)	17,387	1,391,947
Pooled Property	252,966	13,387	(146,665)	209,781	176,463
Private Equity	55	0	(27)	0	82
Derivative Contracts	(182)	(182)	0	0	0
Total Invested	3,005,536	590,955	(1,717,417)	1,733,853	2,398,145
Cash Deposits	10,123				8,339
Net Investment Debtors	4,563	1,750			2,813
Net Investment Assets	3,020,222	592,705			2,409,297

	Value at 31 March 2016	Change in market value at 31 March 2016	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2015
	£000	£000	£000	£000	£000
Fixed Interest Securities	341,598	14,473	(660,265)	826,103	161,287
Equities	488,055	(24,619)	(418,664)	229,420	701,918
Pooled Funds	1,391,947	(14,349)	(270,622)	341,332	1,335,586
Pooled Property	176,463	17,914	0	8,538	150,011
Private Equity	82		0	0	82
Derivative Contracts	0				0
Total Invested	2,398,145	(6,581)	(1,349,551)	2,348,884	2,348,884
Cash Deposits	8,339				27,437
Net Investment Debtors	2,813	(1,391)			4,204
Net Investment Assets	2,409,297	(7,972)			2,380,525

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

	2016/17	2015/16
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	422,682	341,598
Equities		
UK Quoted	308,717	274,721
Overseas Quoted	279,082	213,334
	587,799	488,055
Pooled Investments		
UK Equity	70,283	65,403
UK Property	252,966	176,463
UK Fixed Income	-	-
Overseas Equity	1,328,818	950,427
Overseas Fixed Income	93,095	129,395
	1,745,162	1,321,688
Diversified Growth Funds - UK	249,837	246,722
Private Equity - UK	55	82
Total Investments (excl Derivatives)	3,005,536	2,398,145
Cash Deposits	10,123	8,339
Net Investment Debtors	4,563	2,813
Net Investment Assets	3,020,222	2,409,297

## c) Investments analysed by Fund Manager

Investment Manager	31 March 2017		31 March 2016	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	604,424	19.9	445,906	18.4
Baillie Gifford & Co. - LTGG	418,471	13.8	303,055	12.5
Fidelity International	340,419	11.2	259,850	10.7
Standard Life Investments - Equities	312,208	10.3	279,634	11.6
Standard Life Investments - DGF	138,060	4.5	137,312	5.7
ECM Asset Management	93,095	3.1	129,394	5.4
Hermes Property Unit Trust	32,866	1.1	32,113	1.3
Legal & General	62,453	2.1	60,029	2.5
Threadneedle	158,237	5.2	84,911	3.5
M&G Investments	427,134	14.1	342,475	14.2
Newton Investments	111,778	3.7	109,409	4.5
Dodge & Cox	153,007	5.0	104,730	4.3
Veritas	154,599	5.1	120,397	5.0
Bluebay	7,570	0.2	0	0.0
Permira	5,850	0.2	0	0.0
Currency Hedging	0	0.0	(1)	0.0
Yorks & Humber Equity Fund	52	0.0	82	0.0
Internally Managed (cash and net debtors)	15,614	0.5	8,537	0.4
	3,035,836	100.00	2,417,833	100.00

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

## d) Stock Lending

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or in any previous years. are either below 5% or constitute a portfolio of segregated assets.

Type	Expires	Economic Exposure	Market Value 31 March 2016	Economic Exposure	Market Value 31 March 2017
		£000	£000	£000	£000
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	-	-	(182)	(182)

## 16. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Futures and options in UK bonds</b>	Level 1	Published exchange prices at the year-end	Not required	Not required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not required
<b>Unquoted bonds</b>	Level 2	Average of broker prices	Evaluated price feeds	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Overseas bond options</b>	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price	NAV-based pricing set on a forward pricing basis	Not required

## Fair Value – Basis of Valuation...Continued

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Pooled investments – hedge funds</b>	Level 3	Closing bid price where bid and offer prices are published  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts  31. Required by 6.5.5.1 d) and f), 7.4.2.13 of the Code.
<b>Notes to the North Yorkshire Pension Fund Account for the year ended 31 March 2017 Page 31 Description of asset</b>	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided

## Fair Value – Basis of Valuation...Continued

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided 32
<b>Freehold and leasehold properties</b>	Level 3	Valued at fair value at the year-end using the investment method of valuation by John Finley FRICS of independent valuers Carrott-Jones LLP in accordance with the RICS Valuation Standards (9th Edition)	Existing lease terms and rentals  Independent market research  Nature of tenancies  Covenant strength for existing tenants  Assumed vacancy levels  Estimated rental growth  Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
<b>Unquoted equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple  Revenue multiple  Discount for lack of marketability  Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts



### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
	£000	£000	£000
<b>Pooled investments – hedge funds</b>			
Freehold and leasehold property			
Unquoted overseas equity			
Private equity	55		
<b>Total</b>	55		

### 16a: Fair Value Hierarchy

#### Level 1

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

#### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

#### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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

Values at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2,729,536	309,841	55	3,039,432
Non-financial assets at fair value through profit and loss				0
Financial liabilities at fair value through profit and loss	(3,596)			(3,596)
<b>Net investment assets</b>	2,725,940	309,841	55	3,035,836

Values at 31 March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>	2,105,546	326,735	82	2,432,363
<b>Non-financial assets at fair value through profit and loss</b>				0
<b>Financial liabilities at fair value through profit and loss</b>	(14,530)			(14,530)
<b>Net investment assets</b>	2,091,016	326,735	82	2,417,833

Following a review of investment characteristics, some investments held by the Fund have been categorised as Level 2 investments in 2016/17. These investments were also held in 2015/16 they have also been restated in the table above.

## 17. Financial Instruments

### a) Classification of Financial Instruments

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

31 March 2016				31 March 2017		
Designated as fair value through profit & loss £000	Loans & Receivables £000	Financial liabilities amortised at cost £000		Designated as fair value through profit & loss £000	Loans & Receivables £000	Financial liabilities amortised at cost £000
			Assets			
341,598			Fixed Interest Securities	422,864		
488,055			Equities	587,799		
1,145,224			Pooled Investments	1,492,196		
176,463			Pooled Property	252,966		
246,722			Diversified Growth Funds	249,837		
82			Private Equity	55		
			Derivative contracts			
	12,120		Cash		18,806	
13,584	0		Investment Debtors	6,234		
	8,515		Non Investment Debtors		8,675	
2,411,728	20,635	0		3,011,951	27,481	0
			Liabilities			
0			Derivative Contracts	182		
10,771			Investment Creditors	1,670		
		3,759	Non Investment Creditors			1,744
10,771	0	3,759		1,852	0	1,744
2,400,957	20,635	(3,759)		3,010,999	27,481	1,744

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

	2016/17	2015/16
	£000	£000
Fair Value Through Profit & Loss	590,955	(6,581)
Loans and Receivables	37	(20,489)
	590,992	(27,070)

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

### Risk and Risk Management

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

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

The risk register covers a broad range of risks in addition to the solvency of the Fund, including but not limited to, investment strategy, pooling arrangements and key personnel risks.

### a) Market Risk

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

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

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

The Fund manages these risks in two ways:

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

### Other Price Risk

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

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

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

**Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment

advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-) %
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.5
UK Pooled Equities	19.0
Overseas Pooled Equities	20.5
UK Pooled Bonds	9.0
Overseas Pooled Bonds	11.0
Pooled Property Investments	12.5
Diversified Growth Funds	10.5
Private Equity	27.5
Derivatives	0.0
Non-Investment Debtors/Creditors	0.0

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular

foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2017	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	10,123	101	10,224	10,022
UK Bonds	422,864	38,058	460,922	384,806
UK Equities	308,717	58,656	367,373	250,061
Overseas Equities	279,082	57,212	336,294	221,870
UK Pooled Equity	70,283	13,354	83,637	56,929
Overseas Pooled Equity	1,328,818	272,408	1,601,226	1,056,410
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	93,095	10,240	103,335	82,855
Pooled Property Investments	252,966	31,621	284,587	221,345
Diversified Growth Funds	249,837	26,233	276,070	223,604
Private Equity	55	15	70	40
Derivatives	(182)	0	(182)	(182)
Non Investment Debtors/Creditors	6,931	0	6,931	6,931
Total Assets	3,022,589		3,530,487	2,514,691

Asset Type	Value as at 31 March 2016	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Cash and Cash Equivalents	8,339	83	8,422	8,256
UK Bonds	341,598	30,744	372,342	310,854
UK Equities	274,721	52,197	326,918	222,524
Overseas Equities	213,333	42,667	256,000	170,666
UK Pooled Equity	65,403	12,427	77,830	52,976
Overseas Pooled Equity	950,428	190,086	1,140,514	760,342
UK Pooled Bonds	0	0	0	0
Overseas Pooled Bonds	129,395	11,646	141,041	117,749
Pooled Property Investments	176,463	22,058	198,521	154,405
Diversified Growth Funds	246,722	28,373	275,095	218,349
Private Equity	82	23	105	59
Derivatives	0	0	0	0
Non Investment Debtors/Creditors	4,756	0	4,756	4,756
Total Assets	2,411,240		2,801,544	2,020,936

**Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is monitored by the Fund and its investment advisers through the risk management strategy including monitoring the

exposure to interest rates and assessment of actual interest rates against the strategic benchmark.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2016/17	2015/16
	£000	£000
Cash and Cash Equivalents	10,123	8,339
Fixed Interest Securities	422,864	341,598
	432,987	349,937

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Advice suggests that it is reasonable to expect a change in

the long term average rate of approximately 1%. For illustrative purposes if it were to change by +/- 100 bps the values in the table above would change by £4,330k and for 2015/16 asset values, £3,499k.

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

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

After receiving advice it is considered that the likely volatility associated with foreign exchange movements to be +/-9.8%. A fluctuation of this size is considered reasonable based on the analysis of long term historical movements in the month end exchange rates.

Assuming all other variables, in particular, interest rates remain constant, a 9.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value as at 31 March 2017	Value on 9.8% Increase	Value on 9.8% Decrease
	£000	£000	£000
Overseas Equities	1,607,900	1,765,474	1,450,326
Overseas Bonds	93,095	102,218	83,972
Total Assets	1,700,995	1,867,693	1,534,297

Asset Type	Value as at 31 March 2016	Value on 9.1% Increase	Value on 9.1% Decrease
	£000	£000	£000
Overseas Equities	1,163,761	1,269,663	1,057,859
Overseas Bonds	129,395	141,170	117,620
Total Assets	1,293,156	1,410,833	1,175,479

### b) Credit Risk

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

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet NYCC's credit criteria. NYCC has also set limits as to the maximum amount of deposits placed with any one financial institution. The banks and institutions

chosen all have at least the minimum credit rating as described in NYCC's Treasury Management Strategy.

NYCC believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements with NYCC at 31 March 2017 was £8.6m (31 March 2016, £3.8m) and was held with the following institutions:

	Credit Rating	31 March 2017	31 March 2016
		£000	£000
<b>Call Accounts</b>			
Barclays	A/F 1	552	569
Santander UK	A/F 1	227	15
<b>Fixed Term Deposit Notice Accounts</b>			
Bank of Scotland	A+/F1	2,396	1,208
Leeds BS	A-/F1	366	71
Nationwide	A/F 1	1,127	569
Svenska Handelsbanken	AA/F1+	-	114
Santander UK	A/F1	900	554
Goldman Sachs	A/F1	1,127	426
Lancashire County Council	-	282	142
Leicester FRA	-	-	-
London Borough of Enfield	-	-	71
Salford City Council	-	141	-
Falkirk Council	-	-	71
Fife Council	-	141	-
Hambleton District Council	-	155	-
Isle of Wight Council	-	282	-
West Berkshire District Council	-	113	-
West Dunbartonshire Council	-	310	-
Warrington Borough Council	-	282	-
Woking Borough Council	-	141	-
Northumberland County Council	-	141	-
		8,683	3,810

### c) Liquidity Risk

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

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

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

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

As at 31 March 2017 the value of illiquid assets was £55k, which represented less than 0.1% of total Fund assets (31 March 2016, £82k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2017 are due within one year. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

### 19. Funding Arrangements

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

The key elements of NYPF's funding policy are:

- to ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible

- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

At the 2016 Valuation the aim was to achieve 100% solvency over a period of 24 years from April 2017 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2016 Triennial Valuation the Fund was assessed as 90% funded (73% at the 2013 Valuation). This reflected a deficit of £283m (£668m at the 2013 Valuation).

The common rate of employers' contributions is the average rate required from all employers calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date. For 2016/17 the common rate (determined at the 2013 Valuation) is 13.8% of pensionable pay.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

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

	Liabilities
Investment Return	4.40% per annum
Inflation	2.00% per annum
Salary Increases	3.25% per annum
Pension Increases	2.00% per annum

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

	Male	Female
Current pensioners	22.7	26.2
Future pensioners (assumed current age 45)	24.9 years	28.5 years

### Commutation Assumption

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

### 50:50 Option

It is assumed that no active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

### 20. Actuarial Present Value of Promised Retirement Benefits

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

### 21. Current Assets

	2016/17 £000	2015/16 £000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment transactions	2,490	9,676
Accrued Dividends	2,058	2,122
Withholding Taxes Recoverable	1,686	1,786
	6,234	13,584
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	7,449	7,137
Contributions due from Admitted Bodies	429	475
Pensions Rechargeable	301	253
Interest on Deposits		107
Other	496	543
	8,675	8,515
<b>Total Debtors</b>	<b>14,909</b>	<b>22,099</b>

## 22. Current Liabilities

	2016/17	2015/16
	£000	£000
Investment Creditors	1,670	10,771
Sundry Other Creditors	1,744	3,759
	3,414	14,530

## 23. Additional Voluntary Contributions

	Market Value 31 March 2017	Market Value 31 March 2016
	£000	£000
Prudential	19,958	19,644

AVC contributions of £1,846k were paid directly to Prudential during the year (£2,036k in 2015/16).

## 24. Agency Services

The North Yorkshire Pension Fund does not operate Agency Service contracts.

## 25. Related Party Transactions

North Yorkshire County Council

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

The Council incurred costs of £1,231K (£1,136k in 2015/16) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £52.2m to the Fund in 2016/17 (£49.2m in 2015/16).

Part of the Fund's cash holdings are invested with banks and other institutions by the treasury management operations of NYCC, through a service level agreement. During the year to 31 March 2017 the Fund had an average investment balance of -£2.4m (£16.8m during 2015/16) paid interest of £15.1k (£107.5k received in 2015/16) on these funds.

## Governance

As at 31 March 2017 there were five Pension Fund Committee Members who were also active members of the Fund, each of whom was required to declare their interests at each meeting. The Corporate Director – Strategic Resources, who was also the Treasurer of the Fund was also an active member. Benefits for PFC Members and the Treasurer were accrued on exactly the same basis as for all other members of the Fund.

## Key Management Personnel

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

## 26. Contingent Liabilities and Contractual Commitments

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2015/16).

## 27. Contingent Assets

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

## 28. Impairment Losses

The Fund had no material impairment losses at the year-end (£nil in 2015/16).

# APPENDIX B

## North Yorkshire Pension Fund Statement of the Actuary for the year ended 31 March 2017

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the North Yorkshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £2,417.8M) covering 90% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

- 17.8% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate).

### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 24 years, amounting to £13.6M in 2017/18, and increasing by 3.25% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement. The approach, and the recovery period used for each employer, were agreed with the Administering Authority reflecting the Employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service Scheduled body / subsumption funding target Orphan body funding target	4.4% p.a.
Orphan body funding target	4.1% p.a.
Discount rate for periods after leaving service Scheduled body / subsumption funding target Orphan body funding target	4.4% p.a. 2.5% p.a.
Rate of pay increases (service up to 31 March 2014 only) (in addition to promotional increases)	3.25% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

In addition, the discount rate for orphaned employers (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% in-service and left-service.

The assets were valued at market value.

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

**6.** The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

**7.** The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

**8.** This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out by Aon Hewitt Limited as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

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

Aon Hewitt Limited  
24 May 2017.

## APPENDIX C

### Independent auditor's report to the members of North Yorkshire County Council on the pension fund financial statements published with the North Yorkshire Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 29 to 54.

#### Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of Responsibilities for the Financial Statements, the Treasurer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of North Yorkshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

#### Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of North Yorkshire County Council for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

#### Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Rashpal Khangura  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

1 Sovereign Square, Sovereign Street, Leeds  
LS1 4DA . 29 September 2016

## Contact us

**North Yorkshire County Council, County Hall, Northallerton, North Yorkshire, DL7 8AD**

Our Customer Service Centre is open Monday to Friday 8.00am - 5.30pm

(closed weekends and bank holidays). Tel: **01609 780 780**

email: **[customer.services@northyorks.gov.uk](mailto:customer.services@northyorks.gov.uk)** web: **[www.northyorks.gov.uk](http://www.northyorks.gov.uk)**

If you would like this information in another language or format please ask us.

Tel: **01609 780 780** email: **[customer.services@northyorks.gov.uk](mailto:customer.services@northyorks.gov.uk)**



**North Yorkshire County Council**

**Pension Board**

**12 October 2017**

**Internal Audit Plan**

**Purpose of Report**

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

**Audit Plan 2016/17**

Details of the planned audits for 2016/17 are shown in the table below

Audit	Status	Assurance level
Pension Investments	Complete	High Assurance
Pensions Income	Complete	Substantial Assurance
Pensions Expenditure	Draft	Reasonable Assurance
Altair IT System	Complete	Substantial Assurance

The Pensions Expenditure audit is still at draft stage and will be reported to the Board when issued as final. A copy of the final report for the remaining 3 audits are attached as **Appendices 1a, 1b and 1c**.

**Audit Plan 2017/18**

The Internal Audit Plan for 2017/18 was approved at the Board meeting on 20 July 2017. The current progress of work for the 2017/18 plan is detailed below

<b>Audit</b>	<b>Days</b>	<b>Status</b>
<b>Pension Fund Governance Arrangement</b>	<b>15</b>	
The audit will review the governance arrangements for the pension's fund, including compliance with CIPFA guidance and pensions fund regulations. This will include a review of the Annual report, and the issue of Benefits statements to scheme members.		<b>In progress</b>
<b>Pension Fund Income</b>	<b>15</b>	
The audit will review the processes in place for the collection of income from member organisations and the information provided to enable the calculation of benefits under the various schemes. This will include a follow up of previous years audit work on the quality of data provided by scheme employers		

## **Pension Fund Expenditure**

**15**

The audit will review the processes for paying pensions, in particular reviewing payment of new pensions and changes to pension entitlement.

### **Recommendation**

Pension Board Members are asked to note this report and the attached Internal Audit Reports

Ian Morton,  
Audit Manager,  
Veritau Ltd.

Background Papers - attached



# NYCC Pension Fund Investments

## North Yorkshire County Council

### Internal Audit Report 2016/17

Business Unit: Central Services  
 Responsible Officer: Corporate Director – Strategic Resources  
 Service Manager: Head of Pensions Administration  
 Service Manager: Senior Accountant - Pensions  
 Date Issued: 18 September 2017  
 Status: Final  
 Reference: 32210/009.bf

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall Audit Opinion</b>	High Assurance		

# Summary and Overall Conclusions

## Introduction

The Local Government Pension Scheme is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

The scheme is administered on a local basis and NYCC is the statutory Administering Authority for the scheme with responsibility for making sure appropriate arrangements are in place to administer all aspects of the Fund. This is achieved by the County Council delegating responsibility for managing all aspects of the Fund to the Pension Fund Committee.

## Objectives and Scope of the Audit

The audit was based upon a document produced by the Society of County Treasurers in conjunction with the Lead Auditor Working Group on the Audit of Investment Managers and the Chief Auditors Network. This guidance includes an analysis of risks and controls that are common to all local authority pension funds and that framework formed the basis for this review.

On that basis the purpose of the audit was to provide assurance to the NYPF that:

- the Authority had a policy and strategy for the investment of its funds that was reviewed annually;
- the Authority undertook a reconciliation of the funds it had invested; and
- investment fund managers produced independently audited financial statements and provided information required by the NYPF.

This included a review of:

- information such as insurance cover, annual reports and policies held by the Investment Managers.

## Key Findings

The LGPS (Investment and Management of Funds) Regulations 2016 came into force on 1 November 2016, replacing the 2009 regulations. Under these new regulations administering authorities are now required to have an Investment Strategy Statement (ISS) rather than the Statement of Investment Principles (SIP) as required under the previous regulations. The ISS was approved by the Pension Fund Committee in February 2017.

BYN Mellon the custodian reconciles the investments with each of the fund managers on a quarterly basis and prepares the quarterly performance reports that are presented to the Pension Fund Committee. The NYCC Accountant reconciles the NYPF investments on an annual basis at the year end. The process used was reviewed and appeared reasonable although there is an issue with the recording of some transactions at the year end because of timing differences.

Information is downloaded for each of the fund managers from the Workbench System, a system used by BYN Mellon for recording all of its transactions. Year end closing figures on Oracle are brought forward and entered onto a spreadsheet specifically set up for this purpose with a tab for each fund manager containing a template that is then completed for each category of investment. Information from the workbench reports are collated and entered onto the respective template within the spreadsheet. These are then summarised into the reconciliation and compared to the annual report from BNY Mellon to verify figures. Once verified a journal is completed and Oracle is updated. The reconciliation for 2016/17 identified two errors which were corrected.

As part of the reconciliation undertaken by the NYCC Accountant there is a check of what was reported by each fund manager in their year end reports, which is compared to the report produced by the custodian. This highlights timing differences which are checked to verify dates and to understand if significant in value. This is not recorded anywhere within the reconciliation undertaken by the NYCC Accountant and it would provide greater clarity particularly to those who are signing off the reconciliation to include those transactions that represent the timing differences as an addendum to the reconciliation.

For each investment fund a copy of the annual report and accounts, and details of insurance cover was obtained. No issues were identified with the insurance cover. The annual assurance report on internal controls was reviewed for each investment fund managers and all have an opinion of reasonable assurance from their auditors. The number of reported exceptions varied from thirteen (Standard Life Investments) to none (ECM Asset Management Ltd, Veritas and Bluebay). The remainder varied between one and nine. A review of the issues identified raised no significant concerns in relation to the areas identified, other than the prominence of IT issues. As a result of the IT issues identified a request was made to ensure all had specific policies in place such as an Information Security Policy and a Data Protection and Data Management Policy, that there was monitoring in place to ensure they were part of the induction process and that employees had to regularly familiarise themselves with the policies on a periodic basis. All of the investment fund managers were contacted, each replied and no concerns or issues were identified with the responses provided.

## **Overall Conclusions**

It was found that the arrangements for managing risk were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

# Audit Opinions and Priorities for Actions

## Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

## Priorities for Actions

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

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.



# Pension Fund Income

## North Yorkshire County Council

### Internal Audit Report 2016/17

Business Unit: Central Services  
 Responsible Officer: Corporate Director – Strategic Resources  
 Service Manager: Head of Pensions Administration  
 Date Issued: 21 August 2017  
 Status: Final  
 Reference: 32260/003

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>Overall Audit Opinion</b>	Substantial Assurance		



# Summary and Overall Conclusions

## Introduction

The Local Government Pension Scheme is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The Scheme is administered on a local basis and the County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

From April 2014 the scheme changed to become a Career Average Revalued Earnings (CARE) scheme. For each year of membership the amount in each pension pot for a specific employee will be re-valued based upon indexes. Any pension accrued up until 31 March 2014 is still based upon final salary. Under the 2014 scheme overtime and additional hours are pensionable pay. Members can opt to pay half of their pension contributions at any time and for any period.

Each year scheme employers have to submit year end files to the North Yorkshire Pension Fund (NYPF) that provide information for each fund member that is used to produce annual benefit statements for each member of the NYPF. With the introduction of the new scheme two year end files now need to be completed one for the CARE scheme and one for the 2008 scheme. Incorrect information submitted in these returns can lead to an employee being provided with an incorrect annual benefit statement.

The NYPF provided the sample of scheme employers to be visited of which there were eight including NYCC. Seven of these were visited during the last financial year and a memo report was issued to the NYPF on 29 April 2016. It was agreed to delay the review of NYCC, the ESS which provides the information to the NYPF was unable to accommodate the review within the timescales.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to the NYPF that NYCC had adequate procedures and controls within their systems to ensure that:

- reports downloaded from the payroll system were complete and contained the correct information; and
- there were processes in place for checking and validating information before it was submitted to the NYPF.

In addition it was also agreed to revisit the key findings in the memo report issued on 29 April 2016 to follow up and review the extent that these had been incorporated into the NYPF guidance to employers for the completion and submission of files for the year ending 31 March 2017.

## Key Findings

For the 2015/16 year NYCC ESS introduced a new process for extracting information from ResourceLink to complete the year end returns to the NYPF. A script was written using Cognos Impromptu a reporting tool from IBM used by ESS for downloading information from ResourceLink. ESS provides a payroll service to several employers including NYCC and the same script was used to produce the required information for all employers who have employees that are members of the NYPF. Information from these reports once independently checked was used to populate the annual returns to the NYPF for the CARE scheme and the 2008 scheme. The report for NYCC was the last to be run, being the largest employer any errors identified in the scripting were addressed through the checking of information for the smaller employers. The process used for extracting information was reviewed and appeared reasonable.

Information was checked on a 10% sample basis by a member of staff in ESS who was independent from the running of the reports. The process used for checking the information also appeared reasonable although they were unable to provide a record of the 10% that had been checked. As part of the audit undertaken a sample was reviewed that included new starters, leavers, change of post, those taking maternity/paternity/sick leave, part time and term time employees and could verify all of the figures included in the pensions return for these individuals

We did identify a relatively minor issue which affects a lot of staff but in a minor way where the payroll deduction for Compulsory Unpaid Leave (CUP) was incorrect. A 0.77% monthly deduction for CUP this being the two days unpaid leave over the December break was made from employee salaries during the 2015/16 financial year. The deduction should have been 0.55%. This has had an impact upon the calculation for the whole time equivalent salary for the 2008 scheme. These figures are incorrect for those employees who have chosen not to buy back the pension entitlement for the unpaid leave period. The Pensions Administration Team Manager is aware of this and has acknowledged that pension statements will be incorrect by small amounts for these members. Pension statements are only relevant at a point in time to provide an illustration. For those employees and members of the pension scheme who retire or leave and defer their pension additional checks and calculations are undertaken at this stage.

ESS identified an issue with ResourceLink that impacted upon the year end figures for some 258 employees. The issue has since been resolved with the system provider and the NYPF have been advised of the correct figures for these employees; individual amounts varied up to £50 to that previously submitted to the NYPF.

NYPF undertake checks on data received from employers, and refer these back to the employer. Whilst NYCC ESS investigates the individual cases referred they do not necessarily seek out similar cases that could also be affected by the same circumstances and may therefore not identify similar errors which are below the threshold for NYPF checks.

The 2015/16 Pensions Fund Income report made a number of suggestions for future improvements based upon best practice and common issues identified from visits to a sample of scheme employers. NYPF has taken on board the suggestions made in the memo report for

improving best practice and incorporated this in new year end guidance for the completion of the annual returns. Guidance issued to employers now includes a checklist and a suggested project plan for the completion of the returns.

The guidance makes it quite explicit that the completion and return of a checklist is a mandatory requirement and the year end file will not be processed without a completed checklist being received. There will be the expectation that the checklist will be signed off by someone who is on the NYPF authorised signatory list. Where information is compiled by a 3rd party administrator it will be expected that this 3rd party will also sign the checklist. Additionally each scheme employer will need to acknowledge on the checklist if it has undertaken a 100% check of records or has undertaken a sample check.

The inclusion of a project plan is a significant improvement on previous guidance and picks up on the process issues identified through the audit visits and reported upon in the memo report. Areas for inclusion in a project plan include:

- identifying key staff and their role;
- a refresher on guidance and the spreadsheet returns;
- the draft project plan to include reporting, validation, key dates in diaries and milestones;
- test reports to identify problem categories before the live exercise;
- to document all areas that need manual intervention (with examples where appropriate);
- estimate the numbers in each 'problem' area and allocate responsibilities to key personnel. This should include an estimate of the amount of time needed so that the project can be resourced properly;
- the final project plan to include firm dates for key personnel to be involved; and
- for issues in specific areas to involve the software consultant to help resolve those issues.

The audit undertaken last year identified particular issues with York St John University and Selima a 3rd party provider that provides a payroll service to Askham Bryan College. Since the audit direct action has been taken with these two employers that has included meetings with York St John University to improve processes. Meetings have also been held with Askham Bryan College, they have now employed a payroll and pensions co-ordinator to manage the contract and act as a link between the college and Selima. Previously the college had no one with any relevant payroll or pensions experience. The co-ordinator now receives monthly reports and undertakes their own validation checks on the accuracy of the information and payroll processing.

## **Overall Conclusions**

It was found that the arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation but there is scope for further improvements in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

## 1 Checking of information before submission to the NYPF

### Issue/Control Weakness

There is no evidence that a process of validation encompassing different types of working patterns was undertaken prior to information being sent to the NYPF.

### Risk

Annual benefit statements could be incorrect.

### Findings

The returns completed by the Employment Support Service (ESS) for NYCC employees and submitted to the NYPF on 29 April 2016 contained 25,242 lines covering 16,288 members. It was advised that prior to the information being submitted to the NYPF a 10% sample check of lines was undertaken by ESS staff and that a record was maintained of these. However ESS was unable to locate a copy of this record. From the testing undertaken on a sample that included different scenarios such as new starters, leavers, change of post, those taking maternity/paternity/sick leave, part time and term time employees no issues were identified.

### Agreed Action 1.1

The Employer Year End checklist includes confirmation the employer has checked either 100% of the data or spot checked it. It is the responsibility of the employer to ascertain which members require checking if a spot check is being undertaken.

NYPF will include wording in the email issued Jan/Feb each year to provide guidance to employers advising which categories of members should be included as part of the spot checking.

#### Priority

3

#### Responsible Officer

Head of Pensions  
Administration

#### Timescale

28 February 2018

## 2 Queries raised by the NYPF

### Issue/Control Weakness

Without a review of similar records a potential underlying problem would not be highlighted or addressed.

### Risk

Annual benefit statements could be incorrect.

### Findings

Occasions that would warrant queries to be referred back to an employer would be where there was a 20% increase or a 10% decrease in the whole time equivalent pensionable pay for the 2008 scheme and/or CARE scheme compared to information submitted for the previous year. Queries referred to ESS by the NYPF are checked with action taken where necessary. However if there is an error other employee records of a similar nature are not reviewed to determine if the issue raised by the NYPF is isolated or more prevalent in nature.

### Agreed Action 2.1

The incoming data is double checked by NYPF so wherever whole time equivalent pay has increased by 20% or decreased by 10% it will be identified and reported back to the employer for investigation.

The employer does not need to undertake further investigation because NYPF has identified all members affected.

#### Priority

3

#### Responsible Officer

Head of Pensions Administration

#### Timescale

Completed

# Audit Opinions and Priorities for Actions

## Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

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Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

## Priorities for Actions

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

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# Altair System 2016-17

## North Yorkshire County Council

### Internal Audit Report

Responsible Officer: Head of Pensions Administration  
 Service Manager: Systems Team Leader  
 Date Issued: 18 September 2017  
 Status: Final  
 Reference: 32270/001.bf

	P1	P2	P3
<b>Actions</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Overall Audit Opinion</b>	Substantial Assurance		



# Summary and Overall Conclusions

## Introduction

The Local Government Pension Scheme is a statutory scheme for local authority employees, operated under the Local Government Pension Scheme Regulations under regulations issued by the Central Government Department, Communities and Local Government. The Scheme is administered on a local basis and the County Council is responsible for the Scheme within the geographical areas of North Yorkshire and the City of York. In addition to employees working in local government, a number of other public, education and voluntary sector employees are also members of the LGPS. Private contractors engaged in local authority work are also able to participate in the scheme.

The North Yorkshire Pension Fund uses the Altair system for administration purposes. The Altair pension administration system is a web-based application used to manage pension records and carry out relevant tasks. NYCC migrated from using Axise to Altair (both products of Heywood) in 2013. The project initiation document, which noted the system migration cost, was signed off on 02/08/2013.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensure the following:

- timing of and storage of back-ups from the application;
- user management i.e. adding and deleting user accounts;
- audit trails;
- password requirements, and
- business continuity and disaster recovery arrangements.

## Key Findings

The work undertaken indicates that the key controls are in place are generally operating effectively. The Altair application is licensed and supported by the system supplier, Heywood. The pensions' system team liaises with Heywood to ensure that the relevant security patches and software updates are rolled out when required.

The one issue identified in the course of the audit relates to password requirements hardcoded into the Altair system. It was found that the settings for historic passwords are low. Whilst to a certain extent this is an accepted risk, ensuring that employees understand the importance of effective password management can be a mitigating factor. This is detailed in Finding 1.

The appropriateness of user access was considered; both for internal and third-party users. All changes to user accounts require an in house System Access Form (SAF) to be completed by the appropriate line manager. A leaver's Altair access is deleted or disabled when an SAF is sent to Technology & Change (T&C), who subsequently remove the user from the Altair policy group. To access Altair in the small window between being deleted by Pensions and T&C, a leaver would have to know someone else's log on details to access the system whilst they still had the Altair icon. There is no periodic user access check performed by the Pensions team to identify any inappropriate access, however as access amendments happen fairly infrequently this has not been raised as a finding.

Generic user accounts used by third parties are all disabled whilst not in use, with the exception of Heywood (the Altair system provider) accounts. The accounts controlled by Heywood are used for investigating issues with the systems, implementing releases etc. and cannot be accessed by the pensions system team (if they try and access these accounts, they are faced with an error message). Heywood can only access the system by phoning the pensions team and requesting a token to log on through the extranet portal. Therefore, the pensions team know when and why the Heywood accounts are in use, mitigating against the potential for inappropriate access by external parties. A formal Data Protection Procedure outlines the use and protection of client data by Heywood.

The capability of the system's audit trail was reviewed along with the extent of pro-active monitoring using this function. All actions carried out on the Altair Pensions Administration System are recorded automatically and written to a system 'audit file'.

There are documented procedure notes on accessing information from the audit file, indicating that the following audit functions are available:

- Audit Trail
- Input Check
- Security
- Analysis
- Individual member reporting

The audit file is monitored on an ad-hoc reactive basis, generally for the recovery of deleted records. In the event that the pensions' team want to review activity on the system for any given day (going back to system implementation), they can re-run the audit file for that day and inspect the activity log.

Finally, the audit considered the disaster recovery (DR), backup and business continuity arrangements in place to mitigate against the potential data loss of a major incident or ICT failure.

Backups are managed by T&C. There is an Altair back up procedure document which outlines the backup schedule. Backups are stored in the datacentre at County Hall and the replicas are held in the DR datacentre in Leeds. A nightly batch job is run (live service every night) which does an rman (Recovery Manager) backup of the database. Test is backed up weekly using a cold backup, whereby the database is shut down and the files copied off / backed up by Networker. In the event of new system releases, the pensions system team sends confirmation of a successful backup to the pensions team before authorisation of the delivery of the new release. Patches to the server are run on the 1<sup>st</sup>, 2<sup>nd</sup> and last Sunday of every month by IT.

The Altair system has been considered in disaster recovery and business continuity planning, with documented procedures in place such as the Pensions Incident Management Plan and the T&C DR plan. The NYCC Business Continuity Plan was tested during the week beginning the 10th of July 2017. Whilst the whole live system was recovered and set up as the new test system, the recovery took over a week due to unsupported servers. This has been raised with Heywood with the solution being the upgrade of the Oracle database to ensure that future default backups run without manual intervention from T&C. This update is currently underway.

## **Overall Conclusions**

The arrangements for managing risk were good with few weaknesses identified. An effective control environment is in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

## 1 Minimum password requirements

### Issue/Control Weakness

Settings for historic passwords are low and there is no minimum password age.

### Risk

Unauthorised users may gain access to the system.

### Findings

There were a few issues identified relating to the password requirements for the Altair system. It was found that the settings for historic passwords are low. A user can shuffle between the same three passwords repeatedly e.g. Password1\*, Password2\*, Password3\*, Password1\* etc.

There doesn't appear to be a minimum password age, so when a change is forced, they could then immediately change password twice to get back to the original.

In terms of password lock outs, users have three attempts, so to use the same example, if it's not 1\*, then it must be either 2\* or 3\*. A user could therefore try to guess all three without lockout.

There is no minimum password age hardcoded into Altair, so this is not something the Service Area is able to change. The minimum character length of the password can not be amended; this is a standard setting of the Altair product. The passwords must be configured based on the password strength.

### Agreed Action 1.1

Systems Team Leader to raise this with Heywood as a development area.

Priority

3

Responsible Officer

Systems Team Leader

Timescale

Completed

## Audit Opinions and Priorities for Actions

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

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

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.

**North Yorkshire County Council****Pension Board****12 October 2017****External Audit Report****1.0 Purpose of the Report**

- 1.1 To consider the External Auditor's Interim Report on its work to date in relation to the audit of the Pension Fund's 2016/17 Financial Statements.

**2.0 Background**

- 2.1 The External Auditors undertake an audit of the Pension Fund's financial statements annually. The audit of the 2016/17 financial statements was undertaken by KPMG. 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**

- 3.1 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**.
- 3.2 This report was considered by the Audit Committee at its meeting on 7 September 2017 and a verbal report of the Committee's comments will be given at the Pension Board meeting.

**4.0 Recommendation**

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

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

October 2017

Background Documents – attached.



# External Audit Report 2016/17

**North Yorkshire County Council**

**North Yorkshire Pension Fund**

—

August 2017



# Summary for Audit Committee

<b>Financial statements</b>	<p>This document summarises the key findings in relation to our 2016/17 external audit at North Yorkshire County Council ('the Council') and North Yorkshire Pension Fund ('the Pension Fund').</p> <p>This report focusses on our on-site work which was completed in July and August 2017 on the Council's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 to 14.</p> <p><b>Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Council's financial statements after the Audit Committee on 7 September.</b></p> <p><b>We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements at the same time.</b></p> <p>For the Council accounts we identified 7 significant audit adjustments from the draft financial statements. Some of these adjustments impacted on the Comprehensive Income &amp; Expenditure Statement, but the impact was reversed out through the Movement in Reserves Statement and so did not impact on the level of General Fund balance. The adjustments affecting the Balance Sheet reduced the Council's Net Assets by £1.4m. See Appendix 3 for details on the adjustments made.</p> <p>For the Pension Fund accounts we identified 1 disclosure audit adjustment from the draft financial statements but this has no impact on the net assets of the fund. See Appendix 3 for the details of the adjustment.</p> <p>Based on our work, we have raised one recommendation. Details on our recommendation can be found in Appendix 1.</p> <p>We are now in the completion stage of the audit, but our audit work on the Council's Whole of Government Accounts submission has yet to be completed. This final phase of work will be completed before the end of September 2017, and we will issue our completion certificate and Annual Audit Letter at the conclusion of all audit work.</p>
<b>Value for Money conclusion</b>	<p>In April 2017 we reported that we had completed our detailed risk assessment and planning work for our Value for Money (VFM) conclusion and had not identified any significant risks. We have updated our risk assessment through the audit, and concluded that our initial assessments were still appropriate, and there were no significant risks to our VFM conclusion. Following the completion of our work, we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p><b>We therefore anticipate issuing an unqualified value for money conclusion when we issue our audit opinion on the financial statements.</b></p> <p>See further details on pages 15 to 18.</p>
<b>Acknowledgements</b>	<p>We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.</p> <p><b>We ask the Audit Committee to note this report.</b></p>

# Contents

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This report is addressed to North Yorkshire County Council (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](http://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](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [general.enquiries@psaa.co.uk](mailto:general.enquiries@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.

**Section one**

# Financial Statements



We anticipate issuing an unqualified audit opinion on the Council's 2016/17 financial statements and the Pension Fund on or after 7 September. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Council has reported Net Cost of Services of £419.6m, and a Deficit on the Provision of Services of £43.4m. The Council maintained its General Fund balance at £27.2m, but utilised £2.8m of earmarked reserves in the year.

The Pension Fund's reported Net Assets at 31 March 2017 were £3,035.8m, an increase of £618m from the previous year.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Council's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p><b>1. Significant changes in the pension liability due to LGPS Triennial Valuation (Council only)</b></p>	<p><b>Why is this a risk?</b></p> <p>The Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.</p> <p>The pension numbers included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p><b>Our work to address this risk</b></p> <p>We reviewed the output from the Actuary relating to the Triennial Valuation at 31 March 2016 and the rolled forward values at 31 March 2017. We tested the data provided by the Council to the Pension Fund to confirm that it is materially complete and accurate.</p> <p>In addition, during our audit of the Pension Fund, we reviewed and tested the completeness and accuracy of the data provided to the actuary by the Pension Fund to inform the Triennial Review. As in previous years, we received specific requests from the auditors of other admitted bodies to provide assurance to them. We are required to support their audits under the protocols put in place by Public Sector Audit Appointments, and where the work they request is over and above that already being carried out for our Pension Fund audit, there are additional costs arising from this. As in previous years, the Pension Fund can consider recharging these costs to the relevant admitted bodies.</p>
<p><b>2. Revaluation of Property, Plant &amp; Equipment (Council only)</b></p>	<p><b>Why is this a risk?</b></p> <p>The Council has a rolling programme of revaluations of its Property, Plant &amp; Equipment assets in line with the requirements of the CIPFA Code of Practice.</p> <p>In 2016/17 the rolling programme meant the Council revalued its primary schools. This is a significant proportion of the Council's PPE value and represents a very large number of assets. While the revaluation approach was applied consistently with previous years revaluations, the size and nature of the assets being revalued in 2016/17, results in the inherent risk of applying incorrect valuations leading to material errors being greater than in previous years.</p> <p><b>Our work to address this risk</b></p> <p>We discussed with officers early in our audit to establish the approach that the Council took to revaluing its primary schools. Our detailed testing included a range of work, including:</p> <ul style="list-style-type: none"> <li>— Assessing the competence, capability, objectivity and independence of the Council's external valuer;</li> </ul>

Significant audit opinion risks	Work performed
<b>2. Revaluation of Property, Plant &amp; Equipment (Council only) (continued)</b>	<ul style="list-style-type: none"><li>— Reviewing the terms of engagement of, and the instructions issued to, the valuer for consistency with the Council's accounting policies and the CIPFA Code of Practice;</li><li>— Reviewing the information provided to the valuer by the Council and agreeing this to the Council's asset records;</li><li>— Reviewing the reasonableness of the valuation assumptions used in the valuation model;</li><li>— Reviewing the accounting treatment of the revaluation within the Council's financial statements to ensure that any upwards revaluations or impairments have been properly classified and accounted for; and</li><li>— Considering the adequacy of the disclosures about the key judgments and degree of estimation in arriving at the valuation and related sensitivities.</li></ul>

## Considerations required by professional standards

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.



# Other areas of audit focus

We identified one key area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
<b>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</b>	<p data-bbox="446 609 582 636"><b>Background</b></p> <p data-bbox="446 654 1322 706">CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul data-bbox="446 727 1333 969" style="list-style-type: none"><li data-bbox="446 727 1333 837">— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li><li data-bbox="446 857 1333 969">— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.</li></ul> <p data-bbox="446 990 1329 1100">The Council was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p data-bbox="446 1120 672 1147"><b>What we have done</b></p> <p data-bbox="446 1166 1350 1249">During our interim audit visit in January we considered the template form of accounts the Council had produced and confirmed that this was compliant with the requirements of the Code.</p> <p data-bbox="446 1270 1350 1415">During our final audit visit we tested the Council’s restatements, and reported results for 2016/17 and confirmed that they were consistent with the requirements of the Code, and also consistent with the information the Council had reported internally. We have also agreed the disclosed figures to the Council’s Oracle general ledger and found no issues to report.</p>

# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
<b>Provisions (Council)</b>	3	3	Our testing of Provisions has not identified any matters to report. The basis on which provisions have been calculated is consistent with previous periods. We believe this basis to be balanced and reasonable.
<b>Accruals (Council)</b>	3	3	Our testing of the Council’s approach to estimating its year end accruals has not identified any matters to report. The Council has made judgements regarding its accruals policies to enable it to produce its draft accounts a month earlier than in 2015/16. We have not identified any issues with the approaches adopted in 2016/17, and note that the Council has more actively considered the materiality of items in determining its accruals policies than in previous years.
<b>Property, Plant &amp; Equipment (Council)</b>	3	3	As reported on pages 6 and 7 the Council’s valuation of its Primary Schools was a significant risk for our audit. The Council’s valuer, North Yorkshire Property Services has carried out detailed valuation calculations and our work has concluded that the valuer has taken a balanced and reasonable approach to valuing the assets.  We consider that the Council’s judgements on the useful lives of its assets has led to balanced and reasonable lives which leads to reasonable depreciation charges.
<b>Pension Fund liability (Council &amp; Pension Fund)</b>	3	3	As reported on page 6, the changes in the Council’s Pension Fund liability from the triennial revaluation was a significant risk for our audit of the Council’s financial statements. While the Pension Fund statements do not include the Pension Fund liability – reporting only the Net Assets as permitted by the applicable reporting framework – the actuarial calculations are informed by information provided by the Pension Fund.  Our testing of the controls and processes in place at the Pension Fund confirmed that the information passed to the actuary was complete and accurate. Our testing of the actuarial assumptions supporting the Council’s Pension Fund liability were in line with our own expectations and we concluded that the Pension Fund estimates are well balanced.
<b>Unquoted investments (Pension Fund)</b>	3	3	Our testing has found an effective control environment in place with regards to investments, including the fund managers and custodian engaged by the fund. We consider there to be robust review of unquoted investment valuations within these relationships.



# Proposed opinion and audit differences – Council

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Council’s 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 7 September 2017.

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix 4 for more information on materiality) for this year’s audit was set at £15m. Audit differences below £0.75m are not considered significant.

Our audit identified a total of 7 significant audit differences, which we set out in Appendix 3. These adjustments have been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Council’s movements on the General Fund for the year and balance sheet as at 31 March 2017.

Although some of the adjustments have impacted on the deficit on the provision of services, this impact has been reversed out through the Movement In Reserves Statement, and there has been no impact on the Council’s General Fund balance.

The Net Assets have reduced by £1.4m as a result of the adjustments, mainly reflecting the changes in the valuation of Property, Plant & Equipment and Investment Property. There are corresponding reductions in the Council’s reserves, predominantly the Unusable Reserves.

In addition, we identified some smaller adjustments and presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (‘the Code’). The Council has adjusted these in the final financial statements.

## Narrative report

We have reviewed the Council’s 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Council.

## Annual governance statement

We have reviewed the Council’s 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Movements on the general fund 2016/17

£m	Pre-audit £'000	Post-audit £'000	Ref
Deficit on the provision of services	35,611	43,361	1
Adjustments between accounting basis and funding basis under Regulations	32,784	40,534	1
Transfers from earmarked reserves	(2,827)	(2,827)	
<b>Increase in General Fund</b>	<b>0</b>	<b>0</b>	

### Balance sheet as at 31 March 2017

£m	Pre-audit £'000	Post-audit £'000	Ref
Property, plant and equipment	1,498,112	1,495,797	1
Other long term assets	68,447	69,409	1
Current assets	404,724	404,724	
Current liabilities	(196,195)	(196,195)	
Long term liabilities	(760,385)	(760,385)	
<b>Net assets</b>	<b>1,014,703</b>	<b>1,013,350</b>	
General Fund	27,270	27,720	
Other usable reserves	226,964	226,514	1
Unusable reserves	760,469	759,116	1
<b>Total reserves</b>	<b>1,014,703</b>	<b>1,013,350</b>	

1 These adjustments are detailed in Appendix 3, and relate to changes in the valuation of Property Plant & Equipment and Investment Property, and related impacts on depreciation and the charges made to the Income & Expenditure Statement. There has been no overall impact on the General Fund, and Net Assets have reduced by £1.4m.

# Proposed opinion and audit differences – Pension Fund

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2016/17 financial statements following approval of the financial statements by the Audit Committee on 7 September 2017.

## Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

The final materiality level (see Appendix 4 for more information on materiality) for this year's Pension Fund audit was set at £25m. Audit differences below £1.25m are not considered significant.

Only one significant adjustment was identified and this was corrected by the Council. This relates to the disclosure of investment asset hierarchy in Note 16a, which resulted in £268.4m of assets being recategorised from Level 1 to Level 2.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Pension Fund has addressed these where significant.

As in 2015/16, the Pension Fund has accounted for benefits payable on a cash basis rather than accruing benefit liabilities which are due at the year end but not yet paid. This issue was reported last year and we have not included any specific recommendations or actions for the Fund as a result.

The benefits paid after 31st March 2017 which should have been accrued into 2016/17 were £925,000. This amount is below our significant differences threshold, and we have not required the amount to be corrected in the accounts. The corresponding figure for 2015/16 was reported by the previous auditors last year was £836,000.

## Annual report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2017. The Pension Fund Annual Report is due to be approved by the Pensions Committee on 14 September 2017, and we intend to give our opinion on the Annual Report after this meeting. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Fund account as at 31 March 2017			
£m	Pre-audit £'000	Post-audit £'000	Ref
Opening net assets of the Fund	2,417,833	2,417,833	
Contributions & transfers in	139,209	139,209	
Benefits & transfers out	(113,750)	(113,750)	
Management expenses	(2,168)	(2,255)	1
Return on investments	594,232	594,798	1
<b>Closing net assets of the Fund</b>	<b>3,035,356</b>	<b>3,035,836</b>	

Net assets as at 31 March 2017			
£m	Pre-audit	Post-audit	Ref
Net investment assets	3,020,255	3,020,222	
Current assets	16,874	17,358	1
Current liabilities	(1,743)	(1,744)	2
<b>Net assets of the Fund</b>	<b>3,035,356</b>	<b>3,035,836</b>	

1 These minors errors were identified and corrected by the Pension Fund after the draft statements were produced, predominantly following receipt of more accurate information from fund managers

2 This is a rounding correction only

# Accounts production and audit process

The Accounts and Audit Regulations 2015 introduces a statutory requirement to produce a draft set of financial statements earlier for the year 2017/18. It also shortens the time available for the audit.

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Council's accounting practices and financial reporting.

We also assessed the Council's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter reporting deadlines in 2017/18.



## Introduction of KPMG Central

We introduced KPMG Central this year, which is an IT-based document storage system to facilitate the secure transfer of large amounts of data between the Council & Pension Fund and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Council and Pension Fund Closedown Teams to efficiently share requested information. Feedback from the finance teams has been positive, and we will refine the use of the system in 2017/18 to help drive further efficiencies.

## Accounting practices and financial reporting

The Council has recognised the additional pressures which the earlier closedown in 2017/18 will bring. A significant focus for the closedown in 2016/17 was to deliver draft financial statements earlier than in the previous year, and to the timetable which applies from 2017/18.

We are pleased to report that the Council's focus has delivered positive results, and we received a complete set of draft accounts on 1 June 2017, which is one month earlier than the current statutory deadline, and a full month earlier than in 2015/16. We have commented elsewhere in this report on some of the changes in estimation techniques adopted to deliver this earlier delivery, and we have not identified any significant weaknesses to report in the Council's approach this year.

We engaged proactively with the Council throughout the year to address issues as they emerged and this has helped to improve the efficiency of the closedown process and the progress of the final audit visit.

## Timeliness and quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017 which outlines our documentation request. This helps the Council and the Pension Fund to provide audit evidence in line with our expectations. We followed this up with regular liaison meetings with officers to discuss specific requirements of the document request list.

While most of the supporting working papers were made available for the start of our final audit visit on 26 June 2017, some key working papers were not available then. Although this did not cause significant issues this year due to the timing of the audit visit, this will not be the case in 2017/18. The deadline for our audit opinion in 2017/18 is 31 July 2018, two months earlier than this year. The challenge to deliver the earlier audit opinion will mean that our final audit visit will be shorter and more intensive, and we will require supporting working papers for the accounts as a whole to be available alongside the draft financial statements at 31 May 2018. Any delays in 2017/18 will impact on the likelihood of us meeting the audit deadline.

The standard of the working papers provided was generally high, and this is consistent with previous years.

## Section one: financial statements

### Response to audit queries

Officers responded to our audit queries promptly, and the timeliness and quality of responses did not cause delays or other consequential issues with the progress of our audit. We have developed a positive and proactive working relationship with the Council's finance team, and this has helped to deliver the audit to the planned timetable while minimising the impact on the finance team.

Most of our audit queries were directed to the Council's central finance team, but on occasions staff in other directorates and departments were involved in providing assistance and evidence to our audit team. The responses from each of these teams was similarly prompt and helpful as those received from the central finance team.

Consistent with our comments earlier in this section of the report, one of the challenges in 2017/18 of completing an earlier audit is that there is less time available to resolve our audit queries. We will continue to liaise regularly with the finance team, and ensure that we discuss and agree a suitable approach to the 2017/18 audit which provides the best opportunity to meet the earlier timetable.

### Group audit

The Council produces group accounts, incorporating its interests in its significant subsidiary companies:

- NYnet Limited (turnover of £4.4m and net assets of £7.5m); and
- Yorwaste Limited (turnover of £38.9m and net assets of £9.7m).

To provide our audit opinion on the Council's consolidated financial statements we carry out work on the consolidation process and substantively test elements of the group financial statements. We do not seek assurance from the subsidiary's component auditors, this is consistent with previous years, and reflects our efficient approach to obtaining group accounts audit evidence.

There are no specific matters to report pertaining to the group audit. We are also pleased to report that there were no issues to note in relation to the consolidation process.

### Pension Fund audit

The audit of the Pension Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

### Prior year recommendations

As part of our audit we have specifically followed up the Council's progress in addressing the recommendations in last year's ISA 260 report.

The Council has implemented all of the recommendations in our ISA 260 Report 2015/16.

Appendix 2 provides further details.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final audit visit. As reported in our *Interim Audit letter* in April 2017 this work progressed well, and there were no matters to report to the Council.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council and Pension Fund 2016/17 financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

## **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Council or the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

## **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Strategic Director – Corporate Resources for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

## **Other matters**

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the

oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2015/16 financial statements.



**Section two**

# Value for money

Our 2016/17 VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

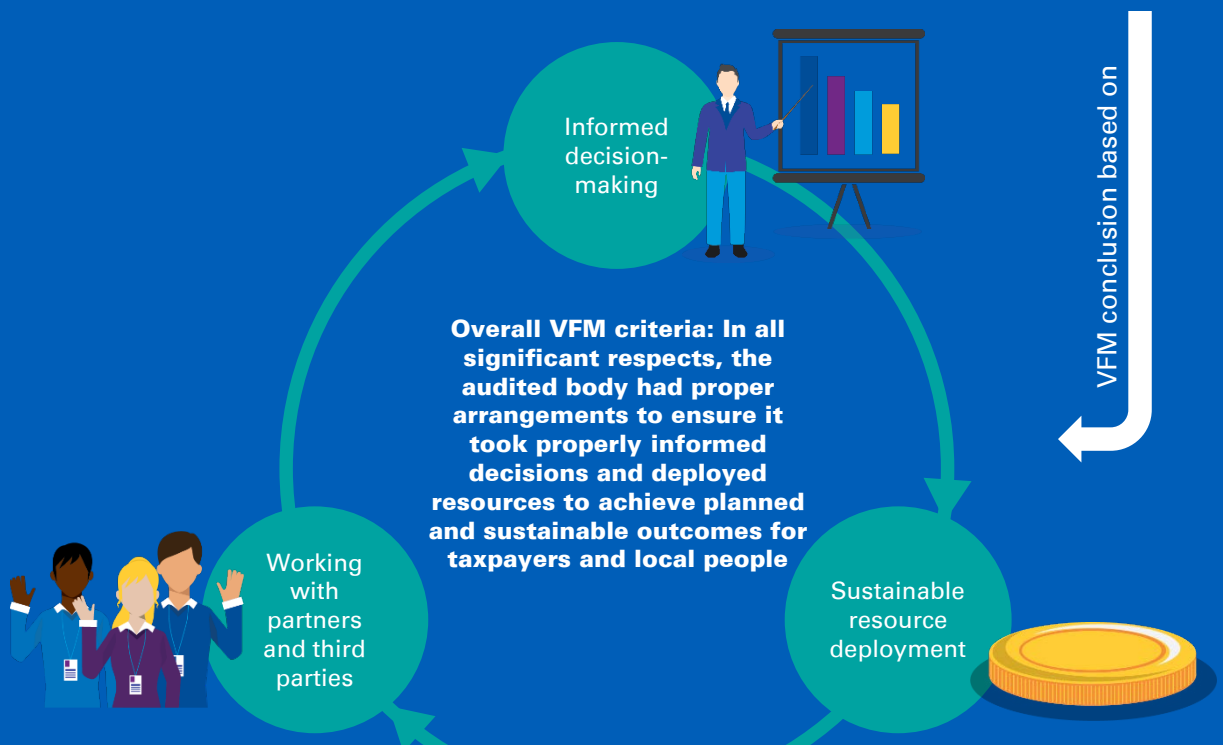
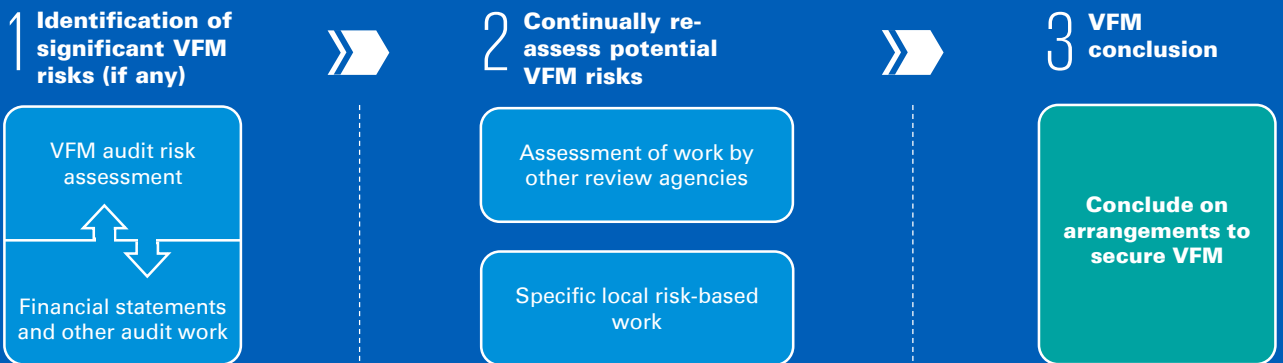
# VFM conclusion

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

The Code of Audit Practice, published by the NAO in April 2015, 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'.

Our VFM conclusion considers whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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





The table below summarises our assessment of the Council’s arrangements against the three sub-criteria. Overall we have concluded that the Council does have adequate arrangements to deliver Value for Money in its use of resources.

VFM assessment summary	
VFM sub criteria	Adequate arrangements?
Informed decision-making	✓
Sustainable resource deployment	✓
Working with partners and third parties	✓
<b>Overall summary</b>	✓

**Work completed**

In line with the risk-based approach set out on the previous page, and in our External Audit Plan 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; and
- Considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas.

**Key findings**

Having completed our detailed planning work, we reported in our *Interim Audit letter* in April 2016, that we had not identified any significant risks to our VFM conclusion.

In concluding this, we particularly considered the following key elements:

- The Council’s approach to medium term financial planning. The 2020 North Yorkshire Council Plan sets

out the Council’s strategy for delivering against the significant financial challenges. These challenges are reported and monitored in the corporate risk register and the Council is clearly devoting significant resources to putting in place mitigating arrangements to manage those risks. The challenges and risks are significant for the medium term, but from our review we are satisfied that the Council has arrangements in place to respond to these challenges, and we have no issues to report.

- The Council’s approach to partnership working. This year has seen closer working with local NHS organisations in areas such as the Better Care Fund and commissioning of health services across the county. The Council is aware of the significant challenges and risks with this closer integration, and we are satisfied that the Council’s arrangements to manage these challenges are appropriate and adequate.
- Governance arrangements. The Council continues to deliver some significant projects and change programmes designed to address the financial and operational challenges in the medium term. In addition it continues to be innovative in considering the opportunities to strengthen its financial position, particularly in its approach to commercial opportunities. From our review of the arrangements in place, we are satisfied that the Council has continued to have in place appropriate governance arrangements to support effective decision making.

**Overall conclusion**

On the basis of the detailed work carried out we conclude that the Council has adequate overall arrangements in place to deliver value for money in its use of resources.

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is overlaid in a thin, dark red font, centered horizontally and partially enclosed by two vertical lines of the same color.

# Appendices

# Key issues and recommendations

**Our audit work on the Council's 2016/17 financial statements identified an issue with the accuracy of the Council's fixed asset register. We have summarised this issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management's responses to the recommendation. The Council should monitor progress in addressing the recommendation. We will formally follow up these recommendations next year.**

Each issue and recommendation have been given a priority rating, which is explained below.



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.



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.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

## 2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	0	1	1
Low	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>1</b>

### 1. Fixed asset register



As part of the year-end closedown processes the Council's Fixed Asset Register, which generates the Property, Plant & Equipment accounting entries contained a number of errors, including:

- Duplicate assets, for example where schools had merged, had not been removed;
- De-commissioned assets had not been revalued and recategorised as Surplus Assets;
- The valuation of assets subject to a 'desktop' revaluation in year had not been calculated using the correct formula; and
- Accumulated depreciation relating to assets disposed of in year had not been correctly removed.

#### Recommendation

Ensure that the quality assurance of the financial statements includes a review of the fixed asset register to ensure that all errors and omissions are identified during the closedown period.

### Management Response

Accepted

The methodology by which the desktop revaluations are applied to fixed assets has been corrected. Additional measures will be implemented, as part of the closedown preparatory process and actual closedown timetable, to ensure fixed assets which have been de-commissioned, merged or re-categorise are fully identified with assistance from the Property Team and their accounting treatment amended accordingly.

#### Owner

Senior Accountant – Capital & Treasury Management

#### Deadline

31 May 2018

# Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Council has implemented all of the recommendations, although as a result of timing issues, the impact of one of these will only be able to be reported in the 2017/18 financial statements.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation’s status to date. We have also obtained Management’s assessment of each outstanding recommendation.

Below is a summary of the prior year’s recommendations.

2015/16 recommendations status summary			
Priority	Number raised	Number implemented	Number outstanding
High	0	0	0
Medium	2	2	0
Low	1	1	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>



### 1. Cash flow statement – capital debtors and creditors

The Council has updated its ledger coding structure in 2015/16 and has not retained separate capital ledger codes. Consequently it has been unable to identify the capital debtors and creditors, required for compliant completion of the cash flow statement. As the cash flow requires the movement on capital debtors and creditors from the prior year, this omission will impact on 2015/16 and 2016/17.

#### Recommendation

Include a method of identifying capital debtors and creditors in the 2016/17 closedown process to enable compliance with cash flow requirements from 2017/18.

### Management original response

Agreed. The specific capital debtors and creditors balance sheet codes were consolidated as part of the review of the Authority’s Chart of Accounts during the upgrade of the financial ledger, which has impacted on the detail of the analysis available. As a result the report’s recommendation is accepted and the specific codes will be re-instated for use during 2016/17.

*Owner*

Senior Accountant, Capital & Treasury Management

*Original deadline*

30 June 2017

### KPMG’s August 2017 assessment

Fully implemented

Our testing of the cash flow statement identified that the Council has re-instated capital debtor and creditor codes in its chart of accounts and that these codes had been used.

As the original recommendation states, the compliance with the cash flow reporting requirements will only be achieved in 2017/18 once the Council has an accurate opening and closing balance on these codes.

Medium priority

**2. Assets under construction**

As part of the year-end closedown processes the Council omitted to transfer an asset from Assets under Construction to Operational Land & Building.

Assets under Construction are measured at Historical Cost, whereas Operational Assets are measured at either Existing Use Value or Depreciated Replacement Cost.

**Recommendation**

Include a process to identify the operational date of any Assets under Construction as part of the year-end closedown, and ensure that the value of any operational assets transferred in year is on the correct basis.

**Management original response**

Agreed. The report’s recommendation is accepted and a full review of any Assets Under Construction will be undertaken as part of the year end closedown process.

*Owner*

Senior Accountant, Capital & Treasury Management

*Original deadline*

30 June 2017

**KPMG’s August 2017 assessment**

Fully implemented

Our work indicates that the Council has transferred all Assets under Construction to operational assets during the year and that the assets transferred have been revalued according to the Council’s revaluation policy.

Low priority

**3. Related Party Transactions**

In applying the applicable financial standard, the CIPFA Code allows Councils to apply a consideration of materiality in disclosing related party transactions. It does however require that Councils consider materiality from both its own perspective and that of the related party. This might mean that a low level of transaction should be disclosed where it relates to an individual or a small business. Although it has disclosed some related party transactions of a low value, the transactions with Other Related Parties are only disclosed where they are greater than £1 million.

**Recommendation**

Include a consideration of materiality from both the related party and the Council’s perspective in the closedown processes for all related party transactions and disclose all transactions that are considered material from either party.

**Management original response**

Agreed. In line with the reports recommendation, a review of the materiality thresholds regarding related party disclosures will be undertaken in advance of the 2016/17 closedown process.

*Owner*

Senior Accountant, Statutory Accounts

*Original deadline*

30 June 2017

**KPMG’s August 2017 assessment**

Fully implemented

Our work indicates that the Council has considered the materiality of related party transactions during this years accounts preparation.

# Audit differences

**We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance, which in your case is the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.**

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Council's finance team has responded positively to our audit findings and is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

## **Adjusted audit differences – Council**

Our audit did not identify any material misstatements.

Our audit identified a number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them:

- Property, Plant & Equipment (PPE) (Note 18):
  - Duplications. A small number of assets were found to be duplicated on the fixed asset register as a result of the register not being updated to reflect schools that had merged through the year. As a result the Land & Buildings value of PPE has been reduced by £6.0m with a corresponding reduction across the Capital Adjustment Account and Revaluation Reserve.
  - PPE Valuations. The revaluation of Property, Plant and Equipment had been incorrectly applied in the fixed asset register, resulting in an understatement in the Net Book Value of PPE in Note 18 of £8.0m. This error arose through applying an incorrect percentage increase to the previous valuation for each relevant asset. This error also impacted on the valuation of Investment Property in Note 25 of £1.0m. The total impact of this adjustment was an increase in net assets of £9.0m as at 31 March 2017.
  - Bentham School. A new school became operational during 2015/16 and was revalued during 2016/17. The new valuation had not been applied to the new school in the asset register, and in addition the old school, which was no longer operational, had not been impaired and recategorised to reflect it now being a surplus asset. The impact of these adjustments is that the Land & Buildings Net Book Value reduced by £4.9m and the value of Surplus Assets increased by £0.6m. The corresponding adjustments have been made to the Capital Adjustment Account and the Revaluation Reserve.
  - Depreciation on disposed PPE assets. The accumulated depreciation on assets disposed of in the year had not been correctly categorised and written out of the asset register and Note 18. This has been corrected within Note 18 and has no impact on the closing net book value of PPE which was correctly stated.
- Capital expenditure (Note 21): The amount of expenditure on 'Structural Maintenance of Roads and Bridges' disclosed in Note 21 was understated by £6.8m, and 'All spending in areas below £2m' was overstated by £6.8m.
- Capital grants (Note 9): The amount of Local Growth Fund grant income in Note 9 was overstated by £7.0m. In addition the amount in Note 9 relating to Section 31 grant for Bedale Bypass was understated by £2.7m. This error also impacted on the capital expenditure disclosed in Notes 21, 22 and 34, reflecting the net overstatement of £4.3m in capital grants and associated expenditure.
- Leases (Note 13): Future financial commitments under operating leases was understated by £1.1m due to the omission of vehicle contract hire leases from the original draft figures. This only impacted on the disclosures in Note 13.

## **Unadjusted audit differences - Council**

There are no unadjusted audit differences. All adjustments identified through the audit have been adjusted in the final financial statements.

### Adjusted audit differences – Pension Fund

Our audit did not identify any material misstatements.

Our audit identified one significant disclosure error in the Pension Fund financial statements. This has been discussed with management and the financial statements have been amended:

- Fair Value hierarchy (Note 16a). Our testing identified that a number of investments which were originally classified as level 1 financial assets did not meet the definition of a level 1 financial asset, and were actually level 2 assets. The value of investments which were reclassified as a result of this finding was £309.8m. An adjustment was also made to the prior period disclosure for level 1 and 2 assets in Note 16a. This issue does not impact on the opening or closing net assets of the fund.

### Unadjusted audit differences – Pension Fund

There are no unadjusted audit differences. All adjustments identified through the audit have been adjusted in the final financial statements.

# Materiality and reporting of audit differences

## The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We revisited our assessment of materiality reported in our External Audit Plan 2016/17, presented to you in February 2017, and have confirmed that the level of materiality was still appropriate.

### Materiality – Council audit

Materiality for our audit of the Council's financial statements was set at £15 million which equates to around 1.5 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision which was £10 million for the Council financial statements.

### Materiality – Pension Fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £25 million which is approximately 0.8 percent of the Fund net assets.

We design our procedures to detect errors at a lower level of precision, set at £17 million for 2016/17.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether

taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

*ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Council and Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75 million for the Council and £1.25 million for the Pension Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately

disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

## **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

## **Auditor declaration**

In relation to the audit of the financial statements of North Yorkshire County Council and North Yorkshire Pension Fund for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Council or the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

**Non-audit work and independence**

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Grant claim assurance work on: <ul style="list-style-type: none"> <li>- Teachers' Pension return</li> <li>- Department for Transport Major Schemes claim</li> </ul>	£5,500	<p><b>Self-interest:</b> These engagements are entirely separate from the audit through a separate contract. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work.</p> <p><b>Self-review:</b> The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit.</p> <p><b>Management threat:</b> This work provides a separate assurance report and does not impact on any management decisions.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports.</p> <p><b>Advocacy:</b> We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body.</p> <p><b>Intimidation:</b> not applicable to these areas of work</p>
<b>Total estimated fees</b>	<b>£5,500</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>5%</b>	

# Audit fees

## Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the Council audit is £94,490 plus VAT (£94,490 in 2015/16), and £24,943 plus VAT (£24,493 in 2015/16) for the Pension Fund audit.

We are proposing an additional fee of £4,996 to the Pension Fund, relating to the additional work we were required to carry out for other auditors of admitted bodies for IAS19 reporting purposes, under arrangements put in place by PSAA. This is the same additional fee we raised, following approval by PSAA, in 2015/16 as the level of work has been the same this year.

PSAA fee table		
Component of audit	2016/17 (actual fee) £	2015/16 (actual fee) £
<b>Council accounts opinion and value for money conclusion work</b>		
PSAA scale fee	94,490	94,490
Additional work to conclude our opinion and conclusion	0	2,991
<b>Sub-total</b>	<b>94,490</b>	<b>97,481</b>
<b>Pension Fund opinion</b>		
PSAA scale fee	24,493	24,493
Additional work to conclude our opinion	(Note 1) 4,996	4,996
<b>Sub-total</b>	<b>29,489</b>	<b>29,489</b>
<b>Total Council and Pension Fund audit fee</b>	<b>123,979</b>	<b>126,970</b>

All fees are quoted exclusive of VAT.

*Note 1: Pension Fund additional work*

For 2016/17, we have discussed additional fee in relation to the additional IAS19 work for other auditors of admitted bodies with the s151 officer. This is still subject to PSAA determination.



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**North Yorkshire County Council****Pension Board****12 October 2017****Pension Board Projects****Administration Report****1.0 Purpose of the Report**

1.1 Pension Board members agreed to come to the October board meeting prepared to initiate the projects below:

1.2 When agreeing to initiate these projects Pension Board members are asked to be mindful of officers' time and resource, which is already under pressure due to the high work volumes being experienced, when defining the scope and timing of the projects identified.

**2.0 Projects Identified****2.1 Exercise of employer and administering authority discretion**

Some initial work has been done to revisit the existing list of discretions as some errors have been identified. Further progress has been impacted by regulatory and compliance checks of the Annual Benefit Statements and the requirement to issue Pension Savings Statements by 6 October. As soon as the additional work arising from these two activities has subsided work will re-recommence on the discretions policy review.

**2.2 Management, administration and governance process and procedure**

It is unclear what this project encompasses and officers request clarification regarding the scope, scale and timescales involved. We believe, as it stands, this heading is too broad and Members are asked to clearly define the work-streams included.

**2.3 Development of improved customer services**

A review of current practices and processes has been undertaken and a roadmap of improvement initiatives has been created. This has been shared with the whole pensions' team and a short version of this will be presented to the Pension Board Members. A copy of the presentation is attached at Appendix 1.

**2.4 Scheme member and employer communications**

A letters review project has commenced where every member letter produced will be reviewed for content, plain English and suitability. Employer communications are undertaken as and when required. It is difficult to be pro-active with our communications at this time due to the high work volumes being experienced within the pensions' team.

### **3.0 Recommendation**

3.1 Pension Board Members are asked to agree who will lead on each project.

3.2 Pension Board Members are asked to agree on the timing of each project.

3.3 Pension Board Members are asked to understand that the pensions' team is currently experiencing high volumes of work and therefore it is difficult to take on board additional activities at this time.

Phillippa Cockerill  
Head of Pensions' Administration  
County Hall,  
Northallerton

October 2017

Background Papers - Nil



# North Yorkshire Pension Fund

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## Our Vision

- To deliver the best possible outcomes for our members utilising all the tools at our disposal.
- Standardise, simplify and share working practices and resources with a focus on delivering better customer outcomes and reducing costs.



# Our Mission Statement

“To deliver the best possible service in  
the most effective way”

## What does this look like?

- Reduced turnaround times
- Reduced errors and reworks
- Reduced backlogs
- Reduced complaints
- Better working environment
- More fun!

# How?

1. Improve processes
2. Utilise technology to its fullest
3. Improve efficiency
4. Free up time for project work
5. Deliver service excellence

# How?

1. Improve processes
  - Many processes are cumbersome and time consuming
  - Too many processes require too much manual intervention
  - Empower and encourage the team to suggest changes
  - Educate 3<sup>rd</sup> parties

# How?

2. Utilise technology to its fullest
  - Make the systems we have work correctly
  - Harness the capabilities of all the relevant systems to their fullest
  - Develop automated data feeds in and out
  - Ensure system updates do not impact existing functionality

# How?

- 3. Improve efficiency
  - Comes from process and system improvements
  - Encourage and empower the team to ask Why?
  - Review team structures
  - Educate 3<sup>rd</sup> parties

# How?

- 4. Free up time for project work
  - We need to free up time to undertake the projects that will deliver improvements
  - Short term pain, long term gain
  - Gets easier as things improve
  - Easier to resource future projects

## How?

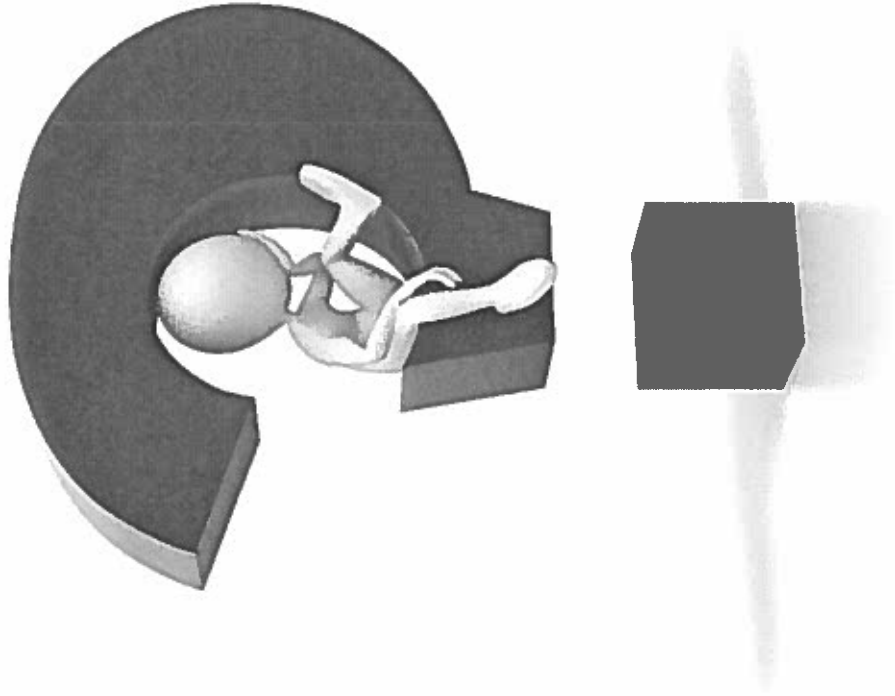
- 5. Deliver Service Excellence
  - Right first time
  - In a timely manner
  - Knowledgeable staff
  - More time to deal with members enquiries



# When?

- Roadmap created & available to view
- Key projects identified & scheduled
- Will take time, still have BAU demand

# Questions



**North Yorkshire County Council****Pension Board****12 October 2017****LGPS Pooling Arrangements****1.0 Purpose of the Report**

- 1.1 To provide Pension Board members with an update on the progress made towards the LGPS Pooling arrangements.

**2.0 LGPS Pooling Update**

- 2.1 The BCPP Joint Committee has been established, the Chair of which is NYPF's Pension Fund Committee Chair. The Joint Committee has an oversight role for the set up and future operation and performance of the BCPP Company. There has been one meeting of the Joint Committee to date on 6 June 2017. The reports from this meeting and future meetings can be accessed through a new BCPP webpage that will be launched in the upcoming days. As soon as it is available the link will be circulated around Board Members.
- 2.2 The implementation of the Company is still on track and expecting a transfer of assets to begin with effect from June 2018. There have been 3 workstreams created in developing the Company: (i) Governance, (ii) People and (iii) Operating Model each of which have Member and officer involvement. The Joint Committee are provided with frequent updates on these activities. A verbal update on these workstreams will be provided to Board Members at the meeting.
- 2.3 The next meeting of the Joint Committee is 20 October 2017.
- 2.4 The NYPF Pension Fund Committee met on 14 September 2017. In this meeting Members were provided with a pooling update by the Chair and asked to form a formal view on Scheme Member representation on the Joint Committee. Whilst Members agreed with the principle of having representation, they did not see it necessary to have a scheme member representative formally appointed on the Joint Committee. As the meetings would be public, it was suggested that Scheme member representatives would be able to attend, could ask questions at meetings and could report back accordingly, without being formally appointed to the Joint Committee. The minute from the last PFC meeting where this issue was discussed is included in **Item 5**.

**3.0 Recommendation**

- 3.1 Pension Board members to note the content of the report.

Amanda Alderson  
Senior Accountant, Strategic Resources  
County Hall,  
Northallerton

October 2017

Background Papers – BCPP Joint Committee Reports and Minutes

## North Yorkshire County Council

## Pension Board

12 October 2017

## Training

**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. A progress report from Members is requested regarding modules still to be completed and likely timescales for this. Members are also requested to outline which of the modules they consider to have been of most use to their service to the Board, and which were less so.

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 Recommendations**

- (i) That Members provide an update regarding any Pensions Regulator modules still to be completed and likely timescales for this, and give details of which of the modules they consider to be of most use.
- (ii) That Members provide details of any training they wish to be included on the training record:
- (iii) That Members should continue to identify any appropriate training needs.

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

Background Documents: Pensions Regulator on-line training modules

Pension Board Members - Training, Meetings and Events

Appendix 1

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 Cuthbertson	Phil MacDonald
04/06/15	Training Event for Pension Board Members	LGA	Marriott Hotel, Leeds			X		X	X	X		
03/07/15	Pension Board Member Training	AON	Leeds		X					X		
17/07/15	Pension Board Member Training	AON	Leeds		X	X				X		
24/07/15	Pension Board Member Training	AON	Leeds			X				X		
21/10/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds		X	X	X	X			X	
17/11/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds	X	X	X	X	X			X	
08/12/15	LGPS Trustee Training – Fundamentals XIV	LGA	Leeds	X	X	X	X	X	X	X	X	
14/01/16	Governance for North Yorkshire Pension Board	Peter Scales – Independent Observer for the North Yorkshire pension fund	County Hall	X	X	X	X	X	X	X	X	
29/06/16	Local Pension Board Conference	CIPFA & Barnett Waddingham	London	X								
01/03/17	LGPS Spring Seminar	CIPFA & Barnett Waddingham	Leeds	X								X
28/06/17	Local Pension Boards 2 years on	CIPFA & Barnett Waddingham	London	X								
29/06/17 and 30/06/17	Annual LGPS “Trustees” Conference	LGA	Bournemouth	X								X
17/09/15	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
26/11/15	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X	X	X					
15/01/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X	X	X					
25/02/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X		X	X					

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 Cuthbertson	Phil MacDonald
19/05/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
07/07/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X			X					
15/09/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X			X				
24/11/16	North Yorkshire Pension Fund Committee	NYCC	County Hall	X		X	X					
26/01/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X	X		X		X	X	X	X
23/02/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
31/03/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
25/05/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
14/09/17	North Yorkshire Pension Fund Committee	NYCC	County Hall	X								
25/11/16	North Yorkshire Pension Investment Strategy Workshop	NYPF	County Hall	X								
23/02/17	North Yorkshire Pension Investment Strategy Workshop	NYPF	County Hall	X								
15/09/17	North Yorkshire Pension Investment Strategy Workshop	NYPF	County Hall	X								
11/11/16	Triennial Valuation Seminar	Actuary	County Hall	X					X			
13/01/17	Pooling – Employers Seminar	NYPF	County Hall	X	X			X	X			
24/02/17	North Yorkshire Pension Fund Manager Meeting	NYPF	County Hall	X								
03/03/16	Audit Committee Training Session - Counter Fraud	NYCC	County Hall	X						X		
03/02/16	Governance Forum	Mazars	York	X						X		
08/07/16	Governance Forum	Mazars	York	X						X		



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 Cuthbertson	Phil MacDonald
03/02/17	Governance Forum – (Including Cyber Security)	Mazars	York	X						X		
07/15 – 03/17	Introducing Pension Schemes	The Pensions' Regulator – Toolkit Modules	On-line		X			X			X	
07/15 – 03/17	The Trustees' Role	The Pensions' Regulator – Toolkit Modules	On-line	X	X			X				
07/15 – 03/17	Running a Scheme	The Pensions' Regulator – Toolkit Modules	On-line	X	X			X				
07/15 – 03/17	Pensions' Law	The Pensions' Regulator – Toolkit Modules	On-line		X			X				
07/15 – 03/17	An introduction to investment	The Pensions' Regulator – Toolkit Modules	On-Line					X				
07/15 – 03/17	How a DB Scheme works	The Pensions' Regulator – Toolkit Modules	On-line					X				

**North Yorkshire County Council****Pension Board****12 October 2017****Work Programme****1.0 Purpose of the Report**

To detail the areas of planned work by the Pension Board

**2.0 Future Activity**

Previous reports to the Board have set out a number of areas that could be identified as potential priority areas of work for Board Members to provide scoping reports to subsequent meetings.

Earlier on today's agenda (Pension Board Projects) the following potential areas were identified as potential areas for review and the subject of scoping reports at forthcoming meetings:-

1. **Exercise of employer and administering authority discretions.**
2. **Management, administration and governance process and procedure.**
3. **Development of improved customer services.**
4. **Scheme Member and employer communications.**

It is anticipated that Board Members will determine the issues on which they would like to consider leading on, and determine a timescale for a review, with consideration given as to when it would be appropriate to submit a scoping report.

Consideration of these factors can be undertaken outside of the meeting, if necessary, and fed back to Legal and Democratic Services subsequently.

Resources would be made available, via Legal and Democratic Services, to assist Board Members with their approach to this.

**3.0 Recommendations**

That members:

- i) Review and agree any updates to the Work Plan (as set out in Appendix 1);
- ii) Consider and approve the proposed subject areas for taking topics forward, and consider leading on, and providing a short scoping report, on these;
- iii) Consider and request (via the Clerk) supporting resources which may be required to take the reviews forward.

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

Background Papers - None

## PENSION BOARD WORK PLAN

APPENDIX 1

	Jan 2017	20-Apr-17	20-Jul-17	12-Oct-17	18-Jan-18	12-Apr-18	
<u>Business planning</u>							
1	Agree plan for the year	✓				✓	
2	Review Terms of Reference		✓			✓	
3	Review performance against the plan	✓	✓	✓	✓	✓	✓
4	Report to the PFC / NYCC		✓	✓			
5	Report to Scheme Advisory Board / DCLG		✓	✓			
<u>Compliance checks</u>							
6	Review regular compliance monitoring reports		✓		✓		✓
7	Review the compliance of scheme employers						
8	Review such documentation as is required by the Regulations						✓
9	Review the outcome of internal audit reports	✓	✓	✓	✓	✓	
10	Review the outcome of external audit reports				✓		
11	Review annual report				✓		
12	Review the compliance of particular issues on request of the PFC						
13	Review the outcome of actuarial reporting and valuations		✓				
14	Assist with compliance with the UK Stewardship Code					✓	
<u>Administration procedures and performance</u>							
15	Review management, administrative and governance processes and procedures						
16	Monitor complaints and performance						
17	Review the Internal Dispute Resolution Process						
18	Review cases referred to the Pensions Ombudsman						
19	Review the implementation of revised policies and procedures						
20	Review the exercise of employer and administering authority discretions			✓			
21	Assist with the development of improved customer services						
22	Monitor performance of administration, governance and investments						
23	Review processes for the appointment of advisors and suppliers						
24	Monitor investment costs						
25	Review the risk register	✓		✓		✓	
26	Assist with the development of improved structures and policies						
27	Assist in assessing process improvements on request of PFC						
28	Assist with asset voting and engagement processes						
29	Pooling arrangements and governance	✓	✓	✓	✓	✓	✓
<u>Communications</u>							
30	Review scheme member and employer communications						
<u>Training</u>							
31	Review Pension Board knowledge and skills self assessment	✓	✓	✓	✓	✓	✓
32	Review training log	✓	✓	✓	✓	✓	✓
33	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.