Agenda

Meeting: Pension Fund Committee

Venue: Grand Meeting Room, County Hall, Northallerton DL7 8AD

Date: Thursday 9 July 2015 at 10.00am

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public, please give due regard to the Council's protocol on audio/visual recording and photography at public meetings, a copy of which is available to download below. Anyone wishing to record is asked to contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. We ask that any recording is clearly visible to anyone at the meeting and that it is non-disruptive. http://democracy.northyorks.gov.uk

Business

1. **Minutes of the Meeting held on 21 May 2015.** **(Pages 1 to 3)**

2. **Public Questions or Statements**.

> Members of the public may ask questions or make statements at this meeting if they have given notice to Josie O'Dowd of Democratic Services (contact details below) by midday Monday 6 July 2015, three working days before the day of the meeting. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-
>
> - at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
>
> - when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

3. **Statement of Final Accounts 2014/15** – Report of the Treasurer.

(Pages 4 to 26)

Enquiries relating to this agenda please contact Josie O'Dowd **Tel: 01609 532591**
Fax: 01609 780447 or e-mail Josie.o'dowd@northyorks.gov.uk Website: www.northyorks.gov.uk

4. **Governance Arrangements** – Report of the Treasurer.

(Pages 27 to 124)

5. **Bond Strategy Review** – Report of the Treasurer.

(Pages 125 to 126)

6. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

NOTE:

Members are reminded that there will be a Bond Strategy workshop on Thursday 9 July 2015 immediately after the Pension Fund Committee meeting that will include presentations from M&G and BNY Mellon.

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton

1 July 2015

NOTES:

(a) Members are reminded of the need to consider whether they have any interests to declare on any of the items on this agenda and, if so, of the need to explain the reason(s) why they have any interest when making a declaration.

The relevant Committee Administrator or Monitoring Officer will be pleased to advise on interest issues. Ideally their views should be sought as soon as possible and preferably prior to the day of the meeting, so that time is available to explore adequately any issues that might arise.

(b) **Emergency Procedures for Meetings**

Fire
The fire evacuation alarm is a continuous Klaxon. On hearing this you should leave the building by the nearest safe fire exit. From the **(insert relevant room and relevant evacuation procedure).** Once outside the building please proceed to the fire assembly point outside the main entrance

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

An intermittent alarm indicates an emergency in nearby building. It is not necessary to evacuate the building but you should be ready for instructions from the Fire Warden.

Accident or Illness
First Aid treatment can be obtained by telephoning Extension 7575.

PENSION FUND COMMITTEE

1. Membership

County Councillors (7)			
	Councillors Names		*Political Party*
1	BLACKIE, John		NY Independent
2	BATEMEN. Bernard MBE		Conservative
3	De COURCEY-BAYLEY, Margaret Ann		Liberal Democrat
4	HARRISON-TOPHAM, Roger	(Vice-Chairman)	Conservative
5	MULLIGAN, Patrick		Conservative
6	SWIERS, Helen		Conservative
7	WEIGHELL, John	(Chairman)	Conservative

Members other than County Councillors (2) Voting		
1	STEWARD, Chris	City of York
2	CLARK, Jim	Local Government North Yorkshire and York
Total Membership – (9)		**Quorum – (3) County Councillors**

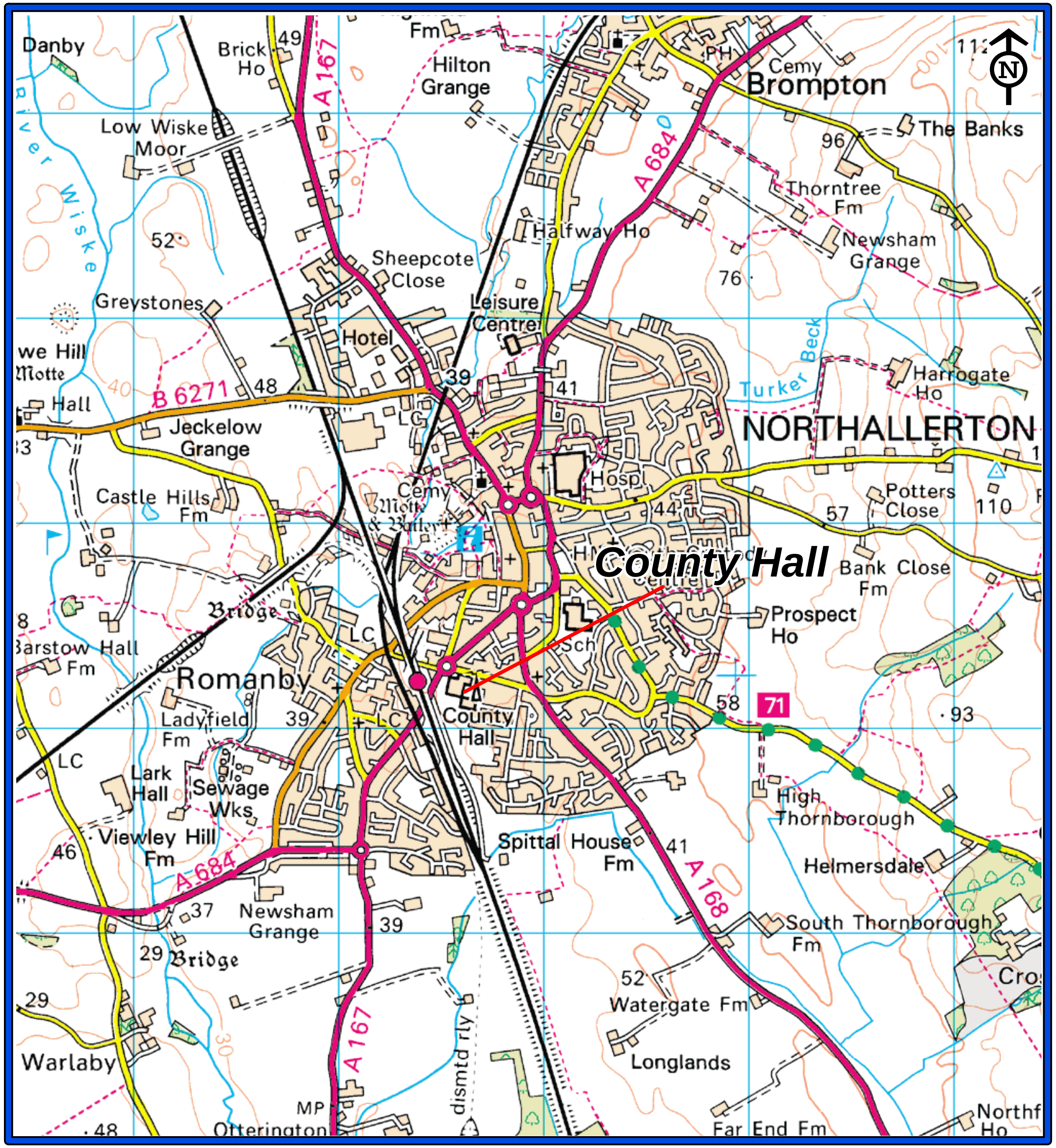
Con	**Lib Dem**	**NY Ind**	**Labour**	**Liberal**	**UKIP**	**Ind**	**Other Voting Members**
5	1	1	0	0	0	0	2

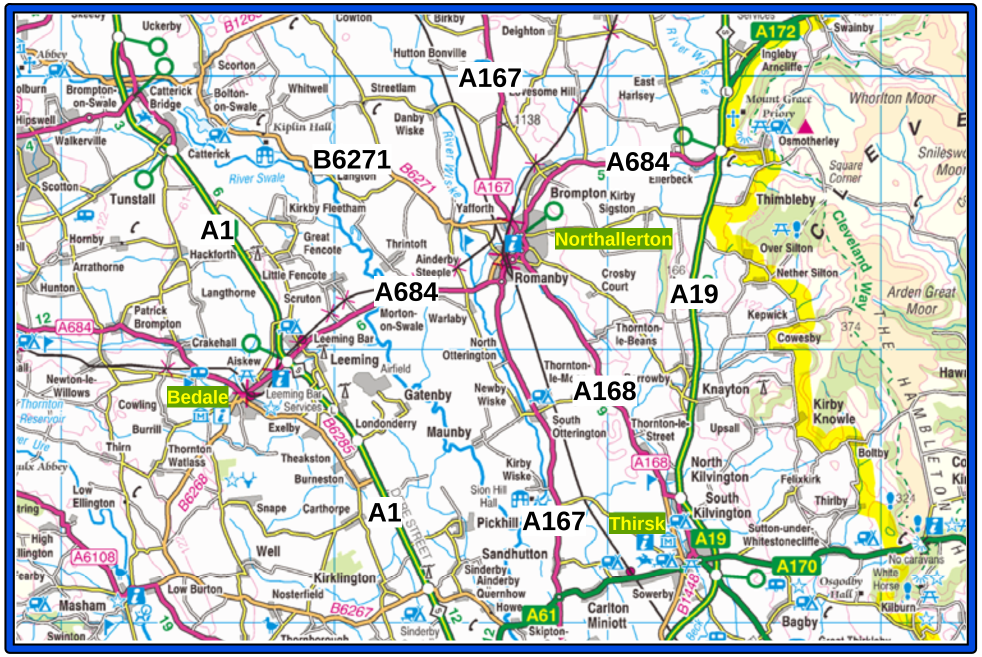
2. Substitute Members

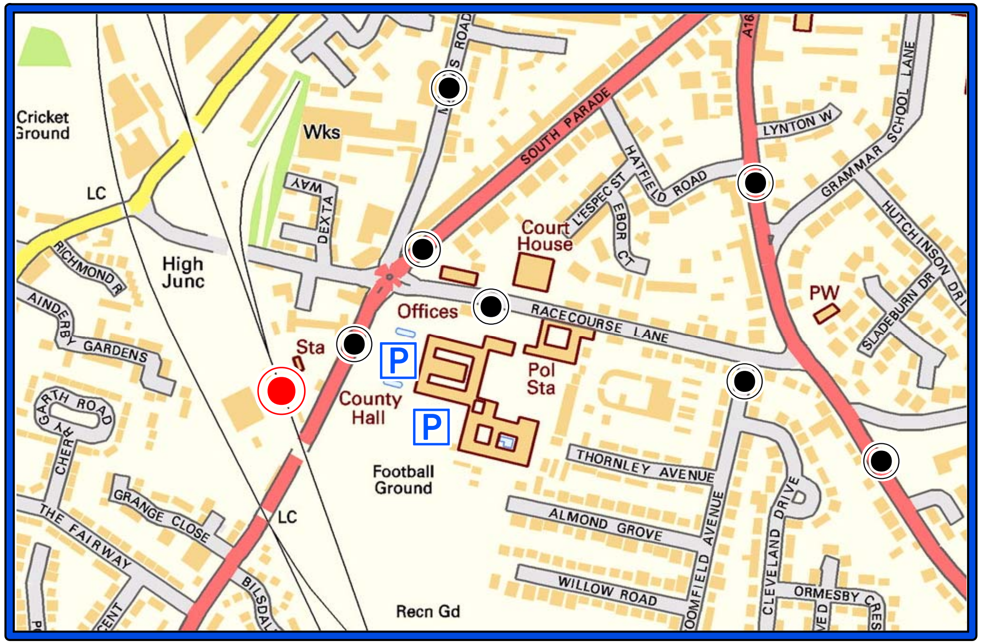
Conservative		**Liberal Democrat**	
	Councillors Names		*Councillors Names*
1	PATMORE, Caroline	**1**	HOULT, Bill
2	LES, Carl	**2**	
3	MACKENZIE, DON	**3**	
4		**4**	
5		**5**	
NY Independent			
	Councillors Names		
1	PARSONS, Stuart		
2			
3			
4			
5			

1. Substitute Members

1	CUTHBERTSON, Ian	City of York
2		Local Government North Yorkshire and York
3		Local Government North Yorkshire and York







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Northallerton
North Yorkshire
DL7 8AD

Tel : 0845 8 72 73 74

North Yorkshire County Council

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 21 May 2015 at County Hall, Northallerton commencing at 10.00 am.

Present:-

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

Councillor Jim Clark (Local Government North Yorkshire and York)

Apologies were received from County Councillor John Blackie.

Copies of all documents considered are in the Minute Book

Declarations of Interest

County Councillors Bernard Bateman, Jim Clark, Patrick Mulligan, Margaret-Ann de Courcey-Bayley and John Weighell stated that although not a disclosable pecuniary interest they wished it to be known that they were members of the Pension Scheme.

79. Minutes

Resolved -

That the Minutes of the meeting held on 26 February 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

80. Public Questions or Statements

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

81. Member and Employer Issues

Considered -

The report of the Treasurer updating the Committee on membership movements, performance and benefits administration together with information on related events and activity during the current year up until the date of the meeting.-

Resolved -

That the report be noted.

82. Budget/Statistics

Considered -

The report of the Treasurer highlighting the following:-

(a) income/expenditure and position for the year 2014/15

(b) cash deployment of the Fund.

In speaking to the report the Treasurer explained that since his previous report the position had altered, largely as a result of an additional one-off payment by one of the Fund's employers which had made a significant contribution to the positive variance for the year.

A Member referred to a similar request from a different employer having previously been refused and asked if the position had subsequently changed. Members were advised that the Fund's new auditors, unlike their predecessors, looked more favourably on the permissibility of advance payments. The Treasurer agreed to contact the employer referred to by the Member to inform them of the updated position.

Resolved -

That the content of the report be noted.

83. Performance of the Fund's Portfolio for the Quarter ending 31 December 2015

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the quarter to 31 December 2015.

Members discussed the performance of the investments with the Treasurer, Independent Investment Adviser and Investment Consultant who highlighted key aspects of their separate reports. Members endorsed the approach suggested by the Independent Investment Adviser and Investment Consultant outlined in their reports and during the meeting.

The Treasurer agreed to include in future reports a graph showing the trend over time of the long-term risk indicators described in paragraph five of the report.

A Member referred to several purchases of two thousand shares by Standard Life and asked why such an unusual number had been selected and whether this pattern of purchases had affected fees. The Treasurer agreed to seek an explanation from Standard Life and to provide a copy of the response to Members.

Resolved -

That the investment performance of the Fund for the quarter ending 31 March 2015 be noted.

The meeting concluded at 10.45 am.

JW/JD

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

9 JULY 2015

STATEMENT OF FINAL ACCOUNTS 2014/15

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To approve the draft Statement of Final Accounts for the financial year 2014/15.

2.0 STATEMENT OF ACCOUNTS

2.1 The draft Statement of Final Accounts for 2014/15 is attached as **Appendix A**. This complies fully with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 governing the preparation of the 2014/15 Financial statements for Local Government Pension Scheme Funds.

2.2 Any material amendments to the draft Accounts arising from the External Audit will be reported to the September PFC meeting (see **paragraph 2.4** below).

2.4 For 2014/15 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 17 September 2015.

3.0 RECOMMENDATIONS

3.1 Members are asked to approve the draft Statement of Final Accounts 2014/15.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall
Northallerton
1 July 2015

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

2013/14		2014/15	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions		
54,426	Employers - Normal	57,910	
26,498	- Deficit	35,822	
4,052	- Early Retirement Costs Recharged	2,444	
24,125	Employees - Normal	25,075	
303	- Additional Voluntary	248	
109,404	**Total Contributions Receivable (Note 7)**		121,499
11,339	**Transfers In (Note 8)**		6,663
	Less		
	Benefits		
(66,505)	Pensions	(69,996)	
(19,945)	Commutation and Lump Sum Retirement Benefits	(20,491)	
(1,329)	Lump Sums Death Benefits	(1,874)	
(87,779)	**Total Benefits Payable (Note 9)**		(92,361)
	Leavers		
(8)	Refunds to Members Leaving Service	(138)	
0	Payments for Members Joining State Scheme	0	
(4,106)	Transfers Out	(40,840)	
(4,114)	**Total Payments on Account of Leavers (Note 10)**		(40,978)
(2,185)	**Management Expenses (Note 11)**		(2,114)
26,665	**Net Additions From Dealings With Members**		(7,291)
	RETURNS ON INVESTMENTS		
22,895	**Investment Income (Note 12)**		21,943
(397)	**Taxation (Note 13)**		(390)
(5,439)	**Investment Expenses (Note 14)**		(4,943)
198,759	**Change in market value of investments (Note 15)**		308,342
215,818	**Net Returns On Investments**		324,952
242,483	**Net Increase in the Fund During the Year**		317,661
1,840,733	**Opening Net Assets of the Fund**		2,083,216
2,083,216	**Closing Net Assets of the Fund**		2,400,877

NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2014 £000		31 March 2015 £000
	INVESTMENT ASSETS (Notes 15 & 16)	
71,424	Fixed Interest Securities	161,287
742,593	Equities	701,918
1,141,317	Pooled Investments	1,335,586
98,592	Pooled Property Investments	150,011
258	Private Equity	82
2,054,184		2,348,884
12,185	Cash Deposits	27,437
14,966	Investment Debtors	5,327
2,081,335	**TOTAL INVESTMENT ASSETS**	2,381,648
	INVESTMENT LIABILITIES (Notes 15 & 16)	
(23)	Derivative Contracts - Forward Currency Contracts	0
(11,785)	Investment Creditors	(1,123)
(11,808)	**TOTAL INVESTMENT LIABILITIES**	(1,123)
2,069,527	**NET INVESTMENT ASSETS**	2,380,525
	CURRENT ASSETS	
9,233	Contributions due from employers	9,841
802	Other Non-Investment Debtors	242
4,888	Cash	12,049
14,923	**TOTAL CURRENT ASSETS**	22,132
	CURRENT LIABILITIES	
(1,234)	Non-investment creditors	(1,780)
(1,234)	**TOTAL CURRENT LIABILITIES**	(1,780)
2,083,216	**TOTAL NET ASSETS (Note 16)**	2,400,877

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

NOTES TO THE NORTH YORKSHIRE PENSION FUND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2015

1. Description of the Fund

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

The following description of the Fund is a summary only. For more detail, refer to the NYPF Annual Report 2014/15 and the statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

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

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

b) Membership

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

Organisations participating in NYPF include:

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

At 31 March 2015 there were 107 contributing employer organisations within NYPF including the County Council itself, as detailed below:

62 Scheduled Bodies

City of York Council
Craven District Council
Hambleton District Council
Harrogate Borough Council
North Yorkshire County Council
Richmondshire District Council
Ryedale District Council
Scarborough Borough Council
Selby District Council
North Yorkshire Police & Crime Commissioner
Chief Constable - North Yorkshire Police Force
North Yorkshire Fire & Rescue Authority
North York Moors National Park
Yorkshire Dales National Park
Askham Bryan College
Craven College
Scarborough Sixth Form College
Selby College
York College
Archbishop Holgate's School
Great Smeaton Academy Primary School
The Grove Academy
Harrogate Grammar School
Harrogate High School
Haxby Road Primary Academy
Manor Church of England Academy
Norton College
Outwood Academy
Robert Wilkinson Academy
Roseberry Academy
Rossett School
Skipton Academy
Skipton Girls High School
South Craven School
St Aidan's Church of England High School
Stokesley School Academy
The Woodlands Academy
Thomas Hinderwell Primary Academy
Ainsty 2008 Internal Drainage Board
Easingwold Town Council
Filey Town Council
Foss Internal Drainage Board
Fulford Parish Council
Glusburn Parish Council
Great Ayton Parish Council
Haxby Town Council
Hunmanby Parish Council
Knaresborough Town Council
Malton Town Council
Northallerton Town Council
Norton on Derwent Town Council
Northallerton / Romanby Burial Board
Pickering Town Council
Riccall Parish Council
Richmond Town Council
Ripon City Council
Selby Town Council
Skipton Town Council
Sutton in Craven Parish Council
Tadcaster Town Council
Thornton Internal Drainage Board
Whitby Town Council

45 Admission Bodies

Be Independent
Betterclean Services
Bulloughs Cleaning Ltd
Catering Academy Ltd
Chartwells Compass
Churchill Security
Community Leisure
Consultant Services Group
Craven Housing
Dewent Facilities Management
Dolce Ltd
Elite
Enterprise
Explore York Libraries and Archives
Grosvenor Facilities Management
Human Support Group
Housing and Care 21
ISS Mediclean Ltd
Interserve
Jacobs UK Ltd
Joseph Rowntree Trust
Lifeways Community Care Ltd
Mellors
Northern Care
NYBEP
OCS Group UL Ltd
Premier Support Services
Ringway
Richmondshire Leisure
Sewell Facilities Management
Sheffield International Venues
Sanctuary Housing Association
Springfield Home Care
Streamline Taxis
Superclean
University of Hull
Veritau Ltd
Veritau North Yorkshire Ltd
Welcome to Yorkshire
Wigan Leisure & Culture Trust
York Archaeological Trust
York Museums & Gallery Trust
Yorkshire Coast Homes
Yorkshire Housing Ltd
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 2015 No	31 March 2014 No
Employees in the Fund		
NYCC	21,931	18,960
Other employers	13,125	12,541
Total	35,056	31,501
Pensioners		
NYCC	9,961	9,463
Other employers	8,483	8,205
Total	18,444	17,668
Deferred pensioners		
NYCC	18,829	18,204
Other employers	11,762	11,286
Total	30,591	29,490

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and details of the rates for individual employers are available on the Fund's website.

d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS up to 31 March 2014 are based on final pensionable pay and length of pensionable service. For service up to 31 March 2008 each year worked is worth 1/80th of final pensionable salary, an automatic lump sum of three times salary is payable, and part of the annual pension can be exchanged for a one-off tax free cash payment at the rate of £12 lump sum for each £1 pension given up. For service from 1 April 2008 each year worked is worth 1/60th of final pensionable salary, there is no automatic lump sum, and part of the annual pension can be exchanged at the same rate as for service up to 31 March 2008.

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its year end position as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of Significant Accounting Policies

Fund Account – Revenue Recognition

a) Contribution Income

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

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

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

b) Transfers To and From Other Schemes

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

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

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

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

c) Investment Income

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

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

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

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

Fund Account – Expense Items

d) Benefits Payable

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

e) Taxation

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

f) Administrative Expenses and Oversight and Governance Costs

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

g) Investment Management Expenses

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

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

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

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

Net Assets Statement

h) Assets

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

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

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

i) Foreign Currency Transactions

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

j) Derivatives

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

Derivative contract assets are valued at bid prices and liabilities at offer prices. Changes in the value of derivative contracts are included as a change in market value.

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

k) Cash and Cash Equivalents

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

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

l) Liabilities

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

m) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's Actuary in accordance with the requirements of IAS19 and relevant actuarial standards.
As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an **Appendix** to these statements.

n) Additional Voluntary Contributions

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

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

4. Critical Judgement in Applying Accounting Policies

Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment manager using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £82k (31 March 2014, £258k).

Pension Fund Liability

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

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

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

The item in the Net Assets Statement as at 31 March 2015 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by £63m, a 0.1% increase in inflation would increase liabilities by £58m, and an increase in life expectancy of one year would increase liabilities by £72m.

6. Events After the Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved. They can be either those that provide evidence of conditions that existed at the end of the reporting period or those that are indicative of conditions arising after the end of the reporting period.

7. Contributions Receivable

	2014/15	**2013/14**
	£000	£000
Contributions Receivable		
North Yorkshire County Council	49,247	47,466
Other Scheduled Bodies	64,983	55,557
Admitted Bodies	7,269	6,381
	121,499	109,404

8. Transfers In from Other Pension Funds

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

9. Benefits Payable

	2014/15	**2013/14**
	£000	£000
Benefits Payable		
North Yorkshire County Council	39,268	37,126
Other scheduled bodies	45,887	46,008
Admitted bodies	7,174	4,645
	92,329	87,779

10. Payments To and On Account of Leavers

A group transfer totalling £33,829k was paid to Greater Manchester Pension Fund in October 2014. The transfer related to North Yorkshire Probation Service staff following the consolidation of national probation service pension provision.

11. Management Expenses

	2014/15	**2013/14**
	£000	£000
Administrative Costs	1,519	1,458
Investment Management Costs	4,943	5,439
Oversight and Governance Costs	595	727
	7,057	7,624

Investment Management Costs includes £1,177k (2013/14: £2,275k) in respect of performance related fees payable to the Fund's investment managers and £725k in respect of transaction costs (2013/14: £871k).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of acquisitions and in the proceeds from the sales of investments (see **Note 15a**).

12. Investment Income

	2014/15	**2013/14**
	£000	£000
Fixed Interest and Index Linked Securities	2,094	1,928
Dividends from Equities	18,186	19,485
Pooled Property Investments	1,066	1,067
Pooled Investments - Other Managed Funds	0	0
Interest on Cash Deposits	50	22
Other	547	393
	21,943	22,895

13. Taxes on Income

	2014/15	**2013/14**
	£000	£000
Withholding Tax on Dividends	390	397

14. Investment Expenses [splits IMC's in section 11]

	2014/15	**2013/14**
	£000	£000
Management Fees	4,838	5,304
Custody Fees	105	135
	4,943	5,439

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments.

15. Investments

a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2015	Change in market value at 31 March 2015	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2014
	£000	£000	£000	£000	£000
Fixed Interest	161,287	36,090	(482,958)	536,731	71,424
Equities	701,918	48,328	(434,593)	345,590	742,593
Pooled Funds	1,335,586	204,266	(30,997)	21,000	1,141,317
Pooled Property	150,011	19,724	0	31,695	98,592
Private Equity	82	(66)	(110)	0	258
Derivative Contracts	0	0	23	0	(23)
Total Invested	2,348,884	308,342	(948,635)	935,016	2,054,161
Cash Deposits	27,437	15,252			12,185
Net Investment Debtors	4,204	1,023			3,181
Net Investment Assets	2,380,525	324,617			2,069,527

	Value at 31 March 2014	Change in market value at 31 March 2014	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2013
	£000	£000	£000	£000	£000
Fixed Interest	71,424	(3,128)	(264,627)	267,174	72,005
Equities	742,593	98,555	(442,929)	464,702	622,265
Pooled Funds	1,141,317	72,708	0	9,096	1,059,513
Pooled Property	98,592	10,010	0	21,600	66,982
Private Equity	258	(59)	(180)	19	478
Derivative Contracts	(23)	16,055	(788,658)	775,443	(2,863)
Total Invested	2,054,161	194,141	(1,496,394)	1,538,034	1,818,380
Cash Deposits	12,185	3,758			8,427
Net Investment Debtors	3,181	860			2,321
Net Investment Assets	2,069,527	198,759			1,829,128

Transaction costs incurred during the year amounted to £752k (2013/14 £871k). In addition to these costs, indirect costs are incurred through the bid–offer spread on investment purchases and sales.

b) Analysis of Investments (excluding derivative contracts)

	2014/15	2013/14
	£000	£000
Fixed Interest Securities		
UK Public Sector Quoted	161,287	71,424
Equities		
UK Quoted	347,559	408,273
Overseas Quoted	354,359	334,320
	701,918	742,593
Pooled Investments		
UK Equity	51,806	51,942
UK Property	150,011	98,592
UK Fixed Income	210,996	186,419
Overseas Equity	700,624	570,674
Overseas Fixed Income	172,333	168,030
	1,285,770	1,075,657
Diversified Growth Funds - UK	199,827	164,252
Private Equity - UK	82	258
Total Investments (excl Derivatives)	2,348,884	2,054,184

Objectives and Policies for Holding Forward Foreign Currency Derivatives

Investment Manager	31 March 2015		31 March 2014	
	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	412,227	17.2	345,185	16.6
Baillie Gifford & Co. - LTGG	273,839	11.4	214,838	10.3
Fidelity International	430,200	17.9	402,771	19.3
Standard Life Investments - Equities	357,560	14.9	416,766	20.0
Standard Life Investments - DGF	91,376	3.8	82,993	4.0
ECM Asset Management	130,081	5.4	125,783	6.0
Amundi Asset Management	253,248	10.6	228,667	11.0
RC Brown Investment Management	0	0.0	0	0.0
Hermes Property Unit Trust	29,574	1.2	25,799	1.2
Legal & General	54,398	2.3	27,984	1.3
Threadneedle	66,628	2.8	45,279	2.2
M&G Investments	172,862	7.2	71,922	3.5
Newton Investments	108,451	4.5	81,259	3.9
Currency Hedging	(1)	0.0	23	0.0
Yorks & Humber Equity Fund	82	0.0	258	0.0
Internally Managed (cash and net debtors)	20,352	0.8	13,689	0.7
	2,400,877	100.00	2,083,216	100.0

c) Stock Lending

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

16. Financial Instruments

a) Classification of Financial Instruments

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

31 March 2014				31 March 2015		
Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost		Designated as fair value through profit & loss	Loans & Receivables	Financial liabilities amortised at cost
£000	£000	£000		£000	£000	£000
			Assets			
71,424			Fixed Interest Securities	161,287		
742,593			Equities	701,918		
977,065			Pooled Investments	1,135,759		
98,592			Pooled Property	150,011		
164,252			Diversified Growth Funds	199,827		
258			Private Equity	82		
			Derivative contracts			
	17,073		Cash		39,486	
14,966			Investment Debtors	5,327		
	10,035		Non Investment Debtors		10,083	
2,069,150	27,108	-		2,354,211	49,569	-
			Liabilities			
23			Derivative Contracts	-		
11,785			Investment Creditors	1,123		
		1,234	Non Investment Creditors			1,780
11,808	-	1,234		1,123	-	1,780
2,057,342	27,108	(1,234)		2,353,088	49,569	(1,780)

b) Net Gains and Losses on Financial Instruments

	2014/15	2013/14
	£000	£000
Fair Value Through Profit & Loss	308,342	194,141
Loans and Receivables	16,275	4,618
	324,617	198,759

c) Fair Value of Financial Instruments and Liabilities

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

31 March 2014 Cost £000	31 March 2014 Fair Value £000		31 March 2015 Cost £000	31 March 2015 Fair Value £000
		Assets		
1,518,466	2,069,150	Fair Value through Profit & Loss	1,580,052	2,354,211
27,048	27,048	Loans and Receivables	49,569	49,569
1,545,514	2,096,198		1,629,621	2,403,780
		Liabilities		
11,808	11,808	Fair Value through Profit & Loss	1,123	1,123
1,234	1,234	Liabilities at Amortised Cost	1,780	1,780
13,042	13,042		2,903	2,903

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

d) Valuation of Financial Instruments Carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

Values at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Fair Value through Profit & Loss	2,354,129		82	2,354,211
Loans and Receivables	49,569			49,569
	2,403,698	-	82	2,403,780
Liabilities				
Fair Value through Profit & Loss	1,123			1,123
Liabilities at Amortised Cost	1,780			1,780
	2,903	-	-	2,903
Net Assets	2,400,795	-	82	2,400,877

Values at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets				
Fair Value through Profit & Loss	2,068,892		258	2,069,150
Loans and Receivables	27,108			27,108
	2,096,000	-	258	2,096,258
Liabilities				
Fair Value through Profit & Loss	11,785	23		11,808
Liabilities at Amortised Cost	1,234			1,234
	13,019	23	-	13,042
Net Assets	2,082,981	- 23	258	2,083,216

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 2014/15 reporting period, assuming other variables such as foreign currency rates and interest rates remain unchanged. The changes disclosed are broadly consistent with a one standard deviation movement in the value of assets. A prior year comparator is also shown below.

Asset Type	Value as at 31 March 2015	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	27,437	0.0	27,437	27,437
UK Bonds	161,287	6.4	171,609	150,965
UK Equities	347,559	10.3	383,358	311,760
Overseas Equities	354,359	9.0	386,251	322,467
UK Pooled Equity	51,806	10.3	57,142	46,470
Overseas Pooled Equity	700,624	9.0	763,680	637,568
UK Pooled Bonds	210,996	6.4	224,500	197,492
Overseas Pooled Bonds	172,333	6.4	183,362	161,304
Pooled Property Investments	150,011	2.1	153,161	146,861
Diversified Growth Funds	199,827	4.2	208,220	191,434
Private Equity	82	4.0	85	79
Derivatives	0	0.0	0	0
Non Investment Debtors/Creditors	8,302	0.0	8,302	8,302
Total Assets	2,384,623		2,567,108	2,202,138

Asset Type	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	12,185	0.0	12,185	12,185
UK Bonds	71,424	5.5	75,352	67,496
UK Equities	408,273	12.3	458,491	358,055
Overseas Equities	334,320	11.2	371,764	296,876
UK Pooled Equity	51,942	12.3	58,331	45,553
Overseas Pooled Equity	570,674	11.2	634,589	506,759
UK Pooled Bonds	186,419	5.5	196,672	176,166
Overseas Pooled Bonds	168,031	5.5	177,273	158,789
Pooled Property Investments	98,592	2.7	101,254	95,930
Diversified Growth Funds	164,251	4.9	172,299	156,203
Private Equity	258	12.3	290	226
Derivatives	(23)	0.0	(23)	(23)
Non Investment Debtors/Creditors	8,801	0.0	8,801	8,801
Total Assets	2,075,147		2,267,278	1,883,016

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 2054 and 31 March 2014 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2014/15	2013/14
	£000	£000
Cash and Cash Equivalents	27,437	12,185
Fixed Interest Securities	161,287	71,424
	188,724	83,609

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Advice suggests that it is reasonable to expect a change in the long term average rate of approximately 1%. For illustrative purposes if it were to change by +/- 100 bps the values in the table above would change by £1,887k and for 2013/14 asset values, £836k.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

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

After receiving advice it is considered that the likely volatility associated with foreign exchange movements to be +/-6.1%. A fluctuation of this size is considered reasonable based on the analysis of long term historical movements in the month end exchange rates.

Assuming all other variables, in particular, interest rates remain constant, a 6.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to bay benefits as follows:

Asset Type	**Value as at 31 March 2015**	**Value on 6.1% Increase**	**Value on 6.1% Decrease**
	£000	£000	£000
Overseas Equities	1,054,983	1,119,337	1,054,983
Overseas Bonds	172,333	182,845	172,333
Total Assets	1,227,316	1,302,182	1,227,316

Asset Type	**Value as at 31 March 2014**	**Value on 5.2% Increase**	**Value on 5.2% Decrease**
	£000	£000	£000
Overseas Equities	904,994	952,054	857,934
Overseas Bonds	168,031	176,769	159,293
Total Assets	1,073,025	1,128,822	1,017,228

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.
In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet NYCC's credit criteria. NYCC has also set limits as to the maximum amount of deposits placed with any one financial institution. The banks and institutions chosen all have at least the minimum credit rating as described in NYCC's Treasury Management Strategy.

NYCC believes it has managed its exposure to credit risk and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements with NYCC at 31 March 2015 was £12m (31 March 2014, £4.9m) and was held with the following institutions:

	Credit Rating	31 March 2015	31 March 2014
		£000	£000
Call Accounts			
Barclays	A/F1	3,119	1,336
Bank of Scotland	A/F1		117
Santander UK	A/F1	249	305
Svenska Handelsbanken	AA-/F1+		938
Fixed Term Deposit Notice Accounts			
Bank of Scotland	A/F1	4,759	1,641
Barclays	A/F1	280	
Leeds BS	A-/F1	560	
Nationwide	A/F1	1,820	293
Natwest	A/F1		258
Svenska Handelsbanken	AA-/F1	280	
Lancashire County Council	-	280	
Leicester FRA	-	84	
London Borough of Enfield	-	280	
Salford City Council	-	336	
		12,047	4,888

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 £82k, which represented less than 0.1% of total Fund assets (31 March 2014, £258k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2015 are due within one year. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding Arrangements

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

The key elements of NYPF's funding policy are:

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

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

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

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

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

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

	For future service liabilities
Investment Return	5.60% per annum
Inflation	2.60% per annum
Salary Increases	4.10% per annum
Pension Increases	2.60% per annum

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

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

Life expectancy for the year to 31 March 2015 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.
It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 and for post-April 2008 service.

19. Actuarial Present Value of Promised Retirement Benefits

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

20. Current Assets

	2014/15	**2013/14**
	£000	£000
Debtors		
Investment Debtors		
Investment Transactions	1,499	11,405
Accrued Dividends	2,542	2,359
Withholding Taxes Recoverable	1,286	1,202
	5,327	14,966
Other Debtors		
Contributions due from Scheduled (Government) Bodies	9,361	8,769
Contributions due from Admitted Bodies	480	449
Pensions Rechargeable	11	13
Interest on Deposits	0	2
Other	231	802
	10,083	10,035
Total Debtors	**15,410**	**25,001**

21. Current Liabilities

	2014/15	**2013/14**
	£000	£000
Creditors		
Investment Creditors	1,123	11,808
Sundry Other Creditors	1,780	1,234
	2,903	13,042

All creditors are non-government entities and individuals.

22. Additional Voluntary Contributions

	Market Value 31 March 2015	**Market Value 31 March 2014**
	£000	£000
Prudential	21,180	21,320

AVC contributions of £2,261k were paid directly to Prudential during the year (£2,390k in 2013/14).

23. Related Party Transactions

North Yorkshire County Council

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

The Council incurred costs of £1,136k (£1,078k in 2013/14) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £49.2m to the Fund in 2014/15 (£47.5m in 2013/14). All monies owing to and due from the Fund were paid in the year.

Part of the Fund's cash holdings are invested with banks and other institutions by the treasury management operations of NYCC, through a service level agreement. During the year to 31 March 2015 the Fund had an average investment balance of £6m (£1.8m during 2013/14) receiving interest of £39k (£16k paid in 2013/14) on these funds.

Governance

As at 31 March 2015 there were five Pension Fund Committee Members who were also active members of the Fund, each of whom was required to declare their interests at each meeting. The Corporate Director – Strategic Resources, who was also the Treasurer of the Fund was also an active member. Benefits for PFC Members and the Treasurer were accrued on exactly the same basis as for all other members of the Fund.

Key Management Personnel

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

24. Contingent Liabilities and Contractual Commitments

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2013/14).

25. Contingent Assets

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

26. Impairment Losses

The Fund had no material impairment losses at the year-end (£nil in 2013/14)

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

9 JULY 2015

GOVERNANCE ARRANGEMENTS

Report of the Treasurer

1.0 **PURPOSE OF REPORT**

1.1 To seek Committee approval of certain governance documents required to accompany the Statement of Final Accounts of the Pension Fund.

1.2 To present to the Committee the findings of the Independent Professional Observer on the Fund's governance arrangements.

2.0 **BACKGROUND**

2.1 As Members will be aware from reports to previous meetings, the Final Accounts of the Pension Fund have to be audited as if the Pension Fund was an entity separate from the County Council.

2.2 Regulations require that the Final Accounts form a part of the Annual Report of the Fund, along with certain documents in relation to governance and other specified information. The Annual Report is audited, not just the Final Accounts. These governance documents have therefore been updated where necessary in advance of the audit, as have other governance documents for reasons of good practice.

2.3 The completed Annual Report will be presented to the PFC on 17 September 2015 for recommendation for approval by the Audit Committee, which is due to meet on 24 September 2015

3.0 **GOVERNANCE ARRANGEMENTS FOR NYPF**

3.1 At its meeting on 10 July 2014 the PFC approved a full set of NYPF governance documents for the purposes of submission to the Audit Committee in relation to the 2013/14 Final Accounts. A description of each document is included in the following paragraphs, together with a commentary on material changes made since that date, if any.

3.3 The **Statement of Investment Principles (Part A)** sets out the Fund's approach to investing.

3.4 The **Governance Compliance Statement (Part B)** describes the governance arrangements of the Fund. There is a new section summarising the Pension Board arrangements (paragraphs 2.2. to 2.4). Paragraph 6.1, compliance with best practice principles, refers to the Pension Board as it will replace the Advisory Panel in supporting the work of the PFC.

3.5 The **Risk Register (Part C)** describes the key risks faced by the Fund. There is one risk ranked as red, five as amber and two as green. None of these risks have increased in category in the last year. The assessment of the highest ranked risks is primarily driven by the financial impact each could have, if each risk actually occurred.

3.6 Pension Fund solvency remains a red risk due to the unpredictable and volatile nature of global financial markets on which both investment returns and certain market based actuarial assumptions used to value liabilities are based. The potential consequence of the risk occurring is a significant increase in contribution rates for the Fund's employers and/or an extension to the deficit recovery period. Despite a fall in solvency over the last year due to falling Gilt yields, the Fund investment strategy has continued to provide strong returns. No remedial action is presently required in order to deliver the deficit recovery plan.

3.7 The investment strategy has moved from a red to an amber risk, reflecting the low probability (under 30%) that it will fail to deliver adequate returns. The Fund's strong performance in every year since the financial crisis and the diversification through the addition of new asset classes and managers are key reasons for this.

3.8 The **Communication Strategy 2015/16 (Part D)** describes the annual strategy for communicating with members and employers for the year. This document is designed to address the challenges of explaining LGPS 2014 to all stakeholders in a meaningful way and to encourage members to check the benefits which have built up in Year One of the Career Average Revalued Earnings (CARE) Scheme. The focus continues to be on use of the online self-service facility with some new initiatives planned for this year including:

- a particular emphasis on encouraging members to check their CARE benefits via the online Annual Benefit Statement page
- extending the use of the self-service provision to members with 'deferred benefits' so that online calculations can be performed by this group. This facility is under development by Heywood as part of an innovation suggested by the Pensions Administration team
- encouraging the use of electronic communications in relation to all administration processes via the online self-service facility. This is currently being tested in relation to retirement quotes and estimates, with the intention of applying the concept to other processes
- allowing members to upload documents to the online self-service facility so that option forms can be received electronically via a secure route. This facility is also under development by Heywood as part of an innovation suggested by the Pensions Administration team
- online training modules for employers
- practical training sessions for employers
- an e-retired members survey
- a dedicated page for the pension board pensioner/deferred representative on the NYPF website
- encouraging electronic communication with pensioners

3.9 The **Funding Strategy Statement (Part E)** was approved by the PFC on 20 February 2014 as part of the Triennial Valuation process. This document describes how employers' pension liabilities are to be met going forward, how employer contributions will be kept as stable as possible, and a prudent long-term view of those liabilities.

3.10 The **Communications Policy Statement (Part F)** details the policy for communicating with members and employers.

3.11 The **Pensions Administration Strategy (Part G)** sets out the administration protocols that have been agreed between the Fund and its employers.

3.12 The **Treasury Management SLA (Part H)** describes the treasury management services provided by the Council to NYPF.

3.13 Parts A, B, E and F form part of the Annual Report.

4.0 GOVERNANCE COMPLIANCE UPDATE – REPORT OF THE INDEPENDENT PROFESSIONAL OBSERVER

4.1 The remit of the Independent Professional Observer, Peter Scales, is to provide advisory services on governance and compliance to the NYPF. To this purpose, he has conducted a review of these arrangements as they operated during each financial year and has made a number of recommendations, all of which have been incorporated into the governance documents of the Fund.

4.2 This latest report (attached as **Appendix 2**) provides an update of his review of the current governance compliance arrangements for the Fund, and comments on the evolving regulatory environment.

4.3 The high governance standards of the fund are described as being maintained and improved, however attention is drawn to regulatory changes as well as changes in the guidance issued by DCLG, tPR and CIPFA which will require careful consideration.

4.4 There are four specific recommendations in the report.

1. That the Pensions Regulator's compliance and enforcement policy is reviewed by both the Committee and the Board.

2. That preparations are made to submit information for reviews by the three regulatory bodies as and when required.

3. That the CIPFA guidance on preparing annual reports is reviewed carefully in preparing the Annual Report for 2014/15.

4. That the missing key policy and strategy documents referred to in the Governance Compliance Statement are posted on the website, namely the Pensions Administration Strategy, Risk Register, and Treasury Management SLA.

4.5 Officers will review arrangements with regard to points 1 and 2 and will update the PFC in September 2015. On point 3, the Annual Report will be prepared with reference to the CIPFA guidance, and on point 4 these governance documents will be posted onto the NYPF website.

5.0 RECOMMENDATIONS

5.1 Members to approve the set of governance documents in **Appendix 1**.

5.2 Members note the report of the Independent Professional Observer in **Appendix 2**.

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall
Northallerton

1 July 2015

Background documents: None

APPENDIX 1

GOVERNANCE DOCUMENTS OF THE NORTH YORKSHIRE PENSION FUND

Part	Document Title
A	Statement of Investment Principles
B	Governance Compliance Statement
C	Risk Register
D	Communications Strategy 2014/15
E	Funding Strategy Statement
F	Communications Policy Statement
G	Pensions Administration Strategy
H	Treasury Management SLA

Part A

NORTH YORKSHIRE PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, publish and maintain a Statement of Investment Principles (SIP). This document is the SIP of the North Yorkshire Pension Fund (NYPF) for which North Yorkshire County Council (NYCC) is the administering authority. In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers of the Fund.

2.0 INVESTMENT DECISION MAKING PROCESS

2.1 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC). The Corporate Director Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.

2.2 The PFC determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The committee undertakes its responsibilities through taking appropriate advice from external advisers. Scheduled meetings take place each quarter with additional meetings convened as required.

3.0 TYPES OF INVESTMENTS TO BE HELD

3.1 The following categories of investment have been approved as suitable for the NYPF.

UK Equities provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends.

Overseas Equities are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities.

UK Bonds are debt instruments issues by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation.

Overseas Bonds are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates.

Index Linked Bonds are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail

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

4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

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

4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2013. This provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.

4.3 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.

4.4 The range of permitted investment in each asset class, expressed as a percentage of the Fund is as follows:

	Minimum %	Maximum %
Equities	50	75
Diversified Growth Funds	5	10
Property	5	10
Fixed Income	15	30

4.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

5.0 RISK

5.1 The Fund's custodian, BNY Mellon, holds the assets of the Fund that are invested on a segregated basis. Assets invested through pooled funds are held by the Funds investment managers. Agreements are in place protecting the Fund against fraudulent loss and in addition regular checks are undertaken by independent auditors of the custodian's and investment managers' systems. These organisations have internal compliance teams which also monitor and report on risk. Cash balances belonging to the Fund are held and invested in accordance with a Service Level Agreement with NYCC. Risk is further controlled through continuous monitoring and periodic reviews of the custodial and investment management arrangements.

5.2 The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, which are intended to limit the risk exposure of an LGPS Fund. The Fund's asset risk is reduced through diversifying investments within these limits, across asset classes, geographical areas, market sectors and at the stock specific level. Investment Management Agreements include further restrictions on the investment processes managers are required to follow.

5.3 The Investment Strategy aims to ensure that the Fund has enough Assets to pay the benefits earned by scheme members. An Asset Liability Modelling study undertaken by the Fund's Investment Consultant looked at the risk and reward of the current (and possible alternative) asset allocations compared with the actual liabilities of the Fund arising from the 2013 Triennial Valuation. The associated workshops explored the risk/reward relationship and the most appropriate asset allocation strategy. The results of this exercise form the basis of the investment benchmark.

5.4 Ongoing monitoring of the Fund's risk profile takes place including reassessing its appropriateness when the Investment Strategy is reviewed at the quarterly PFC meetings or as appropriate. Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets.

6.0 EXPECTED RETURN ON ASSETS

6.1 The long-term objective of the Investment Strategy is to have sufficient money available to meet the cost of future pension payments. The Asset Liability Modelling study described in **paragraph 5.3** establishes an expected level of return and is incorporated into each Triennial Valuation and the associated Funding Strategy Statement (FSS).

6.2 The expected return on assets at the Fund level is a blend of the benchmarks for the individual investment managers and their mandates. All of the Fund's assets are actively managed by external investment managers, each with their own performance target. This equates to an out-performance target over liabilities (calculated on a gilts basis) of 2.4%; this return expectation is one of the key assumptions used in determining employer contributions at the Triennial Valuation.

7.0 REALISATION OF INVESTMENTS

7.1 The majority of the Fund's investments are in fixed interest securities, equities and other investments that are quoted on recognised stock markets and may quickly be realised if required. Less than 1% of investments are in illiquid asset classes.

8.0 SOCIALLY RESPONSIBLE INVESTMENTS

8.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.

8.2 However, as a responsible investor, NYPF wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. The Fund therefore monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders.

8.3 The Fund considers that the pursuit of such standards fully aligns the interests of Fund members and beneficiaries with those of stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund supports standards of best practice on disclosure and management of corporate social responsibility issues by companies and pursues constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.

8.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, those of its investment managers, and alliances with other investors, to pursue these goals. To this end the Fund is a member of the Local Authority Pension Fund Forum (LAPFF).

8.5 In addition, the Fund continues to pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies, as determined from time to time (see **paragraph 9** below).

9.0 SHAREHOLDER GOVERNANCE

9.1 The policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all segregated UK Equities held by the Fund, and non UK where practicable. Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC, available on www.nypf.org.uk.

9.2 The scope of the policy described in **paragraph 9.1** above is periodically reviewed with the intention of extending the geographical range where NYPF's interest can be voted.

10.0 STOCK LENDING

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2013/14 or in any previous years.

11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

11.1 The original Myners Review in 2001 established 10 principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners Review and restructured the original principles into 6 new high level principles, provided guidance to pension funds on recommended best practice for applying the principles, and identified tools to provide practical help and support to trustees and their advisers.

11.2 NYPF carried out a self-assessment of its position, supported by a review by an independent professional observer, and implemented arrangements in order to address the principles. The extent to which NYPF has adopted the investment principles is described in the following paragraphs.

Effective decision making – full compliance

11.3 Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Clear objectives – full compliance

11.4 An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Risks and liabilities – full compliance

11.5 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Performance assessment – full compliance

11.6 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Responsible ownership – full compliance

11.7 Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the Statement of Investment Principles, and report periodically to scheme members on the discharge of such responsibilities.

Transparency and reporting – full compliance

11.8 Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and provide regular communication to scheme members in the form they consider most appropriate.

June 2014

PART B

NORTH YORKSHIRE PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 This Statement has been prepared by North Yorkshire County Council (NYCC, or "the Council") as administering authority of the North Yorkshire Pension Fund (NYPF, or "the Fund") in accordance with the requirements of the provisions of the Local Government Pension Scheme (Amendment) (No.3) Regulations 2007.

1.2 These Regulations describe the governance arrangements of the Fund and assess them against a set of best practice principles, either confirming compliance or providing an explanation of the reasons for non-compliance as appropriate.

2.0 GOVERNANCE ARRANGEMENTS

Pension Fund Committee

2.1 Overall responsibility for the governance of the LGPS, as it is organised and operated in North Yorkshire resides with the Pension Fund Committee (PFC), a committee of the Council, which has been delegated the following powers:

2.1.1 To exercise the powers of the Council to invest monies forming part of the Pension Fund, including:

- to determine and periodically review the Investment Strategy of the Fund
- to appoint managers to manage and invest Fund monies on the Council's behalf
- to receive reports from the appointed managers, at least once every three months, setting out the action they have taken under their appointment
- to receive reports, at least once every three months from the Investment Adviser, Investment Consultant and the Performance Measurer, regarding the investment performance of the appointed investment managers and the Fund overall
- from time to time to consider the desirability of continuing or terminating the appointments of any organisations involved in the investment of the monies of the Fund and / or advising / reporting thereon
- to approve a Statement of Final Accounts and associated governance statements for submission to the Audit Committee
- from time to time reporting to the Executive

2.1.2 To exercise all the Council's powers as administering authority for the North Yorkshire Pension Fund, subject to any specific instructions that might be given from time to time by the Council.

2.1.3 To carry out the Council's functions relating to local government pensions scheme (LGPS) under the regulations.

Advisory Panel

2.2 NYPF has established an Advisory Panel with its own terms of reference which widens representation amongst the Fund's stakeholders. The Panel's terms of reference as follows:

- to represent all stakeholders of the North Yorkshire Pension Fund, in particular the contributing Employing Bodies to the Fund
- to express the views of stakeholders to the PFC on matters of policy
- to liaise with the North Yorkshire Pension Fund Officers Group (NYPFOG)

Independent Professional Observer

2.3 In order to provide an independent assessment of the Fund's governance arrangements the PFC has appointed an Independent Professional Observer (IPO). The IPO reports annually to the PFC on the level of compliance of the Fund against the CLG's best practice principles, and also offer advice on governance related matters.

Functions Delegated to Officers

2.4 The Council's constitution sets out the duties of the Corporate Director – Strategic Resources in relation to the Fund. Essentially, the Corporate Director acts as the Treasurer of the Fund (and is referred to as such in the remainder of this Statement) providing information and advice to the Committee whilst also managing the day to day affairs of the Fund.

2.5 In particular the Treasurer is required to manage from day to day the Fund, including:

- the exercise of the Council's function as administering authority, where such exercise does not involve use of discretion
- the power to seek professional advice and to devolve day to day handling of the Fund to professional advisers within the scope of LGPS regulations
- to change the mandate of a fund manager, in consultation with the Chairman and at least one other Member of the PFC, in circumstances when not to do so would lead to a real, or potential, loss in value of the Fund's investments. Any such action to be reported to the PFC as soon as practicable

2.8 In undertaking these duties detailed above, the Treasurer is not empowered to change the fund manager structure of the Fund without the approval of the PFC.

NYPFOG

2.7 The North Yorkshire Pension Fund Officer Group (NYPFOG) meets periodically to provide an opportunity for officer representatives of all employers to meet NYPF officers and address any issues related to the administrative arrangements of the Fund.

3.0 REPRESENTATION AND MEETINGS

Representation

3.1 The current membership of the PFC is as follows (as at June 2014)

(a) seven elected Members representing the administering authority who each hold one vote on the Committee.

(b) two further elected Members representing the Fund's other largest employing bodies each holding one vote. One Member represents the City of York Council, the other is the District Councils' representative of Local Government North Yorkshire and York

(c) in addition, a number of substitute Members have been nominated to attend in the absence of each of the main Committee Members

(d) an invitation is also extended to allow three union representatives to attend every Committee Meeting. No voting rights are allocated to these positions

(e) the Chairman of the Advisory Panel is invited to attend all PFC meetings, in a non-voting capacity

(f) the quorum required for Committee Meetings is three.

3.2 Advisory Panel membership consists of representatives of each employer group, pensioner members, and union representatives on behalf of active members.

Meetings

3.3 The PFC is governed by the decision making procedures defined in the Constitution of the Council, being a full Committee of the Council. These are fully compliant with the terms of the Local Government Act 2000. In addition, the PFC complies with the procedural requirements defined in LGPS regulations.

3.4 Papers for all meetings of the PFC are provided to all the Members identified in **paragraph 3.1** above, including substitute members, union representatives and Advisory Panel Members. In addition, the Investment Adviser and Investment Consultant (who also attend every meeting), Fund Managers and the Fund Actuary are given the opportunity to view all items on the public agenda of each meeting.

3.5 PFC papers are also publicly available on the Council's website. The Communication Policy Statement explains in more detail the arrangements for engagement with all stakeholders.

3.6 The PFC convenes once each quarter, at County Hall in Northallerton. The Fund's investment managers are scheduled to attend additional meetings where the PFC specifically considers fund manager performance and related matters. Six supplementary meetings a year are normally held for this purpose. In attendance at each meeting are the Investment Adviser, the Investment Consultant, the Treasurer and representative members of his staff involved with the NYPF (eg Operations Manager, Fund Accountant), an observer from City of York Council and a Committee Clerk (NYCC).

3.7 The PFC has also included a specific meeting in July in its programme. This is in order to consider the draft Statement of Final Accounts and the set of updated governance documents, in addition to any other business requiring attention at that time.

3.8 Advisory Panel meetings are synchronised with PFC meetings and consider the same quarterly agenda plus any other relevant information. There is no formal voting procedure, rather each member of the Panel is entitled to express their view. The Chairman of the Panel attends PFC meetings to pass on these views and then reports back to the Panel resulting comments and actions, as appropriate.

4.0 OPERATIONAL PROCEDURES

Training

4.1 Myners first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". There are also legal requirements set out in the LGPS regulations and other relevant legislation, as well as best practice guidance published by CIPFA and other professional and regulatory bodies.

4.2 The Fund arranges a programme of internal and external training events and access to other resources such as the on-line CIPFA Knowledge and Skills Toolkit designed to meet these requirements, recommendations and best practice guidance principles for Members of the PFC. A register of all training events is maintained and reported at each PFC meeting.

4.3 The costs incurred by Members of the PFC in attending training sessions are met by the Fund in accordance with the policies of the administering authority.

4.4 Advisory Panel members are afforded the same training opportunities as are members of the PFC. Costs and expenses are met in accordance with the policy described in the County Council's "Guidance and Toolkit for Managers and Head-teachers on Recruiting and Working with Volunteers".

Reporting and Monitoring

4.5 The PFC has a clearly defined Work Plan that is agreed at the start of each financial year which is reviewed regularly and is included in the Agenda papers for each meeting.

4.6 In relation to investment matters, the Investment Adviser, Investment Consultant and each Investment Manager for the Fund is require to submit a quarterly report to the PFC summarising the investment activities within the Fund's portfolios during the preceding quarter and reporting the value and performance of the investments at the end of each such quarter. In addition, the Fund Custodian presents an independent report on the overall investment performance of the Fund, together with details relating to individual managers and different classes of asset.

4.7 In addition, the Treasurer will present reports to every PFC meeting detailing performance in relation to the administration activities of the Fund and other significant matters for Members' attention as determined by the Work Plan; topics will include reports on the budget position, updates on the Regulations, communication with stakeholders, training events and Admission Agreements, etc.

4.8 Outside of this periodic reporting to the PFC

(a) the activities of the Benefits Administration Team are regularly monitored by the Treasurer as part of the ongoing performance monitoring arrangements operated with the Central Services directorate of the Council. In addition, the Fund participates in benchmarking and related value for money exercises with other Funds

(b) the performance of the investment managers is monitored on an ongoing basis by the Investment Consultant, Investment Adviser and the Treasurer. Meetings are held with the investment managers on a routine basis and/or when particular issues arise (eg staff changes) that may affect the performance of that manager on behalf of the Fund.

5.0 KEY POLICY / STRATEGY DOCUMENTS

5.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS for scheme members and employers, the Fund publishes on www.nypf.org.uk a number of other key documents relating to the administration and governance of the Fund. In addition to this Governance Compliance Statement, these additional documents are as follows:

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Communications Policy Statement
- Annual Communication Strategy + related Action Plan
- Pensions Administration Strategy
- Risk Register
- Treasury Management SLA
- Annual Report

6.0 COMPLIANCE WITH BEST PRACTICE PINCIPLES

6.1 Structure

a	The Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Fully compliant
b	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee	Fully compliant

c	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Fully compliant
d	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Fully compliant

6.2 **Representation**

a	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, eg admitted bodies ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers iv) expert advisers	Fully compliant
b	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights	Fully compliant

6.3 **Selection and Role of Lay Members**

a	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Fully compliant

6.4 **Voting**

a	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees	Fully compliant

Voting rights on the PFC are limited to representatives of the administering authority which is answerable for the effective and prudent management of the Scheme, and to representatives of the Fund's major employers. This arrangement provides an optimal number in terms of decision making effectiveness, therefore voting rights have not been extended to other stakeholders.

6.5 **Training / Facility Time / Expenses**

a	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Fully compliant
b	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Fully compliant

6.6 **Meetings (Frequency/Quorum)**

a	That an administering authority's main committee or committees meet at least quarterly	Fully compliant
b	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Fully compliant
c	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant

6.7 **Access**

a	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Fully compliant

6.8 **Scope**

a	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant

6.9 **Publicity**

a	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements	Fully compliant

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification							
Risk Number	44/4	**Risk Title**	44/4 - Pension Fund Solvency	**Risk Owner**	CD SR	**Manager**	CSD SR Int Fin PA
Description	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, over optimistic actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period			**Risk Group**	Financial	**Risk Type**	CSD SR 32/24

Phase 2 - Current Assessment											
Current Control Measures			Deficit recovery period, adopt prudent actuarial assumptions, all assumptions reviewed every 3 years, measure liabilities against investment returns on a quarterly basis, regular reports to PFC,							**Effectiveness**	
Probability	M	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions					
		Action Manager	**Action by**	**Completed**	**%**
Reduction	44/5 - Carry out triennial valuation of the fund	CSD SR Int Fin PA	Fri-28-Feb-14	Fri-28-Feb-14	100%
Reduction	44/6 - Regular consultation with Actuary re assumptions used and discuss and carry out action plan for outcomes positively (ongoing)	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/7 - Regular review of investment strategy to maximise investments (ongoing)	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/8 - Regular consultation with employers re cost of the scheme (ongoing)	CSD SR Int Fin PA CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/145 - Introduction of revised scheme ie. LGPS 14	CSD SR Pensions Mgr	Tue-1-Apr-14	Tue-1-Apr-14	100%

Phase 4 - Post Risk Reduction Assessment											
Probability	M	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	2

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	44/428 - Increased contribution rate from employers and/or extend recovery period	CSD SR Int Fin PA CSD SR Pensions Mgr

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification

Risk Number	44/8	**Risk Title**	44/8 - Investment Strategy	**Risk Owner**	CD SR	**Manager**	CSD SR Int Fin PA
Description	Failure of the investment strategy to maximise returns from investments			**Risk Group**	Strategic	**Risk Type**	

Phase 2 - Current Assessment

Current Control Measures	Strategy reviewed through asset/liability modelling, risk budgeting, experience and knowledge of the market and suitable forms of investment, Member training, Independent Investment Adviser and Consultant reports, PFC workshops and sign off of strategy, regular monitoring of investment performance	**Effectiveness**	

Probability	M	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions

		Action Manager	Action by	Completed	%
Reduction	44/1876 - Continual review of the investment strategy and implement the recommendations	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/1877 - Monitor the risk budget	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/1878 - Monitor appropriateness of strategy against prevailing market conditions	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/1879 - Monitor the Advisor and Consultants reports and act on professional advice	CSD SR Int Fin PA	Tue-30-Jun-15		0%

Phase 4 - Post Risk Reduction Assessment

Probability	M	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	2

Phase 5 - Fallback Plan

		Action Manager
Fallback Plan	44/430 - Review the strategy and implement changes as necessary based on the forward assessment of financial markets	CSD SR Int Fin PA

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification							
Risk Number	44/7	**Risk Title**	44/7 - Investment Manager	**Risk Owner**	CD SR	**Manager**	CSD SR Int Fin PA
Description	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise			**Risk Group**	Performance	**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures			Qrtly review of investment mgr targets, std terms and conds re termination of contract, ext advisers monitor mgrs perf, qrtly repts to Pension Fund Comm, benchmarking against other approp comparators, investment strategy review, risk budgeting exercise via Aon, reporting by Custodian, fund mgr attend at PFC, Member training, best practice procurement process,							**Effectiveness**	
Probability	L	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	3

Phase 3 - Risk Reduction Actions					
		Action Manager	**Action by**	**Completed**	**%**
Reduction	44/1873 - Continue to monitor and report on investment returns on a regular basis	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/1874 - Continue to meet/report to PFC by Fund Managers and assess critical analysis by independent advisers	CSD SR Int Fin PA	Tue-30-Jun-15		0%
Reduction	44/1875 - Carry out when appropriate, a tender exercise and use best practice procurement process to ensure positive outcome re new investment manager(s)	CSD SR Int Fin PA	Tue-30-Jun-15		0%

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	M	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	44/429 - Change Fund Manager and redistribute funds, potentially transfer to temporary passive Fund Manager	CSD SR Int Fin PA

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 (*pw*)

Phase 1 - Identification							
Risk Number	44/20	**Risk Title**	44/20 - Fraud	**Risk Owner**	CD SR	**Manager**	CSD SR Int Fin PA
Description	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation			**Risk Group**	Pers/Capacity	**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures			Internal Audit, internal checking and authorisation procedures and levels in both pension section and finance, split between administration and finance, all third parties have regular audits and regulated by FCA, legally binding contracts in place, governance arrangements for the delegation of duties, use of BACS payments, monthly mortality monitoring, participate in National Fraud Initiative							**Effectiveness**	
Probability	L	**Objectives**	L	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	3

Phase 3 - Risk Reduction Actions		Action Manager	Action by	Completed	%
Reduction	44/1887 - Continually review processes and procedures including authorisation levels	CSD SR Int Fin PA CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/1888 - Ongoing internal audit assessment and annual review by external auditors	CSD SR Int Fin PA CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/1890 - Annual independent external audit of pension fund (separate from County Council) and carry out appropriate recommendations	CSD SR Int Fin PA CSD SR Pensions Mgr	Tue-30-Jun-15		0%

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	L	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan		Action Manager
Fallback Plan	44/434 - Review incident and update procedures/processes accordingly	CSD SR Pensions Mgr CSD SR Int Fin PA

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification

Risk Number	44/10	**Risk Title**	44/10 - LGPS Regulations and Employer Related Legislation	**Risk Owner**	CD SR	**Manager**	CSD SR Pensions Mgr
Description	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge			**Risk Group**	Performance	**Risk Type**	Int Fin 30/189

Phase 2 - Current Assessment

Current Control Measures	Specialist knowledge, designated members of staff, regular updates & comms with CLG, LGPC, Actuarial advice, Employers Forums, NEPOF, section training by specialist staff, specialist software, advice on calculations interpretations, investment mgmt agreement, awareness of overriding legislation, broadening of knowledge across MT, LGE advice, nat. technical pension group provide advice, Trustees knowledge and understanding toolkit,	**Effectiveness**	

Probability	**Objectives**	**Financial**	**Services**	**Reputation**	**Category**
M	L	L	L	M	4

Phase 3 - Risk Reduction Actions

		Action Manager	Action by	Completed	%
Reduction	44/157 - Enhance staff training programme	CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/158 - Implement the communication strategy to ensure continued customer awareness of LGPS 2014	CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/322 - Review the structure of the Pensions Administration team	CSD SR Pensions Mgr	Tue-30-Jun-15		0%
Reduction	44/1897 - Work with supplier to achieve business as usual position on use of pensions administration system	CSD SR Pensions Mgr	Tue-30-Sep-14		0%

Phase 4 - Post Risk Reduction Assessment

Probability	**Objectives**	**Financial**	**Services**	**Reputation**	**Category**
L	L	L	L	M	5

Phase 5 - Fallback Plan

		Action Manager
Fallback Plan	44/437 - Review existing interpretations, take legal advice and amend procedures as required	CSD SR Int Fin PA CSD SR Pensions Mgr

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification										
Risk Number	44/11	**Risk Title**	44/11 - Benefit Payments			**Risk Owner**	CD SR		**Manager**	CSD SR Pensions Mgr
Description	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments					**Risk Group**	Performance		**Risk Type**	
Phase 2 - Current Assessment										
Current Control Measures			Up to date procedures and procedural checking, pension software up to date, workflow system, authorisation procedures, pro formas, staff training, audit trail, internal and external audits, Pensions Administration Strategy, Manuals available for calculation procedure, action plan for clean data requirements						**Effectiveness**	
Probability	M	**Objectives**	L	**Financial**	L	**Services**	L	**Reputation**	M	**Category** 4
Phase 3 - Risk Reduction Actions										
						Action Manager		**Action by**	**Completed**	**%**
Reduction	44/1893 - Effective communication with employers					CSD SR Pensions Mgr		Tue-30-Jun-15		0%
Reduction	44/1895 - Development of Task Management checklists					CSD SR Pensions Mgr		Mon-30-Jun-14	Sat-31-May-14	100%
Reduction	44/1896 - Regular liaison with ESS regarding operational arrangements					CSD SR Pensions Mgr		Tue-30-Jun-15		0%
Phase 4 - Post Risk Reduction Assessment										
Probability	L	**Objectives**	L	**Financial**	L	**Services**	L	**Reputation**	M	**Category** 5
Phase 5 - Fallback Plan										
									Action Manager	
Fallback Plan	44/435 - Correct errors and review and amend existing procedures								CSD SR Pensions Mgr	

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification											
Risk Number	44/14	**Risk Title**	44/14 - IT Systems			**Risk Owner**	CD SR		**Manager**	CSD SR Pensions Mgr	
Description	Failure of IT Pension system or other IT systems including transfer to 2020 Finance for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism					**Risk Group**	Technological		**Risk Type**		
Phase 2 - Current Assessment											
Current Control Measures			Manual payments, DR plan and tested, contracts for server maintenance, backups off site, major external providers have DR plans, manual calculation procedures, administration manuals, annual financial check, contingency plan in place,						**Effectiveness**		
Probability	L	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	M	**Category**	5
Phase 3 - Risk Reduction Actions											
							Action Manager	**Action by**	**Completed**	**%**	
Reduction	44/1884 - Regular review of contingency planning arrangements						CSD SR Pensions Mgr	Tue-30-Jun-15		0%	
Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	M	**Category**	5
Phase 5 - Fallback Plan											
									Action Manager		
Fallback Plan	44/433 - Recourse to manual calculations and payments, Liaise with software provider to restore system, find alternative supplier								CSD SR Pensions Mgr		

CSD SR Pension Fund

Risk Register: **June 2014 Review – detailed**
Report Date: 4th June 2014 *(pw)*

Phase 1 - Identification												
Risk Number	44/16	**Risk Title**	44/16 - Key Personnel					**Risk Owner**	CD SR		**Manager**	CSD SR Pensions Mgr
Description	Loss and unavailability of key personnel e.g. Treasurer, Pensions Manager, leading to incorrect interpretation of regulations, incorrect calculations/data, incorrect payments, resulting in complaints, compensation claims							**Risk Group**	Capacity/performance		**Risk Type**	
Phase 2 - Current Assessment												
Current Control Measures			Procedure notes, knowledge sharing, file management, deputies, co-operation between departments, pensions management meetings, comprehensive training matrix, PFC action notes, professional advisors,								**Effectiveness**	
Probability	L	**Objectives**	M		**Financial**	L	**Services**	M	**Reputation**	L	**Category**	5
Phase 3 - Risk Reduction Actions												
								Action Manager		**Action by**	**Completed**	**%**
Reduction	44/1907 - To forward plan with managers/CD SR on a regular basis to share ideas and strategy from both sides (on going)							CSD SR Int Fin PA CSD SR Pensions Mgr		Tue-30-Jun-15		0%
Reduction	44/1908 - Ensure inclusion of key managers with relevant external advisers or feedback from such meetings/telephone calls (on going)							CSD SR Int Fin PA CSD SR Pensions Mgr		Tue-30-Jun-15		0%
Phase 4 - Post Risk Reduction Assessment												
Probability	L	**Objectives**	M		**Financial**	L	**Services**	M	**Reputation**	L	**Category**	5
Phase 5 - Fallback Plan												
											Action Manager	
Fallback Plan	44/441 - Identify temporary cover arrangements plus additional resources where required										CSD SR Int Fin PA CSD SR Pensions Mgr	

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North Yorkshire County Council

PART D

North Yorkshire Pension Fund

North Yorkshire Pension Fund

Communications Strategy

2014 / 2015

Index

Introduction

The Local Government Pension Scheme (LGPS) underwent a fundamental change on 1 April 2014, from a final salary pension scheme to a career average pension scheme. Through its communications strategy, the NYPF has been building towards this moment and preparing all its stakeholders for the change. In 2014/2015, NYPF's strategy will reflect the changing needs of stakeholders throughout the transition period as the new landscape is established by the following means:

- continuing to raise awareness of the benefits of the new scheme generally amongst stakeholders, while going into much greater detail with those Fund members who are approaching and planning their retirement

- establishing a communications framework that provides timely, pertinent messages which are meaningful for the different groups of stakeholders and will often be communicated in partnership with NYPF employing authorities

- continuing the drive to encourage 'self-service', to use electronic communications and to use the NYPF website as the 'hub' for providing communications material, and for supporting employing authorities with employee processes around auto-enrolment and switching to and from the new 50/50 scheme

- monitoring the cost-effectiveness of all communication, and developing our activities accordingly

- continuing our commitment to regional and national initiatives, taking advantage of partnership working and innovative communication methods developed and tested elsewhere, and sharing our own experience in return

The theme for this year's NYPF Communications Strategy, therefore, will be **'Establishing the new communication framework to support the new LGPS'**.

Goals

Goals have been set in relation to the categories of LGPS stakeholders.

Theme A – ‘**Establishing the new communication framework for active members’:**
The aim is to establish a structure, working with employing authorities, which allows the NYPF membership generally to understand the main changes to the LGPS and the continuing / improving benefits, while targeting those close to retirement with information and assistance to help with the range of options now available. A key message will be that the ‘cliff edge’ need no longer be the norm, and that a managed, phased retirement may have benefits for all parties. The NYPF ‘self-service’ facility, housed on the NYPF website, will be key to this aim, but face-to-face appointments will also have a role to play.

Theme B – ‘**Establishing the new communication framework for employers’:**
The new scheme puts much greater onus on employing authorities, so the intention is to support them to meet those responsibilities. This will be achieved by working directly with their representatives, as well as providing timely, pertinent, issue-specific messages and supporting with on-line initiatives via the NYPF website. The employers’ ability to meet the requirements of the new scheme will be key to its successful introduction, so we have identified the establishment of a more collaborative relationship with employers as a top priority.

Theme C – ‘**Establishing the new communication framework for pensioners’**
Having withdrawn the costly ‘Everybody Benefits’ facility and advertised some alternate options, established the Pensioners’ Representative’s website page and issued the new annual newsletter in March, the 2014/15 strategy will focus mostly on active members and employers. However, efforts to further promote retired members’ on-line facilities, as well as pursuing an initiative around better communication with pensioners abroad, are on the agenda.

Theme D – ‘**Establishing the new communication framework for deferred members’**
The goal will be to put in place methods of communicating the changes for these members and providing guidance on accessing pension benefits early. It is also intended to assess a national initiative to help people who have moved jobs, locations and even industries to find any missing ‘pension pots’ that belong to them.

The action points relating to these goals are set out at the end of this document under ‘Items for Action 2014/2015’.

Review of this Strategy

This Strategy is prepared and considered by the Pension Fund Committee on an annual basis. However, within the spirit of the Pensions Administration Strategy, employers are at liberty, at any time, to suggest improvements to the Communications Strategy of the Fund.

Stakeholders

This Communications Strategy applies to all the NYPF stakeholders who are defined as follows:

- Employers
  - Scheduled Bodies
  - Admitted Bodies
- Scheme Members (including councillor scheme members)
  - Active members (contributors)
  - Retired members and Dependents
  - Deferred members
- Eligible employees working for Fund employers but not currently contributing
- AVC provider (Prudential)
- Actuary
- Legal Adviser
- Pensions Administration Software Provider
- Members of the Pension Fund Committee
- Members of the Advisory Panel
- Officers in the Pension Section
- Other NYCC officers undertaking work on behalf of the Fund

Summary of progress against 2013/14 Strategy

Items in 2013/14 Strategy	Summary of 2013/14 Progress	Year End Status
Theme A 'Building a new communications framework' for active members:	1. Identify processes, collaboration with partners, for delivering timely, succinct and pertinent messages. 2. A communication campaign focussing on 'Your Pensions and Your Retirement – Understanding Your Choices' 3. A continual drive to encourage the use of the NYPF website to carry out 'self-service' calculations and make use of the information on the website. 4. Tailor communication methods in relation to needs of active members based on ability to use the website, how complex their circumstances are and how close a member is to retirement 5. Use of national innovations such as podcasts and DVDs 6. Ties-ins with national websites e.g. national LGPS 2014 website, State Pension age calculator, Money Advice Service Financial Health Check facility	All targets achieved, other than 2 and 4 which were dependent upon the provision of the delayed Transitional Regs. They are now built in to 2014/15 and progress is now being made.
Theme B 'Building a new communications framework' for employers:	1. Use employers' internal emailing facilities to communicate with active members 2. Agree with employers joint, appropriate, communications regarding the LGPS to go out to Scheme members 3. Issue regular electronic 'News Alert' communications to employers to deliver timely, succinct and pertinent messages rather than a regular 'round-up' employer newsletter. 4. Obtain employers' views on developments to the NYPF website which employers will find useful for their own administration purposes 5. Monitor effectiveness of communications methods via regular contact with employers such as 'keep in touch' 'phone calls	All targets achieved
Theme C 'Building a new communications framework' for pensioners:	1. Send out a simplified version of the annual pensioner newsletter (posted to those without access to online methods of communication) 2. Advertise lifestyle and other helpful websites for pensioners via pensioners' newsletter and NYPF website 3. Encourage e-communications where possible 4. Include specific information on the NYPF website in Pensioner Representative area	All targets achieved

Items for Action 2014/2015

The focus for this year's Strategy will be **'Establishing the new communication framework'**. Key actions will be –

Theme A – '**Establishing the new communication framework for active members':**

- Establish the a process developed last year for providing, in conjunction with employers and other partners such as The Prudential, targeted, regular communications which utilise electronic means wherever possible to deliver timely, succinct and pertinent messages.

- Roll out a communication campaign focussing on 'Your Pensions and Your Retirement – Understanding Your Choices' to provide positive messages about the LGPS and the benefits of planning for retirement at a time when the State Pension age is increasing

- Maintain the drive to encourage the use of the improved NYPF website to carry out 'self-service' calculations, building in the LGPS 2014 changes, and make use of the information on the website.

- Tailor communication methods in relation to needs of active members based on ability to use the website, how complex their circumstances are and how close a member is to retirement, potentially including on site 'surgeries'

- Communicate directly with councillor members of the LGPS about the phased withdrawal of access to the scheme

- Improve the Pension Helpline call management facilities to ensure that Fund members receive prompt and relevant responses

- Develop an on-line version of the feedback form completed by leavers going through the retirement process

- Continue to provide on-line Annual Benefit Statements, with the option for paper if requested

- Continue to benefit from tie-ins with LGA and DCLG websites and others e.g. LGPS 2014 website, State Pension age calculator, Money Advice Service Financial Health Check facility

Theme B – '**Establishing the new communication framework for employers':**

- Issue regular electronic 'News Alert' communications to employers to deliver timely, succinct and pertinent messages rather than a regular 'round-up' employer newsletter. The News Alerts will be stored on the NYPF website for future reference by employers

- Work with employers’ to communicate key messages to Fund members in their employment via their internal emailing facilities, chief officer messages and their e-magazines

- Support employers to deliver general communications events and presentations to Fund members in their employment themselves.

- Run extra NYPFOG workshop events, at which employers will be more involved in actively sharing and discussing their experience with LGPS 2014 and learning from each other

- Obtain employers’ views and feedback on developments in NYPF communications methods in order to continually improve what we do

Theme C – ‘**Establishing the new communication framework for pensioners’**

- Continue with the simplified version of the annual pensioner newsletter, posted to those without access to online methods of communication

- Look to increase the database of email addresses to save further on printing and postage costs

- Maintain the Retired Members’ are of the website, particularly ensuring through collaboration with the Pensioners’ Representative that his page is kept relevant and up to date

- Pursue, in collaboration with NYCC Business Support Services, an alternative method of paying pensioners abroad that builds in more robust continued eligibility checks

Theme D – ‘**Establishing the new communication framework for deferred members’**

- Communicate the changes in the LGPS 2014 which are relevant to deferred members via a newsletter

- Develop a process for deferred members to access personal calculations of the pension benefits available from age 55 onwards and put in place a process for applying for the payment of pension benefits before age 60, using electronic means as far as possible

- Assess a national initiative to help people who have moved jobs, locations and even industries to find any missing ‘pension pots’ that belong to them

- Continue to provide on-line Annual Benefit Statements, with the option for paper if requested

NORTH YORKSHIRE PENSION FUND (NYPF)
2013 Funding Strategy Statement (FSS)

This Statement has been prepared by North Yorkshire County Council (the Administering Authority) to set out the funding strategy for the North Yorkshire Pension Fund (the NYPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
    - the guidance issued by CIPFA for this purpose; and
    - the Statement of Investment Principles (SIP) for the NYPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the NYPF are guaranteed by statute (s.29 LGPS (Administration) Regulations, as amended) and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the NYPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the NYPF should be set so as to “secure its solvency”, whilst the actuary must also have regard to maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the NYPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE NYPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers’ liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as

amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NYPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the NYPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 21 years will apply.

- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 27 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain. Contribution reductions may only apply if an employer's deficit recovery period is at most 15 years.

- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 15 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The full termination policy is set out in Appendix 3.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the North Yorkshire Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 73% covered by the current assets, with the funding deficit of 27% being covered by future deficit contributions.

In assessing the value of the NYPF’s liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the NYPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the NYPF’s assets in line with the least risk portfolio would minimise fluctuations in the NYPF’s ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

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

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.6% per annum.

Bespoke Investment Strategy

The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current SIP, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the NYPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NYPF’s funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the NYPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the NYPF

North Yorkshire County Council
as administering authority for the North Yorkshire Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.6% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the fund. This results in a total salary increase of 1% per annum for 2 years and in line with assumed CPI Inflation of 2.6% per annum for 3 years.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting NYPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.8% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	156% / 109%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	109% / 99%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 96%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / 96%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	109% / 99%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	No allowance

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

Increases in yields on fixed and index linked gilts

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

North Yorkshire Pension Fund

Admissions and Terminations Funding Policy

1 Introduction

1.1 This document details the North Yorkshire Pension Fund's (NYPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an admission body's participation in the NYPF, and considerations for current admission bodies. It supplements the general funding policy of the Fund as set out in the Funding Strategy Statement (FSS).

1.2 Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

1.3 A standard data base of all current admission bodies participating in the NYPF, recording relevant details of the admission agreement and funding arrangements for each body, is maintained by the Fund. This data base is a live document and will be updated as new bodies are admitted to the NYPF.

1.4 This document is reviewed periodically and updated where changes are required, either in line with statutory requirements or where pragmatic solutions have been identified to deal with new scenarios or approaches.

2 Principles

Termination of an admission agreement

2.1 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

2.2 In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

2.3 In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

2.4 The NYPF's policy is that a termination assessment will be made based on a least risk (i.e. "matched") funding basis, **unless** the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

2.5 If, instead, the admission body has a guarantor within the Fund or a successor body exists to take over the admission body's liabilities, the NYPF's policy is that the Triennial Valuation funding basis will be used for the termination assessment. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund (sometimes known as the "novation" of the admission agreement). This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

2.6 The LGPS (Miscellaneous) Regulations 2012 allow for Scheme Employers to be subject to a deficit payment on termination. The Administering Authority will decide the actuarial funding basis to apply for such a termination assessment after taking advice from the actuary to the NYPF and considering the particular circumstances of the Scheme Employer.

Funding basis / Controlled Flexibility

2.7 An admission body may choose to pre-fund for termination i.e. to amend their funding approach to a matched methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the matched basis.

2.8 For any admission bodies funding on such a matched strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the admission body's notional asset share of the Fund will be credited with an investment return in line with the matched funding assumptions adopted rather than the actual (largely equity related) investment return generated by the actual asset portfolio of the Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Administering Authority options

2.9 The preference of the NYPF is for the Administering Authority to commission a risk assessment from the actuary to the NYPF on behalf of the potential admitted body, in line with the LGPS (Miscellaneous) Regulations 2012, effective from 1 October 2012, which requires a risk assessment to be carried out to the satisfaction of the Administering Authority. Where the potential admission body instead insists on carrying out the risk assessment (either themselves or by commissioning a third party), this must be done to the satisfaction of the Administering Authority (and the transferring employer where appropriate).

2.10 In order to protect other Fund employers, when considering applications for admission body status the Administering Authority's clear preference is that there should be a guarantor within the Fund. However, where there is no guarantor within the Fund, the Administering Authority will consider other applications on a case-by-case basis and can determine that:

- The admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions; and/or

- The admission body must have a bond or indemnity from an appropriate third party in place. The actuary to the NYPF will be asked to carry out a risk assessment as per paragraph 2.9, with the level of any bond requirement being determined by the Administering Authority; and/or

- The admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide; or

- The admission body's application may be refused.

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

- Uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admission body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

3 Implementation

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

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

Transferee admission bodies (TABs)

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

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

3.4 An assessment of the level of risk on premature termination of the contract will be carried out, as detailed in paragraph 2.9. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NYPF the decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer, and should be agreed by the contractor and Scheme Employer as part of the commercial negotiation, to the satisfaction of the Administering Authority.

3.5 Deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.

3.6 An exception to the above policy applies if the guarantor is not a participating employer within the NYPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NYPF the Administering Authority may in this case treat the admission body as if it has no guarantor.

Community admission bodies (CABs)

3.7 From 1 October 2012, as per the requirements of the LGPS (Miscellaneous) Regulations 2012, paragraph 2.9 will apply for the admission of a CAB.

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

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

3.9 In a similar way, with effect from 1 April 2008, new town and parish councils entering the Fund will be treated as follows:

- If a guarantor (of sufficient standing acceptable to the Fund) is forthcoming then the admission will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.

- If there is no guarantor then the admission body must pre-fund for termination with contribution requirements assessed using the matched methodology and assumptions.

3.10 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

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

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

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

Notification of Termination

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

Grouped bodies

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

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

Further details of these groupings are set out below.

Grouped Scheduled Bodies

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

3.16 In line with the NYPF's policy for existing admission bodies, the share of deficit will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation.

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.

PART F

Communications Policy Statement
June 2014

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

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COMMUNICATIONS POLICY STATEMENT

1.0 BACKGROUND

1.1 All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement under the LGPS (Amendment) (No 2) Regulations 2005 relating to the Communications Strategy for the Fund.

1.2 The key requirements for preparing the Statement are summarised as follows:
(a) the Administering Authority will prepare, publish and review a policy statement setting out its communication strategy for communicating with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.
(b) the statement must be revised and published whenever there is a material change in the policy.

1.3 North Yorkshire County Council (NYCC) as the administering authority for the North Yorkshire Pension Fund (NYPF) has published this Statement in accordance with these Regulations. This Statement has been prepared in consultation with appropriate interested parties.

2.0 **OBJECTIVES**

2.1 The Fund's objectives in communicating with stakeholders (as defined in **Section 3** below) are:

- to keep all stakeholders informed about the management and administration of the NYPF
- to inform stakeholders to enable them to make the decisions they need to make regarding pensions and the NYPF
- to consult major stakeholders on changes to regulations, policies and procedures that affect the NYPF
- to promote the Local Government Pension Scheme as an important tool in recruitment and as a benefit to scheme members
- to use the most effective ways of communicating with stakeholders
- to seek continuous improvement in the way we communicate

2.2 The Fund also needs to ensure that Stakeholders find it easy and convenient to communicate with the Fund.

3.0 **STAKEHOLDERS**

3.1 The key stakeholders for the NYPF are:

- **the County Council's Pension Fund Committee** who make decisions about the way the Pension Fund and pension benefits are managed and administered
- the **Advisory Panel** of employer representatives and other stakeholders which has been established to advise the Pension Fund Committee on policy matters as well as provide a scrutiny function
- **scheme employers** who use the scheme to help recruit, retain and support employees and who themselves contribute to the Fund
- **scheme members** (current contributors, deferred and retired members) and their representatives who are ultimately the recipients of the benefits of the pension scheme
- **prospective scheme members** who are eligible to benefit from the scheme but have not yet joined
- **staff employed by the County Council and other employers who are responsible for the management and operation** of the Pension Fund and pension benefits

3.2 Other stakeholders who contribute to the NYPF include –

- the Fund Actuary
- the Investment Adviser
- the Investment Consultant
- the Independent Professional Observer

- investment managers
- the asset custodian
- the AVC provider
- the Fund Solicitor

3.3 Because the stakeholders referred to in **paragraph 3.2** above are the providers of services to the Fund, it is important that communication with them exists both to and from the Fund. Thus they must be made aware of changes affecting the Fund as well as have the ability and the means to provide advice / feedback, etc, to the Fund.

4.0 **METHODS OF COMMUNICATION**

4.1 There are a variety of methods of communication adopted by the Fund. These are identified below with reference to each of the key stakeholders listed in **Section 3** above.

4.2 The items marked with an ***** are available on the NYPF website.

Pension Fund Committee

4.3 The following are used to provide information to Committee Members:

- agenda papers – these are prepared for each Committee meeting and cover all matters (ie benefit administration and investment of the Fund's assets) relating to policy and performance of the Fund
- newsletters***** - Committee Members receive copies of all newsletters issued by NYPF
- workshops – organised for specific purposes usually linked to the review of a major piece of NYPF policy (eg Investment Strategy)
- third party training sessions – details are circulated to all Members on a regular basis

Advisory Panel

4.4 The Panel receives the same information as provided to Committee members (see **paragraph 4.3** above)

Scheme Employers

4.5 The following will be provided to all Scheme Employers:

- newsletter* – updates delivered electronically
- technical material – any information connected with the Scheme and its administration is issued to Employer nominated liaison officer(s)
- consultation – opportunities for NYPF/Employer consultation wherever a collaborative approach is appropriate or policy changes are proposed or required

- website – including discrete area for ‘employer only’ information
- Pension Fund Officer Group (NYPFOG) – regular meetings held between NYPF and Employer representatives
- one to one employer meetings – dealing with any matters arising between NYPFOG meetings including training employers’ staff engaged in pension administration activities
- Employers Guide* – detailing pension administration processes
- Pensions Administration Strategy* – agreed protocol setting out the respective responsibilities of NYCC (as the administering authority of the Fund) and the Fund’s Employing Authorities
- Communications Strategy setting out the current communication arrangements and future developments
- Employer access to employee data – a means of providing data on line including starters, leavers, amendments and contributions
- Admission Agreements – provide advice, process management and data analysis for any prospective employer pursuing admitted body status

Scheme Members

4.6 The following will be provided to active, deferred and retired members –

- Scheme Guide (short guide)* – downloaded by new members of the Scheme or provided in hard copy on request by employers
- Scheme Guide (full)* - provided on request
- Membership Certificate (Statutory Notice) – confirmation of participation in the LGPS following the commencement of employment
- estimate of benefits***** – calculated by members online or provided on request in appropriate cases
- annual benefit statement***** – provided on-line for active and deferred members or can be provided in hard copy on request
- newsletter***** – as appropriate for active members (but not less frequently than annual) and once per year for retired members
- pre-retirement courses – support for employer led courses as required up to 6 times per year
- membership data on-line* – personal data securely available to active and deferred members
- satisfaction surveys – conduct surveys for qualitative assessments on such matters as payment of retirement benefits, satisfaction with call-handling etc
- pay advice (sent to pensioners)
- replies to any correspondence by letter or e-mail
- helpline – contact available via telephone during office hours or voicemail out of office hours
- website – including online benefits calculator and other self-service facilities

Prospective Scheme Members

4.7 The following will be available to prospective members:

- Scheme Guide (short guide)* - distributed via the employers to all new employees or downloaded from the website
- direct promotion – will assist the employer in promoting the Scheme via employer communication systems eg pay advice, newsletters, induction seminars, etc
- helpline – contact available via telephone during office hours or voicemail out of office hours
- website – including Scheme guides to the LGPS

5.0 **ANNUAL COMMUNICATIONS STRATEGY (incorporating Action Plan)**

5.1 In consultation with Scheme employers and other stakeholders, via the Advisory Panel and NYPFOG, the County Council prepares an **Annual Communications Strategy** for the NYPF detailing the current arrangements for communication with its stakeholders together with future communication developments. The Communications Strategy is subject to annual review and is presented to the Pension Fund Committee for approval at the start of each financial year.

5.2 The Strategy includes the following -

- commentary on current operating context for the Fund
- progress on actions included in previous Annual Strategy
- details of proposed actions for next year with costs
- details of any Satisfaction Surveys undertaken in previous year and proposed for next year

6.0 **KEY POLICY / STRATEGY DOCUMENTS**

6.1 In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers (see **paragraphs 4.5 to 4.7 above**), the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows -

- Funding Strategy Statement (FSS)
- Statement of Investment Principles (SIP)
- Annual Report
- Annual Communications Strategy
- Pensions Administration Strategy
- Governance Compliance Statement

6.2 All of these documents are available on the NYPF website.

7.0 **REVIEW OF THIS POLICY STATEMENT**

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

8.0 **FURTHER INFORMATION**

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

in writing
North Yorkshire Pension Fund
County Hall
Northallerton
North Yorkshire
DL7 8AL
by telephone
Pensions Help and Infrmation Line
01609 536335
by email
pensions@northyorks.gov.uk

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

North Yorkshire Pension Fund

Pensions Administration Strategy

February 2013

lgps look forward with confidence

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

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PENSIONS ADMINISTRATION STRATEGY

1.0 PURPOSE OF STRATEGY

1.1 This Strategy sets out the administration protocols that have been agreed between employers and the North Yorkshire Pension Fund (NYPF). The protocols aim to ensure the smooth running of the Local Government Pension Scheme (LGPS) in North Yorkshire and must be followed at all times.

1.2 For the purpose of this Strategy no practical distinction is drawn between the statutory role of North Yorkshire County Council as the Administering Authority for the NYPF, its Pension Fund Committee, the Pension Administration Section or other sections of the Central Services Directorate all of whom play a role in the administration of NYPF – the term NYPF is used collectively to reflect all of the above roles within NYCC.

2.0 REGULATORY BACKGROUND

2.1 The protocols are concerned with routine yet important responsibilities and duties and they cannot override any provision or requirement in the Regulations outlined below or in any other relevant legislation.

2.2 The principal Regulations underpinning this document are:

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Administration) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2007
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
- The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (and any amendments thereto)
- The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (and any amendments thereto).

3.0 REVIEW OF THE STRATEGY

3.1 This Strategy will be kept under ongoing review by NYPF.

3.2 Employers may submit suggestions to improve any aspect of this Strategy at any time.

3.3 NYPFOG will be asked by NYPF to formally review the Strategy from time to time.

4.0 PERFORMANCE LEVELS

4.1 Performance level agreements are set out in this document for both employers and NYPF; these will be reviewed from time to time and only changed with agreement of employers via NYPFOG meetings and the agreement of NYPF.

4.2 This Strategy is the agreement between NYCC and employers about the levels of performance and associated matters

5.0 RESPONSIBILITIES AND DUTIES OF THE EMPLOYER

Contact Person

5.1 The employer will nominate a person to act as the primary contact with NYPF. The employer will notify the Pensions Manager of NYPF who that person is and ensure that changes of nominated person are notified to NYPF immediately.

Member details – Employer performance levels

5.2 The employer must forward notifications (or approved alternatives) to NYPF as follows:

(i) New starters (Form PEN11) – within one month of the employee joining

(ii) Change in member details – within 6 weeks of the event

(iii) Early leavers (Form SU5) – within 6 weeks of the employee leaving

(iv) For retirements, NYPF aims to pay lump sums to the member on the first Friday after retirement. Due to changes in the Regulations that govern the operation of the LGPS, certain decisions on the nature of benefits to be taken have to be made prior to retirement. To enable this to happen, retirement notifications (Form ADNOT) should be received by NYPF at least 30 days before the last day of employment. When the Form SU5 is not provided prior to retirement, it should be forwarded no later than 2 weeks following retirement.

The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 require that Form SU5 for a retirement before age 65 must be received no later than one month after retirement and for retirements at age 65 no later than 10 working days after the date of retirement. Great care must be taken to avoid contravening these regulations (see **paragraph 5.20** below).

(v) Death in membership must be notified by the employer to the NYPF within 3 working days of the death of the member.

Employee's Guide

5.3 Under the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 the employer must ensure that all new employees eligible to join the LGPS receive a copy of the Employees' Guide to the Scheme within 1 month1 of becoming employed.

Year-end information

5.4 The employer (or their payroll contractor/agency for which the employer is responsible) shall provide NYPF with year-end information as at 31 March each year in a notified format no later than 31 May or the next working day. When it is a Triennial Valuation year, the deadline will be 30 April or the next working day.

5.4.1 NYPF's Accountancy Department also require separate information . After completion of the March contribution sheets, Employers are required to review their full year contribution summary (contained within the same Excel document). All contributions for the year should be reconciled back to the organisational payroll and the relevant declaration is to be signed and dated before being returned to pension.contributions@northyorks.gov.uk

5.4.2 Employers still operating older contribution sheets will be required to compile the full year contribution summary themselves and return it with a relevant declaration to the same email address. The year-end information should be accompanied by a statement, duly signed by an authorised officer, balancing the amounts paid over during the year with the totals on the year-end return certifying that the amounts paid reflect the contributions deducted from employees during the year. The information should identify separately those amounts representing deductions for voluntary contributions and the standard deductions for basic scheme contributions.

Contribution deductions

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

Payment of contributions to NYPF

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

Payment dates

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

Late Payment

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

Payment method

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

Remittance Advices

5.10 The employer must submit an advice form, preferably in an electronic format, in advance of their payment. The form must state the employers name and reference number, the period and the amount of the payment split between employees and employers contributions. In addition, it should include the total pensionable pay, details of added-years contributions and any other payroll related adjustments.

AVC Contributions

5.11 The employer will pay additional voluntary contributions to the AVC Provider within one week of them being deducted. Under the Pensions Act 1995 the Pensions Regulator may be notified if contributions are not received before the 19th of the month following that in which they were deducted. The employer will submit the schedule of AVCs in an agreed format directly to Prudential ahead of the actual remittance.

Discretionary Powers

5.12 It is a mandatory requirement that each employer is responsible for exercising the discretionary powers given to them by the Regulations. These Regulations extend to requiring the employer to publish its policy in respect of the key discretions as described by the Regulations to its employees. Copies of the relevant employer policies should also be lodged with the NYPF.

Employer Decisions

5.13 Certain aspects of the Regulations require an employer decision. The employer is responsible for implementing such areas correctly, (eg deduction of contributions at the correct rate).

Independent Medical Practitioner

5.14 The employer is responsible for determining and employing their own appropriately qualified independent medical practitioner and providing details of those practitioners to the NYPF (see also **paragraph 6.9**).

Employer responsibility for information provided to NYPF and/or work undertaken internally

5.15 NYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests solely with the employer.

5.16 Any over payment made by NYPF resulting from inaccurate information supplied by the employer shall be recovered by NYPF from the employer.

5.17 The employer is responsible for any work carried out on its behalf by another section of their organisation or by a contractor appointed by that organisation (eg Pay or Human Resource sections).

Data Protection

5.18 Under the Data Protection Act 1998, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from NYPF. It will also only use information supplied or made available by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Procedure

5.19 The employer must identify a 'nominated person' for any instances where an Internal Dispute Resolution Procedure (IDRP) application is submitted against the employer and meet the associated costs.

Fines imposed on NYPF

5.20 In the event of NYPF being fined by the Pensions Regulator, this fine will be passed on to the relevant employer where that employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), caused the fine.

Charges to the employer

5.21 NYPF will under certain circumstances consider giving written notice to employing authorities under regulation 43(2) on account of the authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under **paragraph 5.2** above. The written notice may include charges imposed by NYPF for chasing employing authorities for outstanding information as detailed in **paragraph 7.5**.

6.0 RESPONSIBILITIES AND DUTIES OF NYPF

Regulatory Issues

6.1 NYPF will administer the Pension Fund in accordance with the LGPS Regulations and any overriding legislation including employer discretions.

6.2 NYPF will issue a membership certificate to members; this provides notification to members that they have joined NYPF.

6.3 NYPF is responsible for exercising the discretionary powers given to it by the regulations. NYPF is also responsible for publishing its policy in respect of the key discretions as required by the regulations.

NYPF Performance Levels

6.4 NYPF agrees to meet the following performance targets in relation to the day to day administration of the fund:

Letter detailing transfer in	10 days
Letter detailing quote of transfer out value	10 days
Letter notifying estimated retirement benefit amount	10 days
Letter notifying actual retirement benefit amount	10 days

Support to Employers

6.5 NYPF will support employers in running the Local Government Pension Scheme by:

- providing information, advice and assistance on the scheme and its administration
- distributing regular technical information

See the **Communications Policy Statement** and **Annual Communications Strategy** for full details.

6.6 NYPF will supply any information to employers necessary to ensure the smooth running of the pension fund.

6.7 NYPF will work with employers to ensure that retirement is as smooth a process for the member and employer as possible.

Independent Medical Practitioner

6.8 NYPF will verify the individuals nominated by the employer (in accordance with **paragraph 5.14**) as independent medical practitioners are appropriately qualified to deal with ill health retirement cases.

Services to Members

6.9 NYPF will produce benefit statements for members each year where the employer has submitted useable and accurate year-end financial data.

6.10 NYPF will provide a service to members that meets the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996.

6.11 In addition, NYPF will communicate with members through appropriate media and encourage at all times the development and use of self-service facilities. Full details are provided in the **Communications Policy Statement** and **Annual Communications Strategy**.

Multiple Language Literature

6.12 The process for providing multiple language literature has been established and certain NYPF documents have been amended to include reference to how to obtain an alternative version. In response to the need to work towards achievement of the Local Government Equalities Standard additional documents used by the NYPF will be amended to refer to the availability of alternative versions.

Data Protection

6.13 Under the Data Protection Act 1998, NYPF will protect from improper disclosure any information held about a member. Information held will only be used by NYPF for the operation of the Local Government Pension Scheme.

Internal Dispute Resolution

6.14 NYPF must identify a ‘nominated person’ for any instances where an Internal Dispute Resolution Application (IDRP) application is submitted against the Administering Authority and meeting the associated costs.

7.0 CONTRIBUTION RATES AND ADMINISTRATION COSTS

7.1 The Members’ contribution rates are fixed within bands by the Regulations.

7.2 Employers contribution rates are determined by a triennial valuation process. Employers are required to pay whatever is necessary to ensure that the portion of the Fund relating to that employer is sufficient to meet its liabilities over the agreed term.

7.3 NYPF is valued every 3 years by the Fund Actuary. The Actuary balances the assets and liabilities in respect of each employer and assesses the necessary contribution rate for each employer. Employer contribution rates apply for 3 years except that an Admission Agreement may determine that reassessment should take place on a more frequent basis.

7.4 The administrative costs of running NYPF are charged by NYCC directly to the Fund and the Actuary takes these costs into account in assessing the employer contribution rate.

7.5 If NYPF undertakes work specifically on behalf of the employer, the employer will be charged directly for the cost of that work e.g.

- Non receipt of new entrant documentation requiring NYPF to set up temporary data and/or complete documentation on behalf of the employer
- Non receipt of leaver details requiring NYPF to interrogate payroll or other systems on the employers behalf
- Chasing outstanding information following one reminder
- FRS17 valuations
- ad hoc actuarial & legal advice (eg TUPE transfer)
- ad hoc technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

8.0 COMMUNICATIONS

8.1 In accordance with the Fund's Communications Policy Statement and its Annual Communications Strategy, NYPF will work with employers to communicate relevant information to members.

North
Yorkshire County Council

Service Level Agreement

North Yorkshire County Council

And

North Yorkshire Pension Fund

Provision of Treasury Management Services

May 2010

1.0 **This Agreement is made on 1 April 2010**

1.1 **Between**

Central Services, **North Yorkshire County Council**, County Hall, Racecourse Lane, Northallerton, North Yorkshire, DL7 8AL ("NYCC")

and

North Yorkshire Pension Fund, North Yorkshire County Council, County Hall, Racecourse Lane, Northallerton, North Yorkshire, DL7 8AL ("NYPF")

1.2 **It Is Agreed** as follows:

Services Provided

The treasury management team of Integrated Finance (IF) will provide treasury management services (see **Appendix A**) for the NYPF; IF is part of the Central Services Directorate of NYCC. NYCC is the Administering Authority for the NYPF.

Term of the Agreement

The agreement will commence on 1 April 2010 and will be reviewed annually as part of the governance arrangements of the NYPF.

Fees and Charges

The charge for treasury management services, subject to annual review, will be £2,500 p.a. with effect from 1st April 2010.

2.0 **Authorised Officers**

2.1 The Authorised Officers are the people nominated by the NYPF to act on its behalf and may issue instruction to NYCC on any matter related to this Service Level Agreement.

3.0 **Agreement Manager**

3.1 NYCC shall appoint a Service Agreement Manager for the purposes of issuing any notice or instruction or other information regarding the overall Service Level Agreement. It is envisaged that day to day conduct of the services will be made through designated service delivery officers.

4.0 **Designated Officers and Staffing**

4.1 NYCC shall provide sufficient staff, the designated officers, to provide the Services specified in **Appendix A**. All Services specified in **Appendix A** will be provided Monday to Friday during normal office hours. Normal office hours are Monday - Thursday 09.00 – 1700, Friday 0900 – 1630. The Service will be provided from County Hall, Northallerton.

4.2 NYCC will ensure that all staff employed for the purpose of providing the Services as specified in **Appendix A** are appropriately qualified and have the necessary knowledge, skills and competencies to provide the Services. NYCC will also ensure that such staff are provided with appropriate ongoing learning and development to ensure up to date advice and quality of service is maintained (see **paragraph 5.1** below).

4.3 If the NYPF has grounds for concern about the actions, behaviour or record of any person involved in the provision of the Services by the County Council, those concerns should be notified to the Service Agreement Manager who will take any necessary action, to the satisfaction of both parties to the Agreement.

5.0 **Service Performance Standards and Monitoring**

5.1 NYCC will deliver the services specified in **Appendix A** in accordance with the Treasury Management Policy and its associated documents as approved by the County Council at the time. In entering into this agreement NYPF therefore accept the Treasury Management Policy and Strategies of NYCC. These documents are reviewed and approved by the County Council on an annual basis, with any required in year changes being submitted to the County Council's Executive and full Council as appropriate.

5.2 A regular dialogue will be maintained between authorised and designated officers to discuss service requirements as any issues arise. Should matters not be resolved the matter is to be escalated to the Service Agreement Manager.

5.3 NYCC will maintain appropriate records to enable NYPF to verify the work carried out in accordance with this Service Level Agreement.

6.0 Risk Management and Contingency Planning

6.1 It is the responsibility of NYCC to ensure that comprehensive disaster recovery arrangements to restore data in the event of a complete system failure are in place. These arrangements will be made known to the Authorised Officers who will also be informed of any changes to these arrangements.

6.2 NYCC will use all reasonable endeavours to ensure that the disaster recovery arrangements described at **paragraph 6.1** above are in place.

7.0 Modifications / Variations

7.1 NYCC may agree to vary the terms of this Agreement upon such terms as may be agreed with the NYPF and, where appropriate, the variation will include provision for the adjustment of any charges (as defined in **paragraph 1.2** above).

7.2 All variations shall be recorded in writing and attached to this Agreement.

8.0 Assignment and Sub-Contracting

8.1 NYCC will not assign or sub-contract this Agreement or any part of it without the prior written consent of the NYPF.

9.0 Indemnity

9.1 NYCC will indemnify the NYPF from and against all actions, proceedings, costs, claims and demands whatsoever arising from the negligence of NYCC, its servants or agents in connection this contract.

10.0 Breach of Agreement and Termination

10.1 Where the Service is not provided in accordance with this Agreement NYPF may, by written notice, request that NYCC should remedy the failure.

10.2 If either party is in material breach and/or persistent breach of the Agreement the other party may terminate the Agreement.

11.0 Data Protection and Freedom of Information

11.1 NYCC will comply with all obligations equivalent to those imposed on a Data Controller in accordance with the seventh principle under The Data Protection Act 1998.

11.2 All information provided by NYCC to NYPF will be provided in accordance with the requirements of the Freedom of Information Act 2000.

12.0 Equal Opportunities

12.1 NYCC will comply with employers' statutory obligations under the Race Relations Act 1976, the Sex Discrimination Act 1975, the Disability Discrimination Act 1995 and the Employment Act 2002 and will not discriminate directly or indirectly against any person because of their race, colour, nationality or national or ethnic origin, religious beliefs or sexual orientation in relation to decisions to recruit, train, promote, discipline or dismiss employees.

Appendix A

Treasury Management Services to be provided

Principles

1.0 Subject to appropriate risk controls the policy of NYPF is to maximise the interest receivable on surplus cash balances through NYCC's Treasury Management service.

1.1 The ability of NYCC to achieve this will depend on the size and duration of the 'surplus' cash in the NYPF bank account.

1.2 NYPF's practice is to automatically sweep all surplus cash into NYCC's bank account on a daily basis. NYPF therefore has

- ➔ near instant access to required funds for cash flow purposes; and
- ➔ any surplus cash is automatically invested at a higher rate of interest than would normally be available to the Fund due to the limited size of balances; and
- ➔ has much greater flexibility with regard to minimum length of deposit rules, whilst
- ➔ any short term 'overdraft' requirement is automatically provided by NYCC at its market rates rather than at the rates otherwise available to NYPF

1.3 NYCC will calculate an average rate of interest earned for all the cash it manages. This rate will be applied to NYPF's balances ensuring that it will enjoy the same rates as achieved by NYCC (and its other treasury management clients). This rate will be applied to NYPF's balance on a daily basis.

1.4 The current daily sweep arrangement will be maintained as long as the NYPF bank account is with the same bank as NYCC. NYPF is therefore included within the 'umbrella' of the current NYCC bank contract with Barclays Bank.

1.5 The umbrella of the NYCC's banking contract provides the following value added benefits to NYPF:

(i) the fee tariff per item is the same as for NYCC. Transaction charges are generally geared to scale (i.e. the more transactions the lower the unit costs); and

(ii) it enables effective daily 'sweeping' into the NYCC bank account for treasury management purposes, and

(iii) it avoids the need for the NYPF to undertake a separate tendering exercise and contract negotiation/renegotiation re banking arrangements.

2.0 Security of Investments and Approved Lending List

2.1 The County Council has adopted the CIPFA Code of Practice on Treasury Management (as updated in 2009). This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

2.2 The CIPFA Code of Practice on Treasury Management requires:

- a Treasury Management Policy Statement (TMPS) stating the County Council's policies and objectives for its treasury management activities

- a framework of Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve the policies and objectives set out above and prescribing how it will manage and control those activities.

2.3 NYCC invests funds as cash deposits with institutions either on the money market or direct with banks and financial institutions. NYCC recognises that credit risk arises from deposits with banks and financial institutions and, as a result, deposits are not made with institutions unless they meet the minimum requirements of the investment criteria outlined in the County Council's Treasury Management Strategy.

2.4 The County Council relies on credit ratings and "ratings watch" and "outlook" notices published by the three credit rating agencies (Fitch, Moodys and Standards & Poor) to establish the credit quality of counterparties and investment schemes. All three credit rating agencies also produce a Sovereign Rating which assesses a country's ability to support a financial institution should they get into difficulty.

2.5 No combination of ratings can be viewed as entirely fail-safe and all credit ratings, watches and outlooks are monitored on a daily basis and changes made as appropriate. In addition, the County Council takes into account trends within the Credit Default Swap (CDS) Market together with other criteria such as market intelligence, press speculation and rumoured mergers etc.

2.6 This data is collated and interpreted using the Credit Worthiness Service provided by the County Council's Treasury Management advisor, Sector Treasury Services Limited. This service uses a sophisticated modelling system to allocate a credit "score" for each organisation. Each score is then related to a series of colour codes which indicate the relative credit worthiness of counterparties and consequential maximum duration investment.

2.7 In addition, the County Council has set maximum investment limits for each organisation which also reflect that institutions credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity).

2.8 The Annual Treasury Management Strategy includes these procedures in order to manage the risks of the County Council's financial instrument exposure. It is approved at the County Council's annual council tax setting budget meeting before the beginning of the financial year, but kept under review throughout the year with any required changes being approved as part of the County Council's quarterly reporting arrangements for Treasury Management Activities.

2.9 The Approved Lending List is monitored on an on going daily basis and changes made as appropriate by the Corporate Director – Strategic Resources to reflect credit rating downgrades etc. Institutions are removed or temporarily removed or suspended from the list if there are any significant concerns about their financial standing or stability.

2.10 The County Council's investment policy has two fundamental objectives

- the security of capital (protecting the capital sum from loss); and then
- liquidity (keeping the money readily available for expenditure when needed).

2.11 The County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments.

3.0 Policy in relation to risk sharing in relation to investments and borrowings

3.1 NYCC's policy is that responsibility under 3rd party arrangements, for both investments and borrowing, are shared pro rata to the relative levels of investments and borrowing by the various parties.

3.2 The arrangements (as agreed with other clients including NYPF under this Agreement) in respect of a Default Loan are detailed below:

NYCC collects all available balances from those parties using the County Council's Treasury Management Service and merges them with its own balances (the so-called 'sweep' arrangement). These aggregated balances are then loaned out on the Money Markets. For practical purposes therefore every such loan contains an element of the balance of each party and no individual loans are earmarked as being solely the funds of one particular party.

In the event of counterparty default on an individual loan, each party shall bear a share of the consequential loss. The extent of that loss for each party will be calculated pro rata on the balance of that party on the day on which the default occurs. For example:

£1m defaulted loan

	Balance on the day of default £	*%*	*Share of Loss* £
NYCC	25,000,000	83.1	831,000
NYPF	1,800,000	6.0	60,000
Authority A	550,000	1.8	18,000
Authority B	750,000	2.5	25,000
Authority C	1,650,000	5.5	55,000
Authority D	350,000	1.1	11,000
Total	30,100,000	100.0	1,000,000

3.3 In addition, NYCC

(i) will provide details of those organisations to which loans are made

(ii) agrees that the Default Loan procedure will ***not*** apply if the actions of NYCC in the money market are clearly proven to have been contributory to any loss(es) of NYPF funds managed under the terms of this Agreement.

APPENDIX 2

AllenbridgeEpic
investment advisers

REPORT PREPARED FOR

North Yorkshire Pension Fund

Meeting of the Pension Fund Committee on 9th July 2015

Governance Compliance Update

20th June 2015

Peter Scales
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Introduction

This is my seventh report on the governance arrangements for the North Yorkshire Pension Fund, providing an update on the current position, based on issues considered by the Committee since my previous report in July 2014 and those currently under review.

Since my last report consultation and discussion documents have been issued by the DCLG on the two pivotal issues of governance and pension fund re-structuring. While new regulations and guidance have been issued in relation to new governance arrangements, there has been no progress on proposals for investment restructuring.

Notwithstanding the upheaval in operational and transitional arrangements in regard to the new LGPS 2014, the Committee continues to maintain a high standard of governance in the administration of its responsibilities, and to make changes and improvements both to strengthen governance and to adopt industry-wide developments.

Executive overview

- ✓ I have reviewed the business and minutes of Committee meetings since July 2014 and I am satisfied that governance standards are being maintained and improved.
- ✓ There have been significant regulatory changes affecting the governance arrangements in relation to the establishment of the Local Pension Board.
- ✓ Regulated guidance has been issued by the Pensions Regulator (tPR) recently which requires consideration.
- ✓ DCLG has introduced regulated guidance, published by CIPFA, on the preparation of annual reports and this identifies some areas for attention.
- ✓ The DCLG's proposals in 2014 on opportunities for collaboration, cost savings and efficiencies, which have been subject to consultation, remain dormant but may be resurrected by the new Government.

Recommendations

[1] That the Pensions Regulator's compliance and enforcement policy is reviewed by both the Committee and the Board.

[2] That preparations are made to submit information for reviews by the three regulatory bodies as and when required.

[3] That the CIPFA guidance on preparing annual reports is reviewed carefully in preparing the annual report for 2014-15.

[4] That the missing key policy and strategy documents referred to in the Governance Compliance Statement are posted on the website - Pensions Administration Strategy, Risk Register, and Treasury Management SLA.

Core business activity

A review of the Committee's core business activity at meetings since July 2014 confirms that governance standards continue to be maintained and improved where necessary. I note in particular a satisfactory audit report on the Fund's accounts and controls, and the approval of revised policy statements during the year.

The new Local Pension Board has been established in line with the regulations and guidance, and its members are being appointed for a first meeting by the end of July. The Committee maintains a robust approach to strategic investment issues and the monitoring of investment activity and performance.

There has been a significant rise in regulatory demands for compliance monitoring and reporting and I report below on some further issues that the Committee will need to address. Nevertheless, in my view this does not impact on the Committee's continuing high standards of governance in transacting business.

New regulations on governance

The new governance regulations [SI 2015/57] were finally made at the end of January. In essence, these introduce new clauses into the Scheme regulations 2013 to cover delegation, local pension boards, scheme advisory board, scheme actuary, employer cost cap, and some additional functions for the scheme advisory board relating to cost assessment.

The Committee has considered the issues in relation to local pension boards on various occasions and has established a Board for North Yorkshire in line with the regulations. I provided advice to the officers on the preparation of terms of reference and other related matters last autumn and I am satisfied that the board has been properly established in accordance with the regulations and in the timescale allowed.

I have reviewed the revised Governance Compliance Statement, updated regarding the establishment of a Pension Board [Regulation 55 (1) (d)] and I am satisfied that it complies with the requirements. I understand that other policy statements have been updated but that the communications policy statement is still under review.

With the issue of regulations there followed copious guidance from the Scheme Advisory Board and the Pensions Regulator to which I refer in more detail below. The key role of the North Yorkshire Pension Board, described in detail in the regulations and guidance, will be to assist the Committee in compliance with the regulatory provisions and to ensure the effective and efficient governance and administration of the LGPS.

These are onerous responsibilities to which the Board will be able to add employer and scheme member perspectives. This will be particularly useful in shaping communications and documentation, and in representation of interests in the governance of the Scheme.

This introduces a new era of regulatory oversight which is both extensive and complex, involving the DCLG, the Scheme Advisory Board and tPR. While guidance and codes of practice are not statements of the law, they provide the benchmark against which compliance with the law will be monitored and tested, and ultimately enforced.

Guidance from the Scheme Advisory Board

The final form of this guidance was issued on 4th February and provides details about the establishment of local pension boards and their operation. This has been used by the officers in setting up the North Yorkshire Pension Board. Other parts of the guidance deal with knowledge and understanding, conduct and conflicts of interest, reporting and resourcing.

The Board will need to familiarise themselves with the contents of the guidance and in particular, the policy documentation in force for North Yorkshire, which is listed in the guidance in generic terms. Information is also given on the key areas of law on which Board members will need to develop their level of knowledge and understanding. I have not gone into more detail in this report as these will be issues for the Board to consider but of which the Committee should be aware.

Code of practice No. 14 from tPR

The Code, reported to the Committee at the February meeting, applies to all public service pension schemes and is not therefore LGPS specific. However, much of the detail relates to the new requirements for pension boards and to issues already applied to LGPS from past pensions legislation (e.g. reporting breaches). It should be noted that some elements of the Code apply to local pension boards and some to administering authority responsibilities, but of which the boards should be aware. The Code also refers to a new e-learning tool - this was also reported to the Committee in February.

The guidance issued by the Scheme Advisory Board helpfully summarises the areas covered by the Code and in particular, issues relating to local pension boards, and provides a cross reference to the Code - I have provided this list in **Appendix A** for ease of reference. I have not provided further analysis in this report but it will be important for the Committee and the Board, together with the officers, to develop an operational understanding of these matters and their different responsibilities.

I have referred previously to some lack of clarity over investment issues. The Board is not given responsibility for the investment of the fund other than in ensuring compliance with the law and regulations. No doubt 'grey' areas will, and are beginning to emerge elsewhere, in the application of the new arrangements and the role of tPR. The following paragraph from the Scheme Advisory Board guidance is pertinent:

"4.9 For the avoidance of doubt the powers of the Regulator" (i.e. tPR) *"were not extended to cover areas such as the funding and investment of Funds."*

tPR compliance and enforcement policy

This document was published on 4th June and applies to all public service pension schemes. It sets out their approach to regulation and to risk; monitoring and reviewing their compliance activities and their risk-based prioritisation; their activities to support compliance and enforcement, including education and enablement, and thematic reviews; and provides information on how investigations will be undertaken.

At this stage I have not sought to analyse this policy but in essence it sets out the rules by which they will operate and with which scheme managers and local pension boards will need to be familiar. Their risk based prioritisation, however, provides a useful framework for guiding operations and expectations - see **Appendix B**.

Additionally it states:

> *"In prioritising risk-based regulatory activities, we will consider factors such as schemes' ability and willingness to put matters right and the likely impact of the various types of intervention available to us. We will adopt a 'test and learn' approach to investigations and regulatory action in relation to public service pension schemes.*

Monitoring and reporting

As outlined below, there will be a significant amount of monitoring of activity, much more than has been the case with previous compliance regimes.

DCLG has indicated informally that they intend to undertake two surveys, the first in the summer to gauge progress and to make sure that all the local pension boards have been more or less fully established with arrangements for first meetings. They will then follow this up in early 2016 with a more formal survey, possibly in conjunction with tPR. Part of this would be to ask for copies of governance compliance statements which, under the 2013 regulations, must include a statement on local pension board arrangements (see above).

In terms of what DCLG would be looking for, the first survey is to be a simple compliance check against the governance regulations. The second survey in early 2016 would focus more on progress, effectiveness, scope of workplans, etc. but this may be subject to discussion in the autumn following the first survey.

The Pensions Regulator states in their compliance and enforcement policy as follows:

"We plan to use a governance and administration survey, conducted in 2015, to baseline standards and monitor improvement in the following years. We will also learn through our early scheme engagements and feed that learning into the development of our risk-based approach." [See Appendix 2]

Informally I have been told that *"they will shortly be sending out a survey questionnaire on the governance and administration of the public service schemes. They will also be contacting schemes in July to notify them that the on-line scheme registration system ("Exchange") has been updated to hold the additional required information about public service scheme (e.g. pension board members), and to remind them that they should update the information about their scheme held on 'Exchange' with this additional information."*

Scheme Advisory Board is also said to be looking at progress on establishing local pension boards, and is reporting on individual annual reports, plus there is likely to be other monitoring activity as the Board is fully established. Currently their website contains details of the North Yorkshire annual report for 2013-14 - see below.

The Scheme Advisory Board, in the guise of Brian Strutton (GMB), was reported in the press recently saying that cost savings through mergers and passive investing were no longer their priority but that they would be focusing on scheme deficits. Interestingly they say they intend to measure all LGPS deficits accurately, advise funds on how they should manage their deficits, provide direct help to struggling funds, and make proposals for reducing the burden of deficits.

One further point relates to the way in which the Scheme Advisory Board is reporting on individual annual reports. The entry for North Yorkshire records as a 'full report' whereas funds that do not include full replication of policy statements have hyperlinks to the missing documents. The decision by North Yorkshire to publish a 'full report' was taken some time ago. However, other funds have challenged this approach on the grounds that the document is unwieldy and hyperlinks are sufficient for electronic versions, particularly in the light of regulatory guidance issued by CIPFA in August last year (see below).

In the circumstances, I have sought clarification recently from those who have national oversight and will be monitoring practice. The Committee should be aware of their responses if only for information.

"Jeff will be in a better position than me to opine on what authorities are doing in practice, but from a legal standpoint, it was made clear from the outset that "signposting", electronic or otherwise, would constitute publication for the purposes of the regulations. That said, my impression from the reports that cross my desk is that the majority do publish these statement in full." **Bob Holloway, DCLG**

"Following on from Bob's response, from a CIPFA perspective, we would regard inclusion of the full documents to be best practice, but as Bob says, "sign-posting" does meet the statutory requirement." **Nigel Keogh, CIPFA**

"Most funds publish these as part of the Annual Report document – either within the main body or as an Annex. A minority do a shorter annual report and refer to other documents. The split can be seen on the SAB's fund annual reports page
http://www.lgpsboard.org/index.php/fund-annual-reports-2014
Re the statutory requirement - Regulation 27 of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 refers
http://www.legislation.gov.uk/uksi/2013/2734/part/9/made *with regard to what constitutes signposting."* **Jeff Houston, LGA for Scheme Advisory Board**

On the basis of these responses, North Yorkshire is in line with best practice in this respect but it leads to consideration of recent guidance on preparing the annual report.

Preparation of Annual Reports

In August 2014, DCLG issued guidance published by CIPFA under the provisions of Regulation 57(3) of the LGPS Regulations 2013 which requires an administering authority to have regard to the guidance when preparing and publishing their pension fund annual report. It was further stated that where an administering authority had already prepared its annual report for 2013-14, it should review that report to ensure compliance with the guidance.

As usual the guidance was issued at a particularly late stage in the annual reporting process and I have taken the opportunity to undertake that review in brief form in **Appendix C**.

I have not provided details of the elements of the guidance which cover some 20 pages but it is clear that what appears to be a comprehensive guide to best practice has been turned into a mandatory regulatory requirement - the same 'problem' occurred with the updated Myners Principles.

My analysis shows the North Yorkshire Report as being mainly compliant but with issues to address where the guidance introduces new areas of reporting which will have to be developed for 2014-15. The guidance is seeking to broaden the scope of reporting beyond factual data and figures, suggesting commentary on a wide range of issues.

Whatever one might think of the details in this guidance, it will become the benchmark against which the Scheme Advisory Board will measure future reporting and the report for 2014-15 will need to be adapted accordingly.

Future structure of the LGPS

Despite various rumours, the Government did not publish any response to its consultation on proposals on opportunities for collaboration, cost savings and efficiencies before the start of purdah for the General Election. It is not at all clear at this stage whether these proposals will remain dormant, or be reinstated and implemented, and in the same or a different form.

I understand that work has been underway to review the structure of the investment regulations which has been an on-going issue for the past 15 years. It is unlikely that anything will emerge until the future of the consultation on restructuring is determined.

Options for separation - Invitation to bid

The following announcement was made By the Shadow Scheme Advisory Board on 16th June under the headline **"LGPS advisory board to investigate ways to improve governance"**:

"As part of the Shadow Scheme Advisory Board's (SSAB) work plan for 2014/15, the Governance and Standards sub-committee have been asked to consider the level of separation between the scheme manager function from that of the host authority, the desirability of increasing the separation, and to make recommendations to the Board on ways in which greater separation could be achieved.

At its meeting of 1st June 2015, the Board agreed the proposals of the Governance and Standards sub-committee with regard to the options to be considered and that external assistance be sought to investigate the options further. To this end, an invitation to bid instruction is published below for parties interested in assisting the Board with the work."

At this stage the SAB are inviting bids for undertaking this work but the detail of their proposal and options represent a fundamental change in the way the LGPS could be managed in the future. For that reason I have shown details of the proposal in **Appendix D.**

I have not sought to add any comment on the proposals as this is an early stage and if they are to be taken further, there will be a consultation exercise. However, they appear to be another way of restructuring the LGPS management and as with the investment re-structuring proposals outstanding from last year, they come with pre-determined options.

Peter Scales
20th June 2015

An extract from the guidance on the creation and operation of LGPS local pension boards issued by the Scheme Advisory Board on 4th February 2015

4. The Pensions Regulator

4.6 The Regulator has issued the Code of Practice which covers:

4.6.1 knowledge and understanding required by pension board members (see paragraphs 33 to 60 of the Code of Practice);

4.6.2 conflicts of interest and representation (see paragraphs 61 to 91 of the Code of Practice);

4.6.3 reporting breaches of the law (see paragraphs 241 to 275 of the Code of Practice);

4.6.4 publishing information about schemes (see paragraphs 92 to 99 of the Code of Practice);

4.6.5 internal controls (see paragraphs 101 to 120 of the Code of Practice);

4.6.6 scheme record-keeping (see paragraphs 122 to 146 of the Code of Practice);

4.6.7 maintaining contributions (see paragraphs 147 to 186 of the Code of Practice);

4.6.8 providing information to members (see paragraphs 187 to 211 of the Code of Practice) ; and

4.6.9 internal dispute resolution (see paragraphs 213 to 240 of the Code of Practice).

4.7 However, only the areas of knowledge and understanding, conflicts of interest and representation and reporting breaches of the law have direct application to Local Pension Boards. The other areas apply to Administering Authorities, although there are areas that a Local Pension Board will need to be aware of in order to assist the Administering Authority.

Extract from tPR compliance and enforcement policy issued on 4th June 2015

2.3 Risk-based prioritisation

When undertaking risk assessment, we will focus on risks in the following critical areas:

Knowledge and understanding[4]
Members of pension boards must comply with the requirement to have the appropriate knowledge and understanding, to be able to assist their scheme manager effectively. Failure to do so is a breach of law.

[4] As required under section 248A of the 2004 Act.

Conflicts of interest[5]
Scheme managers must ensure that pension board members do not have any conflicts of interest. A failure to do so is a breach of the law and could, for example, result in the advice and/or decisions of the pension board being open to challenge and, ultimately, the ineffective governance of the scheme.

[5] Scheme regulations must require scheme managers to be satisfied that pension board members do not have a conflict of interest (section 5(4) of the Public Service Pensions Act 2013).

Records[6]
Legislation specifies the records that must be kept and failure to comply is a breach of the law. The completeness and accuracy of these records will be key to the effective and efficient operation of schemes, including ensuring that the right benefits are paid to the right person at the right time. This will be supported by operating appropriate internal controls.

[6] Section 16 of the Public Service Pensions Act 2013 and the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 (in particular).

Internal controls[7]
Scheme managers must establish and operate internal controls. Failure to comply with this requirement is a breach of the law and it may also result in schemes not being run in accordance with the law and/or risks not being identified, mitigated and managed properly.

[7] Section 249B of the 2004 Act

Member communication[8]
The quality of the information provided to members in terms of accuracy, timeliness and clarity is an important factor in achieving good member outcomes. Failure to comply with disclosure requirements is a breach of the law and may indicate incomplete or inaccurate record-keeping and/or inadequate internal controls.

[8] Section 14 of the Public Service Pensions Act 2013, section 113 of the Pension Schemes Act 1993 and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (in particular).

Dealing with internal disputes[9]
Where we become aware of matters that are raised under internal dispute resolution procedures, this can be an indicator of wider systemic issues which may impact the effective governance and administration of schemes.

9 Dispute resolution procedures must be made and implemented in accordance with section 50 of the Pensions Act 1995.

CIPFA Guidance for LGPS Funds on preparing the annual report

A compliance check for the North Yorkshire report for 2013-14

A: MANAGEMENT AND FINANCIAL REPORT Scheme management and advisers	**COMPLIANT**
Risk management	**MAINLY COMPLIANT** No commentary about how risk management is linked to governance, nor mention of third party risk and how assurances are sought
Financial performance	**COMPLIANT**
Administrative management performance	**MAINLY COMPLIANT** No details of contributions paid by each employer

B: INVESTMENT POLICY AND PERFORMANCE REPORT	**MAINLY COMPLIANT** No comparison of planned and actual asset allocation; no 10 year performance data; no record of actions taken on responsible investment; and no commentary on the implementation and application of the funding strategy statement.

C: SCHEME ADMINISTRATION REPORT	**NOT COMPLIANT** No review of administration arrangements or details of key areas of technology used; no data quality information; no details of arrangements for gathering assurance; and no details of IDRP cases.

D: ACTUARIAL REPORT ON FUNDS	**COMPLIANT** No information on interim valuations

E: GOVERNANCE COMPLIANCE STATEMNENT	**COMPLIANT** CIPFA suggests some commentary to illustrate the policies in practice [not mandatory]

F: FUND ACCOUNTS, NET ASSETS STATEMENT AND NOTES	**COMPLIANT**

G: PENSIONS ADMINISTRATION STRATEGY REPORT	**NOT COMPLIANT** No details of employer service standards and performance. [N.B. Although referred to in policy documents, I am unable to find the strategy document on the website (a point I made last year)

H: FUNDING STRATEGY STATEMENT	**COMPLIANT** It is suggested that a commentary should highlight any changes during the year.

I: STATEMENT OF INVESTMENT PRINCIPLES	**COMPLIANT**

J: COMMUNICATIONS POLICY STATEMENT	**COMPLIANT** It is suggested that a commentary is given about implementation

K: ANY OTHER APPROPRIATE MATERIAL	**PARTLY COMPLIANT** No information on the role played by auditors in providing assurance, exercise of employer discretions, or a glossary.
	The guidance also refers to some specific requirements in relation to numbers of employers, analysis of fund assets and investment income, and the tabulated form which will need to be reviewed.

Options for separation of host authority and pension fund

Proposal for assistance
Introduction
The LGPS Scheme Advisory Board (The Board) is established under the Public Service Pensions Act 2013 to advise the Secretary of State for Communities and Local Government on the development of the Local Government Pension Scheme.

In support of its work plan for 2015-16, the Board is inviting proposals from interested parties to assist it in developing options with regard to the increased separation of LGPS pension funds and their host authorities for consideration prior to potentially making recommendations to the Secretary of State.

The work
The work required is to develop the options set out in the annex to these instructions in the form of a report to be presented to the Board.

For each option the successful organisation will be required to produce a comprehensive review to include a detailed description of:

1. The end position together with the steps required to reach that position

2. The impact (positive and negative) on the accountability of the scheme manager to
    - Scheme members
    - Scheme employers
    - Local taxpayers

3. The impact (positive and negative) on
    - Compliance with the IORP and in particular articles 8 and 18
    - Conflicts of interest between the scheme manger and the host authority

4. The impact (positive and negative) on financial transparency, in particular
    - Production of comprehensive and clear accounts
    - Dedication of resources
    - Management and administration costs
    - Investment costs

5. The ease or complication of the legislative requirements to implement the option, in particular the need for new or amended
    - Primary legislation
    - Secondary legislation
    - Statutory guidance
    - Third party (e.g. CIPFA) codes of practice/guidance

6. The impact (positive and negative) on management costs and funding or investment costs including:-
    - Set up costs
    - Ongoing costs

7. The impact (positive and negative) on service delivery to stakeholders including
    - Scheme members
    - Scheme employers
    - Third parties (e.g. TPR, HMRC)

ANNEX 1 Options for reform

The Current Position
Whilst the LGPS in England and Wales is one scheme, it is comprised of 88 different administering authorities. The size of the funds varies widely, as do the arrangements for its management. In some instances, pensions operations are integrated within the HR and Finance functions of the relevant administering authority; in others, discrete pensions units have been created to take on the task.

Each Administering Authority (as defined in Part 1 of Schedule 3 of the LGPS Regulations 2013) is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law requirements. However some Administering Authorities are not local authorities such as the Environment Agency, the London Pensions Fund Authority and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.

There are diverse approaches to how each LGPS Fund operates. In some instances, two or more Administering Authorities may share their administration function, for example through a shared service arrangement, or in other ways. However, where this happens each local authority still retains its own individual Administering Authority status and therefore legal responsibility for its own Fund.

In practice decisions about pensions are delegated by the Administering Authority in accordance with Section 101 of the 1972 Act to:
- Committees or sub-committees made up of councillors from all the political groups and will be politically balanced; or
- Officers.

The delegation of pension functions varies from Administering Authority to Administering Authority depending on local circumstances. The Regulations require an Administering Authority's governance compliance statement to set out whether the Authority delegates its functions and the detail of the delegation given.

In addition there are specific legal requirements (as well as precedent through case law and statutory guidance) for the Section 151 officer or the Chief Financial Officer relating to the LGPS. These existing requirements are further elaborated upon in the details under option 1 below (Stronger role for Section 151 Officer).

The following options each seek to improve the governance of pension funds by increasing the degree of separation between the scheme manager function (the management and administration of the scheme and the local fund) and the host authority.

Option 1 - Stronger role for Section 151 Officer within a distinct entity of the host authority

Primary recommendations

- Separation of financial statements and audit arrangements
- Pension fund-specific annual governance statement
- Specific delegations or require a senior officer to lead the function
- Group the responsibility for all LGPS related activities within one function.

Brief description of option

Separate accounts

At present, regulations require that LGPS fund financial statements be incorporated with the financial statements of the administering authority. This option proposes amending the Accounts and Audit Regulations to require LGPS administering authorities prepare the pension fund financial statements as a discrete financial report outside of the host authorities' accounts.

This option would necessitate the setting of separate budgets for all pension fund related activities together with separate audit arrangements for the pension fund.

Pension fund-specific annual governance statement

Regulation 4(3) of the Accounts and Audit Regulations 2011 requires that a local authority produce an annual governance statement (AGS) to accompany its financial statements, which reports on the effectiveness of its systems of internal control. This option proposes a requirement for a separate AGS for the pension fund.

Specific delegations or separate senior officer role

This option envisages either

1. Use of delegation to move some or all pension fund-related finance responsibilities from the section 151 officer to another, whilst maintaining the required oversight and control or

2. Requiring the host authority to create a dedicated senior officer position to take on all responsibilities for pension fund-related responsibilities

Either of the above officers would then be responsible for the separate dedicated unit described below.

One function led by a senior officer

Under this option each host authority would be required to group all LGPS related activities within one discrete organisational unit. Currently the arrangement of how LGPS activities are managed is determined by individual administering authorities. The result is a variety of outcomes ranging from the diverse to the distinct.

Option 2 - Joint Committee of two or more administering authorities

Primary recommendations

- Delegation of full scheme manager function and all decision making to a section 102(5) joint committee
- Employment of staff and contractual issues dealt with through lead authority or wholly owned company
- Ownership of assets unchanged
- Consideration be given to enshrining the structure in legislation in the form of a combined authority

Brief description of option: Under this option each of the LGPS administering authorities involved would delegate the function of scheme manager in its entirety to a joint committee under Section 102(5) of the Local Government Act 1972 (Part 2 paragraph 5).

The joint committee will then be responsible for all decisions relating to the management and administration of the scheme including asset allocation, manager selection, administering authority discretions, provision of administration services, appointment of advisors and procurement of related services (e.g. actuarial, legal and custodial).

The constitution of the joint committee would need to be contained in a formal agreement entered into by the authorities. The joint committee as constituted would not be a separate legal entity therefore it cannot own assets, have liabilities, raise taxes, enter into contracts or employ staff. The ownership of assets (administering authority) and responsibility for meeting liabilities (employers) would not change.

Employment of staff, entering into contacts and other operational matters would be delivered via a lead authority using a LG Act 1972 Section 113 agreement or an arrangement under the Good and Services Act 1970. Alternatively the authorities could create a jointly owned and controlled company to perform this function.

Giving the structure a legal identity

Consideration in this option will need to be given to giving the joint committee a legal identity (therefore avoiding the need for a lead authority or jointly owned company) by the creation of a combined authority similar to those in place for transport and planning. Such a combined authority would also be able to employ the necessary staff, enter into contracts and deliver all aspects of the function by utilising existing local government legislation.

The combined authority would become the scheme manager responsible for the management and administration of the scheme in relation to the group of employers assigned to it. The assets and liabilities of existing scheme manager/s would need to be transferred to the combined authority base.

Option 3 - LGPS complete separation of the pension fund from the host authority

Primary recommendations

- DCLG or Treasury to create single purpose Pensions Bodies
- Remove decision making from elected members

DCLG or Treasury to create Pensions Authorities

This option proposes that a government department creates pension bodies to take over the role of scheme managers within the LGPS. Unlike option 2 (combined authorities) these bodies would not be local authorities but could still exist in the public sector.
They would be designed to comply fully with the IORP (articles 8 and 18) in the same manner as private sector trust based pension institutions are obliged to. The bodies would have Boards that include employer and member representation with the same or similar make up as pension institutions in the private sector.

Existing administering authority staff wholly or mainly dedicated to LGPS scheme manager activities would transfer to the new bodies which would have constitutions making them to be responsible for

1. Administering the pension scheme in the most efficient and cost effective way possible

2. Collecting the required contributions from employers and members

3. Ensuring assets are invested in the best interests of members and beneficiaries, and in the event of a conflict of interest the institution must ensure that investments are made in the sole interest of members and beneficiaries

4. Paying benefits as and when they fall due

The option also seeks to ensure clear separation of pension fund monies from those of the host authority.

All of the assets and liabilities of the administering authority with regard to its function as an LGPS scheme manager would transfer to the new body

Remove decision making from elected members

This option seeks to remove the potential for conflict of interest between the host authority (sponsor) and the pension fund (institution) by removing the fund and placing it in a separate body with its own duties and interests that are solely aligned with those of the beneficiaries. Elected members of a current host authority may well be on the board of the new body but as employer representatives with no more or less say in the direction of investment policy than any other board member.

The option aims to remove any possibility of the host authority from taking decisions on investments which prefer its interests over the interests of the members of the LGPS or other employers in the fund.

Scheme Advisory Board Secretariat
16th June 2015

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

9 JULY 2015

BOND STRATEGY REVIEW

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To update Members on the progress of the review

1.2 To seek a decision from Members on rebalancing the allocation to bonds

2.0 BOND STRATEGY REVIEW – PROGRESS TO DATE

2.1 In early 2015 discussions took place between officers and advisers on the Fund's allocation to bonds. This included reviewing the Fund's managers and mandates, the complimentary characteristics of those mandates and their contribution to the overall strategy off the Fund.

2.2 On 21 May 2015 a Bond Strategy Workshop was held to consider:

1. is the current allocation to bonds (c.23%) appropriate
2. is the Committee happy with the overall structure of the bond portfolio and the allocation between the 3 managers
3. does the Committee have confidence in the current bond managers, both in terms of adding value to the Fund's strategy and in their ability to outperform going forward
4. does the Committee wish to change the structure and/or add new managers to the portfolio

2.3 The current allocation to bonds of 23% is approximately at the mid-point of the strategic asset allocation range of 15% - 30%. Members considered issues including liability matching, return expectations and interest rate forecasts and concluded that no changes were necessary at this time. However all issues, including the strategic asset allocation, may be revisited as the review draws to a close.

2.4 The corporate bond portfolio managed by ECM was discussed, including the cash benchmark and it was agreed that no immediate changes were necessary.

2.5 The liability matching characteristics of the returns provided by M&G and Amundi were considered, as were the contrasting underlying investments. The only short term change discussed was with regard to the allocation between these two managers.
The present allocation places a greater dependence upon Amundi as it manages £250m (10.6%) and M&G £170m (7.2%). It was agreed that consideration should be given to changing the allocations in order that both Amundi and M&G each manage approximately £210m (8.9%).

2.6 Members expressed an interest in exploring alternative bond and other fixed income strategies so it was agreed that a second Bond Workshop would be arranged. On 9 July 2015, immediately following the PFC meeting, a workshop will take place and will include presentations from M&G on Multi-Asset Credit and from BNY Mellon on European Direct Lending.

3.0 **RECOMMENDATIONS**

3.1 Members to agree a reallocation of £40m from Amundi to M&G so as to provide each manager with a total allocation of £210m (8.9%).

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources
County Hall
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1 July 2015