

## Agenda

**Meeting: Pension Fund Committee**

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

**Date: Thursday 7 July 2016 at 10.00am**

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### Business

- 1. Exclusion of the Public and Press** – To consider the exclusion of the public and press from the meeting during consideration of Appendix 1 of item 7, and items 8 and 9 on the agenda on the grounds that these involve the likely disclosure of exempt information as defined in paragraph 5 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information)(Variation) Order 2006
- 2. Minutes of the Meeting held on 19 May 2016.** **(Pages 5 to 11)**
- 3. Declarations of Interest**
- 4. Public Questions or Statements.**

Members of the public may ask questions or make statements at this meeting if they have given notice to Steve Loach of Democratic Services (contact details below) by midday Monday 4<sup>th</sup> July 2016, 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.

5. **Statement of Final Accounts 2015/16 - Report of the Treasurer** (Pages 12 to 36)
6. **Governance Arrangements – Report of the Treasurer** (Pages 37 to 52)
7. **Pooling Arrangements- Report of the Treasurer** (Pages 53 to 142)
8. **Independent Advisor Procurement** (Verbal Report of the Treasurer)
9. **Threadneedle Investment** (Verbal Report of the Treasurer)
10. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances**

Barry Khan  
Assistant Chief Executive (Legal and Democratic Services)

County Hall  
Northallerton

#### **NOTES:**

##### **Emergency Procedures for Meetings**

###### **Fire**

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###### **Accident or Illness**

First Aid treatment can be obtained by telephoning Extension 7575.

# PENSION FUND COMMITTEE

## 1. Membership

<b>County Councillors (7)</b>							
	<i>Councillors Names</i>				<i>Political Party</i>		
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 OBE (Chairman)				Conservative		
<b>Members other than County Councillors (1 and 2) Voting (3) Non-voting</b>							
1	STEWARD, Chris				City of York		
2	CLARK, Jim				Local Government North Yorkshire and York		
3	PORTLOCK, David				Chair of the Pension Board		
<b>Total Membership – (10)</b>				<b>Quorum – (3) County Councillors</b>			
Con	Lib Dem	NY Ind	Labour	Liberal	UKIP	Ind	Other voting and non-voting Members
5	1	1	0	0	1	0	3

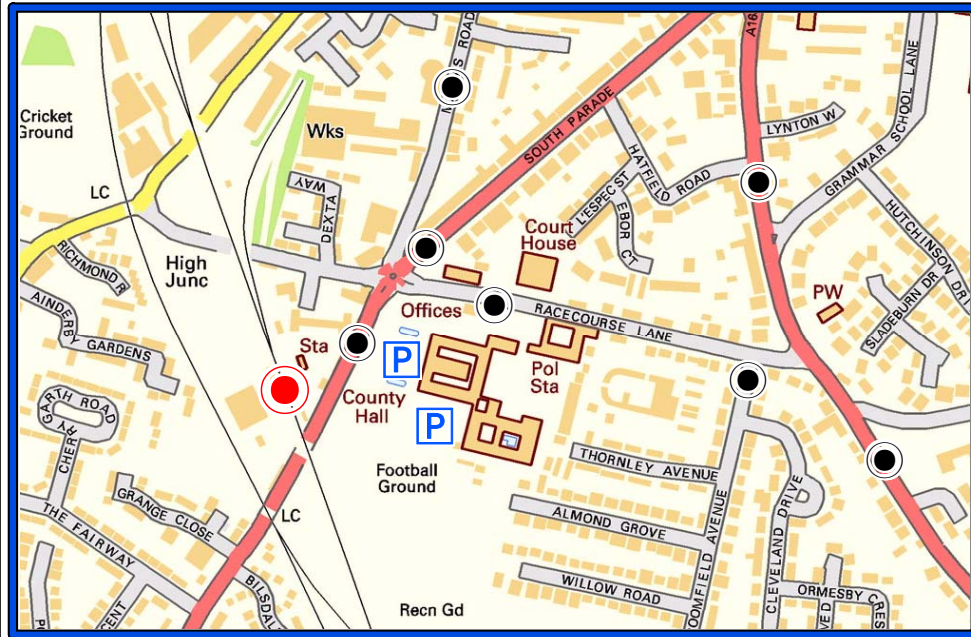
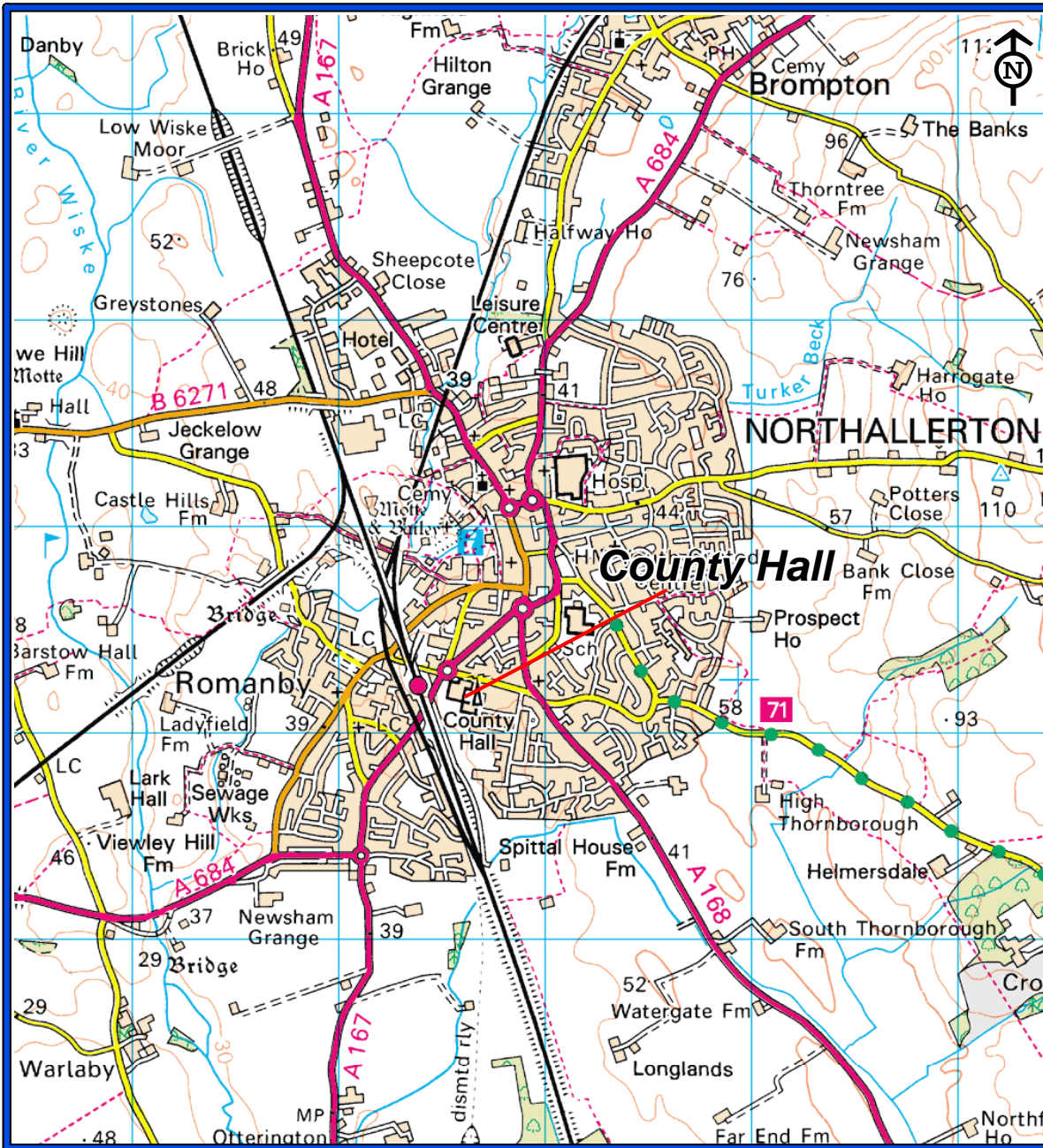
## 2. Substitute Members

<b>Conservative</b>		<b>Liberal Democrat</b>	
	<i>Councillors Names</i>		<i>Councillors Names</i>
1	PATMORE, Caroline	1	HOULT, Bill
2	LES, Carl	2	
3	MACKENZIE, DON	3	
4		4	
5		5	
<b>NY Independent</b>			
	<i>Councillors Names</i>		
1	PARSONS, Stuart		
2			
3			
4			
5			

## 1. Substitute Members

1	MERCER, Suzie	City of York
2	PEACOCK, Yvonne	Local Government North Yorkshire and York
3	COWLING, Linda	Local Government North Yorkshire and York





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DL7 8AD

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North  
Yorkshire County Council

## North Yorkshire County Council

### Pension Fund Committee

Minutes of the meeting held on 19 May 2016 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

County Councillors: John Weighell (Chairman), John Blackie, 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.

Councillor Chris Steward - City of York Council.

David Portlock - Chair of the Pension Board.

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

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**117. Exclusion of the Press and Public**

**Resolved –**

That the press and public be excluded from the meeting during consideration of Minute No. 121, below (in respect of Appendix 3) and Minute No. 125, in respect of Appendices 2, 3 and 4)

**118. Minutes**

**Resolved -**

That the Minutes of the meeting held on 25 February 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Matter Arising: Minute No. 112 Member and Employer Issues

A Member referred to the comment that concerns had been experienced by members of the Fund regarding the speed of processing certain ill health cases and the determination of pension benefits, and enquired if the situation had improved. The Treasurer advised that the cases in question were being assessed by the employers and their medical advisers, so individuals should pursue matters with their respective employers. When assessments have been completed, the Fund will be informed and will process the cases.

**119. Declarations of Interest**

County Councillors Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Patrick Mulligan and John Weighell; together with Councillor Jim Clark declared non-pecuniary interests in respect of them being Members of the Pension Scheme.

The Independent Advisor declared an interest as a Non-Executive Director of the London CIV and Chair of its Investment Sub Committee.

#### **120. Public Questions or Statements**

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

#### **121. Member and Employer Issues**

Considered -

The report of the Treasurer providing Members with information relating to membership movements, performance and costs of benefits administration as well as related events and activity over the year to date as follows:-

- (a) Admission Agreements.
- (b) Membership Analysis.
- (c) Administration performance.
- (d) Class Actions
- (e) Member training.
- (f) Meetings timetable.

With regard to Class Actions, the Treasurer reported that many are pursued, focussing on those where there is a reasonable prospect of recovery. He also commented that an increasing proportion of actions take place outside of the US, where the process is significantly more labour intensive.

In response to a query from a Member, the Treasurer confirmed that the dates referred to in Appendix 5 of the report for meetings of the Pension Fund Committee and Investment Manager Meeting should be 15 and 16 September 2016, respectively.

**Resolved -**

That the contents of the report be noted and any action identified be undertaken accordingly.

#### **122. Budget/Statistics**

Considered -

The report of the Treasurer reporting on the following:-

- (a) The expenditure/income position to date for 2015/16.
- (b) The cash deployment of the Fund.
- (c) The North Yorkshire Pension Fund staffing budget.

Looking at each of these in turn;



### 2015/16 Forecast

- The cash surplus for the year to 31 March 2016 of £6.5 million exceeded the budgeted figure by £1.1 million.
- Pensions payroll expenditure of £73.9 million was within £50k of the annual forecast, whilst Retirement Grant expenditure of £24.8 million was £1.2 million lower.
- Contributions income of £107.8 million represented a £0.1 million negative variance to the budget. Early retirement income exceeded the forecast by £40k.
- Transfer receipts of £7.1 million were £140k more than had been forecast, whilst outgoing payments of £4.4 million were lower than forecast by £580k.
- Transfer expenditure increased substantially in March 2016 as a result of the bulk payment of £502k to the London Pension Fund Authority.

### Cash Deployment in 2015/16

- Details of the cash deployment and rebalancing carried out during 2015/16 were provided. A sum of £3.8 million was available for rebalancing as a result.

### North Yorkshire Pension Fund staffing budget

- The cost of NYCC staff required to administer the fund, including overheads was met by the Fund.

The Treasurer advised Members that the work undertaken by the Pensions Administration Team was being managed within the current budget, which has periodically been adjusted to meet changing needs. Additional staff may be required assuming the Government's academisation programme goes ahead, however at this stage the pace of conversions is unclear. Members were, at this stage, asked to note the potential increase in the budget.

In addition, the Funds investment and accounting arrangements have become more complex and there is significant additional work for the Finance Team arising from the Local Government Pension Scheme pooling arrangements, requiring a revision to the budget for this team. The Treasurer stressed that the revision was to ensure the true cost of the work undertaken was met by the Fund.

In response to a question from a Member, the Treasurer confirmed that some investments would sit outside of the LGPS pools where it made economic sense.

A Member commented on the excellence of the Finance Team, which he felt was becoming stretched.

The Chairman stated that the amount of work on the financial side of the Fund was likely to be enormous over the next two years.

A Member queried why a request for additional budget would not take effect until 2017/2018 when some of the additional work was already happening now. The Treasurer suggested that the budget be allowed to overspend in 2016/17 rather than revise it.

**Resolved -**

That an increase of £123k in the staffing budget for Finance Team costs, effective from April 2017, be approved.

**123. Pension Board**

The draft Minutes of the meeting held on 14 April 2016 and the Board's Work Programme had been circulated with the Agenda papers for information.

The Chair of the Pension Board advised that the main topic of discussion had been pooling arrangements for the Local Government Pension Scheme.

**Resolved -**

That the Minutes of the meeting of the Pension Board on 14 April 2016 and the Board's Work Programme be noted.

**124. Performance of the Fund's Portfolio**

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund and of the individual Fund Managers for the quarter to 31 March 2016.

The report highlighted the following issues:-

- ◆ The performance of the Fund.
- ◆ Individual Fund Managers performance.
- ◆ Risk indicators.
- ◆ Solvency position.
- ◆ Rebalancing.
- ◆ Proxy voting.

The Investment Adviser and Investment Consultants had provided separate reports.

The Investment Advisor made the following comments:-

- Baillie Gifford now managed approximately 30% of the Fund's portfolio. This was quite a high proportion and something that the Committee needed to be aware of.
- Markets were largely being contracted as a result of intervention by central banks.

A Member referred to the impact of the Referendum on Britain's Membership of the European Union and asked if discussions were held with Fund Managers about their strategy in this regard. The Treasurer advised that this could be picked up at a meeting with Fund Managers scheduled for 20 May 2016.

The Investment Consultant highlighted the following:-

- Bonds were at a peak and, in the short term, could fall.



- Equities were showing no significant growth.
- Property was performing well.
- He was happy with the shape of the portfolio, which remained robust.
- In terms of the referendum referred to above, we were starting to see some currency depreciation, which was unsurprising. This was double-edged, in that it benefited the Fund's equity investments. Generally, any uncertainty affects the confidence of the markets.
- There may be less demand for gilts. If there was deflation, gilts would rise in value so, again, the effect was double-edged.

The Independent Advisor said she had concerns about the impact of the referendum in that, in the short term, the wheels tend to grind to a halt and this distorted markets for investment.

A Member pointed out that in paragraph 7.1 of the Treasurer's report, the reference to rebalancing should read December 2015 and asked if the Committee should be concerned about the 6% decrease in the solvency rate. The Independent Advisor responded that Members were right to be concerned, but this issue was not within the Fund's control as it was largely driven by liability valuations. The expectation was that interest rates would eventually increase, which would help the funding position.

Members noted that the performance of Dodge Cox and Standard Life was below expectations, currently. Separate discussions would be held with these companies.

**Resolved -**

That the investment performance of the Fund for the first quarter report ending 31 March 2016 be noted.

**125. LGPS Pooling Arrangements**

Considered -

The report of the Treasurer which:-

- updated Members on progress towards the Government's announced intention to pool the assets of Local Government Pension Scheme funds; and
- sought their agreement to adopt the proposed governance arrangements for the thirteen members of the Border to Coast Pensions Partnership.

The Chairman advised that he had attended an initial meeting about the proposals on 15 April 2016. A second meeting, scheduled for 13 May 2016, had been cancelled and Councillor Harrison-Topham would be attending the next meeting on 6 June 2016 on behalf of the Chairman.

Members expressed some disquiet at the fact that the pooling of assets was being imposed. On balance, however, it was felt that, given the reality of the situation, every effort be made to push on with the arrangements and make them successful.

General Comments/Questions

- Whoever the Manager is will need to be a regulated entity, as the Fund will be giving investment instructions to the entity.

- A significant amount of responsibility passes to the new officer group.
- There is a need to be mindful of potential conflicts of interest. It is only when things go wrong that governance arrangements are really tested.
- Set up costs appear high. The Treasurer clarified that it is not an aspiration to spend all of this amount.
- What is the timescale for transition of funds? The Treasurer advised that the timetable for the transition of funds was from April 2018 but otherwise yet to be determined.
- Rules of engagement are required to give clarity as to how decisions are to be made.

#### Appendix 2

- Paragraph 3.3, regarding selection and appointment of external managers: Will the Pension Fund have any part to play in this? The Treasurer clarified that involvement would not be direct but, as one of the constituent organisations, this Pension Fund would contribute to determining the process/apparatus for appointments.
- Paragraphs 3.4, 3.5 and 14.2 (and anywhere else it may appear): a definition of fiduciary duty should be given.
- Paragraph 3.6: Who will make a judgement on whether it is cost effective to implement asset allocation strategy decisions?
- Paragraph 9.2: The Fund fully support the aim that decision taking will be by consensus, wherever possible.
- Paragraph 11.1, Quorum: Why is it stated that 8 out of 13 voting Members must be in favour of a written resolution in order for it to be passed, when 7 would suffice as a majority? The Treasurer clarified it is not certain whether there will be 12 or 13 Members at this stage. There is some discussion as to whether or not to have a simple majority.
- Paragraph 14.2, Transition Costs: Concern expressed as to the level of these costs. Also, do the costs refer to purchase and sale, or just purchase? The Treasurer clarified that it is the former.
- Paragraph 15.3: Adherence to local government personnel practices could be limiting. With, for example, the appointment of a Fund Manager, there is a balance to be found between avoiding being charged a disproportionately high amount and the reality that there are not many individuals who have experience of managing pools of this size.

#### Appendix 3

- In the table under paragraph 4.1, Membership, "Vice Chair" should be included, particularly as this role is referred to at paragraphs 7.1 and 7.3.
- Is there a guarantee that the Chair and Vice Chair will be from different authorities? The Treasurer clarified that there will be such a guarantee.

#### Appendix 4

- Paragraph 1.4: On delegation arrangements, the wording is that officers will *work closely with* the Member Steering Group, rather than *take directions from* the

Member Steering Group. The latter would be the norm. The Treasurer clarified that this is the intention e.g. that Members will decide.

**Resolved –**

That approval be given to the Memorandum of Understanding.

**NOTE: Councillor Blackie wished it to be recorded that he voted against the resolution.**

**126. Private Debt Manager Search**

Considered –

The report of the Treasurer updating Members on the process of appointing a private debt manager.

In response to a question from a Member, the Treasurer confirmed that the role would be in relation to illiquid investments.

The Treasurer stated that all Members of the Committee were welcome to be on the Appointment Panel but, pragmatically, this would be unwieldy. Also, Members wishing to be on the Panel should be aware that they would need to be involved for the duration of the process.

**Resolved –**

That any Member wishing to be on the Appointment Panel advise the Treasurer of this by 27 May 2016.

The meeting concluded at 12.55 pm.

PD

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

7 JULY 2016

## STATEMENT OF FINAL ACCOUNTS 2015/16

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To approve the draft Statement of Final Accounts for the financial year 2015/16.

**2.0 STATEMENT OF ACCOUNTS**

- 2.1 The draft Statement of Final Accounts for 2015/16 is attached as **Appendix A**. This complies fully with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 governing the preparation of the 2015/16 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.
- 2.3 For 2015/16 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.
- 2.4 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](http://www.nypf.org.uk). The Annual Report will be submitted to Members at the PFC meeting on 15 September 2016.

**3.0 RECOMMENDATIONS**

- 3.1 Members are asked to approve the draft Statement of Final Accounts 2015/16.

GARY FIELDING  
Treasurer  
Corporate Director – Strategic Resources  
County Hall  
Northallerton  
29 June 2016

**NORTH YORKSHIRE PENSION FUND**  
**FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2016**

2014/15		2015/16
£000		£000      £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions</b>	
56,902	Employers - Normal	57,626
35,822	- Deficit	25,765
2,444	- Early Retirement Costs Recharged	2,572
25,075	Employees - Normal	25,492
248	- Additional Voluntary	233
120,491	<b>Total Contributions Receivable (Note 7)</b>	111,688
6,663	<b>Transfers In (Note 8)</b>	8,680
	<b><u>Less</u></b>	
	<b>Benefits</b>	
(69,996)	Pensions	(73,274)
(20,491)	Commutation and Lump Sum Retirement Benefits	(23,176)
(1,874)	Lump Sums Death Benefits	(2,282)
(92,361)	<b>Total Benefits Payable (Note 9)</b>	(98,732)
	<b>Leavers</b>	
(138)	Refunds to Members Leaving Service	(364)
0	Payments for Members Joining State Scheme	0
(40,840)	Transfers Out	(3,603)
(40,978)	<b>Total Payments on Account of Leavers (Note 10)</b>	(3,967)
(2,114)	<b>Management Expenses (Note 11)</b>	(1,829)
(8,299)	<b>Net Additions From Dealings With Members</b>	15,840
	<b>RETURNS ON INVESTMENTS</b>	
21,943	Investment Income (Note 12)	16,963
(390)	Taxation (Note 13)	(290)
(4,943)	Investment Management Cost (Note 11)	(7,968)
308,342	Change in market value of investments (Note 14)	(6,581)
324,952	<b>Net Returns On Investments</b>	2,124
316,653	<b>Net Increase in the Fund During the Year</b>	17,964
2,083,216	<b>Opening Net Assets of the Fund</b>	2,399,869
2,399,869	<b>Closing Net Assets of the Fund</b>	2,417,833

## NORTH YORKSHIRE PENSION FUND - NET ASSETS STATEMENT

31 March 2015 £000		31 March 2016 £000
	<b>INVESTMENT ASSETS (Notes 15 &amp; 16)</b>	
161,287	Fixed Interest Securities	341,598
701,918	Equities	488,055
1,335,586	Pooled Investments	1,391,947
150,011	Pooled Property Investments	176,463
82	Private Equity	82
2,348,884		2,398,145
27,437	Cash Deposits	8,339
5,327	Investment Debtors	13,584
2,381,648	<b>TOTAL INVESTMENT ASSETS</b>	2,420,068
	<b>INVESTMENT LIABILITIES (Notes 15 &amp; 16)</b>	
0	Derivative Contracts - Forward Currency Contracts	0
(1,123)	Investment Creditors	(10,771)
(1,123)	<b>TOTAL INVESTMENT LIABILITIES</b>	(10,771)
2,380,525	<b>NET INVESTMENT ASSETS</b>	2,409,297
	<b>CURRENT ASSETS</b>	
9,841	Contributions due from employers	7,612
242	Other Non-Investment Debtors	903
12,049	Cash	3,780
22,132	<b>TOTAL CURRENT ASSETS</b>	12,295
	<b>CURRENT LIABILITIES</b>	
(2,788)	Non-investment creditors	(3,759)
(2,788)	<b>TOTAL CURRENT LIABILITIES</b>	(3,759)
2,399,869	<b>TOTAL NET ASSETS (Note 16)</b>	2,417,833

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 2016**

**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 2015/16 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 2016 there were 125 contributing employer organisations within NYPF including the County Council itself, these are detailed below

## 77 Scheduled Bodies

Ainsty 2008 Internal Drainage Board  
All Saints CE School (Yorkshire Causeway Trust)  
Archbishop Holgate's School  
Askham Bryan College  
Askwith School (YA Collaboration Trust)  
Bilton Grange School (YA Collaboration Trust)  
Brotherton and Byram School (Ebor Academy Trust)  
Chief Constable - North Yorkshire Police Force  
City of York Council  
Craven College  
Craven District Council  
Easingwold Town Council  
Filey Town Council  
Foss Internal Drainage Board  
Fulford Parish Council  
Glusburn Parish Council  
Great Ayton Parish Council  
Great Smeaton Academy Primary School  
Hambleton District Council  
Harrogate Borough Council  
Harrogate Grammar (Red Kite Learning Trust)  
Harrogate High (Northern Star Academy Trust)  
Haxby Road Academy (Ebor Academy Trust)  
Haxby Town Council  
Hunmanby Parish Council  
Huntington Primary Academy  
Knaresborough Town Council  
Lothersdale Schools (YA Collaboration Trust)  
Malton Town Council  
Manor Academy (Hope Learning Trust)  
Mary's RC School (Bishop Wheeler Academy Trust)  
North Yorkshire Moors National Park  
North Yorkshire County Council  
North Yorkshire Fire & Rescue Authority  
North Yorkshire Police & Crime Commissioner  
Northallerton / Romanby Burial Board  
Northallerton Town Council  
New Park Academy (Northern Star Academy Trust)  
Norton College  
Norton on Derwent Town Council  
Oatlands Junior School (Red Kite Learning Trust)  
Outwood Academy  
Pickering Town Council  
Poppleton Ousebank School (Hope Learning Trust)  
Richard Taylor School (Yorkshire Causeway Trust)  
Riccall Parish Council  
Richmond Town Council  
Richmondshire District Council  
Ripon City Council  
Robert Wilkinson Primary Academy (Ebor Academy Trust)  
Roseberry Academy (Enquire Learning Trust)  
Rossett School  
Ryedale District Council  
Scarborough Borough Council  
Scarborough Sixth Form College  
Selby College  
Selby District Council  
Selby Town Council  
Skipton Girls High School (Northern Star Academies Trust)  
Skipton Town Council  
South Craven School (South Craven Academy Trust)  
St Aidan's CESchool (Yorkshire Causeway Schools Trust)  
St Peter's CE Primary School (Yorkshire Causeway Trust)  
St Stephen's RC School (Bishop Wheeler Academy Trust)  
St. Joseph's School (Bishop Wheeler Academy Trust)  
Stokesley School Academy  
Sutton in Craven Parish Council  
Tadcaster Town Council  
The Grove Academy  
The Skipton Academy (Craven Educational Trust)  
The Woodlands Academy  
Thomas Hinderwell Primary Academy  
Thornton (Vale of Pickering) IDB  
Western CP School (Red Kite Learning Trust)  
Whitby Town Council  
York College  
Yorkshire Dales National Park

#### 48 Admitted Bodies

Be Independent	Mellors
Betterclean Services	Northern Care
Bulloughs Cleaning Ltd	NYBEP
Catering Academy Ltd	OCS Group UL Ltd
Chartwells Compass	Premier Support Services
Churchill Security	Richmondshire Leisure
Community Leisure	Ringway
Consultant Services Group	Sanctuary Housing Association
Craven Housing	Sewell Facilities Management
Dewent Facilities Management	Sheffield International Venues
Dolce Ltd	Sports and Leisure Management
Elite	Springfield Home Care
Enterprise	Streamline Taxis
Explore York Libraries and Archives	Superclean
Grosvenor Facilities Management	University of Hull
Housing and Care 21	Veritau Ltd
Human Support Group	Veritau North Yorkshire Ltd
Hutchison Catering	Welcome to Yorkshire
Interserve	Wigan Leisure & Culture Trust
ISS Mediclean Ltd	York Archaeological Trust
Jacobs UK Ltd	York Museums & Gallery Trust
Joseph Rowntree Trust	York St John University
Lifeways Community Care Ltd	Yorkshire Coast Homes
Make It York	Yorkshire Housing Ltd

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

	<b>31 March 2016</b>	<b>31 March 2015</b>
	No	No
Number of Employers with Active Members	125	107
Employees in the Fund		
NYCC	20,497	21,931
Other employers	13,493	13,125
Total	<u>33,990</u>	<u>35,056</u>
Pensioners		
NYCC	10,623	9,961
Other employers	9,087	8,483
Total	<u>19,710</u>	<u>18,444</u>
Deferred pensioners		
NYCC	19,560	18,829
Other employers	12,409	11,762
Total	<u>31,969</u>	<u>30,591</u>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2016. 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  $1/80^{\text{th}}$  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  $1/60^{\text{th}}$  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  $1/49^{\text{th}}$ . 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 2015/16 financial year and its year end position as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

## 3. Summary of Significant Accounting Policies

### Fund Account – Revenue Recognition

#### a) Contribution Income

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

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

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

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

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

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

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

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

## **c) Investment Income**

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

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

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

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

## **Fund Account – Expense Items**

### **d) Benefits Payable**

Pensions and lump sum benefits payable include all amounts 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 2016 was £82k (31 March 2015, £82k).

### Pension Fund Liability

The Fund's liability is calculated every three years by the Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in **Note 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 2016 for which there is a significant risk of material adjustment being required is the actuarial present value of promised retirement benefits, which is based on assumptions on the discount rate, salary increases, retirement ages, mortality rates and the return on investments.

The effects of changing individual assumptions on the value of pension liabilities can be measured. A 0.1% increase in the discount rate would reduce liabilities by 1.8%, a 0.1% increase in inflation would increase liabilities by 1.8%, and an increase in life expectancy of one year would increase liabilities by 2.8%.

## 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

	2015/16 £000	2014/15 £000
Contributions Receivable		
North Yorkshire County Council	49,156	48,239
Other Scheduled Bodies	55,521	65,235
Admitted Bodies	7,011	7,017
	<u>111,688</u>	<u>120,491</u>

## 8. Transfers In from Other Pension Funds

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

## 9. Benefits Payable

	2015/16 £000	2014/15 £000
Benefits Payable		
North Yorkshire County Council	42,069	39,268
Other scheduled bodies	49,115	47,440
Admitted bodies	7,548	5,653
	<u>98,732</u>	<u>92,361</u>

## 10. Payments To and On Account of Leavers

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

## 11. Management Expenses

	2015/16 £000	2014/15 £000
Administrative Costs	1,412	1,519
Investment Management Costs	7,968	4,943
Oversight and Governance Costs	417	595
	<u>9,797</u>	<u>7,057</u>

Investment Management Costs includes £3,947k (2014/15: £1,177k) in respect of performance related fees payable to the Fund's investment managers and £644k in respect of transaction costs (2014/15: £725k).

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

## 12. Investment Income

	2015/16	2014/15
	£000	£000
Fixed Interest and Index Linked Securities	2,301	2,094
Dividends from Equities	12,683	18,186
Pooled Property Investments	1,265	1,066
Pooled Investments - Other Managed Funds	63	0
Interest on Cash Deposits	81	50
Other	570	547
	<u>16,963</u>	<u>21,943</u>

## 13. Taxes on Income

	£000	£000
Withholding Tax on Dividends	<u>290</u>	<u>390</u>

## 14. Investments

### a) Reconciliation of Movements in Investments and Derivatives

	Value at 31 March 2016	Change in market value at 31 March 2016	Sales proceeds and derivative receipts	Purchases at cost and derivative payments	Value at 1 April 2015
	£000	£000	£000	£000	£000
Fixed Interest	341,598	14,473	(660,265)	826,103	161,287
Equities	488,055	(24,619)	(418,664)	229,420	701,918
Pooled Funds	1,391,947	(14,349)	(270,622)	341,332	1,335,586
Pooled Property	176,463	17,914	0	8,538	150,011
Private Equity	82		0	0	82
Derivative Contracts	0				0
Total Invested	<u>2,398,145</u>	<u>(6,581)</u>	<u>(1,349,551)</u>	<u>1,405,393</u>	<u>2,348,884</u>
Cash Deposits	8,339				27,437
Net Investment Debtors	2,813	(1,391)			4,204
Net Investment Assets	<u>2,409,297</u>	<u>(7,972)</u>			<u>2,380,525</u>

	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	<u>2,348,884</u>	<u>308,342</u>	<u>(948,635)</u>	<u>935,016</u>	<u>2,054,161</u>
Cash Deposits	27,437				12,185
Net Investment Debtors	4,204	1,023			3,181
Net Investment Assets	<u>2,380,525</u>	<u>309,365</u>			<u>2,069,527</u>

Transaction costs incurred during the year amounted to £644k (2014/15 £725k). 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)

	2015/16 £000	2014/15 £000
Fixed Interest Securities		
UK Public Sector Quoted	<u>341,598</u>	<u>161,287</u>
Equities		
UK Quoted	274,721	347,559
Overseas Quoted	<u>213,334</u>	<u>354,359</u>
	<u>488,055</u>	<u>701,918</u>
Pooled Investments		
UK Equity	65,403	51,806
UK Property	176,463	150,011
UK Fixed Income	-	210,996
Overseas Equity	950,427	700,624
Overseas Fixed Income	<u>129,395</u>	<u>172,333</u>
	<u>1,321,688</u>	<u>1,285,770</u>
Diversified Growth Funds - UK	<u>246,722</u>	<u>199,827</u>
Private Equity - UK	<u>82</u>	<u>82</u>
Total Investments (excl Derivatives)	<u>2,398,145</u>	<u>2,348,884</u>
Cash Deposits	8,339	27,437
Net Investment Debtors	2,813	4,204
Net Investment Assets	<u>2,409,297</u>	<u>2,380,525</u>

### c) Investments analysed by Fund Manager

	£000	%	£000	%
Baillie Gifford & Co. - Global Alpha	445,906	18.4	412,227	17.2
Baillie Gifford & Co. - LTGG	303,055	12.5	273,839	11.4
Fidelity International	259,850	10.7	430,200	17.9
Standard Life Investments - Equities	279,634	11.6	357,560	14.9
Standard Life Investments - DGF	137,312	5.7	91,376	3.8
ECM Asset Management	129,394	5.4	130,081	5.4
Amundi Asset Management	0	0.0	253,248	10.6
Hermes Property Unit Trust	32,113	1.3	29,574	1.2
Legal & General	60,029	2.5	54,398	2.3
Threadneedle	84,911	3.5	66,628	2.8
M&G Investments	342,475	14.2	172,862	7.2
Newton Investments	109,409	4.5	108,451	4.5
Dodge & Cox	104,730	4.3	0	0.0
Veritas	120,397	5.0	0	0.0
Currency Hedging	(1)	0.0	(1)	0.0
Yorks & Humber Equity Fund	82	0.0	82	0.0
Internally Managed (cash and net debtors)	8,537	0.4	19,344	0.8
	<u>2,417,833</u>	<u>100.00</u>	<u>2,399,869</u>	<u>100.00</u>

The investments with Baillie Gifford, ECM Asset Management and Standard Life Investments- DGF each represent more than 5% of net assets. These investments are in pooled funds. All other investments are either below 5% or constitute a portfolio of segregated assets.

### d) Stock Lending

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

## 15. Analysis of Derivatives

The Fund does not hold derivatives.

## 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 2015			31 March 2016		
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
<b>Assets</b>					
161,287			Fixed Interest Securities	341,598	
701,918			Equities	488,055	
1,135,759			Pooled Investments	1,145,224	
150,011			Pooled Property	176,463	
199,827			Diversified Growth Funds	246,722	
82			Private Equity	82	
			Derivative contracts		
	39,486		Cash		12,120
5,327			Investment Debtors	13,584	-
	10,083		Non Investment Debtors		8,515
<u>2,354,211</u>	<u>49,569</u>	<u>-</u>	<u>2,411,728</u>	<u>20,635</u>	<u>-</u>
<b>Liabilities</b>					
-			Derivative Contracts	-	
1,123			Investment Creditors	10,771	
		2,788	Non Investment Creditors		3,759
<u>1,123</u>	<u>-</u>	<u>2,788</u>	<u>10,771</u>	<u>-</u>	<u>3,759</u>
<u>2,353,088</u>	<u>49,569</u>	<u>(2,788)</u>	<u>2,400,957</u>	<u>20,635</u>	<u>(3,759)</u>

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

	2015/16	2014/15
	£000	£000
Fair Value Through Profit & Loss	(6,581)	308,342
Loans and Receivables	<u>(20,489)</u>	<u>16,275</u>
	<u>(27,070)</u>	<u>324,617</u>

#### c) 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 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	2,411,646		82	2,411,728
Loans and Receivables	20,635			20,635
	<u>2,432,281</u>	<u>-</u>	<u>82</u>	<u>2,432,363</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	10,771			10,771
Liabilities at Amortised Cost	3,759			3,759
	<u>14,530</u>	<u>-</u>	<u>-</u>	<u>14,530</u>
Net Assets	<u>2,417,751</u>	<u>-</u>	<u>82</u>	<u>2,417,833</u>

Values at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Assets</b>				
Fair Value through Profit & Loss	2,354,129		82	2,354,211
Loans and Receivables	49,569			49,569
	<u>2,403,698</u>	<u>-</u>	<u>82</u>	<u>2,403,780</u>
<b>Liabilities</b>				
Fair Value through Profit & Loss	1,123			1,123
Liabilities at Amortised Cost	2,788			2,788
	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>3,911</u>
Net Assets	<u>2,399,787</u>	<u>-</u>	<u>82</u>	<u>2,399,869</u>

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

### Risk and Risk Management

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

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

#### a) Market Risk

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

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

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

The Fund manages these risks in two ways:

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

#### Other Price Risk

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

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

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

## Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-) %</b>
Cash and Cash Equivalents	1.0
UK Bonds	9.0
UK Equities	19.0
Overseas Equities	20.0
UK Pooled Equity	19.0
Overseas Pooled Equity	20.0
UK Pooled Bonds	9.0
Overseas Pooled Bonds	9.0
Pooled Property Investments	12.5
Diversified Growth Funds	11.5
Private Equity	27.5
Derivatives	0.0
Non Investment Debtors/Creditors	0.0

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

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

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

<b>Asset Type</b>	<b>Value as at 31 March 2015 £000</b>	<b>Potential Market Movement £000</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Cash and Cash Equivalents	27,437	0	27,437	27,437
UK Bonds	161,287	10,322	171,609	150,965
UK Equities	347,559	35,759	383,318	311,800
Overseas Equities	354,359	31,892	386,251	322,467
UK Pooled Equity	51,806	5,336	57,142	46,470
Overseas Pooled Equity	700,624	63,056	763,680	637,568
UK Pooled Bonds	210,996	13,504	224,500	197,492
Overseas Pooled Bonds	172,333	11,029	183,362	161,304
Pooled Property Investments	150,011	3,150	153,161	146,861
Diversified Growth Funds	199,827	8,393	208,220	191,434
Private Equity	82	3	85	79
Derivatives	0	0	0	0
Non Investment Debtors/Creditors	7,295	0	7,295	7,295
<b>Total Assets</b>	<b>2,383,616</b>		<b>2,566,060</b>	<b>2,201,172</b>

### 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 2016 and 31 March 2015 is set out in the tables below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	<b>2015/16 £000</b>	<b>2014/15 £000</b>
Cash and Cash Equivalents	8,339	27,437
Fixed Interest Securities	341,598	161,287
	<b>349,937</b>	<b>188,724</b>

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 £3,499k and for 2014/15 asset values, £1,887k.

### Currency Risk

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

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

After receiving advice it is considered that the likely volatility associated with foreign exchange movements to be +/-9.1%. 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 9.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

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

<b>Asset Type</b>	<b>Value as at 31 March 2015</b>	<b>Value on 6.1% Increase</b>	<b>Value on 6.1% Decrease</b>
	£000	£000	£000
Overseas Equities	1,054,983	1,119,337	990,629
Overseas Bonds	172,333	182,845	161,821
<b>Total Assets</b>	<b>1,227,316</b>	<b>1,302,182</b>	<b>1,152,450</b>

## **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 2016 was £3.8m (31 March 2015, £12m) and was held with the following institutions:

	Credit Rating	31 March 2016 £000	31 March 2015 £000
<b>Call Accounts</b>			
Barclays	A/F1	569	3,119
Santander UK	A/F1	15	249
<b>Fixed Term Deposit Notice Accounts</b>			
Bank of Scotland	A+/F1	1,208	4,759
Barclays	A/F1		280
Leeds BS	A-/F1	71	560
Nationwide	A/F1	569	1,820
Svenska Handelsbanken	AA-/F1+	114	280
Santander UK	A/F1	554	
Goldman Sachs	A/F1	426	
Lancashire County Council	-	142	280
Leicester FRA	-		84
London Borough of Enfield	-	71	280
Salford City Council	-		336
Falkirk Council	-	71	
		3,810	12,047

### 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 2016 the value of illiquid assets was £82k, which represented less than 0.1% of total Fund assets (31 March 2015, £82k, which represented less than 0.1% of total Fund assets).

All liabilities at 31 March 2016 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, Aon Hewitt, undertakes a funding Valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such Valuation took place as at 31 March 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 they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

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 2015/16 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:

	<b>For future service liabilities</b>
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:

	<b>Male</b>	<b>Female</b>
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 2016 is based on 2012 CMI projections subject to a long-term improvement trend of 1.5% per annum.

#### **Commutation assumption**

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

#### **50:50 option**

It is assumed that 10% of active members (evenly distributed across the age, service and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

### **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

	2015/16 £000	2014/15 £000
<b>Debtors</b>		
<b>Investment Debtors</b>		
Investment Transactions	9,676	1,499
Accrued Dividends	2,122	2,542
Withholding Taxes Recoverable	1,786	1,286
	<u>13,584</u>	<u>5,327</u>
<b>Other Debtors</b>		
Contributions due from Scheduled (Government) Bodies	7,137	9,361
Contributions due from Admitted Bodies	475	480
Pensions Rechargeable	253	11
Interest on Deposits	107	0
Other	543	231
	<u>8,515</u>	<u>10,083</u>
<b>Total Debtors</b>	<u><b>22,099</b></u>	<u><b>15,410</b></u>

## 21. Current Liabilities

	2015/16 £000	2014/15 £000
<b>Creditors</b>		
Investment Creditors	10,771	1,123
Sundry Other Creditors	3,759	2,788
	<u>14,530</u>	<u>3,911</u>

Within Sundry Other Creditors, £1,320k relates to government entities and £2,439k to non-government entities and individuals.

## 22. Additional Voluntary Contributions

	Market Value 31 March 2016 £000	Market Value 31 March 2015 £000
Prudential	<u>21,181</u>	<u>21,180</u>

AVC contributions of £2,036k were paid directly to Prudential during the year (£2,261k in 2014/15).

## 23. Agency Services

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

## 24. 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 (£1,136k in 2014/15) 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 2015/16 (£48.2m in 2014/15). 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 2016 the Fund had an average investment balance of £16.8m (£6m during 2014/15) receiving interest of £107.5k (£39k paid in 2014/15) on these funds.

## **Governance**

As at 31 March 2016 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.

## **25. Contingent Liabilities and Contractual Commitments**

The Fund had no material contingent liabilities or contractual commitments at the year end (£nil in 2014/15).

## **26. 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.

## **27. Impairment Losses**

The Fund had no material impairment losses at the year-end (£nil in 2014/15).



## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

7 JULY 2016

## GOVERNANCE ARRANGEMENTS

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To seek Committee approval of the Pension Fund Risk Register.
- 1.2 To highlight to Members that some documents will require approval in the September PFC meeting and seek Committee approval of the approach to the amendment of these documents.

**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 will therefore be updated where necessary in advance of the audit, as will other governance documents for reasons of good practice.
- 2.3 The completed Annual Report will be presented to the PFC on 15 September 2016 for recommendation for approval by the Audit Committee, which is due to meet on 29 September 2016
- 2.4 The following governance documents form part of the Annual Report:
- Statement of Investment Principles
  - Governance Compliance Statement
  - Funding Strategy Statement
  - Communication Strategy Statement

**3.0 GOVERNANCE ARRANGEMENTS FOR NYPF**

- 3.1 At its meeting on 9 July 2015 the PFC approved a full set of NYPF governance documents for the purposes of submission to the Audit Committee in relation to the 2014/15 Final Accounts. This year due to the timing of the triennial valuation and certain governance documents being due to be replaced, approval will be required at a later date, i.e. at the September PFC meeting.
- 3.2 Where new documents are expected, the process will be for officers to meet with at least the Chair and Vice Chair of the PFC to review them in advance of the September PFC meeting.

- 3.3 In addition, it is recommended that Members delegate authority to officers to make any necessary immaterial changes to the documents, for example, dates and Fund Manager updates prior to approval at the September PFC.
- 3.4 A description of each of the governance documents is included in the following paragraphs, together with a comment on when approval will be required as well as any material changes that have been made since they were last approved. The latest approved version of these governance documents can be found on the NYPF website:
- <https://www.nypf.org.uk/nypf/policiesandstrategies.shtml>
- 3.5 The **Statement of Investment Principles (SIP)** sets out the Fund's approach to investing. The Government have indicated that there will be new regulations to replace the SIP; this will impact on the delivery of this document. The SIP is to be replaced by the Investment Strategy Statement (ISS) and it is expected that this new ISS will be included in the Annual Report, assuming the new investment regulations are laid in time. The process described in paragraph 3.2 will be followed, with the ISS or SIP being brought to the September 2016 PFC meeting.
- 3.6 The **Governance Compliance Statement** describes the governance arrangements of the Fund. No material changes have been made to this document, so it will be presented for approval as part of the Annual Report at the September PFC meeting.
- 3.7 The **Risk Register (Appendix A- Summary Risk Register & Appendix B- Detailed Risk Register)** has recently been updated and is attached for approval. The register describes the key risks faced by the Fund. There are two risks ranked as red, five as amber and three as green. The assessment of the highest ranked risks is primarily driven by the financial impact each could have, if each risk actually occurred.
- 3.8 One of the red risks is a new risk that has been added at the latest update of the risk register and is on the LGPS Pooling Arrangements. This is a major change to the way in which the Pension Fund is managed so should be considered a significant risk. Members are invited to comment on this risk.
- 3.9 Pension Fund solvency also 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. The fall in solvency over the last year is due to falling Gilt yields and financial markets have provided very little return. This volatility has been further exasperated by the uncertainty following the outcome of the EU referendum. No remedial action is presently required in order to deliver the deficit recovery plan.
- 3.10 The **Communication Strategy 2015/16** describes the annual strategy for communicating with members and employers for the year. This document was approved by Members at the 25 February 2016 PFC meeting and does not require further approval. This document is in the employer only part of the NYPF website, a copy can be provided to Members upon request.
- 3.11 The **Funding Strategy Statement** 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. This document will be reviewed as part of the 2016 Triennial Valuation and an updated version will be available for approval at the end of the valuation process. The work on this is due to begin in October 2016.
- 3.12 The **Communications Policy Statement** details the policy for communicating with members and employers. There have been no material changes made to this document.

3.13 The **Pensions Administration Strategy** sets out the administration protocols that have been agreed between the Fund and its employers. There have been no material changes made to this document.

3.14 The **Treasury Management SLA** describes the treasury management services provided by the Council to NYPF. There have been no material changes made to this document, therefore approval is not required.

#### 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 PFC. In light of the consultation on pooling, this report will be presented to the September PFC.

#### 5.0 **RECOMMENDATIONS**

5.1 Members to approve the Risk Register in **Appendix A & B** and comment on the new LGPS Pooling Arrangement risk.

5.2 Members to agree the approach to approving governance documents at the September meeting. (paragraph 3.2).

5.3 Members to delegate authority to make minor changes to governance documents where necessary (paragraph 3.3).

GARY FIELDING  
Treasurer  
Corporate Director – Strategic Resources  
County Hall  
Northallerton

29 June 2016

## Pension Fund

Risk Register: **June 2016 Review – summary**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Identity			Person		Classification											Fallback Plan				
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	<b>44/4 - Pension Fund Solvency</b>	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, inappropriate actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period	CD SR	CSD SR Head of Commercial & Investments	M	M	H	L	M	2	4	30/09/2016	M	M	H	L	M	2	Y	CSD SR Head of Commercial & Investments CSD SR Pensions Manager
- new -	<b>44/201 - LGPS Pooling Risk</b>	The pooling arrangements fail to deliver cost savings and performance improvements resulting in deterioration of Fund solvency and increased employer contribution rates.	CD SR	CSD SR Head of Commercial & Investments	M	M	H	L	H	2	3	31/12/2016	M	M	H	L	M	2	N	
◀▶	<b>44/8 - Investment Strategy</b>	Failure of the investment strategy to achieve sufficient returns from investments	CD SR	CSD SR Head of Commercial & Investments	L	M	H	L	M	3	5	30/09/2016	L	M	H	L	M	3	Y	CSD SR Head of Commercial & Investments
◀▶	<b>44/1 - Employer Contributions</b>	Sustainability and affordability of LGPS puts pressure on the employer contributions from 2017/18.	CD SR	CSD SR Pensions Manager	L	M	H	Nil	M	3	4	31/12/2016	L	M	H	Nil	M	3	Y	CSD SR Pensions Manager CSD SR Head of Commercial & Investments
◀▶	<b>44/20 - Fraud</b>	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation	CD SR	CSD SR Head of Commercial & Investments	L	L	H	L	M	3	4	31/12/2016	L	L	H	L	M	3	Y	CSD SR Pensions Manager CSD SR Head of Commercial & Investments

## Pension Fund

Risk Register: **June 2016 Review – summary**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Identity			Person		Classification												Fallback Plan			
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Pre						RR		Post						FBPlan	Action Manager
					Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat		
◀▶	<b>44/10 - LGPS Regulations and Employer Related Legislation</b>	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge	CD SR	CSD SR Pensions Manager	M	L	L	L	M	4	2	31/12/2016	M	L	L	L	L	5	Y	CSD SR Head of Commercial & Investments CSD SR Pensions Manager
◀▶	<b>44/11 - Benefit Payments</b>	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments	CD SR	CSD SR Pensions Manager	M	L	L	L	M	4	2	31/12/2016	L	L	L	L	M	5	Y	CSD SR Pensions Manager
◀▶	<b>44/7 - Investment Manager</b>	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise	CD SR	CSD SR Head of Commercial & Investments	L	M	M	L	L	5	3	31/12/2016	L	M	M	L	L	5	Y	CSD SR Head of Commercial & Investments
◀▶	<b>44/14 - IT Systems</b>	Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism	CD SR	CSD SR Pensions Manager	L	M	L	M	M	5	1	31/12/2016	L	M	L	M	M	5	Y	CSD SR Pensions Manager
◀▶	<b>44/16 - Key Personnel</b>	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	CD SR	CSD SR Pensions Manager	L	M	L	M	L	5	3	31/12/2016	L	M	L	M	L	5	Y	CSD SR Head of Commercial & Investments CSD SR Pensions Manager

Key			
▲	Risk Ranking has worsened since last review.	◀▶	Risk Ranking is same as last review
▼	Risk Ranking has improved since last review	- new -	New or significantly altered risk

## Pension Fund

Risk Register: **June 2016 Review – summary**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Abbreviations		Classifications	
CD SR	Corporate Director Strategic Resources	Prob	Probability
CSD SR	Central Services Directorate Strategic Resources	Obj	Impact on Objectives
FB Plan	Fallback Plan	Fin	Financial Impact
LGPS	Local Government Pension Scheme	Serv	Impact on Services
IT	Information Technology	Rep	Reputational Impact
		RRs	Number of risk reduction actions to be carried out

Likelihood	
Probability	H = > 60% or Probable M = 30% to 60% or Possible L = < 30% or Unlikely
Impact	
Objectives	H = Over 6 priorities adversely impacted M = 3-6 priorities adversely impacted L = Below 3 priorities adversely impacted
Financial	H = Substantial/Over 2% (£48M) increase in contribution rate or loss of major opportunity M = Notable/0.5%-2% (£12M-£48M) increase in contribution rate or loss of notable opportunity L = Minor/Up to 0.5% (£12M) increase in contribution rate or loss of some opportunity
Services	H = Widespread impact, 2/3 services affected, significant project slippage M = Declining Performance, notable inconvenience L = Minor service impact, resolved locally, minor inconvenience
Reputation	H = Significant Member/Employer complaints, national media M = Notable Member/Employer complaints, regional media, L = Some Member/Employer complaints, local adverse media coverage



## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/4	<b>Risk Title</b>	44/4 - Pension Fund Solvency				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Head of Commercial & Investments
<b>Description</b>	Solvency deteriorates due to liability growth exceeding expectations and / or underperforming investment returns, inappropriate actuarial assumptions, or adverse market conditions requiring a review of employer contributions, additional payments or extended recovery period					<b>Risk Group</b>	Financial		<b>Risk Type</b>	CSD SR 32/24	
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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; regulatory cost control mechanism; fixed income review;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>	
<b>Reduction</b>	44/6 - Consultation with Actuary re assumptions used and discuss and carry out action plan (ongoing)						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/7 - Regular review of investment strategy to maximise investments (ongoing)						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/8 - Discussion with employers re cost of the scheme and potential 'one off' contributions						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Fri-31-Mar-17		0%	
<b>Reduction</b>	44/417 - Appoint new fixed income manager to complement existing set of managers / mandates						CSD SR Head of Commercial & Investments	Fri-30-Sep-16		0%	
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	2
Phase 5 - Fallback Plan											
										<b>Action Manager</b>	
<b>Fallback Plan</b>	44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome								CSD SR Head of Commercial & Investments CSD SR Pensions Manager		

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/201	<b>Risk Title</b>	44/201 - LGPS Pooling Risk				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Head of Commercial & Investments
<b>Description</b>	The pooling arrangements fail to deliver cost savings and performance improvements resulting in deterioration of Fund solvency and increased employer contribution rates.					<b>Risk Group</b>			<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Pension Fund Committee involvement in key pooling decisions; NYPF officer involvement in pooling working groups; Periodic reporting of updates to the Pension Fund Committee;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	H	<b>Category</b>	2
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>		
<b>Reduction</b>	44/161 - Consultation with advisors on the implication of pooling					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
<b>Reduction</b>	44/162 - Gain advice from advisors and other consultants on responding to the Government consultation					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
<b>Reduction</b>	44/163 - Keeping Members up to date					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	2
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>											

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/8	<b>Risk Title</b>	44/8 - Investment Strategy				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Head of Commercial & Investments
<b>Description</b>	Failure of the investment strategy to achieve sufficient returns from investments					<b>Risk Group</b>	Strategic		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>		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; fixed income review;						<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	3
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>	
<b>Reduction</b>	44/417 - Appoint new fixed income manager to complement existing set of managers / mandates						CSD SR Head of Commercial & Investments	Fri-30-Sep-16		0%	
<b>Reduction</b>	44/1876 - Continual review of the investment strategy and implement the recommendations, including consideration of pooling arrangements						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1877 - Monitor the risk budget						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1878 - Monitor appropriateness of strategy against prevailing market conditions						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1879 - Monitor the Advisor and Consultants reports and act on professional advice						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	44/430 - Review the strategy and implement changes as necessary based on the forward assessment of financial markets									CSD SR Head of Commercial & Investments	

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/1	<b>Risk Title</b>	44/1 - Employer Contributions				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Pensions Manager
<b>Description</b>	Sustainability and affordability of LGPS puts pressure on the employer contributions from 2017/18.					<b>Risk Group</b>	Legislative		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			Ongoing consultation with Employers; manage the employer contributions through investment strategy; assumptions used in triennial valuation; results of interim valuations, cost sharing mechanism, funding strategy statement;						<b>Effectiveness</b>		
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	Nil	<b>Reputation</b>	M	<b>Category</b>	3
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>	
<b>Reduction</b>	44/1821 - Continue to discuss contributions with the employers						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1880 - Maximise investments/returns by implementation of the investment strategy						CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1881 - Consider impact of the 2014 regulations cost sharing mechanism						CSD SR Pensions Manager	Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1882 - Consult with actuary throughout the 2016 triennial valuation process						CSD SR Head of Commercial & Investments CSD SR Pensions Manager	Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	H	<b>Services</b>	Nil	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
										<b>Action Manager</b>	
<b>Fallback Plan</b>	44/428 - Increased contribution rate from employers and/or extend recovery period; dependent on 2016 triennial valuation outcome								CSD SR Pensions Manager CSD SR Head of Commercial & Investments		

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/20	<b>Risk Title</b>	44/20 - Fraud				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Head of Commercial & Investments
<b>Description</b>	Internal and/or external fraud as a result of inappropriate pension administration, investment activity and cash reconciliation results in financial loss, loss of reputation					<b>Risk Group</b>	Pers/Capacity		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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					<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	L	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	3
Phase 3 - Risk Reduction Actions											
							<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>	
<b>Reduction</b>	44/1887 - Continually review processes and procedures including authorisation levels					CSD SR Head of Commercial & Investments CSD SR Pensions Manager		Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1888 - Ongoing internal audit assessment and annual review by external auditors					CSD SR Head of Commercial & Investments CSD SR Pensions Manager		Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1890 - Annual independent external audit of pension fund (separate from County Council) and carry out appropriate recommendations					CSD SR Head of Commercial & Investments CSD SR Pensions Manager		Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1894 - Review of external manager audit and risk reports					CSD SR Head of Commercial & Investments		Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	L	<b>Financial</b>	H	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	3
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	44/434 - Review incident and update procedures/processes accordingly							CSD SR Pensions Manager CSD SR Head of Commercial & Investments			

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/10	<b>Risk Title</b>	44/10 - LGPS Regulations and Employer Related Legislation				<b>Risk Owner</b>	CD SR	<b>Manager</b>	CSD SR Pensions Manager	
<b>Description</b>	LGPS Regulations and Employer Related Legislation not interpreted and implemented correctly including implementation of the LGPS 2014 resulting in legal challenge					<b>Risk Group</b>	Performance	<b>Risk Type</b>	Int Fin 30/189		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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; Pensions Administration team structure reviewed;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	L	<b>Financial</b>	L	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	4
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>		
<b>Reduction</b>	44/157 - Ongoing staff training programme					CSD SR Pensions Manager	Sat-31-Dec-16		0%		
<b>Reduction</b>	44/158 - Implement the communication strategy to ensure continued customer awareness of LGPS 2014; continued drive to ensure Employer understanding of the scheme					CSD SR Pensions Manager	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	M	<b>Objectives</b>	L	<b>Financial</b>	L	<b>Services</b>	L	<b>Reputation</b>	L	<b>Category</b>	5
Phase 5 - Fallback Plan											
<b>Fallback Plan</b>	44/437 - Review existing interpretations, take legal advice and amend procedures as required							<b>Action Manager</b>			
								CSD SR Head of Commercial & Investments CSD SR Pensions Manager			

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/11	<b>Risk Title</b>	44/11 - Benefit Payments				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Pensions Manager
<b>Description</b>	Incorrect/late benefits and payments to members resulting in criticism, customer dissatisfaction, under/over payments					<b>Risk Group</b>	Performance		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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; use of task checklists; ESS;					<b>Effectiveness</b>			
<b>Probability</b>	M	<b>Objectives</b>	L	<b>Financial</b>	L	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	4
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>		
<b>Reduction</b>	44/1893 - Effective communication with employers					CSD SR Pensions Manager		Sat-31-Dec-16		0%	
<b>Reduction</b>	44/1896 - Regular liaison with ESS regarding operational arrangements					CSD SR Pensions Manager		Sat-31-Dec-16		0%	
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	L	<b>Financial</b>	L	<b>Services</b>	L	<b>Reputation</b>	M	<b>Category</b>	5
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	44/435 - Correct errors and review and amend existing procedures								CSD SR Pensions Manager		

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/7	<b>Risk Title</b>	44/7 - Investment Manager				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Head of Commercial & Investments
<b>Description</b>	Failure of a pension fund investment manager to meet adequate performance levels resulting in reduced financial returns, re-tendering exercise					<b>Risk Group</b>	Performance		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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; diversified portfolio of investments;					<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	L	<b>Reputation</b>	L	<b>Category</b>	5
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>		
<b>Reduction</b>	44/1873 - Continue to monitor and report on investment returns on a regular basis					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
<b>Reduction</b>	44/1874 - Continue to meet/report to PFC by Fund Managers and assess critical analysis by advisers					CSD SR Head of Commercial & Investments	Sat-31-Dec-16		0%		
<b>Reduction</b>	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 Head of Commercial & Investments	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	M	<b>Services</b>	L	<b>Reputation</b>	L	<b>Category</b>	5
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	44/429 - Change Fund Manager and redistribute funds, potentially transfer to temporary passive Fund Manager							CSD SR Head of Commercial & Investments			



## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification											
<b>Risk Number</b>	44/14	<b>Risk Title</b>	44/14 - IT Systems				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Pensions Manager
<b>Description</b>	Failure of IT Pension system or other IT systems for more than 2 days (or a critical time) resulting in backlog, incorrect payments, increased overtime, criticism					<b>Risk Group</b>	Technological		<b>Risk Type</b>		
Phase 2 - Current Assessment											
<b>Current Control Measures</b>			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, modern council,					<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	L	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	5
Phase 3 - Risk Reduction Actions											
						<b>Action Manager</b>	<b>Action by</b>	<b>Completed</b>	<b>%</b>		
<b>Reduction</b>	44/1884 - Regular review of contingency planning arrangements					CSD SR Pensions Manager	Sat-31-Dec-16		0%		
Phase 4 - Post Risk Reduction Assessment											
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	L	<b>Services</b>	M	<b>Reputation</b>	M	<b>Category</b>	5
Phase 5 - Fallback Plan											
									<b>Action Manager</b>		
<b>Fallback Plan</b>	44/433 - Recourse to manual calculations and payments, Liaise with software provider to restore system, find alternative supplier								CSD SR Pensions Manager		

## Pension Fund

Risk Register: **June 2016 Review – detailed**  
 Next Review Due: **December 2016**  
 Report Date: 23<sup>rd</sup> June 2016 (pw)

Phase 1 - Identification												
<b>Risk Number</b>	44/16	<b>Risk Title</b>	44/16 - Key Personnel				<b>Risk Owner</b>	CD SR		<b>Manager</b>	CSD SR Pensions Manager	
<b>Description</b>	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					<b>Risk Group</b>	Capacity/performance		<b>Risk Type</b>			
Phase 2 - Current Assessment												
<b>Current Control Measures</b>			Procedure notes; knowledge sharing; file management; deputies; co-operation between departments; pensions management meetings; comprehensive training matrix; PFC action notes; professional advisors; increase resources agreed in finance team;						<b>Effectiveness</b>			
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	L	<b>Services</b>	M	<b>Reputation</b>	L	<b>Category</b>	5	
Phase 3 - Risk Reduction Actions												
<b>Reduction</b>	44/1905 - Continue to build resilience to meet current and anticipated future, demands and complexity					<b>Action Manager</b>	CSD SR Head of Commercial & Investments CSD SR Pensions Manager		<b>Action by</b>	Sat-31-Dec-16	<b>Completed</b>	0%
<b>Reduction</b>	44/1907 - To forward plan with managers/CD SR on a regular basis to share ideas and strategy from both sides (on going)					<b>Action Manager</b>	CSD SR Head of Commercial & Investments CSD SR Pensions Manager		<b>Action by</b>	Sat-31-Dec-16	<b>Completed</b>	0%
<b>Reduction</b>	44/1908 - Ensure inclusion of key managers with relevant external advisers or feedback from such meetings/telephone calls (on going)					<b>Action Manager</b>	CSD SR Head of Commercial & Investments CSD SR Pensions Manager		<b>Action by</b>	Sat-31-Dec-16	<b>Completed</b>	0%
Phase 4 - Post Risk Reduction Assessment												
<b>Probability</b>	L	<b>Objectives</b>	M	<b>Financial</b>	L	<b>Services</b>	M	<b>Reputation</b>	L	<b>Category</b>	5	
Phase 5 - Fallback Plan												
<b>Fallback Plan</b>	44/441 - Identify temporary cover arrangements plus additional resources where required								<b>Action Manager</b>		CSD SR Head of Commercial & Investments CSD SR Pensions Manager	

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE**

7 JULY 2016

**LGPS POOLING ARRANGEMENTS****Report of the Treasurer**

**Appendix 1 contains exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.**

**1.0 PURPOSE OF REPORT**

- 1.1 To update Members on progress towards the Government's announced intention to pool the assets of LGPS funds.
- 1.2 To seek approval from Members for the Council to be a signatory to the Border to Coast Pensions Partnership (BCPP) proposal aimed at addressing the Government's criteria for pooling.

**2.0 BACKGROUND**

- 2.1 On 15 January 2016 Members agreed in principle that NYPF would join BCPP, and that the Council would be a signatory to the "Initial Proposal to Pool LGPS Assets" sent to Government by the BCPP on 19 February 2016. In response, each BCPP Fund received a letter from Marcus Jones MP which described broad support for this initial proposal and the expectation that a more detailed proposal would follow. The deadline for this second proposal is 15 July 2016.
- 2.2 To remind Members, the 13 Funds in the BCPP are:

Bedfordshire Pension Fund  
Cumbria Pension Fund  
Durham Pension Fund  
East Riding Pension Fund  
Lincolnshire Pension Fund  
North Yorkshire Pension Fund  
Northumberland Pension Fund  
South Yorkshire Pension Fund  
South Yorkshire Passenger Transport Pension Fund  
Surrey Pension Fund  
Teesside Pension Fund  
Tyne and Wear Pension Fund  
Warwickshire Pension Fund

- 2.3 Since 19 February 2016 officers have been working on a more detailed proposal. This has included the commissioning and consideration of legal advice from Squire Patton Boggs on the options for creating a pooling entity, and financial advice from Deloitte on the costs associated with these options.
- 2.4 Government has set out its expectations of the content of the detailed proposals, which are to include information on:
1. The size of the pool; assets to be held outside the pool; the legal structure of the pool; how the pool will operate; the timetable for establishing the pool.
  2. Governance structure of the pool and arrangements between it and the administering authorities; how the administering authorities will hold the pool to account; the decision making process for investments; shared objectives and policies; resources required to operate the pool; benchmarking and performance reporting.
  3. Historic and forecast investment cost comparisons, assessment of implementation and transition costs, an assessment of net of fees performance.
  4. Current capacity to invest in infrastructure, plans to increase this capacity, ambition to increase this further.

### **3.0 RECENT EVENTS**

- 3.1 There have been three meetings of BCPP pensions committee Chairs where an update was provided by officers. In addition:
1. on 15 April 2016 representatives from HM Treasury, DCLG and the LGA were in attendance, to advise and answer questions
  2. on 6 June 2016 the update included a review of the main points included in the draft proposal and the key messages officers intended to relay to Government (see paragraph 3.2) in advance of the deadline
  3. on 24 June 2016 the Chairs went through the draft detailed proposal and recommended it for approval by the individual pensions committees of the BCPP
- Cllr John Weighell attended the meeting on 15 April 2016, Cllr Roger Harrison-Topham attended the meetings on 6 June and 24 June 2016.
- 3.2 On 7 June 2016 officers met with representatives of HM Treasury, DCLG, GAD and the Cabinet Office to discuss the main issues described in the detailed proposal. The meeting comprised a presentation by officers, the

aim being to gauge the attendees' reaction to it, to assess whether a change in approach may be required. Although there were a few questions and comments, there were no aspects of the proposal that appeared to raise concerns.

- 3.3 Although DCLG initially stated that proposals were required from the Pool and also from each individual Fund within it, on 8 June 2016 they wrote to the Chair of each pensions committee stating that proposals were only required from each Pool.

#### **4.0 NEXT STEPS**

- 4.1 The draft proposal was circulated to the Pension Fund Committee on 22 June 2016 once it had been finalised, to allow as much time as possible for Members to consider it. The document was also circulated to the Pension Board. The latest version of this document that reflects the feedback of the Chairs from 24 June 2016 is attached as **Appendix 1**.
- 4.2 Government issued a template for each Pool to complete, rather than allow freeform responses as was permitted when responding to the 19 February 2016 deadline. This is to facilitate comparisons between the responses from each of the Pools.
- 4.3 The draft proposal includes the Memorandum of Understanding (MoU), which was approved by the PFC at the meeting on 19 May 2016. The MoU described the roles the officers of each Fund will play in developing pooling arrangements, and the role Members will play in directing officers and making decisions at key points.
- 4.4 Although there are 13 BCPP Funds, the Member Steering Group will comprise 12 Funds, the South Yorkshire Passenger Transport Fund having decided to be represented through the South Yorkshire Pension Fund. This arrangement will be replicated in the Supervisory Body, once the pooling entity has been established.
- 4.5 To meet the 15 July 2016 Government deadline for submission of the proposal as well as the practical consideration that the proposal needs to be approved by all 13 Funds, Members are asked to approve the document. Any comments that Members have on the proposal will inform the development of pooling arrangements, such developments to be worked up by officers and approved by the Member Steering Group.

#### **5.0 NYPF SAVINGS**

- 5.1 An assessment of the additional costs and potential savings that pooling arrangements will bring to NYPF is shown in **Appendix 2**. This is based on the more prudent of two sets of assumptions (see section C3b) described as

“worst case”, which for reasons of expediency have been applied to all BCPP Funds, rather than a bespoke set of assumptions for each of the 13 Funds.

- 5.2 Setup costs have been apportioned equally between the 12 Funds represented on the Member Steering group, and ongoing costs by assets under management (AUM). In practice, these ongoing costs will be allocated based on why they are incurred, for example costs in relation to a global equity fund will be borne by only those investing in that fund, the basis of apportionment being AUM.
- 5.3 The set up and operational costs are based on advice from Deloitte, which in turn is based on advice from Squire Patton Boggs on the structural arrangements required to facilitate pooling. CEM Benchmarking advised on potential cost savings through economies of scale, and Legal & General on transition costs.
- 5.4 Based on these more prudent assumptions, NYPF would see a net reduction in costs after 6 years from the expected time of commencement of pooling arrangements in April 2018.
- 5.5 It has been assumed that pooling arrangements will yield cost savings beyond those achievable by individual Funds in advance of those arrangements being implemented, and discussions have been taking place with NYPF’s investment managers to explore this opportunity. Any such advance savings will be treated as a consequence of pooling, when the cost effectiveness of those arrangements is assessed.
- 5.6 Fundamental to the assessment of the effectiveness of pooling is an expectation that performance net of fees will be maintained. Considering NYPF performance over recent years, this will present a significant challenge to the Pool entity.

## 6.0 **RECOMMENDATION**

- 6.1 Members approve the BCPP Proposal for Asset Pooling in the LGPS.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

28 June 2016

**Background documents:** None

NORTH YORKSHIRE PENSION FUND - ESTIMATED BCPP SAVINGS												
	YEAR ENDED 31 MARCH											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>BCPP- Total estimated Savings</b>												
<b>Total BCPP Net Saving/ (Net Cost)</b>	1,836	(2,319)	(31,061)	6,523	8,598	10,673	12,748	14,824	16,899	18,974	21,050	23,125
<b>NORTH YORKSHIRE</b>												
Management fee savings												
Passive	-	-	-	-	-	-	-	-	-	-	-	-
Active equities and fixed income (5bps)	-	-	818	818	818	818	818	818	818	818	818	818
Alternatives (DGF 10bps, Property *bps)	-	-	533	576	620	664	708	752	795	839	883	927
Total fee savings	-	-	1,351	1,394	1,438	1,482	1,526	1,570	1,613	1,657	1,701	1,745
Costs												
Share of set up costs	-	346	-	-	-	-	-	-	-	-	-	-
Share of ongoing costs	-	-	521	521	521	521	521	521	521	521	521	521
Share of transition costs	-	-	3,873	-	-	-	-	-	-	-	-	-
Total costs	-	346	4,394	521	521	521	521	521	521	521	521	521
Fund level cost savings	-	-	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)
<b>NYPF Net Saving/ (net cost)</b>	-	(346)	(2,903)	1,013	1,057	1,101	1,145	1,189	1,232	1,276	1,320	1,364
<b>NYPF Cumulative Net Saving/ (net cost)</b>	-	(346)	(3,250)	(2,236)	(1,179)	(78)	1,067	2,255	3,488	4,764	6,084	7,447

\* Savings on Property are based on a 50bps reduction in fees, attributable to another 1/10th of the portfolio each year, from 2019.