

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

17 SEPTEMBER 2015

ANNUAL REPORT 2014/15

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To receive the Annual Report (ex-appendices) for the financial year 2014/15.
- 1.2 To approve a Letter of Representation that is required to be submitted to the External Auditor.

2.0 ANNUAL REPORT

- 2.1 The Annual Report for 2014/15 is attached as **Appendix 1**, excluding certain appendices, for the reasons set out in the table below:

Annual Report Appendix	Document	Details
A	Statement of Final Accounts 2014/15	Draft approved by the PFC 9 July 2015, see paragraph 2.2
B	Auditors Report	Not yet available
C	Statement of Investment Principles	Approved by the PFC 9 July 2015
D	Governance Compliance Statement	Approved by the PFC 9 July 2015
E	Funding Strategy Statement	Approved by the PFC 9 July 2015
F	Communications Policy Statement	Approved by the PFC 9 July 2015
G	Actuarial Rates & Adjustment Certificate	Approved by the PFC 20 February 2014 as part of the Triennial Valuation process
H	Pensions Administration Strategy	Approved by the PFC 9 July 2015

- 2.2 At the PFC meeting on 9 July 2015 it was acknowledged that there may be changes to the draft Accounts arising from the audit process. A small number of adjustments were made and the net effect is a reduction in Net Assets by approximately £1m. In addition, three “uncorrected misstatements” were identified in Deloitte’s draft Audit Report to the Audit Committee with a net value of £5.3m. £5.9m was due to the timing of pricing information used to value the underlying assets within pooled funds on the last day of the financial year, and £(0.6m) on year-end estimates of benefit payments. The materiality threshold was £24m. The final version of the Deloitte

report, which describes the approach to the audit and identifies the key areas of risk as well as making a number of comments and observations resulting from issues arising throughout the audit process, will be circulated to Members once available.

2.3 The Fund's auditor Deloitte LLP has advised informally that it will give an unqualified opinion of the Annual Report, subject to no material issues being identified before the audit process is completed. It is intended that a full version of this 104 page document, including appendices, will be signed at the Audit Committee meeting on 24 September 2015.

2.4 The Annual Report will be placed on the NYPF website by the deadline for publication of the 2014/15 Statement of Final Accounts of 30 September 2015.

3.0 **LETTER OF REPRESENTATION**

3.1 A Management Letter of Representation to Deloitte must accompany the Annual Report. This document is a written representation from management acknowledging its responsibility for the fair presentation of the Annual Report and as audit evidence on matters material to the financial statements when other sufficient appropriate evidence cannot reasonably be expected to exist.

3.2 Deloitte has therefore requested that this Letter should be discussed and agreed by the PFC and then signed on their behalf by the Chairman. This is to ensure that Members of this Committee are aware of the representations on which Deloitte intends to rely when issuing the opinion.

3.3 This Letter, the text of which is not expected to be significantly different from last year, will be circulated to Members in advance of the meeting.

3.4 Members are therefore asked to consider and approve this Letter and then authorise the Chairman to sign it on their behalf. The Letter will be countersigned by the Treasurer on the day of the Audit Committee meeting before its submission to Deloitte.

4.0 **RECOMMENDATIONS**

4.1 Members are to note the Annual Report 2014/15 (ex-appendices).

4.2 Members to approve the Letter of Representation and authorise the Chairman sign it on their behalf.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

9 September 2015



North

Yorkshire County Council

North Yorkshire Pension Fund

Annual Report and Accounts
2014/15



CONTENTS

	Item	Page No
PART 1	MANAGEMENT AND FINANCIAL PERFORMANCE	3
PART 2	SCHEME ADMINISTRATION	6
PART 3	INVESTMENT POLICY AND PERFORMANCE	9
PART 4	PENSION ADMINISTRATION ACTIVITY	14
PART 5	MEMBERSHIP CONTRIBUTIONS AND SCHEME BENEFITS	16
PART 6	GOVERNANCE DOCUMENTATION	22
PART 7	TRAINING	24
PART 8	GLOSSARY AND CONTACT DETAILS	25
Appendices		
Appendix A	Statement of Financial Accounts 2014/15	28
Appendix B	Auditors Report	52
Appendix C	Statement of Investment Principles	56
Appendix D	Governance Compliance Statement	62
Appendix E	Funding Strategy Statement	71
Appendix F	Communications Policy Statement	90
Appendix G	Actuarial Rates and Adjustment Certificate	96
Appendix H	Pensions Administration Strategy	97

PART 1 – MANAGEMENT AND FINANCIAL PERFORMANCE

1.1 Introduction

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

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area. The regulations also specify the member contribution rates as a percentage of pensionable pay, with employer contribution rates being set every three years by the Fund's Actuary. These contributions are supplemented by earnings on the Fund's investments in order to pay retirement benefits.

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

1.2 Pension Fund Committee

PFC membership as at 31 March 2015 was as follows:

Members	Position	Voting Rights
John Weighell (Chairman)	Councillor, NYCC	Yes
Roger Harrison-Topham (Vice-Chairman)	Councillor, NYCC	Yes
Bernard Bateman MBE	Councillor, NYCC	Yes
John Blackie	Councillor, NYCC	Yes
Margaret-Ann deCoursey-Bayley	Councillor, NYCC	Yes
Patrick Mulligan	Councillor, NYCC	Yes
Helen Swiers	Councillor, NYCC	Yes
Jim Clark	Councillor, District Councils' representative of Local Government North Yorkshire and York	Yes
Dafydd Williams (replaced by Chris Steward 7/5/2015)	Councillor, City of York Council	Yes
Sam Cross (resigned 13/5/2015 – (position vacant))	Councillor, NYCC	Yes
Chairman of the NYPF Advisory Panel (replaced by Chairman of the Pension Board 30/7/2015)	Councillor, Hambleton District Council and NYPF Advisory Panel representative	No
3 Unison representatives	Union Officials	No

The powers delegated to the PFC are detailed in paragraph 2.1 of the Governance Compliance Statement (Appendix D).

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

1.3 Fund Administrators, Advisers and Investment Managers

Treasurer	Gary Fielding
Investment Consultant	Aon Hewitt
Independent Investment Adviser	Carolán Dobson (Investment Adviser & Trustee Services)
Independent Professional Observer	Peter Scales (AllenbridgeEpic)
Actuary	Mercer (replaced by Aon from 1 June 2015)
Legal Services	Ward Hadaway Head of Legal Services, NYCC
Auditor	Deloitte
Banker	Barclays Bank
Custodian	Bank of New York Mellon
Custodian Monitoring	Thomas Murray
Shareholder Voting	PIRC
Performance Measurement	BNY Mellon Asset Servicing
Fund Managers	Amundi Asset Management Baillie Gifford Life Dodge & Cox (appointed 17 April 2015) ECM Asset Management FIL Pensions Management Hermes Investment Management Legal & General Investment Management M&G Investment Management Newton Investment Management Standard Life Pension Funds Threadneedle Pensions Veritas (appointed 17 April 2015) YFM Venture Finance
AVC Provider	Prudential

1.4 Risk Management

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

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

In addition, the approach to managing third party risk such as late payment on contributions is contained in the Pension Administration Strategy (Appendix H). Contributions received from employers are monitored, and the date of receipts is recorded and action is taken for late payments. A penalty system is applicable for employers failing to meet the required deadlines. For persistent material breaches of this protocol, the employer would be reported to the Pensions Regulator.

Further detail about how the Fund manages other risks can be found in **Note 17 Nature and Extent of Risks Arising from Financial Instruments** in the Statement of Accounts in Appendix A.

PART 2 – SCHEME ADMINISTRATION

2.1 Administering Authority Arrangements

The Fund's administration is the responsibility of Gary Fielding, the Treasurer, who is supported by Tom Morrison, Head of Commercial & Investments.

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

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

2.2 Disputes Process

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

However as part of the Pension Section's customer care policy all questions raised are dealt with via an internal process with the aim of resolving issues to the satisfaction of the Scheme member as quickly as possible. In 2014/15 only one case was received against the Pension Fund via the IDRP process and the outcome was in favour of the Pension Fund, confirming that regulatory requirements have been followed and the appropriate action had been taken.

2.3 Pensions Administration

The introduction of the LGPS 2014 has made it more important than ever that the relationships between the Pension Fund and Scheme employers are strengthened, and that clear guidelines are provided on the respective roles under the Scheme. The data requirements have become far more complex under the LGPS since April 2014 and it has been necessary to provide additional information alongside the Pensions Administration Strategy document to ensure that Scheme employers understand the revised responsibilities. The Pension Fund strives to support employers in carrying out their function under the Scheme with a number of methods being offered for employers to obtain guidance and information, including 'hands on' training sessions on dedicated areas such as year-end. The focus on training in the year has been on both Pensions Section staff and Scheme employers as it has been recognised that the employer role in providing effective

administration is now an essential element as there is far less opportunity for the Pension Fund to recognise and resolve discrepancies under the Career Average Scheme. Much work has been done to encourage employers to capture data accurately via electronic methods including a move to quarterly data collection for some employers and it is encouraging that despite setbacks relating to payroll system specifications employers have worked hard to meet their responsibilities.

The Pension Fund continues to utilise a range of modules offered by the software provider Heywood in order to provide effective administration, communicate with employers and members electronically, and provide a self-service function for members.

2.4 Member Self-Service (MSS)

This is a web-based self-service facility which allows members to update their details and perform calculations. This facility has also been used to allow electronic communication with members for the retirement and estimates process. As at 31 March 2015 there were 8,683 registered users.

A small number of staff from employers within the fund have direct upload access to the pensions database (with access to their employees only). This allows them to carry out basic pensions administration processes (creating new starter records, updating hours and personal information) and upload associated documents. Work is monitored via a 'task' which is created on the member record by the employer detailing what they have done. All changes can be tracked through an Audit report which is run by the NYPF Systems team.

2.5 Electronic Annual Benefit Statements

Active and deferred Scheme members may view their Annual Benefit Statement online. The majority representing 98% of all statements are delivered in this way with only 935 being posted to members in 2014/15.

2.6 NYPF Website

All essential information and guides are held on the website along with links to further national guidance. Employees and employers are able to use the website to refer questions to a generic Pensions Inbox which is specifically resourced each day to provide a speedy response to member and employer queries. An 'Employers Only' area provides a central location to access forms and guides with the facility to securely submit forms electronically.

2.7 Data Quality

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

PART 3– INVESTMENT POLICY AND PERFORMANCE

3.1. Investment Policy

(a) Regulations

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

(b) Investment Management arrangements

As at 31 March 2015 the following investment management arrangements were in place.

- ➔ Baillie Gifford managed two active global (ie including UK) equity portfolios, namely Global Alpha and Long Term Global Growth (LTGG). Each of these portfolios is in the form of a pooled vehicle, rather than being invested in segregated holdings. Both are managed without reference to a benchmark, however the FTSE All World index is used for performance measurement purposes
- ➔ Fidelity managed an active overseas equities (ex UK) portfolio comprising segregated holdings in overseas companies against a composite MSCI World (ex UK) index
- ➔ Standard Life managed an active UK equity portfolio comprising segregated holdings in UK companies against the FTSE 350 (excluding investment trusts) equally weighted index
- ➔ Amundi managed an active global fixed income portfolio through a pooled fund, against the “least risk” benchmark of index linked and fixed interest gilts
- ➔ ECM managed an active European corporate bond portfolio through a pooled fund on an absolute return basis, using 1-month LIBOR for performance measurement purposes
- ➔ M&G managed an active Gilts portfolio comprising segregated fixed income and index linked holdings, against the “least risk” benchmark
- ➔ Hermes managed an active UK Property portfolio through a pooled fund with the objective of outperforming the retail price index (RPI)
- ➔ Threadneedle and Legal & General both managed active UK Property portfolios during the year through pooled funds with the objective of outperforming RPI
- ➔ Standard Life and Newton both managed Diversified Growth Fund portfolios during the year through the Global Absolute Return Strategy (GARS) and Real Return (RR) pooled funds respectively, with the objectives of significantly outperforming the cash benchmark

The Fund also has a small investment in the Yorkshire & Humber Equity Fund. The residual cost of this investment at the year-end was £0.08m.

The agreed asset class structure for the investment portfolio as at 31 March 2015 was as follows:-

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

(c) Custody of Investments

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

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

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

3.2 Performance

(a) Fund and Manager Performance

Fund performance is measured and assessed on a quarterly basis primarily by Mellon Analytical Services (MAS), a division of BNY Mellon. A second tier of analysis is provided by State Street Global Services for the purpose of assessing comparisons with the Local Authority Universe which comprises performance data of the vast majority other local authority pension funds. Performance of the Fund and individual managers is assessed relative to the defined benchmarks specified by the PFC.

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

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

Performance for the year was +15.9% compared to the benchmark return of +14.3% and the local authority average (as measured by State Street) of +13.2%. Performance for the North Yorkshire Pension Fund compared with the benchmark for 5 Years is shown below.

Periodic Performance	1 Year	5 Years (p.a.)
North Yorkshire Pension Fund	15.9%	11.2%
Benchmark	14.3%	10.1%
Performance against benchmark	+1.6%	+1.1%

For the year ending 31 March 2015, NYPF was ranked 10th of out 100 Local Authorities within the State Street Universe. For the 5 year period to 31 March 2015 NYPF was ranked 14th.

The performance of the Fund as a whole and of the individual fund managers for the year to 31 March 2015 compared with their defined benchmarks is shown in the following table:

Fund Manager	Share of Fund @ March 2015	Fund Performance	Customised Benchmark	+/-
	%	%	%	%
Baillie Gifford Life Ltd - Global Alpha	17.2	19.4	19.2	0.2
Baillie Gifford Life Ltd - LTGG	11.4	27.5	19.2	8.3
Fidelity International	17.9	17.9	16.0	1.9
Standard Life Investments - Equities	14.9	1.7	6.3	-4.6
ECM Asset Management	5.4	3.4	0.5	2.9
Amundi Asset Management	10.6	25.7	27.9	-2.2
M&G Investment Management Ltd	7.2	29.0	27.9	1.1
Hermes Investment Management Ltd	1.2	18.8	8.8	10.0
Legal & General	2.3	12.3	8.7	3.6
Threadneedle	2.8	18.1	8.7	9.4
Standard Life (GARS)	3.8	10.1	0.5	9.6
Newton Investments (RR)	4.5	6.3	0.5	5.8
Internally Managed Cash	0.8	0.8	0.4	0.4
Total Fund	100.0	15.9	14.3	1.6

(b) **Analysis of Accounts**

The Statement of Accounts for the year 2014/15 is shown at Appendix A.

The value of the Fund's assets at 31 March 2014 was £2,083m, and this increased by £317m during the year to give a value of £2,400m at 31 March 2015.

Analysis of Fund Account over three years to 2014/15

	2014/15 £000	2013/14 £000	2012/13 £000
Net additions/(withdrawals) from dealings with members	(8,299)	26,665	19,893
Net investment return	16,610	17,059	18,071
Change in market value of investments	308,342	198,759	237,204
Net increase/(decrease) in the Fund	316,653	242,483	275,168

Analysis of Net Asset Statement over three years to 2014/15

	2014/15 £000	2013/14 £000	2012/13 £000
Fixed Interest Securities	161,287	71,424	72,005
Equities	701,918	742,593	622,265
Pooled Funds	1,335,586	1,141,317	1,059,513
Pooled Property	150,011	98,592	66,982
Private Equity	82	258	478
Cash Deposits	27,437	12,185	8,427
Other	4,204	3,158	(542)
Total Investment Assets	2,380,525	2,069,527	1,829,128

Current Assets and Current Liabilities	19,344	13,689	11,605
Net Assets of the Fund	2,399,869	2,083,216	1,840,733

(c) Accounting and Cash Flow

Prior to the start of the 2014/15 financial year, a Budget was prepared for NYPF which expressed the expected levels of expenditure (ie pensions, lump sums, administrative expenses) and income (ie employees and employers' contributions, net transfer values in, early retirement costs recharged). The Budget was monitored at each subsequent quarterly PFC meeting, and revised as necessary to take into account the latest projections.

The revised Budget for 2014/15 forecast a net cash surplus of £8.9m. The actual surplus for the year was £20.7m, resulting in an overall cash flow of £11.8m above expectations.

	Budget 2014/15 £m	Actual Income / Expenditure £m	Variance £m
Expenditure			
Benefits	96.0	92.5	-3.5
Administration	1.5	1.5	0
Investment Expenses	4.6	5.5	0.9
Total Expenditure	102.1	99.5	2.6
Income			
Employer and Employee contributions	108.0	120.5	12.5
Transfers	3.0	-0.3	-3.3
Total Income	111.0	120.2	9.2
Net Surplus	8.9	20.7	11.8

The main reasons for the variances were:

- the impact of local government austerity was less than expected in terms of the timing of early retirements and lump sum payments as well as on contribution payments
- outstanding investment performance resulted in higher than anticipated management and performance fees

- one of the Fund's employers paid an additional £8.3m deficit contribution on the last day of the financial year

This analysis of expenditure was reported to the PFC as part of the quarterly Fund management arrangements and has been analysed differently in the Statement of Accounts to comply with accounting requirements and guidance. It also excludes the bulk transfer of Probation members to Greater Manchester Pension Fund during the year (£33.8m).

PART 4 – PENSION ADMINISTRATION ACTIVITY

The number of staff (in FTE terms) at the Council involved in Pension Administration was 24.

(a) Key Performance Indicators

The Local Government Pensions Committee has defined a range of performance indicators through which Pension Funds can be compared. NYPF's performance in these areas for the year to 31 March 2015 is shown below.

Performance Indicator	LGPC Target	Achieved (%)
Letter detailing transfer <i>in</i> quote	10 days	95
Letter detailing transfer <i>out</i> quote	10 days	100
Process and pay refund	5 days	95
Letter notifying estimate of retirement benefits	10 days	95
Letter notifying actual retirement benefits	5 days	100
Process and pay lump sum retirement grant	5 days	100
Initial letter acknowledging death of active/deferred/pensioner member	5 days	87
Letter notifying amount of dependant's benefits	5 days	87
Calculate and notify deferred benefits	10 days	75

(b) Benefit Calculation Activity

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

Task	Number
Retirements	1918
Transfers In	145
Refunds	274
Frozen Refunds	230
Preserved Benefits	2867
AVCs/ARCs	11
Divorce cases	202
Deaths in Service	29
Deaths of Pensioners	503

(c) Administration

The total numbers of joiners and leavers during 2014/15 were:

Joining	7,299
Retiring	1,447
Deaths	571
Other Leavers	3,292

The performance and activity reflect the efforts the Pension Administration team goes to in providing a first class service to the Fund membership. NYPF is one of the leaders across LGPS administering authorities in terms of communication initiatives and innovative use of technology. Examples of this over 2014/15 include:

- Maintaining the drive to encourage the use of the improved NYPF website to carry out 'self-service' calculations, building in the LGPS 2014 changes, and making use of the information on the website
- Developing an on-line version of the feedback form completed by leavers going through the retirement process
- Running extra 'NYPFOG' employer workshop events, at which employers were more involved in actively sharing and discussing their experience with LGPS 2014 and learning from each other
- Working with employers to communicate key messages to Fund members in their employment via their internal emailing facilities, chief officer messages and their e-magazines
- Tailoring 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

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

PART 5 – MEMBERSHIP CONTRIBUTIONS AND SCHEME BENEFITS

5.1 Membership

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

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

Employees therefore have various options:-

- to be a member of the NYPF
- to be part of the State Second Pension Scheme, or
- to purchase a personal pension plan or a stakeholder pension managed by a private sector company.

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

Membership Type	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Current Contributors	29,295	27,770	29,036	31,501	35,056
Deferred Pensions	23,800	25,534	27,503	29,490	30,591
Pensioners receiving Benefits	14,888	15,839	16,755	17,668	18,444

5.2 Contributions

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

The total contributions received for 2014/15 were £120m, and North Yorkshire County Council being the main employer in the Fund contributed £48m.

5.3 Employer Analysis

At 31 March 2015 there were 107 contributing employer organisations within NYPF including the County Council itself. Full details of all employers can be found in the Statement of Accounts (Appendix A). The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled	62	15	77
Admitted Body	45	0	45
Total	107	15	122

5.4 Employee Rates

For employee contributions a banded structure has been in place from April 2008 linked to the rate of pensionable pay a member receives. The band ranges were updated in April 2014 as follows:

Band	Range	Contribution rate
1	£0 to £13,500	5.5%
2	£13,501 to £21,000	5.8%
3	£21,001 to £34,000	6.5%
4	£34,001 to £43,000	6.8%
5	£43,001 to £60,000	8.5%
6	£60,001 to £85,000	9.9%
7	£85,001 to £100,000	10.5%
8	£100,001 - £150,000	11.4%
9	Over £150,000	12.5%

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

Employers' contributions are determined in a cycle every three years by a Triennial Valuation. The Valuation assesses the contributions required to meet the cost of pension benefits payable as they are earned, as well as additional contributions employers may be required to pay to address any deficit relating to previous years. Further details, including a list of each employer's minimum contributions following the 2013 Valuation for the financial years 2014/15, 2015/16 and 2016/17 are shown at

https://www.nypf.org.uk/Documents/Triennial_Valuation_Report_March_2013.pdf

5.5 Scheme Benefits

The LGPS is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the Local Government Pension Scheme for Employees in England and Wales*, can be obtained by contacting the Pensions Administration section at County Hall, Northallerton, (telephone 01609 536335). Further information is available from the website www.nypf.org.uk

Normal Pension Age

The Normal Pension Age is a member's State Pension Age for both men and women (earlier voluntary retirement allowed from age 55 but benefits are reduced if minimum service conditions are not met). However, some members have a protected Normal Pension Age of 65 years.

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

Pension (Normal)

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

For membership up to 31 March 2014 benefits are worked out on a 'final salary' basis. A normal pension is based on the average pensionable pay for the last year of service, or the better of the two previous years, if this gives a higher figure. Also, applicable from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any 3 consecutive years in the last 13 years. Pensions are calculated on a fraction of $1/80^{\text{th}}$ for each year of membership of the scheme for service up to 31 March 2008 and on $1/60^{\text{th}}$ for service after 1 April 2008.

Pension (Ill Health)

An ill health pension is based on average pensionable pay for the last year of service and a split of the 80^{ths} and 60^{ths} accrual for membership up to 31 March 2014 as above. A pension of $1/49^{\text{th}}$ of pensionable pay applies for membership from 1 April 2014 onwards. There are three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

- First Tier: If there is no reasonable prospect of being capable of gainful employment before Normal Pension Age the employee's LGPS pension is enhanced by 100% of the remaining potential pension to Normal Pension Age based on $1/49^{\text{th}}$ of an 'Assumed Pensionable Pay' figure which is a calculation of the pensionable pay on a prescribed basis for the period between the date of retirement and Normal Pension Age.
- Second Tier: If it is likely that the employee will be capable of undertaking any gainful employment before Normal Pension Age the employee's LGPS service is enhanced by 25% of the remaining potential pension to Normal Pension Age.
- Third Tier: If it is likely that the employee will be capable of undertaking any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years (though reviewed at 18 months to assess any improvement in the member's health).

Lump Sum Retirement Grant

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

Death Grant

(i) Death in Service

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

(ii) Death after Retirement

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

(iii) Death of a member with Preserved Benefits

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

Spouses, civil partners and nominated cohabiting partner's pension

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

Only members of the scheme, who were active after 31 March 2008, are able to name a cohabiting partner to receive their pension benefits.

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

Children's Pension

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

- Partner with one child:** Child's pension is $\frac{1}{320}$ th of member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age.
- Partner with more than one child:** Child's pension is $\frac{1}{160}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are entitled to equal shares.
- No partner and one child:** Child's pension is $\frac{1}{240}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th of the member's Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age.
- No partner & more than one child:** Child's pension is $\frac{1}{120}$ th of the member's service, multiplied by the pensionable pay plus a pension equal to $\frac{1}{160}$ th of the Assumed Pensionable Pay for each year of membership the member would have built up from the date of death to Normal Pension Age. The total children's pension payable is divided by the number of children who are entitled to equal shares.

Pension Increases

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

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by Her Majesty's Revenue & Customs (HMRC) which is the minimum pension which must be paid from NYPF to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will, in general, be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

AVCs

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

PART 6 – GOVERNANCE DOCUMENTATION

The main governance documentation is as follows:

- Statement of Investment Principles
- Governance Compliance Statement
- Funding Strategy Statement
- Communications Policy Statement
- Pension Administration Strategy

A short summary of each Statement is given below, and each full Statement is shown in the Appendices to this report.

(a) Statement of Investment Principles

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

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

(b) Governance Compliance Statement

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

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

(c) Funding Strategy Statement

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

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

In addition to this, the Funding Strategy Statement covers:

- responsibilities of the key parties
- solvency issues and target funding levels
- link to Investment Strategy set out in the Statement of Investment Principles
- identification of risks and counter measures
- method and assumptions and results of the 2013 Actuarial Valuation

A revised Funding Strategy Statement will be issued following the 2016 Actuarial Valuation.

(d) Communications Policy Statement

This statement sets out the communication strategy for communication with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities. The latest Communications Policy Statement is shown at Appendix F.

(e) Pension Administration Strategy

This document sets out the administration protocols that have been agreed between the Fund and its employers. It includes the responsibilities and duties of the Employer and NYPF, performance levels, and communications. The latest Pension Administration Strategy is shown at Appendix H.

PART 7 – TRAINING

7.1 Public Sector Pensions – Finance Knowledge and Skills

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

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

7.2. Training for Pension Fund Committee Members and Officers

(i) Internal

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

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

(ii) Externally Provided

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

Events attended by PFC Members during 2014/15 were:

Event	Place	Date
LGC Investment Summit	Newport	09 – 10 September 2014
NAPF Annual Conference	Liverpool	15 – 17 October 2014
LGPF Investment Forum	London	22 October 2014
NAPF Annual Conference	Edinburgh	11 – 13 March 2015

PART 8 – GLOSSARY AND CONTACT DETAILS

ACTIVE MEMBER:

Current employee who is contributing to a pension scheme.

ACTUARY:

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC):

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

ADMINISTERING AUTHORITY:

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

ADMITTED BODY:

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

ASSET ALLOCATION:

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

BENCHMARK:

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

CARE (Career Average Revalued Earnings)

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

DEFERRED MEMBERS:

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

DEFINED BENEFIT SCHEME:

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DIVERSIFIED GROWTH FUNDS (DGF):

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

EMPLOYER CONTRIBUTION RATES:

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

EQUITIES:

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

FIXED INTEREST SECURITIES:

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

INDEX:

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

POOLED FUNDS:

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

RETURN:

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

SCHEDULED BODY:

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

THE PENSIONS ADVISORY SERVICE (TPAS)

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

UNREALISED GAINS/LOSSES:

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

Contact Information

North Yorkshire Pension Fund

County Hall
Northallerton
North Yorkshire
DL7 8AL

Telephone: Pensions Help & Information Line on 01609 536335

Email: pensions@northyorks.gov.uk

website: www.nypf.org.uk

The Pensions Advisory Service (TPAS)

TPAS
11 Belgrave Road
London
SW1V 1RB

Telephone: The Pensions Helpline: 0845 601 2923

Email: enquiries@pensionsadvisoryservice.org.uk.

website: www.pensionsadvisoryservice.org.uk