

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

20 FEBRUARY 2014

## TRIENNIAL ACTUARIAL VALUATION 2013

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To approve the formal 2013 Triennial Valuation Report from the Actuary.

**2.0 BACKGROUND**

- 2.1 At the PFC meeting on 13 September 2013 Members received a presentation by the Actuary which set out the provisional results of the Valuation at the whole of Fund level. The assumptions used in the process and potential issues for employers, particularly around affordability, were also discussed.
- 2.2 This was followed by a consultation meeting on 7 November 2013 which was attended by representatives of the Fund's employing bodies. This meeting received the same presentation by the Actuary, incorporating issues raised by Members at the PFC meeting in September.
- 2.3 At the PFC meeting on 21 November 2013 Members noted the updated 2013 Valuation position and agreed the flexibility options for employers, the availability of which would be based on the specific circumstances of each employer. A revised timetable for considering the Triennial Valuation results and signing off the Valuation Report were also discussed.

**3.0 CONSULTATION PROCESS**

- 3.1 Employers were sent details of their proposed future service rate and deficit contribution requirements as well as a draft of the Funding Strategy Statement. Discussions took place between officers and a number of employers on the options for flexibility based on their particular circumstances.
- 3.2 There were a few comments from employers on the Funding Strategy Statement; amendments have been made where appropriate. Members are therefore asked to approve this document (attached as **Appendix A**).
- 3.3 By the conclusion of the consultation period a number of employers had made specific requests to use the options for flexibility and amend their contribution requirements. These have been discussed and agreed with the Actuary and will be reflected in his report (see **section 5** below).

## 4.0 EMPLOYER OPTIONS

- 4.1 Employers have been categorized based on their strength of covenant, with strong covenant employers being allowed the greatest flexibility and weak covenant employers the least.
- strong covenant – scheduled and resolution bodies as statutory entities, required/allowed to offer LGPS membership. Includes local authorities or a body with a deficit guarantee from central/local government
  - medium covenant – scheduled bodies not considered as having a strong enough covenant and admitted bodies with no statutory underpin. Includes employers: with a central/local government guarantor; with funding received from central/local government; providing financial security such as a bond; that are part of a pool sharing responsibility for deficit funding
  - weak covenant – such as admitted bodies with: no guarantor; or with a limited lifespan or fixed period of admission to NYPF; or closed to new joiners; or relies upon voluntary sources of income
- 4.2 This categorization was used as the guide as to which flexibility options could be made available to which employers, however the individual circumstances were the most important determining factors.
- 4.3 The provisional Valuation results suggested that the majority of employers would need to take advantage of options for flexibility to some degree in order to achieve reasonably stable contribution levels. The most significant issue was that subsequent to 31 March 2013, there were changes in the financial assumptions the Actuary uses to value liabilities. The Actuary agreed these changes could be taken into account for some (strong and medium covenant) employers which would consequentially improve funding levels. Further, for strong covenant employers, the Actuary agreed that anticipated changes to the same assumptions could be taken into account.
- 4.4 6 employers were allowed to reduce their contributions paid over to the Fund due to having funding levels of over 100%.
- 4.5 39 employers (including all 21 town and parish councils in the Grouped Bodies category) were permitted to use post March 2013 changes in financial assumptions to maintain stable contribution levels. 6 strong covenant employers were permitted to use additional anticipated changes to achieve the same result.
- 4.6 No employers were permitted to extend the deficit recovery period or to use an improved investment return allowance. No employers requested phasing in increases in contribution requirements. No employers enquired about having their own bespoke investment strategy.
- 4.7 Although most employers saw an increase in their future service rate, due for example to the increase in life expectancy, deficit contribution requirements reduced due to improved funding levels. Although this may result in a stabilization of contribution requirements in cash terms, some employers will see a significant rise

in total contributions as a percentage of pensionable pay due to staff reductions since the 2010 Valuation.

- 4.8 A schedule of contribution requirements for the 3 years 2014/15 to 2016/17 is attached as **Appendix B**. This schedule also includes details where officers have discussed the terms of early repayment of deficit contributions as permitted by the Actuary. Early repayment arrangements are subject to agreement on the accounting treatment by the Fund's auditor, Deloitte LLP. Members are asked to approve the schedule.
- 4.9 Should any subsequent amendments to the schedule be required, for example to respond to comments from Deloitte LLP, Members are also asked to delegate responsibility for approving these changes to the Treasurer.

## 5.0 TRIENNIAL VALUATION REPORT OF THE ACTUARY

- 5.1 The Actuary's formal Valuation Report cannot be produced until the decision of the PFC regarding the schedule of contribution requirements (see **paragraph 4.8** above) is confirmed.
- 5.2 The material to be included in the Valuation Report has been discussed with Members previously and there are no changes to the key assumptions or financial circumstances that have been previously agreed.
- 5.3 The draft Valuation Report is subject to internal review within Mercers before being formally certified before 31 March 2014. A copy will be circulated to Members when it becomes available.

## 6.0 RECOMMENDATIONS

- 6.1 That Members approve the updated Funding Strategy Statement (**Appendix A**) referred to in **paragraph 3.2**.
- 6.2 That Members approve the schedule of contribution requirements (**Appendix B**) referred to in **paragraph 4.8**.
- 6.2 That Members delegate responsibility for approving subsequent changes to the schedule of contribution requirements to the Treasurer as described in **paragraph 4.9**.
- 6.3 That Members approve the final results of the 2013 Triennial Valuation and delegate the Treasurer to receive the final Valuation Report from the Actuary before 31 March 2014.

GARY FIELDING  
Treasurer  
County Hall  
Northallerton  
7 February 2014

# North Yorkshire Pension Fund

## Admissions and Terminations Funding Policy

### 1 Introduction

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

### 2 Principles

#### Termination of an admission agreement

- 2.1 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.
- 2.2 In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.
- 2.3 In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.
- 2.4 The NYPF's policy is that a termination assessment will be made based on a least risk (i.e. "matched") funding basis, **unless** the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted

body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

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

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

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

#### **Administering Authority options**

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

guarantor within the Fund, the Administering Authority will consider other applications on a case-by-case basis and can determine that:

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

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

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

### **3 Implementation**

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

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

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

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

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

3.4 An assessment of the level of risk on premature termination of the contract will be carried out, as detailed in paragraph 2.9. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NYPF the

decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer, and should be agreed by the contractor and Scheme Employer as part of the commercial negotiation, to the satisfaction of the Administering Authority.

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

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

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

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

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

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

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

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

### **Notification of Termination**

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

### **Grouped bodies**

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

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

Further details of these groupings are set out below.

### **Grouped Scheduled Bodies**

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



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

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

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

NORTH YORKSHIRE PENSION FUND  
SCHEDULE OF EMPLOYER CONTRIBUTION RATES 2014/15 TO 2016/17

Employer No	Employer	Future Service Rate	Deficit			reduced contributions (>100% funded)	used post March 2013 assumptions	used post March 2013 anticipated assumptions
			14/15	15/16	16/17			
7	Scarborough Borough Council	14.5	2,062,800	2,147,400	2,235,400		Yes	
9	Hambleton District Council	13.4	455,700	474,400	493,800		Yes	
10	Ryedale District Council	14.4	471,600	490,900	511,100			Yes
11	Harrogate Borough Council	14.6	2,556,300	2,661,100	2,770,200			
12	Richmondshire District Council	14.5	410,100	426,900	444,400			Yes
13	Selby District Council	12.7	698,900	727,600	757,400		Yes	
14	Craven District Council	14.0	679,600	707,500	736,500			Yes
15	Welcome to Yorkshire	16.5	131,000	136,400	142,000			
16	York St John University	12.7	333,800	347,500	361,700			
17	York Archaeological Trust	25.5	9,600	10,000	10,400			
20	City of York Council	14.0	4,345,100	4,523,200	4,708,700		Yes	
21	York & North Yorkshire Probation Trust	14.1	442,300	460,400	479,300			
25	North Yorkshire County Council	14.4	11,492,900	11,964,100	12,454,600		Yes	
40	Joseph Rowntree Trust	14.0	57,800	60,200	62,600			
41	Skipton Town Council	14.8	2,400	2,500	2,600		Yes	
42	North Yorkshire Police Authority	11.9	1,311,300	1,365,100	1,421,000			
48	Tadcaster Town Council	29.5	-	-	-			
51	North Yorkshire Fire & Rescue	14.4	46,600	48,500	50,500			Yes
52	North York Moors National Park	13.5	115,200	119,900	124,800		Yes	
53	Yorkshire Dales National Park	13.4	122,800	127,800	133,100		Yes	
54	NYBEP	26.7	19,000	19,000	-			
55	University of Hull	14.7	158,800	165,300	172,100			
57	Yorkshire Housing	17.4	147,800	153,900	160,200		Yes	
61	Askham Bryan College	13.5	84,800	88,300	91,900			Yes
62	Craven College	14.6	32,100	33,400	34,800		Yes	
65	Selby College	14.1	27,600	28,700	29,900			Yes
68	Scarborough VI Form College	14.1	13,800	14,400	15,000		Yes	
73	Community Leisure Ltd	16.1	24,000	25,000	26,000			
74	York College	14.3	129,700	135,000	140,600		Yes	
76	York Museums Trust	13.1	26,700	27,800	28,900		Yes	
77	Craven Housing	19.7	- 57,500	- 59,900	- 62,300	Yes		
80	Yorkshire Coast Homes	14.2	- 45,100	- 46,900	- 48,900	Yes		
82	Richmondshire Leisure Trust	13.4	9,400	9,800	10,200		Yes	
84	Jacobs UK Ltd	14.3	-	-	-			
86	Superclean Services	24.5	- 2,100	- 2,200	- 2,300	Yes		
90	Veritau Ltd	12.2	- 36,400	- 37,900	- 39,400	Yes		
91	Wigan Leisure/Culture	24.6	-	-	-			
92	Enterprise	20.8	- 20,700	- 21,500	- 22,400	Yes		
98	Harrogate Grammar School	13.8	73,800	76,800	80,000		Yes	
101	Skipton Girls High School	16.5	32,600	33,900	35,300			
102	South Craven School	14.7	96,800	100,800	104,900			
103	Archbishop Holgates School	14.2	50,100	52,200	54,300		Yes	
104	Norton College	14.1	48,600	50,600	52,700		Yes	
105	Rossett School	15.7	46,300	48,200	50,200			
106	Manor CE School	11.5	32,100	33,400	34,800			
107	St. Aidan's Church of England High School	15.3	77,300	80,500	83,800			
108	Ripon College	14.4	35,100	36,500	38,000			
109	Gt Smeaton Primary School	20.8	100	100	100			
110	Ringway	23.3	-	-	-			
111	Veritau North Yorkshire	15.5	- 2,100	- 2,200	- 2,300	Yes	Yes	
113	Harrogate High Academy	13.6	51,100	53,200	55,400			
114	Human Support Group Ltd	19.6	- 12,200	- 12,700	- 13,200			
118	Sheffield Int Venues	16.4	- 5,900	- 6,100	- 6,400			
501	Grouped Body not ENA	16.9	80,100	83,400	86,800		Yes	