

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

10 JULY 2014

STATEMENT OF FINAL ACCOUNTS 2013/14

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To approve the draft Statement of Final Accounts for the financial year 2013/14.

2.0 STATEMENT OF ACCOUNTS

- 2.1 The draft Statement of Final Accounts for 2013/14 is attached as **Appendix A**. This complies fully with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 governing the preparation of the 2013/14 Financial statements for Local Government Pension Scheme Funds.
- 2.2 The Accounts are being reported separately to Members so that they can then be referred on to the County Council's Audit Committee (meeting on the 17 July 2014) prior to their submission to the External Auditor. Since 2008/09 there has been a statutory requirement for the Accounts to be audited separately from the County Council's Accounts by the External Auditor, thus the need to refer them separately to the Audit Committee.
- 2.3 Any material amendments to the draft Accounts arising from the External Audit will be reported to the September PFC meeting (see **paragraph 2.5** below).
- 2.4 For 2013/14 the NYPF Statement of Final Accounts will also be consolidated in the County Council's Statement of Accounts for approval by the Audit Committee in addition to being considered separately by this Committee.
- 2.5 Once audited, these Accounts will be incorporated into the Pension Fund Annual Report which will be placed on the NYPF web site www.nypf.org.uk. The Annual Report will be submitted to Members at the PFC meeting on 18 September 2014.

3.0 RECOMMENDATIONS

- 3.1 Members are asked to approve the draft Statement of Final Accounts 2013/14 for referral to the County Council's Audit Committee.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall
Northallerton
27 June 2014

NORTH YORKSHIRE PENSION FUND
FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

2012/13		2013/14	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
78,123	Employers - Normal	80,924	
0	- Special	0	
3,404	- Early Retirement Costs Recharged	4,052	
23,756	Employees - Normal	24,125	
353	- Additional Voluntary	303	
105,636	Total Contributions Receivable (Note 7)		109,404
6,772	Transfers In (Note 8)		11,273
	<u>Less</u>		
	Benefits		
(62,211)	Pensions	(66,500)	
(20,181)	Commutation and Lump Sum Retirement Benefits	(19,936)	
(2,201)	Lump Sums Death Benefits	(1,314)	
(84,593)	Total Benefits Payable (Note 9)		(87,750)
	Leavers		
(17)	Refunds to Members Leaving Service	(8)	
0	Payments for Members Joining State Scheme	0	
(6,241)	Transfers Out	(4,106)	
(6,258)	Total Payments on Account of Leavers (Note 10)		(4,114)
(1,664)	Administrative Expenses (Note 11)		(1,559)
19,893	Net Additions From Dealings With Members		27,254
	RETURNS ON INVESTMENTS		
21,774	Investment Income (Note 12)		22,895
(379)	Taxation (Note 13)		(397)
(3,324)	Investment Expenses (Note 14)		(6,075)
237,204	Change in market value of investments (Note 15)		198,746
255,275	Net Returns On Investments		215,169
275,168	Net Increase in the Fund During the Year		242,423
1,565,565	Opening Net Assets of the Fund		1,840,733
1,840,733	Closing Net Assets of the Fund		2,083,156

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2013 £000		31 March 2014 £000
	INVESTMENT ASSETS (Notes 15 & 16)	
72,005	Fixed Interest Securities	71,424
625,584	Equities	742,593
1,056,194	Pooled Investments	1,141,317
66,982	Pooled Property Investments	98,592
478	Private Equity	258
1,821,243		2,054,184
8,427	Cash Deposits	12,185
6,178	Investment Debtors	14,966
1,835,848	TOTAL INVESTMENT ASSETS	2,081,335
	INVESTMENT LIABILITIES (Notes 15 & 16)	
(2,863)	Derivative Contracts - Forward Currency Contracts	(23)
(3,857)	Investment Creditors	(11,785)
(6,720)	TOTAL INVESTMENT LIABILITIES	(11,808)
1,829,128	NET INVESTMENT ASSETS	2,069,527
	CURRENT ASSETS	
4,609	Contributions due from employers	9,233
3,083	Other Non-Investment Debtors	742
6,187	Cash	4,888
13,879	TOTAL CURRENT ASSETS	14,863
	CURRENT LIABILITIES	
(2,274)	Non-investment creditors	(1,234)
(2,274)	TOTAL CURRENT LIABILITIES	(1,234)
1,840,733	TOTAL NET ASSETS (Note 16)	2,083,156

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 2014

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 2013/14 and the statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

It is a 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. Teachers, police officers and fire fighters are included 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 2014 there were 93 contributing employer organisations within NYPF including the County Council itself, as detailed below:

59 Scheduled Bodies

City of York Council	Skipton Girls High School
Craven District Council	South Craven School
Hambleton District Council	St Aidan's Church of England High School
Harrogate Borough Council	The Woodlands Academy
North Yorkshire County Council	Thomas Hinderwell Primary Academy
Richmondshire District Council	Easingwold Town Council
Ryedale District Council	Filey Town Council
Scarborough Borough Council	Foss Internal Drainage Board
Selby District Council	Fulford Parish Council
North Yorkshire Police & Crime Commissioner	Glusburn Parish Council
North Yorkshire Police Force	Great Ayton Parish Council
North Yorkshire Fire & Rescue Authority	Haxby Town Council
North York Moors National Park	Hunmanby Parish Council
York & North Yorkshire Probation Trust	Knaresborough Town Council
Yorkshire Dales National Park	Malton Town Council
Askham Bryan College	Marston Moor Drainage Board
Craven College	Northallerton Town Council
Scarborough Sixth Form College	Norton on Derwent Town Council
Selby College	Northallerton / Romanby Burial Board
York College	Pickering Town Council
Archbishop Holgate's School	Riccall Parish Council
Great Smeaton Academy Primary School	Richmond Town Council
The Grove Academy	Ripon City Council
Harrogate Grammar School	Selby Town Council
Harrogate High School	Skipton Town Council
Manor Church of England Academy	Sutton in Craven Parish Council
Norton College	Tadcaster Town Council
Outwood Academy	Thornton Internal Drainage Board
Robert Wilkinson Academy	Whitby Town Council
Rossett School	

34 Admission Bodies

Catering Academy Ltd	Premier Support Services
Chartwells Compass	Ringway
Churchill Security	Richmondshire Leisure
Community Leisure	Scarborough Museums Trust
Craven Housing	Sheffield International Venues
Elite	Springfield Home Care
Enterprise	Superclean
Future Cleaning	University of Hull
Grosvenor Facilities Management	Veritau Ltd
Human Support Group	Veritau North Yorkshire Ltd
ISS Mediclean Ltd	Welcome to Yorkshire
Interserve	Wigan Leisure & Culture Trust
Jacobs UK Ltd	York Archaeological Trust
Joseph Rowntree Trust	York Museums & Gallery Trust
Mellors	Yorkshire Coast Homes
Northern Care	Yorkshire Housing Ltd
NYBEP	York St John University

Active, pensioner and deferred pensioner numbers, split between NYCC as the Administering Authority and all other employers were as follows:

	31 March 2014 No	31 March 2013 No
Employees in the Fund		
NYCC	18,960	17,336
Other employers	12,541	11,700
Total	<u>31,501</u>	<u>29,036</u>
Pensioners		
NYCC	9,463	8,979
Other employers	8,205	7,776
Total	<u>17,668</u>	<u>16,755</u>
Deferred pensioners		
NYCC	18,204	16,830
Other employers	11,286	10,673
Total	<u>29,490</u>	<u>27,503</u>

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and details of the rates for individual employers are available on the Fund's website.

d) Benefits

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.

Under the CARE (Career Average Revalued Earnings) scheme which came into effect from April 2014 benefits will accrue at a rate of 1/49th of pensionable pay earned each year, indexed 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 of the Fund's website.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its year end position as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at **Note 19** of these accounts.

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.

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

b) Transfers To and From Other Schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions or other defined contribution arrangements to purchase scheme benefits are accounted for on a receipts basis.

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

c) Investment Income

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

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

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

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

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the financial year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

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

f) Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pensions Administration Team are charged to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with NYCC policy.

g) Investment Management Expenses

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

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

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

- Baillie Gifford & Co - Global Equities
- FIL Pensions Management (Fidelity) - Global (ex-UK) Equities
- Standard Life Investments – UK Equities

Performance related fees were £2,275k in 2013/14 (£217k in 2012/13).

Net Assets Statement

h) Assets

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

The values of investments as shown in the Net Assets Statement have been determined as follows:

- the value of investments for which there are readily available market prices are determined by the bid market prices
- fixed interest securities are recorded at net market value based on prevailing yields
- interests in limited partnerships are based on the net asset value ascertained from periodic valuations provided by those controlling the partnership
- pooled investment vehicles are valued at closing bid price if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax

i) Foreign Currency Transactions

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

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

The value of forward currency contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

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 change in value.

l) Liabilities

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

m) Actuarial Present Value of Promised Retirement Benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an **Appendix** to these statements.

n) Additional Voluntary Contributions

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

AVCs are not included in the Accounts in accordance with Section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (**Note 22**).

4. Critical Judgement in Applying Accounting Policies

Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2014 was £258k (31 March 2013, £478k).

Pension Fund Liability

The Fund's liability is calculated every three years by the Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in **Note 18**. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

These Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as these figures cannot be determined with certainty, actual results could be materially different using different assumptions.

The item in the Net Assets Statement as at 31 March 2014 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 £46m, a 0.1% increase in inflation would increase liabilities by £44m, and an increase in life expectancy of one year would increase liabilities by £52m.

6. Events After the Balance Sheet Date

Since 31 March 2014 there have been significant movements in global financial markets which would impact upon the market value of the Fund's investments were they to be valued as at the date these Accounts were authorised. This change is deemed to be a non-adjusting post balance sheet event.

There have been no events since 31 March 2014, and up to the date when these accounts were authorised that require any adjustments to these Accounts.

7. Contributions Receivable

	2013/14 £000	2012/13 £000
Contributions Receivable		
North Yorkshire County Council	47,466	45,284
Other Scheduled Bodies	55,557	53,647
Admitted Bodies	6,381	6,705
	<u>109,404</u>	<u>105,636</u>

8. Transfers In from Other Pension Funds

During the year there was one group transfer from the Cumbria Pension Fund to Askham Bryan College of £2.4m. All other Transfers In were individual transfers.

9. Benefits Payable

	2013/14 £000	2012/13 £000
Benefits Payable		
North Yorkshire County Council	37,126	36,751
Other scheduled bodies	45,979	42,928
Admitted bodies	4,645	4,914
	<u>87,750</u>	<u>84,593</u>

10. Payments To and On Account of Leavers

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

11. Administrative Expenses

	2013/14 £000	2012/13 £000
Administration and Processing	1,378	1,554
Actuarial Fees	137	58
Legal and Audit Fees	44	52
	<u>1,559</u>	<u>1,664</u>

12. Investment Income

	2013/14 £000	2012/13 £000
Fixed Interest and Index Linked Securities	1,928	1,790
Dividends from Equities	19,485	19,304
Pooled Property Investments	1,067	472
Interest on Cash Deposits	22	13
Other	393	195
	<u>22,895</u>	<u>21,774</u>

13. Taxes on Income

	2013/14 £000	2012/13 £000
Withholding Tax on Dividends	<u>397</u>	<u>379</u>

14. Investment Expenses

	2013/14 £000	2012/13 £000
Administration, Management and Custody	5,890	3,010
Performance Monitoring Services	30	22
Other Advisory Fees	155	292
	<u>6,075</u>	<u>3,324</u>

15. Investments

a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2014	Change in market value at 31 March 2014	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2013
	£000	£000	£000	£000	£000
Fixed Interest	71,424	(2,399)	(316,193)	318,011	72,005
Equities	742,593	97,814	(442,188)	464,702	622,265
Pooled Funds	1,141,317	72,708	0	9,096	1,059,513
Pooled Property	98,592	10,010	0	21,600	66,982
Private Equity	258	(59)	(180)	19	478
Derivative Contracts	(23)	16,055	(788,658)	775,443	(2,863)
Total Invested	<u>2,054,161</u>	<u>194,129</u>	<u>(1,547,219)</u>	<u>1,588,871</u>	<u>1,818,380</u>
Cash Deposits	12,185	3,758			8,427
Net Investment Debtors	3,181	860			2,321
Net Investment Assets	<u>2,069,527</u>	<u>198,747</u>			<u>1,829,128</u>

	Value at 31 March 2013	Change in market value at 31 March 2013	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2012
	£000	£000	£000	£000	£000
Fixed Interest	72,005	5,695	(316,823)	318,011	65,122
Equities	622,265	127,613	(593,881)	426,885	661,648
Pooled Funds	1,059,513	109,111	(2,651)	162,821	790,232
Pooled Property	66,982	1,405	(783)	42,592	23,768
Private Equity	478	(294)	(300)	0	1,072
Derivative Contracts	(2,863)	(6,938)	(911,217)	913,219	2,073
Total Invested	<u>1,818,380</u>	<u>236,592</u>	<u>(1,825,655)</u>	<u>1,863,528</u>	<u>1,543,915</u>
Cash Deposits	8,427	586			7,841
Net Investment Debtors	2,321	26			2,295
Net Investment Assets	<u>1,829,128</u>	<u>237,204</u>			<u>1,554,051</u>

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund, such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £871k (2012/13 £959k). In addition indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These investment vehicles are managed by Investment Managers registered in the UK. The amount of indirect costs is not separately provided to the Pension Fund.

b) Analysis of Investments (excluding derivative contracts)

	2013/14 £000	2012/13 £000
Fixed Interest Securities		
UK Public Sector Quoted	<u>71,424</u>	<u>72,005</u>
Equities		
UK Quoted	408,273	314,260
Overseas Quoted	<u>334,320</u>	<u>308,005</u>
	<u>742,593</u>	<u>622,265</u>
Pooled Investments		
UK Equity	51,942	41,262
UK Property	98,592	66,982
UK Fixed Income	128,667	142,721
Overseas Equity	570,674	501,679
Overseas Fixed Income	<u>225,783</u>	<u>213,543</u>
	<u>1,075,658</u>	<u>966,187</u>
Diversified Growth Funds - UK	<u>164,251</u>	<u>160,308</u>
Private Equity - UK	<u>258</u>	<u>478</u>
Total Investments (excl Derivatives)	<u>2,054,184</u>	<u>1,821,243</u>

Objectives and Policies for Holding Forward Foreign Currency Derivatives

Up until February 2014 the Fund hedged a proportion (25%) of the US Dollar, Euro, Japanese Yen, Swiss Franc and Swedish Krona exposure in relation to overseas equity investments. Contracts outstanding at the year-end relate to positions taken by the Fund's investment managers for efficient trading purposes, were valued at £23k and settled within one month. Forward currency contracts as at 31 March 2013 were valued at £(2,863k).

Investments Analysed by Fund Manager

Investment Manager	31 March 2014		31 March 2013	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	345,185	16.6	306,092	16.7
Baillie Gifford & Co. - LTGG	214,838	10.3	178,193	9.7
Fidelity International	402,771	19.3	372,221	20.3
Standard Life Investments - Equities	416,767	20.0	315,193	17.1
Standard Life Investments - DGF	82,993	4.0	80,308	4.4
ECM Asset Management	125,783	6.0	120,243	6.5
Amundi Asset Management	228,667	11.0	236,024	12.8
RC Brown Investment Management	0	0.0	2,709	0.1
Hermes Property Unit Trust	25,799	1.2	23,640	1.3
Legal & General	27,984	1.3	24,891	1.4
Threadneedle	45,279	2.2	18,654	1.0
M&G Investments	71,922	3.5	73,344	4.0
Newton Investments	81,259	3.9	80,000	4.3
Currency Hedging	22	0.0	(2,863)	-0.2
Yorks & Humber Equity Fund	258	0.0	478	0.0
Internally Managed (cash and net debtors)	13,629	0.7	11,606	0.6
	<u>2,083,156</u>	<u>100.00</u>	<u>1,840,733</u>	<u>100.0</u>

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

c) Stock Lending

The Fund has not released stock to a third party under a stock lending arrangement within a regulated market at this period end or in any previous years.

16. Financial Instruments

a) Classification of Financial Instruments

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

31 March 2013			31 March 2014		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost	Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000	£000	£000	£000
Assets					
72,005			71,424		
622,265			742,593		
899,205			977,065		
66,982			98,592		
160,308			164,252		
478			258		
	14,615			17,073	
6,178			14,966		
	7,692			9,975	
<u>1,827,421</u>	<u>22,307</u>	<u>-</u>	<u>2,069,150</u>	<u>27,048</u>	<u>-</u>
Liabilities					
2,864			23		
3,857			11,785		
		2,274			1,234
<u>6,721</u>	<u>-</u>	<u>2,274</u>	<u>11,808</u>	<u>-</u>	<u>1,234</u>
<u>1,820,700</u>	<u>22,307</u>	<u>(2,274)</u>	<u>2,057,342</u>	<u>27,048</u>	<u>(1,234)</u>

b) Net Gains and Losses on Financial Instruments

	2013/14	2012/13
	£000	£000
Fair Value Through Profit & Loss	194,128	236,592
Loans and Receivables	4,618	612
	<u>198,746</u>	<u>237,204</u>

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the cost of the assets and liabilities by class of instrument compared with their fair values in the Accounts.

31 March 2013			31 March 2014	
Cost	Fair Value		Cost	Fair Value
£000	£000		£000	£000
Assets				
1,525,128	1,827,421	Fair Value through Profit & Loss	1,940,111	2,069,150
22,307	22,307	Loans and Receivables	27,048	27,048
<u>1,547,435</u>	<u>1,849,728</u>		<u>1,967,159</u>	<u>2,096,198</u>
Liabilities				
6,721	6,721	Fair Value through Profit & Loss	11,808	11,808
2,274	2,274	Liabilities at Amortised Cost	1,234	1,234
<u>8,995</u>	<u>8,995</u>		<u>13,042</u>	<u>13,042</u>

NYCC has not entered into any financial guarantees that are required to be accounted for as financial instruments.

d) Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect in the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on a valuation provided by the manager of the fund in which NYPF has invested. This valuation has been prepared in accordance with the British Venture Capital Association guidelines. Formal valuations are undertaken annually as at the end of December.

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

Values at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Assets				
Fair Value through Profit & Loss	2,068,892		258	2,069,150
Loans and Receivables	27,048			27,048
	<u>2,095,940</u>	<u>-</u>	<u>258</u>	<u>2,096,198</u>
Liabilities				
Fair Value through Profit & Loss	11,785	23		11,808
Liabilities at Amortised Cost	1,234			1,234
	<u>13,019</u>	<u>23</u>	<u>-</u>	<u>13,042</u>
Net Assets	<u>2,082,921</u>	<u>- 23</u>	<u>258</u>	<u>2,083,156</u>

Values at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Assets				
Fair Value through Profit & Loss	1,826,943		478	1,827,421
Loans and Receivables	22,307			22,307
	<u>1,849,250</u>	<u>-</u>	<u>478</u>	<u>1,849,728</u>
Liabilities				
Fair Value through Profit & Loss	3,858	2,863		6,721
Liabilities at Amortised Cost	2,274			2,274
	<u>6,132</u>	<u>2,863</u>	<u>-</u>	<u>8,995</u>
Net Assets	<u>1,843,118</u>	<u>- 2,863</u>	<u>478</u>	<u>1,840,733</u>

17. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

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

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

a) Market Risk

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

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

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

The Fund manages these risks in two ways:

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

Other Price Risk

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

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

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

Following analysis of historical data and expected investment return movement during the financial year, the following table shows movements in market price risk that are reasonably possible for the 2013/14 reporting period, assuming other variables such as foreign currency rates and interest rates remain unchanged. The changes disclosed are broadly consistent with a one standard deviation movement in the value of assets. A prior year comparator is also shown below.

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	12,185	0.0	12,185	12,185
UK Bonds	71,424	5.5	75,352	67,496
UK Equities	408,273	13.0	461,348	355,198
Overseas Equities	333,923	12.1	374,328	293,518
UK Pooled Equity	51,942	13.0	58,694	45,190
Overseas Pooled Equity	570,674	12.1	639,726	501,622
UK Pooled Bonds	128,667	5.5	135,744	121,590
Overseas Pooled Bonds	225,783	5.5	238,201	213,365
Pooled Property Investments	98,592	1.8	100,367	96,817
Diversified Growth Funds	164,251	9.3	179,526	148,976
Private Equity	257	13.0	290	224
Derivatives	(22)	0.0	(22)	(22)
Non Investment Debtors/Creditors	3,181	0.0	3,181	3,181
Total Assets	2,069,130		2,278,921	1,859,339

Asset Type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	8,427	0.0	8,427	8,427
UK Bonds	72,005	5.5	75,965	68,045
UK Equities	314,260	13.0	355,114	273,406
Overseas Equities	308,005	12.1	345,274	270,736
UK Pooled Equity	41,262	13.0	46,626	35,898
Overseas Pooled Equity	501,679	12.1	562,382	440,976
UK Pooled Bonds	142,721	5.5	150,571	134,871
Overseas Pooled Bonds	213,543	5.5	225,288	201,798
Pooled Property Investments	66,982	1.8	68,188	65,776
Diversified Growth Funds	160,308	9.3	175,217	145,399
Private Equity	478	13.0	540	416
Derivatives	(2,863)	0.0	(2,863)	(2,863)
Non Investment Debtors/Creditors	2,321	0.0	2,321	2,321
Total Assets	1,829,128		2,013,049	1,645,207

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 2014 and 31 March 2013 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2013/14	2012/13
	£000	£000
Cash and Cash Equivalents	12,185	8,427
Fixed Interest Securities	71,424	72,005
	<u>83,609</u>	<u>80,432</u>

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. No figures are available for a predicted movement in the long term average rate. However for illustrative purposes if it were to change by +/- 25 bps the values in the table above would change by £209k and for 2012/13 asset values, £201k.

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 +/-5.5%. 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 5.5% 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 2014	Value on 5.5% Increase	Value on 5.5% Decrease
	£000	£000	£000
Overseas Equities	904,597	954,350	854,844
Overseas Bonds	225,783	238,201	213,365
Total Assets	<u>1,130,380</u>	<u>1,192,551</u>	<u>1,068,209</u>

Asset Type	Value as at 31 March 2013	Value on 5.5% Increase	Value on 5.5% Decrease
	£000	£000	£000
Overseas Equities	809,684	854,217	765,151
Overseas Bonds	213,543	225,288	201,798
Total Assets	<u>1,023,227</u>	<u>1,079,504</u>	<u>966,950</u>

b) Credit Risk

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

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

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

Contractual credit risk is represented by the net payment or receipt that remains 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. Money market funds 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 2014 was £4.9m (31 March 2013, £6.2m) and was held with the following institutions:

	31 March 2014	31 March 2013
	£000	£000
Cash and Cash Equivalents		
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	117	477
Institutions with Fitch Rating Long Term A and Short Term F1	1,640	1,434
Institutions with Fitch Rating Long Term AA- and Short Term F1+	938	-
Deposits with banks and financial institutions for less than 1 Yr		
Part Nationalised Banks with Fitch Rating Long Term A and Short Term F1	-	3,338
Institutions with Fitch Rating Long Term AA- and Short Term F1+	-	318
Institutions with Fitch Rating Long Term A+ and Short Term F1	-	636
Institutions with Fitch Rating Long Term A and Short Term F1	2,193	-
	<u>4,888</u>	<u>6,203</u>

c) Liquidity Risk

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31 March 2014 the value of illiquid assets was £257k, which represented less than 0.1% of total Fund assets (31 March 2013, £478k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2014 are due within one year.

The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding Arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008 the Fund's Actuary, Mercer, undertakes a funding Valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such Valuation took place as at 31 March 2013. The next Valuation will take place as at 31 March 2016.

The key elements of NYPF's funding policy are:

- to ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as the fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 27 years from April 2014 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 Triennial Valuation the Fund was assessed as 73% funded (67% at the 2010 Valuation). This reflected a deficit of £668m (£659m at the 2010 Valuation).

The common rate of employers' contributions is the average rate required from all employers calculated as being sufficient, together with contributions paid by employees, to meet all liabilities arising in respect of service after the Valuation date. For 2013/14 the common rate (determined at the 2010 Valuation) is 12.2% of pensionable pay and for the three years from 2014/15 it is 13.8%.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 Triennial Valuation Report and the Funding Strategy Statement on the Fund's website.

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

	For future service liabilities
Investment Return	5.60% per annum
Inflation	2.60% per annum
Salary Increases	4.75% per annum
Pension Increases	2.60% per annum

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

	Male	Female
Current pensioners	22.9 years	25.4 years
Future pensioners (assumed current age 45)	25.1 years	27.7 years

Life expectancy for the year to 31 March 2014 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.

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

19. Actuarial Present Value of Promised Retirement Benefits

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

20. Current Assets

	2013/14	2012/13
	£000	£000
Debtors		
Investment Debtors		
Investment Transactions	11,405	3,533
Accrued Dividends	2,359	1,785
Withholding Taxes Recoverable	1,202	860
	<u>14,966</u>	<u>6,178</u>
Other Debtors		
Contributions due from Scheduled (Government) Bodies	8,769	7,106
Contributions due from Admitted Bodies	464	494
Pensions Rechargeable	13	25
Interest on Deposits	2	0
Other	727	67
	<u>9,975</u>	<u>7,692</u>
Total Debtors	<u>24,941</u>	<u>13,870</u>

21. Current Liabilities

	2013/14	2012/13
	£000	£000
Creditors		
Investment Creditors	11,808	6,721
Sundry Other Creditors	1,235	2,273
	<u>13,043</u>	<u>8,994</u>

All creditors are non government entities and individuals.

22. Additional Voluntary Contributions (AVCs)

Members may make Additional Voluntary Contributions (AVCs) which are invested in insurance policies with the Prudential Assurance Company Limited on behalf of the individual members concerned.

The AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

AVC contributions of £2,390k were paid directly to Prudential during the year (£2,226k in 2012/13). The total value of the AVC Fund serviced by these contributions as at 31 March was:

	31 March 2014	31 March 2013
	£000	£000
Prudential	<u>21,320</u>	<u>20,961</u>

23. Related Party Transactions

North Yorkshire County Council

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

The Council incurred costs of £1,078k (£1,064k in 2012/13) 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 £47.5m to the Fund in 2013/14 (£45.3m in 2012/13). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2013 the Fund had an average investment balance of £1.8m (£2.2m) during 2012/13) receiving interest of £15.6k (£26k paid in 2012/13) on these funds.

Governance

As at 31 March 2014 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.

24. Contingent Liabilities and Contractual Commitments

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2012/13).

25. Contingent Assets

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

26. Impairment Losses

The Fund had no material impairment losses at the year end (£nil in 2012/13).